2017

FLYHT AEROSPACE SOLUTIONS LTD.

SECOND 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 and six months ended June 30, 2017 and June 30, 2016.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	June 30, 2017 $	December 31, 2016 $
Assets		
Current assets		
Cash and cash equivalents	1,181,607	709,958
Restricted cash (note 8b)	250,000	250,000
Trade and other receivables	2,648,603	2,105,385
Deposits and prepaid expenses	424,530	216,819
Inventory	1,742,825	1,556,794
Total current assets	6,247,565	4,838,956
Non-current assets		
Property and equipment	424,167	335,836
Intangible assets	34,992	34,992
Inventory	1,003,578	1,306,422
Total non-current assets	1,462,737	1,677,250
Total assets	**7,710,302**	**6,516,206**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	3,104,165	2,163,307
Unearned revenue	656,844	827,235
Loans and borrowings (note 7)	103,767	97,895
Finance lease obligations (note 7)	4,607	15,553
Current tax liabilities	8,261	10,776
Total current liabilities	3,877,644	3,114,766
Non-current liabilities		
Loans and borrowings (note 7)	1,209,206	974,746
Provisions	567,769	549,335
Total non-current liabilities	1,776,975	1,524,081
Total liabilities	**5,654,619**	**4,638,847**
Equity		
Share capital (note 8a)	58,118,014	57,514,646
Warrants	911,282	1,139,934
Contributed surplus	9,432,349	9,017,979
Deficit	(66,405,962)	(65,795,200)
Total equity	2,055,683	1,877,359
Total liabilities and equity	**7,710,302**	**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 June 30		For the six months ended June 30	
	2017	2016	2017	2016
	$	$	$	$
Revenue (note 6)	3,388,030	3,537,665	7,117,112	6,148,996
Cost of sales	1,124,487	1,278,746	2,263,089	2,140,711
Gross profit	2,263,543	2,258,919	4,854,023	4,008,285
Other income	-	3,223,166	-	3,223,166
Distribution expenses	1,420,236	1,248,783	2,613,804	2,381,510
Administration expenses	1,088,709	1,103,399	1,728,455	1,741,826
Research, development and certification engineering expenses	399,920	336,871	961,078	1,325,047
Results from operating activities	(645,322)	2,793,032	(449,314)	1,783,068
Finance income	3,275	9,587	5,044	17,621
Finance costs	80,373	231,206	161,805	468,472
Net finance costs	77,098	221,619	156,761	450,851
Income (loss) before income tax	(722,420)	2,571,413	(606,075)	1,332,217
Income tax expense (recovery)	1,682	(648)	4,687	3,098
Income (loss) for the period	(724,102)	2,572,061	(610,762)	1,329,119
Total comprehensive income (loss) for the period	(724,102)	2,572,061	(610,762)	1,329,119
Income (loss) per share				
Basic and diluted income (loss) per share (note 5)	(0.00)	0.01	(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 six months ended June 30, 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
Loss for the period	-	-	-	-	(610,762)	(610,762)
Total comprehensive income for the period	-	-	-	-	(610,762)	(610,762)
Contributions by and distributions to owners						
Share-based payment transactions	-	-	-	444,413	-	444,413
Share options exercised	88,185	-	-	(30,043)	-	58,142
Warrants exercised	515,183	-	(228,652)		-	286,531
Total contributions by and distributions to owners	603,368	-	(228,652)	414,370	-	789,086
Balance at June 30, 2017	58,118,014	-	911,282	9,432,349	(66,405,962)	2,055,683
Balance at December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)
Income for the period	-	-	-	-	1,329,119	1,329,119
Total comprehensive income for the period	-	-	-	-	1,329,119	1,329,119
Contributions by and distributions to owners						
Issue of common shares	4,199,764	-	-	-	-	4,199,764
Share issue costs	(345,081)	-	-	-	-	(345,081)
Share-based payment transactions	-	-	-	357,720	-	357,720
Share options exercised	1,746	-	-	(596)	-	1,150
Warrants issued	(379,778)	-	1,266,527	-	-	886,749
Total contributions by and distributions to owners	3,476,651	-	1,266,527	357,124	-	5,100,302
Balance at June 30, 2016	57,371,697	222,531	1,266,527	8,796,260	(66,178,799)	1,478,216

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended June 30 2017 $	2016 $
Cash flows from (used in) operating activities		
Income (loss) for the period	(610,762)	1,329,119
Depreciation – property plant and equipment	47,241	31,690
Convertible debenture accretion	-	350,207
Payment of debenture interest	-	(146,721)
Amortization of debenture issue costs	-	5,295
Grant portion of contributions from WINN (note 7)	(266,746)	-
Government grant accretion	102,970	87,439
Equity-settled share-based payment transactions	444,413	357,720
Change in inventories	116,813	(346,680)
Change in trade and other receivables	(689,367)	(728,106)
Change in prepayments	(207,711)	(28,580)
Change in trade and other payables	984,832	(604,063)
Change in provisions	18,434	92,928
Change in unearned revenue	(170,391)	415,679
Unrealized foreign exchange	128,552	56,594
Interest expense	559	1,213
Interest paid	(559)	(1,558)
Interest income	(5,044)	(17,621)
Interest received	5,044	17,621
Income tax expense	4,687	3,098
Income tax paid	(7,202)	(4,916)
Net cash from (used in) operating activities	(104,237)	870,358
Cash flows used in investing activities		
Acquisitions of property and equipment	(135,572)	(16,257)
Net cash used in investing activities	(135,572)	(16,257)
Cash flows from financing activities		
Share issue costs	-	(345,081)
Repayment of debenture	-	(2,321,000)
Proceeds from issue of shares and warrants	-	5,086,513
Proceeds from exercise of share options and warrants	344,673	1,150
Contributions from WINN (note 7)	507,875	-
Repayment of borrowings (note 7)	(103,767)	(90,234)
Payment of finance lease liabilities (note 7)	(10,946)	(13,701)
Net cash from financing activities	737,835	2,317,647
Net increase in cash and cash equivalents	498,026	3,171,748
Cash and cash equivalents, beginning	709,958	1,301,955
Effect of exchange rate fluctuations on cash held	(26,377)	(114,976)
Cash and cash equivalents, ending	1,181,607	4,358,727

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 six months ended June 30, 2017 and 2016 consist of the Company and its subsidiaries.

FLYHT's mission is to improve aviation safety, efficiency and profitability. Airlines, leasing companies, fractional owners and original equipment manufacturers have installed the Automated Flight Information Reporting System (AFIRS™) on their aircraft to capture, process and stream aircraft data with real-time alerts. AFIRS sends this information through satellite networks to the UpTime™ cloud-based data center, which provides aircraft operators with direct insight into the operational status and health of their aircraft and enables them to take corrective action to maintain the highest standard of operational control.

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 August 16, 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 June 30, 2017, the Company had positive working capital of $2,369,921, a deficit of $66,405,962, net loss of $610,762 and cash flow used in operating activities of $104,238 for the period.

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 Q2 revenue was a 4.2% decrease over Q2 2016 which contributed to an operating loss of $645,322; being $3,438,354 less than Q2 2016's operating income of $2,793,032.

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 June 30, 2017 was based on a weighted average number of common shares outstanding of 209,457,280 (basic) and 210,605,366 (diluted) (Q2 2016: basic 191,940,462 and diluted 192,278,397). The calculation of diluted earnings per share did not include stock options of 11,160,785 (Q2 2016: 10,944,294), warrants of 17,082,090 (Q2 2016: 19,832,630) and convertible debentures of nil (Q2 2016: 12,156,000) 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 June 30		**For the six months ended June 30**	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
North America	2,200,784	2,099,953	4,299,618	3,696,854
South / Central America	103,102	258,463	204,159	317,244
Africa / Middle East	353,853	352,472	633,020	715,884
Europe	75,406	75,406	147,236	135,921
Australasia	154,618	181,155	328,007	341,716
Asia	500,267	570,216	1,505,072	941,377
Total	**3,388,030**	**3,537,665**	**7,117,112**	**6,148,996**

Major customers

Revenues from the three largest customers represent approximately 53.6% of the Company's total revenues for the quarter ended June 30, 2017 (Q2 2016: 43.9%). Revenues from the three largest customers represent approximately 50.4% of the Company's total revenues for the six months ended June 30, 2017 (2016: 44.1%)

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	507,875	-
Repayments	(103,767)	(10,946)
Total changes from financing cash flows	404,108	(10,946)
Other changes		
Grant portion of contributions from WINN	(266,746)	-
Government grant accretion: WINN	7,797	-
Government grant accretion: SADI	95,173	-
Total other changes	(163,776)	-
As at June 30, 2017	**1,312,973**	**4,607**

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 Q2 2017, the Company received contributions totaling $422,146 under this agreement (2016: nil), bringing the 2017 YTD total received to $507,875 (2016: nil).

8. Subsequent events

a. The TSX Venture Exchange approved a consolidation (the "Consolidation") of the Company's common shares on a 10 to 1 basis, effective July 17, 2017. The Consolidation was previously approved by the Company's shareholders at the Annual and Special Meeting held on May 10, 2017.

   The Consolidation results in one (1) new post-consolidated common share being issued for ten (10) old pre-consolidated common shares.

   The Consolidation took effect on July 17, 2017 with Common Shares trading on a post-Consolidation basis beginning at the open of markets on July 17, 2017. At the date of the consolidation, there were a total of 209,636,273 Common Shares issued and outstanding. Upon completion of the Consolidation, FLYHT had approximately 20,963,617 (after taking into account certain fractional rounding) Common Shares issued and outstanding.

b. On July 7, 2017 the Company amended its operating demand loan with a Canadian chartered bank to increase its borrowing availability to CAD $1.5 million from $250,000. The Line of Credit continues to bear interest at Canadian chartered bank prime plus 1.5%. Security includes specific accounts receivable, a guarantee under the Export Development Canada's Export Guarantee Fund and a general security agreement including a security interest in all personal property. This amendment released the GIC of $250,000 previously pledged as security.

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.V: 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 Aero Company
Mark Rosenker	United States Air Force (retired)
Paul Takalo	Director

Officers

Thomas R. Schmutz	Chief Executive Officer
Paul Takalo	Interim Chief Financial Officer
Derek Graham	Chief Technical Officer
David Perez	Vice President Sales and Marketing
Matieu Plamondon	Vice President Operations and Customer Fulfillment

Auditor

KPMG LLP — Calgary, Alberta

Legal Counsel

Chris Croteau — Tingle Merrett LLP, Calgary, Alberta

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