



2017

FLYHT AEROSPACE SOLUTIONS LTD.

FIRST QUARTER

FLYHT[™]
INSIGHT • ACTION • CONTROL

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Commonly used Financial Terms and Aviation Acronyms

ACARS:	Aircraft Communications Addressing and Reporting System
ADCC:	Aircraft Data Communication Corporation
AFIRS™:	Automated Flight Information Reporting System
ANAC:	National Civil Aviation Agency of Brazil
BEA:	Bureau d'Enquetes et d'Analyses (French authority for safety investigations in civil aviation)
CAAC:	Civil Aviation Administration of China
COMAC:	Commercial Aircraft Corporation of China
DAO:	Design Approval Organization
DGAC:	Direccion General de Aeronautica Civil (Mexico's certification organization)
EASA:	European Aviation Safety Agency
EBITDA:	Earnings before interest, taxes, depreciation and amortization
ECAA:	Egyptian Civil Aviation Authority
FAA:	Federal Aviation Administration
GAAP:	Generally Accepted Accounting Principles
GAMA:	General Aviation Manufacturers Association
GAMECO:	Guangzhou Aircraft Maintenance Engineering Company Limited
IATA:	International Air Transport Association
ICAO:	International Civil Aviation Organization
ICE:	Iridium Compatible Equipment
IFRS:	International Financial Reporting Standards
ITU:	International Telecommunications Union
MD&A:	Management Discussion and Analysis
NCAA:	Nigerian Civil Aviation Authority
NTSB:	National Transportation Safety Board
OEM:	Original Equipment Manufacturer
QTD:	Quarter-to-date
R&D:	Research and Development
SADI:	Strategic Aerospace and Defence Initiative
SFP:	Statement of Financial Position
STC:	Supplemental Type Certificate
TCCA:	Transport Canada Civil Aviation
WINN:	Western Innovation Initiative
YTD:	Year-to-date

LETTER TO SHAREHOLDERS

FLYHT had an exceptional first quarter of 2017, continuing a string of profitable quarters. The revenue of \$3.73 million is a 43% improvement over Q1 of 2016 and demonstrates the continued growth of the Company. Our expenses this quarter were significantly less than the same quarter last year (\$2.4M versus \$2.8M); reduced by 13%. This reduction helped produce the fourth straight profitable quarter with a corresponding improvement in the Company's cash position. FLYHT finished 2016 with a limited cash balance due to the repayment of matured debentures in December of 2016. Since that time, we have doubled the cash and equivalents balance from roughly \$710K to \$1.45M through normal operations. Particularly satisfying is that this performance occurred during what is typically a slower quarter. The Company's historical revenue performance has been seasonal; better in the second half of the year, with the first half typically producing the weakest revenues. Therefore, the Company is quite pleased with the financial performance of Q1.

New contract sales were also strong in Q1 of this year. FLYHT announced new contracts valued at nearly \$6M; direct sales of the Automated Flight Information Reporting System (AFIRS™) and corresponding services to operators in the Peoples Republic of China, Africa and Europe. Our original equipment manufacturer relationship remained strong as well; we received new orders and booked approximately \$1.6M in Parts revenue during the quarter. This is a great start for the year, and we have already released information about additional significant sales in Q2. We are working diligently to close more opportunities.

Operationally, we continue to make improvements within the Company. During the first quarter, external auditors evaluated our compliance to AS9100 quality standards and we satisfied all objectives. As a result, we have obtained our Company certification. We have implemented worldwide, 24x7 support for our customers and completed the training to establish the maintenance, repair and overhaul center in China. We continue to drive efficiencies into the organization through efforts toward "Achieve Excellence", our high-level strategy. We have significantly upgraded the personnel in the Company, how they do their work, and the ways that we measure the effectiveness of that work. We have a strong set of goals and we are internally aligned upon them.

We are now focusing significant energy in creating partnerships to expand the FLYHTStream™ product to solve the *Timely Recovery of Flight Data* requirements that the commercial aviation industry will face for new aircraft in 2021 and beyond. FLYHT is an industry leader in this space, and we are developing some exciting relationships and trials to expand this position. Of course, we have important aircraft certification work underway as well.

We are making significant progress across the board, which I feel will ultimately be recognized by the investment community. We are proud of the improving performance of the Company and remain excited for the future!

Thank you for your continued support.



Best Regards,
Thomas R. Schmutz, Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis (“MD&A”) of the financial and operating results of FLYHT Aerospace Solutions Ltd. (“FLYHT” or the “Company”) is as of May 9, 2017 and should be read in conjunction with the condensed consolidated interim financial statements of the Company as at and for three months ended March 31, 2017 and 2016 and the accompanying notes, as well as FLYHT’s consolidated annual financial statements and MD&A for the year ended December 31, 2016. Additional information with respect to FLYHT can be found on SEDAR at www.sedar.com.

Non-GAAP Financial Measures

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

Forward-Looking Statements

This discussion includes certain statements that may be deemed “forward-looking statements” that are subject to risks and uncertainty. All statements, other than statements of historical facts included in this discussion, including, without limitation, those regarding the Company’s financial position, business strategy, projected costs, future plans, projected revenues, objectives of management for future operations, the Company’s ability to meet any repayment obligations, the use of non-GAAP financial measures, trends in the airline industry, the global financial outlook, expanding markets, R&D of next generation products and any government assistance in financing such developments, foreign exchange rate outlooks, new revenue streams and sales projections, cost increases as related to marketing, R&D, administration expenses, and litigation matters, may be or include forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on a number of reasonable assumptions regarding the Canadian, United States (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. and other military activity, market prices, availability of satellite communication, foreign exchange rates, continued availability of capital and financing, and general economic, market, or business conditions in the aviation industry, worldwide political stability or any effect those may have on the Company’s customer base. Investors are cautioned that any such statements are not guarantees of future performance, and that actual results or developments may differ materially from those projected in the forward-looking statements.

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

FLYHT Overview

FLYHT is a leading provider of real-time aircraft intelligence and cockpit communications for the aerospace industry. More than 70 customers, including airlines, leasing companies and original equipment manufacturers, have installed our systems in order to increase safety, improve operational efficiencies and enhance profitability. FLYHT’s tools deliver data and voice communication between the aircraft and operations groups on the ground, on demand. The Company’s products are available for commercial, business and military aircraft. FLYHT’s proprietary technology, the Automated Flight Information Reporting System (AFIRS™), operates on multiple aircraft types and provides functions such as safety services voice and text messaging, data collection and transmission, and on-demand streaming of flight data recorder (black box), engine and airframe data. AFIRS has flown over 2.5 million aggregate flight hours and 1.7 million flights on customers’ aircraft. FLYHT holds supplemental type certificates (STC) which allow for the installation of AFIRS on 95% of transport category aircraft.

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

AFIRS™ and UpTime™

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

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

FLYHTStream™

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

FLYHTFuel™

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

FLYHTASD™

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

FLYHTHealth™

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

FLYHTLog™

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

FLYHTMai™

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

FLYHTVoice™

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

FLYHT has discontinued active sales of the Dragon™. This decision will not impact FLYHT's current Dragon customers.

Underfloor Stowage Unit

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

System Approvals

FLYHT is TCCA Approved Manufacturer, Approved Maintenance Organization and an EASA and a CAAC Part 145 Repair Facility. FLYHT is part of a select group of Canadian companies who are approved by TCCA as a Design Approval Organization (DAO). The Company also holds multiple STCs to make appropriate modifications, such as installing FLYHT's AFIRS technology, to an aircraft's approved design.

FLYHT has received STC approvals from TCCA, FAA, EASA, CAAC, ANAC and DGAC for various aircraft models depending on customer requirements.

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

As a component of its DAO status, the Company employs the services of a delegated engineer, allowing for the approval of changes and the systems and electrical design aspects of an airworthiness certification. If an issue is encountered during the STC process, the delegate has the authority to approve necessary changes and continue the process without the involvement of an external party.

The process to receive an STC takes some time, but in all cases, it starts with an STC application through the TCCA, FAA or EASA. FLYHT typically starts the process with TCCA by opening an application with the regulator before an STC package is created. The data package is prepared, including engineering documents outlining how AFIRS equipment is substantiated and installed on the aircraft, and the package is submitted to TCCA for approval.

Once approved, first-of-type ground and flight testing takes place to fulfill regulatory requirements. FLYHT requires access to the proposed types and models of aircraft, which is done in cooperation with an existing or potential customer.

After all tests are complete, FLYHT submits an application for the activation and data package to TCCA confirming all regulatory requirements have been met and the AFIRS unit is fit for operation on that aircraft type as designed. From there, TCCA approves the submission and an STC is issued.

To acquire an STC from a different national regulator, FLYHT submits an application through TCCA to a regulator such as the FAA or EASA with the STC data package previously approved by TCCA. The regulator then reviews the package and issues an STC for that country based on their validation of the TCCA STC.

Timelines required for the TCCA approval process will vary depending on aircraft and workloads, but typically take about three to four months, with an additional three to eight months if an STC is required from another regulator like the FAA or EASA.

STC Chart

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

FLYHT has also received an approved AFIRS 228 STC for the Bombardier CRJ- 700, 900 from the DGAC. AFIRS 220 or 228 model
A = Approved, P = Pending (We have received a Provisions STC and are in the final stages before receiving a full STC), I = In Progress.

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

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

Trends and Economic Factors

FLYHT examines the results of measurements made by leading aviation associations and corporations in order to gain insight on the status of the industry.

The Aviation Industry in Q1 2017

The International Air Transport Association's (IATA) quarterly industry results, measured in Revenue Passenger Kilometres (RPK) and Freight Tonne Kilometres (FTK) are the passenger and freight contributions to airline revenue and are significant markers to determine the health of the industry. Passenger traffic (measured in RPK) saw a 7.0% increase in the first quarter of 2017 compared to the same quarter the previous year. Demand in domestic markets at 6.7% was slightly lower than international travel at 7.1%¹. Global freight traffic (measured in FTK) increased by 10.9% in the first quarter of 2017, this includes the month of March, which marked the fastest pace of growth since October 2010².

Results from large commercial aircraft manufacturers met expectations in the first quarter of 2017. Airbus delivered 136 aircraft in the first quarter, compared to 125 in the same quarter of 2016³. Boeing also remains positive in their first quarter performance, despite a slight decrease in deliveries from 176 aircraft in 2016 to 169 in the first quarter of 2017⁴. Embraer announced the delivery of 18 commercial aircraft in the first quarter of 2017 compared to 21 in the first quarter of 2016. The business jet deliveries were also slightly lower than in 2016, with 15 delivered during the start of this year compared to 23 in the first quarter last year⁵.

The General Aviation Manufacturers Association (GAMA) and Bombardier statistics have not been released.

FLYHT's Market

FLYHT's technology is available to a number of sectors within the global aerospace sector. AFIRS technology can be installed on commercial, business or military aircraft. FLYHT's primary sales target has been commercial passenger and freight air transport customers, and the secondary targets are business jet aircraft (used for business and personal travel) and military air transport aircraft that require AFIRS functionality. FLYHT's business relies primarily on retrofitting existing aircraft to provide recurring, real-time aircraft data services. It is FLYHT's objective to win additional positions on new aircraft, with a goal to fit AFIRS equipment on the aircraft during production so that services can be turned on immediately after delivery to the customer.

FLYHT remains an industry leader in providing increased operational control and aircraft situational awareness. The Company has focused on the development and implementation of a cloud-based UpTime software over the past year and a half. UpTime Cloud marks an improvement on our current technology with real-time systems diagnostics. The technology relies on the use of satellites for real-time communication with the aircraft. The FLYHTHealth program within UpTime Cloud is significant in its ability to detect and notify the airline of any problems while the aircraft is in flight and allow the operator to prepare for repair before the aircraft lands, thereby reducing the financial impact of unscheduled maintenance. FLYHT has participated in industry events and working groups to demonstrate AFIRS capabilities and the real-time data streaming enabled by FLYHTStream. FLYHT will continue to participate in industry working groups to advance engineering and technical requirements and prepare for future development of the AFIRS product line to meet industry needs.

The weakening of the Canadian dollar relative to the U.S. dollar throughout Q1 2017 had a positive impact on the Company's revenue and income compared to Q1 2016. As a result of these currency 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 operating and overhead costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and distribution costs are U.S. dollar denominated, and therefore a natural hedge exists against fluctuations of the Canadian dollar.

Contracts and Achievements of Q1 2017

Contracts

In January, FLYHT announced it entered a contract with an existing customer in the People's Republic of China for the sale of the AFIRS 228 on Airbus A320 and Airbus A320NEO. The contract is valued at approximately USD \$1.3 million. In March, FLYHT announced an AFIRS sale to a new commercial airline customer in China. The initial contract for AFIRS hardware is valued at approximately USD \$1.68 million.

¹ <http://www.iata.org/whatwedo/Documents/economics/passenger-analysis-mar-2017.pdf>

² <http://www.iata.org/whatwedo/Documents/economics/freight-analysis-mar-2017.pdf>

³ <http://www.airbusgroup.com/int/en/news-media/press-releases/Q1-2017-Results.html>

⁴ <http://investors.boeing.com/investors/investor-news/press-release-details/2017/Boeing-Reports-First-Quarter-Results-and-Raises-EPS-Guidance/default.aspx>

⁵ http://www.embraer.com/Documents/noticias/Release%20US%201Q17_FINAAL.pdf

To end the quarter, in March FLYHT announced that contracts had been signed with one new and seven current customers for additional AFIRS 228 units and/or voice and data services. These included three Chinese airlines, two customers in Africa and one in Europe. These contracts will total approximately USD \$1.5 million assuming FLYHT provides services over the full term of the agreements.

Achievements

In March, FLYHT announced the official launch of the latest software, UpTime Cloud. The UpTime Cloud web portal improves the Company's software usability, while providing enhancements to security and infrastructure.

In the quarter, FLYHT was awarded STCs for AFIRS 228 by the FAA for the MD 82/83 aircraft and by the CAAC for the Boeing 757 aircraft.

Results of Operations – three months ended March 31, 2017 and 2016

Selected Results

	Q1 2017 \$	Q4 2016 \$	Q3 2016 \$	Q2 2016 \$
Assets	7,615,545	6,516,206	9,189,104	9,655,504
Non-current financial liabilities	1,072,848	974,749	996,121	1,002,872
Revenue	3,729,082	4,127,827	4,054,368	3,537,665
Cost of sales	1,138,602	1,034,450	1,346,341	1,278,746
Distribution expenses	1,195,194	1,424,211	1,101,318	1,248,783
Administration expenses	638,120	719,097	626,733	1,103,399
Research, development and certification engineering expenses	561,158	725,739	550,443	336,871
Income (loss) from operating activities	196,008	224,330	429,533	2,793,032
Depreciation	22,148	18,687	16,302	15,562
EBITDA*	218,156	243,017	445,835	2,808,594
Income (loss)	113,340	79,709	303,890	2,572,061
Income (loss) per share (basic & fully diluted)	0.00	0.00	0.00	0.02
	Q1 2016 \$	Q4 2015 \$	Q3 2015 \$	Q2 2015 \$
Assets	5,803,079	5,478,867	6,140,675	6,344,752
Non-current financial liabilities	602,011	390,110	3,267,030	3,053,577
Revenue	2,611,331	3,769,267	2,519,347	1,598,603
Cost of sales	861,965	1,340,513	672,341	562,535
Distribution expenses	1,132,727	1,084,443	1,142,086	987,330
Administration expenses	638,427	1,573,796	607,755	943,931
Research, development and certification engineering expenses	988,176	689,195	638,104	737,968
Income (loss) from operating activities	(1,009,964)	(918,680)	(540,939)	(1,633,161)
Depreciation	16,128	15,896	13,652	13,707
EBITDA*	(993,836)	(902,784)	(527,287)	(1,619,454)
Income (loss)	(1,242,942)	(1,203,998)	(683,224)	(1,943,924)
Income (loss) per share (basic & fully diluted)	(0.01)	(0.01)	0.00	(0.01)
	Q1 2015 \$	Q4 2014 \$	Q3 2014 \$	Q2 2014 \$
Assets	7,752,509	8,275,546	8,968,372	10,281,225
Non-current financial liabilities	5,407,303	5,506,179	2,728,769	2,433,044
Revenue	2,569,908	2,218,681	1,808,794	1,505,767
Cost of sales	637,901	849,221	655,927	604,860
Distribution expenses	763,774	990,650	806,051	816,240
Administration expenses	551,471	780,039	985,756	1,119,379
Research, development and certification engineering expenses	737,285	772,725	848,119	(1,277,790)
Income (loss) from operating activities	(120,523)	(1,173,954)	(1,487,059)	243,078
Depreciation	13,618	1,932	22,127	21,859
EBITDA*	(106,905)	(1,172,022)	(1,464,932)	264,937
Income (loss)	(60,414)	(1,305,712)	(1,653,147)	(46,925)
Income (loss) per share (basic & fully diluted)	0.00	(0.01)	(0.01)	0.00

*See Non-GAAP Financial Measures

Financial Position

Liquidity and Capital Resource

The Company's cash at March 31, 2017 increased to \$1,454,803 from \$709,958 at December 31, 2016. The Company has an available and undrawn operating line of \$250,000 at Canadian chartered bank prime plus 1.5%, secured by assignment of cash collateral and a general security agreement.

At March 31, 2017, the Company had positive working capital of \$2,413,546 compared to positive \$1,724,190 as of December 31, 2016, an increase of \$689,356. Neither customer deposits, nor the current portion of unearned revenue are refundable, and if those two items are excluded in the working capital calculation, the resulting modified working capital at March 31, 2017 would be positive \$3,922,596 compared to positive \$2,869,324 at December 31, 2016.

The Company funded Q1 2017 operations primarily through cash received from sales.

	March 31, 2017	December 31, 2016	Variance
	\$	\$	\$
Cash and cash equivalents	1,454,803	709,958	744,845
Restricted cash	250,000	250,000	-
Trade and other receivables	2,471,197	2,105,385	365,812
Deposits and prepaid expenses	382,856	216,819	166,037
Inventory	1,610,825	1,556,794	54,031
Trade payables and accrued liabilities	(2,830,359)	(2,163,307)	(667,052)
Unearned revenue	(807,494)	(827,235)	19,741
Loans and borrowings	(102,235)	(97,895)	(4,340)
Finance lease obligations	(9,178)	(15,553)	6,375
Current tax liabilities	(6,869)	(10,776)	3,907
Working capital	2,413,546	1,724,190	689,356
Unearned revenue	807,494	827,235	(19,741)
Customer deposits	701,556	317,899	383,657
Modified working capital*	3,922,596	2,869,324	1,053,272

*See Non-GAAP Financial Measures

As at May 9, 2017, FLYHT's issued and outstanding share capital was 209,636,273.

The consistent achievement of positive earnings 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 and signature of an increasing size and number of contracts for delivery of AFIRS units and related services. 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. 2017 Q1 revenue was a 42.8% increase over Q1 2016 which contributed to an operating income of \$196,008; being \$1,205,972 more than Q1 2016.

To continue as a going concern, the Company will need to maintain profitability and/or obtain additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorates, or revenue streams and expanding markets adversely change, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

Financial Instruments

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

The Company is exposed to changes in interest rates as a result of the operating loan bearing interest based on the Company's lenders' prime rate.

There is a credit risk associated with accounts receivable where the customer fails to pay invoices. The Company extends credit to credit-worthy or well-established customers. In the case of AFIRS sales the invoiced amount is frequently payable before the product is shipped to the customer. The Company assesses the financial risk of a customer and based on that analysis may require that a deposit payment be made before services are provided. To further minimize credit exposure credit insurance is obtained on select

customers whose balances have not been prepaid. In the case of monthly recurring revenue, the Company has the ability to disable the AFIRS unit transmissions where the customer has not fulfilled its financial obligations.

Contractual Obligations

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

March 31, 2017	< 2 months \$	2-12 months \$	1-2 years \$	2-5 years \$	> 5 years \$	Total \$
Accounts payable	1,133,387	67,060	-	-	-	1,200,447
Compensation and statutory deductions	108,217	665,310	108,000	-	-	881,527
Finance lease liabilities	3,093	7,733	-	-	-	10,826
Accrued liabilities	1,943	50,617	11,658	24,613	-	88,831
Loans and borrowings	103,768	0	119,333	562,276	1,030,935	1,816,312
Total	1,350,408	790,720	238,991	586,889	1,030,935	3,997,943

Under SADI, the Company has, at March 31, 2017, an outstanding repayable balance of \$1,730,582, unchanged from December 31, 2016. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 was 3.5% of the total contribution received and the payment increases yearly by 15% until April 30, 2028 when the final payment will be 24.5% of the total contribution received.

On November 9, 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) contribution to support plans for technology development in the air and ground components of the products. Under the terms of the agreement, a repayable WINN contribution to the value of the lesser of 50% of the eligible project costs to December 10, 2018 or \$2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. In Q1 2017, the Company received a contribution of \$85,730 under this agreement (2016: nil).

Minimum lease payments are as follows.

Year	Total \$
2017	10,826

Customer Deposits

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

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

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

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

The chart below outlines the movement in the Company's customer deposits throughout the periods ending March 31, 2017 and 2016. Payment was received for 14 installation kits in the first quarter of 2017 compared to 15 received in the first quarter of 2016.

	Q1 2017 \$	Q1 2016 \$	Variance \$
Opening balance	317,899	1,020,675	(702,776)
Payments received	1,281,665	913,448	368,217
Moved to unearned revenue	(898,008)	(1,235,562)	337,554
Balance, March 31	701,556	698,561	2,995

Unearned Revenue

The chart below outlines the movement in the Company's unearned revenue throughout the periods ending March 31, 2017 and 2016. Revenue was recognized for 15 installation kits in 2017's first quarter compared to 9 in the first quarter of 2016. In Q1 2017, 45.7% of the unearned revenue balance at December 31, 2016 was recognized as earned revenue (Q1 2016: 23.7%).

	Q1 2017 \$	Q1 2016 \$	Variance \$
Opening balance	827,235	1,145,341	(318,106)
AFIRS sales shipped	898,008	1,235,562	(337,554)
AFIRS sales recognized	(912,800)	(423,133)	(489,667)
Voice and data services recognized	(4,949)	(4,758)	(191)
Balance, March 31	807,494	1,953,012	(1,145,518)

Comprehensive Income

Revenue

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

Revenue sources

	Q1 2017 \$	Q1 2016 \$	Variance \$
Voice and data services	1,154,473	1,067,707	86,766
AFIRS sales	977,560	437,540	540,020
Parts sales	1,563,918	1,028,412	535,506
Services	33,131	77,672	(44,541)
Total	3,729,082	2,611,331	1,117,751

Overall, total revenue increased 42.8% from Q1 2017 to Q1 2016. AFIRS sales increased by 123.4%, Voice and data services increased by 8.1%, Parts sales increased by 52.1%, while Services revenue decreased by 57.3%.

Voice and data services increased compared to last year, due to a higher number of aircraft producing recurring revenue augmented slightly by the higher value of the USD. This recurring revenue accounted for 31.0% of revenue in Q1 2017 (Q1 2016: 40.9%). Recurring revenue from FLYHT's existing client base is expected to continue to expand throughout 2017 and future years.

AFIRS sales increased in Q1 2017 as compared to Q1 2016 due to an increased number of installation kits meeting the requirements for revenue recognition. Revenue was recognized on 15 installation kits in Q1 2017 compared to 9 in Q1 2016.

Parts sales increased due to differences in the number of modems with related license fees ordered in 2017.

Services revenue decreased in 2017 compared to 2016 due to a lower number of technical services provided to customers throughout Q1 2017, mainly customized engineering documentation. This revenue category can be expected to vary significantly between periods and years.

Revenue sources for the last eight quarters were:

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Voice and data services	1,154,473	1,169,741	1,122,965	1,014,725	1,067,707	1,067,894	1,100,238	855,121
AFIRS sales	977,560	854,406	1,353,021	1,286,641	437,540	1,574,559	613,229	434,102
Parts sales	1,563,918	2,091,720	1,561,816	1,126,542	1,028,412	1,123,803	682,476	285,459
Services	33,131	11,960	16,566	109,757	77,672	3,011	123,404	23,921
Total	3,729,082	4,127,827	4,054,368	3,537,665	2,611,331	3,769,267	2,519,347	1,598,603

	Q1 2017 \$	Q1 2016 \$	YTD 2017 %	YTD 2016 %
North America	2,098,834	1,596,902	56.3	61.2
South/Central America	101,057	58,781	2.7	2.3
Africa/Middle East	279,167	363,412	7.5	13.9
Europe	71,830	60,514	1.9	2.3
Australasia	173,389	160,561	4.6	6.1
Asia	1,004,805	371,161	26.9	14.2
Total	3,729,082	2,611,331	100.0	100.0

Gross Profit and Cost of Sales

FLYHT's cost of sales includes the direct costs associated with specific revenue types, including the AFIRS unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel while performing on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the first quarter of 2017 was 30.5% compared to 33.1% in 2016's first quarter. The increase in gross margin was due to differences in the mix of revenue sources in 2017 versus 2016. Gross margin will fluctuate quarter over quarter depending on customer needs and revenue mix.

Gross margin for the last eight quarters was:

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Gross Margin %	69.5	74.9	66.8	63.9	67.0	64.4	73.3	64.8
Cost of Sales %	30.5	25.1	33.2	36.1	33.0	35.6	26.7	35.2

Distribution Expenses

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

Major Category	Q1 2017 \$	Q1 2016 \$	Variance \$
Salaries and benefits	720,134	719,405	729
Share based compensation	7,065	-	7,065
Contract labour	135,064	139,827	(4,763)
Office	105,937	111,800	(5,863)
Travel	145,837	135,354	10,483
Equipment and maintenance	11,101	7,333	3,768
Depreciation	7,564	10,594	(3,030)
Marketing	61,923	8,144	53,779
Other	569	270	299
Total	1,195,194	1,132,727	62,467

Distribution expenses increased compared to 2017 due mainly to higher costs associated with sales activities.

Marketing expense has increased in 2017 primarily due to fee expenses related to business expansion in China.

Administration Expenses

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

Major Category	Q1 2017 \$	Q1 2016 \$	Variance \$
Salaries and benefits	332,717	346,044	(13,327)
Share based compensation	25,940	16,730	9,210
Contract labour	69,312	35,875	33,437
Office	73,035	60,737	12,298
Legal fees	15,681	42,510	(26,829)
Audit and accounting	42,375	33,075	9,300
Investor relations	33,608	43,193	(9,585)
Brokerage, stock exchange, and transfer agent fees	5,648	13,057	(7,409)
Travel	6,566	30,507	(23,941)
Equipment and maintenance	20,215	10,394	9,821
Depreciation	10,517	2,169	8,348
Other	2,506	4,136	(1,630)
Total	638,120	638,427	(307)

Administration expenses in 2017 were comparable with 2016.

Contract labour expenses were higher in 2017 due to fees related to professional services and deploying guiding principles.

Legal fees decreased in the quarter as employee related services, including international employment law, and treasury matters, were not required in 2017.

Travel decreases are the result of a reduced requirement for travel by administrative staff. Travel for this group will vary based on the activity level of industry groups and investor relations firms.

Research, Development and Certification Engineering Expenses (Recovery)

Major Category	Q1 2017 \$	Q1 2016 \$	Variance \$
Salaries and benefits	379,685	382,835	(3,150)
Contract labour	98,868	8,834	90,034
Office	12,400	18,539	(6,139)
Travel	26,250	6,242	20,008
Equipment and maintenance	29,589	21,667	7,922
Components	29,533	6,030	23,503
Depreciation	4,066	3,579	487
Legal fees	12,802	-	12,802
Government grants	(32,035)	-	(32,035)
Warranty settlement	-	540,450	(540,450)
Total	561,158	988,176	(427,018)

Research and Development expense was lower in 2017 than the prior year due mainly to a 2016 settlement of a warranty claim that did not recur in the current year. Research and development costs vary according to specific project requirements.

Contract labour has increased in the current year mainly due to an expansion of the Company's software development, test capabilities and certification engineering. **Travel** expenses increased due to an increased requirement for hardware testing and certification. Cost of travel varies significantly depending on the location of customers and regions served.

Components requirements were higher in 2017 than in 2016 as a higher number of expensed parts were used in development and testing activities.

Government grants increase was due to funding received in 2017. The \$32,035 shown is the portion of funds received from WINN that has been accounted for as a grant.

Net Finance Costs

Major Category	Q1 2017 \$	Q1 2016 \$	Variance \$
Interest (income)	(1,769)	(10,458)	8,689
Net foreign exchange loss (gain)	25,888	13,700	12,188
Bank service charges	6,306	7,048	(741)
Interest expense	491	666	(175)
Government grant accretion	48,747	44,073	4,673
Debenture interest and accretion	-	171,541	(171,541)
Debenture cost amortization	-	2,662	(2,662)
Net finance costs (income)	79,663	229,232	(149,569)

Debenture interest and accretion decreased in 2017 as all debentures were redeemed in 2016.

Net Income (Loss)

Major Category	Q1 2017 \$	Q1 2016 \$	Variance \$
Net income (loss)	113,340	(1,242,942)	1,356,282

Foreign Exchange

All international and a majority of domestic sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In Q1 2017, 99.1% of the Company's gross sales were made in U.S. dollars, compared to 98.6% in Q1 2016. The Company expects this to continue as the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for certain services and products related to cost of sales, which creates a natural hedge.

Other

Recent Accounting Pronouncements

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

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

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

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

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

Risks and Uncertainties

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

Installations at c-checks

The Company's products, AFIRS 220 and 228, can take approximately 175 person-hours or more to install on an aircraft, depending on the aircraft type and crew. As the box needs a longer period to be installed, the installation is usually scheduled when the aircraft is undergoing its routine c-check or scheduled maintenance. The timing of c-checks depends on how many segments the aircraft has flown and is based on the manufacturer's guidelines; it can take as long as two or three years before an aircraft is out of service for an extended period. Waiting for a c-check for AFIRS installation is a risk to the Company because it results in a delay in initial revenue from the sale of the box and the Company does not receive recurring revenue connected with the monthly service offerings until the device is installed and running.

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

Foreign currency fluctuations

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

General economic and financial market conditions

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

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

Dependence on key personnel and consultants

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

Dependence on new products

The Company has completed the development of the AFIRS 228 product line and continues to build out its AFIRS 228 Supplemental Type Certificate portfolio. Continued success is dependent on the maintenance of these certifications and the sustaining engineering activities to maintain the manufacturability of the hardware. The bulk of the Company's development resources are engaged in the creation of new capabilities of UpTime Cloud. FLYHT is confident the product fills a gap in the industry, as evidenced by sales of the AFIRS 228 throughout 2013 to 2017. The Company's success will ultimately depend on the success of its products, and future enhancements made to same.

Availability of key supplies

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

Proprietary protection

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

Transactions with Related Parties

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

Contractual Arrangement

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

Auditors' Involvement

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

The auditors of FLYHT Aerospace Solutions Ltd. have not performed a review of the condensed consolidated interim financial statements for the three months ended March 31, 2017 and March 31, 2016.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	March 31, 2017	December 31, 2016
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,454,803	709,958
Restricted cash	250,000	250,000
Trade and other receivables	2,471,197	2,105,385
Deposits and prepaid expenses	382,856	216,819
Inventory	1,610,825	1,556,794
Total current assets	6,169,681	4,838,956
Non-current assets		
Property and equipment	407,055	335,836
Intangible assets	34,992	34,992
Inventory	1,003,817	1,306,422
Total non-current assets	1,445,864	1,677,250
Total assets	7,615,545	6,516,206
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	2,830,359	2,163,307
Unearned revenue	807,494	827,235
Loans and borrowings (note 7)	102,235	97,895
Finance lease obligations (note 7)	9,178	15,553
Current tax liabilities	6,869	10,776
Total current liabilities	3,756,135	3,114,766
Non-current liabilities		
Loans and borrowings (note 7)	1,072,848	974,746
Provisions	569,209	549,335
Total non-current liabilities	1,642,057	1,524,081
Total liabilities	5,398,192	4,638,847
Equity		
Share capital	57,846,472	57,514,646
Warrants	1,031,800	1,139,934
Contributed surplus	9,020,941	9,017,979
Deficit	(65,681,860)	(65,795,200)
Total equity	2,217,353	1,877,359
Total liabilities and equity	7,615,545	6,516,206

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

On behalf of the board

“Signed”
Director – Bill Tempny

“Signed”
Director – Paul Takalo

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

	For the three months ended March 31	
	2017	2016
	\$	\$
Revenue (note 6)	3,729,082	2,611,331
Cost of sales	1,138,602	861,965
Gross profit	2,590,480	1,749,366
Distribution expenses	1,195,194	1,132,727
Administration expenses	638,120	638,427
Research, development and certification engineering expenses	561,158	988,176
Income (loss) from operating activities	196,008	(1,009,964)
Finance (income)	(1,769)	(10,458)
Finance costs	81,432	239,690
Net finance costs	79,663	229,232
Income (loss) before income tax	116,345	(1,239,196)
Income tax expense	3,005	3,746
Income (loss) for the period	113,340	(1,242,942)
Total comprehensive income (loss) for the period	113,340	(1,242,942)
Income (Loss) per share		
Basic and diluted income (loss) per share (note 5)	0.00	(0.01)

See accompanying notes to condensed consolidated interim financial statements.

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

For the three months ended March 31, 2017 and 2016

	Share Capital	Convertible Debenture	Warrants	Contributed Surplus	Deficit	Total Equity (Deficit)
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2016	57,514,646	-	1,139,934	9,017,979	(65,795,200)	1,877,359
Income for the period	-	-	-	-	113,340	113,340
Total comprehensive income for the period	-	-	-	-	113,340	113,340
Contributions by and distributions to owners						
Share-based payment transactions	-	-	-	33,005	-	33,005
Share options exercised	88,185	-	-	(30,043)	-	58,142
Warrants exercised	243,641	-	(108,134)	-	-	135,507
Total contributions by and distributions to owners	331,826	-	(108,134)	2,962	-	226,654
Balance at March 31, 2017	57,846,472	-	1,031,800	9,020,941	(65,681,860)	2,217,353
Balance at December 31, 2015	53,895,046	222,531	-	8,439,136	(67,507,918)	(4,951,205)
Loss for the period	-	-	-	-	(1,242,942)	(1,242,942)
Total comprehensive loss for the period	-	-	-	-	(1,242,942)	(1,242,942)
Contributions by and distributions to owners						
Share-based payment transactions	-	-	-	16,730	-	16,730
Total contributions by and distributions to owners	-	-	-	16,730	-	16,730
Balance at March 31, 2016	53,895,046	222,531	-	8,455,866	(68,750,860)	(6,177,417)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the three months ended March 31

	2017	2016
	\$	\$
Cash flows from (used in) operating activities		
Income (loss) for the period	113,340	(1,242,942)
Depreciation – property plant and equipment	22,148	16,128
Convertible debenture accretion	-	171,541
Amortization of debenture issue costs	-	2,662
Grant portion of contributions from WINN (note 7)	(32,035)	-
Government grant accretion	48,747	44,073
Equity-settled share-based payment transactions	33,005	16,730
Change in inventories	248,574	(373,756)
Change in trade and other receivables	(453,070)	(178,151)
Change in prepayments	(166,037)	(139,882)
Change in trade and other payables	663,113	498,434
Change in provisions	19,874	75,482
Change in unearned revenue	(19,741)	807,671
Unrealized foreign exchange	104,661	6,481
Interest expense	491	666
Interest paid	(491)	(666)
Interest income	(1,769)	(10,458)
Interest received	1,769	10,458
Income tax expense	3,005	3,746
Income tax paid	-	(304)
Net cash from (used in) operating activities	585,584	(292,087)
Cash flows used in investing activities		
Acquisitions of property and equipment	(93,366)	(19,835)
Net cash used in investing activities	(93,366)	(19,835)
Cash flows from (used in) financing activities		
Proceeds from exercise of share options and warrants	193,649	-
Contributions from WINN (note 7)	85,730	-
Payment of finance lease liabilities (note 7)	(6,375)	(6,789)
Net cash from (used in) financing activities	273,004	(6,789)
Net increase (decrease) in cash and cash equivalents	765,222	(318,711)
Cash and cash equivalents, beginning	709,958	1,301,955
Effect of exchange rate fluctuations on cash held	(20,377)	(69,529)
Cash and cash equivalents, ending	1,454,803	913,715

See accompanying notes to condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Reporting entity

FLYHT Aerospace Solutions Ltd. (the “**Company**” or “**FLYHT**”) was founded in 1998 under the name AeroMechanical Services Ltd. FLYHT is a public company incorporated under the Canada Business Corporations Act, and is domiciled in Canada. The Company has been listed on the TSX Venture Exchange since March 2003, first as TSX.V: AMA and as TSX.V: FLY since 2012 and has been listed on the OTCQX marketplace since June 2014 as OTCQX: FLYLF. The Company’s head office is located at 300E, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2017 and 2016 consist of the Company and its subsidiaries.

FLYHT is a designer and developer of products and software for, and a service provider to, the global aerospace industry. FLYHT is a provider of Iridium satellite communications, global flight tracking including live flight data recorder streaming capabilities, and aircraft health monitoring solutions. The Company supports aviation customers in different sectors including commercial, business, leasing and military operators. FLYHT’s headquarters are located in Calgary, Canada with representation in the United States, China, and Australasia.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2016. These condensed consolidated interim financial statements were approved by the Board of Directors on May 9, 2017.

(b) Basis of measurement

These 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.

(c) Functional and presentation currency

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

(d) Going concern

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. As at March 31, 2017, the Company had positive working capital of \$2,413,546, a deficit of \$65,681,860, net income of \$113,340 and cash flow from operating activities of \$585,584 for the quarter.

The consistent achievement of positive earnings 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 and signature of an increasing size and number of contracts for delivery of AFIRS units and related services. 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. 2017 Q1 revenue was a 42.8% increase over Q1 2016 which contributed to an operating income of \$196,008; being \$1,205,972 more than Q1 2016.

For the Company to continue as a going concern longer-term, it will need to maintain profitability and may require additional financing to fund ongoing operations. If general economic conditions in the industry or the financial condition of a major customer deteriorate, or revenue streams and expanding markets adversely change, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company’s intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

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

3. Significant accounting policies

The accounting policies set out in note 3 of FLYHT's December 31, 2016 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. The requirements of IAS 7 have been adopted.

Effective January 1, 2017, the Company adopted the amendments of IAS 7 – Statement of Cash Flows (Amendment). The objective of this amendment is to improve disclosures of changes in financing liabilities to allow users of the financial statements to evaluate changes in liabilities arising from financing activities. The IAS 7 amendment is effective for annual periods beginning on or after January 1, 2017 and the resulting disclosure is presented in note 7. Comparative information has not been presented.

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

5. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share for the quarter ended March 31, 2017 was based on a weighted average number of common shares outstanding of 208,286,039 (basic) and 211,307,183 (diluted) (Q1 2016: basic 173,477,635 and diluted 182,263,935). The calculation of diluted earnings per share did not include stock options of 7,047,169 (Q1 2016: 8,936,300), warrants of 16,498,421 (Q1 2016: nil) and convertible debentures of nil (Q1 2016: 7,597,500) because they would be anti-dilutive.

6. Operating segments

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

	For the three months ended March 31	
	2017	2016
	\$	\$
North America	2,098,834	1,596,902
South / Central America	101,057	58,781
Africa / Middle East	279,167	363,412
Europe	71,830	60,514
Australasia	173,389	160,561
Asia	1,004,805	371,161
Total	3,729,082	2,611,331

Major customers

Revenues from the three largest customers represent approximately 52.9% of the Company's total revenues for the quarter ended March 31, 2017 (Q1 2016: 48.4%).

7. Cash flow movement of liabilities arising from financing activities

	Loans & borrowings	Finance lease obligation
As at January 1, 2017	1,072,641	15,553
Changes from financing cash flows		
Contributions from WINN	85,730	-
Repayments	-	(6,375)
Total changes from financing cash flows	1,158,371	(6,375)
Other changes		
Grant portion of contributions from WINN	(32,035)	-
Government grant accretion: WINN	695	-
Government grant accretion: SADI	48,052	-
Total other changes	16,712	-
As at March 31, 2017	1,175,083	9,178

On November 9, 2016, the Company signed a contribution agreement with Western Economic Diversification Canada for a Western Innovation initiative (WINN) contribution to support plans for technology development in the air and ground components of the products. Under the terms of the agreement, a repayable WINN contribution to the value of the lesser of 50% of the eligible project costs to December 10, 2018 or \$2,350,000 will be received. The amount is repayable over five years commencing January 1, 2020. In Q1 2017, the Company received a contribution of \$85,730 under this agreement (2016: nil).

CORPORATE INFORMATION

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Share Listing

Shares are traded on the TSX Venture Exchange and the OTCQX Marketplace

Ticker Symbols: TSX.V: FLY and OTCQX: FLYLF

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Former Chairman and Chief Executive Officer, ARINC Inc.

Partner, Geselbracht Brown

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Director

President, Marlin Ventures Ltd.

President, General Aero Company

United States Air Force (retired)

Director

Officers

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