SECOND QUARTER REPORT

FLYHT AEROSPACE SOLUTIONS LTD.

2013

The Future of Connectivity

TABLE OF CONTENTS

To Our Shareholders,

Welcome

After all of the excitement from the floods here in Calgary and surrounding areas, the true value of team work and community spirit is alive and well in our city and our Company. This unfortunate event reinforced the need for strong loyal teams to make everything work. Hopefully all of those watching our progress can see our dogged determination is starting to build into a groundswell of actions that will drive our success. Again, our Company has grown quarter over quarter and year over year on the revenue side and the promised reductions in R&D spending and drive for profitability and cash flow positive are showing in our efforts. As you will see in our reports, revenues are well ahead of last year on a year to date basis and our loss is less than ½ of what it was as compared to last year. Shipments in the quarter were off due to the shift a year ago from individual airline sales to sales through OEMs and partners. As well, there have been temporary delays in Africa as the senior leadership in Nigeria is being changed.

We were very excited when the announcement on July 19th came out that we had successfully passed the certification tests for ACARS over Iridium to the SITA network. This day was a huge milestone for the 228 product line and is one of the first in a series of certifications expected in the next short while that will enable the growth we expect to see in the market once the program is finally in full swing with L-3. The product is being put through its paces as the tests evolve, and we are confident that the end product will be the most robust in the marketplace.

The delivery of approximately 20 systems in China has us, by far, the largest provider of satellite communications to that country and we are excited about programs that are planned to roll out this Fall to meet the mandate of every commercial aircraft in China having SATCOM installed by 2016. While we still do not have written visibility on numbers or schedules, ongoing activities in China give us great confidence that we will be a significant part of this modernization program.

It is worthwhile to point out that in the first half of this year significant investments were made in investor relations work including travel to 14 major cities around the world with presentations to more than 50 firms/funds. Increased awareness has driven increased volumes in our stock. While the price of the stock has not been impacted as yet, we feel that the awareness of these funds will allow for a more rapid acceleration of the price when the news flow increases as our efforts in marketing and sales outside of our traditional markets take effect. We've continued to invest in shows such as National Business Aviation Association ("**NBAA**") and made trips to Africa for the African Airlines Association ("**AFRAA**") conference to spread the word about our systems, attended an Iridium function in Russia to support the launch of Iridium there as well as several support trips around the world related to our L-3 contracts. That travel is necessary and drives our administrative costs up, however we believe over time this will contribute to the success of the Company

We are confident we are on the right track with our IR work, sales efforts, product development and delivery tools. We believe that the second half of this year will be as exciting and rewarding for our long term supporters, whether they be shareholders, staff, customers, suppliers or partners. We want to thank all of them for their continued backing.

Yours Truly

"Signed"

Bill Tempany, President and Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (**"MD&A"**) is as of August 7, 2013 and should be read in conjunction with the condensed consolidated interim financial statements of FLYHT Aerospace Solutions Ltd. (**"FLYHT"** or the **"Company"**) for the three and six months ended June 30, 2013 and the accompanying notes. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com. The Company has prepared these 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, 2012. 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 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, because those customer deposits 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 and markets and sells its products under the FLYHT™ brand name. 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 emergency 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, 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 also builds value added applications for operators such as FLYHTStream™ and the FLYHT Fuel Management System that run on the AFIRS hardware and its UpTime servers. FLYHT offers global satellite coverage, 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.

FLYHT's new AFIRS device, the 228B, continues to demonstrate its value in the marketplace. Since October the AFIRS 228B's remote configurable intelligence, an industry first, successfully operated on a client's aircraft reporting as per their specifications. This feature of the 228 will become increasingly important as clients around the globe adopt the AFIRS 228 technology.

The 228 incorporates improvements over the 220 in several important areas: processing capacity, data transmission characteristics and programmability. The 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 220. The Company will continue to sell its AFIRS 220.

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.

FLYHT Fuel Management System

The FLYHT Fuel Management System 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. The

FLYHT Fuel Management System 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. 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. It is an intuitive tool that enables fuel managers to act on information instead of compiling and analyzing data.

FIRST

The Fuel Initiative Reporting System Tracker ("**FIRST**") is a tool that eliminates uncertainty about the effectiveness of an airline's fuel savings initiatives. FIRST can be purchased separately as a stand-alone module from the FLYHT Fuel Management System. It uses real-time flight data acquired from the aircraft's onboard systems, and presents the data to operations personnel in an easy to read dashboard. The dashboard compares how pilots are operating the aircraft to how they could be flying in order to maximize efficiency and fuel savings. Where compliance has not been met, associated costs are shown. The tool is de-identified to meet pilot union requirements, but can be filtered to display performance by pilot if desired.

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 Supplemental Type Certificate ("**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 Transport Canada Civil Aviation ("**TCCA**"), the Federal Aviation Administration ("**FAA**") in the United States, the European Aviation Safety Agency ("**EASA**") in Europe, and the General Administration of Civil Aviation of China ("**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 three engineers on staff with delegated authority, allowing them to approve electrical and structural 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 B737-500, 600, 700, 800
- ✓ Boeing B757-200
- ✓ Boeing B767-200, 300
- ✓ Bombardier DHC-8-100, 200, 300, 400
- ✓ Bombardier CRJ100, 200, 400
- ✓ DC-10
- ✓ Fokker F100
- ✓ Hawker Beech 750, 850XP, 900XP
- ✓ Viking Air DHC-7 (LSTC)

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

- ✓ Bombardier CRJ-700, 900
- ✓ Hawker Beech 750, 850XP, 900XP
- ✓ Boeing B777
- ✓ ATR-42, 72
- ✓ Boeing 747-200

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

- ✓ Airbus A319, 320, 321
- ✓ Boeing B737 – 600, 700, 800
- ✓ Boeing 767 – 200, 300
- ✓ McDonnell Douglas MD-81, 82, 83, 87, 88

FLYHT has STC applications in process for AFIRS 220 or 228, expected to be submitted in the fourth quarter of 2013, depending on market requirements, for the following aircraft:

- ➢ Boeing 737 Classics

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. Portions of those costs, including salaries and salary burden, have been covered by funding committed by Industry Canada in February 2011 under the Strategic Aerospace and Defence Initiative (**“SADI”**) program.

Trends and Economic Factors

The International Air Transport Association ("**IATA**") announced global passenger traffic results for May showing that air travel continued to expand at a healthy rate. Growth was led by emerging markets. Compared to the year-ago period, overall demand rose 5.6%, while capacity climbed 5.2% pushing the load factor up 0.3 percentage points to 78.1%. May international passenger demand rose 5.7% compared to the year-ago period, with capacity up 5.6%. Load factor was flat at 77.0%. The strongest growth occurred in the emerging markets of Africa, Latin America and the Middle East. Domestic demand rose 5.6% compared to May 2012 with all markets recording growth, an improvement on the April year-over-year result of 3.6%. Growth was driven primarily by markets in Asia, particularly China. Capacity rose 4.5% and load factor was 79.9%, up 0.9 percentage point's.[1].

Boosted by a wave of orders announced and signed at the Paris Air Show, Airbus surpassed the 5,000-aircraft backlog milestone – the first time an aircraft manufacturer has ever attained a backlog of this magnitude. Highlights of the month included the 65 additional orders for Airbus' latest product – the A350 XWB – bringing combined total bookings for this next-generation extra widebody jetliner to 678 in the month when the aircraft performed its maiden flight. With the volume added in June, and taking cancellations into account, Airbus' total net orders logged during the first six months of 2013 reached 722[2]. Boeing delivered 169 aircraft in the second quarter; including 1 (one) delivery under operating lease[3]. Embraer delivered 22 commercial jets[4]. Bombardier Aerospace delivered a total of 57 aircraft during the second quarter ended June 30, 2013, compared to 62 for the same period last fiscal year, and received 82 net orders during the second quarter, compared to 146 for the same period last fiscal year[5]

Embraer delivered 22 jets to the commercial aviation market and 29 to the executive aviation market, for a total of 51 aircraft. On June 30, 2013, the firm order backlog totaled USD 17.1 billion, an increase of USD 3.8 billion over the first quarter, reaching the Company's highest backlog value since the third quarter of 2009.[6] Bombardiers' Business Aircraft division received significant orders during the second quarter. VistaJet placed an order for 20 *Challenger 350* jets, valued at $518 million based on list price, with options for an additional 20, and an undisclosed customer placed an order for 12 *Global 8000* jets, valued at $804 million based on list price. In Commercial Aircraft, Ilyushin Finance Co. (IFC) of Russia firmed up an agreement for 32 *CS300* aircraft with options for an additional 10. The firm order is valued at $2.6 billion, based on list price.[7]

FLYHT continues to invest in products and services designed to meet the needs of the aviation industry. This is done through the introduction of value-added information products and specialty services that build customer value and FLYHT revenues from existing and new installations. The key area of concentration for the year is the certification of the AFIRS 228 in order to complete Aircraft Communications Addressing and Reporting System (**"ACARS"**) over Iridium functionality. Successes in this area were announced on July 19th with the approval of the transmission through the SITA network of this data. In addition, the Company continues to work with Iridium Satellite Communications (**"Iridium"**) on voice trials for voice and data safety services messaging. We also attended the Iridium conference in Moscow, Russia. The Company views these initiatives as enhancements to the industry and are steps to strengthen our revenue as we sell AFIRS 228 units and start to collect its recurring revenues

The weakening of the Canadian dollar relative to the U.S. dollar during the first quarter of 2013 versus the same quarter of 2012 had a positive impact on the Company's revenue and income compared to the same quarter of 2012. 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/2013-07-03-01.aspx
[2] http://www.airbus.com/company/market/orders-deliveries/
[3] http://boeing.mediaroom.com/index.php?s=43&item=2733
[4] http://www.embraer.com/en-US/ImprensaEventos/Press-releases/noticias/Pages/Embraer-entrega-22-jatos-comerciais-e-29-executivos-no-2o-trimestre-de-2013.aspx
[5] http://www.bombardier.com/en/media-centre/newsList/details.bombardier-inc-20130801bombardierannouncesfinancialresultsforthe.html?
[6] http://www.embraer.com/en-US/ImprensaEventos/Press-releases/noticias/Pages/Embraer-entrega-22-jatos-comerciais-e-29-executivos-no-2o-trimestre-de-2013.aspx
[7] http://www.bombardier.com/en/media-centre/newsList/details.bombardier-inc-20130801bombardierannouncesfinancialresultsforthe.html?

Contracts and Achievements of Q2 2013

Contracts

FLYHT Aerospace Solutions Ltd. signed a contract with a scheduled Maldivian airline to install the AFIRS 220 or 228B on two Boeing 767 aircraft. The first installation and flight tests have been completed and we expect this will lead to an STC for the AFIRS 228 on the Boeing 767

Achievements

FLYHT closed a debt offering of non-convertible debentures in two tranches between April 18 and May 28, 2013, which bears an interest rate of 12% per annum on the contributed amount. The purchasers received a capital discount premium of 10% and one common share for each dollar of principal invested. The total proceeds were $2,110,000 ("**Debentures**"). These funds will be used to complete the work on the key certifications (STC's) for the AFIRS 228, business development objectives and general operating capital for the company.

FLYHT received a purchase order from a major avionics integrator for AFIRS 228 equipment for seven Lockheed C-130 Hercules aircraft owned and operated by a Middle Eastern country's air force. This is the second C-130 integrator of new avionics to select the AFIRS technology as part of that fleet modernization program.

The Company announced the appointment of Derek Graham as Chief Operating Officer. Derek brings a significant experience in the development, certification and delivery of global aviation products, in particular hardware that provides satellite communications and aircraft integration. His background will ensure FLYHT remains at the forefront of product development in our marketplace, contributing to our success as we move forward with programs for our customers.

The Company received an activation STC for its AFIRS 228 on the Boeing 777 model aircraft from the FAA. This is an important milestone as these aircraft fly in areas where Controller Pilot Data Link Commands ("**CPDLC")** and Future Air Navigation System ("**FANS**") are a requirement.

The L-3 program continues to move forward as planned and while not material, it is important to note that all milestones have been met to date. Key certifications from industry players such as SITA are in place and more are in progress. The certification of a product for line installation is an onerous task and the work put in by our team alongside the L-3 team has been tremendous and very productive. The companies work well together and have achieved superb results which should see the program to a successful completion.

RESULTS OF OPERATIONS:
THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012

Quarterly Results

	Q2 2013 $	Q1 2013 $	Q4 2012 $	Q3 2012 $
AFIRS UpTime sales	1,009,837	521,777	1,063,933	555,413
AFIRS UpTime usage	846,438	815,874	774,657	799,872
Parts	61,586	206,672	85,138	48,591
Services	245,573	172,813	296,673	145,885
Revenue	2,163,434	1,717,136	2,220,401	1,549,761
Loss	1,038,283	970,136	621,446	133,102
Loss before R&D	680,936	281,570	40,436	290,563
Loss per share (basic & fully diluted)	0.01	0.01	0.00	0.00

	Q2 2012 $	Q1 2012 $	Q4 2011 $	Q3 2011 $
AFIRS UpTime sales	581,290	264,148	714,476	369,604
AFIRS UpTime usage	756,705	760,392	756,554	734,964
Parts	19,168	49,523	90,659	5,829
Services	227,312	41,106	42,952	329,798
Revenue	1,584,475	1,115,169	1,604,641	1,440,195
Loss	1,954,303	2,174,901	2,083,371	1,576,944
Loss (income) before R&D	1,183,274	961,742	1,213,147	458,777
Loss per share (basic & fully diluted)	0.02	0.02	0.02	0.01

Liquidity and Capital Resources

The Company's cash at June 30, 2013 decreased to $616,213 from $676,246 at December 31, 2012. The Company has an available operating line of $250,000 that was undrawn at June 30, 2013. 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 June 30, 2013, the Company had negative working capital of $2,111,780 compared to negative $2,772,247 as of December 31, 2012, an increase of $660,467. 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 June 30, 2013 would be positive $117,495 compared to positive $742,068 at December 31, 2012.

The Company has funded 2013 operations primarily through cash received from sales, together with a debenture issue in the second quarter. If the costs associated with R&D were factored out, there would have been an increase in cash of $985,293. It is expected that R&D expenses will continue to decrease as the AFIRS 228 project approaches completion. In addition, 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 during the remainder of 2013 until the AFIRS 228 is fully functional, it will be able to do so either through debt or equity instruments.

	June 30, 2013	December 31, 2012	Variance
	$	$	$
Cash and cash equivalents	616,213	676,246	(60,033)
Restricted cash	250,000	250,000	-
Trade and other receivables	1,094,623	1,209,497	(114,874)
Deposits and prepaid expenses	192,477	99,464	93,013
Inventory	1,425,579	1,663,918	(238,339)
Trade payables and accrued liabilities	(3,680,530)	(3,658,254)	(22,276)
Unearned revenue	(1,489,601)	(2,717,245)	1,227,644
Loans and borrowings	(498,758)	(271,832)	(226,926)
Finance lease obligations	(20,777)	(19,963)	(814)
Current tax liabilities	(1,006)	(4,078)	3,072
Working capital	**(2,111,780)**	**(2,772,247)**	**660,467**
			-
Unearned revenue	1,489,601	2,717,245	(1,227,644)
Customer deposits	739,674	797,070	(57,396)
Modified working capital	**117,495**	**742,068**	**(624,573)**

As of June 30, 2013, the Canadian equivalent of the Company's outstanding accounts payable to Sierra Nevada Corporation ("**SNC**") was $1,889,242 (December 31, 2012: $1,790,571) relating to their involvement with the development of the AFIRS 228. If this amount was removed from the working capital it would be negative $222,538 at June 30, 2013 and negative $981,676 at December 31, 2012. As well, the modified working capital would be a positive $2,006,737 at June 30, 2013 and positive $2,532,639 at December 31, 2012. 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 of 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 $1,889,242 is presently under dispute in the courts. See the Contingency section on page 18 for further clarification.

In two tranches on April 18 and May 28, 2013, the Company issued an aggregate $2,110,000 of debentures in a debt offering. The debentures mature on June 30, 2016 and bear interest at a rate of 12% per annum on the contributed amounts, which shall be accrued and paid annually in arrears commencing December 1, 2013. Purchasers of debentures will receive a capital discount premium of 10% on the financing, meaning that for every $1.00 debenture acquired, FLYHT shall owe, on the maturity date, principal equal to $1.10 to the debenture holder. The purchasers of the debentures will also be issued one common share of the Corporation for every $1.00 principal amount of debentures acquired pursuant to the offering. A total of 2,110,000 common shares were issued under these tranches. All of the securities issued hereunder are subject to a 4-month hold period. The debentures will not be listed on any stock exchange and are not convertible into common shares. The debentures are secured against all personal property of FLYHT, including FLYHT's intellectual property and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of FLYHT and any existing security already registered against FLYHT's assets.

As at August 7, 2013, FLYHT's issued and outstanding share capital was 142,496,166.

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.

Revenue recognition cycle: customer deposits and unearned revenue

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, shipment, installation and finally 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 and six months ending June 30, 2013 and 2012. Payment was received for 9 installation kits in the second quarter of 2013, compared to 26 received in Q2 2012, bringing year-to-date ("**YTD**") total payments for installation kits to 20, compared to 43 in 2012.

	Q2 2013 $	**Q2 2012 $**	**Variance $**	**YTD 2013 $**	**YTD 2012 $**	**Variance $**
Opening balance	651,616	1,373,504	(721,888)	797,070	980,955	(183,885)
Payments received from customers	199,242	1,119,062	(919,820)	316,877	1,813,584	(1,496,707)
Moved to unearned revenue	(111,184)	(992,134)	880,950	(374,273)	(1,294,107)	919,834
Balance, June 30	**739,674**	**1,500,432**	**(760,758)**	**739,674**	**1,500,432**	**(760,758)**

Unearned revenue

The chart below outlines the movement in the Company's unearned revenue throughout the three and six months ending June 30, 2013 and 2012. Revenue was recognized for 22 installation kits in 2013's second quarter compared to 12 in the second quarter of 2012. YTD, revenue has been recognized for 35 installation kits, as compared to 19 in the same period of 2012. In the second quarter of 2013, 38.1% of the unearned revenue balance at December 31, 2012 was recognized as earned revenue (Q2 2012: 26.7%), with 63.1% being recognized YTD in 2013 (YTD 2012: 38.8%).

	Q2 2013 $	**Q2 2012 $**	**Variance $**	**YTD 2013 $**	**YTD 2012 $**	**Variance $**
Opening balance	2,437,109	1,918,144	518,965	2,717,245	1,897,204	820,041
AFIRS UpTime sales: shipped, not accepted	111,184	992,134	(880,950)	374,273	1,294,107	(919,834)
AFIRS UpTime usage: prepaid	120,696	159,204	(38,508)	274,320	248,791	25,529
AFIRS UpTime sales: revenue recognized	(1,009,837)	(581,290)	(428,547)	(1,531,613)	(845,438)	(686,175)
AFIRS UpTime usage: revenue recognized	(105,171)	(190,482)	85,311	(215,864)	(232,574)	16,710
License fees: revenue recognized	(64,380)	(64,380)	-	(128,760)	(128,760)	-
Balance, June 30	**1,489,601**	**2,233,330**	**(743,729)**	**1,489,601**	**2,233,330**	**(743,729)**

Revenue

For the revenue 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. **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. **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.

Overall, total revenue increased by 36.5% from $1,584,475 in Q2 2012 to $2,163,434 in Q2 2013, due to increases in AFIRS Uptime sales of 73.7%, AFIRS Uptime usage of 11.9%, Parts revenue of 221.3% and Services revenue of 8.0%.

The Company has two types of revenue streams relating to AFIRS equipment depending on the type of service agreement: rental and sales. In accordance with the Company's revenue recognition policy for rental type agreements, the arrangement consideration is deferred as unearned revenue and revenue is recognized over the initial term of the contracts. At June 30, 2013, there was one customer with a rental type contract (2012: one customer). For sales type agreements, AFIRS fees 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 in revenue along with the work in progress as cost of sales. Under both forms of agreement, UpTime usage fees are recognized as the service is provided based on actual customer usage each month. The amounts recorded in unearned revenue are nonrefundable.

Revenue sources

	Q2 2013 $	Q2 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
AFIRS UpTime sales	1,009,837	581,290	428,547	1,531,614	845,438	686,176
AFIRS UpTime usage	846,438	756,705	89,733	1,662,313	1,517,097	145,216
Parts	61,586	19,168	42,418	268,257	68,692	199,565
Services	245,573	227,312	18,261	418,386	268,417	149,969
Total	**2,163,434**	**1,584,475**	**578,959**	**3,880,570**	**2,699,644**	**1,180,926**

The Company's long-term investment in marketing and relationship building has created a strong pipeline of prospective clients around the world. The revenue breakdown based on geographical location is displayed in the next table. Approximately 39.1% of the Company's revenue in the second quarter of 2013 was recurring, compared to 47.8% in the second quarter of 2012. Recurring revenue increased in Q2 2013, and the percentage decrease as compared to Q2 2012 is the result of a higher level of AFIRS UpTime sales, as revenue was recognized for more installation kits in the second quarter of 2013 as compared to Q2 2012. Recurring revenue as a percentage of overall revenue will fluctuate from period to period depending on the mix of revenue during each period. Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2013 and future years.

Geographical sources of revenue

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

	Q2 2013 $	Q2 2012 $	YTD 2013 $	YTD 2012 $
North America	780,959	878,202	1,943,698	1,475,661
South/Central America	98,529	101,009	195,014	204,841
Africa/Middle East	392,968	388,740	567,918	586,838
Europe	454,577	16,976	462,420	129,123
Australasia	117,273	130,193	272,108	227,821
Asia	319,128	69,355	439,412	75,360
Total	**2,163,434**	**1,584,475**	**3,880,570**	**2,699,644**

	Q2 2013 %	Q2 2012 %	YTD 2013 %	YTD 2012 %
North America	36.1	55.4	50.1	54.7
South/Central America	4.6	6.4	5.0	7.6
Africa/Middle East	18.2	24.5	14.6	21.7
Europe	21.0	1.1	11.9	4.8
Australasia	5.4	8.2	7.0	8.4
Asia	14.8	4.4	11.3	2.8
Total	**100.0**	**100.0**	**100.0**	**100.0**

Gross Margin 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 second quarter of 2013 was 45.5% compared to 56.3% in 2012's second quarter. The decrease was due to a difference in the mix of revenue sources, as with increased AFIRS Uptime usage margins will increase, as will the margin as the result of Service revenue and Parts revenues increases. These increases were slightly offset by a lower margin for the increase seen in AFIRS Uptime sales. Differing amounts of write-down of inventory due to in-depth reviews of slow-moving items in the second quarter of both 2012 and

2013 also had an effect on cost of 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:

Period	Gross Margin %
Q2 2013	54.5
Q1 2013	66.6
Q4 2012	65.9
Q3 2012	60.1
Q2 2012	43.7
Q1 2012	54.8
Q4 2011	40.2
Q3 2011	62.7

Operating Activities

Other income

Other income consists of the recognition of the SNC license fee that was deferred as unearned revenue when received, and is being recognized over the initial five-year term of the agreement. See Contingency section on page 18.

Distribution expenses

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

Major Category	Q2 2013 $	Q2 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Salaries and benefits	342,624	437,776	(95,152)	761,739	914,482	(152,743)
Share based compensation	66,246	104,598	(38,352)	67,371	120,071	(52,700)
Contract labour	58,970	142,671	(83,701)	122,946	322,514	(199,568)
Office	104,736	86,171	18,565	192,694	185,174	7,520
Travel	102,082	81,568	20,514	186,469	184,713	1,756
Equipment & maintenance	4,228	6,725	(2,497)	7,977	13,745	(5,768)
Depreciation	11,817	13,157	(1,340)	22,495	26,438	(3,943)
Marketing	10,639	25,547	(14,908)	15,169	41,862	(26,693)
Other	58,396	4,544	53,852	63,743	62,726	1,017
Total	**759,738**	**902,757**	**(143,019)**	**1,440,603**	**1,871,725**	**(431,122)**

Salaries and benefits decreased in 2013 as compared to 2012 both in the quarter and YTD mainly due to decreased staffing requirements to meet AFIRS 228 development needs. The decreased costs were allocated between distribution and research and development expenses as the decreased staff's efforts had been split between meeting the needs of existing and future customers, and AFIRS 228 development.

Share based compensation decreased in the quarter and YTD due to a higher option grant in 2012 than in 2013, partially offset by the vesting in the first two quarters of 2013 of options granted in 2012.

Contract labour decreased in 2013 from 2012 both in the quarter and YTD due to a reduction in contractors supplying distribution related services.

Office expenses increased in the second quarter and YTD 2013 from 2012 mainly as the result of additional membership fees for industry groups FLYHT has become involved with in the second quarter 2013, offset partially by decreases in 2013 YTD due to cost containment measures.

Travel expenses increased in 2013 versus 2012 largely as the result of increased travel and meals associated with sales activities. Fluctuations in travel will occur on a quarterly basis dependent on the need to have face to face meetings with potential customers. It is anticipated that as the AFIRS 228 is rolled out, travel expenses will increase on an annual basis and quarterly fluctuations will continue to occur.

Marketing expenses decreased in the quarter and YTD due to the reduced requirement for marketing collateral, as well as a reduction in the number of tradeshows attended. The Company has analyzed the effectiveness of tradeshows and has targeted the most beneficial to the business objectives of the Company.

Other expenses increased in the second quarter of 2013 as compared to 2012 due to differences in bad debt adjustments. A provision of $50,551 was taken for two customers in Q2 2013 as FLYHT has assessed collectability as uncertain.

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	Q2 2013 $	Q2 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Salaries and benefits	361,033	302,088	58,945	656,568	634,597	21,971
Share based compensation	202,219	207,858	(5,639)	238,852	207,858	30,994
Contract labour	43,498	17,729	25,769	84,868	31,749	53,119
Office	79,139	80,013	(874)	155,187	164,592	(9,405)
Legal fees	4,180	57,993	(53,813)	16,866	103,958	(87,092)
Audit and accounting	35,850	33,305	2,545	62,850	58,305	4,545
Investor relations	76,115	27,900	48,215	126,018	38,816	87,202
Brokerage, stock exchange, and transfer agent fees	11,208	12,620	(1,412)	20,233	21,782	(1,549)
Travel	33,104	28,238	4,866	64,631	45,533	19,098
Equipment and maintenance	12,659	14,513	(1,854)	26,206	27,096	(890)
Depreciation	5,980	7,026	(1,046)	11,960	14,417	(2,457)
Other	14,118	2,605	11,513	16,236	5,624	10,612
Total	**879,103**	**791,888**	**87,215**	**1,480,475**	**1,354,327**	**126,148**

Salaries and benefits increased throughout Q2 2013 compared with Q2 2012 with a similar effect on YTD totals. The differences were due to an increase in operational staff to effect greater efficiency, partially offset by the reduction of a full time investor relations staff member, replaced by the reengagement of an IR consultant in Q3 of 2012.

Share based compensation increased YTD from 2012 to 2013 due to the recognition in 2013 of the partial vesting of options granted to investment relations advisors in the third quarter of 2012 and the second quarter of 2013, in addition to options issued in the second quarter of 2013. The variance in Q2 is the result of a lower number of options issued in Q2 2013 as compared to Q2 2012.

Contract labour increased in Q2 and YTD due to the engagement in mid-2012 of a consultant working to identify new corporate opportunities.

Legal fees decreased in Q2 2013 compared to Q2 2012 and YTD, due to reduced requirements for legal services with regards to research on international business processes and the implementation of the appropriate policies and documentation, the Q2 2012 closure of legal proceedings with the Toronto-based company, and the reduced legal services requirements in the action against SNC throughout 2013 (Contingencies, page 18). Non-recurring legal fees associated with FLYHT's name change in Q2 2012 also contributed to the quarter and YTD decreases.

Investor relations expenses increased in the second quarter of 2013 and YTD, due to the reengagement of an IR consultant near the end of 2012 and the addition of a second IR consultant in the first quarter of 2013.

Travel expenses have increased in the second quarter and YTD, relating mainly to investor relations. It is anticipated that with the roll out of an investor outreach program in conjunction with the engagement of an investor relation advisor, travel expenses will continue to increase over future quarters.

Other expenses increased in the second quarter of 2013 and YTD, due to a relocation expense in the second quarter 2013.

Research and development expenses (recovery)

Major Category	Q2 2013 $	Q2 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Salaries and benefits	409,895	466,155	(56,260)	794,952	861,019	(66,067)
Share based compensation	13,542	12,615	927	13,542	12,615	927
Contract labour	135,991	301,880	(165,889)	333,027	912,406	(579,379)
Office	43,849	83,206	(39,357)	69,504	236,268	(166,764)
Travel	15,481	20,089	(4,608)	29,203	26,096	3,107
Equipment & maintenance	9,149	12,134	(2,985)	28,553	23,938	4,615
Components	53,660	(130,917)	184,577	94,497	(35,200)	129,697
Government grants	-	-	-	-	(64,137)	64,137
SRED credit	(326,195)	-	(326,195)	(326,195)	-	(326,195)
Depreciation	4,415	5,867	(1,452)	8,830	11,183	(2,353)
Other	(2,440)	-	(2,440)	-	-	-
Total	**357,347**	**771,029**	**(413,682)**	**1,045,913**	**1,984,188**	**(938,275)**

Salaries and benefits expended on research and development decreased throughout the second quarter and YTD 2013, as the 228B moved toward full production.

Contract labour decreased from 2012 both in the quarter and YTD, mainly as the result of reduced utilization of consultants for hardware development. With the certification phase of the AFIRS 228 in upcoming quarters the requirement for consultants will increase in order to obtain the necessary skills and experience to certify the product. It is not anticipated that the requirement for consultants will increase to the level that was required in 2012.

Office expenses decreased in the second quarter and YTD 2013 compared to 2012 as a result of decreased costs associated with patent applications as well as legal fees associated with the SNC legal action.

Components increased both in the quarter and YTD, due to the requirement in 2013 for test parts used in developing enhanced functionality of the AFIRS 228. The cost recoveries shown in the Q2 2012 and YTD 2012 were the result of the movement of parts purchased for AFIRS 228B 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.

Government grants variance is due to the receipt of $64,137 in Q2 2012 through the SADI grant, while no government funding was received in the first two quarters of 2013.

SRED credit variance in the quarter and YTD is due to a timing difference, as the refund of the 2011 credit was finalized in Q3 2012, while the 2012 credit was confirmed in Q2 2013.

Net finance costs (income)

Major Category	Q2 2013 $	Q2 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Interest income	(239)	-	(239)	(239)	(72)	(167)
Net foreign exchange loss	60,821	104,408	(43,587)	115,070	75,743	39,327
Bank service charges	5,253	4,691	562	10,576	10,441	135
Interest expense	4,215	4,480	(265)	5,958	6,895	(937)
Government grant accretion	29,160	12,799	16,361	57,077	24,053	33,024
Debenture interest and accretion	165,031	97,787	67,244	263,609	193,828	69,781
Debenture cost amortization	21,179	19,529	1,650	40,493	39,058	1,435
Net finance costs	**285,420**	**243,694**	**41,726**	**492,544**	**349,946**	**142,598**

Net foreign exchange losses were experienced throughout the first half of both 2013 and 2012 to different degrees, based on the relative weakening of the Canadian dollar in relation to the U.S. dollar.
Government grant accretion is the recognition of the interest component of the SADI grant, which was higher in the second quarter of 2013 than 2012 as more funding was received throughout the latter portion of 2012.

Debenture interest and accretion shows an increased expense in both the second quarter and YTD, mainly as the result of the issue of two tranches of a second debenture in the second quarter of 2013.

Net loss

Major Category	Q2 2013 $	Q2 2012 $	Variance $	YTD 2013 $	YTD 2012 $	Variance $
Net loss	1,038,283	1,954,303	(916,020)	2,008,419	4,129,204	(2,120,785)
Net loss without R&D	680,936	1,183,274	(502,338)	962,506	2,145,016	(1,182,510)

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 the second quarter of 2013, 94.3% of the Company's gross sales were made in U.S. dollars, compared to 97.7% in the same period of 2012. 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

a) As of December 31, 2012, the Company ceased engaging a company owned by a director to supply consulting services. The related party provided business development services such as trade show attendance and corporate introductions related to the business jet initiatives of the Company.

b) During 2013, the Company did not engage in transactions with a company owned by another director to supply consulting services that had been used throughout 2011 and into the second quarter of 2012. The related party provided business development services such as market analysis and corporate introductions related to the commercial aviation initiatives of the Company.

	Included in contract labour:				Included in accounts payable and accrued liabilities:	
	For the three months ended June 30		For the six months ended June 30		June 30	
	2013 $	2012 $	2013 $	2012 $	2013 $	2012 $
(a)	-	22,735	-	45,146	-	23,058
(b)	-	-	-	17,984	-	12,298
Total	-	**22,735**	-	**63,130**	-	**35,356**

All of the transactions with these related parties were amounts that were agreed upon by the parties and approximated fair value. All other transactions 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.

June 30, 2013	< 2 months $	2-12 months $	1-2 years $	2-5 years $	> 5 years $	Total $
Accounts payable	551,262	7,211	-	-	-	558,473
Accounts payable – SNC*	1,889,242	-	-	-	-	1,889,242
Compensation and statutory deductions	144,054	128,501	-	-	-	272,555
Finance lease liabilities	4,058	19,233	2,912	-	-	26,203
Accrued liabilities	101,947	118,639	-	-	-	220,586
Loans and borrowings	-	447,502	3,805,337	3,003,266	1,356,732	8,612,837
Total	**2,690,563**	**721,086**	**3,808,249**	**3,003,266**	**1,356,732**	**11,579,896**

* See contingencies section on page 18.

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

Under IRAP, the outstanding balance at June 30, 2013 was $21,554 compared to $116,024 at June 30, 2012. The initial amount is being repaid as a percentage of gross revenues over a 5 to 10 year period commencing October 2005.

Under TPC, the Company has an outstanding balance of $8,962 at June 30, 2013, compared to $28,074 at June 30, 2012. The initial amount is being repaid based on 15% of the initial contribution, which equates to $19,122 per year for a 10 year repayment period. The annual 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 June 30, 2013, an outstanding repayable balance of $1,770,756, compared to $983,753 at June 30, 2012. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 will be 3.5% of the total contribution received and will increase annually by 15% until April 30, 2028 when the final payment will be 24.5% of the total contribution received.

During the second quarters of both 2013 and 2012, FLYHT did not enter into any new lease agreements. Minimum lease payments are as follows for existing finance leases:

Year	Total $
2013	12,175
2014	14,028
Total	**26,203**

The imputed interest included in the payments is $2,599 (2012 - $8,700) leaving a total obligation of $23,604 (2012 - $42,227).

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 $1,889,242, 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 2012, 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 March 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, 2012. 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 2012, SNC filed an action in Utah alleging that FLYHT failed to pay $2,042,000 USD. The companies are engaged in non-cash settlement negotiations.

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.

Subsequent Event

During the quarter FLYHT filed the tax return including the Scientific Research and Experimental Development ("SR&ED") claim for the year end December 31, 2012. The notice of assessment was received during the quarter and the Alberta SR&ED refundable credit and interest in the amount of $326,297.79 was received subsequent to the end of the quarter.

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, 2013 without any material impact to FLYHT's Financial Statements: IFRS 7 *Financial Instruments: Disclosures*, IFRS 10 *Consolidated Financial Statements*, IFRS *11 Joint Arrangements*, IFRS 12 *Disclosure of interests in Other Entities*, IFRS 13 *Fair Value Measurement*, and IAS 9 *Employee Future Benefit*.

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 7 / IAS 32 – Offsetting Financial Assets and Liabilities clarifies that an entity currently has a legally enforceable right to set-off if it is not contingent on a future event, situations under which it is enforceable, and defines related disclosure requirements (January 1, 2014).

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. (transitional date still to be determined by the International Accounting Standards Board ("IASB")).

IAS 1 – Presentation of Financial Statements requires that an entity present separately the items of OCI that may be reclassified to profit and loss in the future from those that would never be reclassified (annual periods beginning on or after July 1, 2013).

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 and six month periods ended June 30, 2013 and June 30, 2012.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	June 30, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents	616,213	676,246
Restricted cash	250,000	250,000
Trade and other receivables	1,094,623	1,209,497
Deposits and prepaid expenses	192,477	99,464
Inventory (note 5)	1,425,579	1,663,918
Total current assets	3,578,892	3,899,125
Non-current assets		
Property and equipment	201,999	240,725
Rental assets	24,281	38,726
Intangible assets	34,992	62,623
Inventory (note 5)	574,236	727,773
Total non-current assets	835,508	1,069,847
Total assets	4,414,400	4,968,972
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	3,680,530	3,658,254
Unearned revenue	1,489,601	2,717,245
Loans and borrowings (note 6)	498,758	271,832
Finance lease obligations	20,777	19,963
Tax liabilities	1,006	4,078
Total current liabilities	5,690,672	6,671,372
Non-current liabilities		
Loans and borrowings (note 6)	5,093,784	3,104,967
Finance lease obligations	2,827	13,175
Provisions	28,606	46,452
Total non-current liabilities	5,125,217	3,164,594
Total liabilities	10,815,889	9,835,966
Equity (deficiency)		
Share capital (note 7)	40,032,125	39,877,966
Convertible debenture – equity feature	231,318	231,318
Warrants	3,340,222	3,340,222
Contributed surplus	7,277,574	6,957,809
Accumulated other comprehensive income (loss)	-	-
Deficit	(57,282,728)	(55,274,309)
Total equity (deficiency)	(6,401,489)	(4,866,994)
Total liabilities and equity	4,414,400	4,968,972

See accompanying notes to condensed consolidated interim financial statements.
Going concern (note 2d)
Contingencies (note 10)

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 June 30		For the six months ended June 30	
	2013	2012	2013	2012
	$	$	$	$
Revenue (note 9)	2,163,434	1,584,475	3,880,570	2,699,644
Cost of sales	984,137	892,218	1,557,624	1,395,850
Gross profit	1,179,297	692,257	2,322,946	1,303,794
Other (income)	(64,380)	(64,380)	(128,760)	(128,760)
Distribution expenses	759,738	902,757	1,440,603	1,871,725
Administration expenses	879,103	791,888	1,480,475	1,354,327
Research and development expenses	357,347	771,029	1,045,913	1,984,188
Results from operating activities	(752,511)	(1,709,037)	(1,515,285)	(3,777,686)
Finance (income)	(457)	-	(457)	(72)
Finance costs	285,877	243,694	493,001	350,018
Net finance costs	(285,420)	(243,694)	(492,544)	(349,946)
Loss before income tax	(1,037,931)	(1,952,731)	(2,007,829)	(4,127,632)
Income tax expense	352	1,572	590	1,572
Loss for the period	(1,038,283)	(1,954,303)	(2,008,419)	(4,129,204)
Foreign currency translation	-	(98)	-	-
Total comprehensive loss for the period	(1,038,283)	(1,954,401)	(2,008,419)	(4,129,204)
Earnings (loss) per share				
Basic and diluted loss per share (note 8)	(0.01)	(0.02)	(0.01)	(0.03)

See accompanying notes to condensed consolidated interim financial statements.

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

For the six months ended June 30, 2013 and 2012

	Share Capital $	Convertible Debenture $	Warrants $	Contributed Surplus $	Foreign Currency Translation Reserve* $	Deficit $	Total Equity (Deficit) $
Balance at January 1, 2012	36,741,492	231,318	2,499,778	6,622,606	-	(50,390,557)	(4,295,363)
Loss for the period	-	-	-	-	-	(4,129,204)	(4,129,204
Foreign currency translation differences	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	(4,129,204)	(4,129,204)
Contributions by and distributions to owners							
Issue of common shares	3,168,940	-	-	-	-	-	3,168,940
Share issue cost	(342,735)	-	-	-	-	-	(342,735)
Bifurcation of warrants	(529,670)	-	-	-	-	-	(529,670)
Issues of warrants	-	-	610,302	-	-	-	610,302
Share-based payment transactions	-	-	-	340,544	-	-	340,544
Share options exercised	2,178	-	-	(678)	-	-	1,500
Total contributions by and distributions to owners	2,298,713	-	610,302	339,866	-	-	3,248,881
Balance at June 30, 2012	39,040,205	231,318	3,110,080	6,962,472	-	(54,519,761)	(5,175,686)
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	-	-	-	-	-	(2,008,419)	(2,008,419)
Foreign currency translation differences	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	(2,008,419)	(2,008,419)
Contributions by and distributions to owners							
Issue of common shares	157,280	-	-	-	-	-	157,280
Share issue cost	(3,121)	-	-	-	-	-	(3,121)
Share-based payment transactions	-	-	-	319,765	-	-	319,765
Total contributions by and distributions to owners	154,159	-	-	319,765	-	-	473,924
Balance at June 30, 2013	40,032,125	231,318	3,340,222	7,277,574	-	(57,282,728)	(6,401,489)

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended June 30 2013 $	2012 $
Cash flows from operating activities		
Loss for the period	(2,008,419)	(4,129,204)
Adjustments for:		
Depreciation	43,285	52,038
Depreciation of rental assets	7,580	16,133
Amortization of intangible assets	27,631	69,297
Convertible debenture accretion	263,609	193,828
Amortization of debenture issue costs	40,492	39,058
Government grant accretion	57,077	24,054
Government grant	-	(64,137)
Loss on sale of rental assets	-	61,116
Equity-settled share-based payment transactions	319,765	340,544
Change in inventories	391,876	(548,829)
Change in trade and other receivable	80,261	(236,052)
Change in deposits and prepaid expenses	(93,013)	32,582
Change in trade payables and accrued liabilities	(77,079)	967,876
Change in provisions	(17,846)	(5,872)
Change in unearned revenue	(1,227,644)	336,126
Unrealized foreign exchange	133,381	77,398
Interest expense	5,958	6,895
Interest paid	(5,958)	(6,895)
Income tax expense	590	1,572
Income tax paid	(3,662)	(4,126)
Net cash used in operating activities	(2,062,116)	(2,776,598)
Cash flows from investing activities		
Acquisitions of property and equipment	(4,559)	(5,155)
Disposal of rental assets	6,865	3,894
Interest income	(239)	(72)
Interest received	239	72
Net cash from (used in) investing activities	2,306	(1,261)
Cash flows from financing activities		
Share issue costs	(3,121)	(262,103)
Proceeds from issue of shares and warrants	-	3,168,940
Proceeds from issue of shares and warrants – in escrow	-	(880,000)
Proceeds from issue of debenture	2,076,093	-
Proceeds from exercise of share options and warrants	-	1,500
Proceeds from government grant	-	92,851
Repayment of loans and borrowings	(64,248)	(37,639)
Payment of finance lease liabilities	(9,534)	(39,625)
Net cash from financing activities	1,999,190	2,043,924
Net decrease in cash and cash equivalents	(60,620)	(733,935)
Cash and cash equivalents at January 1	676,246	1,928,065
Effect of exchange rate fluctuations on cash held	587	(33,604)
Cash and cash equivalents	616,213	1,160,526

See accompanying notes to condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. REPORTING ENTITY

FLYHT Aerospace Solutions Ltd. (**"FLYHT"** or the **"Company"**) 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 the Company's official name change in May 2012. The Company's head office is 200W, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The condensed consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2013 and 2012 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. Clients are using FLYHT's products on every continent and the Company proudly serves more than 40 aircraft operators globally. FLYHT's headquarters are located in Calgary, Canada with representation in China, the Middle East, South America, the United States and Europe.

The consolidated financial statements of the Company as at and for the year ended December 31, 2012 are available upon request from the Company's registered office or at www.flyht.com.

2. BASIS OF PREPARATION

(a) Statement of compliance

These interim financial statements and the notes thereto 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, 2012. The interim financial statements were authorized for issue by the Board of Directors on August 7, 2013.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Going concern

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. As at June 30, 2013, the Company had negative working capital of $2,111,780, a deficit of $57,282,728, a net loss of $2,008,419 and negative cash flow from operations of $2,062,116.

The Company has incurred significant operating losses and negative cash flows from operations. 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. 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, 2012 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 debenture, as the payments are based on a fixed rate, 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. INVENTORY

	June 30, 2013 $	**December 31, 2012 $**
AFIRS raw materials	1,120,624	1,157,382
AFIRS finished goods	227,529	249,703
Installations in progress	651,662	984,606
Balance	1,999,815	2,391,691
Less current portion	(1,425,579)	(1,663,918)
Non-current portion	574,236	727,773

Over the first six months of 2013, AFIRS materials and changes in AFIRS units and installations in progress recognized as cost of sales amounted to $1,557,624 (2012: $1,395,850). Included in this amount was a write-down of inventories amounting to $128,234 in 2013 (2012: $99,025) resulting from an in-depth review of slow moving inventory parts. All inventories are pledged as security for the bank loan and debentures.

6. LOANS AND BORROWINGS

Bank loan

The Company currently has no bank debt and has available to it an operating demand loan up to a maximum of $250,000 (2011: $250,000). The operating loan bears interest at Canadian chartered bank prime plus 1.5%. The operating demand loan is secured by an assignment of cash collateral in the amount of $250,000 and a general security agreement including a first ranking security interest in all personal property. The amount of the cash collateral has been disclosed as restricted cash. As at June 30, 2013 and 2012, the facility had not been drawn.

Government loans

The IRAP loan is non-interest bearing and is repaid annually, based on 1.11% of gross revenues, commencing October 2005 and is unsecured. The current portion is calculated based on the actual gross revenues in the previous quarter plus the Company's revenue projections for the next nine months.

The TPC loan is non-interest bearing and unsecured. The loan is repayable annually, based on 15% of the initial contribution when the Company has achieved more than 10% growth in gross revenues above the previous year's gross revenue and the gross revenue for the year is greater than the base amount. The base amount is defined as the Company's gross revenue in fiscal 2004, which was at $556,127.

On February 23, 2011, the Company signed a contribution agreement with Industry Canada under the SADI program for the development of the next generation product, AFIRS 228. Under the terms of the agreement, SADI will make a repayable unsecured contribution to the Company of the lesser of 30% of the eligible project costs to December 30, 2012 or $1,967,507. The amount is repayable over 15 years commencing April 30, 2014. The payments are on a stepped basis starting April 30, 2014. Payments comprise 3.5% of the contribution and increase 15% yearly until April 30, 2028, when the final payment is 24.5% of the contribution. The amount to be repaid is 165% of the original contribution. At June 30, 2013, the Company had received a cumulative total of $1,770,756 (June 30, 2012: $983,753).

Convertible debentures

The debenture issued December 23, 2010 matures on December 23, 2014 and bears interest at a rate of 8% per annum, accrued and paid annually in arrears commencing December 31, 2011. The debentures are convertible into common shares at a conversion rate of $0.40 per share at any time prior to maturity. The debentures are secured against all personal property of the Company, with the exception of the Company's intellectual property, and are subordinated in right of payment to all existing and future bank and/or governmental indebtedness of the Company. The fair value of the conversion feature was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming a 15% rate. The conversion feature is classified as equity and amounts to $231,318 as at June 30, 2013 (June 30, 2012: $231,318). If the debentures are converted to shares, a portion of the value of the conversion feature recognized in shareholders' equity will be classified to share capital along with the conversion price paid.

Debentures

In two tranches on April 18 and May 28, 2013, the Company issued an aggregate $2,110,000 of debentures in a debt offering. The debentures mature on June 30, 2016 and bear interest at a rate of 12% per annum on the contributed amounts, which shall be accrued and paid annually in arrears commencing December 1, 2013. Purchasers of debentures received a capital discount premium of 10% on the financing, meaning that for every $1.00 debenture acquired, FLYHT shall owe, on the maturity date, principal equal to $1.10 to the debenture holder. The purchasers of the debentures were also issued one common share of the Corporation for every $1.00 principal amount of debentures acquired pursuant to the offering. A total of 2,110,000 common shares were issued under these tranches. All of the securities issued thereunder were subject to a 4-month hold period. The debentures are not listed on any stock exchange and are not convertible into common shares. The debentures are secured against all personal property of FLYHT, including FLYHT's intellectual property and are subordinated in right of payment to all existing and future secured bank and/or governmental indebtedness of FLYHT and any existing security already registered against FLYHT's assets.

Loans and Borrowings Outstanding:	**June 30, 2013 $**	**December 31, 2012 $**
IRAP	21,554	66,690
TPC	8,962	28,074
SADI	686,495	629,419
Debenture payable	1,982,305	-
Convertible debenture payable	2,893,226	2,652,616
Balance December 31	5,592,542	3,376,799
Less current portion	(498,758)	(271,832)
Non-current portion	5,093,784	3,104,967

7. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital

Authorized:

Unlimited numbers of common shares, and classes A, B and C preferred shares, issuable in series and have no par value.

The preferred shares may be issued in one or more series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares in each series.

Issued and outstanding:

Common shares:	**Number of Shares**		**Value**
Balance January 1, 2012	118,630,466	$	36,741,492
Issued for cash	21,749,700		4,349,940
Share issue costs	-		(375,200)
Share issue costs – agent warrants	-		(117,027)
Bifurcation of warrants	-		(723,417)
Exercise of employee options	6,000		1,500
Contributed surplus from exercise of employee options	-		678
Balance December 31, 2012	140,386,166	$	39,877,966
Issued for cash upon debenture offering	2,110,000		157,280
Share issue costs	-		(3,121)
Balance June 30, 2013	142,496,166	$	40,032,125

In two tranches on April 18 and May 28, 2013, the Company issued debentures in a debt offering (note 6). The purchasers of the debentures were issued one common share of the Corporation for every $1.00 principal amount of debentures acquired pursuant to the offering. A total of 2,110,000 common shares were issued under these tranches. All of the securities issued thereunder were subject to a 4-month hold period.

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. In the first quarter of 2013 the Company granted 487,500 stock options to two consultants under the stock option plan. The stock options expire December 31, 2016, and have an exercise price of $0.25 per share. Of the options granted, 87,500 were issued to a consultant and vested immediately and 400,000 were issued to an investor relations consultant and vest 25% per quarter March 31, June 30, September 30, and December 31, 2013. The fair value of the options granted was determined based on the estimated fair value of services to be received.

In the second quarter of 2013 the Company granted 2,211,500 stock options to employees and directors under the stock option plan. The stock options vest immediately, expire December 31, 2016, and have an exercise price of $0.25 per share. The options were granted at an exercise price not less than fair market value of the stock on the date of issuance.

The Company has a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at June 30, 2013, there were 14,249,617 (December 31, 2012: 14,038,617) common shares reserved for this purpose. All outstanding options issued to date vest immediately at the grant date with the exception of 1,000,000 options granted to an employee effective January 1, 2012, which have not yet vested, 400,000 options granted to an investor relations consultant effective September 20, 2012 of which 100,000 have not yet vested and 400,000 granted to an investor relations consultant effective January 1, 2013 of which 200,000 have not yet vested. The total unvested options are 1,300,000 (June 30, 2012: 1,000,000). A summary of the Company's outstanding and exercisable stock options as at June 30, 2013 and 2012 and changes during these periods is presented below.

	2013		**2012**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Outstanding, beginning of year	6,270,500	0.26	4,485,991	0.28
Options granted	2,699,000	0.25	2,132,500	0.25
Options exercised	-	-	(6,000)	0.25
Outstanding, June 30	8,969,500	0.26	6,612,491	0.27
Exercisable, June 30	7,669,500	$ 0.27	5,612,491	$ 0.28

Weighted average life remaining for the options outstanding and exercisable is 2.36 years. The exercise prices for options outstanding at June 30, 2013 were as follows:

	All options		**Exercisable options**	
Exercise price:	**Number**	**Weighted average remaining contractual life (years)**	**Number**	**Weighted average remaining contractual life (years)**
$0.20	1,000,000	0.50	-	-
$0.25	1,923,500	1.50	1,923,500	1.50
$0.25	2,482,000	2.50	2,382,000	2.50
$0.27	75,000	3.51	75,000	3.51
$0.41	400,000	2.50	200,000	2.50
$0.41	2,299,000	3.51	2,299,000	3.51
$0.50	790,000	0.50	790,000	0.50
Total	8,969,500	2.16	7,669,500	2.36

The weighted average fair value of the options granted during the first two quarters of the year was $0.11 (2012: $0.15). The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2013	2012
Risk-free interest rate	1.21%	1.41%
Expected life (years)	3.66	3.65
Volatility in the price of the Company's common shares	100%	102%
Dividend yield rate	0.00%	0.00%

Warrants

	Number of warrants	Weighted average exercise price	Value
Outstanding January 1, 2012	20,535,610	0.47	2,499,778
Issued on private placement	10,374,850	0.30	723,417
Agent warrants granted	1,223,509	0.20	117,027
Outstanding December 31, 2012 and June 30, 2013	32,133,969	0.40	3,340,222

8. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic and diluted earnings per share for the three months ended June 30, 2013 was based on a weighted average number of common shares outstanding of 142,174,101 (2012: 119,754,926). The calculation did not include stock options of 8,969,500 (2012: 6,612,491), warrants of 32,133,969 (2012: 29,338,119) and convertible debentures of 7,897,500 based on the conversion price of $0.40 per common share because they would be anti-dilutive. For the six months ended June 30, 2013 the calculation was based on a weighted average number of common shares outstanding of 141,294,951 (2012: 119,194,575)

	For the three months ended June 30		For the six months ended June 30	
	2013 $	2012 $	2013 $	2012 $
Loss attributable to common shareholders	(1,038,283)	(1,954,303)	(2,008,419)	(4,129,204)
Basic and diluted loss per share	(0.01)	(0.02)	(0.01)	(0.03)

9. OPERATING SEGMENTS

The Company has one operating segment.

Geographical Information

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

	For the three months ended June 30		For the six months ended June 30	
	2013 $	2012 $	2013 $	2012 $
North America	780,959	878,202	1,943,698	1,475,661
South / Central America	98,529	101,009	195,014	204,841
Africa / Middle East	392,968	388,740	567,918	586,838
Europe	454,577	16,976	462,420	129,123
Australasia	117,273	130,193	272,108	227,821
Asia	319,128	69,355	439,412	75,360
Total	2,163,434	1,584,475	3,880,570	2,699,644

All non-current assets (property and equipment and intangible assets) reside in Canada.

Major customers

Revenues from the three largest customers represent approximately 42.1% of the Company's total revenues for the three months ended June 30, 2013 (2012: 41.3%), and 36.1% for the six months ended June 30, 2013 (2012: 25.3%).

10. 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 $1,889,242, 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 March 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, 2012. 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. The companies are engaged in non-cash settlement negotiations.

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.

11. RELATED PARTIES

a) Throughout 2012 the Company engaged in transactions with a company owned by a director to supply consulting services. The related party provided business development services such as trade show attendance and corporate introductions related to the business jet initiatives of the Company.

b) Throughout 2012 the Company engaged in transactions with a company owned by a director to supply consulting services. The related party provided business development services such as market analysis and corporate introductions related to the commercial aviation initiatives of the Company.

	Included in contract labour:				**Included in accounts payable and accrued liabilities:**	
	For the three months ended June 30		**For the six months ended June 30**		**June 30**	
	2013 $	**2012 $**	**2013 $**	**2012 $**	**2013 $**	**2012 $**
(a)	-	22,735	-	45,146	-	23,058
(b)	-	-	-	17,984	-	12,298
Total	-	22,735	-	63,130	-	35,356

All of the transactions with these related parties were amounts that were agreed upon by the parties and approximated fair value. All other transactions 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.

12. FINANCIAL RISK MANAGEMENT

The Company's operating activities expose it to a variety of financial risks, including credit, liquidity and market risks associated with the Company's financial assets and liabilities. FLYHT has established procedures and policies to minimize its exposure to these risks, and continually monitors its exposure to all significant risks to assess the impact on its operating activities. The following details the Company's exposure to credit risks. The impact of liquidity, currency, and other market risks remain as discussed in the Company's December 31, 2012 consolidated financial statements.

Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate. Approximately 13.4% (2012: 10.3%) of the Company's 2013 revenue is attributable to transactions with a single customer; however, geographically there is no concentration of credit risk.

Each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. Customers that fail to meet the Company's benchmark creditworthiness may transact with FLYHT only on a prepayment basis. The AFIRS solution is subject to a retention of title clause, so that in the event of non-payment the Company will have a secured claim. To further minimize credit exposure, the sale of most AFIRS solutions requires payment in advance of any product shipment. At each reporting date, the Company establishes an allowance for impairment that represents its estimate of incurred losses.

The aging of receivables at the reporting date was:

June 30, 2013	**0-30 days** **$**	**31-60 days** **$**	**61-90 days** **$**	**91+ days** **$**	**Total** **$**
Accounts receivable	1,006,780	16,175	52,821	76,983	1,152,759
Impairment	(1,367)	-	(684)	(56,085)	(58,136)
Net receivable	1,005,413	16,175	52,137	20,898	1,094,623

December 31, 2012	**0-30 days** **$**	**31-60 days** **$**	**61-90 days** **$**	**91+ days** **$**	**Total** **$**
Accounts receivable	757,953	385,839	48,448	30,251	1,222,491
Impairment	(5,073)	(7,572)	-	(349)	(12,994)
Net receivable	752,880	378,267	48,448	29,902	1,209,497

The Company believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behavior.

The movement in the allowance for impairment in respect of trade and other receivables for the periods ended June 30, 2013 and December 31, 2012 was:

	June 30, 2013 **$**	**December 31, 2012** **$**
Balance, January 1	12,994	102,079
Provision	50,552	4,763
Amounts written off	(5,061)	(69,268)
Impairments recovered	(349)	(24,580)
Balance, closing	58,136	12,994

13. SUBSEQUENT EVENT

During the quarter FLYHT filed the tax return including the Scientific Research and Experimental Development ("SR&ED") claim for the year end December 31, 2012. The notice of assessment was received during the Quarter and the Alberta SR&ED refundable credit and interest in the amount of $326,298 was received subsequent to the end of the quarter.

CORPORATE INFORMATION

Registrar and Transfer Agent
Valiant Trust Company
Telephone: 1-866-313-1872
Email: inquires@valianttrust.com
www.valianttrust.com

Share Listing
Shares are traded on the TSX Venture Exchange
Ticker Symbol: FLY

Investor Relations
Email: investors@flyht.com
Telephone: 1-403-250-9956
Toll free: 1-866-250-9956
www.flyht.com

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

Bristol Capital Ltd.
Glen Akselrod
Email: glen@bristolir.com
Telephone: 1-905-326-1888
www.bristolir.com

Directors

Bill Tempany	President & CEO, FLYHT Aerospace Solutions Ltd.
Richard Hayden	Director, FLYHT Aerospace Solutions Ltd.
Doug Marlin	Chairman, FLYHT Aerospace Solutions Ltd. & President, Marlin Ventures Ltd.
Mike Brown	Partner, Geselbracht Brown
Paul Takalo, CA	Vice-President, Standen's Limited
Jacques Kavafian	Vice President, Toll Cross Securities Inc.
Jack Olcott	President, General Aviation Company

Officers

Bill Tempany	President & CEO
Thomas French, CGA	VP Finance and CFO
Derek Graham	COO
Matt Bradley	VP Business Development
Jeff Brunner	VP Operations

Auditor
KPMG LLP — Calgary, Alberta

Legal Counsel
Chris Croteau — Tingle Merrett LLP

Head Office
200W, 1144 - 29 Avenue NE
Calgary, Alberta T2E 7P1