

FLYHT AEROSPACE SOLUTIONS LTD.

SECOND QUARTER
**MANAGEMENT
DISCUSSION
AND ANALYSIS**

2016



LETTER TO SHAREHOLDERS

The second quarter was an outstanding revenue quarter for FLYHT which also saw the Company raise cash from an Intellectual Property (“IP”) sale and a private placement equity raise. During this quarter, FLYHT was able to retire a \$2.5 million matured debenture and also announced new customers in China and elsewhere in the world. FLYHT continued certification activity and was able to complete several new Supplemental Type Certifications (“STC”) which enable our sales activities and create valuable barriers to entry for the commercial sales of satellite avionics equipment. Finally, FLYHT continued focus on the “2016 FLYHT Plan” which are our annual goals.

FLYHT finished the quarter with its second best “traditional revenue” quarter of \$3.5 million. In addition, FLYHT recorded other income from an IP sale of \$3.2 million. Together, these events produced a \$6.8 million total revenue quarter – the largest, by far, in the Company’s history. Our first half-year of \$9.4 million is close to the record 2015 annual revenue of \$10.5 million! The IP sale does not include any of the novel aspects of FLYHT’s real-time data access on operational aircraft, but does provide FLYHT the right to independently resell the resulting next generation satellite communications product, which is planned by the technology company licensee, to our market and to our customers. The cash from this IP sale helps fund our operations and increases our working capital as we pursue larger opportunities. This quarter continues our revenue growth as five of our last six quarters are record revenue quarters and demonstrates the growth of our market and our excellent product placement within that market.

While we are very happy with these interim results, which are significantly better than last year’s performance at this point, we still have areas where improvement is required. We need to speed up the accounting recognition of shipped AFIRS units. We also have a significant sales backlog of units, but need to continue to work with our customers to schedule and install the units in order to achieve the revenue from these sales. We have been successful this year adding recurring services and parts sales, which is where we record the license payment receipts for an OEM contract. So, on the whole, the first half of 2016 is very positive but we are looking very critically at the second half of 2016 in order to accomplish a positive EBITDA number this year.

FLYHT also executed a private placement equity raise of \$5.1 million netting \$4.7 million in cash. Some of the funds from this equity raise were used to repay in full the June debenture of \$2.5 million on the maturity date.

FLYHT announced additional parts sales of \$1.1 million USD in the quarter and also announced the closure of our third Chinese operator this year, a \$1 million USD deal when all units are shipped. I visited China this past quarter with other members from our senior staff. This opportunity to visit some of our current customers and other pursuit clients there reinforced our excitement about the promise of the region for FLYHT. We have a great team working in country and there are many more exciting opportunities in the sales funnel.

In the second quarter we continued to work on STC generation. We received European Aviation Safety Agency (“EASA”) approval for the ATR 42-500 600 version and the ATR 72-212A 600 version; Boeing 757-200 STC from the Federal Aviation Authority (“FAA”); and approval for Bombardier DHC 8 - 100, 200, 300 series aircraft from Transport Canada Civil Aviation (“TCCA”); and the Chinese (“CAAC”) STC for the Boeing 767 - 200 and 300 series. These STC completions augment our already impressive and industry leading collection of STCs for commercial air transport aircraft that allow us to install on 95% of those aircraft used for this purpose.

We have now deployed two instances of our cloud-based UpTime™ server which will become our standard customer interface as we move forward. A formal launch of this platform is anticipated to be scheduled later this year when we plan to have all of the core elements completed and ready for general deployment. This activity is the focus of the bulk of our engineering resources.

We have work to do to accomplish all of our 2016 FLYHT Plan this year, though we have a reasonably good start on all activities. I continue to be excited about our opportunities and the engagement of the staff at FLYHT to convert these opportunities into a profitable business. Thank you for your support.



Best Regards,
Thomas R. Schmutz, Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (“MD&A”) is as of July 27, 2016 and should be read in conjunction with the condensed consolidated interim financial statements of FLYHT Aerospace Solutions Ltd. (“FLYHT” or the “Company”) as at and for the three and six months ended June 30, 2016 and 2015 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its June 30, 2016 condensed consolidated interim financial statements and the notes thereto in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company’s accounting policies are provided in note 3 to the condensed consolidated interim financial statements.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with International Financial Reporting Standards (“IFRS”) or Generally Accepted Accounting Principles (“GAAP”). It also occasionally uses certain non-GAAP financial measures, such as working capital, modified working capital, and loss before research, development and certification engineering expenses (“R&D”). FLYHT defines working capital as current assets less current liabilities. The Company defines modified working capital as current assets less current liabilities not including customer deposits or the current portion of unearned revenue. A clearer picture of short-term net cash requirements can be drawn by excluding these two items because those customer deposits and unearned revenue are nonrefundable. Loss before R&D is defined as the net loss before the direct costs associated with R&D. These non-GAAP financial measures are always clearly indicated. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so they can better understand the financial results and perform a better analysis of the Company’s growth and profitability potential. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP measure.

Forward-Looking Statements

This discussion includes certain statements that may be deemed “forward-looking statements” that are subject to risks and uncertainty. All statements, other than statements of historical facts included in this discussion, including, without limitation, those regarding the Company’s financial position, business strategy, projected costs, future plans, projected revenues, objectives of management for future operations, the Company’s ability to meet any repayment obligations, the use of non-GAAP financial measures, trends in the airline industry, the global financial outlook, expanding markets, R&D of next generation products and any government assistance in financing such developments, foreign exchange rate outlooks, new revenue streams and sales projections, cost increases as related to marketing, R&D, administration expenses, and litigation matters, may be or include forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on a number of reasonable assumptions regarding the Canadian, U.S., and global economic environments, local and foreign government policies/regulations and actions, and assumptions made based upon discussions to date with the Company’s customers and advisers, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.

Factors that could cause actual results to differ materially from those in the forward-looking statements include but are not limited to production rates, timing for product deliveries and installations, Canadian, U.S., and foreign government activities, volatility of the aviation market for FLYHT’s products and services, factors that result in significant and prolonged disruption of air travel worldwide, U.S. military activity, market prices, foreign exchange rates, continued availability of capital and financing, and general economic, market, or business conditions in the aviation industry, worldwide political stability or any effect those may have on the Company’s customer base. Investors are cautioned that any such statements are not guarantees of future performance, and that actual results or developments may differ materially from those projected in the forward-looking statements.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. The Company cannot assure investors that actual results will be consistent with any forward-looking statements; accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements contained herein are current only as of the date of this document. The Company disclaims any intentions or obligation to update or revise any forward-looking statements or comments as a result of any new information, future event or otherwise, unless such disclosure is required by law.

FLYHT Overview

FLYHT is a leading provider of real-time aircraft intelligence and cockpit communications for the aerospace industry. More than 50 customers, including airlines, leasing companies and original equipment manufacturers, have installed our systems in order to increase safety, improve operational efficiencies and enhance profitability. FLYHT’s tools deliver data and voice communication between the aircraft and operations groups on the ground, on demand. The Company’s products are available for commercial, business and military aircraft. FLYHT’s proprietary technology, the Automated Flight Information Reporting System (AFIRS™), operates on multiple aircraft types and provides functions such as safety services voice and text messaging, data collection and transmission, and on-demand streaming of flight data recorder (black box), engine and airframe data. AFIRS has flown over 2.2

million aggregate flight hours and 1.5 million flights on customers' aircraft. FLYHT holds supplemental type certificates (STC) which allow for the installation of AFIRS on 95% of transport category aircraft.

FLYHT's products and services are marketed globally by a team of employees and agents based in Canada, the United States, China, Singapore and the United Kingdom.

AFIRS™ and UpTime™

AFIRS is a device installed on aircraft that monitors hundreds of essential functions from the aircraft and the black box. AFIRS sends this information through the Iridium Satellite Network to FLYHT's UpTime™ ground-based server, which routes the data to customer-specified end points and provides an interface for real-time aircraft interaction. In addition to its data monitoring functions, AFIRS provides voice and text messaging capabilities that give pilots the ability to communicate with ground support. Value-added applications such as FLYHTStream™, FLYHTLog™, FLYHTASD™, FLYHTMail™, FLYHTVoice™, FLYHTHealth™ and FLYHTFuel™ are unique to FLYHT. FLYHT's global satellite coverage is enabled by the Iridium satellite network, providing service to our customers when they need it anywhere on the planet.

FLYHT first marketed its technology with the AFIRS 220 in 2004. The unit received regulatory certification for installation in a large number of widely used commercial aircraft brands and models (see systems approvals section). The AFIRS 228, released in 2009, incorporates improvements over the AFIRS 220 in processing capacity, data transmission characteristics and programmability. The AFIRS 228's features cater to the evolving needs of airlines by providing a customized and flexible product. In early 2016, FLYHT announced the Canadian Technical Standard Order ("CAN-TSO") Design Approval, CAN-TSO-C159b for the AFIRS 228S. The certification, granted by TCCA, represents an additional level of airworthiness standards met by AFIRS to provide safety services messages and data.

FLYHTStream

FLYHTStream is a revolutionary, industry-leading technology that performs real-time triggered alerting and black-box data streaming in the event of an abnormal situation on an aircraft. FLYHTStream can be activated automatically by a set of pre-determined factors, by the pilots or on the ground by airline operations. It uses AFIRS' onboard logic and processing capabilities in combination with UpTime's ground-based servers to interpret and route alerts and messages from the aircraft in trouble to key groups on the ground, such as the airline, operation centers and regulators. Animation software converts the raw FDR data into visual data that can be viewed from any computer, providing ground personnel a view of the controls and awareness of what's happening onboard the aircraft.

FLYHTFuel

FLYHTFuel is a tool that eliminates uncertainty about the effectiveness of an airline's operational fuel savings initiatives. Based on eight industry recognized fuel savings initiatives that include: single engine taxi out, reduced flap takeoffs, reduced acceleration altitude, low drag approaches, reduced flap landings, idle reverse, single engine taxi in and APU monitoring, FLYHTFuel uses real-time flight data acquired from the aircraft's onboard systems, and presents the data to operations/maintenance personnel in an easy to read dashboard. The dashboard compares how the aircraft was flown to how it could be flown in order to maximize efficiency and fuel savings. Where compliance has not been met, costs of those variations are shown. FLYHTFuel is an excellent supplement to any fuel management program and is an effective tool for helping flight crew and maintenance personnel alike to understand and appreciate the importance of operational efficiency.

FLYHTLog

FLYHT offers enhanced global flight tracking capabilities that meet and exceed ICAO's Global Aeronautical Distress and Safety System definitions for both normal and abnormal tracking. Specific features include built in visual and audible alerts along with email/text notifications, access to historical data, as well as fully configurable automated, manual and autonomous distress tracking capabilities down to a minimum resolution of 20 seconds. With FLYHT's technology, our customers are able to remotely configure their software directly from their custom ground user interface. Additionally, AFIRS is unsurpassed when it comes to automating the collection and dissemination of block and flight times. Accurate OOOI times translate directly into optimal crew utilization ensuring flight crews don't time-out ahead of schedule. Accurate hour and cycle information also extends the time between maintenance intervals, maximizing utilization of life-limited parts. Precise OOOI times lead to financial savings for operators on a power-by-the-hour contract, or lease contracts with a utilization component.

FLYHTASD

FLYHTASD is a fully integrated and interactive enhanced global flight tracking solution that makes tracking the progress and monitoring the status of your aircraft seamless. Customers enjoy all the benefits the FLYHTLog product has to offer, plus gain access to a worldwide airport database for operational planning purposes. FLYHTASD also comes complete with a fully integrated text messaging interface that allows operators to send and receive text messages to and from multiple aircraft at any one time.

FLYHTHealth

Consists of automated engine and airframe trend monitoring and real-time exceedances and diagnostics. Automated trend reports with configurable reporting intervals notify the airline when a maintenance event has occurred. Leveraging the global coverage of the Iridium Satellite Network, FLYHTHealth allows the airline to request data directly from the engine once a problem has been detected. The airline can then use FLYHT's real-time systems diagnostics capabilities to interrogate systems

information, identify the source of the problem and prepare the arrival station for repair, long before the aircraft lands at its destination. By automating and enhancing the real-time and long-term monitoring of airplane data, FLYHTHealth enables proactive management of maintenance and reduces downtime and the financial impact of unscheduled maintenance.

FLYHTMail

Two-way text messaging to the flight deck is established through the multi-control display unit ("MCDU") or an iPad application. From departure to arrival, FLYHTMail ensures the customer is capable of communicating in a timely and effective manner.

FLYHTVoice

FLYHTVoice provides a rapid, dependable, private communication channel for the flight deck using the Iridium satellite network. FLYHTVoice is especially useful for managing irregular operations such as weather diversions, mechanical breakdowns and any other unforeseen situations as well as when operating in remote regions with little to no VHF/HF coverage.

As part of an evaluation of its products and services and in order to focus attention where it is needed most, FLYHT is discontinuing the sale of the Dragon™. This decision will not impact FLYHT's current Dragon customers.

Underfloor Stowage Unit

The Underfloor Stowage Unit offers the flight crew additional stowage space in the cockpit. With this addition, manuals are always within reach of the seated crew and are kept safe, dry and clean inside the stowage unit. In addition, safety equipment and other items required by the flight crew can be accessed any time throughout the flight without leaving the cockpit. The stowage unit is certified to be installed in Bombardier CRJ series, Challenger and DHC-8s and can also be installed in other aircraft types.

System Approvals

A STC is an airworthiness certification required to modify an aircraft from its original design and is issued by an aviation regulator. FLYHT's AFIRS equipment is an addition to an aircraft and therefore an STC is required prior to installation. FLYHT has received or applied for AFIRS product approvals from TCCA, the FAA, EASA, ANAC, ECAA, DGAC and the CAAC for various aircraft models, depending on customer requirements.

FLYHT's expertise in airworthiness certification enabled it, in October 2008, to join a select group of Canadian companies who are approved by TCCA as a Design Approval Organization ("DAO"). Very few organizations achieve DAO status because of the time and expertise required to meet TCCA standards. FLYHT's DAO status, along with the delegations it has received, allows the Company to obtain and revise its own STCs with minimal TCCA oversight. This speeds up the process by lessening wait times, and reduces cost and reliance on contractors.

In addition to its DAO status, the Company has an engineer on staff with delegated authority, allowing him to approve electrical design aspects of an airworthiness certification. If an issue is encountered during the STC process, the delegated staff member has the authority to approve necessary changes and continue the process without the involvement of an external party.

The process to receive a STC takes time to complete but always starts with an application for the STC through any one of TCCA, FAA or EASA. Generally, FLYHT starts the process with TCCA by opening an application with the regulator, after which an STC data package is created. The data package consists of the engineering documents that outline how the AFIRS equipment will be installed on the aircraft. Once the data package is prepared and first stage approvals granted by the regulator, ground and flight tests take place. To fulfill the flight test requirement, FLYHT must have access to the appropriate type and model of aircraft. This is done in cooperation with an existing or potential customer. Once these tests are completed, FLYHT submits an activation data package to TCCA that enables the AFIRS unit to be integrated with the aircraft systems. If TCCA approves the submission, an STC is issued. To obtain an STC from another regulator, FLYHT prepares an application, which is sent through TCCA to the regulator such as FAA, EASA, ANAC, ECAA, DGAC or CAAC along with the STC package previously approved by TCCA. The regulator reviews the package and issues the STC.

The time required for the approval process through TCCA varies depending on the aircraft and workloads. A general rule of thumb is approximately three months, with a minimum of another three months if an STC is required from another regulator.

The Company will over the next several years be filing the necessary documents to obtain approval for the AFIRS 228 in parallel to the majority of current 220 STCs, depending on market requirements.

TCCA		FAA		EASA		CAAC		ANAC		
220	228	220	228	220	228	220	228	220	228	
A	A	A	A	A	A	A	A			Airbus A319, A320, A321
A										Airbus A330
	A		I						A	ATR-42, -72 - 200/ATR42-300, -500
	A		I						A	ATR72-100, -200
	A		I						I	ATR-42, -72- -500
					A					ATR42-500 "600 Version" *STC Twenty One
					A					ATR72-212A "600 Version" *STC Twenty One
A		A		A		A				Boeing B737 -200
A	A	A	A	A		A	I		A	Boeing B737 -300, -400, -500
A		A		A		A				Boeing B737 -600
A	A	A	A	A		A	A		A	Boeing B737 -600, -700, -800
			I				I			Boeing B737 -900
	A									Boeing 747-200
A	A	A	A	A	I	A	I			Boeing 757 -200
A	A	A	A	A	I	A	A			Boeing 767 -200, -300
	A		A							Boeing B777
A	A	A		A						Bombardier DHC 8 -100, -200, -300 *Avmax
A	P						I			Bombardier DHC 8 -400
A	A	A		A			I			Bombardier CRJ 100, 200, 440
	A						A			Bombardier CRJ -700, 900
A		A								McDonnell Douglas DC-10 (KC-10 military)
			I							McDonnell Douglas MD-82/83
	A		I							McDonnell Douglas MD-83
A										Fokker 100
A	A	A	A	A	A					Hawker Beechcraft -750, 800XP, 850XP, 900XP
A										Viking Air DHC -7 (LSTC)
	I									Embraer EMB 190
		A								Embraer Legacy 600 and EMB – 135/145

AFIRS 220 or 228 model

A = Approved, P = Pending (We have received a Provisions STC and are in the final stages before receiving a full STC), I = In Progress.

FLYHT announced additional certification in January 2016, with the receipt of the Canadian Technical Standard Order ("CAN-TSO") Design Approval, CAN-TSO-C159b for the AFIRS 228S. The certification, granted by TCCA, represents an additional level of airworthiness standards met by AFIRS. A Technical Standard Order is a minimum performance standard issued by an airworthiness authority for specified materials, parts, processes, and appliances used on civil aircraft. Issuance of the CAN-TSO by TCCA through international agreements, represents recognition of the AFIRS 228S in the world's major airworthiness jurisdictions, thus simplifying the STC and installation process.

This TSO certification confirms that AFIRS 228S meets all product requirements, including DO-262B Minimum Operational Performance Standards for Avionics Supporting Next Generation Satellite Systems (NGSS), for an Iridium SATCOM supporting Future Air Navigation System ("FANS") -1/A capability. FANS allows for and supports improved data and surveillance of aircraft flying in remote regions and over the oceans. Additionally, the certification enables voice and data services for Air Traffic Control ("ATC"), Aeronautical Operational Control ("AOC") and Air-to-Air Communication ("AAC") using Iridium's global satellite network. The system also provides ACARS over Iridium messaging capability.

Trends and Economic Factors

FLYHT examines the results of growth and measurements made by leading aviation groups in order to determine the health of the industry. AFIRS is a technology that can be installed on commercial, business or military aircraft.

Due to the early timing of the release of this report as compared to previous reports, some of the industry's YTD or second quarter results have not yet been released. Statistics are included for the latest period available. Passenger traffic (measured in Revenue Passenger Kilometers or "RPK") saw a 4.6% increase from the month of May 2015, and a 6.0% increase in comparison to the first five months of the year from 2015 to 2016¹. All regions internationally saw demand growth in the start of the year, though IATA noted that after a strong start to the year demand growth is slipping back to more historic levels. Global freight traffic (measured in Freight Tonne Kilometers or "FTK") increased 0.9% in May of 2016². According to IATA, the freight market has flat lined and there are no signs of immediate relief with the economic and political uncertainty. RPK and FTK measure passenger and freight contributions to airline revenue. These are significant measures to determine the health of the industry because the size of the shift in growth indicates the health of the industry.

FLYHT continues to be an industry leader in providing airlines with increased operational control and aircraft situational awareness. The Company's efforts in the first half of the year have been on the early stage redevelopment and implementation of a cloud-based UpTime user software. This development, targeted to be complete in 2016, marks an improvement on our current technology; taking into consideration customer feedback and optimization. The FLYHTHealth program is significant in its ability to detect and notify the airline of any problems while the aircraft is in flight and prepare for repair before the aircraft lands, thereby reducing the financial impact of unscheduled maintenance. Since 2009, FLYHT has had the technology to stream black box data in real-time. As a result of industry events and accidents during 2014, FLYHT has participated in working groups and demonstrated the AFIRS technology and FLYHTStream capabilities on industry panels. Multiple working groups included sessions with the Malaysian Government, ICAO, IATA, the NTSB and ITU. FLYHT will continue to participate in industry working groups to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs. In early 2016 ICAO announced aircraft tracking Standards and Recommended Practices ("SARPs"). Applicable on November 8, 2018, amendment 39 includes SARPs which make an air operator responsible for tracking its aircraft throughout its area of operations with an aircraft tracking time interval of 15 minutes. Amendment 40 includes SARPs applicable on January 1, 2021 related to the location of an aeroplane in distress and establishes a requirement for an aeroplane to autonomously transmit information from which position can be determined at least every one minute while in distress. These SARPs are non-prescriptive meaning they may be implemented with any chosen technology.

The weakening of the Canadian dollar relative to the U.S. dollar throughout Q2 2016 had a positive impact on the Company's revenue and income compared to Q2 2015, which partially offset the losses due to the strengthening of the Canadian dollar YTD in 2016. As a result of these currency movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were higher in the quarter but lower YTD than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company's operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a natural hedge exists against fluctuations of the Canadian dollar.

Contracts and Achievements of Q2 2016

Contracts

FLYHT signed five new contracts in the second quarter of 2016 including one customer in China and a former client, discontinued for non-payment in 2014, who renewed their contract.

In April, FLYHT announced an order from an OEM partner for \$1.2 million USD in parts with related license fees, for immediate delivery, and signed its third Chinese airline customer of the year to contract. The aggregate revenue from the Chinese customer will be approximately \$1 million USD.

Achievements

In April, FLYHT announced record setting 2015 year-end results. Highlights included fourth quarter revenue of \$3.8 million, which represented a 69.9% increase from the fourth quarter of 2014. Additionally, the year-end revenue was \$10.5 million, an increase of 51.9% from 2014.

In April, FLYHT announced the receipt of the first of two milestone payments of the aggregate \$2.5 million USD license fee due from a technology company (the "Licensee"). The second milestone was received later in the quarter.

¹ <http://www.iata.org/pressroom/pr/Pages/2016-07-07-01.aspx>

² <http://www.iata.org/pressroom/pr/Pages/2016-07-06-01.aspx>

In May, FLYHT reported first quarter results, with \$2.6 million in revenue, a 1.6% increase from Q1 2015.

In May, FLYHT announced that it closed a private placement offering for aggregate consideration of \$5,086,512.

In May, FLYHT announced supplemental type certificates ("STCs") for the AFIRS 228. The approved aircraft types include the ATR 42-500 "600 version" and the ATR 72-212A "600 version" from the European Aviation Safety Agency ("EASA"), the Boeing B757-200 aircraft from the Federal Aviation Administration ("FAA") and the Transport Canada Civil Aviation ("TCCA") STC for the Bombardier DHC 8 -100, 200, 300 series aircraft.

In June, FLYHT announced the appointment of Matieu Plamondon, Vice President Operations and Customer Fulfillment and David Perez, Vice President Sales and Marketing as officers of the Company.

In June, FLYHT announced the sponsorship of Canadian North pilot and adventurer Laval St. Germain on his heroic Confront Cancer Ocean Row in support of the Alberta Cancer Society.

In the second quarter, FLYHT also received the Civil Aviation Administration of China ("CAAC") STC for the Boeing 767 200 and 300 series.

On June 30, 2016, FLYHT's outstanding debentures matured and were repaid in full for \$2.5 million.

Results of Operations – Three Months Ended June 30, 2016 and 2015

Selected Results

	Q2 2016 \$	Q1 2016 \$	Q4 2015 \$	Q3 2015 \$
Assets	9,655,504	5,803,079	5,478,867	6,140,675
Non-current financial liabilities	1,002,872	602,011	390,110	3,267,030
Revenue	3,537,665	2,611,331	3,769,267	2,519,347
Cost of sales	1,278,746	861,965	1,340,513	672,341
Distribution expenses	1,248,783	1,132,727	1,084,443	1,142,086
Administration expenses	1,103,399	638,427	1,573,796	607,755
Research, development and certification engineering expenses	336,871	988,176	689,195	638,104
Income (loss) from operating activities	2,793,032	(1,009,964)	(918,680)	(540,939)
Income (loss)	2,572,061	(1,242,942)	(1,203,998)	(683,224)
Income (loss) before R&D	2,908,932	(254,766)	(514,803)	(45,120)
Income (loss) per share (basic & fully diluted)	0.01	(0.01)	(0.01)	(0.00)
	Q2 2015 \$	Q1 2015 \$	Q4 2014 \$	Q3 2014 \$
Assets	6,344,752	7,752,509	8,275,546	8,968,372
Non-current financial liabilities	3,053,577	5,407,303	5,506,179	2,728,769
Revenue	1,598,603	2,569,908	2,218,681	1,808,794
Cost of sales	562,535	637,901	849,221	655,927
Distribution expenses	987,330	763,774	990,650	806,051
Administration expenses	943,931	551,471	780,039	985,756
Research, development and certification engineering expenses	737,968	737,285	772,725	848,119
Income (loss) from operating activities	(1,633,161)	(120,523)	(1,173,954)	(1,487,059)
Income (loss)	(1,943,924)	(60,414)	(1,305,712)	(1,653,147)
Income (loss) before R&D	(1,205,956)	676,871	(532,986)	(805,028)
Income (loss) per share (basic & fully diluted)	(0.01)	(0.00)	(0.01)	(0.01)

Financial Position

Liquidity and Capital Resource

The Company's cash at June 30, 2016 increased to \$4,358,727 from \$1,301,955 at December 31, 2015. The Company has an available and undrawn operating line of \$250,000 at Canadian chartered bank prime plus 1.5%, secured by assignment of cash collateral and a general security agreement.

At June 30, 2016, the Company had positive working capital of \$1,699,198 compared to negative \$5,413,927 as of December 31, 2015, an increase of \$7,113,125. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are excluded in the working capital calculation, the resulting modified working capital at June 30, 2016 would be positive \$4,070,452 compared to negative \$3,306,055 at December 31, 2015.

On May 12, 2016 the Company closed a private placement, issuing 33,910,081 units at a price of \$0.15 per unit, for total proceeds of \$5,086,512. Each unit consisted of one common share and one-half of one share purchase warrant. Each warrant entitled the holder to purchase one additional common share of the Company for a period of 24 months from the issuance of the units at a price of \$0.25. Finder's fees totaled \$317,275. A total of 2,115,167 finder's options were also issued, exercisable into one unit at \$0.15 per unit within 24 months from the closing date. A portion of the net proceeds were used to repay the debentures that were due in June 2016. All of the common shares and warrants issued pursuant to the private placement are subject to a 4-month hold period.

The Company granted a non-exclusive license to use certain of its intellectual property to a technology company for an aggregate license fee of \$3,223,166. Payment was received for both contracted milestones in Q2 2016.

The Company funded Q2 2016 operations primarily through the private placement that closed on May 12, 2016 and the receipt of the funds resulting from the sale of a non-exclusive license to use certain intellectual property, together with cash received from sales. Management is addressing the convertible debenture due in December 2016 and the Company will continue to strive to self-fund operations through 2016.

	June 30, 2016 \$	December 31, 2015 \$	Variance \$
Cash and cash equivalents	4,358,727	1,301,955	3,056,772
Restricted cash	250,000	250,000	-
Trade and other receivables	1,658,204	898,166	760,038
Deposits and prepaid expenses	166,441	137,861	28,580
Inventory	2,083,718	1,716,313	367,405
Trade payables and accrued liabilities	(2,127,193)	(2,757,707)	630,514
Unearned revenue	(1,561,020)	(1,087,197)	(473,823)
Loans and borrowings	(3,101,352)	(5,840,418)	2,739,066
Finance lease obligations	(25,167)	(27,922)	2,755
Current tax liabilities	(3,160)	(4,978)	1,818
Working capital	1,699,198	(5,413,927)	7,113,125
Unearned revenue	1,561,020	1,087,197	473,823
Customer deposits	810,234	1,020,675	(210,441)
Modified working capital	4,070,452	(3,306,055)	7,376,507

As at July 27, 2016, FLYHT's issued and outstanding share capital was 207,393,766.

Consistent achievement of positive earnings before interest and amortization will be necessary for the Company to maintain 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, together with the proceeds received from the private placement in Q2 and the sale of the one-time non-exclusive license to use certain intellectual property will be sufficient to meet standard liquidity requirements over the next twelve months.

Given a large portion of the funds raised in Q2 2016 originated from a one-time sale of intellectual property, for the Company to continue as a going concern longer-term it 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
- debenture holders do not convert their debenture units to equity, when the debentures mature in December 2016;

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.

Financial Instruments

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies with respect to assets, sales, expenses and purchases. The Company monitors fluctuations and may take action if deemed necessary to mitigate its risk.

The Company is exposed to changes in interest rates as a result of the operating loan bearing interest based on the Company's lenders' prime rate. All outstanding debentures have a fixed rate of interest and therefore do not expose the Company's cash flow to interest rate changes.

There is a credit risk associated with accounts receivable where the customer fails to pay invoices. The Company extends credit to credit-worthy or well-established customers. In the case of AFIRS sales the invoiced amount is frequently paid before the product is shipped to the customer. The Company assesses the financial risk of a customer and based on that analysis may require that a deposit payment be made before services are provided. In the case of monthly voice and data services the Company has the ability to disable the AFIRS unit transmissions where the customer has not fulfilled its financial obligations.

Contractual Obligations

The following table details the contractual maturities of financial liabilities, including estimated interest payments.

June 30, 2016	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	618,225	4,038	-	-	-	622,263
Compensation and statutory deductions	114,703	240,998	108,000	72,000	-	535,701
Finance lease liabilities	4,970	21,096	4,640	-	-	30,706
Accrued liabilities	65,411	55,372	11,658	26,554	-	158,995
Loans and borrowings	-	3,385,888	119,333	476,546	1,030,935	5,012,702
Total	803,309	3,707,392	243,631	575,100	1,030,935	6,360,367

Under SADI, the Company has, at June 30, 2016, an outstanding repayable balance of \$1,730,582 (December 31, 2015: \$1,820,816). The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until April 30, 2028 when the final payment will be 24.5% of the total contribution received. Repayments in 2016 totaled \$90,234 (2015: \$78,462).

The debenture issued December 23, 2010 had an original face value of \$3,159,000 and was set to mature on December 23, 2014. On December 22, 2014 approval was received to extend the maturity date of the debentures then remaining outstanding from four to six years, now maturing on December 23, 2016. The debenture continues to bear interest at a rate of 8% per annum, accrued and paid annually in arrears. The debentures were convertible into common shares at a conversion rate of \$0.40 per share at any time up to December 23, 2015; on December 15, 2015 the conversion rate was amended to be \$0.25 per share at any time up to December 23, 2016. The debentures carry a face value after conversions of \$3,039,000 at July 27, 2016, unchanged from December 31, 2015.

FLYHT did not enter into any new loan or lease agreements to date in 2016. Minimum lease payments are as follows.

Year	Total \$
2016	14,911
2017	15,795
Total	30,706

Customer Deposits

FLYHT's revenue recognition for AFIRS sales and Parts sales occurs in a series of steps. The process begins with the receipt of customer deposits, followed by shipment, installation and finally customer usage of the AFIRS Solution.

Customers are frequently required to pay for AFIRS units and installation kits prior to the planned shipment date. This prepayment is recorded as a customer deposit, which is recognized as an accrued liability upon receipt. When the AFIRS unit and installation kit are shipped, the customer deposit is reclassified to unearned revenue, where it will remain until the AFIRS Solution has been installed and is fully functional, at which point the unearned revenue is recognized as AFIRS sales revenue.

When customers order spare parts or Underfloor Stowage Units and a prepayment is required, it is also recorded as a customer deposit. The Parts sales revenue is recognized when the ordered part or unit is shipped.

Customer deposits are amounts received for AFIRS sales and parts that have not yet been shipped to the customer, and services that have not yet been completed. These deposits are nonrefundable, and are included on the Statement of Financial Position ("SFP") in trade payables and accrued liabilities.

The chart below outlines the movement in the Company's customer deposits throughout the three and six months ended June 30, 2016 and 2015. Payment was received for 17 installation kits in the second quarter of 2016 compared to 12 received in the second quarter of 2015. YTD, payment has been received for 32 installation kits, compared to 15 in 2015.

	Q2 2016 \$	Q2 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Opening balance	698,561	851,703	(153,142)	1,020,675	790,405	230,270
Payments received	1,014,022	298,863	715,159	1,927,470	774,561	1,152,909
Moved to unearned revenue	(902,349)	(286,234)	(616,115)	(2,137,911)	(700,634)	(1,437,277)
Balance, June 30	810,234	864,332	(54,098)	810,234	864,332	(54,098)

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the three and six months ended June 30, 2016 and 2015. Revenue was recognized for 27 installation kits in 2016's second quarter compared to 7 in the second quarter of 2015. YTD, revenue was recognized for 36 installation kits in 2016 compared to 22 in 2015. In Q2 2016, 31.8% of the unearned revenue balance at December 31, 2015 was recognized as earned revenue (2015: 15.8%).

	Q2 2016 \$	Q2 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Opening balance	1,953,012	1,346,427	606,585	1,145,341	1,675,747	(530,406)
AFIRS sales: shipped	902,349	286,234	616,115	2,137,911	700,634	1,437,277
AFIRS sales: recognized	(1,289,583)	(392,195)	(897,388)	(1,712,717)	(1,131,924)	(580,793)
Voice and data services: recognized	(4,758)	(3,990)	(768)	(9,515)	(7,981)	(1,534)
Balance, June 30	1,561,020	1,236,476	324,544	1,561,020	1,236,476	324,544

Comprehensive Income

Revenue

In the categories listed in the revenue sources chart, **Voice and data services** is the recurring revenue from customers' usage of data they receive from AFIRS and use of functions such as the satellite phone. Usage fees are recognized as the service is provided based on actual customer usage each month. **AFIRS sales** includes the income from AFIRS hardware sales and related parts required to install the unit along with Dragon hardware sales. Upon shipment, these amounts are deferred as unearned revenue and corresponding expenses are recorded as work in progress. When the system is fully functional and the customer has accepted the system, the deferred amount is recognized as AFIRS sales revenue and the work in progress as cost of sales. **Parts sales** include the sale of spare AFIRS units, spare installation parts, modems with related manufacturing license fee, and Underfloor Stowage Units. **Services** revenue includes technical services, repairs and expertise the Company offers including the installation of operations control centres.

Revenue sources

	Q2 2016 \$	Q2 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Voice and data services	1,014,725	855,121	159,604	2,082,432	1,818,681	263,751
AFIRS sales	1,286,641	434,102	852,539	1,724,181	1,184,633	539,548
Parts sales	1,126,542	285,459	841,083	2,154,954	1,125,821	1,029,133
Services	109,757	23,921	85,836	187,429	39,376	148,053
Total	3,537,665	1,598,603	1,939,062	6,148,996	4,168,511	1,980,485

Overall, total revenue increased 121.3% from \$1,598,603 in Q2 2015 to \$3,537,665 in Q2 2016. Voice and data services increased by 18.7%, Parts sales increased by 294.6%, AFIRS sales increased by 196.4%, while Services revenue increased by 358.8%. Q2 2016 was the second highest revenue quarter in FLYHT history.

Voice and data services increased compared to last year due to a higher number of aircraft producing recurring revenue in combination with higher revenue per aircraft in Canadian dollars. Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2016 and future years.

AFIRS sales increased in Q2 2016 as compared to Q2 2015 due to an increase in the number of installation kits meeting the requirements for revenue recognition. Revenue was recognized on 27 installation kits in Q2 2016 compared to 7 in Q2 2015.

Parts sales increased due to differences in the number of modems with related license fees ordered in 2016.

Services revenue increased in 2016 compared to 2015 due to a higher number of technical services provided to customers throughout 2016, mainly customized engineering documentation and training services.

Revenue sources for the last eight quarters were:

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Voice and data services	1,014,725	1,067,707	1,067,894	1,100,238	855,121	963,560	915,602	927,117
AFIRS sales	1,286,641	437,540	1,574,559	613,229	434,102	750,531	619,776	609,085
Parts sales	1,126,542	1,028,412	1,123,803	682,476	285,459	840,362	455,297	148,198
Services	109,757	77,672	3,011	123,404	23,921	15,455	228,006	124,394
Total	3,537,665	2,611,331	3,769,267	2,519,347	1,598,603	2,569,908	2,218,681	1,808,794

	Q2 2016 \$	Q2 2015 \$	YTD 2016 \$	YTD 2015 \$
North America	2,099,953	784,189	3,696,854	2,482,034
South/Central America	258,463	70,781	317,244	134,565
Africa/Middle East	352,472	113,209	715,884	383,612
Europe	75,406	69,536	135,921	213,246
Australasia	181,155	159,949	341,716	319,547
Asia	570,216	400,939	941,377	635,507
Total	3,537,665	1,598,603	6,148,996	4,168,511

	Q2 2016 %	Q2 2015 %	YTD 2016 %	YTD 2015 %
North America	59.4	49.1	60.1	59.6
South/Central America	7.3	4.4	5.2	3.2
Africa/Middle East	10.0	7.1	11.6	9.2
Europe	2.1	4.3	2.2	5.1
Australasia	5.1	10.0	5.6	7.7
Asia	16.1	25.1	15.3	15.2
Total	100.0	100.0	100.0	100.0

Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the AFIRS unit, installation kits, parts costs including modems, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel while performing on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the second quarter of 2016 was 36.1% compared to 35.2% in 2015's second quarter. The decrease in gross margin was due to a difference in the mix of revenue sources, combined with a higher write-off of slow moving parts in Q2 2016 versus Q2 2015. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Gross Margin %	63.9	70.0	64.4	73.3	64.8	75.2	61.7	63.7
Cost of Sales %	36.1	30.0	35.6	26.7	35.2	24.8	38.3	36.3

Distribution Expenses (Recovery)

Consist of overhead expenses associated with the sale and delivery of products and services to customers, and marketing.

Major Category	Q2 2016 \$	Q2 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Salaries and benefits	775,081	473,049	302,032	1,494,485	767,911	726,574
Share based compensation	92,442	65,295	27,147	92,442	65,295	27,147
Contract labour	108,184	206,206	(98,022)	248,011	348,592	(100,581)
Office	110,065	65,599	44,466	221,865	138,609	83,256
Travel	153,777	94,374	59,403	289,132	209,752	79,380
Equipment and maintenance	7,888	27,421	(19,533)	15,221	34,549	(19,328)
Depreciation	10,209	6,100	4,109	20,804	12,154	8,650
Marketing	27,327	31,047	(3,720)	35,470	72,468	(36,998)
Other	(36,190)	18,239	(54,429)	(35,920)	101,774	(137,694)
Total	1,248,783	987,330	261,453	2,381,510	1,751,104	630,406

Distribution expenses increased compared to 2015 due mainly to higher people costs offset by a recovery of a bad debt that had been written off in 2014.

Salaries and benefits increased in 2016 as compared to 2015 due to an increase in sales and customer satisfaction staff, partially offset by an increased allocation of staffing costs based on research and development activity requirements.

Share based compensation increased compared to the same periods last year, due to a larger number of options granted in 2016 under the share option plan.

Contract labour decreased both in the quarter and YTD as a contract resource engaged in early 2015 was converted to full time staff, together with non-recurrence of a recruitment fee paid in Q2 2015 to seek additional sales resources.

Office expenses increased in 2016 from 2015 mainly as the result of an increased rent allocation.

Equipment and maintenance expenses decreased in 2016 versus 2015 largely due to a non-recurring 2015 purchase of equipment used to demonstrate FLYHT's services to prospective customers.

Other expenses decrease was the result of differences in bad debt reserves required. The recovery realized in Q2 2016 was payment received for a bad debt amount written off in 2014.

Administration Expenses

Consist of expenses associated with the general operations of the Company that are not directly attributable to delivery of services or sales.

Major Category	Q2 2016 \$	Q2 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Salaries and benefits	445,557	337,642	107,915	791,600	636,481	155,119
Share based compensation	211,328	226,099	(14,771)	228,058	226,099	1,959
Contract labour	52,710	43,204	9,506	88,586	81,787	6,799
Office	75,572	72,684	2,888	136,309	131,964	4,345
Legal fees	63,045	25,456	37,589	105,555	32,100	73,455
Audit and accounting	39,225	32,500	6,725	72,300	25,650	46,650
Investor relations	52,798	105,257	(52,459)	95,991	185,109	(89,118)
Brokerage, stock exchange, and transfer agent fees	37,601	30,056	7,545	50,658	48,924	1,734
Travel	44,742	55,741	(10,999)	75,249	91,436	(16,187)
Equipment and maintenance	22,450	10,483	11,967	32,844	27,049	5,795
Depreciation	2,066	2,694	(628)	4,235	5,371	(1,136)
Other	56,305	2,115	54,190	60,441	3,432	57,009
Total	1,103,399	943,931	159,468	1,741,826	1,495,402	246,424

Administration expenses were higher in 2016 due mainly to changes in people costs; an increase in directors' expense due to the addition of a board member in the last half of 2015, together with increased legal fees compared to Q1 2015 that were partially offset by decreases in investor relations consultants.

Salaries and benefits were higher in 2016 compared with 2015, resulting from an increased cost of board members in combination with higher variable compensation due to executive staff.

Legal fees increased in the quarter and YTD due to employee related services, including international employment law and treasury matters.

Audit and accounting increases YTD are mainly due to service adjustments.

Investor relations expense decreased due to a decrease in the number of investor relations firms engaged with the Company.

Travel decreases are the result of a reduced requirement for travel in 2016 for administrative staff. Travel for this group will vary based on the activity level of industry groups and investor relations firms.

Other expense increased in Q2 and YTD as the result of non-recurring employee relocation expenses.

Research, Development and Certification Engineering Expenses (Recovery)

Major Category	Q2 2016 \$	Q2 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Salaries and benefits	402,684	494,262	(91,578)	785,518	1,046,899	(261,381)
Share based compensation	37,220	76,646	(39,426)	37,220	76,646	(39,426)
Contract labour	11,126	287,922	(276,796)	19,960	355,619	(335,659)
Office	29,733	53,720	(23,987)	48,272	114,943	(66,671)
Travel	31,909	13,340	18,569	38,151	33,060	5,091
Equipment and maintenance	26,751	16,057	10,694	48,418	29,604	18,814
Components	14,173	7,816	6,357	20,203	25,390	(5,187)
SR&ED credit	(220,214)	(216,708)	(3,506)	(220,214)	(216,708)	(3,506)
Depreciation	3,489	4,913	(1,424)	7,069	9,800	(2,731)
Warranty settlement	-	-	-	540,450	-	540,450
Total	336,871	737,968	(401,097)	1,325,047	1,475,253	(150,206)

Research and Development expense was lower than the prior year due to changes in people costs, office expenditure and travel partially offset by the settlement of a warranty claim. R&D costs will vary according to specific project requirements.

Salaries and benefits expended in this category decreased from 2015 to 2016, as the increased effort committed to enhancing revenue sources for ground based server applications, and enhancements made to FLYHTStream in early 2015 was not required in 2016. People costs will fluctuate with customer and industry demands for new products and enhancements of existing products, as well as differences in allocations from other cost centres to R&D.

Share based compensation decreased compared to the same period last year. A larger number of options were granted in 2016 under the share option plan, however the allocation to this group correlates with the decrease in salaries and benefits.

Contract labour has decreased in the current year. There were several contractors engaged throughout Q2 2015 to assist in building the FLYHTASD program. The decrease was also partially due to non-recurring certification engineering on multiple time-sensitive STC's in early 2015 that was not repeated into 2016.

Office expenses were lower in 2016 compared to 2015 as a result of a decreased rent allocation.

Travel expenses were higher in Q2 2016 compared to 2015, due to a timing difference. YTD costs are comparable to 2015. Cost of travel may vary significantly depending on the location of customers and regions served.

Warranty settlement amounts were due to the resolution of a partner's warranty claim in Q1 2016.

Net Finance Costs

Major Category	Q2 2016 \$	Q2 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Interest (income)	(7,164)	-	(7,164)	(17,621)	-	(17,621)
Net foreign exchange loss (gain)	(2,423)	92,831	(95,254)	11,277	(177,815)	189,092
Bank service charges	5,993	5,417	576	13,041	10,332	2,709
Interest expense	547	1,031	(484)	1,213	2,184	(971)
Government grant accretion	43,366	39,717	3,649	87,439	79,964	7,475
Debenture interest and accretion	178,667	169,105	9,562	350,207	330,694	19,513
Debenture cost amortization	2,633	2,662	(29)	5,295	5,295	-
Net finance costs	221,619	310,763	(89,144)	450,851	250,654	200,197

Net foreign exchange gain will vary between periods due to fluctuations in the value of the Canadian dollar in relation to the U.S. dollar. A weakening of the Canadian dollar has given rise to net foreign exchange gains in Q2 2016 on U.S. dollar denominated sales and purchases, in combination with fluctuations in U.S. denominated assets and liabilities. The inverse has occurred YTD.

Net Loss

Major Category	Q2 2016 \$	Q2 2015 \$	Variance \$	YTD 2016 \$	YTD 2015 \$	Variance \$
Net income (loss)	2,572,061	(1,943,924)	4,515,985	1,329,119	(2,004,338)	3,333,457
Net income (loss) without R&D	2,908,933	(1,205,956)	4,114,889	2,654,166	(529,085)	3,183,251

Foreign Exchange

All international and a majority of domestic sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In Q2 2016, 98.9% of the Company's gross sales were made in U.S. dollars, compared to 97.4% in Q2 2015. The Company expects this to continue as the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for certain services and products related to cost of sales, which creates a natural hedge.

Other

Recent Accounting Pronouncements

The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company. All of the following new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

IFRS 9 – Financial Instruments replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value (January 1, 2018).

IFRS 15 – Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs (January 1, 2018).

IFRS 16 – Leases replaces IAS 17, leases. Under the new standard, more leases may come on-balance sheet for lessees, with the exception of leases with a term not greater than 12 months and leases considered to be of small value (January 1, 2019).

The Company has not completed its evaluation of the effect of adopting these standards on its condensed consolidated interim financial statements.

Risks and Uncertainties

FLYHT operates in the aviation industry and part of the business involves risks and uncertainties. The Company takes steps to manage these risks, though it is important to identify risks that could have a material effect on business or results of operations. Such risks are listed below; the areas defined are not inclusive.

Installations at c-checks

The Company's products, AFIRS 220 and 228, can take approximately 200 person-hours or more to install on an aircraft, depending on the aircraft type and crew. As the box needs a longer period to be installed, the installation is usually scheduled when the aircraft is undergoing its routine c-check or scheduled maintenance. The timing of c-checks depends on how many segments the aircraft has flown and is based on the manufacturer's guidelines; it can take as long as two or three years before an aircraft is out of service for an extended period. Waiting for a c-check for AFIRS installation is a risk to the Company because it results in a delay in initial revenue from the sale of the box and the Company does not receive recurring revenue connected with the monthly service offerings until the device is installed and running.

The Company takes steps to mitigate this risk by encouraging customers to install AFIRS at their aircraft's earliest availability and works with them to provide the box at the right time for installation, preferably while the aircraft is down for normal service. The goal is to reduce aircraft downtime and save the customer as much money as possible. Another risk mitigation tool used by the Company is to offer special discounts to airlines that pay for all units up front. This discount decreases FLYHT's gross margin slightly, but allows the Company to bring in cash immediately after signing an agreement. As well, the terms of the Company's standard agreement states that payment is due a minimum of 45 days prior to the shipment of kits.

Foreign currency fluctuations

The Company does a majority of its business in U.S. dollars so there is a risk of currency fluctuation. The major portion of the operating and overhead costs are denominated in Canadian dollars, though certain payroll costs and a significant portion of costs of goods sold, marketing and distribution costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

General economic and financial market conditions

In an industry, such as the aviation industry, finances are tied to global trends and patterns. As an airline's spending is tied to their income, they may be unwilling or unable to spend money, particularly on a value-added product such as AFIRS.

In order to address this risk, the sales team has developed a number of strategies. One is a global sales presence. FLYHT has established sales agents on every continent. While some economies of the world may be in a slump or downturn, there is a place for FLYHT in growing markets. FLYHT also demonstrates to potential customers the impressive return on investment model, how quickly potential customers can improve operational efficiency, and ultimately how much AFIRS will save them in operating cost.

Dependence on key personnel and consultants

FLYHT's ability to maintain its competency in the industry is dependent on maintaining a specialty skilled workforce. The Company's DAO status, delegated by TCCA, enables a smooth implementation of STCs, required to install AFIRS on aircraft. Key staff with TCCA delegation status enable the Company to complete STCs in a timely and cost efficient manner. The Company has worked over the past few years to distribute the specified knowledge among a number of key individuals. This reduces risk and ensures the Company can still function effectively were it to lose specialized staff.

Dependence on new products

Over the past few years, the Company has been in the R&D stage of its next generation product, AFIRS 228. FLYHT is confident the product fills a gap in the industry, as evidenced by sales of the AFIRS 228 throughout 2013, 2014 and 2015. Through 2014 and 2015 FLYHT was working to increase certification of the 228 from an 'E' to a 'D' level certification at the request of customers; the certification was received during Q4 2015 and as expected has increased the market for the Company's product. FLYHT released the Dragon in the Fall of 2013, expanding into the sector within the industry that required a portable satellite communications device to meet general aviation operators' need for increased connectivity. Late in 2015 the Dragon was identified as falling outside of FLYHT's core competency and the Company may look to divest the product line during 2016. The Company's success will ultimately depend on the success of its products, and future enhancements made to same.

Availability of key supplies

FLYHT produces and builds all AFIRS 220 units in-house, while AFIRS 228 units are built by a contract manufacturer. The Company relies on partners, suppliers and special parts to complete unit builds. Certain parts can be delayed in shipping or availability, which can cause a delay in building the AFIRS 220 or in receiving AFIRS 228 completed units. FLYHT aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. The contract manufacturer is a global supplier with the ability to meet FLYHT's requirements. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS units will be available into the future.

Proprietary protection

Patent rights are extremely important to the continuation of the Company because the AFIRS technology is the Company's primary revenue source. The Company relies on contract, copyright and trademark laws and has received patents from the United States, Chinese, Turkish and European patent offices. These patents are generally respected in other international jurisdictions as well. The risks involved with proprietary protection lie in other companies infringing on FLYHT patents or claiming patent infringement by FLYHT, though the Company has defended patent claims in court and been successful. FLYHT conducted due diligence on its technology and the conditions of its patent before applying and maintains that it holds unique characteristics from other technologies in the marketplace and does not infringe on the rights of any third parties.

Transactions with Related Parties

In the third and fourth quarters of 2015, the Company entered into an agreement with a company with ownership related to an officer of FLYHT. The company supplied consulting services in recruitment and supplied a contract resource to develop tools used to enhance the Company's ground based software. No amounts relating to this party were included in either contract labour nor accounts payable for the three and six months ended June 30, 2016 (Q2 2015: contract labour: \$nil; included in accounts payable and accrued liabilities: nil; YTD 2015: contract labour: \$7,500; included in accounts payable and accrued liabilities: nil).

All of the transactions with the related parties were at exchange amounts that approximated fair value. All other transactions with related parties were normal business transactions related to employee and director positions within the Company. These transactions included expense reimbursements for business travel and expenses paid by the related party, and were measured at exchange amounts paid to a third party as substantiated with a third party receipt.

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, 2016 and June 30, 2015.