



**VOLATUS AEROSPACE CORP.**

**Interim Condensed Consolidated Financial Statements**  
*(Unaudited)*

**For the three months ended March 31, 2023**

These interim condensed consolidated financial statements are presented in Canadian Dollars unless otherwise noted.

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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these interim condensed consolidated financial statements they must be accompanied by a notice indicating that these interim condensed consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim condensed consolidated financial statements by an entity's auditor.

**Volatus Aerospace Corp.**  
**Interim Condensed Consolidated Statements of Financial Position**  
*(Unaudited - Expressed in Canadian Dollars)*

In C\$	Notes	March 31, 2023	December 31, 2022
<b>Assets</b>			
Current			
Cash & cash equivalents		\$ 1,456,193	\$ 3,684,581
Trade and other receivables	4	4,069,728	4,330,189
Prepaid expenses, deposits, and other current assets	5	3,248,870	2,003,533
Inventory	9	3,097,774	3,762,031
Total current assets		<b>11,872,565</b>	<b>13,780,334</b>
Property, plant and equipment	6	8,920,395	9,330,112
Intangible assets	7	9,936,131	8,815,125
Investment in joint venture	20	63,459	-
Right-of-use asset	18	913,517	994,581
Goodwill	8	689,835	689,835
Total non-current assets		<b>20,523,336</b>	<b>19,829,653</b>
<b>Total Assets</b>		<b>\$ 32,395,901</b>	<b>\$ 33,609,987</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Trade payables and accrued liabilities	10	\$ 3,526,988	\$ 3,397,068
Deferred revenue		48,951	73,471
Current portion of lease liability	19	339,373	325,950
Other short-term liabilities	11	739,859	373,163
Current portion of long-term borrowings	11	2,029,395	1,995,681
Total current liabilities		<b>6,684,569</b>	<b>6,165,334</b>
CEBA loan		420,000	420,000
Long-term borrowings	11	10,312,447	10,063,911
Lease Liability	19	731,641	826,038
Contingent Consideration	14, 17	2,616,604	2,356,850
Total non-current liabilities		<b>14,080,693</b>	<b>13,246,800</b>
<b>Total Liabilities</b>		<b>20,765,261</b>	<b>19,412,133</b>
<b>Shareholders' Equity</b>			
Common equity	15	11,217,012	10,957,258
Warrants reserve	15	6,098,857	6,098,857
Share-based reserve	15	1,880,410	1,704,009
Preferred shares	15	352,634	352,634
Retained earnings		(11,583,579)	(8,971,689)
Contributed Surplus	15	2,989,819	2,989,819
Non-controlling interest		675,488	1,066,963
<b>Total Shareholders' Equity</b>		<b>11,630,641</b>	<b>14,197,852</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>		<b>\$ 32,395,901</b>	<b>\$ 33,609,987</b>

Approved and authorized to issue by the Board of Directors  
 "Glen Lynch" \_\_\_\_\_  
 "Gordon Silverman" \_\_\_\_\_

Director  
 Director

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Volatus Aerospace Corp.**  
**Interim Condensed Consolidated Statements of Loss and Comprehensive Loss**  
*(Unaudited - Expressed in Canadian Dollars)*

	Notes	Three months ended March 31	
		2023	2022
Revenues	\$	7,412,480	\$ 4,807,829
Cost of goods sold		3,571,400	2,597,953
Cost of providing services & training		1,474,402	1,117,036
<b>Gross profit</b>		<b>2,366,679</b>	<b>1,092,840</b>
<b>OPERATING EXPENSES</b>			
Audit fees		1,866	-
Advertising & marketing		406,118	459,035
IT & tech		185,095	96,629
Personnel		2,156,297	1,148,094
Research & development		100,420	-
Office cost		712,481	228,157
Travel		94,285	80,373
External partner cost		272,147	382,497
Depreciation	6, 18	745,136	209,224
Share based Payments	13	176,401	283,076
		<b>4,850,247</b>	<b>2,887,086</b>
<b>Loss from operations</b>		<b>(2,483,568)</b>	<b>(1,794,246)</b>
<b>OTHER INCOME/(EXPENSE)</b>			
Unrealized loss on investment		(180,058)	-
Finance cost		(312,982)	(73,528)
Other income (expense)		(1,558)	107,788
Loss on disposal of assets		(10,511)	-
Foreign exchange translation		(28,590)	(14,412)
<b>Net loss</b>		<b>(3,017,267)</b>	<b>(1,774,397)</b>
<b>OTHER COMPREHENSIVE LOSS</b>			
Foreign operations - foreign currency translation differences		13,902	-
<b>Comprehensive loss</b>	\$	<b>(3,003,365)</b>	\$ <b>(1,774,397)</b>
Owners of Volatus Aerospace Corp.		(2,611,890)	(1,855,438)
Non-controlling interest	3	(391,475)	81,041
	\$	<b>(3,003,365)</b>	\$ <b>(1,774,397)</b>
<b>Net loss per share</b>			
Basic		(0.023)	(0.022)
Diluted		(0.023)	(0.022)
Basic		114,413,332	84,447,725
Diluted		114,413,332	84,447,725

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Volatus Aerospace Corp.

Interim Condensed Consolidated Statements of Changes in Equity  
(Unaudited - Expressed in Canadian Dollars)

	Number of shares	Capital Stock	Preferred Shares	Warrants Reserve	Share-based Reserve	Contributed Surplus	Non-Controlling Interest	Retained Earnings	Total Shareholders Equity
Common shares balance, January 1, 2023	113,943,079	\$ 10,957,258	\$ -	\$ 6,098,857	\$ 1,704,009	\$ 2,989,819	\$ 1,066,963	\$ (8,971,689)	\$ 13,845,218
Preference shares balance, January 1, 2023	352,634	-	352,634	-	-	-	-	-	352,634
Shares issued on acquisition	721,538	259,754	-	-	-	-	-	-	259,754
Issuance of stock options	-	-	-	-	176,401	-	(391,475)	(2,611,890)	(3,003,365)
<b>Common shares balance, March 31, 2023</b>	<b>114,664,617</b>	<b>\$ 11,217,012</b>		<b>\$ 6,098,857</b>	<b>\$ 1,880,410</b>	<b>\$ 2,989,819</b>	<b>\$ 675,488</b>	<b>\$(11,583,579)</b>	<b>\$ 11,278,007</b>
<b>Preference shares balance, March 31, 2023</b>	<b>352,634</b>		<b>\$ 352,634</b>						<b>\$ 352,634</b>

  

	Number of shares	Capital Stock	Preferred Shares	Warrants Reserve	Share-based Reserve	Contributed Surplus	Non-Controlling Interest	Retained Earnings	Total Shareholders Equity
Common shares balance, January 1, 2022	101,835,722	\$ 9,110,305	\$ -	\$ 4,053,191	\$ 459,152	\$ 2,989,819	\$ 288,768	\$ (2,345,515)	\$ 14,555,720
Preference shares balance, January 1, 2022	704,322	-	704,322	-	-	-	-	-	704,322
Shares issued on acquisition	349,399	145,001	-	-	-	-	-	-	145,001
Issuance of stock options	-	-	-	-	283,076	-	-	-	283,076
Net loss for the period	-	-	-	-	-	-	81,041	(1,855,438)	(1,774,397)
<b>Common shares balance, March 31, 2022</b>	<b>101,185,121</b>	<b>\$ 9,255,307</b>		<b>\$ 4,053,191</b>	<b>\$ 742,228</b>	<b>\$ 2,989,819</b>	<b>\$ 369,809</b>	<b>\$(4,200,953)</b>	<b>\$ 13,209,401</b>
<b>Preference shares balance, March 31, 2022</b>	<b>704,322</b>		<b>\$ 704,322</b>						<b>\$ 704,322</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Volatus Aerospace Corp.**  
**Interim Condensed Consolidated Statements of Cash Flows**  
*(Unaudited - Expressed in Canadian Dollars)*

	Notes	Three months ended March 31	
		2023	2022
<b>Cash flows used in operating activities:</b>			
Net loss		\$ (3,003,365)	\$ (1,774,397)
Adjustments for items for items not affecting cash:			
Depreciation	6	745,136	209,224
Gain on disposal of assets	18	(10,511)	-
Share based payments	13	176,401	283,076
Share of loss from joint venture	20	180,058	-
Net changes in non-cash working capital items:			
Trade and other receivables		309,710	(831,200)
Prepaid expenses and deposits		(1,028,058)	(1,157,555)
Inventory		664,257	(288,421)
Trade payables and accrued liabilities		(27,530)	(407,157)
Deferred revenue		(24,520)	(246,528)
Other short-term liabilities		(53,787)	(2,410)
		<u>(2,072,209)</u>	<u>(4,215,368)</u>
<b>Cash flows used in investing activities:</b>			
Additions to property, plant & equipment	6	(234,937)	(609,482)
Payment of acquisition related contingent consideration	17	259,754	25,000
Investment in joint venture	20	(243,516)	-
Additions to intangible assets	7	-	(31,332)
Business acquisitions, net of cash acquired	13	(558,755)	(742,037)
		<u>(777,455)</u>	<u>(1,357,851)</u>
<b>Cash flows from financing activities:</b>			
Proceeds/(Repayment) of long-term loans	12	702,247	(116,354)
Payment of lease liabilities	19	(80,974)	(70,712)
		<u>621,274</u>	<u>(187,066)</u>
Net change in cash		<u>(2,228,388)</u>	<u>(5,760,554)</u>
Cash and cash equivalents, beginning of year		3,684,581	8,806,836
<b>Cash and cash equivalents, end of period</b>		<b>\$ 1,456,193</b>	<b>\$ 3,046,282</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Notes to Interim Condensed Consolidated Financial Statements**  
**For the three months ended March 31, 2023 and 2022**

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**1. The Company and its Operations**

Volatus Aerospace Corp. ("Volatus" or the "Company") was incorporated on December 17, 1987 and has its registered office located at 60 Airport Road, Oro Medonte, Ontario L0L 2E0, Canada. The Company's shares trade on the Toronto Venture Exchange (the "TSXV") under the symbol "VOL" and OTC Markets (the "OTCQB") under the symbol "VLTF".

Volatus and entities it controls are together referred to in these interim condensed consolidated financial statements as the "Company" or "VAC" or "Volatus". Refer to Note 3 for the Company's major subsidiaries.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Volatus is a leading provider of integrated drone solutions throughout Canada, the United States, Latin America and Europe. Operating a vast pilot network, Volatus serves commercial and defense markets with imaging and inspection, security and surveillance, equipment sales and support, training, design, manufacturing, and R&D. Through its subsidiary Volatus Aviation (registered as Partner Jet Inc.), Volatus carries on the business of aircraft management, pipeline inspection and monitoring, aircraft sales, charter sales, and cargo services using piloted, remotely piloted, and autonomous aircraft.

**2. Basis of preparation****Statement of compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2022. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC. These interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2022. Certain information provided for the prior period has been reclassified to conform to the presentation adopted for the period ended March 31, 2023.

These interim condensed consolidated financial statements of the Company were approved by the Board of Directors on May 25, 2023.

**Basic of measurement**

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain assets and liabilities initially recognized in connection with business combinations, certain financial instruments and derivative financial instruments, and contingent consideration related to business acquisitions, which are measured at their estimated fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

**Presentation currency**

These interim condensed consolidated financial statements are presented in Canadian dollars ("C\$"), which is the functional currency of the Company and its subsidiaries unless otherwise stated. The functional currency of the Company's subsidiaries is outlined in note 3.

**Notes to Interim Condensed Consolidated Financial Statements**  
For the three months ended March 31, 2023 and 2022

**Basic of consolidation**

These interim condensed consolidated financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in these results from the date the control commences until the date control ceases.

All intra-company balances, and transactions are eliminated in preparing the interim condensed consolidated financial statements.

These interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries (note 3).

**3. Subsidiaries**

These interim condensed consolidated financial statements include entities controlled by the Company. Control exists when the Company has the ability to direct the relevant activities and the returns of an entity. The financial statements of these entities are included in these results from the date that control commences until the date that control ceases. Details of the Company’s significant entities are as follows:

Name of Subsidiary	Principal Activity	Currency	Country of Incorporation	Ownership Interest
Volatus Flight Systems Inc.	Fixed-wing Drone Technology	CAD	Canada	70%
Volatus Aerospace USA Corp.	Drone Solutions Provider	USD	USA	90%
ConnexiCore LLC	Drone Solutions Provider	USD	USA	100%
Indigenous Aerospace Corp.	RPAS/UAV Service and Training	CAD	Canada	49%
Volatus Aviation (Partner Jet Inc.)	Aircraft management & charter services	CAD	Canada	100%
RPV Aviation Inc.	Regulatory Consulting	CAD	Canada	100%
MVT Geo Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
Canadian Air National Inc.	Pipeline Inspection & Surveillance Services	CAD	Canada	100%
Volatus Aerospace UK Ltd.	RPAS/UAV Service and Training	GBP	UK	100%
iRed Limited	RPAS/UAV Service and Training	GBP	UK	51%
Synergy Aviation Ltd.	Pipeline Inspection & Surveillance Services	CAD	Canada	51%
Synergy Flight Training Inc.	Aircraft Training	CAD	Canada	51%
Empire Drones LLC	Distribution & Services	USD	USA	100%
<b>Volatus Unmanned Services Inc.<sup>A1</sup></b>		CAD	Canada	66%
- UAviation Aerial Solutions Limited	RPAS/UAV Service	CAD	Canada	100%
- SkyGate Videography Inc.	RPAS/UAV Service and Training	CAD	Canada	100%
- M3 Drone Services Limited	RPAS/UAV Service	CAD	Canada	100%
- M3 Drone Training Zone Inc.	RPAS/UAV Training	CAD	Canada	100%
- Canadian UAV Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
- OmniView Tech Corp.	Distribution & Service	CAD	Canada	100%

<sup>1</sup> - Volatus Unmanned Services is the infrastructure arm of Volatus Aerospace Corporation for Canada. With the exception of MVT Geo Solutions Inc., all sales, services, and training related companies in Canada were acquired under Volatus Unmanned Services.

# Volatus Aerospace Corp.

## Notes to Interim Condensed Consolidated Financial Statements For the three months ended March 31, 2023 and 2022

30% external shareholding of Volatus Flight Systems, 33.66% external shareholding of Volatus Unmanned Services, 10% external shareholding of Volatus Aerospace USA Corp (previously known as Tradeco One LLC), 51% external shareholding of Indigenous Aerospace Corp., 49% external shareholding of iRed Limited and Synergy Aviation Ltd. is attributable to Non-Controlling Interest in the interim condensed consolidated financial statements.

Volatus has entered into a joint venture agreement with EOLO Holdings S.A., a Latin American company, to create a Panama based corporation named Volatus Aerospace LATAM S.A. ("Volatus LATAM"). Volatus has an ownership interest equal to 75% of Volatus LATAM and EOLO Holdings S.A. has an ownership interest equal to 25% of the business. Volatus LATAM was incorporated in Panama on 11 November, 2022. The purpose of Volatus LATAM is to develop, market and sell the full suite of Volatus offerings in Central and South America.

### 4. Trade and other receivables

	March 31, 2023	December 31, 2022
Trade receivables	\$ 3,902,833	\$ 4,056,665
Accrued revenues	36,855	68,598
Tax credits receivable	100,000	200,000
Other receivable	30,040	4,925
Total	\$ 4,069,728	\$ 4,330,189

### 5. Prepaid expenses, deposits, and other current assets

	March 31, 2023	December 31, 2022
Prepaid expenses	\$ 2,657,340	\$ 1,281,023
Security deposit	250,396	299,164
Advance payment	-	106,283
Other current assets	341,134	317,064
Total	\$ 3,248,870	\$ 2,003,533

The Company has the following deposits towards training school, conference, lease, and legal consultant:

	March 31, 2023	December 31, 2022
Deposit towards training school	\$ 12,000	\$ 12,000
Deposit towards rental	14,459	12,968
Deposit towards trade show	5,000	5,000
Deposit towards aircraft	128,937	128,937
Other deposits	90,000	140,258
Total	\$ 250,396	\$ 299,164

Notes to Interim Condensed Consolidated Financial Statements  
For the three months ended March 31, 2023 and 2022

6. Property, plant & equipment

	Drones & Accessories	Machinery	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Vehicle	Aircraft & Accessories	Total
<b>Cost</b>								
Balance, December 31, 2022	2,601,770	311,971	400,725	644,434	825,257	1,063,076	5,745,817	11,593,050
Additions	44,258	36,678	5,250	13,867	3,862	1,938	160,139	265,992
Additions through business combinations	-	-	-	5,739	3,168	-	-	8,907
Disposals/Retirements	(20,544)	-	-	-	-	-	-	(20,544)
<b>Balance, March 31, 2023</b>	<b>2,625,484</b>	<b>348,649</b>	<b>405,975</b>	<b>664,040</b>	<b>832,287</b>	<b>1,065,014</b>	<b>5,905,956</b>	<b>11,847,405</b>
<b>Accumulated Depreciation</b>								
Balance, December 31, 2022	711,060	152,567	25,911	483,727	453,723	156,369	279,580	2,262,938
Depreciation for the period	154,726	13,336	4,714	13,129	23,527	53,272	401,368	664,072
<b>Balance, March 31, 2023</b>	<b>865,786</b>	<b>165,903</b>	<b>30,625</b>	<b>496,856</b>	<b>477,250</b>	<b>209,641</b>	<b>680,948</b>	<b>2,927,010</b>
<b>Net carrying Amount</b>								
December 31, 2022	1,890,710	159,404	374,814	160,707	371,534	906,707	5,466,237	9,330,112
<b>March 31, 2023</b>	<b>1,759,698</b>	<b>182,746</b>	<b>375,350</b>	<b>167,184</b>	<b>355,037</b>	<b>855,373</b>	<b>5,225,008</b>	<b>8,920,395</b>

Included in the above balances as at March 31, 2023, are assets not being amortized with a net book value of \$139,674 (2021 - \$Nil) being construction in progress.

# Volatus Aerospace Corp.

## Notes to Interim Condensed Consolidated Financial Statements For the three months ended March 31, 2023 and 2022

### 7. Intangible assets

	Technology	Customer	Brand name	Total
<b>Cost</b>				
Balance, December 31, 2022	5,168,039	3,419,813	244,435	8,832,287
Additions through business combinations	-	1,121,006	-	1,121,006
<b>Balance, March 31, 2023</b>	<b>5,168,039</b>	<b>4,540,819</b>	<b>244,435</b>	<b>9,953,293</b>
<b>Accumulated Depreciation</b>				
Balance, December 31, 2022	17,162	-	-	17,162
Impairment charge	-	-	-	-
<b>Balance, March 31, 2023</b>	<b>17,162</b>	<b>-</b>	<b>-</b>	<b>17,162</b>
<b>Net carrying Amount</b>				
December 31, 2022	5,150,877	3,419,813	244,435	8,815,125
<b>March 31, 2023</b>	<b>5,150,877</b>	<b>4,540,819</b>	<b>244,435</b>	<b>9,936,131</b>

No impairment analysis has been done on March 31, 2023. The next impairment analysis is scheduled on December 31, 2023.

### 8. Goodwill

	March 31, 2023	December 31, 2022
Balance, beginning of year	\$ 689,835	\$ 583,188
Acquisitions (note 14)	-	106,647
Balance, end of year	\$ 689,835	\$ 689,835

No impairment analysis has been done on March 31, 2023. The next impairment analysis is scheduled on December 31, 2023.

### 9. Inventories

The amount of inventory recognized as an expense for the period ended March 31, 2023 was \$3,446,066 (March 31, 2022 - \$2,473,124), which is presented within cost of sales in the interim condensed consolidated statements of loss.

### 10. Trade payables and accrued liabilities

	March 31, 2023	December 31, 2022
Accounts Payable	\$ 2,575,676	\$ 2,804,243
Audit fees Payable	40,000	80,000
Tax Payable	(233,801)	(318,460)
Payroll Liability	485,959	388,165
Other	659,157	443,120
<b>Total</b>	<b>\$ 3,526,990</b>	<b>\$ 3,397,068</b>

# Volatus Aerospace Corp.

## Notes to Interim Condensed Consolidated Financial Statements For the three months ended March 31, 2023 and 2022

### 11. Short-term borrowings

#### Current portion of long-term borrowings

	March 31, 2022	December 31, 2022
BDC Loans	\$ 785,636	\$ 785,485
Vehicle Financing	156,072	149,789
Western Economic Development	166,656	166,656
Natwatt	28,451	31,051
IWOCA	62,695	59,861
Other Loans	36,340	15,284
Promissory Notes	793,545	787,556
<b>Total</b>	<b>\$ 2,029,395</b>	<b>\$ 1,995,681</b>

Short-term borrowings consist of BDC, RBC, and other loans by group companies. These borrowings have been made for equipment financing and working capital purposes. BDC loans are comprised of four separate equipment financing loans. Two will be repaid in full by 2024 and two by 2026. Promissory notes consist of loan towards aircraft. See the long-term portions below.

#### Other short-term liabilities

	March 31, 2023	December 31, 2022
Shareholders loan	\$ 681,404	\$ 313,208
Other loans	58,455	59,955
Grant advance	-	-
<b>Total</b>	<b>\$ 739,859</b>	<b>\$ 373,163</b>

The shareholders' loan are interest-free and do not have any payment terms.

### 12. Long-term borrowings

	March 31, 2023	December 31, 2022
BDC loans	\$ 4,858,273	\$ 5,056,454
PEI Finance loan	4,500	6,739
Vehicle financing	452,972	493,597
SBA loan	52,084	52,310
Promissory notes	198,308	262,443
Desjardin loans	200,000	200,000
Western Economic Development	291,680	333,344
Natwest	37,525	40,842
IWOCA	16,673	32,239
Other loans	4,200,432	3,165,943
<b>Total</b>	<b>\$ 10,312,447</b>	<b>\$ 9,643,911</b>

The Company applied for and received \$420,000 in Canada Emergency Business Account ("CEBA") loans which are interest-free loans meant to cover operating costs impacted by the Covid-19 pandemic outbreak. Individual loans were granted to separate wholly owned subsidiaries of the Company.

**Notes to Interim Condensed Consolidated Financial Statements**  
**For the three months ended March 31, 2023 and 2022**

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Repayment of the loans on or before December 31, 2023, will result in a loan forgiveness of \$20,000 for each \$60,000 CEBA loan. On December 31, 2023, the Company will have the option to either repay the loans in total or extend repayments over 3 years with a 5% interest charge.

The Company was also approved for a Prince Edward Island business loan applied towards financing equipment purchase and working capital management due to be paid in full by 2026.

The Company has a demand revolving credit facility of \$3,000,000 through its subsidiary Omniview Tech Corp. As at March 31, 2023, the amount drawn under this facility was \$2,950,000, which was included in other loans.

The Company entered into a term loan agreement through its subsidiary Volatus Drones for principle of \$215,000 USD. As at March 31, 2023, there's balance of \$134,444 USD which is included in other loans.

The other loans also include BDC equipment loans of \$541,655, an additional demand revolving facility of \$700,000 with a drawdown of \$464,266, and three other term loans with total balance of \$103,196.

### **13. Related Party Transactions**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

#### **Trade payables and accrued liabilities:**

Volatus Aviation is engaged in a pass-through transaction with Flight Solutions Services Inc., a company controlled by a director of the Company. Aircraft operating expenses are reimbursed at cost to the related party with no mark-up or margin. The payable outstanding on March 31, 2023 is \$3,424.

On August 31, 2022, the Company entered into an independent consultant agreement ("Consultant Agreement") with GripFast Solutions Inc., a company controlled by an independent director, to provide consulting services to the Company for scaling in the defense sector. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under External Partner Cost. For the year period ended March 31, 2023, the Company incurred fees of \$24,000 in Q1 2023 compared to \$50,000 in 2022. As at March 31, 2023, the Company was indebted to this company the amount of \$8,000 (2022 - \$8,000).

#### **Share Capital:**

The Company has outstanding preferred shares valued at \$206,188 that are non-redeemable and have no coupon interest payment and have a face value of \$1 to a company controlled by a director of the Company. (2022 – \$206,188) (Refer Note 14)

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The exchange amount approximates fair market value.

#### **Loans & Advance:**

The Company has entered into a promissory note with the director of the Company on March 17, 2023 for a short-term loan of \$500,000 at an interest rate of 9.20% p.a.

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**Key management compensation**

Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management for the three months ended March 31, 2023 and 2022 included:

	<b>March 31, 2023</b>	<b>March 31, 2022</b>
Salaries	<b>221,250</b>	210,000
Share-based Payments	<b>152,975</b>	283,076
Total	<b>\$ 2,025,309</b>	<b>\$ 493,076</b>

The Company has an employment agreement with its CEO which provides that in the event the CEO's employment is terminated by the Company without cause, (i) a lump sum payment equal to 18 months' salary, or (ii) within 90 days of, a change in control, a termination payment equal to 18 months' salary, at \$350,000 per annum, is payable. If the termination had occurred on March 31, 2023, the amount payable under this agreement would be \$525,000.

The Company has an employment agreement with its CFO which provides that in the event the CFO's employment is terminated by the Company without cause, (i) a lump sum payment equal to 12 months' salary, or (ii) within 90 days of, a change in control, a termination payment equal to 12 months' salary, at \$190,000 per annum, is payable. If the termination had occurred on March 31, 2023, the amount payable under this agreement would be \$190,000.

**14. Business Combination**

**Volatus Drones (Empire Drone Company LLC)**

On January 31, 2023, Volatus acquired of Empire Drone Company LLC., a drone network and reseller based out of New York, United States. Under the terms of the agreement Volatus will purchase 100% of the company for a cash consideration USD\$300,000 on Closing; (ii) issuance of 721,538 common shares at a deemed price of CDN\$0.65 per common share on Closing; and (iii) subject to certain revenue milestones 12 months after closing, issue up to an additional 721,538 common shares at a deemed floor price of CDN\$0.65 per common share or 30 days VWAP on first anniversary from Closing, whichever is higher.

<b>Purchase Price Allocation</b>	<b>\$ 921,298</b>
Tangible assets acquired	
Cash & cash equivalents	102,790
Accounts receivables	49,249
Other current assets	217,279
Net fixed assets	8,907
Accounts payable and accrued liabilities	(157,450)
Other current liabilities	(93,085)
Non-current loans	(327,398)
<b>Identified intangible assets</b>	
Customer relationships	<b>\$ 1,121,006</b>

The Company estimated the fair value as follows:

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- Customer relationships based on an income approach, specifically multi-period excess earnings method, by identifying key customers, applying attribution rate of 20% per annum and discount rate of 16.90% per annum;

The Company did not incur any acquisition-related costs. Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

The impairment analysis involved comparing the carrying amount of each CGU's assets and liabilities to their respective recoverable amounts. The recoverable amount was determined using the value in use approach measured by discounting the future expected cash flows of the CGUs.

No impairment analysis has been done on March 31, 2023. The next impairment analysis is scheduled on December 31, 2023.

## 15. Share Capital

### Authorized share capital

Unlimited number of common shares without par value.

### Issued common shares

	March 31, 2023		December 31, 2022	
	Shares	Amount	Shares	Amount
Shares outstanding, beginning of year	<b>113,943,079</b>	<b>\$ 10,957,258</b>	101,835,722	\$ 9,110,305
Issuance of stock options	-	-	16,924	5,063
Shares issued on acquisition	<b>721,538</b>	<b>259,754</b>	349,399	145,001
Shares issued on prospectus and private placement	-	-	11,741,034	1,696,889
<b>Total</b>	<b>114,664,617</b>	<b>\$ 11,217,012</b>	113,943,079	\$ 10,957,258

### Contributed surplus

200 common shares were issued at par value of \$1 each at the formation of Volatus Aerospace Corp. prior to amalgamation with Partner Jet Corp. The excess difference in gross proceeds received for these common shares have been allocated to contributed surplus.

30 Common shares of Volatus Flight Systems Inc. (representing 30% of all outstanding Common shares) were issued to the owners of Brican Flight Systems Inc. in exchange for all intangibles, technologies and equipment assets. The excess difference in gross proceeds received for these common shares have been allocated to contributed surplus.

### Preferred shares

	March 31, 2023		December 31, 2022	
	Shares	Amount	Shares	Amount

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## Notes to Interim Condensed Consolidated Financial Statements For the three months ended March 31, 2023 and 2022

Issued for acquisition of Partner Jet Corp. Initial minority equity Investment	206,188	\$ 206,188	206,188	\$ 206,188
UAViation Aerial Solutions Limited Investment	146,446	146,446	146,446	146,446
<b>Total</b>	<b>352,634</b>	<b>\$ 352,634</b>	352,634	\$ 352,634

The above preferred shares are non-redeemable and have no coupon interest payment and have a face value of \$1. The preferred shares held by UAViation Aerial Solutions Limited are in the Volatus owned subsidiary, Volatus Unmanned Services Inc. (Refer note 3).

### Stock options

On April 12, 2022, 16,924 options were converted into common shares at an exercise price of \$0.29915. These options were converted into Volatus Options during the reverse takeover of Partner Jet Corp on December 22, 2021.

On June 24, 2022, the Company granted 1,440,000 additional options at an exercise price of \$0.36 that will be vested over four years and will expire five years from grant date.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. The weighted average fair value at date of grant for the options granted during the period ended June 30, 2022 was \$0.27 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of \$0.36, risk-free interest rate of 3.30%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

On October 5, 2022, the Company granted 200,000 additional options at an exercise price of \$0.36 that will be vested over two years and will expire five years from grant date.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. The weighted average fair value at date of grant for the options granted during the period ended December 31, 2022 was \$0.27 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of \$0.36, risk-free interest rate of 3.12%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

### Warrants

During the year ended December 31, 2022, The Company issued 12,620,509 units of warrants valued \$2,045,666 as part of financing inclusive of 879,475 agents warrants. 11,741,034 units of warrants are exercisable into one common share of the Company at an exercise price of \$0.50 per warrant for a period of 2 years and 879,475 units of warrants are exercisable into one common share of the Company at an exercise price of \$0.36 per warrant for a period of 2 years.

Details of warrants and their fair value:

Sr. No	Issue Date	Exercise Price	Expiry Date	Number of warrants outstanding at March 31, 2023	Fair Value at March 31, 2023	Number of Warrants Outstanding at December 31, 2022	Fair Value at December 31, 2022
1	22-Dec-21	\$0.65	22-Dec-23	5,308,476	1,804,881	5,308,476	1,804,881

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2	22-Dec-21	\$0.75	22-Dec-23	7,025,966	2,248,310	7,025,966	2,248,310
3	06-Oct-22	\$0.50	05-Oct-24	11,741,034	1,878,565	11,741,034	1,878,565
4	06-Oct-22	\$0.36	05-Oct-24	879,475	167,100	879,475	167,100

As of March 31, 2023, the following warrants were outstanding and exercisable:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2022	24,954,951	\$0.60
Issued	-	-
Exercised	-	-
Forfeited	-	-
<b>Outstanding, March 31, 2023</b>	<b>24,954,951</b>	<b>\$0.60</b>

## 16. Financial Instruments and Risk Management

### Financial Assets and Liabilities

The Company has classified cash and cash equivalents and short-term investments as financial assets and measured at fair value through profit or loss. Trade and other receivables are classified as financial assets and measured at amortized cost. Trade payables and accrued liabilities are classified as financial liabilities and measured at amortized cost.

### Risk Management

The Company is exposed to risks that arise from its use of financial instruments. The Company's financial instruments comprise of cash and cash equivalents, short-term investments, trade and other receivables, and trade payables and accrued liabilities. Disclosures relating to exposure to risks, in particular credit risk, foreign currency risk, concentration risk, market risk and liquidity risk are provided below.

#### *Credit Risk*

Financial instruments, which potentially subject the Company to concentrations of credit risk, comprise primarily of cash and cash equivalents and trade and other receivables. The maximum exposure to credit risk of these items is the carrying amount as reported on the financial statements. Cash and cash equivalents are maintained at a major Canadian financial institution. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal risk. Credit risk on trade and other receivables is minimized as a result of the constant review and evaluation of the account balances. The Company also maintains an allowance for credit losses at an estimated amount, allocating sufficient protection against losses resulting from collecting less than full payments from its receivables. There is no indication, as at this date, that the debtors will not meet their obligations, except as has been provided for as bad debts during the reporting periods. The Company manages its credit risk relating to its trade receivables through credit approval and monitoring procedures, including senior management

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prior approval of all sales. Such approvals are based on trade information, payment history, credit rating and financial analysis, where possible.

*Foreign Currency Risk*

The Company has operations in Canada and the U.S., therefore, has exposure to foreign currency risk. There is exposure to foreign exchange fluctuations on transactions between the Company's entities and upon the consolidation of the Company's foreign subsidiaries. The interim condensed consolidated financial statements are presented in Canadian dollars, which is also the parent company's consolidated functional currency. Each entity within the consolidated group determines its own functional currency.

Assets and liabilities of foreign subsidiaries are translated at the year-end rate and, therefore, have varying values from exchange rate fluctuations. The statements of comprehensive income (loss) of the foreign subsidiaries are translated into Canadian dollars using the year's average exchange rate and, accordingly, exchange rate fluctuations impact the Company's revenues and profit (loss), denominated in Canadian dollars.

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As at March 31, 2023 the Company did not have any foreign currency hedges in place.

*Concentration Risk*

The Company is not exposed to customer concentration risk as the Company's revenue are widely distributed across multiple customers and revenue streams. The Company will keep mitigating these risks and uncertainties by focusing its sales energies on securing additional customer contracts across wider revenue streams and channels.

*Market Risk*

The Company's investments are exposed to market risk arising from uncertainties about future values of the investments. The Company manages market risk through diversification and investing only in blue-chip equities with a history of stable return listed on various public stock exchanges. Senior management reviews the equity portfolio on a regular basis.

*Interest Rate Risk*

The Company is subject to the risks associated with debt financing, including the risk of interest rates on floating-rate debt rising before long-term fixed rate debt is arranged and existing mortgages may not be able to be refinanced on terms similar or more favourable than those currently in place.

The Company's objective of managing interest rate risk is to minimize the volatility of interest expense which impacts earnings.

The Company is also exposed to interest rate risk on its Credit Facility which fluctuates based on prime or floating bankers' acceptance rates. An increase (decrease) of 100 basis points in interest rates at December 31, 2022 for the Company's variable-rate financial instruments would have no material impact on net income and comprehensive income.

*Liquidity Risk*

The Company is exposed to liquidity risk to the extent that it is required to meet its financial obligations as these become due. The Company's approach to managing liquidity risk is to ensure that it has sufficient cash and other current financial assets to meet its obligations when due, without incurring unacceptable losses or damage to the Company's reputation. Management forecasts cash flows to identify financing requirements. These requirements are then addressed through a combination of cash management and access to additional capital.

*Sensitivity Analysis*

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Based on management's knowledge and experience of the financial markets, the Company believes that a 10% movement in interest rates and foreign exchange rates that may reasonably be expected to occur over the next twelve-month period will not have a significant impact on the Company.

### 17. Commitments

As part of the UAviation Aerial Solutions Limited's acquisition in 2021, the Company had recognized a contingent consideration of \$10,000 that arises because of an earn-out commitment. This consideration was fulfilled and settled in 2022.

As part of OmniView Tech Corp. acquisition, the Company had committed to issuing fifty (50) additional shares in Volatus Unmanned Services to the former owners of Omniview as an earn-out commitment upon meeting defined targets. This consideration was fulfilled and settled in 2022.

As part of Synergy Aviation and iRed Limited acquisitions on Oct 31, 2022 (refer Note15), the Company has entered into earn-out provision subject to meeting certain revenue and Gross profit, and EBITDA targets. These earn-outs are payable on or before 31 December 2024.

### 18. Right-of-use ("ROU") assets:

The following tables reconcile the changes in ROU assets:

	March 31, 2023	December 31, 2022
<b>Cost</b>		
Balance, beginning of year	\$ 1,529,004	\$ 1,455,788
Additions	-	99,037
Disposal/impairment	-	(25,821)
<b>Balance, end of year</b>	<b>1,529,004</b>	<b>1,529,004</b>
<b>Accumulated amortization</b>		
Balance, beginning of year	534,423	225,867
Disposal/impairment	-	(4,304)
Depreciation	81,064	312,860
<b>Balance, end of year</b>	<b>615,487</b>	<b>534,423</b>
<b>Net book value</b>	<b>\$ 913,517</b>	<b>\$ 994,581</b>

### 19. Leases

#### Company as a lessee

##### *Leasing arrangements*

The Company leases various items of real estate property and vehicles used in its operations. The lease terms are generally between 4 and 6 years. There are some leases with renewal options that are included when

# Volatus Aerospace Corp.

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management is reasonably certain they will be exercised. Management uses significant judgement in determining whether these extensions are reasonably certain to be exercised.

### Lease liabilities

Carrying amounts of lease liabilities are as follows:

	March 31, 2023	December 31, 2022
Balance, beginning of year	\$1,151,988	\$ 1,362,847
Additions	-	99,037
Disposal	-	(25,821)
Interest	30,580	136,520
Payments	(111,554)	(424,485)
<b>Balance, end of year</b>	<b>1,071,014</b>	<b>1,151,988</b>
Current	339,373	325,950
Non-current	731,641	826,038

## 20. Investment in Joint Venture

The Company has 75% ownership interest in Volatus LATAM. This ownership interest and other rights give the Company significant influence over Volatus LATAM, and the Company is accounting for its investment using the equity method. The Company's share of loss from joint venture is included in interim condensed consolidated statements of loss and comprehensive loss.

The following table reconciles the change in the investment in joint venture for the three months ended March 31, 2023:

	March 31, 2023	December 31, 2022
Balance, beginning of year	\$ -	\$ -
Additional investment	243,516	-
Unrealized gain/loss on fair value	(180,058)	-
<b>Balance, end of year</b>	<b>\$ 63,459</b>	<b>\$ -</b>

## 21. Subsequent Events

On April 4, 2023, Volatus acquired Sky Scape Industries LLC., a New Jersey based company providing airborne intelligence data services. Under the terms of the definitive agreement, as amended following the completion of due diligence, the total purchase price, subject to an earn-out provision, is US\$585,000 (C\$783,900) to be paid as follows: An initial payment of approximately US\$275,000 (C\$368,500) in the form of newly issued common shares of Volatus Aerospace Corp. based on the share price at closing or the prior 30-day VWAP, whichever is higher. This converts to 969,737 common shares at the closing price of C\$0.38. The earn-out payment of US\$310,000 (C\$416,905), will be payable twelve (12) months after closing in the form of additional Volatus common shares issued

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on the share price of C\$0.65 or the prior 30-day VWAP, whichever is higher. This payment is conditional on Sky Scape retaining approximately C\$1M of inspection revenue previously contracted to be performed in 2024.

On May 11, 2023, Volatus announced closing of a brokered private placement of to 2,646 convertible debenture units of the Corporation (the "Debenture Units") at a price of \$1,000 per Debenture Unit for aggregate gross proceeds of \$2,646,000 (the "Offering") with an additional 15% over-allotment option. Each Debenture Unit is comprised of a \$1,000 principal amount senior unsecured convertible debenture (each, a "**Debenture**") and 1,000 common share purchase warrants of the Company (each, a "**Warrant**"). The Debentures will mature on May 11, 2025 (the "**Maturity Date**") and shall bear interest at a simple rate of 12% per annum. Interest will be payable semi-annually in arrears in cash on the last day of June and December in each year, with the first interest payment deferred until June 30, 2024. The principal amount of the Debentures, or any portion thereof, may be converted at the election of the holder thereof into common shares in the capital of the Company ("**Common Shares**") at a conversion price of \$0.50 per Common Share (the "**Conversion Price**"), being a conversion rate of 2,000 Common Shares per \$1,000 principal amount of Debenture Units, at any time prior to the Maturity Date. The principal amount of the Debentures may be converted at the election of the Company into Common Shares at the Conversion Price on not more than 60 days' and not less than 30 days' notice to the holders of Debentures (i) in the event that the daily volume weighted average trading price of the Common Shares on the TSX Venture Exchange ("**TSXV**") is greater than \$1.00 per share for 10 consecutive trading days on the TSXV, or (ii) in connection with a qualified equity or similar financing involving Common Shares or warrants resulting in aggregate gross proceeds to the Company of not less than C\$10.0 million (the "**Qualified Financing**"), subject to the Conversion Price being ratcheted down to equal the price per security under the Qualified Financing. The Debentures will be redeemable, in whole or in part, at the option of the Company, on or after the date that is 12 months from the issue date at price equal to 105% of the principal amount of the Convertible Debentures then outstanding plus any accrued and unpaid interest that would otherwise be payable to the holders from the time of such redemption until the Maturity Date.

Each Warrant is exercisable to acquire one Common Share at a price of \$0.50 per Common Share until May 11, 2025. If, at any time following the date that is 4 months and one day following the Closing Date, the daily volume weighted average trading price of the Common Shares on the TSXV is greater than \$1.00 per share for the preceding 10 consecutive trading days on the TSXV, the Corporation shall have the right to accelerate the expiry date of the Warrants to a date that is at least 30 days following the date of notice to holders of Warrants.

For its services in connection with the closing of the Offering, the Company has paid to the Agents: (i) a cash commission equal to C\$210,930, being an amount equal to 8% of the gross proceeds raised from the Offering (reduced to 3% for subscribers identified on the Company's president's list); and (ii) 421,860 non-transferrable agent warrants (the "**Agents' Warrants**"), being such number of Agents' Warrants as is equal to 8% of the gross proceeds raised from the Offering (reduced to 3% for subscribers identified on the Company's president's list) divided by the Conversion Price. Each Agents' Warrant is exercisable to acquire one Common Share at an exercise price of \$0.50 per share until May 11, 2025.