FLYHT AEROSPACE SOLUTIONS LTD.

FIRST QUARTER 2016

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
ANAC: National Civil Aviation Agency of Brazil
BEA: Bureau d'Enquetes et d'Analyses (French authority for safety investigations in civil aviation)
CAAC: Civil Aviation Administration of China
COMAC: Commercial Aircraft Corporation of China
DGAC: Direccion General de Aeronautica Civil (Mexico's certification organization)
EASA: European Aviation Safety Agency
ECAA: Egyptian Civil Aviation Authority
FAA: Federal Aviation Administration
FIRST: Fuel Initiative Reporting System Tracker
GAMA: General Aviation Manufacturers Association
GAAP: Generally Accepted Accounting Principles
IATA: International Air Transport Association
ICAO: International Civil Aviation Organization
ICE: Iridium Compatible Equipment
IFRS: International Financial Reporting Standards
ITU: International Telecommunications Union
MD&A: Management Discussion and Analysis
NCAA: Nigerian Civil Aviation Authority
NTSB: National Transportation Safety Board
OEM: Original Equipment Manufacturer
QTD: Quarter-to-date
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

The first quarter of 2016 produced the second highest revenue in the Company's history, only falling short of Q4 2015 which was a monster revenue quarter for FLYHT! In this first quarter, three of the four revenue categories exceeded our budgeted expectations (Voice and Data Services, Parts Sales, Services). The only revenue category not meeting budget was our AFIRS Sales revenue. Over the past two years, we have observed good correlation between quarterly AFIRS shipments and the next quarter's revenue recognition for AFIRS sales. This explains the slow Q1 for AFIRS revenue because we had a slow shipment quarter in Q4 2015. This also bodes well for next quarter's AFIRS revenue because many of the planned Q4 2015 shipments pushed into Q1 2016 and the value of AFIRS units shipped in Q1 2016 was greater than ever before in our history. For this reason, we expect to "catch up" to our budgeted AFIRS Sales revenue goals in Q2.

FLYHT did lose $1.2 million in Q1. Roughly half of that loss ($540K) is a one-time charge associated with a warranty claim settlement that FLYHT made with an original equipment manufacturer (OEM) customer to resolve a hardware issue with a specific version of the AFIRS product. This issue was slightly increasing the warranty returns experienced by this OEM and their customers. This settlement caps FLYHT's exposure for this specific issue which was identified as a subsequent event in the last annual report. This settlement also became linked with the IP license agreement and it became necessary to resolve it in order to complete that IP transaction.

We burned less than $400K in cash in operating activities during Q1 2016. This reduced burn rate continues to be an improved trend for FLYHT, which began in Q2 2015. We were expecting to receive the IP license fee of $2.5 million (USD) in Q1 2016 and when it was delayed, we had to modify our operations in order to preserve cash. The uncertainty surrounding when we would receive this IP license fee also prompted FLYHT to begin efforts toward an equity raise in order to repay the outstanding, non-convertible June debentures and to fund operations. The first milestone payment for the IP license ($1.5 million USD) was received by FLYHT in April during the same week that we announced the private placement unit offering of up to $5 million. This license fee receipt will solve the short term cash needs and the closure of the unit offering will help us to strengthen the balance sheet. Also, with this cash, we are able to continue with the programs that we had planned in the manner they were budgeted. Both the full IP Licensing fee ($2.5 million USD) and the proceeds from the $5-million-unit offering are expected to be received in Q2. Additionally, we spent time in Q1 pursuing some grant money that we hope to qualify for later this year. Finally, we were able to confirm the reprice of the outstanding convertible debentures (due December 2016) from $0.40 to $0.25 per common share. So, from a cash perspective, we anticipate being well funded and moving with full steam on programs that we expect will grow the business.

On the sales front, we announced the signing of two new Chinese operators in Q1 2016 along with two other new customers. The OEM and license sales are brisk and continue to grow. We signed a representation agreement with Tri-Wing Aviation in Singapore to develop the South East Asia market outside of mainland China which we feel has tremendous potential but is an area where we had not demonstrated measurable success. Finally, we forged a strategic partnership agreement with Flight Data Services in the UK who can offer regulatory Flight Data Management services to our customers who require them.

We continued with development of the cloud-based UpTime™ solution. The new UpTime platform will ultimately replace all legacy implementations of UpTime and offer dramatic enhancements and higher levels of availability. We have installed the first instance of the new UpTime platform with a major customer and are continuing the work necessary to migrate all accounts to the new service before officially launching the platform to prospective customers later in 2016. In January we announced the CAN-TSO-C159B for our AFIRS 228S product. This makes our AFIRS 228S product the only combined safety services voice and data product with TSO in the world! This is a fantastic accomplishment and will simplify future aircraft certifications for this, our core product. We continue to actively produce Supplemental Type Certificates which allow for AFIRS equipment to be installed on 95% of the aircraft used for commercial air transport.

Adding to our activities in Q1 2016, we kicked off our "Adopt Excellence" high level strategy which targets financial profitability and increasing shareholder value. We are focusing on nine strategic elements to grow the business. We discussed several elements in this letter, including strengthening the balance sheet and improving and expanding FLYHT's product line. The leadership and employees at FLYHT are truly committed to making this company what we all want it to be – a cash generating entity that helps aircraft operators save money while improving the safety of their operations.

Best Regards,
Thomas R. Schmutz, Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of May 10, 2016 and should be read in conjunction with the condensed consolidated interim financial statements of FLYHT Aerospace Solutions Ltd. ("FLYHT" or the "Company") as at and for the three months ended March 31, 2016 and 2015 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared its March 31, 2016 condensed consolidated interim financial statements and the notes thereto in accordance with International Financial Reporting Standards (**"IFRS"**), as issued by the International Accounting Standards Board (**"IASB"**). The Company's accounting policies are provided in note 3 to the condensed consolidated interim financial statements.

Non-GAAP Financial Measures

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

Forward-Looking Statements

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

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

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

FLYHT Overview

FLYHT is a leading provider of real-time aircraft intelligence and cockpit communications for the aerospace industry. More than 50 customers, including airlines, leasing companies and original equipment manufacturers, have installed our systems in order to increase safety, improve operational efficiencies and enhance profitability. FLYHT's tools deliver data and voice communication between the aircraft and operations groups on the ground, on demand. The Company's products are available for commercial, business and military aircraft. FLYHT's proprietary technology, the Automated Flight Information Reporting System (AFIRS™), operates on multiple aircraft types and provides functions such as safety services voice and text messaging, data collection and transmission, and on-demand streaming of flight data recorder (black box), engine and airframe data. AFIRS has flown over 2.1

million aggregate flight hours and 1.4 million flights on customers' aircraft. FLYHT holds supplemental type certificates (STC) which allow for the installation of AFIRS on 95% of transport category aircraft.

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

AFIRS™ and UpTime™

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

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

FLYHTStream™

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

FLYHTFuel™

A powerful program that focuses attention on areas of greatest savings potential to provide information necessary to make decisions about the operation. Most airlines currently rely on a system of manually generated and analyzed reports 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 both a report-generation tool and a dynamic, interactive application that generates alerts and provides 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. The unique application 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.

FLYHTASD™

FLYHTASD is an aircraft situational display that shows the aircraft position reports from AFIRS via the Iridium Satellite Network. A unique application that integrates real-time flight following, routine aircraft notifications, aircraft health exceedance alerts and the ability to send text messages immediately to the aircraft. The program supports a number of aviation-specific tools including charts and weather information. It also provides the aircraft operator with the ability to start FLYHTStream, black box data streaming, on their airborne aircraft at any time.

FLYHTHealth™

Consists of automated engine and airframe trend monitoring and real-time exceedances and diagnostics. Automated trend reports with configurable reporting intervals notify the airline when a maintenance event has occurred. Leveraging the global coverage of the Iridium Satellite Network, FLYHTHealth allows the airline to request data directly from the engine once a problem has been detected. The airline can then use FLYHT's real-time systems diagnostics capabilities to interrogate systems information and identify the source of the problem and prepare the arrival station for repair, long before the aircraft lands at its destination. By automating and enhancing the real-time and long-term monitoring of airplane data, FLYHTHealth enables proactive management of maintenance and reduces downtime and the financial impact of unscheduled maintenance.

FLYHTLog™

Allows operators to monitor the status of their aircraft and have detailed Out, Off, On and In ("OOOI") time information. It allows airlines to automatically route aircraft system and operational data to various partner systems. Additionally, FLYHTLog increases situational awareness and accurate flight times, saving money on flight crew pay and maintenance operations.

FLYHTMail™

Two-way text messaging to the flight deck is established through the multi-control display unit (“MCDU”) or an iPad application. Updated crew assignments, crew repositioning and tail swaps can be sent to the aircraft directly and immediately. Text messaging is highly useful to manage diversions due to weather, mechanical occurrences or other unforeseen situations.

FLYHTVoice™

The onboard satellite phone, using the Iridium Satellite constellation with global coverage, is a rapid and reliable private communication channel for the flight deck. When operating remote or oceanic flights, it allows dispatch to pass on updated information to the crew with no delay. The voice capability is particularly valuable during emergency situations or irregular operations.

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

Underfloor Stowage Unit

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

System Approvals

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

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

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

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

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

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

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

AFIRS 220 or 228 model
A = Approved, P = Pending (We have received a Provisions STC and are in the final stages before receiving a full STC), I = In Progress.

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

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

Trends and Economic Factors

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

Passenger traffic (measured in Revenue Passenger Kilometers or “RPK”) saw a 7.0% increase in the first quarter of 2016[1]. All regions internationally saw demand growth in the first quarter. Demand in international markets at 7.5% was slightly higher than domestic travel at 6.0%. Global freight traffic (measured in Freight Tonne Kilometers or “FTK”) decreased 2.1% in the first three months of 2016[2]. According to IATA, the results of the first quarter point to the start of another difficult year for air cargo. 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 and shipping freight, suggesting growth in the industry.

Most of the large commercial aircraft manufacturers decreased their delivery volumes compared to the first quarter of 2015 though saw small improvements in revenue. Airbus delivered 125 aircraft in the first quarter of 2016 compared to 134 in the same quarter of 2015 though revenues remained even.[3] Boeing delivered 176 aircraft in the first quarter compared to 184 in Q1 2015 though also maintained revenues at a slight increase.[4] Embraer continued to see growth in the first quarter, with a 38% increase in deliveries at 21 commercial and 23 executive jets and a 24% increase in revenues.[5] Bombardier delivered less aircraft in the first quarter of 2016 than the previous year’s first quarter with 20 commercial aircraft deliveries compared to 23 in 2015 and 31 business jets compared to 45.[6]

Results for the general aviation industry continued to decrease as witnessed in 2015 due to the fluctuating world economy. The General Aviation Manufacturers Association (“GAMA”) reported that numbers in worldwide general aviation airplane shipments fell 3.7% in the first quarter of 2016 from 438 in 2015 to 422 in 2016[7].

FLYHT continues to be an industry leader in providing airlines with increased operational control and aircraft situational awareness. The Company’s efforts at the start of the year have been on the early stage redevelopment and implementation of a cloud-based UpTime user software. This development, targeted to be complete in 2016, marks an improvement on our current technology; taking into consideration customer feedback and optimization. The FLYHTHealth program is significant in its ability to detect and notify the airline of any problems while the aircraft is in flight to allow the airline to prepare for repair before the aircraft lands, thereby reducing downtime. Since 2009, FLYHT has had the technology to stream black box data in real-time. As a result of industry events and accidents during 2014, FLYHT has participated in working groups and demonstrated the AFIRS technology and FLYHTStream capabilities on industry panels. Multiple working groups included sessions with the Malaysian Government, ICAO, IATA, the NTSB and ITU. FLYHT will continue to participate in industry working groups to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

The strengthening of the Canadian dollar relative to the U.S. dollar throughout Q1 2016 had a negative impact on the Company’s revenue and income compared to Q1 2015. As a result of these currency movements, the Company’s revenues, which are substantially all denominated in U.S. dollars, were lower than they would have been had the foreign exchange rates not changed. It is the standard of the aviation industry to conduct business in U.S. dollars. While the majority of the Company’s operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a natural hedge exists against fluctuations of the Canadian dollar.

Contracts and Achievements of Q1 2016

Contracts

In February, FLYHT announced a strategic partnership with Flight Data Services Ltd., a global leader in flight data monitoring, to offer a complete flight data acquisition and analysis solution to the aviation industry.

In March, FLYHT announced an agreement had been signed with Tri-Wing Aviation Resources Pte. Ltd. based in Singapore to represent FLYHT’s technology and services as a sales team in South East Asia.

To end the quarter, in March FLYHT announced that contracts had been signed in the six months then ended with six new airlines including three in China, for a total of 13 aircraft, that will install the AFIRS unit and/or sign up for UpTime services. The aggregate revenue on all six contracts is expected to be approximately US$615,000.

1 http://www.iata.org/whatwedo/Documents/economics/passenger-analysis-mar-2016.pdf
2 http://www.iata.org/pressroom/pr/Pages/2016-05-04-01.aspx
3 http://www.airbusgroup.com/int/en/news-media/press-releases/Airbus-Group/Financial_Communication/2016/04/ad-hoc-q1-2016-results.html
4 http://boeing.mediaroom.com/2016-04-27-Boeing-Reports-First-Quarter-Results-and-Reaffirms-2016-Guidance
5 http://www.embraer.com.br/Documents/noticias/Release%20US%201Q16_FINAL.pdf
6 http://www.bombardier.com/en/media/newsList/details.binc-20160428-bombardier-announces-major-c-series-order-and-repo.bombardiercom.html?
7 https://www.gama.aero/media-center/press-releases/content/gama-publishes-2016-first-quarter-aircraft-shipment-data

Achievements

In January, FLYHT announced receipt of Canadian Technical Standard Order Design Approval, CAN-TSO-C159b, for AFIRS 228S. The certification, granted by Transport Canada, represents an additional level of airworthiness standards met by AFIRS.

In January, FLYHT reported that in December 2015 AFIRS achieved a record two million flight hours flown on FLYHT customers' aircraft.

In January, FLYHT announced the approval of the extension of the Debenture conversion expiry date to December 2016 and amendment of the conversion price to $0.25.

In February, FLYHT announced that as part of its investor relations strategy for 2016, it would continue to engage the services of The Howard Group Inc. to assist with its investor relations activities.

Results of Operations – Three Months Ended March 31, 2016 and 2015

Selected Results

	Q1 2016 $	Q4 2015 $	Q3 2015 $	Q2 2015 $
Assets	5,803,079	5,478,867	6,140,675	6,344,752
Non-current financial liabilities	602,011	390,110	3,267,030	3,053,577
Revenue	2,611,331	3,769,267	2,519,347	1,598,603
Cost of sales	861,965	1,340,513	672,341	562,535
Distribution expenses	1,132,727	1,084,443	1,142,086	987,330
Administration expenses	638,427	1,573,796	607,755	943,931
Research, development and certification engineering expenses	988,176	689,195	638,104	737,968
Loss from operating activities	1,009,964	918,680	540,939	1,633,161
Loss	1,242,942	1,203,998	683,224	1,943,924
Loss before R&D	254,766	514,803	45,120	1,205,956
Loss per share (basic & fully diluted)	0.01	0.01	0.00	0.01
	Q1 2015 $	**Q4 2014 $**	**Q3 2014 $**	**Q2 2014 $**
Assets	7,752,509	8,275,546	8,968,372	10,281,225
Non-current financial liabilities	5,407,303	5,506,179	2,728,769	2,433,044
Revenue	2,569,908	2,218,681	1,808,794	1,505,767
Cost of sales	637,901	849,221	655,927	604,860
Distribution expenses	763,774	990,650	806,051	816,240
Administration expenses	551,471	780,039	985,756	1,119,379
Research, development and certification engineering expenses	737,285	772,725	848,119	(1,277,790)
Loss (income) from operating activities	120,523	1,173,954	1,487,059	(243,078)
Loss	60,414	1,305,712	1,653,147	46,925
Loss (income) before R&D	(676,871)	532,986	805,028	1,324,716
Loss per share (basic & fully diluted)	0.00	0.01	0.01	0.00

Financial Position

Liquidity and Capital Resource

The Company's cash at March 31, 2016 decreased to $913,715 from $1,301,955 at December 31, 2015. The Company has an available and undrawn operating line of $250,000 at Canadian chartered bank prime plus 1.5%, secured by assignment of cash collateral and a general security agreement.

At March 31, 2016, the Company had negative working capital of $6,291,830 compared to negative $5,413,927 as of December 31, 2015, a decrease of $877,903. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are excluded in the working capital calculation, the resulting modified working capital at March 31, 2016 would be negative $3,640,257 compared to negative $3,306,055 at December 31, 2015.

The Company funded Q1 2016 operations primarily through cash received from sales. Management is addressing the debenture debt and the Company will strive to self-fund operations in the coming year. See Subsequent Events on page 16 for more information related to receipt of proceedings from the sale of a non-exclusive license to use certain intellectual property and the announcement of a private placement.

	March 31, 2016 $	March 31, 2015 $	Variance $
Cash and cash equivalents	913,715	1,301,955	(388,240)
Restricted cash	250,000	250,000	-
Trade and other receivables	1,093,273	898,166	195,107
Deposits and prepaid expenses	277,743	137,861	139,882
Inventory	2,212,847	1,716,313	496,534
Trade payables and accrued liabilities	(3,210,049)	(2,757,707)	(452,342)
Unearned revenue	(1,953,012)	(1,087,197)	(865,815)
Loans and borrowings	(5,840,418)	(5,840,418)	-
Finance lease obligations	(27,508)	(27,922)	414
Current tax liabilities	(8,421)	(4,978)	(3,443)
Working capital	**(6,291,830)**	**(5,413,927)**	**(877,903)**
Unearned revenue	1,953,012	1,087,197	865,815
Customer deposits	698,561	1,020,675	(322,114)
Modified working capital	**(3,640,257)**	**(3,306,055)**	**(334,202)**

As at May 10, 2016, FLYHT's issued and outstanding share capital was 173,477,635.

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, together with the proceeds to be received from the private placement announced in Q2 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 in the industry or the financial condition of a major customer deteriorates, or
- sufficient funds are not available to extinguish the debentures coming due in June 2016, or
- sufficient funds are not available, or debenture holders do not convert their debenture units to equity, when the debentures mature in December 2016;

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.

Financial Instruments

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

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

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

Contractual Obligations

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

March 31, 2016	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	1,291,162	2,692	-	-	-	1,293,854
Compensation and statutory deductions	130,011	252,250	108,000	81,000	-	571,261
Finance lease liabilities	4,970	23,912	9,279	-	-	38,161
Accrued liabilities	540,450	74,511	11,658	19,754	-	646,373
Loans and borrowings	90,234	5,750,184	103,768	414,386	1,212,427	7,570,999
Total	**2,056,827**	**6,103,549**	**232,705**	**515,140**	**1,212,427**	**10,120,648**

Under SADI, the Company has, at March 31, 2016, an outstanding repayable balance of $1,820,816, unchanged from December 31, 2015. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until April 30, 2028 when the final payment will be 24.5% of the total contribution received. Repayments in 2016 to date have been nil (2015: $78,462).
The debenture issued December 23, 2010 had an original face value of $3,159,000 and was set to mature on December 23, 2014. On December 22, 2014 approval was received to extend the maturity date of the debentures then remaining outstanding from four to six years, now maturing on December 23, 2016. The debenture continues to bear interest at a rate of 8% per annum, accrued and paid annually in arrears. The debentures were convertible into common shares at a conversion rate of $0.40 per share at any time up to December 23, 2015; on December 15, 2015 the conversion rate was amended to be $0.25 per share at any time up to December 23, 2016. The debentures carry a face value after conversions of $3,039,000 at May 10, 2016, unchanged from December 31, 2015.

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

Year	Total $
2016	22,365
2017	15,795
Total	**38,161**

Customer Deposits

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

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

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

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

The chart below outlines the movement in the Company's customer deposits throughout the periods ended March 31, 2016 and 2015. Payment was received for 15 installation kits in the first quarter of 2016 compared to 3 received in the first quarter of 2015.

	Q1 2016 $	Q1 2015 $	Variance $
Opening balance	1,020,675	790,405	230,270
Payments received	913,448	475,698	437,750
Moved to unearned revenue	(1,235,562)	(414,400)	(821,162)
Balance, March 31	**698,561**	**851,703**	**(153,142)**

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the three months ended March 31, 2016 and 2015. Revenue was recognized for 9 installation kits in 2016's first quarter compared to 15 in the first quarter of 2015. In Q1 2016, 23.7% of the unearned revenue balance at December 31, 2015 was recognized as earned revenue (2015: 20.8%).

	Q1 2016 $	**Q1 2015 $**	**Variance $**
Opening balance	1,145,341	1,675,746	(530,405)
AFIRS sales shipped, not accepted	1,235,562	414,400	821,162
AFIRS sales revenue recognized	(423,133)	(739,729)	316,596
Voice and data services revenue recognized	(4,758)	(3,990)	(768)
Balance, March 31	**1,953,012**	**1,346,427**	**606,585**

Comprehensive Income

Revenue

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

Revenue sources

	Q1 2016 $	**Q1 2015 $**	**Variance $**
Voice and data services	1,067,707	963,560	104,147
AFIRS sales	437,540	750,531	(312,991)
Parts sales	1,028,412	840,362	188,050
Services	77,672	15,455	62,217
Total	**2,611,331**	**2,569,908**	**41,423**

Overall, total revenue increased 1.6% from Q1 2015 to Q1 2016. Voice and data services increased by 10.8%, Parts sales decreased by 41.7%, AFIRS sales increased by 22.4%, while Services revenue increased by 402.6%. Q1 2016 revenue was the second highest quarter in FLYHT history.

Voice and data services increased compared to last year, due to a higher number of aircraft producing recurring revenue offset slightly by the lower value of the USD. This recurring revenue accounted for 40.9% of revenue in Q1 2016 (Q1 2015: 37.5%). Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2016 and future years.

AFIRS sales decreased in Q1 2016 as compared to Q1 2015 due to a decreased number of installation kits meeting the requirements for revenue recognition. Revenue was recognized on 9 installation kits in Q1 2016 compared to 15 in Q1 2015.

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

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

Revenue sources for the last eight quarters were:

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Voice and data services	1,067,707	1,067,894	1,100,238	855,121	963,560	915,602	927,117	893,464
AFIRS sales	437,540	1,574,559	613,229	434,102	750,531	619,776	609,085	447,632
Parts sales	1,028,412	1,123,803	682,476	285,459	840,362	455,297	148,198	111,720
Services	77,672	3,011	123,404	23,921	15,455	228,006	124,394	52,951
Total	**2,611,331**	**3,769,267**	**2,519,347**	**1,598,603**	**2,569,908**	**2,218,681**	**1,808,794**	**1,505,767**

	Q1 2016 %	Q1 2015 %	YTD 2016 %	YTD 2015 %
North America	1,596,902	1,697,843	61.2	66.1
South/Central America	58,781	63,784	2.3	2.5
Africa/Middle East	363,412	270,404	13.9	10.5
Europe	60,514	143,710	2.3	5.6
Australasia	160,561	159,598	6.1	6.2
Asia	371,161	234,569	14.2	9.1
Total	2,611,331	2,569,908	100.0	100.0

Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the AFIRS unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel while performing on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the first quarter of 2016 was 30.0% compared to 24.8% in 2015's first quarter. The decrease was due to a difference in the mix of revenue sources, combined with a higher write-off of slow moving parts in Q1 2016 versus Q1 2015. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Gross Margin %	70.0	64.4	73.3	64.8	75.2	61.7	63.7	59.8
Cost of Sales %	30.0	35.6	26.7	35.2	24.8	38.3	36.3	40.2

Distribution Expenses

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

Major Category	Q1 2016 $	Q1 2015 $	Variance $
Salaries and benefits	719,405	294,863	424,542
Contract labour	139,827	142,386	(2,559)
Office	111,800	73,010	38,790
Travel	135,354	115,378	19,976
Equipment and maintenance	7,333	7,128	205
Depreciation	10,594	6,054	4,540
Marketing	8,144	41,421	(33,277)
Other	270	83,534	(83,264)
Total	**1,132,727**	**763,774**	**368,953**

Distribution expenses increased compared to 2015 due mainly to higher people costs offset by a smaller requirement for bad debt reserve.

Salaries and benefits increased in 2016 as compared to 2015 due to an increase in sales and customer satisfaction staff, together with a decreased allocation based on research and development activity requirements.

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

Travel expenses increased in 2016 versus 2015 largely as the result of increased travel associated with sales activities. Travel expenses will vary significantly depending on the location of customer contracts and regions served.

Marketing expense has decreased in 2016 mainly due to the creation in Q1 2015 of a video communicating the FLYHTStream product, while a similar expense was not required in Q1 2016.

Other expenses decreased are due differences in bad debt reserve requirements.

Administration Expenses (Recovery)

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 2016 $	Q1 2015 $	Variance $
Salaries and benefits	346,044	298,839	47,205
Share based compensation	16,730	-	16,730
Contract labour	35,875	38,583	(2,708)
Office	60,737	59,280	1,457
Legal fees	42,510	6,644	35,866
Audit and accounting	33,075	(6,850)	39,925
Investor relations	43,193	79,852	(36,659)
Brokerage, stock exchange, and transfer agent fees	13,057	18,868	(5,811)
Travel	30,507	35,695	(5,188)
Equipment and maintenance	10,394	16,566	(6,172)
Depreciation	2,169	2,677	(508)
Other	4,136	1,317	2,819
Total	**638,427**	**551,471**	**86,956**

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

Salaries and benefits were higher in 2016 compared with 2015, mainly resulting from an increased cost of board members.

Share based compensation represents the cost of issuing options to IR consultants in Q1 2016.

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

Audit and accounting decreases are mainly due to service adjustments.

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

Research, Development and Certification Engineering Expenses

Major Category	Q1 2016 $	Q1 2015 $	Variance $
Salaries and benefits	382,835	552,638	(169,803)
Contract labour	8,834	67,697	(58,863)
Office	18,539	61,222	(42,683)
Travel	6,242	19,720	(13,478)
Equipment and maintenance	21,667	13,547	8,120
Components	6,030	17,574	(11,544)
Depreciation	3,579	4,887	(1,308)
Settlement	540,450	-	540,450
Total	**988,176**	**737,285**	**250,891**

Research and Development expense, before settlement of a warranty claim, was lower than the prior year due to changes in people costs, office expenditure and travel. These costs vary according to specific project requirements.

Salaries and benefits expended in this category decreased from 2015 to 2016, as the increased effort committed to enhancing revenue sources for ground based server applications, and enhancements made to FLYHTStream in Q1 2015 was not required in 2016. People costs will fluctuate with customer and industry demands for new products and enhancements of existing products, as well as differences in allocations from other cost centres to R&D.

Contract labour has decreased in the current year mainly due to certification engineering on a time-sensitive STC in Q1 2015 that was not repeated into 2016.

Office expenses decreased as a result of decreased legal fees required to establish and defend patents, together with a decreased rent allocation.

Travel expenses decreased due to a decreased requirement for test flights for hardware testing and certification. Cost of travel varies significantly depending on the location of customers and regions served.

Components requirements were lower in 2016 than in 2015 as a lower number of expensed parts were required for use in development and testing activities.

Settlement amounts due to the resolution of a partner’s warranty claim.

Net Finance Costs

Major Category	Q1 2016 $	Q1 2015 $	Variance $
Interest (income)	(10,458)	-	(10,458)
Net foreign exchange loss (gain)	13,700	(270,646)	284,346
Bank service charges	7,048	4,916	2,132
Interest expense	666	1,152	(486)
Government grant accretion	44,073	40,247	3,826
Debenture interest and accretion	171,541	161,589	9,952
Debenture cost amortization	2,662	2,633	29
Net finance costs (income)	**229,232**	**(60,109)**	**289,341**

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

Net Loss

Major Category	Q1 2016 $	Q1 2015 $	Variance $
Net loss	1,242,942	60,414	1,182,528
Net loss (income) without R&D	254,766	(676,871)	931,637

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 2016, 98.6% of the Company's gross sales were made in U.S. dollars, compared to 97.8% in Q1 2015. The Company expects this to continue as the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for certain services and products related to cost of sales, which creates a natural hedge.

Other

Recent Accounting Pronouncements

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

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

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

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

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

Risks and Uncertainties

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

Installations at c-checks

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

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

Foreign currency fluctuations

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

General economic and financial market conditions

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

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

Dependence on key personnel and consultants

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

Dependence on new products

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

Availability of key supplies

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

Proprietary protection

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

Transactions with Related Parties

In the third and fourth quarters of 2015, the Company entered into an agreement with a company with ownership related to an officer of FLYHT. The company supplied consulting services in recruitment and supplied a contract resource to develop tools used to enhance the Company's ground based software. No amounts relating to this party were included in either contract labour nor accounts payable for the three months ended March 31, 2016 (contract labour 2015: $7,500; accounts payable and accrued liabilities 2015: nil).

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

Subsequent Events

On December 21, 2015 the Company granted a non-exclusive license to use certain of its intellectual property to a technology company for an aggregate license fee of $2.5 million USD, payable in the first quarter of 2016. The payment due date was subsequently modified while the technology company completed internal processes and confirmed their market demand. Payment of $1.51 million USD for the first milestone under this agreement has been received in the second quarter of 2016 and the final milestone will be paid during the second quarter.

During the quarter the Company received a claim from a partner for past and potential future warranty claims relating to reliability of some active AFIRS units. The claim asserted a design defect had led to the reliability issues. The claim was resolved subsequent to the quarter end and a provision for US$415,000 was included in research and development expense.

On April 25, 2016 the Company proposed a private placement offering of up to $5,000,000. The common share units will be issued at a subscription price of $0.15. The resulting maximum of 33,333,333 units will each consist of one common share and one-half share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company within 24 months at a price of $0.25. All of these common shares and warrants will be subject to a 4-month hold.

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 months ended March 31, 2016 and March 31, 2015.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	March 31, 2016 $	December 31, 2015 $
Assets		
Current assets		
Cash and cash equivalents	913,715	1,301,955
Restricted cash	250,000	250,000
Trade and other receivables	1,093,273	898,166
Deposits and prepaid expenses	277,743	137,861
Inventory	2,212,847	1,716,313
Total current assets	4,747,578	4,304,295
Non-current assets		
Property and equipment	206,482	202,775
Intangible assets	34,992	34,992
Inventory	814,027	936,805
Total non-current assets	1,055,501	1,174,572
Total assets	**5,803,079**	**5,478,867**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	3,210,049	2,757,707
Unearned revenue	1,953,012	1,087,197
Loans and borrowings	5,840,418	5,840,418
Finance lease obligations	27,508	27,922
Current tax liabilities	8,421	4,978
Total current liabilities	11,039,408	9,718,222
Non-current liabilities		
Unearned revenue	-	58,144
Loans and borrowings	592,831	374,555
Finance lease obligations	9,180	15,555
Provisions	339,077	263,596
Total non-current liabilities	941,088	711,850
Total liabilities	**11,980,496**	**10,430,072**
Equity (deficiency)		
Share capital	53,895,046	53,895,046
Convertible debenture - equity feature	222,531	222,531
Contributed surplus	8,455,866	8,439,136
Deficit	(68,750,860)	(67,507,918)
Total (deficiency)	(6,177,417)	(4,951,205)
Total liabilities and deficit	**5,803,079**	**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 March 31	
	2016	2015
	$	$
Revenue (note 6)	2,611,331	2,569,908
Cost of sales	861,965	637,901
Gross profit	1,749,366	1,932,007
Distribution expenses	1,132,727	763,774
Administration expenses	638,427	551,471
Research, development and certification engineering expenses	988,176	737,285
Results from operating activities	(1,009,964)	(120,523)
Finance (income)	(10,458)	(270,646)
Finance costs	239,690	210,537
Net finance costs	(229,232)	60,109
Loss before income tax	(1,239,196)	(60,414)
Income tax expense	3,746	-
Loss for the period	(1,242,942)	(60,414)
Total comprehensive loss for the period	(1,242,942)	(60,414)
Loss per share		
Basic and diluted loss per share (note 5)	(0.01)	(0.00)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the three months ended March 31, 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)
Loss for the period	-	-	-	-	(1,242,942)	(1,242,942)
Total comprehensive loss for the period	-	-	-	-	(1,242,942)	(1,242,942)
Contributions by and distributions to owners						
Share-based payment transactions	-	-	-	16,730	-	16,730
Total contributions by and distributions to owners	-	-	-	16,730	-	16,730
Balance at March 31, 2016	53,895,046	222,531	-	8,455,866	(68,750,860)	(6,177,417)
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	-	-	-	-	(60,414)	(60,414)
Total comprehensive loss for the period	-	-	-	-	(60,414)	(60,414)
Contributions by and distributions to owners						
Issue of common shares	62,000	(11,324)	-	103,966	-	154,642
Issue of warrants	--	-	154,001	-	-	154,001
Total contributions by and distributions to owners	62,000	(11,324)	154,001	103,966	-	308,643
Balance at March 31, 2015	53,558,969	209,376	317,772	7,969,109	(63,676,772)	(1,621,546)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	For the three months ended March 31	
	2016	2015
	$	$
Cash flows used in operating activities		
Loss for the period	(1,242,942)	(60,414)
Depreciation – property plant and equipment	16,128	13,618
Convertible debenture accretion	171,541	161,589
Amortization of debenture issue costs	2,662	40,247
Government grant accretion	44,073	-
Equity-settled share-based payment transactions	16,730	(69,368)
Change in inventories	(373,756)	(826,310)
Change in trade and other receivables	(178,151)	(37,477)
Change in prepayments	(139,882)	(320,866)
Change in trade and other payables	498,434	(1,662)
Change in provisions	75,482	(329,319)
Change in unearned revenue	807,671	(230,583)
Unrealized foreign exchange	6,481	1,152
Interest expense	666	(1,465)
Interest paid	(666)	-
Interest income	(10,458)	-
Interest received	10,458	-
Income tax expense	3,746	-
Income tax paid	(304)	(1,658,225)
Net cash used in operating activities	(292,087)	(60,414)
Cash flows used in investing activities		
Acquisitions of property and equipment	(19,835)	(1,681)
Net cash used in investing activities	(19,835)	(1,681)
Cash flows used in financing activities		
Payment of finance lease liabilities	(6,789)	(6,326)
Net cash used in financing activities	(6,789)	(6,326)
Net (decrease) in cash and cash equivalents	(318,711)	(1,666,232)
Cash and cash equivalents, beginning	1,301,955	3,910,962
Effect of exchange rate fluctuations on cash held	(69,529)	262,504
Cash and cash equivalents, ending	913,715	2,507,234

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 months ended March 31, 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, 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 May 10, 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 March 31, 2016, the Company had negative working capital of $6,291,830, a deficit of $68,750,860, a net loss of $1,242,942 and negative cash flow used in operating activities of $292,087 for the quarter.

The Company has incurred significant operating losses and negative cash flows from operations over the past years. 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 in the industry or the financial condition of a major customer deteriorates, or
- sufficient funds are not available to extinguish the debentures coming due in June 2016, or
- sufficient funds are not available, or debenture holders do not convert their debenture units to equity, when the debentures mature in December 2016;

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.

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 transactions: measured using the Black-Scholes option pricing model;

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

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

5. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the quarter ended March 31, 2016 was based on a weighted average number of common shares outstanding of 173,477,635 (2015: 172,421,820). The calculation of diluted earnings per share did not include stock options of 8,936,300 (2015: 7,802,250), nil warrants (2015: 3,948,750) and convertible debentures of 7,597,500 (2015: 8,786,300) because they would be 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 March 31	
	2016	**2015**
	$	**$**
North America	1,596,902	1,697,843
South / Central America	58,781	63,784
Africa / Middle East	363,412	270,404
Europe	60,514	143,710
Australasia	160,561	159,598
Asia	371,161	234,569
Total	**2,611,331**	**2,569,908**

Major customers

Revenues from the three largest customers represent approximately 48.4% of the Company's total revenues for the quarter ended March 31, 2016 (2015: 56.4%).

7. Subsequent events

On December 21, 2015 the Company granted a non-exclusive license to use certain of its intellectual property to a technology company for an aggregate license fee of $2.5 million USD, payable in the first quarter of 2016. The payment due date was subsequently modified while the technology company completed internal processes and confirmed their market demand. Payment of $1.51 million USD for the first milestone under this agreement has been received in the second quarter of 2016 and the final milestone will be paid during the second quarter.

During the quarter the Company received a claim from a partner for past and potential future warranty claims relating to reliability of some active AFIRS units. The claim asserted a design defect had led to the reliability issues. The claim was resolved subsequent to the quarter end and a provision for US$415,000 was included in research and development expense.

On April 25, 2016 the Company proposed a private placement offering of up to $5,000,000. The common share units will be issued at a subscription price of $0.15. The resulting maximum of 33,333,333 units will each consist of one common share and one-half share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company within 24 months at a price of $0.25. All of these common shares and warrants will be subject to a 4-month hold.

CORPORATE INFORMATION

Registrar and Transfer Agent

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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

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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
Jeff Brunner	Vice President, China Operations

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