FLYHT AEROSPACE SOLUTIONS LTD.

FIRST QUARTER **FINANCIAL STATEMENTS** 2016



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 months ended March 31, 2016 and March 31, 2015.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	March 31, 2016 $	December 31, 2015 $
Assets		
Current assets		
Cash and cash equivalents	913,715	1,301,955
Restricted cash	250,000	250,000
Trade and other receivables	1,093,273	898,166
Deposits and prepaid expenses	277,743	137,861
Inventory	2,212,847	1,716,313
Total current assets	4,747,578	4,304,295
Non-current assets		
Property and equipment	206,482	202,775
Intangible assets	34,992	34,992
Inventory	814,027	936,805
Total non-current assets	1,055,501	1,174,572
Total assets	**5,803,079**	**5,478,867**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	3,210,049	2,757,707
Unearned revenue	1,953,012	1,087,197
Loans and borrowings	5,840,418	5,840,418
Finance lease obligations	27,508	27,922
Current tax liabilities	8,421	4,978
Total current liabilities	11,039,408	9,718,222
Non-current liabilities		
Unearned revenue	-	58,144
Loans and borrowings	592,831	374,555
Finance lease obligations	9,180	15,555
Provisions	339,077	263,596
Total non-current liabilities	941,088	711,850
Total liabilities	**11,980,496**	**10,430,072**
Equity (deficiency)		
Share capital	53,895,046	53,895,046
Convertible debenture - equity feature	222,531	222,531
Contributed surplus	8,455,866	8,439,136
Deficit	(68,750,860)	(67,507,918)
Total (deficiency)	(6,177,417)	(4,951,205)
Total liabilities and deficit	**5,803,079**	**5,478,867**

See accompanying notes to condensed consolidated interim financial statements, including the going concern (note 2d).
On behalf of the board

"Signed"
Director – Bill Tempany

"Signed"
Director – Paul Takalo

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the three months ended March 31	
	2016	2015
	$	$
Revenue (note 6)	2,611,331	2,569,908
Cost of sales	861,965	637,901
Gross profit	1,749,366	1,932,007
Distribution expenses	1,132,727	763,774
Administration expenses	638,427	551,471
Research, development and certification engineering expenses	988,176	737,285
Results from operating activities	(1,009,964)	(120,523)
Finance (income)	(10,458)	(270,646)
Finance costs	239,690	210,537
Net finance costs	(229,232)	60,109
Loss before income tax	(1,239,196)	(60,414)
Income tax expense	3,746	-
Loss for the period	(1,242,942)	(60,414)
Total comprehensive loss for the period	(1,242,942)	(60,414)
Loss per share		
Basic and diluted loss per share (note 5)	(0.01)	(0.00)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the three months ended March 31, 2016 and 2015

	Share Capital	Convertible Debenture	Warrants	Contributed Surplus	Deficit	Total Equity (Deficit)
	$	$	$	$	$	$
Balance at December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)
Loss for the period	-	-	-	-	(1,242,942)	(1,242,942)
Total comprehensive loss for the period	-	-	-	-	(1,242,942)	(1,242,942)
Contributions by and distributions to owners						
Share-based payment transactions	-	-	-	16,730	-	16,730
Total contributions by and distributions to owners	-	-	-	16,730	-	16,730
Balance at March 31, 2016	53,895,046	222,531	-	8,455,866	(68,750,860)	(6,177,417)
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	-	-	-	-	(60,414)	(60,414)
Total comprehensive loss for the period	-	-	-	-	(60,414)	(60,414)
Contributions by and distributions to owners						
Issue of common shares	62,000	(11,324)	-	103,966	-	154,642
Issue of warrants	--	-	154,001	-	-	154,001
Total contributions by and distributions to owners	62,000	(11,324)	154,001	103,966	-	308,643
Balance at March 31, 2015	53,558,969	209,376	317,772	7,969,109	(63,676,772)	(1,621,546)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	For the three months ended March 31	
	2016	2015
	$	$
Cash flows used in operating activities		
Loss for the period	(1,242,942)	(60,414)
Depreciation – property plant and equipment	16,128	13,618
Convertible debenture accretion	171,541	161,589
Amortization of debenture issue costs	2,662	40,247
Government grant accretion	44,073	-
Equity-settled share-based payment transactions	16,730	(69,368)
Change in inventories	(373,756)	(826,310)
Change in trade and other receivables	(178,151)	(37,477)
Change in prepayments	(139,882)	(320,866)
Change in trade and other payables	498,434	(1,662)
Change in provisions	75,482	(329,319)
Change in unearned revenue	807,671	(230,583)
Unrealized foreign exchange	6,481	1,152
Interest expense	666	(1,465)
Interest paid	(666)	-
Interest income	(10,458)	-
Interest received	10,458	-
Income tax expense	3,746	-
Income tax paid	(304)	(1,658,225)
Net cash used in operating activities	(292,087)	(60,414)
Cash flows used in investing activities		
Acquisitions of property and equipment	(19,835)	(1,681)
Net cash used in investing activities	(19,835)	(1,681)
Cash flows used in financing activities		
Payment of finance lease liabilities	(6,789)	(6,326)
Net cash used in financing activities	(6,789)	(6,326)
Net (decrease) in cash and cash equivalents	(318,711)	(1,666,232)
Cash and cash equivalents, beginning	1,301,955	3,910,962
Effect of exchange rate fluctuations on cash held	(69,529)	262,504
Cash and cash equivalents, ending	913,715	2,507,234

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 months ended March 31, 2016 and 2015 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.

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, 2015. These condensed consolidated interim financial statements were approved by the Board of Directors on May 10, 2016.

(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 March 31, 2016, the Company had negative working capital of $6,291,830, a deficit of $68,750,860, a net loss of $1,242,942 and negative cash flow used in operating activities of $292,087 for the quarter.

The Company has incurred significant operating losses and negative cash flows from operations over the past years. The achievement of positive earnings before interest and amortization is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward.

To continue as a going concern, the Company will need to attain profitability and/or obtain additional financing to fund ongoing operations. If:

- general economic conditions in the industry or the financial condition of a major customer deteriorates, or
- sufficient funds are not available to extinguish the debentures coming due in June 2016, or
- sufficient funds are not available, or debenture holders do not convert their debenture units to equity, when the debentures mature in December 2016;

then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, 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, 2015 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

Basic earnings per share

The calculation of basic and diluted earnings per share for the quarter ended March 31, 2016 was based on a weighted average number of common shares outstanding of 173,477,635 (2015: 172,421,820). The calculation of diluted earnings per share did not include stock options of 8,936,300 (2015: 7,802,250), nil warrants (2015: 3,948,750) and convertible debentures of 7,597,500 (2015: 8,786,300) 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. All non-current assets (property and equipment and intangible assets) reside in Canada.

	For the three months ended March 31	
	2016	**2015**
	$	**$**
North America	1,596,902	1,697,843
South / Central America	58,781	63,784
Africa / Middle East	363,412	270,404
Europe	60,514	143,710
Australasia	160,561	159,598
Asia	371,161	234,569
Total	**2,611,331**	**2,569,908**

Major customers

Revenues from the three largest customers represent approximately 48.4% of the Company's total revenues for the quarter ended March 31, 2016 (2015: 56.4%).

7. Subsequent events

On December 21, 2015 the Company granted a non-exclusive license to use certain of its intellectual property to a technology company for an aggregate license fee of $2.5 million USD, payable in the first quarter of 2016. The payment due date was subsequently modified while the technology company completed internal processes and confirmed their market demand. Payment of $1.51 million USD for the first milestone under this agreement has been received in the second quarter of 2016 and the final milestone will be paid during the second quarter.

During the quarter the Company received a claim from a partner for past and potential future warranty claims relating to reliability of some active AFIRS units. The claim asserted a design defect had led to the reliability issues. The claim was resolved subsequent to the quarter end and a provision for US$415,000 was included in research and development expense.

On April 25, 2016 the Company proposed a private placement offering of up to $5,000,000. The common share units will be issued at a subscription price of $0.15. The resulting maximum of 33,333,333 units will each consist of one common share and one-half share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company within 24 months at a price of $0.25. All of these common shares and warrants will be subject to a 4-month hold.

CORPORATE INFORMATION

Registrar and Transfer Agent

Computershare Trust Company of Canada
Telephone: 1-403-267-6800
Online: 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.
John Belcher	Former Chairman and Chief Executive Officer, ARINC Inc.
Mike Brown	Partner, Geselbracht Brown
Barry Eccleston	President, Airbus Americas, Inc.
Jacques Kavafian	Director
Doug Marlin	President, Marlin Ventures Ltd.
Jack Olcott	President, General Aviation Company
Mark Rosenker	USAF (United States Air Force (retired))
Paul Takalo	Director

Officers

Thomas R. Schmutz	Chief Executive Officer
Nola M. Heale	Chief Financial Officer
Derek Graham	Chief Technical Officer
Jeff Brunner	Vice President, China Operations

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