Third Quarter 2015

# FLYHT AEROSPACE SOLUTIONS LTD.

FINANCIAL STATEMENTS

FLYHT™
The Future of Connectivity

# Auditors' Involvement

National Instrument 51-102, Part 4, subsection 4.3 (3) (a), requires that if an auditor has not performed a review of the condensed consolidated interim financial statements there must be an accompanying notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The auditors of FLYHT Aerospace Solutions Ltd. have not performed a review of the condensed consolidated interim financial statements for the three and nine months ended September 30, 2015 and September 30, 2014.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 1,296,710 | 3,910,962 |
| Restricted cash | 250,000 | 250,000 |
| Trade and other receivables | 1,155,926 | 959,786 |
| Deposits and prepaid expenses | 192,393 | 183,750 |
| Inventory | 2,165,821 | 1,917,249 |
| **Total current assets** | 5,060,850 | 7,221,747 |
| **Non-current assets** | | |
| Property and equipment | 188,504 | 217,186 |
| Intangible assets | 34,992 | 34,992 |
| Inventory | 856,329 | 801,621 |
| **Total non-current assets** | 1,079,825 | 1,053,799 |
| **Total assets** | 6,140,675 | 8,275,546 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade payables and accrued liabilities | 1,437,888 | 2,129,622 |
| Unearned revenue | 1,672,960 | 1,484,345 |
| Loans and borrowings | 3,040,218 | 572,782 |
| Finance lease obligations | 27,419 | 25,973 |
| Current tax liabilities | 2,145 | - |
| **Total current liabilities** | 6,180,630 | 4,212,722 |
| **Non-current liabilities** | | |
| Unearned revenue | 249,545 | 191,401 |
| Loans and borrowings | 3,244,294 | 5,462,701 |
| Finance lease obligations | 22,736 | 43,478 |
| Provisions | 258,559 | 235,019 |
| **Total non-current liabilities** | 3,775,134 | 5,932,599 |
| **Total liabilities** | 9,955,764 | 10,145,321 |
| **Equity (deficiency)** | | |
| Share capital | 53,598,469 | 53,496,969 |
| Convertible debenture - equity feature | 209,376 | 220,700 |
| Warrants | 317,772 | 163,771 |
| Contributed surplus | 8,363,214 | 7,865,143 |
| Deficit | (66,303,920) | (63,616,358) |
| **Total (deficiency)** | (3,815,089) | (1,869,775) |
| **Total liabilities and deficit** | 6,140,675 | 8,275,546 |

See accompanying notes to condensed consolidated interim financial statements
Going concern (note 2d)

On behalf of the board

*"Signed"*
Director – Douglas Marlin

*"Signed"*
Director – Paul Takalo

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | $ | $ | $ | $ |
| Revenue (note 6) | 2,519,347 | 1,808,794 | 6,687,858 | 4,663,347 |
| Cost of sales | 672,341 | 655,927 | 1,872,777 | 1,700,830 |
| **Gross profit** | 1,847,006 | 1,152,867 | 4,815,081 | 2,962,517 |
| Distribution expenses | 1,142,086 | 806,051 | 2,893,190 | 2,402,341 |
| Administration expenses | 607,755 | 985,756 | 2,103,157 | 2,768,479 |
| Research, development and certification engineering expenses | 638,104 | 848,119 | 2,113,357 | 5,024 |
| **Results from operating activities** | (540,939) | (1,487,059) | (2,294,623) | (2,213,327) |
| Finance (income) | (87,281) | (101,859) | (265,096) | (18,939) |
| Finance costs | 227,421 | 268,066 | 655,890 | 778,732 |
| **Net finance costs** | 140,140 | 166,207 | 390,794 | 759,793 |
| **Loss before income tax** | (681,079) | (1,653,266) | (2,685,417) | (2,973,120) |
| Income tax expense (recovery) | 2,145 | (119) | 2,145 | 54 |
| **Loss for the period** | (683,224) | (1,653,147) | (2,687,562) | (2,973,174) |
| **Total comprehensive loss for the period** | **(683,224)** | **(1,653,147)** | **(2,687,562)** | **(2,973,174)** |
| **Loss per share** | | | | |
| Basic and diluted loss per share (note 5) | 0.00 | 0.01 | 0.02 | 0.02 |

See accompanying notes to condensed consolidated interim financial statements

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

**For the three and nine months ended September 30, 2015 and 2014**

| | Share Capital | Convertible Debenture | Warrants | Contributed Surplus | Deficit | Total Equity (Deficit) |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Balance at December 31, 2014** | 53,496,969 | 220,700 | 163,771 | 7,865,143 | (63,616,358) | (1,869,775) |
| Loss for the period | - | - | - | - | (2,687,562) | (2,687,562) |
| **Total comprehensive loss for the period** | - | - | - | - | (2,687,562) | (2,687,562) |
| **Contributions by and distributions to owners** | | | | | | |
| Issue of common shares | 62,000 | (11,324) | - | 103,966 | - | 154,642 |
| Extension of debenture warrants | - | - | 154,001 | - | - | 154,001 |
| Share-based payment transactions | - | - | - | 408,605 | - | 408,605 |
| Share options exercised | 39,500 | - | - | (14,500) | - | 25,000 |
| Total contributions by and distributions to owners | 101,500 | (11,324) | 154,001 | 498,071 | - | 742,248 |
| **Balance at September 30, 2015** | **53,598,469** | **209,376** | **317,772** | **8,363,214** | **(66,303,920)** | **(3,815,089)** |
| **Balance at December 31, 2013** | 48,318,003 | 231,318 | 1,057,652 | 7,458,093 | (59,337,473) | (2,272,407) |
| Loss for the period | - | - | - | - | (2,973,174) | (2,973,174) |
| **Total comprehensive loss for the period** | - | - | - | - | (2,973,174) | (2,973,174) |
| **Contributions by and distributions to owners** | | | | | | |
| Issue of common shares | 53,000 | (9,702) | - | 89,202 | - | 132,500 |
| Share-based payment transactions | - | - | - | 576,097 | - | 576,097 |
| Share options exercised | 289,623 | - | - | (83,249) | - | 206,374 |
| Warrants exercised | 4,112,393 | - | (854,003) | - | - | 3,258,390 |
| Warrants expired | - | - | (8,910) | 8,910 | - | - |
| Total contributions by and distributions to owners | 4,455,016 | (9,702) | (862,913) | 590,960 | - | 4,173,361 |
| **Balance at September 30, 2014** | **52,773,019** | **221,616** | **194,739** | **8,049,053** | **(62,310,647)** | **(1,072,220)** |

See accompanying notes to condensed consolidated interim financial statements

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

| | For the nine months ended September 30 | |
|---|---|---|
| | 2015 | 2014 |
| | $ | $ |
| **Cash flows used in operating activities** | | |
| Loss for the period | (2,687,562) | (2,973,174) |
| Depreciation – PPE | 40,977 | 63,390 |
| Convertible debenture accretion | 507,721 | 584,467 |
| Amortization of debenture issue costs | 7,986 | 64,753 |
| Government grant accretion | 120,740 | 110,073 |
| Equity-settled share-based payment transactions | 408,605 | 576,097 |
| Change in inventories | (303,280) | (882,206) |
| Change in trade and other receivable | (217,682) | (737,991) |
| Change in prepayments | (8,643) | (29,296) |
| Change in trade and other payables | (694,894) | (1,439,500) |
| Change in provisions | 23,540 | 81,043 |
| Change in unearned revenue | 246,759 | 168,372 |
| Unrealized foreign exchange | (271,395) | (117,432) |
| Interest expense | 3,096 | 2,797 |
| Interest paid | (3,408) | (3,642) |
| Income tax expense | 2,145 | 54 |
| Income tax paid | - | (949) |
| **Net cash used in operating activities** | (2,825,295) | (4,533,144) |
| **Cash flows from investing activities** | | |
| Acquisitions of property and equipment | (12,295) | (30,798) |
| Interest income | (2,128) | (2,000) |
| Interest received | 2,128 | 2,000 |
| **Net cash used in investing activities** | (12,295) | (30,798) |
| **Cash flows from (used in) financing activities** | | |
| Proceeds from exercise of share options and warrants | 25,000 | 3,464,764 |
| Repayment of borrowings | (78,462) | (80,594) |
| Payment of finance lease liabilities | (19,296) | (17,933) |
| **Net cash (used in) from financing activities** | (72,758) | 3,366,237 |
| **Net (decrease) in cash and cash equivalents** | (2,910,348) | (1,197,705) |
| Cash and cash equivalents, beginning | 3,910,962 | 5,184,803 |
| Effect of exchange rate fluctuations on cash held | 296,096 | 20,371 |
| **Cash and cash equivalents, ending** | **1,296,710** | **4,007,469** |

See accompanying notes to condensed consolidated interim financial statements

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. Reporting entity

FLYHT Aerospace Solutions Ltd. (the "**Company**" or "**FLYHT**") was founded in 1998 under the name AeroMechanical Services Ltd. FLYHT is a public company incorporated under the Canada Business Corporations Act, and is domiciled in Canada. The Company has been listed on the TSX Venture Exchange since March 2003, first as TSX.V: AMA and as TSX.V: FLY since 2012 and has been listed on the OTCQX marketplace since June 2014 as OTCQX: FLYLF. The Company's head office is located at 300E, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2015 and 2014 consist of the Company and its subsidiaries.

FLYHT is a designer and developer of products and software, and a service provider to the global aerospace industry. The Company supports aviation customers in different sectors including commercial, business, leasing and military operators. FLYHT's headquarters are located in Calgary, Canada with sales representation in the United States, China, the United Kingdom, Singapore, and Abu Dhabi.

## 2. Basis of preparation

### *(a) Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2014. These condensed consolidated interim financial statements were approved by the Board of Directors on November 3, 2015.

### *(b) Basis of measurement*

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value in the statement of financial position ("SFP").

### *(c) Functional and presentation currency*

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

### *(d) Going concern*

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. As at September 30, 2015, the Company had negative working capital of $1,119,780, a deficit of $66,303,920, a net loss of $2,687,562 and negative cash flow used in operating activities of $2,825,295.

The Company has incurred significant operating losses and negative cash flows from operations over the past years. The Company's ability to continue as a going concern is dependent upon attaining profitable operations and/or obtaining additional financing to fund its ongoing operations. The Company's ability to attain profitable operations and positive cash flow in the future is dependent upon various factors including its ability to acquire new customer contracts, the success of management's continued cost containment strategy, the completion of research and development ("R&D") projects, and general economic conditions. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continuing to manage outgoing cash flows. If the need arises due to market opportunities or if sufficient funds are not available to extinguish the debentures coming due in June 2016, the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flow or raising additional capital to meet its working capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected. These condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

## 3. Significant accounting policies

The accounting policies set out in FLYHT's December 31, 2014 consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by FLYHT's subsidiaries.

## 4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

(a) Share based payment transactions: measured using the Black-Scholes option pricing model;

(b) Loans and borrowings: for measurement purposes, fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the inception of the loan. In respect of the liability component of convertible debenture, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature. In respect of the convertible debentures and the debentures, as there has been no material change in the Company's market rate subsequent to the issuance dates, carrying value approximates fair value; and

(c) Trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.

## 5. Earnings per share

The calculation of basic and diluted earnings per share for the three months ended September 30, 2015 was based on a weighted average number of common shares outstanding of 172,366,532 (September 30, 2014: 170,209,597). The calculation of diluted earnings per share did not include stock options of 10,360,800 (2014: 9,827,750), warrants of 3,948,750 (2014: 4,144,750) and convertible debentures of 7,147,500 (2014: 7,433,750) because they would be anti-dilutive.

## 6. Operating segments

The Company has one operating segment. The following revenue is based on the geographical location of customers.

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | **$** | **$** | **$** | **$** |
| North America | 1,293,811 | 807,544 | 3,775,843 | 2,105,686 |
| South / Central America | 92,998 | 76,922 | 227,563 | 237,183 |
| Africa / Middle East | 462,047 | 201,574 | 845,660 | 825,334 |
| Europe | 77,409 | 139,022 | 290,655 | 263,033 |
| Australasia | 159,640 | 146,682 | 479,187 | 514,444 |
| Asia | 433,442 | 437,050 | 1,068,950 | 717,667 |
| **Total** | **2,519,347** | **1,808,794** | **6,687,858** | **4,663,347** |
| Portion of revenue from three largest customers | 50.6% | 34.0% | 46.1% | 24.9% |

All non-current assets (property and equipment and intangible assets) reside in Canada.

## 7. Related parties

In the third quarter, the Company entered into an agreement with a company with ownership related to an officer of FLYHT to supply consulting services in application user experience for use in enhancing the Company's ground based software.

| | Included in contract labour: | | | | Included in accounts payable and accrued liabilities: | |
|---|---|---|---|---|---|---|
| | For the three months ended September 30 | | For the year ended September 30 | | September 30 | |
| | 2015 $ | 2014 $ | 2015 $ | 2014 $ | 2015 $ | 2014 $ |
| Consulting fees | 3,500 | - | 7,500 | - | 3,500 | - |
| **Total** | **3,500** | **-** | **7,500** | **-** | **3,500** | **-** |

All of the transactions with the related parties were amounts that were agreed upon by the parties and approximated fair value. All other transactions with related parties were normal business transactions related to their positions within the Company.

## 8. Subsequent events

In October 2015 Tom Schmutz, MEng, MBA, was appointed the new chief executive officer of the Company. Bill Tempany retired from his role as CEO, but will remain on the board of directors and was appointed the Chairman of the board. In addition, Matt Bradley has resigned from his position as President of the Company to pursue new career opportunities. This change in control triggered clauses in existing employees' employment contracts for payments totaling $794,000. Of this remuneration, the Company anticipates $320,000 will be paid in Q4 2015 with the remainder paid over a period not to extend beyond December 31, 2018.

# CORPORATE INFORMATION

## Registrar and Transfer Agent

Computershare
Telephone: 1-800-564-6253
Email: Investor Centre- contact us section
www.computershare.com

## Share Listing

Shares are traded on the TSX Venture Exchange and the OTCQX Marketplace
Ticker Symbols: TSX: FLY and OTCQX: FLYLF

## Investor Relations

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## Directors

| | |
|---|---|
| Bill Tempany | Chairman, FLYHT Aerospace Solutions Ltd. |
| Doug Marlin | President, Marlin Ventures Ltd. |
| Mike Brown | Partner, Geselbracht Brown |
| Paul Takalo | Director |
| Jacques Kavafian | Director |
| Jack Olcott | President, General Aviation Company |
| Barry Eccleston | President, Airbus Americas, Inc. |
| John Belcher | Former Chairman and Chief Executive Officer, ARINC Inc. |
| Mark Rosenker | USAF (ret) |

## Officers

| | |
|---|---|
| Thomas R. Schmutz | Chief Executive Officer |
| Nola M. Heale | Chief Financial Officer |
| Derek Graham | Chief Technical Officer |
| Jeff Brunner | VP Certification Engineering and China Operations |

## Auditor

KPMG LLP — Calgary, Alberta

## Legal Counsel

Chris Croteau — Tingle Merrett LLP, Calgary, Alberta

## Head Office

300E, 1144 - 29 Avenue NE
Calgary, Alberta T2E 7P1