FIRST QUARTER

FINANCIAL STATEMENTS 2023

FLYHT AEROSPACE SOLUTIONS LTD.

2023

INSIGHT • ACTION • CONTROL

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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, 2023 and 2022.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	March 31, 2023	December 31, 2022
	$	$
Assets		
Current assets		
Cash and cash equivalents	3,211,944	2,647,650
Trade and other receivables	3,258,347	5,127,338
Contract assets	146,309	121,046
Deposits and prepaid expenses	543,799	349,132
Inventory	934,904	1,385,048
Total current assets	8,095,303	9,630,214
Non-current assets		
Property and equipment	2,765,219	2,839,104
Goodwill	882,407	867,726
Intangible assets	1,865,543	1,886,029
Inventory	1,380,375	1,317,081
Total non-current assets	6,893,544	6,909,940
Total assets	**14,988,847**	**16,540,154**
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	2,487,551	2,736,269
Customer deposits	843,753	376,668
Contract liabilities	978,068	922,952
Loans and borrowings	952,340	828,345
Lease liability	453,042	436,581
Tax liability	18,260	10,541
Total current liabilities	5,733,014	5,311,356
Non-current liabilities		
Loans and borrowings	3,708,205	4,049,428
Lease liability	2,204,681	2,273,341
Provisions	13,676	11,087
Total non-current liabilities	5,926,562	6,333,856
Total liabilities	**11,659,576**	**11,645,212**
Equity		
Share capital	72,429,146	72,427,102
Contributed surplus	12,500,867	12,462,645
Cumulative translation adjustment	199,006	147,829
Deficit	(81,799,748)	(80,142,634)
Total equity	3,329,271	4,894,942
Total liabilities and equity	**14,988,847**	**16,540,154**

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

On behalf of the board

Director – Doug Marlin

Director – Paul Takalo

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

	For the three months ended March 31	
	2023 $	2022 $
Revenue (note 7)	4,757,230	5,030,657
Cost of sales	2,030,311	2,279,528
Gross profit	2,726,919	2,751,129
Distribution expenses	1,759,353	1,379,783
Administration expenses	1,062,840	1,312,039
Research, development and certification engineering expenses	1,411,873	1,165,197
Loss from operating activities	(1,507,147)	(1,105,890)
Finance income	(20,029)	(2,322)
Finance costs	162,265	180,779
Net finance costs	142,236	178,457
Loss before income tax	(1,649,383)	(1,284,347)
Income tax expense	(7,731)	-
Loss for the period	(1,657,114)	(1,284,347)
Foreign currency translation adjustment	51,177	(14,408)
Comprehensive loss for the period	(1,605,937)	(1,298,755)
Loss per share		
Basic and diluted loss per share (note 6)	(0.04)	(0.03)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended March 31, 2023 and 2022

	Share Capital $	Warrants $	Contributed Surplus $	Cumulative Translation Adjustment	Deficit $	Total Equity (Deficit) $
Balance at January 1, 2023	72,427,102	-	12,462,645	147,829	(80,142,634)	4,894,942
Income (loss) for the period	-	-	-	51,177	(1,657,114)	(1,605,937)
Total comprehensive income (loss)	-	-	-	51,177	(1,657,114)	(1,605,937)
Contributions by and distributions to owners						
Issue of common shares	-	-	-	-	-	-
Share-based payment transactions	-	-	38,924	-	-	38,924
Warrants expired	-	-	-	-	-	-
Share options exercised	2,044	-	(702)	-	-	1,342
Total contributions by and distributions to owners	2,044	-	38,222	-	-	40,266
Balance at March 31, 2023	72,429,146	-	12,500,867	199,006	(81,799,748)	3,329,271

Balance at January 1, 2022	70,779,594	954,535	11,421,730	(51,747)	(79,139,601)	3,964,511
Loss for the period	-	-	-	(14,408)	(1,284,347)	(1,298,755)
Total comprehensive loss	-	-	-	(14,408)	(1,284,347)	(1,298,755)
Contributions by and distributions to owners						
Issue of common shares	1,235,000	-	-	-	-	1,235,000
Share-based payment transactions	-	-	26,425	-	-	26,425
Total contributions by and distributions to owners	1,235,000	-	26,425	-	-	1,261,425
Balance at March 31, 2022	72,014,594	954,535	11,448,155	(66,155)	(80,423,948)	3,927,181

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31	
	2023	2022
Cash flows from (used in) operating activities	$	$
Loss for the period	(1,657,114)	(1,284,347)
Depreciation, amortization and impairment of non-financial assets	163,233	168,260
Disposal of non-financial assets	-	11,637
Lease liability accretion	28,664	25,955
Grant portion of contributions from WINN	-	(72,927)
Government loan accretion	117,716	112,488
Equity-settled share-based payment expenses	38,924	26,425
Change in inventories	386,850	477,299
Change in trade and other receivables	1,868,421	(2,125,090)
Change in contract assets	(16,450)	(22,754)
Change in prepayments	(194,667)	(207,160)
Change in trade and other payables	(198,466)	1,530,829
Change in customer deposits	467,085	518,667
Change in contract liabilities	(19,884)	836,617
Change in provisions	2,577	11,385
Unrealized foreign exchange loss	(2,502)	33,929
BDC (HASCAP) interest paid	(2,284)	(2,466)
Lease interest paid	(28,664)	(23,674)
Interest income	(13,909)	(2,322)
Interest received	5,096	4,560
Income tax expense	7,731	-
Net cash from operating activities	952,357	17,311
Cash flows used in investing activities		
Acquisitions of property and equipment	(11,105)	(31,010)
Acquisition of CrossConsense	-	(1,008,900)
Net cash used in investing activities	(11,105)	(1,039,910)
Cash flows from (used in) financing activities		
Proceeds from exercise of share options	1,342	-
Payment of lease liabilities	(82,995)	(145,928)
Contributions from Alberta Innovates	75,000	-
Contributions from WINN	-	276,338
Repayment of borrowings	(332,659)	(298,493)
Net cash used in financing activities	(339,312)	(168,083)
Net increase (decrease) in cash and cash equivalents	601,940	(1,190,683)
Cash and cash equivalents, beginning	2,647,650	4,520,591
Effect of exchange rate fluctuations on cash held	(37,646)	(3,253)
Cash and cash equivalents, ending	3,211,944	3,326,656

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. FLYHT is publicly traded as FLY in Canada on the TSX.V; and as FLYLF in the USA on the OTCQX. FLYHT is based in Calgary, Canada with offices in Denver CO, USA and Frankfurt, Germany. FLYHT Aerospace Solutions Ltd is an AS9100 Quality registered company. For more information visit www.flyht.com.

FLYHT provides airlines with Actionable Intelligence to transform operational insight into immediate, quantifiable action and delivers industry leading solutions to improve aviation safety, efficiency, and profitability. This unique capability is driven by a suite of patented aircraft certified hardware products and software solutions. These include AFIRS, an aircraft satcom/interface device, which enables cockpit voice communications, real-time aircraft state analysis, and the transmission of aircraft data while inflight. The AFIRS Edge is a state-of-the-art 5G Wireless Quick Access Recorder (WQAR), Aircraft Interface Device (AID), and Aircraft Condition and Monitoring System (ACMS). The Edge can be interfaced with FLYHT's TAMDAR probe or the FLYHT-WVSS-II relative humidity sensor to deliver airborne weather and humidity data in real-time. FLYHT complements the AFIRS airborne systems with enterprise applications that help airlines improve operational efficiency and situational awareness including UpTime, FleetWatch, FuelSense and ClearPort services.

2. Basis of preparation

(a) Basis of accounting

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on May 10, 2023.

(b) Basis of measurement

The unaudited 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 unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's USA subsidiary is US dollars, and of the Company's German subsidiary is the euro.

(d) COVID-19

Starting in early 2020 FLYHT saw impact of the pandemic in revenue and trade receivable payments due to the impact of the pandemic on our customers. There has been recovery in FLYHT's customer base, with aircraft re-commencing operations as well as receivable payments being made, although geographic differences in rates and timing of recovery continue to be seen. Various segments of the aviation industry were impacted differently throughout the pandemic, with the decline in commercial aviation being partially offset by an increased demand for cargo services. Geographic differences continue, as pandemic waves affect different parts of the globe at different times, vaccination programs vary greatly between countries, and remote locations of the world maintain their supply chain and connection to the rest of the world via air transport.

Although recovery is evident in FLYHT's increase in revenues since the pandemic low in early 2021, the Company anticipates continued negative revenue impact in the near-term as compared to pre-pandemic periods due to customers rescheduling orders and continued decreases in air traffic in some areas of the world. This may continue to impact the Company's corresponding hardware and SaaS revenues and have a potential impact on the Company's ability to collect accounts receivable. There is continued risk until such a time as the global aviation industry recovers fully. There exists a possibility that an extended industry recovery could cause FLYHT to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

To preserve the Company's liquidity through this period of commercial aviation uncertainty, the following measures were undertaken:

- Focused effort on development of strategic SaaS partnerships
- Focused development on Actionable Intelligence SaaS products
- Access to governmental support
- Cost containment and cash conservation
- Working with existing partner airlines to assist in their recovery

The Company will continue to monitor industry conditions and implement these and other measures, as the situation dictates.

In 2022 the Company recognized a total of $423 thousand in government financial relief related to COVID-19 which was applied to offset associated expenses in all three expense categories (Distribution, Administration and Research & Development). This funding did not continue into 2023. All grant funds received to date have been recognized in profit and loss.

(e) Going concern

The unaudited 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. 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. The Company incurred losses in Q1 2023 and Q1 2022 of $1.6 million and $1.3 million respectively and as at March 31, 2023 has a deficit of $82 million. In Q1 2023, the Company generated $1.0 million in cash from operations. At March 31, 2023, the Company had positive working capital of $2.4 million compared to positive $4.3 million as of December 31, 2022, a decrease of $1.9 million. The Company ended Q1 2023 with balances of $3.2 million in cash and cash equivalents and an undrawn credit facility of $2.0 million.

For the Company to continue as a going concern longer-term, it will need to achieve profitability and positive operating cash flows. Positive earnings in the second half of 2022 and positive operating cash flow in the first quarter of 2023 reflect recent progress in this area. The Company will continue to expand its earnings and cash flow potential through its focused marketing efforts, particularly the presentation of Actionable Intelligence tools to our customers and prospects, which are expected to result in additional contracts for delivery of hardware units and related services. Until achieving consistent positive earnings and cash flows, it is the Company's intention to continue to fund operations through revenue and its resulting cash flow as well as continue to manage outgoing cash flows. The Company may elect to scale back operations to create positive cash from existing revenue and/or raise the necessary financing in the capital markets through debt and/or equity.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and positive cash flow and/or raising additional capital to meet its 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. As a result of these factors, there is a material uncertainty that may cast doubt as to the Company's ability to continue as a going concern. The 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 the Company's December 31, 2022 consolidated financial statements have been applied consistently to all periods presented in these unaudited condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by the Company's subsidiaries.

4. Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods, all of which are determined using a number of observable inputs other than quoted prices in active markets (Level 2).

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

(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 end of the reporting period. In respect of the liability component of convertible debentures, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.

5. Business Combination

On March 17, 2022, the Company acquired 100% of the shares of CrossConsense GmbH & Co. KG ("CrossConsense"). Founded in 2002, Frankfurt Germany-based CrossConsense develops and markets software to support commercial aviation maintenance management. Products include a predictive maintenance troubleshooting and engineering tool; software to support aircraft maintenance, repair and data migration; and live data dashboards to assist aircraft maintenance teams. CrossConsense has also constructed a progressive web application plus native apps that offer up-to-date data on an airline's fleet status. Additionally, CrossConsense offers consulting and support services as well as hosting, database operation and performance monitoring of commercial aircraft maintenance applications. This acquisition is expected to accelerate FLYHT's strategic roadmap to build out a maintenance software capability and fulfills the Company's goal to increase its presence in the European and Middle East markets.

Under terms of the agreement, FLYHT (through its wholly owned German subsidiary formed as part of this transaction) acquired all of the outstanding securities of CrossConsense for $1.25 million in cash and 1.9 million common shares of the Company, valued at $1.235 million based on the fair value of each common share of the Company on the closing date of $0.65 per share. The shares are being held in escrow and will be released equally in 1/3 increments at 4-, 16- and 28-months following issuance on the transaction's closing date. Also included in the purchase price was other consideration valued at $192,000.

The Company incurred acquisition-related costs of $254,903 in due diligence and legal fees in 2021 and a further $150,121 in 2022. Additionally, in Q1 2022 finders' fees of $100,000 were paid to a third party in connection with the closing of the transaction. These costs have been included in Administrative Expenses.

The value allocated to the purchase price on the closing date was as follows:

	$
Cash paid	1,250,000
Common shares issued	1,235,000
Other consideration	192,000
Total consideration	**2,677,000**

The value of acquired assets and assumed liabilities were as follows:	$
Cash and cash equivalents	1,195,226
Trade and other receivables	590,512
Deposits and prepaid expenses	18,002
Property and equipment	9,322
Leased assets	278,467
Intangible asset: customer relationships	1,527,150
Intangible asset: tradename	217,281
Goodwill	837,258
Trade payables and accrued liabilities	(910,669)
Contract liabilities	(807,082)
Lease liability	(278,467)
Total consideration	**2,677,000**

Goodwill is attributable to the workforce of the acquired business as well as the expected opportunities for growth and synergies across products, staff, customers and geographies. Goodwill is allocated to the Company's single operating segment and is fully deductible for tax purposes.

The fair value of the assets acquired approximates the book value and includes trade receivables of $409,985. The gross amount due under contracts is $413,398, of which $3,413 is anticipated to be uncollectible. The acquired business contributed revenues of $4,015,700 and earnings of $26,558 to FLYHT for the period from March 17, 2022 to December 31, 2022. If the acquisition had occurred on January 1, 2022, consolidated proforma revenue and loss for the year ended December 31, 2022 would have been $24,765,919 and $1,030,715 respectively. The pro forma results are as follows:

	For the year ended December 31 2022 $
Revenue	24,765,919
Cost of sales	9,128,610
Gross profit	15,637,309
Distribution expenses	6,098,425
Administration expenses	5,215,898
Research, development and certification engineering expenses	4,769,723
Loss from operating activities	(446,737)
Net finance (income) costs	583,978
Loss for the period	(1,030,715)

6. Earnings per share

The calculation of basic and diluted earnings per share for the three months ended March 31, 2023 was based on a weighted average number of common shares outstanding of 38,806,541 (basic & diluted) (March 31, 2022: 38,316,876 (basic and diluted)). Both calculations of diluted earnings per share did not include outstanding stock options and the 2022 calculation did not include outstanding warrants because they would be anti-dilutive.

7. Disaggregation of revenue

The Company has one operating segment. The following revenue is based on the geographical location of customers. All non-current assets reside in Canada, except for:

- Property and equipment valued at $4,641 (Denver CO, USA) and $5,694 (Frankfurt, Germany)
- Leased premises valued at $227,872 (Frankfurt, Germany)

	For the three months ended March 31	
	2023	2022
	$	$
United States & Mexico	650,412	2,186,338
Asia	349,557	103,208
China	345,967	430,421
Middle East	160,190	170,382
Canada	1,626,153	1,629,107
Australia	281,490	60,490
Africa	124,771	124,047
Europe	1,203,904	198,362
South/Central America	14,786	128,302
Total	**4,757,230**	**5,030,657**

The following shows revenue per major product and service categories.

	For the three months ended March 31	
	2023	2022
	$	$
SaaS	2,413,200	1,675,072
Hardware	1,771,445	2,109,598
Licensing	8,737	1,134,706
Technical Services	563,848	111,281
Total	**4,757,230**	**5,030,657**

SaaS is the recurring revenue from the Company's products that allow customers to utilize and analyze data they receive from units, use of functions such as the satellite phone and the sale of weather data collected by units. These fees are recognized as the service is provided each month.

Hardware includes the income from hardware sales and related parts required to install the unit, spare units, spare installation parts, and Underfloor Stowage Units.

Licensing includes sales of modems with a related manufacturing license fee.

Technical Services includes services offered by the Company, including repairs and other expertise. The Company has not disclosed the transaction price allocated to remaining performance obligations for SaaS and Technical Services, as revenue for these performance obligations is recognized using the practical expedient to recognize revenue at the amount to which the Company has a right to invoice.

The undelivered amount of revenue related to contracted yet undelivered hardware and licenses for which a purchase order has been received was $1,711,913 CAD as of March 31, 2023.

Major customers

Revenues from the two largest customers represent approximately 36.2% of the Company's total revenues for the quarter ended March 31, 2023 (Q1 2022: 50.6%).

8. Related parties

Since 2020, a company related to an officer of FLYHT has provided marketing services to the Company. A company related to a director of FLYHT provided financial consulting services from Q3 2021 to Q2 2022. All of the transactions with both related parties were at terms equivalent to those that prevail in arm's length transactions.

	For the quarter ended March 31	
	2023	**2022**
Amounts included in:	**$**	**$**
Contract labour	27,500	55,571
Accounts payable	19,647	29,626

CORPORATE INFORMATION

Registrar and Transfer Agent
Odyssey Trust Company
1.587.885.0960
https://odysseytrust.com/

Share Listing
Shares are traded on the TSX Venture Exchange (TSX.V: FLY) and the OTCQX Marketplace (OTCQX: FLYLF)

Investor Relations
investors@flyht.com
1.403.250.9956
www.flyht.com

FNK IR LLC
flyht@fnkir.com
1.646.809.2183

Satichi Consulting Inc.
dkim@flyht.com
1.416.728.5630

Directors

Mary McMillan	Chairman, FLYHT Aerospace Solutions Ltd.
Brent Rosenthal	Mountain Hawk Capital Partners, LLC
Doug Marlin	President, Marlin Ventures Ltd.
Mike Brown	Partner, Nanaimo Law
Paul Takalo	Director
Nina Jonsson	Director

Officers

Kent Jacobs	President and Interim Chief Executive Officer
Alana Forbes	Chief Financial Officer
Darrel Deane	Vice President Solutions
Scott Chambers	Vice President Sales and Marketing
Gurjot Bhullar	Vice President Operations

Auditor
KPMG LLP — Calgary, Alberta

Legal Counsel
Chris Croteau — Tingle Merrett LLP, Calgary, Alberta

Head Office
#500, 1212 - 31 Avenue NE
Calgary, Alberta T2E 7S8