FLYHT AEROSPACE SOLUTIONS LTD.

First Quarter Report

2014

FLYHT™
The Future of Connectivity

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Commonly used Financial Terms and Aviation Acronyms

ACARS: Aircraft Communications Addressing and Reporting System
ADCC: Aircraft Data Communication Corporation
AFIRS™: Automated Flight Information Reporting System
CAAC: Civil Aviation Administration of China
COMAC: Commercial Aircraft Corporation of China
EASA: European Aviation Safety Agency
FAA: Federal Aviation Administration
FIRST: Fuel Initiative Reporting System Tracker
GAMA: General Aviation Manufacturers Association
GAAP: Generally Accepted Accounting Principles
ICAO: International Civil Aviation Organization
ICE: Iridium Compatible Equipment
IFRS: International Financial Reporting Standards
MD&A: Management Discussion and Analysis
NCAA: Nigerian Civil Aviation Authority
OEM: Original Equipment Manufacturer
R&D: Research and Development
SADI: Strategic Aerospace and Defence Initiative
SFP: Statement of Financial Position
STC: Supplemental Type Certificate
TCCA: Transport Canada Civil Aviation
YTD: Year-to-date

LETTER TO SHAREHOLDERS

To our shareholders and loyal supporters;

What a whirlwind Q1 turned out to be for the aviation industry. We are very sorry for the families of the passengers and crew of Malaysia Airlines Flight MH370 and it is with heavy hearts that we realize that little was learned from the experience in the Atlantic Ocean in 2009. Since 2009, we have participated on international committees to demonstrate the capabilities of our triggered real-time data streaming technology, FLYHTStream, and a better way to conduct aircraft communications but received very little attention until now. Over the past two months we have responded to numerous calls from the media, investors and interested industry members. It is sad that it takes a tragedy like Malaysia Airlines Flight MH370 to alert the world, once again, to the state of communications on the aircraft we travel around the world on day to day basis.

FLYHT is very excited to have launch customers moving forward with FLYHTStream. With the press about our technology's capabilities on the world stage and the number of STCs FLYHT has in its stable, there should be few barriers to adoption now. We are confident we have answers to the industry's requirements and regulations.

The decision to sell to OEMs has been a fortuitous change. The adoption by Airbus, AVIC and COMAC in China and factory installs by Bombardier should drive adoption this year at ever increasing speeds though it will likely take a few quarters to show up on the income statement.

I know the question on the top of mind is, 'did we make cash flow break-even in the quarter?' The answer is that we have more cash than we had on December 31. We received a 50% deposit from China for 20 AFIRS units, so our customer deposits and unearned revenues grew substantially. We also increased our cash position from the exercise of warrants into common shares of FLYHT. Overall, operationally, we are slightly ahead of the game on a working capital basis and looking for strong growth in the quarters to come from all segments of our business. We have a lot of exciting projects upcoming and feel very bullish about our 2014 outlook. I think that everyone reviewing our financial statements will agree that even though recognized revenues are below where we had hoped, so too were costs. Our recurring revenue stayed steady because there were very few new aircraft activated in the quarter.

A highlight of the quarter was a shift in the management team, with Matt Bradley accepting the position of President. This move has caused a slight slowdown in sales while his replacements are recruited. We are pleased to report that we have one new salesperson based in Singapore. We continue the search for a new VP of Business Development. Now that the products are in production, we have put the research and development process behind us and are focused on building our recurring revenue stream.

As always, I want to thank our shareholders, staff, management and board of directors for their faith and support of our team. We have demonstrated our industry-leading technology to the world this quarter and will continue to strive to deliver superior results for our shareholders and a proud workplace for our people where they know they are making a difference in the world.

Yours truly,

Bill Tempany, Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of May 13, 2014 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 months ended March 31, 2014 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its March 31, 2014 condensed consolidated interim financial statements and the notes thereto 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, 2013.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with 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 and development ("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 (including AFIRS 228), 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.

Overview

FLYHT is a designer, developer and service provider of innovative solutions to the global aerospace industry. The Company's solutions are designed to improve the productivity and profitability of its customers and enable communication between pilots and ground support. FLYHT's tools deliver data from the aircraft to operations groups on the ground, on demand. The Company's products are available for commercial, business and military aircraft. FLYHT's real-time triggered data streaming program, FLYHTStream™, can stream position reports and data from an aircraft in flight to ground support in real time.

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

AFIRS™ UpTime™

FLYHT's Automated Flight Information Reporting System ("AFIRS") is a device installed on aircraft and monitors hundreds of essential functions from the plane and the black box. AFIRS sends the information to the UpTime server on the ground, which stores and relays the data to the airline in real time. Airlines use this information to increase passenger safety, improve productivity, maximize efficiency and enhance profitability. In addition to its data monitoring functions, AFIRS provides voice and text messaging capabilities that give pilots the ability to communicate with ground support. FLYHT's value-added applications such as FLYHTStream, FLYHTSafe and FLYHTFuel run on the AFIRS hardware and its UpTime servers and are unique to FLYHT and available only to our customers. FLYHT offers global satellite coverage through the Iridium satellite network, providing service to whoever needs it, when they need it, anywhere on the planet.

The AFIRS 220 has been FLYHT's signature product since 2004. The unit has received regulatory certification for installation in approximately 30 widely used commercial aircraft brands and models.

The AFIRS 228 incorporates improvements over the AFIRS 220 in several important areas: processing capacity, data transmission characteristics and programmability. The AFIRS 228's features cater to the evolving needs of airlines by providing a flexible product that is programmed for the information they need. AFIRS 228 is an addition to FLYHT's product line, not a replacement for the AFIRS 220. The Company will continue to sell its AFIRS 220.

The AFIRS 228 unit has received regulatory certification for installation on approximately eight widely used commercial aircraft brands and models. In the first quarter 2014, FLYHT received certification on the ATR 42/72 aircraft from the National Civil Aviation Agency ("ANAC") of Brazil.

FLYHTStream™

On July 12, 2012 the BEA - the French Civil Aviation Safety Investigation Authority - published their final report on the June 1st 2009 accident of Air France flight AF 447 from Rio de Janeiro to Paris. In the report the BEA recommends "…that EASA and ICAO make mandatory as quickly as possible, for airplanes making public transport flights with passengers over maritime or remote areas, triggering of data transmission to facilitate localisation as soon as an emergency situation is detected on board".

FLYHT is the only aerospace company that has demonstrated the ability to fulfill the BEA's recommendation.

FLYHT's patent-pending technology FLYHTStream is a revolutionary new technology that performs real-time triggered alerting and black-box data streaming in the event of an emergency on the aircraft. FLYHTStream uses AFIRS' onboard logic and processing capabilities on the aircraft in combination with UpTime's ground-based servers to interpret and route alerts and messages from the aircraft in trouble to parties on the ground that need to know such as the airline, operation centers and regulators.

FLYHTFuel

FLYHTFuel is a powerful way to focus attention on areas of greatest savings potential automatically, and to provide the information necessary to make decisions about the operation. Most airlines currently rely on a system of reports, manually generated and analyzed to make fuel savings decisions within the operation. This is time-consuming and relies on the user to calculate areas of potential by cross-referencing a great number of queries. FLYHTFuel is not just a report-generation tool; it is a dynamic, interactive application that answers key questions by generating alerts and providing the user with the ability to quickly identify trends. The dashboard compares how pilots are operating the aircraft to how they could be flying in order to maximize efficiency and fuel savings. FLYHT designed this unique application that highlights exceptions to best practices, provides quick drill downs to spot the root cause of issues, and identifies trends. Where compliance has not been met, associated costs, in a dollar amount, are shown. The tool is de-identified to meet pilot union requirements, but can be filtered to display performance by pilot if desired. It is an intuitive tool that enables fuel managers to act on information instead of compiling and analyzing data.

FLYHTSafe

FLYHTSafe provides real-time operational safety alerts from AFIRS. With FLYHTSafe, airlines are notified immediately when a specific operational safety event has occurred that may have implications for the safety of flight. AFIRS is the only product that has an embedded logic application ("ELA") onboard that can identify with pinpoint accuracy when a specific event has taken place. Airlines can then take steps that require immediate action or further investigation. FLYHTSafe can be used to assist in the development of safety policies, training programs and standard operating procedures.

The Dragon™

The Dragon is a revolutionary lightweight portable satellite communications device that blends existing FLYHT technology with that of the iPad. FLYHT developed the new product to meet a growing demand from small aircraft, business jet and helicopter operators for a satellite communications solution similar to AFIRS.

The device is portable, allowing operators the flexibility to use it where and when they need it. Because the Dragon is not installed on the aircraft, there is no need for STCs. The Dragon allows real-time voice and data communications enabled by the Iridium satellite network connected through the cockpit and the pilot's headset, though does not have data analysis or the safety services capabilities of other AFIRS products. An iPad application acts as an interface for the user in the cockpit to send and receive messages, such as weather updates, from the ground. Another key feature is flight following, so operators always know where their assets are in the sky.

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, and the CAAC for various aircraft models, depending on customer requirements.

FLYHT's expertise in airworthiness certification enabled it to join a select group of Canadian companies in October 2008 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 waiting time, cost and reliance on contractors.

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

The process to receive a STC takes some 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 and first stage of approvals are granted by the regulator, ground and flight tests takes 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 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 about three months, with a minimum of another three months if an STC is required from another regulator such as FAA, EASA or CAAC.

FLYHT has received STC approvals for AFIRS 220 on the following aircraft:

- ✓ Airbus A319, A320, A321
- ✓ Airbus A330
- ✓ Boeing B737-200, 300, 400, 500
- ✓ Boeing B737-600, 700, 800
- ✓ Boeing B757-200
- ✓ Boeing B767-200, 300
- ✓ Bombardier DHC-8-100, 200, 300, 400
- ✓ Bombardier CRJ100, 200, 440
- ✓ DC-10
- ✓ Fokker F100
- ✓ Hawker Beech 750, 800XP, 850XP, 900XP
- ✓ Viking Air DHC-7 (LSTC)

FLYHT has received STC approvals for AFIRS 228 on the following aircraft:

- ✓ Airbus A319, 320, 321
- ✓ ATR 42, 72
- ✓ Boeing B737–700, 800
- ✓ Boeing 747-200
- ✓ Boeing B767-200, 300
- ✓ Boeing B777
- ✓ Bombardier CRJ-700, 900
- ✓ Hawker Beech 750, 800XP, 850XP, 900XP

FLYHT has received provisions-only STC approvals for AFIRS 228 on the following aircraft and expects full STCs by the end of 2014:

- ✓ McDonnell Douglas MD-81, 82, 83, 87, 88

FLYHT has STC applications in process for AFIRS 220, expected to be submitted, depending on market requirements, for the following aircraft:

- ➢ Embraer Legacy 600

FLYHT has STC applications in process for AFIRS 228, expected to be submitted, depending on market requirements, for the following aircraft:

- ➢ Boeing B737-200, 300, 400, 500
- ➢ Boeing B747-400
- ➢ Boeing B757-200
- ➢ Bombardier DHC-8-400
- ➢ Dassault Falcon 2000

In addition, the Company will be filing the necessary documents to obtain approval for the AFIRS 228 for a majority of currently approved 220 STCs, depending on market requirements over the next several years.

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 while the Company's latest product, the Dragon, is available to the General Aviation market.

Passenger traffic (measured in Revenue Passenger Kilometers, "RPK") increased 5.6% in the first quarter of 2014 compared to the same quarter in the previous year, a slight improvement from the 5.2% overall growth achieved in all of 2013. In the quarter, demand in domestic markets expanded at a faster rate (5.9%) than international travel (5.4%)[11]. Global freight traffic measured in Freight Tonne Kilometers ("FTK") was fairly flat in the beginning of 2014 and grew by 4.4% over the first quarter 2013.[2] RPK and FTK measure passenger and freight contributions to airline revenue. These are significant measures to determine the health of the industry because the larger the increase, the more people are flying, suggesting growth in the industry.

Large commercial aircraft manufacturers recorded solid numbers for deliveries and new orders in the first quarter of 2014. Boeing delivered 161 aircraft in Q1 2014, an 18% increase from the previous year.[3] Embraer delivered 14 commercial jets in 2014, a decrease from the previous year, though they made up for it with an increase of the difference in deliveries of business jets from 12 to 20 and an increase of firm order backlog to $19.2 billion[4]. Bombardier delivered 56 aircraft in the first quarter of 2014, compared to 53 for the same quarter in 2013. In the quarter, Bombardier Aerospace's backlog reached a record level of $38.5 billion, up from $37.3 billion at December 31, 2013.[5]

The General Aviation Manufacturers Association ("GAMA") reported that numbers in worldwide general aviation airplane shipments rose 11.9% to 500 shipments in the first quarter of 2014 from 447 in Q1 2013.[6]

FLYHT continues to meet the needs of the aviation industry through the introduction of value-added information products and specialty services that build customer value and FLYHT revenues from existing and new installations. Key achievements in 2013, that will help the Company to advance in 2014, were the certification of the AFIRS 228S in order to send Aircraft Communications Addressing and Reporting System ("ACARS") messages over Iridium; as well, as the Iridium Compatible Environment ("ICE") certification to send voice and data safety services messaging on the Iridium satellite network. The Company will continue to participate in industry working groups in 2014 to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

On the economic side of industry trends, the weakening of the Canadian dollar relative to the U.S. dollar during the first quarter of 2014 versus the same quarter of 2013 had a positive impact on the Company's revenue and income compared to the same quarter of 2013. As a result of these movements, the Company's revenues, which are substantially all denominated in U.S. dollars, were higher 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 costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and component costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

1 http://www.iata.org/pressroom/pr/Pages/2014-05-06-01.aspx
2 http://www.iata.org/pressroom/pr/Pages/2014-04-05-01.aspx
3 http://boeing.mediaroom.com/2014-04-23-Boeing-Reports-Strong-First-Quarter-Results
4 http://www.embraer.com.br/en-US/ImprensaEventos/Press-releases/noticias/Pages/EMBRAER-DIVULGA-OS-RESULTADOS-DO-1o-TRIMESTRE-DE-2014.aspx
5 http://www.bombardier.com/en/media-centre/newsList/details.bombardier-inc-q12014financialresults20140501.html
6 http://www.gama.aero/media-center/press-releases/content/gama-announces-first-quarter-2014-airplane-shipments-and-billing

Contracts and Achievements of Q1 2014

Contracts

FLYHT Aerospace Solutions Ltd. signed two contracts for eight aircraft with customers worldwide in Q1 2014. Four were for the AFIRS 220 and four for the AFIRS 228.

In March, FLYHT signed a contract with an Asian Charter Airline for the AFIRS 220 on four Bombardier CRJ aircraft.

Also in March, FLYHT signed a contract with the Middle Eastern Operations group of an International Cargo Airline for the AFIRS 228 on four Boeing 757 aircraft.

Achievements

In January, FLYHT announced the delivery of the AFIRS 228S to L-3 Aviation Recorders as planned and on schedule.

In February, FLYHT announced a realignment of officer roles and named Matt Bradley as President, Derek Graham as the Chief Technical Officer and Jeff Brunner as VP Certification Engineering and China Operations.

FLYHT was recognized as a top ten performer in the Technology & Life Sciences Category of the 2014 TSX Venture 50®. The list is a ranking of strong performing companies trading on the TSX Venture Exchange.

FLYHT received certification for its AFIRS 228 on the ATR 42/72 aircraft from the National Civil Aviation Agency (“ANAC”) of Brazil.

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31, 2014 AND 2013

Quarterly Results

	Q1 2014 $	Q4 2013 $	Q3 2013 $	Q2 2013 $
AFIRS UpTime sales	377,758	592,483	583,742	1,009,837
AFIRS UpTime usage	921,116	1,080,503	881,903	846,438
Parts	3,353	79,716	307,588	61,586
Services	46,559	184,055	409,804	245,573
Revenue	1,348,786	1,936,757	2,183,037	2,163,434
Loss	1,273,101	1,438,795	615,950	1,038,283
Loss before R&D	838,406	745,444	174,987	680,936
Loss per share (basic & fully diluted)	0.01	0.01	0.00	0.01

	Q1 2013 $	Q4 2012 $	Q3 2012 $	Q2 2012 $
AFIRS UpTime sales	521,777	1,063,933	555,413	581,290
AFIRS UpTime usage	815,874	774,657	799,872	756,705
Parts	206,672	85,138	48,591	19,168
Services	172,813	296,673	145,885	227,312
Revenue	1,717,136	2,220,401	1,549,761	1,584,475
Loss	970,136	621,446	133,102	1,954,303
Loss before R&D	281,570	40,436	290,563	1,183,274
Loss per share (basic & fully diluted)	0.01	0.00	0.00	0.02

Liquidity and Capital Resource

The Company's cash at March 31, 2014 increased to $5,847,578 from $5,184,803 at December 31, 2013. The Company has an available operating line of $250,000 that was undrawn as at March 31, 2014. The operating line bears an interest rate of Canadian chartered bank prime plus 1.5%, and is secured by assignment of cash collateral and a general security agreement.

At March 31, 2014, the Company had negative working capital of $622,883 compared to negative $894,887 as of December 31, 2013, an improvement of $272,004. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are not included in the working capital calculation, the resulting modified working capital at March 31, 2014 would be positive $2,046,714 compared to positive $760,174 at December 31, 2013.

The Company funded Q1 2014 operations primarily through cash received from sales and the exercise of warrants. If the costs associated with R&D were factored out, there would have been an increase in cash of $1,097,470. It is expected that R&D expenses will continue to decrease as the AFIRS 228 project moves into the next phase of enhancements and the finished product continues to generate revenues. The resulting increase in cash inflows from sales will reduce the requirement for further funding. The Company believes that if funding is required to meet cash flow requirements in 2014, it will be able to do so either through debt or equity instruments.

	March 31, 2014 $	December 31, 2013 $	Variance $
Cash and cash equivalents	5,847,578	5,184,803	662,775
Restricted cash	250,000	250,000	-
Trade and other receivables	1,029,721	784,426	245,295
Deposits and prepaid expenses	259,211	145,554	113,657
Inventory	1,487,926	1,308,243	179,683
Trade payables and accrued liabilities	(4,460,467)	(3,704,496)	(755,971)
Unearned revenue	(1,364,876)	(1,103,834)	(261,042)
Loans and borrowings	(3,656,413)	(3,745,513)	89,100
Finance lease obligations	(15,545)	(13,175)	(2,370)
Current tax liabilities	(18)	(895)	877
Working capital	**(622,883)**	**(894,887)**	**272,004**
Unearned revenue	1,364,876	1,103,834	261,042
Customer deposits	1,304,721	551,227	753,494
Modified working capital	**2,046,714**	**760,174**	**1,286,540**

As of March 31, 2014, the Canadian equivalent of the Company's outstanding accounts payable to Sierra Nevada Corporation ("SNC") was $1,986,746 (December 31, 2013: $1,921,384) relating to their involvement with the development of the AFIRS 228. The outstanding amount in USD remained unchanged from 2013 to 2014. If this amount was removed from the working capital it would be positive $1,363,863 at March 31, 2014 and positive $1,026,497 at December 31, 2013. As well, the modified working capital would be a positive $4,033,460 at March 31, 2014 and positive $2,681,558 at December 31, 2013. As reported in the 2010 Annual Report the development effort for the AFIRS 228 program was split into four general modules: (1) hardware, (2) board support software (both developed by a Calgary contractor), (3) Embedded Logic Applications ("ELA") (developed by FLYHT staff in Calgary), and (4) core software (the responsibility of SNC). Late in 2010, it was recognized by management that progress on the AFIRS 228 program was on track for year end delivery for the hardware, board support software and ELA. However, time estimates to complete the core software continued to slip and costs had escalated. In the third quarter of 2011, management of FLYHT reviewed the state of the core software development with SNC in order to develop a plan and prepare for the transition from a SNC deliverable to FLYHT maintained software. It was determined by management that the best course of action to successfully complete the 228 in a timely fashion was to repatriate the core software development to Calgary and build a team around the existing resources of FLYHT's Calgary based contractors and staff. The transition occurred in February 2011, and as anticipated, the first customer test flight was completed before the end of 2011. Full certification has begun to meet the timelines required by our current customers and prospects. The current accounts payable amount outstanding of $1,986,746 is presently under dispute in the courts. See the Contingency section on page 18 for further clarification.

In the first quarter of 2014, the Company issued a total of 3,944,280 shares due to warrant and option exercises and convertible debenture conversions for total proceeds of $1,254,787, including:

a) 1,821,500 warrants exercised at $0.30 for proceeds of $546,450
b) 1,321,780 warrants exercised at $0.40 for proceeds of $528,712
c) 718,500 options exercised at $0.25 for proceeds of $179,625
d) 82,500 convertible debentures converted at $0.40

As at May 13, 2014, FLYHT's issued and outstanding share capital was 164,923,048.

The achievement of positive earnings before interest and amortization is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward. To continue as a going concern, the Company will need to attain profitability and/or obtain additional financing to fund ongoing operations. If general economic conditions or the financial condition of a major customer deteriorates, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

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 product, AFIRS 220, can take approximately 200 person-hours or more to install on an aircraft, depending on the aircraft type and crew. Since 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, though 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 majority of the Company's costs are denominated in Canadian dollars, though a significant portion of costs of goods sold 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 strategy the Company has achieved is a global sales presence. FLYHT has established sales agents on every continent. While some economies of the world may be in a bit of a slump or downturn, there is a place for FLYHT in growing markets. FLYHT also demonstrates to potential customers its impressive return on investment model, how quickly potential customers can improve operational efficiency, and ultimately how much money AFIRS will save them.

Dependence on key personnel and consultants

FLYHT's ability to maintain its competency in the industry is dependent on maintaining a specially skilled workforce. The Company's Design Approval Organization status, delegated by TCCA, enables a smooth implementation of STCs, required to install AFIRS on aircraft. Key staff, with TCCA delegation status, enables the Company to complete STCs in a timely and cost efficient manner. The Company has worked hard 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. FLYHT also released the Dragon in the fall of 2013, expanding into another sector within the industry .The product was invented after research identified demand for a portable satellite communications device to meet general aviation operators' need for increased connectivity. The Company's success will ultimately depend on the success of both products, and future enhancements made to both.

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, China, 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 claiming patent infringement, 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.

Revenue recognition cycle

FLYHT's revenue recognition for AFIRS Uptime sales and parts revenue 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 product.

Customers are required to pay for 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. Upon shipment of an installation kit, the customer deposit is reclassified to unearned revenue, where it will remain until the AFIRS UpTime solution has been installed and is fully functional, at which point the installation kit is recognized as AFIRS UpTime sales revenue.

When customers order spare parts or Underfloor Stowage Units a prepayment is required, which is recorded as a customer deposit. When the shipment of the ordered part or unit occurs, the customer deposits are recognized as Parts revenue.

Customer deposits

Customer deposits are amounts received for AFIRS UpTime 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 months ending March 31, 2014 and 2013. Payment was received for 35 installation kits in the first quarter of 2014, compared to 11 received in the first quarter of 2013.

	Q1 2014 $	Q1 2013 $	Variance $
Opening balance	551,227	797,070	(245,843)
Payments received from customers	1,315,468	117,635	1,197,833
Moved to unearned revenue	(561,974)	(263,089)	(298,885)
Balance, March 31	**1,304,721**	**651,616**	**653,105**

Unearned revenue

The chart below outlines the movement in the Company's unearned revenue throughout the three months ending March 31, 2014 and 2013. Revenue was recognized for 8 installation kits in 2014's first quarter compared to 13 in the first quarter of 2013. In Q1 2014, 22.6% of the unearned revenue balance at December 31, 2013 was recognized as earned revenue (2012: 25.0%). Amounts recorded in unearned revenue are nonrefundable.

	Q1 2014 $	Q1 2013 $	Variance $
Opening balance	1,103,834	2,717,245	(1,613,411)
AFIRS UpTime sales: shipped, not accepted	561,974	263,089	298,885
AFIRS UpTime usage: prepaid	76,123	153,624	(77,501)
AFIRS UpTime sales: revenue recognized	(346,815)	(521,776)	174,961
AFIRS UpTime usage: revenue recognized	(30,240)	(110,693)	80,453
License fees: revenue recognized	-	(64,380)	64,380
Balance, March 31	**1,364,876**	**2,437,109**	**(1,072,233)**

Revenue

For the categories listed in the Revenue sources chart, **AFIRS Uptime sales** includes the income from an AFIRS hardware sale as well as the parts required to install the unit. Upon receipt, 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 fully recognized as AFIRS UpTime sales revenue along with the work in progress as cost of sales. **AFIRS Uptime usage** 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. **Parts** revenue includes the sale of spare AFIRS units, spare installation parts, and Underfloor Stowage Units. **Services** revenue includes technical services, repairs and expertise the Company offers such as the installation of operations control centres, including two FLYHT set up in Nigeria.

Revenue sources

	Q1 2014 $	Q1 2013 $	Variance $
AFIRS UpTime sales	377,758	521,777	(144,019)
AFIRS UpTime usage	921,116	815,874	105,242
Parts	3,353	206,672	(203,319)
Services	46,559	172,813	(126,254)
Total	**1,348,786**	**1,717,136**	**(368,350)**

Overall, total revenue decreased 21.5% from $1,717,136 in Q1 2013 to $1,348,786 in Q1 2014. AFIRS Uptime sales decreased by 27.6%, AFIRS Uptime usage increased by 12.9%, Parts sales decreased by 98.4%, and Services revenue decreased by 73.1%.

AFIRS UpTime sales decreased in Q1 2014 as compared to the first quarter of 2013 due to a decreased number of installation kits meeting the requirements for revenue recognition. Revenue was recognized for 8 installation kits in 2014's first quarter compared to 13 in the first quarter of 2013.

AFIRS UpTime usage increased compared with the same period last year, due to a higher number of aircraft producing recurring revenue, combined with the relative weakness of the Canadian dollar in relation to the U.S. dollar. Recurring revenue accounted for 68.3% of revenue in Q1 2014, compared to 47.5% in Q1 2013. Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2014 and future years.

Parts revenue decreased in the quarter 2014 from 2013 mainly as the result of two one-time large spare unit purchases that occurred in Q1 2013 that did not reoccur in 2014.

Services revenue decreased in Q1 2014 versus 2013 largely as the combination of income from engineering documentation required for our Chinese customers, plus revenue from our contract with L-3 both of which contributed to revenue in Q1 2013 but did not occur in 2014.

Geographical sources of revenue

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

	Q1 2014 $	Q1 2013 $	Q1 2014 %	Q1 2013 %
North America	635,444	1,162,738	47.1	67.7
South/Central America	81,223	96,485	6.0	5.6
Africa/Middle East	343,081	174,951	25.4	10.2
Europe	35,922	7,843	2.7	0.5
Australasia	230,584	154,835	17.1	9.0
Asia	22,532	120,284	1.7	7.0
Total	**1,348,786**	**1,717,136**	**100.0**	**100.0**

Gross Profit and Cost of Sales

FLYHT's cost of sales include the direct costs associated with specific revenue types, including the AFIRS unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel's 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 first quarter of 2014 was 32.6% compared to 33.4% in 2013's first quarter. The decrease was due to a difference in the mix of revenue sources, as AFIRS Uptime usage, Parts sales, and Services have higher margins than AFIRS Uptime sales. Gross margin will fluctuate quarter over quarter depending on customer needs and corresponding with the revenue type.

Gross margin for the last eight quarters was:

	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Gross Margin	67.4	60.4	56.9	54.5	66.6	65.9	60.1	43.7
Cost of Sales	32.6	39.6	43.1	45.5	33.4	34.1	39.9	56.3

Operating Activities

Other income

Other income in 2013 consists of the recognition of the SNC license fee that was deferred as unearned revenue when received, to be recognized over the initial five-year term of the agreement. The amount was fully recognized by December 31, 2013.

Distribution expenses

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

Major Category	Q1 2014 $	Q1 2013 $	Variance $
Salaries and benefits	443,460	419,113	24,347
Share based compensation	-	1,125	(1,125)
Contract labour	95,671	63,976	31,695
Office	78,563	87,958	(9,395)
Travel	120,057	84,388	35,669
Equipment & maintenance	9,240	3,750	5,490
Depreciation	8,478	10,678	(2,200)
Marketing	4,315	4,530	(215)
Other	20,266	5,347	14,919
Total	**780,050**	**680,865**	**99,185**

Salaries and benefits increased in 2014 as compared to 2013 mainly due to a decreased allocation of distribution staff costs to R&D, partially offset by a decrease resulting from the non-renewal of a sales director's employment agreement.

Contract labour increased compared with the same periods last year, with the addition in early 2014 of sales representation based in Singapore.

Office expenses decreased in the quarter 2014 from 2013 mainly as the result of a decreased rent with the move to the new office space, together with decreased communication costs due to cost containment measures.

Travel expenses increased in Q1 2014 versus 2013 largely as the result of increased travel associated with sales and customer satisfaction activities. It is anticipated that as the AFIRS 228 and Dragon rollout continues, travel expenses will continue to increase on an annual basis and quarterly fluctuations will continue to occur.

Equipment and maintenance increases were the result of increased maintenance and costs associated with supporting growth in UpTime requirements and the steps taken to ensure maximum reliability of UpTime data.

Other expenses increased in the quarter due to differences in bad debt adjustments. An increase in reserve of $4,712 was recorded in Q1 2013, whereas the adjustment made in Q1 2014 for potential bad debt amounted to $20,136.

Administration expenses

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

Major Category	Q1 2014 $	Q1 2013 $	Variance $
Salaries and benefits	309,828	295,536	14,292
Share based compensation	14,727	36,633	(21,906)
Contract labour	17,620	41,370	(23,750)
Office	84,548	76,048	8,500
Legal fees	15,587	12,687	2,900
Audit and accounting	34,000	27,000	7,000
Investor relations	70,814	49,903	20,911
Brokerage, stock exchange, and transfer agent fees	20,472	9,024	11,448
Travel	44,982	31,527	13,455
Equipment and maintenance	22,123	13,547	8,576
Depreciation	4,465	5,979	(1,514)
Other	24,178	2,118	22,060
Total	**663,344**	**601,372**	**61,972**

Salaries and benefits were higher in Q1 2014 compared with 2013, mainly due to a lower allocation of administrative staff time costs to research & development activities along with higher employee benefits claims through FLYHT's health spending account.

Share based compensation decreased due to differences in vesting throughout both Q1 2013 and 2014 of options granted to IR consultants from the third quarter of 2012 through to the first quarter of 2014, partially offset by an increase in the calculated fair value per share of unvested options.

Contract labour decreased due to the disengagement in mid-2013 of a consultant working to identify new corporate opportunities.

Office expenses increased in the quarter as the result of an increased rent allocation, although total rent expense has decreased as a result of the move to the new office premises in Q1 2014.

Legal fees increased due to requirements for legal services with regards to the bankruptcy in 2013 of two of FLYHT's customers.

Audit and accounting increases are mainly due to increased audit costs due to a combination of increased complexity in FLYHT's business, and increased requirements for international tax consulting.

Investor relations expenses increased due to the addition of a third IR consultant in the first quarter of 2014.

Brokerage, stock exchange, and transfer agent fees increases are the result of the exercise of warrants and options in the first quarter of 2014.

Travel expenses increased as a result of an increase in travel requirements relating to investor relations.

Equipment and maintenance increases were the result of additional equipment requirements for the new office premises.

Other expense increases were due to expenses relating to the office move to a new premises in Q1 2014.

Research and development expenses (recovery)

Major Category	Q1 2014 $	Q1 2013 $	Variance $
Salaries and benefits	371,551	385,059	(13,508)
Contract labour	47,544	197,035	(149,491)
Office	34,156	25,655	8,501
Travel	7,656	13,722	(6,066)
Equipment & maintenance	6,652	19,404	(12,752)
Components	(44,185)	40,836	(85,021)
Depreciation	6,461	4,415	2,046
Other	4,860	2,440	2,420
Total	**434,695**	**688,566**	**(253,871)**

Salaries and benefits expended on research and development decreased from Q1 2013 to 2014, as a one-time increase in 2013 required to complete Chinese installation documentation was not required in 2014, along with decreased requirements for AFIRS 228 development, which were partially offset by efforts involved in increasing revenue sources for UpTime applications.

Contract labour decreased, mainly as the result of reduced utilization of consultants for hardware development.

Office expenses increased as the result of increased costs associated with patent applications, partially offset by a decrease in rent allocation and employee training requirements.

Travel expenses decreased as the result of decreased requirements for travel with regards to hardware testing and test flights.

Equipment & maintenance expenses decreased due to the decreased requirement for software directly related to development of AFIRS 228 software.

Components requirements were lower in Q1 2014 than in Q1 2013 due to the reduced requirement for test parts for the development of the AFIRS 228. The recovery of component costs in Q1 2014 was the result of the movement of parts purchased for Dragon development to inventory as the remaining parts were no longer required for development but were to be used in the production of units for customers.

Net finance costs

Major Category	Q1 2014 $	Q1 2013 $	Variance $
Net foreign exchange loss	50,428	54,249	(3,821)
Bank service charges	6,621	5,323	1,298
Interest expense	771	1,743	(972)
Government grant accretion	36,612	27,917	8,695
Debenture interest and accretion	187,899	98,578	89,321
Debenture cost amortization	21,347	19,314	2,033
Net finance costs	**303,678**	**207,124**	**96,554**

Net foreign exchange loss varied from Q1 2013 to Q1 2014 due to the relative weakness of the Canadian dollar in relation to the U.S. dollar, in combination with fluctuations in U.S. denominated assets and liabilities.

Government grant accretion is the recognition of the effective interest component of the SADI grant, which increased from Q1 2013 to Q1 2014 as additional funding was received in September 2013.

Debenture interest and **Debenture cost amortization** increases are the result of increased interest accretion on the debentures issued in December 2010, and also the accretion of interest in the first quarter of 2014 on the debentures issued in April and May 2013.

Net loss

Major Category	Q1 2014 $	Q1 2013 $	Variance $
Net loss	1,273,101	970,136	302,965
Net loss without R&D	838,406	281,570	556,836

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 Q1 2014, 96.2% of the Company's gross sales were made in U.S. dollars, compared to 93.7% in the same period of 2013. The Company expects this to continue since 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.

Transactions with Related Parties

All transactions in the first quarter 2014 with related parties were normal business transactions related to their positions within the Company. These transactions included expense reimbursements for business travel and other expenses paid by the related party and were measured at exchange amounts that the related party paid to a third party and were substantiated with a third party receipt.

Contractual Obligations

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

March 31, 2014	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	709,060	11,358	-	-	-	720,418
Accounts payable – SNC*	1,986,746	-	-	-	-	1,986,746
Compensation and statutory deductions	198,691	159,722	-	-	-	358,413
Finance lease liabilities	5,936	13,268	11,262	10,323	-	40,789
Accrued liabilities	59,901	29,802	-	-	-	89,703
Loans and borrowings	86,775	3,664,920	344,026	2,781,399	1,507,480	8,384,600
Total	**3,047,109**	**3,879,070**	**355,288**	**2,791,722**	**1,507,480**	**11,580,669**

* See contingencies section on page 18

In addition, the Company has repayment obligations related to two Government of Canada loan programs.

Under the Technology Partnerships Canada ("TPC") program, the Company has an outstanding balance of $12,364 at March 31, 2014, compared to $12,364 at December 31, 2013. The initial amount is to be repaid based on 15% of the initial contribution, which equates to $19,122 per year for a 10 year repayment period. The yearly repayment is due if the Company has achieved more than a 10% increase in gross revenue over the previous year and the gross revenue exceeds the gross revenue that was set in fiscal 2004 of $556,127. The repayment period commenced January 1, 2005.

Under SADI, the Company has, at March 31, 2014, an outstanding repayable balance of $1,967,507, compared to $1,967,507 at December 31, 2013. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 is 3.5% of the total contribution received and increases yearly by 15% until April 30, 2028 when the final payment is 24.5% of the total contribution received.

In the fourth quarter of 2013, FLYHT entered into an operating lease agreement covering equipment required for a security system in the new premises effective March 1, 2014. The lease has a term of 36 months, with the option to purchase the equipment at the end of the lease term. During the first quarter of 2014, FLYHT did not enter into any new lease agreements. Minimum lease payments in 2014 for finance leases are as follows. The imputed interest included in the payments is $6,470 (2013 - $3,813) leaving a total obligation of $34,319 (2013 - $28,477).

Year	Total $
2014	16,388
2015	11,262
2016	11,262
2017	1,877
Total	**40,789**

Financial Instruments

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar and other currencies with respect to assets, sales, 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 generally to credit-worthy or well-established customers. In the case of agreement consideration or product sales, the invoiced amount is generally payable 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 a service is provided. As well, for monthly recurring revenue the Company has the ability to disable AFIRS UpTime in cases where the customer has not fulfilled its financial obligations.

Contingencies

The Company took action against SNC and is defending itself against an action by SNC related to the development of the AFIRS 228. The Company has accrued a liability of $1,986,746, which represents the total amount of invoices received from SNC. The Company maintains that the claims are without merit and that the services invoiced were not provided. Management intends to vigorously defend the matter and believes the outcome will be in its favour.

In November 2011, the Company formally notified SNC that they were in material breach of the License and Manufacturing Agreement that was entered into between the two parties on December 28, 2008. The Company demanded payment of $1,329,976 USD and $2,650,000 CDN and terminated the agreement. As well, the Company applied to the Alberta courts for arbitration under the provisions of the agreement. The courts granted the request for arbitration on November 29, 2011. Subsequent to the grant, SNC refused to recognize the jurisdiction of the court and has contested the cancellation of the agreement and the arbitration.

In November 2011, SNC filed an action in Utah alleging that FLYHT failed to pay $2,042,000 USD.

As all invoices presented to the Company by SNC have been accrued, management does not expect the outcome to have a material effect on the Company's financial position. There has been no substantive change in the status of this contingency since last reported at December 31, 2013.

Subsequent Event

As of May 13, 2014, the Company issued a total of 2,161,500 shares due to warrant and option exercises and conversions of convertible debentures for total proceeds of $641,850, including:

a) 2,027,500 warrants exercised at $0.30 for proceeds of $608,250
b) 84,000 warrants exercised at $0.40 for proceeds of $33,600
c) 50,000 convertible debentures converted at $0.40

Recent Accounting Pronouncements

The following new standards, interpretations, amendments and improvements to existing standards issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") were adopted as of January 1, 2014 without any material impact to FLYHT's financial statements: *IFRS 7 / IAS 32 – Offsetting Financial Assets and Liabilities, IAS 1 – Presentation of Financial Statements, IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting, and IFRIC 21 Levies.*

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).

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

Auditors' Involvement

National Instrument 51-102, Part 4, subsection 4.3 (3) (a), requires that if an auditor has not performed a review of the condensed consolidated interim financial statements there must be an accompanying notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The auditors of FLYHT Aerospace Solutions Ltd. have not performed a review of the condensed consolidated interim financial statements for the three month periods ended March 31, 2014 and March 31, 2013.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	March 31, 2014 $	December 31, 2013 $
Assets		
Current assets		
Cash and cash equivalents	5,847,578	5,184,803
Restricted cash	250,000	250,000
Trade and other receivables	1,029,721	784,426
Deposits and prepaid expenses	259,211	145,554
Inventory	1,487,926	1,308,243
Total current assets	8,874,436	7,673,026
Non-current assets		
Property and equipment	224,207	191,695
Intangible assets	34,992	34,992
Inventory	600,995	536,249
Total non-current assets	860,194	762,936
Total assets	9,734,630	8,435,962
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	4,460,467	3,704,496
Unearned revenue	1,364,876	1,103,834
Loans and borrowings	3,656,413	3,745,513
Finance lease obligations	15,545	13,175
Current tax liabilities	18	895
Total current liabilities	9,497,319	8,567,913
Non-current liabilities		
Loans and borrowings	2,244,039	1,992,028
Finance lease obligations	18,773	-
Provisions	167,993	148,428
Total non-current liabilities	2,430,805	2,140,456
Total liabilities	11,928,124	10,708,369
Equity (deficiency)		
Share capital (note 5)	50,009,547	48,318,003
Convertible debenture – equity feature	225,277	231,318
Warrants (note 5)	725,053	1,057,652
Contributed surplus	7,457,203	7,458,093
Accumulated other comprehensive income (loss)	-	-
Deficit	(60,610,574)	(59,337,473)
Total equity (deficiency)	(2,193,494)	(2,272,407)
Total liabilities and equity	9,734,630	8,435,962

See accompanying notes to condensed consolidated interim financial statements.
Going concern (note 2e)
Contingencies (note 8)

On behalf of the board

"Signed"

Director – Douglas Marlin

"Signed"

Director – Paul Takalo

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	For the three months ended March 31	
	2014	2013
	$	$
Revenue (note 7)	1,348,786	1,717,136
Cost of sales	440,043	573,487
Gross profit	908,743	1,143,649
Other (income)	-	(64,380)
Distribution expenses	780,050	680,865
Administration expenses	663,344	601,372
Research and development expenses	434,695	688,566
Results from operating activities	(969,346)	(762,774)
Finance (income)	-	-
Finance costs	303,678	207,124
Net finance costs	(303,678)	(207,124)
Loss for the period before income tax	(1,273,024)	(969,898)
Income tax expense	77	238
Total comprehensive loss for the period	(1,273,101)	(970,136)
Earnings (loss) per share		
Basic and diluted loss per share (note 6)	(0.01)	(0.01)

See accompanying notes to condensed consolidated interim financial statements.

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

For the three months ended March 31, 2014 and 2013

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Foreign Currency Translation Reserve* $	Deficit $	Total Equity (Deficit) $
Balance at January 1, 2013	39,877,966	231,318	3,340,222	6,957,809	-	(55,274,309)	(4,866,994)
Loss for the period	-	-	-	-	-	(970,136)	(970,136)
Total comprehensive loss for the period	-	-	-			(970,136)	(970,136)
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	37,758	-	-	37,758
Total contributions by and distributions to owners	-	-	-	37,758	-	-	37,758
Balance at March 31, 2013	39,877,966	231,318	3,340,222	6,995,567	-	(56,244,445)	(5,799,372)
Balance at January 1, 2014	48,318,003	231,318	1,057,652	7,458,093	-	(59,337,473)	(2,272,407)
Loss for the period	-	-	-	-	-	(1,273,101)	(1,273,101)
Total comprehensive loss for the period	-	-	-	-	-	(1,273,101)	(1,273,101)
Contributions by and distributions to owners							
Issue of common shares	33,000	(6,041)	-	55,541	-	-	82,500
Share-based payment transactions	-	-		14,727	-	-	14,727
Share options exercised	250,783	-	-	(71,158)	-	-	179,625
Warrants exercised	1,407,761	-	(332,599)	-	-	-	1,075,162
Total contributions by and distributions to owners	1,691,544	(6,041)	(332,599)	(890)	-	-	1,352,014
Balance at March 31, 2014	50,009,547	225,277	725,053	7,457,203	-	(60,610,574)	(2,193,494)

*Accumulated other comprehensive income (loss)
See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31	
	2014	**2013**
	$	**$**
Cash flows from operating activities		
Loss for the period	(1,273,101)	(970,136)
Adjustments for:		
Depreciation	19,404	21,072
Depreciation of rental assets	-	3,998
Amortization of intangible assets	-	34,648
Convertible debenture accretion	187,898	98,578
Amortization of debenture issue costs	21,347	19,314
Government grant accretion	36,612	27,917
Equity-settled share-based payment transactions	14,727	37,758
Change in inventories	(244,429)	(46,258)
Change in trade and other receivable	(245,331)	134,701
Change in deposits and prepaid expenses	(113,657)	(39,493)
Change in trade payables and accrued liabilities	697,201	261,874
Change in provisions	19,565	(10,699)
Change in unearned revenue	261,042	(280,136)
Unrealized foreign exchange	53,756	61,450
Interest expense	771	1,743
Interest paid	(1,217)	(1,743)
Income tax expense	77	238
Income tax paid	(954)	(3,690)
Net cash used in operating activities	(566,289)	(648,864)
Cash flows from investing activities		
Acquisitions of property and equipment	(51,916)	-
Net cash used in investing activities	(51,916)	-
Cash flows from financing activities		
Proceeds from exercise of share options and warrants	1,254,787	-
Repayment of loans and borrowings		(25,361)
Bank indebtedness	-	9,573
Payment of finance lease liabilities	21,143	(4,661)
Net cash used in financing activities	1,275,930	(20,449)
Net increase (decrease) in cash and cash equivalents	657,725	(669,313)
Cash and cash equivalents at January 1	5,184,803	676,246
Effect of exchange rate fluctuations on cash held	5,050	(6,933)
Cash and cash equivalents	5,847,578	-

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. The Company’s head office is 300E, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2014 and 2013 consist of the Company and its subsidiaries.

FLYHT is a designer, developer, and 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 China, the Middle East, Singapore, South America, the United States and Europe.

2. Basis of preparation

(a) Statement of compliance

The Company has prepared its March 31, 2014 condensed consolidated interim financial statements and the notes thereto 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, 2013. These condensed consolidated interim financial statements were approved by the Board of Directors on May 13, 2014.

(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 March 31, 2014, the Company had negative working capital of $622,883, a deficit of $60,610,574, a net loss of $1,273,101 and negative cash flow used in operations of $566,289.

The Company has incurred significant operating losses and negative cash flows from operations over the past years. The Company’s ability to continue as a going concern is dependent upon attaining profitable operations and/or obtaining additional financing to fund its ongoing operations. The Company’s ability to attain profitable operations and positive cash flow in the future is dependent upon various factors including its ability to acquire new customer contracts, the success of management’s continued cost containment strategy, the completion of research and development (“R&D”) projects, and general economic conditions. In addition to capital required for regular business activities, the Company will be required to pay debenture interest and principal in the fourth quarter of 2014 totaling $3,575,820, unless the holders exercise the conversion option. 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, 2013 consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by FLYHT's subsidiaries.

4. Determination of fair values

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

(a) Share based payment transactions: measured using the Black-Scholes option pricing model;

(b) Loans and borrowings: for measurement purposes, fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the inception of the loan. In respect of the liability component of convertible debenture, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature. In respect of the convertible debentures and the debentures, as there has been no material change in the Company's market rate subsequent to the issuance dates, carrying value approximates fair value; and

(c) Trade and other receivables, trade payables and accrued liabilities: carrying value approximates fair value, due to the short-term nature of the instruments.

5. Capital and other components of equity

The Company grants stock options to its directors, officers, employees and consultants. In the first quarter of 2014 the Company granted 400,000 stock options to one Investor Relations consultant under the stock option plan. The stock options expire December 31, 2016, have an exercise price of $0.45 per share, with 100,000 options vested on March 31, and a further 100,000 vesting on each of June 30, September 30, and December 31, 2014. The fair value of the options granted was determined based on the estimated fair value of services to be received.

All outstanding options issued to date vested immediately at the grant date with the exception of 1,200,000 options, comprised of 400,000 options to each of three IR consultants. Vesting provisions provide that 25% of the total stock options issued under these three agreements vest to each of the IR consultants per quarter over the first one-year period. There remain 900,000 unvested options as at March 31, 2014 (2013: 300,000).

In the first quarter of 2014, the Company issued a total of 3,944,280 shares due to warrant and option exercises and convertible debenture conversions for total proceeds of $1,254,787, including:

a) 1,821,500 warrants exercised at $0.30 for proceeds of $546,450
b) 1,321,780 warrants exercised at $0.40 for proceeds of $528,712
c) 718,500 options exercised at $0.25 for proceeds of $179,625
d) 82,500 convertible debentures converted at $0.40

6. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the three months ended March 31, 2014 was based on a weighted average number of common shares outstanding of 159,743,851 (2013: 140,386,969). The calculation of diluted earnings per share did not include stock options of 7,154,000 (2013: 6,758,000), warrants of 11,568,587 (2013: 32,133,969) and convertible debentures of 7,691,250 (2013: 7,897,500) because they would be anti-dilutive.

7. Operating segments

Geographical Information

The Company has one operating segment. All non-current assets (property and equipment and intangible assets) reside in Canada. The following revenue is based on the geographical location of customers.

	For the three months ended March 31	
	2014	**2013**
	$	**$**
North America	635,444	1,162,738
South / Central America	81,223	96,485
Africa / Middle East	343,081	174,951
Europe	35,922	7,843
Australasia	230,584	154,835
Asia	22,532	120,284
Total	**1,348,786**	**1,717,136**

Major customers

Revenues from the three largest customers represent approximately 31.0% of the Company's total revenues for the three months ended March 31, 2014 (2013: 42.5%).

8. Contingency

The Company took action against SNC and is defending itself against an action by SNC related to the development of the AFIRS 228. The Company has accrued a liability of $1,986,746, which represents the total amount of invoices received from SNC. The Company maintains that the claims are without merit and that the services invoiced were not provided. Management intends to vigorously defend the matter and believes the outcome will be in its favour.

In November 2011, the Company formally notified SNC that they were in material breach of the License and Manufacturing Agreement that was entered into between the two parties on December 28, 2008. The Company demanded payment of $1,329,976 USD and $2,650,000 CDN and terminated the agreement. As well, the Company applied to the Alberta courts for arbitration under the provisions of the agreement. The courts granted the request for arbitration on November 29, 2011. Subsequent to the grant, SNC refused to recognize the jurisdiction of the court and has contested the cancellation of the agreement and the arbitration.

In November 2011, SNC filed an action in Utah alleging that FLYHT failed to pay $2,042,000 USD.

As all invoices presented to the Company by SNC have been accrued, management does not expect the outcome to have a material effect on the Company's financial position. There has been no substantive change in the status of this contingency since last reported at December 31, 2013.

9. Subsequent event

As of May 13, 2014, the Company issued a total of 2,161,500 shares due to warrant and option exercises and conversions of convertible debentures for total proceeds of $641,850, including:

a) 2,027,500 warrants exercised at $0.30 for proceeds of $608,250
b) 84,000 warrants exercised at $0.40 for proceeds of $33,600
c) 50,000 convertible debentures converted at $0.40

CORPORATE INFORMATION

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Directors

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Bill Tempany	Chief Executive Officer, FLYHT Aerospace Solutions Ltd.
Mike Brown	Partner, Geselbracht Brown
Paul Takalo, CA	Vice-President, Standen's Limited
Jacques Kavafian	Director
Jack Olcott	President, General Aviation Company
Richard Hayden	Director

Officers

Bill Tempany	Chief Executive Officer
Matt Bradley	President
Thomas French, CGA	Chief Financial Officer
Derek Graham	Chief Technical Officer
Jeff Brunner	VP Certification Engineering and China Operations

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