



VOLATUS AEROSPACE CORP.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2022 and 2021

(unaudited)

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

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed consolidated interim financial statements of Volatus Aerospace Corp. (the "Company") are the responsibility of management and the Board of Directors.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it with sufficient knowledge to support management representations that it has exercised reasonable diligence in that (i) the unaudited condensed interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

NOTICE TO READER

The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. These condensed consolidated interim financial statements have not been reviewed by the Company's external auditors.

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

In C\$	Notes	September 30, 2022	December 31, 2021
		unaudited	
Assets			
Current			
Cash & cash equivalents	4	\$ 6,021,163	\$ 8,806,836
Trade and other receivables	5	2,220,969	698,355
Prepaid expenses, deposits, and other current assets	5,8	1,420,301	801,135
Inventory	5	1,797,064	686,610
Total current assets		11,459,497	10,992,937
Property, plant and equipment	6	3,341,644	4,050,846
Intangible assets	6	6,803,810	5,811,929
Right-of-use asset	17	995,433	1,229,921
Goodwill		689,835	583,188
Total non-current assets		11,830,722	11,675,884
Total Assets		\$ 23,290,219	\$ 22,668,821
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	9	\$ 3,724,314	\$ 2,458,604
Deferred revenue		11,255	432,096
Current portion of lease liability		310,418	284,651
Other short-term liabilities	10	281,478	233,169
Current portion of long-term borrowings	10	350,886	202,136
Contingent consideration		25,000	10,000
Total current liabilities		4,703,351	3,620,656
CEBA loan	11	420,000	360,000
Long-term borrowings	11	4,699,268	2,349,926
Lease Liability		837,518	1,078,196
Total non-current liabilities		5,956,786	3,788,122
Total Liabilities		10,660,137	7,408,778
Shareholders' Equity			
Common equity	14	9,260,370	9,110,305
Warrants reserve	14	4,053,191	4,053,191
Share-based reserve	14	1,363,249	459,152
Preferred shares	14	704,322	704,322
Retained earnings		(5,807,543)	(2,345,515)
Contributed Surplus	14	2,989,819	2,989,819
Non-controlling interest	7	66,674	288,768
Total Shareholders' Equity		12,630,082	15,260,042
Total Liabilities & Shareholders' Equity		\$ 23,290,219	\$ 22,668,821

Refer Note 1 (Nature of Operations & Going Concern), Note 16 (Commitment)

Approved on behalf of the Board:

Glen Lynch _____

Director

Gordon Silverman _____

Director

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

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

	Notes	Three months ended, September 30		Nine months ended, September 30	
		2022	2021	2022	2021
Revenue		\$ 11,120,589	\$ 3,286,395	\$ 22,558,010	\$ 6,982,261
Cost of goods sold		7,074,150	2,218,337	13,450,267	4,567,461
Cost of providing services & training		716,995	335,638	2,784,540	563,337
GROSS PROFIT		3,329,444	732,420	6,323,203	1,851,462
OPERATING EXPENSES					
Audit fees		10,000	-	20,015	32,000
Advertising & marketing		599,285	230,190	1,649,685	327,956
IT & tech		140,392	41,932	347,796	84,819
Personnel		1,393,606	650,009	4,083,957	1,198,900
Office cost		378,474	136,043	1,023,220	267,263
Travel		140,622	54,688	275,452	71,938
External partner cost		393,238	29,069	934,091	103,442
Depreciation	6,17	270,081	117,391	779,816	273,897
Share based Payments	14	330,918	70,404	904,097	207,384
		3,656,615	1,329,724	10,018,127	2,567,597
Loss from operations		(327,171)	(597,304)	(3,694,924)	(716,135)
OTHER ITEMS - INCOME/(EXPENSE)					
Canada Emergency Wage Subsidy		-	-	-	61,178
Finance cost		(121,672)	(163,005)	(276,440)	(292,887)
Other income (expense)		79,640	58,641	265,183	60,285
Gain (Loss) on disposal of drones		10,566	-	9,555	(37,409)
Foreign exchange translation		6,430	(5,945)	12,503	(8,998)
Net and Comprehensive Loss		\$ (352,206)	\$ (707,613)	\$ (3,684,121)	\$ (933,965)
Owners of Volatus Aerospace Corp.		(1,309,955)	6,606	(3,462,028)	(173,048)
Non-controlling interest	7	957,749	(714,219)	(222,094)	(760,917)
		(352,206)	(707,613)	(3,684,121)	(933,965)
Net Income (Loss) per share					
Basic		(0.0128)	0.0001	(0.0339)	(0.0022)
Diluted		(0.0128)	0.0001	(0.0339)	(0.0022)
Basic		102,075,878	76,923,334	102,075,878	76,923,334
Diluted		102,075,878	77,807,949	102,075,878	77,807,949

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

Volatus Aerospace Corp.

Condensed Consolidated Interim 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, 2021	76,923,334	\$ 200		\$ -	\$ -	\$ 2,989,819	\$ 1,186,346	\$ 435,641	\$ 4,612,006
Preference Shares Balance, January 1, 2021	704,322	-	704,322	-	-	-	-	-	704,322
Warrant issued with convertible debentures	-	-	-	1,472,015	-	-	-	-	1,472,015
Issuance of Stock Options	-	-	-	-	207,384	-	-	-	207,384
RTO expenses	-	-	-	-	-	-	-	(33,343)	(33,343)
Net loss for the year	-	-	-	-	-	-	(760,917)	(173,048)	(933,965)
Common Shares Balance, Sept 30, 2021	76,923,334	\$ 200		\$ 1,472,015	\$ 207,384	\$ 2,989,819	\$ 425,429	\$ 229,250	\$ 5,324,097
Preference Shares Balance, Sept 30, 2021	704,322		\$ 704,322						\$ 704,322

	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
Exercised Stock Options	16,924	5,063							5,063
Issuance of Stock Options	-	-	-	-	904,097	-	-	-	904,097
Net loss for the Period	-	-	-	-	-	-	(222,094)	(3,462,028)	(3,684,121)
Common Shares Balance, Sept 30, 2022	102,202,045	\$ 9,260,370		\$ 4,053,191	\$ 1,363,249	\$ 2,989,819	\$ 66,674	\$ (5,807,543)	\$ 11,925,760
Preference Shares Balance, Sept 30, 2022	704,322		\$ 704,322						\$ 704,322

* Number of shares is inclusive of the 1:100,000 share split (March 9, 2021) and the 1:3.846166667 share split (May 19, 2021), and has been applied retrospectively for the December 31, 2020 comparative figures.

Refer Note 14.

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

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars)

	Nine months ended	
	September 30, 2022	September 30, 2021
OPERATING ACTIVITIES		
Net and Comprehensive Loss	\$ (3,684,121)	\$ (933,965)
Adjustments For:		
Depreciation	779,816	273,897
Adjustment in the value of drones and accessories	-	37,409
Share based Payments	904,097	207,384
Foreign exchange translation	-	1,107
Finance Cost	-	184,664
	<u>(2,000,209)</u>	<u>(229,505)</u>
Net changes in non-cash working capital items:		
Trade and other receivables	(1,228,848)	(794,666)
Prepaid expenses and deposits	(619,166)	(85,739)
Inventory	(1,110,454)	(168,232)
Trade payables and accrued liabilities	871,138	665,879
Deferred revenue	(420,842)	(422,114)
Other short-term liabilities	(37,721)	(159,307)
Contingent Consideration	15,000	-
Cash (used in) Operating Activities	<u>(4,531,099)</u>	<u>(1,193,682)</u>
INVESTING ACTIVITIES		
Additions to Property, Plant & Equipment	508,646	(197,423)
Additions to Intangible Assets	-	(23,465)
Business Combination, Net Cash	(944,582)	(2,063,462)
Cash provided by (used in) Investing Activities	<u>(435,936)</u>	<u>(2,284,350)</u>
FINANCING ACTIVITIES		
Proceeds of Long-Term Loans	2,156,721	(55,928)
Lease Payment	19,578	-
ESOP Exercise	5,063	-
Net Proceeds from Convertible Debt	-	3,896,036
Cash provided by (used in) Financing Activities	<u>2,181,362</u>	<u>3,840,108</u>
Net change in cash	<u>(2,785,673)</u>	<u>362,076</u>
Cash and cash equivalents, beginning of the period	8,806,836	189,973
Cash and cash equivalents, end of the period	<u>\$ 6,021,162</u>	<u>\$ 552,049</u>

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

Notes to Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021

1. Nature of Operations & Going Concern

Volatus Aerospace Corp. (the "Company") was incorporated on December 17, 1987 and has its registered office located at 60 Airport Road, Oro Medonte, Ontario L0L 2E0, Canada.

Volatus and the entities it controls are together referred to in these condensed interim consolidated financial statements as the "Company" or "VAC" or "Volatus". Refer to Note 7 for the Company's major subsidiaries.

The Company comprises three main business operations, which are all operating under one business segment.

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. Statement of Compliance

These condensed interim 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, 2021. 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 condensed interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2021.

These condensed interim consolidated financial statements of the Company were approved by the Board of Directors on November 7, 2022.

3. Basis of Preparation

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars and have been prepared on the historical cost basis except for financial instruments measured at fair value through profit and loss or amortized cost. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These condensed interim consolidated financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when 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 condensed interim consolidated financial statements.

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries (note 7).

Volatus Aerospace Corp.

Notes to Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021

4. Cash & Cash Equivalents

Cash and cash equivalents comprise the following:

(in C\$)	September 30, 2022	December 31, 2021
Cash	\$ 23,254	\$ 37,821
Bank	5,976,361	8,746,829
Paypal	21,548	22,187
Cash & Cash Equivalent	\$ 6,021,163	\$ 8,806,836

5. Receivables, Other Assets, and Inventory

(in C\$)	September 30, 2022	December 31, 2021
Trade Receivables	\$ 2,220,969	\$ 698,355

Prepaid Expenses and Deposits

(in C\$)	September 30, 2022	December 31, 2021
Prepaid Expenses	\$ 1,112,704	\$ 607,678
Security Deposit	194,619	165,974
Other current assets	112,978	27,482
Total	\$ 1,420,301	\$ 801,135

Inventory

(in C\$)	September 30, 2022	December 31, 2021
Inventory	\$ 1,797,064	\$ 686,610

Receivable & other current assets	\$ 5,438,334	\$ 2,186,100
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Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022 and 2021

6. Property, Plant & Equipment

	Drones & Accessories	Camera & Accessories	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Batteries	Health & Safety	Vehicle	Aircraft	WIP	Total Tangible Assets	Intangible Assets	Total
Cost													
Balance, December 31, 2021	469,017	26,158	17,695	413,346	386,731	47,973	3,500	64,696	3,462,085	-	4,891,202	5,811,929	10,703,131
Additions	520,686	-	331,245	24,992	88,106	49,492	-	908,347	323,116	265,068	2,511,051	-	2,511,051
Additions related to business combinations	620,236	-	17,470	18,878	150,821	-	-	22,496	-	-	829,901	991,881	1,821,782
Disposals/Retirements	(29,940)	-	-	(200)	(2,238)	(1,779)	-	(375)	(3,462,085)	-	(3,496,617)	-	(3,496,617)
Reclassifications & Transfers	(26,537)	-	-	-	5,190	21,347	-	-	-	-	-	-	-
Balance, Sept 30, 2022	1,553,462	26,158	366,410	457,016	628,610	117,034	3,500	995,164	3,785,201	265,068	4,735,537	6,803,810	11,539,348
Accumulated Depreciation													
Balance, December 31, 2021	157,551	15,980	153	272,115	320,234	44,394	146	21,819	7,963	-	840,355	-	840,355
Depreciation for the period	162,099	4,992	10,889	21,463	39,909	32,359	328	62,609	156,359	-	545,328	-	545,328
Accumulated depreciation related to business combinations	191,183	-	-	6,876	47,192	-	-	-	-	-	245,251	-	245,251
Disposals/Retirements	(28,667)	-	-	(200)	(584)	(1,779)	-	(375)	-	-	(237,040)	-	(237,040)
Balance, Sept 30, 2022	482,166	20,972	3,693	300,254	406,751	74,974	474	84,053	164,322	-	1,393,894	-	1,393,894
Net carrying Amount													
December 31, 2021	311,466	10,179	17,542	141,231	66,497	3,579	3,354	42,877	3,454,122	-	4,050,847	5,811,929	9,862,776
September 30, 2022	1,071,296	5,186	355,367	156,762	221,859	42,060	3,026	911,111	3,620,879	365,068	3,341,644	6,803,810	10,145,454

During the period ended September 30, 2022, the Company acquired intangible assets as part of its acquisition of the assets of MVT Geo Solutions Inc., Canadian Air National Inc., and RPV Aviation (refer to note 13).

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022 and 2021

7. Subsidiaries

These condensed consolidated interim 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 condensed interim consolidated financial statements 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	Country of Incorporation	Ownership Interest
Volatus Flight Systems Inc.	Fixed-wing Drone Technology	Canada	70%
Volatus Aerospace USA Corp.	Drone Solutions Provider	USA	90%
ConnexiCore LLC	Drone Solutions Provider	USA	100%
Indigenous Aerospace Corp.	RPAS/UAV Service and Training	Canada	49%
Volatus Aviation (Partner Jet Inc.)	Aircraft management	Canada	100%
RPV Aviation Inc.	Regulatory Consulting	Canada	100%
MVT Geo Solutions Inc.	RPAS/UAV Service	Canada	100%
Canadian Air National Inc.	Pipeline Inspection Services	Canada	100%
Volatus Aerospace UK Ltd.	RPAS/UAV Service and Training	UK	100%
Volatus Unmanned Services Inc.^{A1}		Canada	71%
- UAviation Aerial Solutions Limited	RPAS/UAV Service	Canada	100%
- SkyGate Videography Inc.	RPAS/UAV Service and Training	Canada	100%
- M3 Drone Services Limited	RPAS/UAV Service	Canada	100%
- M3 Drone Training Zone Inc.	RPAS/UAV Training	Canada	100%
- Canadian UAV Solutions Inc.	RPAS/UAV Service	Canada	100%
- OmniView Tech Corp.	Distribution & Service	Canada	100%

¹ - Volatus Unmanned Services is the infrastructure arm of Volatus Aerospace Corporation. All sales, services, and training related companies were acquired under Volatus Unmanned Services.

30% external shareholding of Volatus Flight Systems, 29% external shareholding of Volatus Unmanned Services, 10% external shareholding of Volatus Aerospace USA Corp (previously known as Tradeco One LLC), and 51% external shareholding of Indigenous Aerospace Corp. is attributable to Non-Controlling Interest in the condensed interim consolidated financial statements.

Volatus has entered into a joint venture agreement with a Latin American company to control 75% of the business. The business will be called as Volatus LATAM, and the JV company incorporation is pending approval.

Volatus Aerospace Corp.

Notes to Condensed Consolidated Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021

8. Deposits

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

(in C\$)	September 30, 2022	December 31, 2021
Deposit towards training school	\$ 12,000	\$ 12,000
Deposit towards rental	6,624	5,670
Deposit towards trade show	5,000	19,384
Deposit towards aircraft	128,937	128,920
Other deposits	42,058	-
Total	\$ 194,619	\$ 165,974

9. Trade Payables and Accrued Liabilities

(in C\$)	September 30, 2022	December 31, 2021
Accounts Payable	\$ 3,009,091	\$ 1,563,078
Audit fees Payable	-	35,000
Tax Payable	26,388	(226,419)
Payroll Liability	290,864	236,806
Other	397,970	850,138
Total	\$ 3,724,314	\$ 2,458,604

10. Short-term Borrowings

Current Portion of long-term borrowings

(in C\$)	September 30, 2022	December 31, 2021
BDC Loans	\$ 57,256	\$ 45,384
Vehicle Financing	141,954	10,344
Other Loans	15,226	14,970
Promissory Notes	136,450	131,438
Total	\$ 350,886	\$ 202,136

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.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022 and 2021

10. Short-term Borrowings (Continued)

Other short-term liabilities

(in C\$)	September 30, 2022	December 31, 2021
Shareholders loan	\$ 56,403	\$ 91,714
Other loans	65,455	66,455
Grant advance	159,620	75,000
Total	\$ 281,478	\$ 233,169

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

11. Long-Term Borrowings

(in C\$)	September 30, 2022	December 31, 2021
BDC loans	\$ 149,388	\$ 149,488
PEI Finance loan	8,226	14,756
Vehicle financing	502,773	37,759
CEBA loan	420,000	360,000
SBA loan	52,361	48,430
Promissory notes	1,996,520	2,099,493
Desjardin loans	200,000	-
Other loans	1,790,000	-
Total	\$ 5,119,268	\$ 2,709,926

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

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 entered into a demand revolving credit facility of \$1,000,000 on June 2, 2022, which bears interest based on the bank's prime rate plus 1.00%. On August 24, 2022, the Company has been extended additional demand revolving credit facility of \$1,000,000. The total demand revolving facility that has been made available is \$2,000,000. As at September 30, 2022, the amount drawn under this facility was \$1,800,000, which was included in other loans.

12. 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.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022 and 2021

12. Related Party Transactions (Continued)

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 Company is indebted for a sum of \$2,491,516.36 towards a promissory note and accrued liabilities against the purchase of a Citation X aircraft currently operated by Partner Jet (Volatus Aviation). The promissory note bears an interest rate of five percent (5%) and will be repaid in consecutive monthly installments of \$20,000.00 on the first of each month commencing on December 1, 2021 and continuing for 48 months with the balance then owing under the note being paid at that time.

The Company owes \$19,814,50 towards purchase of fuel for operating the Citation X on Charter as pass through transaction to external vendors.

On August 31, 2022, the Company entered into an independent consultant agreement (“Consultant Agreement”) with GripFast Solutions Inc., a company controlled by Andrew Leslie, 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 nine months ended Sept 30, 2022, the Company incurred fees of \$26,000 compared to \$Nil in 2021. As at Sept 30, 2022, the Company was indebted to this company the amount of \$8,000 (December 31, 2021 - \$nil).

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.

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 and nine months ended September 30, 2022 and 2021 included:

	Three months ended, September 30		Nine months ended, September 30	
	2022	2021	2022	2021
Management Fees paid to company controlled by CFO	\$ -	\$ 27,000	\$ -	\$ 45,000
Management Fees paid to company controlled by VP of Business Development	-	22,500	-	37,500
Salaries	221,250	18,000	635,400	109,377
Share-based Payments	303,922	70,404	867,993	207,384
	<u>\$ 525,172</u>	<u>\$ 137,904</u>	<u>\$ 1,503,393</u>	<u>\$ 399,261</u>

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022 and 2021

12. Related Party Transactions (Continued)

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 September 30, 2022, 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 \$180,000 per annum, is payable. If the termination had occurred on September 30, 2022, the amount payable under this agreement would be \$180,000.

13. Business Combination

RPV Aviation Inc.

On January 31, 2022, Volatus acquired RPV Aviation Inc., an Ontario-based regulatory consulting company specializing in the safety and certification of unmanned aircraft, for a total cash value of \$125,000, payable in four quarterly instalments. The purchase price includes a contingent consideration of \$25,000 payable on the first anniversary of acquisition upon meeting performance guarantees.

The fair value of identifiable assets acquired, and liabilities assumed as at the acquisition date are as follows:

Purchase Price Allocation - RPV	125,000
Tangible Assets Acquired	
Cash & Cash Equivalents	622
Accounts Receivables	17,283
Net Fixed Assets	1,924
Accounts Payable and accrued Liabilities	(6,773)
Tax Liabilities	(2,138)
Identified Intangible Assets	
Customer Relationships	75,827
Goodwill	38,256

The Company estimated the fair value as follows:

- 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;

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13. Business Combination (Continued)

The goodwill recognized on acquisition is attributable mainly to the expected future growth potential from the diversified operations and assembled workforce. None of the goodwill recognized is expected to be deductible for income tax purposes.

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 September 30, 2022. The next impairment analysis is scheduled on December 31, 2022.

MVT Geo-Solutions Inc.

On February 28, 2022, Volatus acquired MVT Geo Solutions Inc, a Quebec-based Geomatics service company specializing in data collection and processing, for an equity value of \$850,000 in cash and \$145,001 in shares in Volatus Aerospace. The Company assumed all assets and liabilities of MVT as part of the transaction.

The fair value of identifiable assets acquired, and liabilities assumed as at the acquisition date are as follows:

Purchase Price Allocation - MVT Geo	995,001
Tangible Assets Acquired	
Cash & Cash Equivalents	107,072
Accounts Receivables	160,866
Other CA	88,565
Net Fixed Assets	577,336
Right-of-Use Asset	
Accounts Payable and accrued Liabilities	(369,631)
Other Current Liabilities	(48,635)
Tax Liabilities	(35,257)
CEBA Loan	(50,000)
Non-Current Loans	(351,370)
Identified Intangible Assets	
Customer Relationships	868,059
Website	47,995

The Company estimated the fair value as follows:

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13. Business Combination (Continued)

- 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; and
- Website based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 0.5% and discount rate of 9.61% per annum.

Canadian Air National Inc.

On April 30, 2022, the Company acquired Canadian Air National for \$85,000 (\$90,000 including the shareholder debt of \$5,000), an Ontario based Transport Canada licensed commercial air carrier performing right of way patrol for utility companies. The payment is a deferred payment method over several months and includes \$35,000 in performance consideration due to be paid upon renewal of the customer contract. The same amount has been included in accrued liabilities due to the likelihood of contract renewal.

The fair value of identifiable assets acquired, and liabilities assumed as at the acquisition date are as follows:

Purchase Price Allocation - Canadian Air National	85,000
Assets and Liabilities	
Cash	7,725
Accounts Receivable	27,052
Accounts Payable	(7,345)
Accrued and other liabilities	(10,823)
Net Assets	16,610
Goodwill	68,390

The goodwill recognized on acquisition is attributable mainly to the expected future growth potential from the renewed customer contract. None of the goodwill recognized is expected to be deductible for income tax purposes.

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 September 30, 2022. The next impairment analysis is scheduled on December 31, 2022.

Notes to Condensed Consolidated Interim Financial Statements
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14. Share Capital

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the year ended December 31, 2021,

- The Company split its shares into 1:100,000 on March 9, 2021.
- Effective May 19, 2021, the Company did another split of 1:3.846166667

	# Shares (pre-split)	# Shares (post-split)
Common Shares	200	76,923,334
Total		

- The Company issued 8,298,001 common shares for convertible debt of \$4,183,000
- The Company issued 14,051,932 common shares in a private placement for \$9,133,756
- The Company issued 1,677,840 common shares to acquire the remaining stake of Partner Jet Corp.

Following the amalgamation, one share of the Resulting Issuer was converted for each 2.95454 shares of Partner Jet, current shareholders of Partner Jet (other than Volatus) own approximately 1.6% of the issued and outstanding shares of the Resulting Issuer (approximately 1.35% on a fully diluted basis)

During the period ended September 30, 2022, the Company issued 349,399 common shares to acquire MVT Geo Solutions Inc.

Contributed Surplus:

200 common shares were issued at par value of \$1 each. 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:

	# of shares	September 30, 2022	December 31, 2021
Issued for acquisition of Partner Jet Corp. Initial minority equity Investment	412,376	\$ 412,376	\$ 412,376
UAViation Aerial Solutions Limited Investment	291,946	291,946	291,946
Total		\$ 704,322	\$ 704,322

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14. Share Capital (Continued)

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 10)

Stock Options:

On January 2, 2021, the Company granted 884,615 additional options (after splits) at an exercise price of \$0.001 to be vested over three years. These options were accelerated and exercised into common shares on December 22, 2021 resulting in the issuance of 884,615 common shares.

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 year ended December 31, 2021 was \$0.52 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of \$0.52, risk-free interest rate of 0.39%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

On December 31, 2021, the Company granted 3,790,000 additional options at an exercise price of \$0.65. 3,390,000 options will be vested over three years and 400,000 options will be vested over two years.

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 year ended December 31, 2021 was \$0.49 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of \$0.65, risk-free interest rate of 1.75%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

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.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022 and 2021

14. Share Capital (Continued)

Warrants:

During the year ended December 31, 2021,

- \$4,183,000 of unsecured convertible debentures, including accrued interest payable, were converted into 4,329,457 units of warrants at a value of \$1,472,015. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.65 per warrant for a period of 2 years.
- The Company issued 8,004,985 units of warrants as part of its private placement round at a value of \$2,581,176. 7,025,966 units of warrants are exercisable into one common share of the Company at an exercise price of \$0.75 per warrant for a period of 2 years and 979,019 units of warrants are exercisable into one common share of the Company at an exercise price of \$0.65 per warrant for a period of 2 years.

Details of warrants and their fair value:

Issue Date	Exercise Price	Expiry Date	Number of warrants outstanding at September 30, 2022	Fair Value at September 30, 2022	Number of Warrants Outstanding at December 31, 2021	Fair Value at December 31, 2021
Dec 22, 2021	\$0.65	Dec 22, 2023	5,308,476	1,804,881	5,308,476	1,804,881
Dec 22, 2021	\$0.75	Dec 22, 2023	7,025,966	2,248,310	7,025,966	2,248,310

The fair values of these warrants were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Volatility – 100%

Dividend yield – 0%

Risk Free Interest Rate – 0.22% - 0.93%

Expiry – 2 years

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2021	-	-
Issued	12,334,442	\$ 0.71
Exercised	-	-
Forfeited	-	-
Outstanding, September 30, 2022	12,334,442	\$ 0.71

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022 and 2021

15. 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.

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

b) 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 condensed interim 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.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2022 and 2021

15. Financial Instruments and Risk Management (Continued)

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As at September 30, 2022 the Company did not have any foreign currency hedges in place.

The following financial assets and liabilities are denominated in U.S. dollars and are exposed to changes in the foreign exchange rate:

	September 30, 2022	December 31, 2021
Cash	\$ 4,073,392	\$ 168,337
Accounts Receivable and other current assets	493,173	282,236
Accounts Payable and other Liabilities	(1,162,744)	(176,198)
Net US dollars assets	\$ 3,403,820	\$ 274,374

c) 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.

d) 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.

e) 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.

Notes to Condensed Consolidated Interim Financial Statements
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15. Financial Instruments and Risk Management (Continued)

f) Sensitivity Analysis

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.

16. 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 Q2 2022.

As part of OmniView Tech Corp. acquisition, the company has committed to issuing additional 50 shares of Volatus Unmanned Services as an earn-out commitment upon meeting defined targets.

As part of the RPV aviation acquisition, the Company has recognized a contingent consideration of \$25,000 that arises because of an earn-out commitment.

17. Right-of-use assets

As of September 30, 2022, the Company’s right-of-use assets consisted of the followings:

(in C\$)	Total
Cost	
Balance, January 1, 2022	\$ 1,455,788
Additions during the period	-
Lease acquired in the acquisition	-
Balance, September 30, 2022	1,455,788
Accumulated amortization	
Balance, January 1, 2022	225,867
Depreciation expense for the period	234,488
Balance, September 30, 2022	460,355
Net book value	
December 31, 2021	\$ 1,229,921
September 30, 2022	\$ 995,433

Notes to Condensed Consolidated Interim Financial Statements
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18. Government Grants

The Company was awarded a grant of \$75,000 to one of its subsidiaries by Investment Quebec. The grant was started in 2020 to perform hot-spot detection for fire fighting and is non repayable. The grant has been recognized as part of other income.

19. Segmented Information

The Company operates under one reporting segment.

20. Subsequent Events

On February 24, 2022, Russian troops invaded Ukraine. This has led to sanctions imposed by different countries on Russia (and, in certain cases, Belarus). This unwarranted military action in Ukraine and related events occur at a time of significant global uncertainty and volatility. This uncertainty brings opportunity in the unmanned space as demand for drone technology in military and humanitarian causes increases. The volatile effect of this war does heighten trade frictions between certain countries but does not pose a significant business risk on a go-forward basis.

Closing of Financing

On October 6, 2022, the Company announced the closing of oversubscribed financing by issuing 11,171,812 units, inclusive of 60,612 Units forming part of the over-allotment option, at a price of \$0.36 per Unit for gross proceeds of approximately \$4,021,852. Each Unit is comprised of one common share in the capital of the Company (a "Common Share") and one Common Share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire, subject to adjustment in certain circumstances, one Common Share at an exercise price of \$0.50 for a period of 24 months from the date of issuance. The Company also closed its concurrent brokered private placement by issuing 569,222 units on the same terms as above for aggregate gross proceeds of approximately \$204,920. In connection with the Offering, the Company: (i) issued the Agents an aggregate of 879,475 compensation warrants, each of which is exercisable into one Common Share at an exercise price of \$0.36 for a period of 24 months from the date of issuance; and (ii) paid the Agents an aggregate cash commission of \$316,610.97.

Acquisitions

On October 13, 2022, Volatus announced the acquisition of shares in Synergy Aviation Ltd, an Alberta-based Oil and Gas pipeline inspection and surveillance company. Under the terms of the agreement, Volatus will make an equity investment of \$2.29 million in Synergy Aviation over the course of 10 months from closing in exchange for newly issued shares that will represent 51% of all outstanding shares. The transaction is scheduled to close on October 31, 2022 subject to necessary approvals and due diligence.

On October 18, 2022, Volatus announced the acquisition of shares in iRed Limited, a drone services and training company based in Emsworth, England. Under the terms of the agreement, Volatus will make an equity investment of £100K (\$156,000) in iRed in exchange for newly issued shares (treasury shares) that will represent 51% of all outstanding shares. The transaction is scheduled to close on October 31, 2022 subject to necessary approvals and due diligence.

End.