# FLYHT AEROSPACE SOLUTIONS LTD.

THIRD QUARTER
**FINANCIAL STATEMENTS**
2016

INSIGHT • ACTION • CONTROL

# 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 nine months ended September 30, 2016 and September 30, 2015.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

| | September 30, 2016<br>$ | December 31, 2015<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 3,815,053 | 1,301,955 |
| Restricted cash | 250,000 | 250,000 |
| Trade and other receivables | 1,498,011 | 898,166 |
| Deposits and prepaid expenses | 458,540 | 137,861 |
| Inventory | 1,602,441 | 1,716,313 |
| **Total current assets** | 7,624,045 | 4,304,295 |
| **Non-current assets** | | |
| Property and equipment | 307,697 | 202,775 |
| Intangible assets | 34,992 | 34,992 |
| Inventory | 1,222,370 | 936,805 |
| **Total non-current assets** | 1,565,059 | 1,174,572 |
| **Total assets** | **9,189,104** | **5,478,867** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade payables and accrued liabilities | 1,991,685 | 2,757,707 |
| Unearned revenue | 747,511 | 1,087,197 |
| Loans and borrowings | 3,234,693 | 5,840,418 |
| Finance lease obligations | 19,660 | 27,922 |
| Current tax liabilities | 6,856 | 4,978 |
| **Total current liabilities** | 6,000,405 | 9,718,222 |
| **Non-current liabilities** | | |
| Unearned revenue | - | 58,144 |
| Loans and borrowings | 993,048 | 374,555 |
| Finance lease obligations | 3,073 | 15,555 |
| Provisions | 410,472 | 263,596 |
| **Total non-current liabilities** | 1,406,593 | 711,850 |
| **Total liabilities** | **7,406,998** | **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 | (65,874,909) | (67,507,918) |
| **Total (deficiency)** | 1,782,106 | (4,951,205) |
| **Total liabilities and equity** | **9,189,104** | **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 September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | $ | $ |
| Revenue (note 6) | 4,054,368 | 2,519,347 | 10,203,364 | 6,687,858 |
| Cost of sales | 1,346,341 | 672,341 | 3,487,052 | 1,872,777 |
| **Gross profit** | 2,708,027 | 1,847,006 | 6,716,312 | 4,815,081 |
| Other income (note 7) | - | - | 3,223,166 | - |
| Distribution expenses | 1,109,289 | 1,142,086 | 3,482,828 | 2,893,190 |
| Administration expenses | 618,763 | 607,755 | 2,368,559 | 2,103,157 |
| Research, development and certification engineering expenses | 550,444 | 638,104 | 1,875,490 | 2,113,357 |
| **Results from operating activities** | 429,531 | (540,939) | 2,212,601 | (2,294,623) |
| Finance income | (13,014) | (87,281) | (27,567) | (265,096) |
| Finance costs | 134,961 | 227,421 | 600,365 | 655,890 |
| **Net finance costs** | (121,947) | (140,140) | (572,798) | (390,794) |
| **Income (loss) before income tax** | 307,584 | (681,079) | 1,639,803 | (2,685,417) |
| Income tax expense | 3,696 | 2,145 | 6,794 | 2,145 |
| **Income (loss) for the period** | 303,888 | (683,224) | 1,633,009 | (2,687,562) |
| **Total comprehensive income (loss) for the period** | 303,888 | (683,224) | 1,633,009 | (2,687,562) |
| **Income (loss) per share** | | | | |
| Basic and diluted income (loss) per share (note 5) | 0.00 | 0.00 | 0.01 | (0.02) |

See accompanying notes to condensed consolidated interim financial statements.

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

## For the three and nine months ended September 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 | - | - | - | - | 1,633,009 | 1,633,009 |
| **Total comprehensive income for the period** | - | - | - | - | 1,633,009 | 1,633,009 |
| **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 September 30, 2016** | 57,371,697 | 222,531 | 1,266,527 | 8,796,260 | (65,874,909) | 1,782,106 |
| **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 | - | - | - | - | (2,687,562) | (2,687,562) |
| **Total comprehensive loss for the period** | - | - | - | - | (2,687,562) | (2,687,562) |
| **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 | - | - | - | 408,605 | - | 408,605 |
| Share options exercised | 39,500 | - | - | (14,500) | - | 25,000 |
| Total contributions by and distributions to owners | 101,500 | (11,324) | 154,001 | 498,071 | - | 742,248 |
| **Balance at September 30, 2015** | 53,598,469 | 209,376 | 317,772 | 8,363,214 | (66,303,920) | (3,815,089) |

See accompanying notes to condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

| | For the nine months ended September 30 | |
|---|---|---|
| | 2016 | 2015 |
| | $ | $ |
| **Cash flows from (used in) operating activities** | | |
| Profit (loss) for the period | 1,633,009 | (2,687,562) |
| Depreciation – property, plant and equipment | 47,992 | 40,977 |
| Convertible debenture accretion | 433,879 | 507,721 |
| Payment of debenture interest | (146,721) | (312) |
| Amortization of debenture issue costs | 5,295 | 7,986 |
| Government grant accretion | 131,894 | 120,740 |
| Equity-settled share-based payment transactions | 357,720 | 408,605 |
| Change in inventories | (171,693) | (303,280) |
| Change in trade and other receivables | (579,467) | (217,682) |
| Change in prepayments | (320,679) | (8,643) |
| Change in trade and other payables | (739,483) | (694,894) |
| Change in provisions | 146,876 | 23,540 |
| Change in unearned revenue | (397,831) | 246,759 |
| Unrealized foreign exchange | 66,981 | (271,395) |
| Interest expense | 1,647 | 3,096 |
| Interest paid | (1,992) | (3,096) |
| Interest income | (27,567) | (2,128) |
| Interest received | 27,567 | 2,128 |
| Income tax expense | 6,794 | 2,145 |
| Income tax paid | (4,916) | - |
| **Net cash from (used in) operating activities** | 469,305 | (2,825,295) |
| | | |
| **Cash flows used in investing activities** | | |
| Acquisitions of property and equipment | (152,914) | (12,295) |
| **Net cash used in investing activities** | (152,914) | (12,295) |
| | | |
| **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 | (20,744) | (19,296) |
| **Net cash from (used in) from financing activities** | 2,310,604 | (72,758) |
| | | |
| **Net increase (decrease) in cash and cash equivalents** | 2,626,995 | (2,910,348) |
| Cash and cash equivalents, beginning | 1,301,955 | 3,910,962 |
| Effect of exchange rate fluctuations on cash held | (113,897) | 296,096 |
| **Cash and cash equivalents, ending** | 3,815,053 | 1,296,710 |

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 nine months ended September 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 November 8, 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 September 30, 2016, the Company had positive working capital of $1,623,640, a deficit of $65,874,909, net income of $1,633,009 and positive cash flow from operating activities of $469,305.

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 September 30, 2016 was based on a weighted average number of common shares outstanding of 207,393,766 (basic) and 208,036,343 (diluted) (2015 basic and diluted: 172,366,532). The calculation of diluted earnings per share did not include stock options of 10,620,441 (2015: 10,360,800), warrants outstanding of 19,535,290 (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 September 30** | | **For the nine months ended September 30** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **$** | **$** | **$** | **$** |
| North America | 2,391,171 | 1,293,811 | 6,088,026 | 3,775,843 |
| South / Central America | 109,805 | 92,998 | 427,049 | 227,563 |
| Africa / Middle East | 261,048 | 462,047 | 976,932 | 845,660 |
| Europe | 118,618 | 77,409 | 254,538 | 290,655 |
| Australasia | 185,122 | 159,640 | 526,838 | 479,187 |
| Asia | 988,604 | 433,442 | 1,929,981 | 1,068,950 |
| **Total** | **4,054,368** | **2,519,347** | **10,203,364** | **6,687,858** |

### *Major customers*

Revenues from the three largest customers represent approximately 49.3% of the Company's total revenues for the quarter ended September 30, 2016 (2015: 34.0%). Revenues from the three largest customers represent approximately 76.4% of the Company's total revenues for the nine months ended September 30, 2016 (2015: 24.9%).

## 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 in Q2 2016.

## 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 $5,086,513. 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.

## 9. Contractual Arrangement

Certain of the Company's sales contracts require that, in the event the Chinese government restricts use of the Iridium satellite constellation, the Company may be required to repurchase, at discounted rates, certain AFIRS units. The Iridium license was renewed by the Chinese authorities during 2015 for a further five-year term and the likelihood of a liability under these contracts is considered to be remote.

# CORPORATE INFORMATION

## Registrar and Transfer Agent

Computershare Trust Company of Canada
Telephone: 1-403-267-6800
Online: Investor Centre – contact us section
www.computershare.com

## Share Listing

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

## Investor Relations

Email: investors@flyht.com
Telephone: 1-403-250-9956
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The Howard Group Inc.
Dave Burwell
Email: dave@howardgroupinc.com
Telephone: 1-403-410-7907
www.howardgroupinc.com

## Directors

| | |
|---|---|
| Bill Tempany | Chairman, FLYHT Aerospace Solutions Ltd. |
| John Belcher | Former Chairman and Chief Executive Officer, ARINC Inc. |
| Mike Brown | Partner, Geselbracht Brown |
| Barry Eccleston | President, Airbus Americas, Inc. |
| Jacques Kavafian | Director |
| Doug Marlin | President, Marlin Ventures Ltd. |
| Jack Olcott | President, General Aviation Company |
| Mark Rosenker | USAF (United States Air Force (retired)) |
| Paul Takalo | Director |

## Officers

| | |
|---|---|
| Thomas R. Schmutz | Chief Executive Officer |
| Nola M. Heale | Chief Financial Officer |
| Derek Graham | Chief Technical Officer |
| David Perez | Vice President Sales and Marketing |
| Matieu Plamondon | Vice President Operations and Customer Fulfillment |

## Auditor

KPMG LLP — Calgary, Alberta

## Legal Counsel

Chris Croteau — Tingle Merrett LLP, Calgary, Alberta

## Head Office

300E, 1144 - 29 Avenue NE
Calgary, Alberta T2E 7P1