FLYHT AEROSPACE SOLUTIONS LTD.

Second Quarter 2015

FINANCIAL STATEMENTS

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 six months ended June 30, 2015 and June 30, 2014.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	June 30, 2015	December 31, 2014
	$	$
Assets		
Current assets		
Cash and cash equivalents	1,809,297	3,910,962
Restricted cash	250,000	250,000
Trade and other receivables	1,144,098	959,786
Deposits and prepaid expenses	187,086	183,750
Inventory	1,823,309	1,917,249
Total current assets	5,213,790	7,221,747
Non-current assets		
Property and equipment	193,419	217,186
Intangible assets	34,992	34,992
Inventory	902,551	801,621
Total non-current assets	1,130,962	1,053,799
Total assets	**6,344,752**	**8,275,546**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	1,929,217	2,129,622
Unearned revenue	1,045,075	1,484,345
Loans and borrowings	3,040,219	572,782
Finance lease obligations	26,920	25,973
Total current liabilities	6,041,431	4,212,722
Non-current liabilities		
Unearned revenue	191,401	191,401
Loans and borrowings	3,023,799	5,462,701
Finance lease obligations	29,778	43,478
Provisions	230,773	235,019
Total non-current liabilities	3,475,751	5,932,599
Total liabilities	**9,517,182**	**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	8,322,649	7,865,143
Deficit	(65,620,696)	(63,616,358)
Total (deficiency)	(3,172,430)	(1,869,775)
Total liabilities and deficit	**6,344,752**	**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 June 30		For the six months ended June 30	
	2015	2014	2015	2014
	$	$	$	$
Revenue (note 6)	1,598,603	1,505,767	4,168,511	2,854,553
Cost of sales	562,535	604,860	1,200,436	1,044,903
Gross profit	1,036,068	900,907	2,968,075	1,809,650
Distribution expenses	987,330	816,240	1,751,104	1,596,290
Administration expenses	943,931	1,119,379	1,495,402	1,782,724
Research, development and certification engineering expenses	737,968	(1,277,790)	1,475,253	(843,095)
Results from operating activities	(1,633,161)	243,078	(1,753,684)	(726,269)
Finance (income)	-	-	(177,815)	-
Finance costs	310,763	289,908	428,469	593,586
Net finance costs	(310,763)	(289,908)	(250,654)	(593,586)
Loss before income tax	(1,943,924)	(46,830)	(2,004,338)	(1,319,855)
Income tax expense	-	96	-	172
Loss for the period	(1,943,924)	(46,926)	(2,004,338)	(1,320,027)
Total comprehensive loss for the period	(1,943,924)	(46,926)	(2,004,338)	(1,320,027)
Loss per share				
Basic and diluted loss per share (note 5)	0.01	0.00	0.01	0.01

See accompanying notes to condensed consolidated interim financial statements

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the three and six months ended June 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	-	-	-	-	(2,004,338)	(2,004,338)
Total comprehensive loss for the period	-	-	-	-	(2,004,338)	(2,004,338)
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	-	-	-	368,040	-	368,040
Share options exercised	39,500	-	-	(14,500)	-	25,000
Total contributions by and distributions to owners	101,500	(11,324)	154,001	457,506	-	701,683
Balance at June 30, 2015	53,598,469	209,376	317,772	8,322,649	(65,620,696)	(3,172,430)
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	-	-	-	-	(1,320,027)	(1,320,027)
Total comprehensive loss for the period	-	-	-	-	(1,320,027)	(1,320,027)
Contributions by and distributions to owners						
Issue of common shares	53,000	(9,702)	-	89,202	-	132,500
Share-based payment transactions	-	-	-	506,519	-	506,519
Share options exercised	286,833	-	-	(82,333)	-	204,500
Warrants exercised	4,074,493	-	(846,103)	-	-	3,228,390
Warrants expired	-	-	(8,910)	8,910	-	-
Total contributions by and distributions to owners	4,414,326	(9,702)	(855,013)	522,298	-	4,071,909
Balance at June 30, 2014	52,732,329	221,616	202,639	7,980,391	(60,657,500)	479,475

See accompanying notes to condensed consolidated interim financial statements

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	For the six months ended June 30	
	2015 **$**	**2014** **$**
Cash flows used in operating activities		
Loss for the period	(2,004,338)	(1,320,027)
Depreciation – PPE	27,325	41,263
Convertible debenture accretion	330,694	381,350
Amortization of debenture issue costs	5,295	42,931
Government grant accretion	79,964	72,835
Equity-settled share-based payment transactions	368,040	506,519
Change in inventories	(6,990)	(406,174)
Change in trade and other receivable	(225,363)	(478,633)
Change in prepayments	(3,336)	(103,941)
Change in trade and other payables	(200,565)	(1,314,133)
Change in provisions	(4,246)	24,514
Change in unearned revenue	(439,271)	179,172
Unrealized foreign exchange	(145,756)	(29,308)
Interest expense	2,184	1,840
Interest paid	(2,496)	(2,685)
Income tax expense	-	172
Income tax paid	-	(955)
Net cash used in operating activities	(2,218,859)	(2,405,260)
Cash flows from investing activities		
Acquisitions of property and equipment	(3,558)	(30,798)
Net cash used in investing activities	(3,558)	(30,798)
Cash flows from (used in) financing activities		
Proceeds from exercise of share options and warrants	25,000	3,432,890
Repayment of borrowings	(78,462)	(80,593)
Payment of finance lease liabilities	(12,753)	(13,162)
Net cash (used in) from financing activities	(66,215)	3,339,135
Net (decrease) increase in cash and cash equivalents	(2,288,632)	903,077
Cash and cash equivalents, beginning	3,910,962	5,184,803
Effect of exchange rate fluctuations on cash held	186,967	(80,520)
Cash and cash equivalents, ending	1,809,297	6,007,360

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, 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 August 26, 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 June 30, 2015, the Company had negative working capital of $827,641, a deficit of $65,620,696, a net loss of $2,004,338 and negative cash flow used in operating activities of $2,218,859.

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 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, 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

Basic earnings per share

The calculation of basic and diluted earnings per share for the three months ended June 30, 2015 was based on a weighted average number of common shares outstanding of 172,346,802 (June 30, 2014: 165,000,776). The calculation of diluted earnings per share did not include stock options of 9,958,800 (2014: 9,535,250), warrants of 3,948,750 (2014: 3,948,750) and convertible debentures of 7,147,500 (2014: 7,566,250) because they would be anti-dilutive.

6. Operating segments

The Company has one operating segment.

Geographical Information

The following revenue is based on the geographical location of customers.

	For the three months ended June 30		For the six months ended June 30	
	2015	**2014**	**2015**	**2014**
	$	**$**	**$**	**$**
North America	784,189	662,698	2,482,034	1,298,142
South / Central America	70,781	79,038	134,565	160,261
Africa / Middle East	113,209	280,679	383,612	623,760
Europe	69,536	88,090	213,246	124,011
Australasia	159,949	137,177	319,547	367,762
Asia	400,939	258,085	635,507	280,617
Total	**1,598,603**	**1,505,767**	**4,168,511**	**2,854,553**

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

Major customers

Revenues from the three largest customers represent approximately 44.9% of the Company's total revenues for the three months ended June 30, 2015 (2014: 28.9%). Revenues from the three largest customers represent approximately 45.4% of the Company's total revenues for the six months ended June 30, 2015 (2014: 27.5%).

7. Subsequent Events

On July 29, 2015 FLYHT entered into an agreement pursuant to which the Corporation will offer for sale on a private placement basis up to 30,000,000 units at a price of $0.17 USD ($0.22 CAD) per unit for gross proceeds of up to $5.1 million USD. Each unit consists of one common share and one-half of one common share purchase warrant (each whole warrant referred to as a "Warrant") of the Corporation. Each Warrant entitles the holder to acquire one common share at a price of $0.25 USD ($0.32 CAD) for a period of three years from the date of issuance of the warrant. In consideration for its services, the issuing agent will receive a fee equal to 8% of the gross proceeds raised as well as agent warrants in an amount equal to 8% of the aggregate number of units sold by the agent. Each agent warrant will be exercisable for a period of three years from the date of issuance into one common share at a price equal to $0.17 USD ($0.22 CAD) per share. All of the securities issued are subject to a four-month hold period. Completion of the offering is subject to the final approval of the TSX Venture Exchange.

CORPORATE INFORMATION

Registrar and Transfer Agent
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Share Listing
Shares are traded on the TSX Venture Exchange and the OTCQX Marketplace
Ticker Symbols: TSX: FLY and OTCQX: FLYLF

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Directors

Doug Marlin	Chairman, FLYHT Aerospace Solutions Ltd. & President, Marlin Ventures Ltd.
Bill Tempany	Chief Executive Officer, FLYHT Aerospace Solutions 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

Bill Tempany	Chief Executive Officer
Matt Bradley	President
Nola Heale	Chief Financial Officer
Derek Graham	Chief Technical Officer
Jeff Brunner	VP Certification Engineering and China Operations

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