

FLYHT AEROSPACE SOLUTIONS LTD.

SECOND QUARTER
FINANCIAL
STATEMENTS

2016



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.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	June 30, 2016	December 31, 2015
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	4,358,727	1,301,955
Restricted cash	250,000	250,000
Trade and other receivables	1,658,204	898,166
Deposits and prepaid expenses	166,441	137,861
Inventory	2,083,718	1,716,313
Total current assets	8,517,090	4,304,295
Non-current assets		
Property and equipment	187,342	202,775
Intangible assets	34,992	34,992
Inventory	916,080	936,805
Total non-current assets	1,138,414	1,174,572
Total assets	9,655,504	5,478,867
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	2,127,193	2,757,707
Unearned revenue	1,561,020	1,087,197
Loans and borrowings	3,101,352	5,840,418
Finance lease obligations	25,167	27,922
Current tax liabilities	3,160	4,978
Total current liabilities	6,817,892	9,718,222
Non-current liabilities		
Unearned revenue	-	58,144
Loans and borrowings	998,263	374,555
Finance lease obligations	4,609	15,555
Provisions	356,524	263,596
Total non-current liabilities	1,359,396	711,850
Total liabilities	8,177,288	10,430,072
Equity (deficiency)		
Share capital	57,371,697	53,895,046
Convertible debenture - equity feature	222,531	222,531
Warrants	1,266,527	-
Contributed surplus	8,796,260	8,439,136
Deficit	(66,178,799)	(67,507,918)
Total (deficiency)	1,478,216	(4,951,205)
Total liabilities and deficit	9,655,504	5,478,867

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

"Signed"
Director – Bill Tempany

"Signed"
Director – Paul Takalo

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the three months ended June 30		For the six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenue (note 6)	3,537,665	1,598,603	6,148,996	4,168,511
Cost of sales	1,278,746	562,535	2,140,711	1,200,436
Gross profit	<u>2,258,919</u>	<u>1,036,068</u>	<u>4,008,285</u>	<u>2,968,075</u>
Other income (note 7)	3,223,166	-	3,223,166	-
Distribution expenses	1,248,783	987,330	2,381,510	1,751,104
Administration expenses	1,103,399	943,931	1,741,826	1,495,402
Research, development and certification engineering expenses	336,871	737,968	1,325,047	1,475,253
Results from operating activities	<u>2,793,032</u>	<u>(1,633,161)</u>	<u>1,783,068</u>	<u>(1,753,684)</u>
Finance income	9,587	-	17,621	177,815
Finance costs	231,206	310,763	468,472	428,469
Net finance costs	<u>221,619</u>	<u>310,763</u>	<u>450,851</u>	<u>250,654</u>
Income (loss) before income tax	<u>2,571,413</u>	<u>(1,943,924)</u>	<u>1,332,217</u>	<u>(2,004,338)</u>
Income tax expense (recovery)	(648)	-	3,098	-
Income (loss) for the period	<u>2,572,061</u>	<u>(1,943,924)</u>	<u>1,329,119</u>	<u>(2,004,338)</u>
Total comprehensive income (loss) for the period	<u>2,572,061</u>	<u>(1,943,924)</u>	<u>1,329,119</u>	<u>(2,004,338)</u>
Income (loss) per share				
Basic and diluted income (loss) per share (note 5)	<u>0.01</u>	<u>(0.01)</u>	<u>0.01</u>	<u>(0.01)</u>

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, 2016 and 2015

	Share Capital	Convertible Debenture	Warrants	Contributed Surplus	Deficit	Total Equity (Deficit)
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)
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 (note 8)	4,199,764	-	-	-	-	4,199,764
Share issue costs (note 8)	(345,081)	-	-	-	-	(345,081)
Share-based payment transactions	-	-	-	357,720	-	357,720
Share options exercised	1,746	-	-	(596)	-	1,150
Warrants issued (note 8)	(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
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)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended June 30
2016 2015
\$ \$

Cash flows from (used in) operating activities

Income (loss) for the period	1,329,119	(2,004,338)
Depreciation – property, plant and equipment	31,690	27,325
Convertible debenture accretion	350,207	330,694
Payment of debenture interest	(146,721)	-
Amortization of debenture issue costs	5,295	5,295
Government grant accretion	87,439	79,964
Equity-settled share-based payment transactions	357,720	368,040
Change in inventories	(346,680)	(6,990)
Change in trade and other receivable	(728,106)	(225,363)
Change in prepayments	(28,580)	(3,336)
Change in trade and other payables	(604,063)	(200,565)
Change in provisions	92,928	(4,246)
Change in unearned revenue	415,679	(439,271)
Unrealized foreign exchange	56,594	(145,756)
Interest expense	1,213	2,184
Interest paid	(1,558)	(2,496)
Interest income	(17,621)	-
Interest received	17,621	-
Income tax expense	3,098	-
Income tax paid	(4,916)	-

Net cash from (used in) operating activities

870,358 (2,218,859)

Cash flows used in investing activities

Acquisitions of property and equipment	(16,257)	(3,558)
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Net cash used in investing activities

(16,257) (3,558)

Cash flows from (used in) 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	1,150	25,000
Repayment of borrowings	(90,234)	(78,462)
Payment of finance lease liabilities	(13,701)	(12,753)

Net cash from (used in) from financing activities

2,317,647 (66,215)

Net (decrease) increase in cash and cash equivalents

3,171,748 (2,288,632)

Cash and cash equivalents, beginning	1,301,955	3,910,962
Effect of exchange rate fluctuations on cash held	(114,976)	186,967

Cash and cash equivalents, ending

4,358,727 1,809,297

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, 2016 and 2015 consist of the Company and its subsidiaries.

FLYHT is a designer and developer of products and software, and a service provider to the global aerospace industry. The Company supports aviation customers in different sectors including commercial, business, leasing and military operators. FLYHT’s headquarters are located in Calgary, Canada with sales representation in the United States, China, and the United Kingdom.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2015. These condensed consolidated interim financial statements were approved by the Board of Directors on July 27, 2016.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value in the statement of financial position (“SFP”).

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency.

(d) Going concern

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. As at June 30, 2016, the Company had positive working capital of \$1,699,198, a deficit of \$66,178,799, net income of \$1,329,119 and positive cash flow from operating activities of \$870,358.

The Company has incurred significant operating losses and negative cash flows from operations over the past years. 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 12 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 may require 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.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flow or raising additional capital to meet its working capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected. These condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

3. Significant accounting policies

The accounting policies set out in FLYHT's December 31, 2015 consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by FLYHT's subsidiaries.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

- (a) Share based payment and warrant 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 earnings per share for the quarter ended June 30, 2016 was based on a weighted average number of common shares outstanding of 191,940,462 (basic) and 192,278,397 (diluted) (2015 basic and diluted: 172,346,802). The calculation of diluted earnings per share did not include stock options of 10,944,294 (2015: 9,958,800), warrants outstanding of 19,832,630 (2015: 3,948,750) and convertible debentures of 12,156,000 (2015: 7,147,500) because they would have been 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		For the six months ended	
	June 30		June 30	
	2016	2015	2016	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

Major customers

Revenues from the three largest customers represent approximately 43.9% of the Company's total revenues for the quarter ended June 30, 2016 (2015: 44.9%). Revenues from the three largest customers represent approximately 44.1% of the Company's total revenues for the six months ended June 30, 2016 (2015: 45.4%).

7. Other income

The Company granted a non-exclusive license to use certain of its intellectual property to a technology company for a license fee of \$3,223,166.

8. Capital and other components of equity

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.

CORPORATE INFORMATION

Registrar and Transfer Agent

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Online: Investor Centre – contact us section
www.computershare.com

Share Listing

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

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Director
President, Marlin Ventures Ltd.
President, General Aviation Company
USAF (United States Air Force (retired))
Director

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