2017

FLYHT AEROSPACE SOLUTIONS LTD.

FIRST QUARTER

FINANCIAL STATEMENTS

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, 2017 and March 31, 2016.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	March 31, 2017 $	December 31, 2016 $
Assets		
Current assets		
Cash and cash equivalents	1,454,803	709,958
Restricted cash	250,000	250,000
Trade and other receivables	2,471,197	2,105,385
Deposits and prepaid expenses	382,856	216,819
Inventory	1,610,825	1,556,794
Total current assets	6,169,681	4,838,956
Non-current assets		
Property and equipment	407,055	335,836
Intangible assets	34,992	34,992
Inventory	1,003,817	1,306,422
Total non-current assets	1,445,864	1,677,250
Total assets	**7,615,545**	**6,516,206**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	2,830,359	2,163,307
Unearned revenue	807,494	827,235
Loans and borrowings (note 7)	102,235	97,895
Finance lease obligations (note 7)	9,178	15,553
Current tax liabilities	6,869	10,776
Total current liabilities	3,756,135	3,114,766
Non-current liabilities		
Loans and borrowings (note 7)	1,072,848	974,746
Provisions	569,209	549,335
Total non-current liabilities	1,642,057	1,524,081
Total liabilities	**5,398,192**	**4,638,847**
Equity		
Share capital	57,846,472	57,514,646
Warrants	1,031,800	1,139,934
Contributed surplus	9,020,941	9,017,979
Deficit	(65,681,860)	(65,795,200)
Total equity	2,217,353	1,877,359
Total liabilities and equity	**7,615,545**	**6,516,206**

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) (UNAUDITED)

	For the three months ended March 31	
	2017	**2016**
	$	**$**
Revenue (note 6)	3,729,082	2,611,331
Cost of sales	1,138,602	861,965
Gross profit	2,590,480	1,749,366
Distribution expenses	1,195,194	1,132,727
Administration expenses	638,120	638,427
Research, development and certification engineering expenses	561,158	988,176
Income (loss) from operating activities	196,008	(1,009,964)
Finance (income)	(1,769)	(10,458)
Finance costs	81,432	239,690
Net finance costs	79,663	229,232
Income (loss) before income tax	116,345	(1,239,196)
Income tax expense	3,005	3,746
Income (loss) for the period	113,340	(1,242,942)
Total comprehensive income (loss) for the period	113,340	(1,242,942)
Income (Loss) per share		
Basic and diluted income (loss) per share (note 5)	0.00	(0.01)

See accompanying notes to condensed consolidated interim financial statements.

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

For the three months ended March 31, 2017 and 2016

	Share Capital	Convertible Debenture	Warrants	Contributed Surplus	Deficit	Total Equity (Deficit)
	$	$	$	$	$	$
Balance at December 31, 2016	57,514,646	-	1,139,934	9,017,979	(65,795,200)	1,877,359
Income for the period	-	-	-	-	113,340	113,340
Total comprehensive income for the period	-	-	-	-	113,340	113,340
Contributions by and distributions to owners						
Share-based payment transactions	-	-	-	33,005	-	33,005
Share options exercised	88,185	-	-	(30,043)	-	58,142
Warrants exercised	243,641	-	(108,134)		-	135,507
Total contributions by and distributions to owners	331,826	-	(108,134)	2,962	-	226,654
Balance at March 31, 2017	57,846,472	-	1,031,800	9,020,941	(65,681,860)	2,217,353
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)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31	
	2017	2016
	$	$
Cash flows from (used in) operating activities		
Income (loss) for the period	113,340	(1,242,942)
Depreciation – property plant and equipment	22,148	16,128
Convertible debenture accretion	-	171,541
Amortization of debenture issue costs	-	2,662
Grant portion of contributions from WINN (note 7)	(32,035)	-
Government grant accretion	48,747	44,073
Equity-settled share-based payment transactions	33,005	16,730
Change in inventories	248,574	(373,756)
Change in trade and other receivables	(453,070)	(178,151)
Change in prepayments	(166,037)	(139,882)
Change in trade and other payables	663,113	498,434
Change in provisions	19,874	75,482
Change in unearned revenue	(19,741)	807,671
Unrealized foreign exchange	104,661	6,481
Interest expense	491	666
Interest paid	(491)	(666)
Interest income	(1,769)	(10,458)
Interest received	1,769	10,458
Income tax expense	3,005	3,746
Income tax paid	-	(304)
Net cash from (used in) operating activities	585,584	(292,087)
Cash flows used in investing activities		
Acquisitions of property and equipment	(93,366)	(19,835)
Net cash used in investing activities	(93,366)	(19,835)
Cash flows from (used in) financing activities		
Proceeds from exercise of share options and warrants	193,649	-
Contributions from WINN (note 7)	85,730	-
Payment of finance lease liabilities (note 7)	(6,375)	(6,789)
Net cash from (used in) financing activities	273,004	(6,789)
Net increase (decrease) in cash and cash equivalents	765,222	(318,711)
Cash and cash equivalents, beginning	709,958	1,301,955
Effect of exchange rate fluctuations on cash held	(20,377)	(69,529)
Cash and cash equivalents, ending	1,454,803	913,715

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, 2017 and 2016 consist of the Company and its subsidiaries.

FLYHT is a designer and developer of products and software for, and a service provider to, the global aerospace industry. FLYHT is a provider of Iridium satellite communications, global flight tracking including live flight data recorder streaming capabilities, and aircraft health monitoring solutions. The Company supports aviation customers in different sectors including commercial, business, leasing and military operators. FLYHT's headquarters are located in Calgary, Canada with representation in the United States, China, and Australasia.

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, 2016. These condensed consolidated interim financial statements were approved by the Board of Directors on May 9, 2017.

(b) Basis of measurement

These 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.

(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, 2017, the Company had positive working capital of $2,413,546, a deficit of $65,681,860, net income of $113,340 and cash flow from operating activities of $585,584 for the quarter.

The consistent achievement of positive earnings 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 and signature of an increasing size and number of contracts for delivery of AFIRS units and related services. 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. 2017 Q1 revenue was a 42.8% increase over Q1 2016 which contributed to an operating income of $196,008; being $1,205,972 more than Q1 2016.

For the Company to continue as a going concern longer-term, it will need to maintain profitability and may require additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorate, or revenue streams and expanding markets adversely change, 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 note 3 of FLYHT's December 31, 2016 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. The requirements of IAS 7 have been adopted.

Effective January 1, 2017, the Company adopted the amendments of IAS 7 – Statement of Cash Flows (Amendment). The objective of this amendment is to improve disclosures of changes in financing liabilities to allow users of the financial statements to evaluate changes in liabilities arising from financing activities. The IAS 7 amendment is effective for annual periods beginning on or after January 1, 2017 and the resulting disclosure is presented in note 7. Comparative information has not been presented.

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.

(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, 2017 was based on a weighted average number of common shares outstanding of 208,286,039 (basic) and 211,307,183 (diluted) (Q1 2016: basic 173,477,635 and diluted 182,263,935). The calculation of diluted earnings per share did not include stock options of 7,047,169 (Q1 2016: 8,936,300), warrants of 16,498,421 (Q1 2016: nil) and convertible debentures of nil (Q1 2016: 7,597,500) 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	
	2017	**2016**
	$	**$**
North America	2,098,834	1,596,902
South / Central America	101,057	58,781
Africa / Middle East	279,167	363,412
Europe	71,830	60,514
Australasia	173,389	160,561
Asia	1,004,805	371,161
Total	**3,729,082**	**2,611,331**

Major customers

Revenues from the three largest customers represent approximately 52.9% of the Company's total revenues for the quarter ended March 31, 2017 (Q1 2016: 48.4%).

7. Cash flow movement of liabilities arising from financing activities

	Loans & borrowings	Finance lease obligation
As at January 1, 2017	1,072,641	15,553
Changes from financing cash flows		
Contributions from WINN	85,730	-
Repayments	-	(6,375)
Total changes from financing cash flows	1,158,371	(6,375)
Other changes		
Grant portion of contributions from WINN	(32,035)	-
Government grant accretion: WINN	695	-
Government grant accretion: SADI	48,052	-
Total other changes	16,712	-
As at March 31, 2017	**1,175,083**	**9,178**

On November 9, 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) contribution to support plans for technology development in the air and ground components of the products. Under the terms of the agreement, a repayable WINN contribution to the value of the lesser of 50% of the eligible project costs to December 10, 2018 or $2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. In Q1 2017, the Company received a contribution of $85,730 under this agreement (2016: nil).

CORPORATE INFORMATION

Registrar and Transfer Agent

Computershare Trust Company of Canada
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Share Listing

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

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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 Aero Company
Mark Rosenker	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
David Perez	Vice President Sales and Marketing
Matieu Plamondon	Vice President Operations and Customer Fulfillment

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KPMG LLP — Calgary, Alberta

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