



VOLATUS AEROSPACE CORP.

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024

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

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www.volatusaerospace.com

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

	Notes	March 31, 2024	December 31, 2023
Assets			
Current			
Cash		\$ 1,040,925	\$ 1,682,402
Trade and other receivables	5	2,987,548	3,815,478
Prepaid expenses, deposits, and other current assets	6	2,602,544	2,022,836
Inventories	10	2,940,213	2,983,632
Total current assets		<u>9,571,230</u>	<u>10,504,348</u>
Property, plant and equipment	7	8,890,132	9,290,336
Intangible assets	8	4,745,238	4,766,728
Right-of-use asset	20	1,345,309	1,351,082
Goodwill	9	963,604	963,604
Total non-current assets		<u>15,944,282</u>	<u>16,371,750</u>
Total Assets		<u>\$ 25,515,512</u>	<u>\$ 26,876,098</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	11	\$ 5,834,950	\$ 4,424,484
Deferred revenue		102,868	210,700
Current portion of lease liability	21	686,536	542,298
Other short-term liabilities	13	7,443,273	7,084,475
Current portion of long-term borrowings	12	2,059,757	2,252,385
Deferred/ Contingent consideration		182,024	182,024
Total current liabilities		<u>16,309,408</u>	<u>14,696,366</u>
Long-term borrowings	12	5,569,699	5,775,102
Convertible Debentures	18	2,097,028	2,097,028
Deferred tax liability		283,130	283,130
Lease Liability	21	823,157	978,884
Contingent Consideration		507,692	507,692
Total non-current liabilities		<u>9,280,706</u>	<u>9,641,836</u>
Total Liabilities		<u>25,590,114</u>	<u>24,338,202</u>
Shareholders' Equity			
Common equity		13,612,860	13,360,860
Warrants reserve	17	6,192,685	6,192,685
Share-based payment reserve	17	2,554,635	2,427,813
Convertible Debenture - Options		200,356	200,356
Preferred shares	17	351,764	351,764
Deficit		(22,352,407)	(19,437,263)
Contributed Surplus		211,831	211,831
Non-controlling interest		(846,326)	(770,150)
Total Shareholders' Equity		<u>(74,602)</u>	<u>2,537,896</u>
Total Liabilities & Shareholders' Equity		<u>\$ 25,515,512</u>	<u>\$ 26,876,098</u>

Going concern (note 2)
Subsequent event (note 24)

Approved and authorized to issue by the Board of Directors

"Glen Lynch" _____

Director

"Gordon Silverman" _____

Director

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

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

	Notes	Three months ended March 31	
		2024	2023
Revenue	23	\$ 6,623,741	\$ 7,412,480
Direct costs		\$ 4,397,985	5,045,802
Gross Profit		2,225,757	2,366,678
OPERATING EXPENSES			
Advertising & marketing		\$ 293,339	406,118
IT & tech		\$ 256,802	185,095
Personnel		\$ 2,196,722	2,156,297
R&D		\$ 11,840	100,420
Office cost		\$ 583,199	892,539
Travel		\$ 57,621	94,285
External partner cost		\$ 200,072	274,013
Depreciation and amortization	7	\$ 1,098,088	745,136
Share based Payments		\$ 126,822	176,401
		4,824,504	5,030,304
(Loss) from Operations		(2,598,748)	(2,663,626)
OTHER ITEMS - INCOME/(EXPENSE)			
Finance cost	22	\$ (379,106)	(312,982)
Other income (expense)		\$ (10,168)	(1,558)
Gain (Loss) on disposal of property and equipment		\$ (7,184)	(10,511)
Foreign exchange translation		\$ 3,887	(14,688)
Net Loss		\$ (2,991,319)	\$ (3,003,365)
Total comprehensive Income (loss) for the period attributable to:			
Owners of Volatus Aerospace Corp.		(2,915,143)	(2,611,890)
Non-controlling interest		(76,176)	(391,475)
		(2,991,319)	(3,003,365)
Loss per share			
Basic and diluted		(0.02)	(0.02)
Weighted average number of common shares outstanding			
Basic and diluted		125,646,838	114,413,332

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

Volatus Aerospace Corp.
Condensed Consolidated Interim Statements of Changes in Equity - unaudited
(Expressed in Canadian Dollars)

	Number of shares	Capital Stock	Number of preference shares	Preferred Shares	Warrants Reserve	Share-based Reserve	Contributed Surplus	Non-Controlling Interest	Deficit	Total
January 1, 2023	113,943,079	10,957,258	352,634	352,634	6,098,857	1,704,009	211,831	(1,779,222)	(7,127,402)	10,417,965
Shares Issued on Acquisition	721,538	259,754								259,754
Stock options expense						176,401				176,401
Net loss for the period								(391,475)	(3,793,255)	(4,184,730)
March 31, 2023	114,664,617	11,217,012	352,634	352,634	6,098,857	1,880,410	211,831	(2,170,697)	(10,920,657)	6,669,390

	Number of shares	Capital Stock	Number of preference shares	Preferred Shares	Warrants Reserve	Share-based Reserve	Convertible Debt - Equity Portion	Contributed Surplus	Non-Controlling Interest	Deficit	Total
January 1, 2024	124,003,761	13,360,860	352,634	351,764	6,192,685	2,427,813	200,356	211,831	(770,150)	(19,437,263)	2,537,896
Shares Issued on Acquisition	1,680,000	252,000									252,000
Stock options expense						126,822					126,822
Net loss for the period									(76,176)	(2,915,143)	(2,991,319)
March 31, 2024	125,683,761	13,612,860	352,634	351,764	6,192,685	2,554,635	200,356	211,831	(846,326)	(22,352,407)	(74,602)

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

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

	Three Months Ended March 31,	
	2024	2023
OPERATING ACTIVITIES		
Net Loss	(2,991,319)	(3,003,365)
Adjustments For:		
Depreciation and Amortization	1,098,088	745,136
Gain on sale of property and equipment	7,184	(10,511)
Finance Cost	338,827	-
Share based Payments	126,822	176,401
Interest paid on lease liability	40,279	30,580
	(1,380,119)	(2,061,759)
Net changes in non-cash working capital items:		
Trade and other receivables	831,449	309,710
Prepaid expenses and deposits	(579,708)	(1,028,058)
Inventories	43,419	664,257
Trade payables and accrued liabilities	1,345,897	(27,530)
Deferred revenue	(107,832)	(24,520)
Other short-term liabilities	358,798	(53,787)
	511,907	(2,221,687)
Cash generated from (used in) Operating Activities		
INVESTING ACTIVITIES		
Additions to Property, Plant & Equipment	(286,162)	(234,937)
Payment of acquisition related contingent consideration		259,754
Acquisition of businesses, net of cash acquired	97,273	(558,754)
Investment in Associate	-	(63,459)
	(188,890)	(597,396)
Cash (used in) Investing Activities		
FINANCING ACTIVITIES		
Net Proceeds/(Repayment) of long-term loans	(781,515)	702,247
Repayment of lease obligations	(182,979)	(111,554)
	(964,494)	590,694
Cash provided by (used in) Financing Activities		
Net change in cash	(641,477)	(2,228,387)
Cash and cash equivalents, beginning of the period	1,682,402	3,684,581
Cash and cash equivalents, end of the period	1,040,925	1,456,193

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

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2024 (unaudited)

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 consolidated financial statements as the "Company" or "VAC" or "Volatus". Refer to Note 5 for the Company's major subsidiaries.

Volatus is a leading provider of integrated drone solutions throughout Canada, the United States, and the UK. 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 subsidiaries Synergy Aviation Ltd., Canadian Air National 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, going concern and critical judgements and estimates

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), effective for the quarter ended March 31, 2024, applicable to companies reporting under IFRS, and have been consistently applied unless otherwise indicated.

These consolidated financial statements of the Company were approved by the Board of Directors on May 28, 2024.

Basic of measurement

The 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.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to meet and continue its obligations for at least the next twelve months from March 31, 2024. At March 31, 2024, the Company had not yet achieved profitable operations, had an accumulated deficit of \$22.35 million since its inception and negative working capital of \$6.7 million. The Company expects to incur further operating losses in 2024 with the continued ramp up of business activities to service evolving market demands in a nascent industry.

The Company's ability to continue as a going concern is dependent upon the successful execution of management's operating and strategic plan which includes, amongst other things, securing additional financing to meet its ongoing operating requirements to fund inventory levels and fulfil new service contracts and, ultimately, the attainment of future profitable operations. There are no assurances that any of these initiatives will be successful which indicates the existence of a material uncertainty that cast doubt upon the Company's ability to realize its assets and discharge

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2024 (unaudited)

its liabilities in the normal course of business and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Presentation currency

These consolidated financial statements are presented in Canadian dollars (“C\$”). The functional currency of the Company’s subsidiaries is outlined in note 5.

Critical Judgments and estimates

The preparation of these financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from those estimates.

Judgments are made in the selection and assessment of the Company’s accounting policies. Estimates are used mainly in determining the measurement of recognized transactions and balances. Estimates are based on historical experience and other factors, including expectations of future events believed to be reasonable under the circumstances. Judgments and estimates are often interrelated. The Company’s judgments and estimates are continually re-evaluated to ensure they remain appropriate. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Following are the accounting policies that are subject to judgments and estimates that the Company believes could have the most significant impact on the amounts recognized in these consolidated financial statements:

Purchase price equations

The acquired assets and assumed liabilities are generally recognized at fair value on the date the Company obtains control of a business. The measurement of each business combination is based on the information available on the acquisition date. Management applied significant judgement in estimating the fair value of the contingent consideration and customer relationships. Management used the multi-period excess earnings method to fair value customer relationships using a discounted cash flow model. The significant assumptions used in the discounted cash flow models are revenue growth rates, the earnings before interest, taxes, depreciation, and amortization (“EBITDA”) margins and discount rates. Changes in these estimates and judgments could result in significant changes to the valuation of the intangible assets.

Impairment

Impairment exists when the carrying value of an asset or cash generating unit (“CGU”) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal (“FVLCD”) and its value in use (“VIU”). The FVLCD calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. If no such transactions can be identified, an appropriate valuation model is used. Management applied significant judgement in determining the recoverable amounts. The recoverable amounts of the CGU was based on the FVLCD method using discounted cash flow models. Significant assumptions used in the discounted cash flow models included revenue growth rates, EBITDA margins and discount rates. Changes in these estimates and judgments could result in significant changes to management’s conclusions with respect to asset impairment.

Contingent consideration liabilities

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2024 (unaudited)

Contingent consideration liabilities are initially recorded on the date of a business combination and are payable on the achievement of certain financial targets in the post-acquisition periods. The obligation for contingent consideration is recorded at its estimated fair value at the various acquisition dates and the fair value is re-assessed at the end of each reporting period. The estimated fair value of the applicable contingent consideration is calculated using the estimated financial outcome and resulting expected contingent consideration to be paid and inclusion of a discount rate as appropriate. Determining the probability of the acquired business achieving targets requires judgement. Changes in the fair value of the contingent consideration are included in the determination of net income/loss.

Estimated Useful Lives of Property and Equipment and Intangible Assets

Management estimates the useful lives of property and equipment and intangible assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation and amortization for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment and intangible assets in the future. Changes in these estimates and judgments could result in significant changes to the amortization expense and carrying value of intangible assets and property, plant and equipment.

Fair Value of Share-Based Payments

Fair value of stock options is determined using the Black-Scholes option pricing model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields, and the expected life of the stock options issued. Fair value inputs are subject to market factors, expected forfeiture rates as well as internal estimates. Changes in these estimates and judgments could result in significant changes to the valuation and amount of share-based payments expense.

3. Summary of material accounting policies

These condensed consolidated interim financial statements have been prepared following the same accounting principles and methods of computation as in outlined in the Company's consolidated financial statements for the year ended December 31, 2023. A description of the accounting standards and interpretations that have been adopted by the Company can be found in the notes of the annual financial statements for the year ended December 31, 2023. The preparation of the condensed consolidated interim financial statements requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. These condensed consolidated interim financial statements include estimates, which by their nature, are uncertain. These assumptions and associated estimates are based on historical experience and other factors that are considered to be relevant. As such, actual results may differ from estimates and the effect of such differences may be material. Significant estimates and judgements used in the preparation of these condensed consolidated interim financial statements remained unchanged from those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2023.

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2024 (unaudited)

4. Subsidiaries

These 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	Functional 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	100%
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%
Sky Scape Industries, LLC	Drone Solutions Provider	USD	USA	100%
Aerial Motion Pictures Limited (UAV Hub)	RPAS/UAV Training	UK £	UK	100%
Open Sky Consulting International Ltd (Drone Mentor)	RPAS/UAV Training	UK £	UK	100%
Volatus Unmanned Services Inc.^{A1}		CAD	Canada	100%
- 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%

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

The 30% external shareholding of Volatus Flight Systems, 10% external shareholding of Volatus Aerospace USA Corp, 51% external shareholding of Indigenous Aerospace Corp., 49% external shareholding of Synergy Aviation Ltd. And Synergy Flight Training Inc. are all attributable to Non-Controlling Interests in the consolidated financial statements.

Volatus Aerospace Corp.

Notes to Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2024 (unaudited)

On August 29, 2023, the Company acquired the non-controlling interest of 33.66% of Volatus Unmanned Services by issuing 7,270,723 shares of Volatus Aerospace Corp. at \$0.22 and, on Nov 16, 2023, the Company acquired the minority interest of 49% of iRed Ltd. by issuing 1,098,684 shares of Volatus Aerospace Corp. at \$0.16 and cash of \$34,170. The difference between the value of the cash and share consideration paid and the carrying value of the non-controlling interest at the time of the transaction was recorded as an adjustment to retained earnings.

5. Trade and other receivables

	March 31, 2024	December 31, 2023
Trade receivables	\$ 2,957,403	\$ 3,506,386
Accrued revenues	6,730	248,132
Tax credits receivable	-	56,778
Other receivables	23,416	21,748
Expected credit loss provision	-	(17,566)
Total	\$ 2,987,548	\$ 3,815,478

6. Prepaid expenses, deposits, and other current assets

	March 31, 2024	December 31, 2023
Prepaid expenses	\$ 2,081,476	\$ 1,256,943
Security deposit	305,880	329,111
Other current assets	215,188	436,782
Total	\$ 2,602,544	\$ 2,022,836

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2024 (unaudited)

7. Property, plant & equipment

Cost	Drones & Accessories	Machinery	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Vehicle	Aircraft	WIP	Total Tangible Assets
Balance, December 31, 2023	2,492,697	353,571	405,975	704,565	834,600	1,275,305	7,133,568	483,269	13,683,550
Additions	21,562	-	-	4,843	37,482	-	67,227	155,048	286,162
Additions related to business combinations				12,220	37,426				49,646
Disposals/Retirements				(11,535)					(11,535)
Balance, March 31, 2024	2,514,259	353,571	405,975	710,093	909,508	1,275,305	7,200,796	638,317	14,007,823
Accumulated Depreciation									
Balance, December 31, 2023	1,044,846	197,081	61,073	519,483	516,659	364,942	1,689,130	-	4,393,214
Depreciation for the period	149,840	9,602	10,149	10,509	31,959	65,151	451,619	-	728,829
Disposals/Retirements				(4,352)					(4,352)
Balance, March 31, 2024	1,194,686	206,683	71,222	525,641	548,618	430,093	2,140,749	-	5,117,691
Net carrying Amount									
31-Dec-23	1,447,851	156,489	344,902	185,082	317,941	910,364	5,444,438	483,269	9,290,337
31-Mar-24	1,319,573	146,888	334,753	184,453	360,890	845,213	5,060,046	638,317	8,890,132

Volatus Aerospace Corp.

Notes to Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2024 (unaudited)

8. Intangible assets

	Technology	Customer	Trademark/ Brand Names	Total
Cost				
Balance, December 31, 2023	644,248	4,843,995	867,548	6,355,791
Additions related to business combinations	-	-	210,785	210,785
Reclassifications & Transfers				-
Balance, March 31, 2024	644,248	4,843,995	1,078,333	6,566,576
Accumulated Depreciation				
Balance, December 31, 2023	193,275	1,086,826	308,962	1,589,063
Amortization for the period	16,106	172,988	43,181	232,275
Balance, March 31, 2024	209,381	1,259,814	352,143	1,821,338
Net carrying Amount				
31-Dec-23	450,973	3,757,169	558,586	4,766,728
31-Mar-24	434,867	3,584,181	726,190	4,745,238

9. Goodwill

	March 31, 2024	December 31, 2023
Balance, beginning of year	\$ 963,604	\$ 963,604
Acquisitions	-	-
Balance, end of year	\$ 963,604	\$ 963,604

The Company performs an impairment test annually. Last impairment test was done on December 31, 2023. No impairment testing was performed on March 31, 2024

10. Inventories

Inventory mainly consists of finished goods of drones and related accessories. No write-downs were made during the years ended March 31, 2024 and 2023. Direct costs for the quarter ended March 31, 2024 included \$2,303,482 of inventory sold (2023 - \$3,446,066).

11. Trade payables and accrued liabilities

Volatus Aerospace Corp.

Notes to Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2024 (unaudited)

(in C\$)	Mar 31, 2024	Dec 31, 2023
Accounts Payable	\$ 4,705,432	\$ 2,915,259
Payroll Liability	\$ 702,209	716,307
Other accrued Liabilities	\$ 427,309	792,918
Total	\$ 5,834,950	\$ 4,424,484

12. Long-term Borrowings

(in C\$)	March 31, 2024	Dec 31, 2023
Aircraft Loans	4,867,019	5,068,310
Vehicles Loans	599,251	632,215
CEBA	418,157	480,000
Development Loan	291,680	333,344
Promissory Note	749,265	812,444
Other Loans	704,084	701,175
Total	\$ 7,629,456	\$ 8,027,487
Less: Current Portion of Long-Term Debt	\$ (2,059,757)	\$ (2,252,385)
Long-term borrowings	\$ 5,569,699	\$ 5,775,102

Aircraft loans bear interest at rates ranging between 9.50% to 12% with expiries between July 2027 and Aug 2030. The loans are payable monthly with principal and interest.

Vehicle loans bear interest at rates ranging between 3.5% and 14% with expiries between March 2026 and June 2032. The loans are repayable monthly with principal and interest.

The Company applied for and received \$480,000 in Canada Emergency Business Account (“CEBA”) loans in a prior year which are interest-free loans to cover operating costs impacted by the Covid-19 pandemic outbreak. Individual loans were granted to separate wholly owned subsidiaries of the Company. On January 31, 2024, the Company has chosen the option to extend the repayment of CEBA loans over 3 years with a 5% annual interest charge.

The development loan does not bear interest and has a maturity in 2025. The principal amount is paid monthly.

Promissory notes bear interest at rates ranging between 9% and 10% with an expiry in 2024.

Other loans consist mainly of equipment loans that bear interest at rates ranging between 4% and 12% with expiries between 2024 and 2050.

13. Other Short-term Liabilities

(in C\$)	March 31, 2024	Dec 31, 2023
Shareholders Loan	\$ 1,236,884	786,362
Other Loans	286,389	333,113
Revolving Line of Credit	5,920,000	5,965,000
Total	\$ 7,443,273	\$ 7,084,475

Notes to Condensed Consolidated Interim Financial Statements
For the three months ended March 31, 2024 (unaudited)

The Company has demand revolving credit facilities totalling \$6,000,000 through its subsidiaries bearing interest at rates ranging between 9% and 12%.

The shareholders loans are short-term loans with interest rates between 8.5% and 9.5% and are repayable in between 2024 and 2029. The repayment terms of shareholders loans are monthly and a balloon payment at the end of maturity along with interest accrued.

Other loans consist of loans maturing within the next 12 months and have an interest rate between 9% and 12%.

14. Related Party Transactions

Related party transactions are 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.

Trade payables and accrued liabilities:

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 in the consolidated statement of loss and comprehensive loss. For the quarter ended March 31, 2024, the Company incurred fees of \$24,000 (2023- \$24,000). As at March 31, 2024, the Company was indebted to this company in the amount of \$27,120 (2023 - \$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 to Note 17)

Loans & Advance:

The Company has entered into a promissory note with the director of the Company on March 17, 2023 and April 2024, for a short-term loan at an interest rate ranging between 8.5% and 9.5% per annum. The amount of \$1,104,965 is outstanding as at March 31, 2024 and repayable in full on June 30, 2024 (\$625,00) and balance payable by June 2029. This amount is included in other short-term and long-term liabilities in the consolidated balance sheet.

15. Key management compensation

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.

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Compensation awarded to key management for the year ended Mar 31, 2024 and 2023 is summarized as follows:

	Mar 31, 2024	March 31, 2023
Salaries	221,250	221,250
Share-based payments	98,380	152,975
	319,630	374,225

16. Business Combinations

Acquisition of UAV Hub and Drone Mentor

On January 2, 2024, Volatus acquired UAV Hub (Aerial Motion Pictures Ltd.) and Drone Mentor (Open Sky Consulting International Ltd.), a drone training company based out of the UK. Under the terms of the agreement the Company purchased 100% of the company for a consideration £150,000 (CAD \$225,000) on Closing by issuing 1,680,000 common shares at \$0.15 price per share.

Total Consideration	\$ 252,000
Net assets acquired:	
Cash	97,273
Accounts Receivable	3,522
Property, plant and equipment	49,645
Accounts Payable and accrued liabilities	(64,569)
Non-current Loans	(44,657)
Identified intangible assets – Brand and Website	
Website	\$ 210,785

The breakdown of consideration paid is as follows:

Issuance of 84,000 common shares upon closing	\$ 225,000
Total consideration	225,000

The Company did not incur any acquisition-related costs.

17. Share Capital, Stock Options and Warrants

Authorized share capital

Unlimited number of common shares without par value.

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Notes to Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2024 (unaudited)

Preferred shares

	March 31, 2024		December 31, 2023	
	Shares	Shares	Shares	Amount
Issued for acquisition of Partner Jet Corp.	206,188	206,188	206,188	\$ 206,188
UAViation Aerial Solutions Limited Investment	146,446	146,446	146,446	146,446
Total	352,634	352,634	352,634	\$ 352,634

The above preferred shares are non-redeemable and have a face value of \$1. The preferred shares outstanding in UAViation Aerial Solutions Limited are in the Volatus owned subsidiary, Volatus Unmanned Services Inc.

Stock Options

The continuity of stock options during the period were as follows:

	Mar 31, 2024		Dec 31, 2023	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	8,192,691	0.56	5,357,691	0.63
Granted	-	-	3,057,500	0.36
Exercised	-	-	-	0.30
Forfeited	(125,000)	0.28	(222,500)	0.36
Outstanding, end of period	8,067,691	0.56	8,192,691	0.56

The following table summarizes information about stock options outstanding and exercisable as at March 31, 2024:

Range of price (C\$)	Options Outstanding			Options Exercisable		
	Number of Stock Options outstanding	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price	Number of Stock Options exercisable	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price
\$0.20 - \$0.30	3,152,691	4.44	0.23	177,691	1.52	0.30
\$0.31 - \$0.49	1,237,500	3.46	0.36	350,000	3.32	0.36
\$0.50 - \$0.65	3,790,000	2.83	0.65	2,660,000	2.75	0.65
	8,180,191	3.55	0.45	3,200,191	3.00	0.60

On August 11, 2023, the Company granted 3,057,500 additional options at an exercise price of \$0.23 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 was \$0.18 per option. The following weighted

Volatus Aerospace Corp.

Notes to Condensed Consolidated Interim Financial Statements For the three months ended March 31, 2024 (unaudited)

average assumptions were used for the Black-Scholes valuation of share: share price of \$0.23, risk-free interest rate of 4.25%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

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 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 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

Details of warrants and their fair value:

Sr. No	Issue Date	Number of warrants outstanding at March 31, 2024	Fair Value at March 31, 2024	Number of warrants outstanding at December 31, 2023	Fair Value at December 31, 2023	Exercise Price	Expiry Date
3	06-Oct-22	11,741,034	1,878,565	11,741,034	1,878,565	\$0.50	05-Oct-24
4	06-Oct-22	879,475	167,100	879,475	167,100	\$0.36	05-Oct-24
5	06-May-23	421,860	20,587	421,860	20,587	\$0.50	06-May-25
6	06-May-23	2,646,000	107,437	2,646,000	107,437	\$0.50	06-May-25
		15,688,369	2,173,689	15,688,369	2,173,689		

As of March 31, 2024, the following warrants were outstanding and exercisable:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, Dec 31, 2023	15,688,369	\$ 0.49
Issued	-	-
Exercised	-	-
Forfeited	-	-
Outstanding, Mar 31, 2024	15,688,369	\$ 0.49

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18. Convertible Debenture

On May 11, 2023, the Company completed a convertible debenture unit financing to raise aggregate gross proceeds of \$2,646,000. The debentures bear interest at a rate of 12% per annum and mature 2 years from the closing date. The principal and interest outstanding under the debentures are convertible into Subordinate Voting Shares at \$0.50/share, and for every \$1000 of debentures purchased, subscribers also received 1000 common share purchase warrants for Subordinate Voting Shares exercisable at \$0.50/share.

The convertible debenture has been split on initial recognition into three components: debt, conversion feature and warrants based on fair values.

The fair value of the liability component, at inception was calculated using a market interest rate for an equivalent instrument without conversion option using a discount rate of 25.44% and the residual was allocated to the share conversion feature.

The warrants were calculated using a Barrier Option Pricing Model.

Inputs used in valuing the components of the convertible debenture:

	2023	2022
Risk free rate	3.89%	-
Expected life (years)	2	-
Volatility	55%	-
Underlying stock price	\$0.30	-
Barrier Price	\$1.0	-
Strike price	\$0.50	-

The Company incurred \$421,703 as transaction costs that are directly attributable to the issuance of the convertible debenture and have been allocated to each component of the convertible debenture based on the respective fair value allocation.

The fair values, net of transaction costs of each component of the convertible debenture at the date of issuance is as follows:

Debt Component	\$ 1,802,278
Conversion Feature	293,995
Share Warrants	128,024
	2,224,297

The conversion feature and share warrants were recognised in the financial statements net of tax amounting to \$127,835 and allocated to conversion feature and share warrants based on their respective fair values. As at March 31, 2024 the Debt component was recognised at \$2,097,028 after accretion of interest in the amount of \$294,750.

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19. Financial Instruments and Risk Management

The Company is exposed to various risks through its financial instruments. The following analysis provides a summary of the Company's exposure to and concentrations of risk at March 31, 2024:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. The Company's main credit risk related to its trade and other receivables. The maximum exposure to credit risk is the carrying amount as reported on the financial statements. Credit risk on trade and other receivables is minimized because 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 prior approval of all sales. Such approvals are based on trade information, payment history, credit rating and financial analysis, where possible. There are no significantly aged trade and other receivables on March 31, 2024 and 2023.

Foreign Currency Risk

The Company has operations in Canada, the UK, 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 functional currency. Each entity within the consolidated group determines its own functional currency.

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As of March 31, 2024, the Company did not have any foreign currency hedges in place.

20. Right-of-use ("ROU") assets:

The following tables reconcile the changes in right of use (ROU) assets:

(in C\$)	Vehicle and Equipment	Building	Total
Cost			
Balance, January 1, 2024	118,716	2,258,516	2,377,232
Additions during the period	36,101	95,111	131,211
Balance, Mar 31, 2024	154,816	2,353,627	2,508,443
Accumulated amortization			
Balance, January 1, 2024	42,259	983,891	1,026,150
Depreciation expense for the period	4,984	132,000	136,984

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Balance, Mar 31, 2024	47,243	1,115,891	1,163,134
Net book value			
Balance, January 1, 2024	76,427	1,274,625	1,351,052
Balance, Mar 31, 2024	\$ 107,573	\$ 1,237,736	\$ 1,345,309

21. 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 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:

(in C\$)	31-Mar-24	31-Dec-23
Balance, beginning of year	1,521,182	\$ 1,151,988
Additions	131,211	848,228
Interest	40,279	165,057
Payments	(182,979)	(644,091)
Balance, end of year	1,509,693	1,521,182

22. Finance costs.

Finance costs comprise the following:

(in C\$)	31-Mar-24	31-Mar-23
Bank Charges	17,810	\$ 27,612
Interest expense on lease liabilities	40,279	30,580
Interest expense on promissory note	19,444	23,553
Interest expense on borrowing	301,573	231,237
	379,106	\$ 312,982

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23. Segment Information

The Company's Chief Executive Officer ("CEO") has been identified as the chief operating decision maker. The CEO evaluates the performance of the Company and allocates resources based on the information provided by the Company's internal management system at a consolidated level. The Company has determined that it has only one operating segment.

The Company derives revenues in the following major categories:

Revenue	Three months ended	
	March 31, 2024	March 31, 2023
Sale of Products	2,758,391	4,630,772
Provision of Services	3,865,350	2,781,707
Total Revenue	6,623,741	7,412,480

The amount of revenue from external customers, broken down by location of the customers, is as follows:

Revenue:	Three months ended	
	March 31, 2024	March 31, 2023
Canada	3,772,960	5,628,384
United States	1,136,746	1,012,291
United Kingdom	1,712,495	771,805
Total Revenue	6,623,741	7,412,480

As at the period ended March 31, 2024, and Dec 31, 2023, there were no material contract liabilities or assets arising from short-term revenue contracts with the customers.

Mar 31, 2024	Property, plant and equipment	Goodwill	Intangible assets	Right of use assets
Canada	7,621,051	963,604	2,593,204	1,232,578
United States	1,000,131		1,660,015	64,079
United Kingdom	268,950		492,019	48,652
Totals	8,890,132	963,604	4,745,238	1,345,309

Dec 31, 2023	Property, plant and equipment	Goodwill	Intangible assets	Right of use assets
Canada	7,622,189	963,604	2,724,843	1,258,109
United States	1,427,500		1,736,897	77,346
United Kingdom	240,647		304,988	15,627
Totals	9,290,336	963,604	4,766,728	1,351,082

24. Subsequent Events

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On May 21, 2024, the Company announced the merger of equals (50/50) between the Company and Drone Delivery Canada Corp. The Merger will be implemented by way of a court-approved plan of arrangement under the Business Corporations Act (Ontario) (the "Arrangement"). At closing, each outstanding Volatus Share will be exchanged for 1.785 Drone Delivery Canada Shares. The implementation of the Arrangement is subject to the approval of at least 66 2/3% of the votes cast by holders of Volatus Shares, and if required under applicable securities law, a simple majority of holders of Volatus Shares excluding votes cast by certain holders of Volatus Shares that are required to be excluded pursuant to Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transaction ("MI 61-101"), at a special meeting of Volatus shareholders expected to take place in the third quarter of 2024. The Arrangement is also subject to the approval of a majority of the votes cast by the holders of Drone Delivery Canada Shares at a special meeting of Drone Delivery Canada shareholders expected to take place in the third quarter of 2024.

The directors and executive officers of each of Volatus and Drone Delivery Canada have entered into customary voting and support agreements and have agreed to, among other things, vote their securities in favour of the Arrangement. Total Volatus Shares under such support agreements represent approximately 62% of the issued and outstanding Volatus Shares and Drone Delivery Canada Shares under such support agreements represent less than 1% of the issued and outstanding Drone Delivery Canada Shares.

The Arrangement includes a reciprocal non-solicitation covenant, subject to customary "fiduciary out" rights, including the right of either Volatus or Drone Delivery Canada to accept a superior proposal in certain circumstances, with each party having a five (5) business day right to match any such superior proposal received by the other party. The Arrangement also provides for the payment of a termination fee by Volatus of \$700,000 and Drone Delivery Canada of \$1,800,000 if the Business Combination Agreement is terminated in certain specified circumstances, and an expense reimbursement of \$500,000, payable by either party, if the Arrangement is terminated under other certain specified circumstances.

Under the terms of the Arrangement, any outstanding options to purchase Volatus Shares will be exchanged for options to purchase Drone Delivery Shares with equivalent economic terms and vesting provisions, any outstanding Volatus warrants exercisable to purchase Volatus Shares will be adjusted in accordance with their terms such that, upon the exercise of a Volatus warrant, the holder thereof, for the same aggregate consideration payable therefor, will receive 1.785 Drone Delivery Shares, any outstanding Volatus senior unsecured convertible debentures will be adjusted in accordance with their terms such that, upon conversion of a Volatus debenture, the holder thereof, for the same aggregate principal and interest amount convertible therefor, will receive such number of Drone Delivery Shares equal to the number of Volatus Shares they would otherwise be entitled to receive multiplied by 1.785, rounded down to two decimal places, and any outstanding preferred shares of Volatus will remain outstanding unaffected by the Arrangement.

Drone Delivery Canada expects to issue 224,345,513 Drone Delivery Canada Shares as Consideration to the shareholders of Volatus in connection with the Merger and to reserve approximately 42,404,567 Drone Delivery Canada Shares for issuance upon exercise of Volatus options and Volatus warrants.

The Merger will constitute a "Reviewable Transaction", as defined in TSXV Policy 5.3 – Acquisitions and Dispositions of Non-Cash Assets. As a result, the completion of the Merger is subject to approval by the TSXV. The Arrangement is also subject to receipt of court and other applicable regulatory approvals and the satisfaction of certain other closing conditions customary in transactions of this nature. Subject to the satisfaction (or waiver) of the conditions precedent, the Arrangement is expected to close in the third quarter of 2024.

On May 21, 2024, Volatus plans to complete a non-brokered private placement of \$1,000 principal amount of unsecured non-convertible debentures (the "**Debentures**") for gross proceeds of up to \$980,000 through the issuance of up to 1,000 Debentures at a price of \$980 per debenture in one or more tranches (the

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"Offering"). Volatus has signed subscription agreements for the first tranche with gross proceeds of \$585,060. Volatus may choose to complete subsequent tranches in its sole discretion. The Merger is not contingent on closing of the first tranche or any subsequent tranches. It is anticipated that the Debentures shall have a maturity date of 12 months from the date of issuance and will bear an initial interest rate of 15.0% per annum if the Debentures remain outstanding for 7 months or less. If the Debentures remain outstanding longer than 7 months, beginning with month 8, the annualized initial interest rate shall increase by 1.0% each month until maturity, at which point the maximum annualized interest rate will be 20.0%. The Debentures are redeemable, in whole or in part, at any time, at the option of Volatus. If, at any time while the Debentures remain outstanding and prior to the maturity date of the Debentures, Volatus completes a financing of equity or quasi-equity securities of Volatus with a minimum of ten distinct investors, holders of Debentures will be entitled to participate in such financing up to the amount of principal of their respective Debentures at a price per security equal to the greater of (i) a 10% discount to such financing price and (ii) the maximum discount to such financing price permitted by the policies of the TSXV. In connection with the Offering, Volatus may pay eligible finders a cash fee of 10.0% of the aggregate gross proceeds of the Offering, payable on the closing of the Offering. It is anticipated that the net proceeds of the Offering will be used for the purchase of inventory, sales and marketing, and working capital requirements of Volatus. All securities issued pursuant to the Offering are subject to a statutory four month plus a day hold period from the date of issuance as required by applicable securities laws.