



**VOLATUS AEROSPACE CORP.**  
(Formerly Partner Jet Corp.)

**Audited Consolidated Financial Statements**

**For the year ended December 31, 2021 and December 31, 2020**

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

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### INDEPENDENT AUDITOR'S REPORT

#### To the Shareholders of Volatus Aerospace Corp.:

#### Opinion

We have audited the consolidated financial statements of Volatus Aerospace Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Basis for Opinion

The consolidated financial statements of the Company for the year ended December 31, 2020 were audited by another auditor who expressed an unqualified opinion on those statements on June 30, 2021.

#### Other Information

Management is responsible for the other information. The other information comprise:

- Management's Discussion and Analysis; and

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Nick Miseros.

*MS Partners LLP*

Licensed Public Accountants  
Toronto, Canada  
April 28, 2022

**Volatus Aerospace Corp.**  
**Consolidated Statements of Financial Position**

In C\$	Notes	December 31, 2021	December 31, 2020
<b>Assets</b>			
Current			
Cash & cash equivalents	6	\$ 8,806,836	\$ 189,973
Trade and other receivables	7	698,355	71,611
Prepaid expenses, deposits, and other current assets	7,11	801,135	74,881
Inventory	7	686,610	56,617
Total current assets		<u>10,992,937</u>	<u>393,082</u>
Property, plant and equipment	9	4,050,846	298,939
Intangible assets	9	5,811,929	4,077,082
Investment in associates		-	50,025
Investment in marketable securities	8	-	907,227
Right-of-use asset	16,20	1,229,921	-
Goodwill	16	583,188	307,179
Total non-current assets		<u>11,675,884</u>	<u>5,640,452</u>
<b>Total Assets</b>		<u>\$ 22,668,821</u>	<u>\$ 6,033,534</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Trade payables and accrued liabilities	12	\$ 2,458,604	\$ 114,350
Deferred revenue		432,096	26,523
Current portion of lease liability	16,20	284,651	-
Other short-term liabilities	13	233,169	100,091
Current portion of long-term borrowings	13	202,136	55,728
Contingent consideration	19	10,000	30,000
Total current liabilities		<u>3,620,656</u>	<u>326,692</u>
CEBA loan	14	360,000	100,000
Long-term borrowings	14	2,349,926	260,514
Lease Liability	16,20	1,078,196	-
Contingent Consideration	19	-	30,000
Total non-current liabilities		<u>3,788,122</u>	<u>390,514</u>
<b>Total Liabilities</b>		<u>7,408,778</u>	<u>717,206</u>
<b>Shareholders' Equity</b>			
Common equity	17	9,110,305	200
Warrants reserve	17	4,053,191	-
Share-based reserve	17	459,152	-
Preferred shares	17	704,322	704,322
Retained earnings		(2,345,515)	435,641
Contributed Surplus	17	2,989,819	2,989,819
Non-controlling interest	10	288,768	1,186,346
<b>Total Shareholders' Equity</b>		<u>15,260,042</u>	<u>5,316,328</u>
<b>Total Liabilities &amp; Shareholders' Equity</b>		<u>\$ 22,668,821</u>	<u>\$ 6,033,534</u>

Refer Note 1 (Nature of Operations & Going Concern), Note 19 (Commitment), and Note 26 (Subsequent Events)

Approved on behalf of the Board:

"Glen Lynch" \_\_\_\_\_ Director  
"Gord Silverman" \_\_\_\_\_ Director

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

## Consolidated Statements of Loss and Comprehensive Income (Loss)

	Notes	Year ended	
		December 31, 2021	December 31, 2020
Revenue		\$ 9,913,953	\$ 61,230
Cost of goods sold		6,298,929	56,913
Cost of Providing Services & Training		1,086,314	-
<b>GROSS PROFIT</b>		<b>2,528,710</b>	<b>4,317</b>
<b>OPERATING EXPENSES</b>			
Audit fees		72,300	25,000
Advertising & marketing		521,250	14,215
IT & tech		169,571	10,173
Personnel		2,080,871	5,430
Office cost		425,355	5,383
Travel		196,998	1,637
External partner cost		246,544	1,478
Depreciation	9	401,433	-
Share based Payments	15	459,152	-
		<b>4,573,473</b>	<b>63,316</b>
<b>(Loss) from operations</b>		<b>(2,044,763)</b>	<b>(58,999)</b>
<b>OTHER ITEMS - INCOME/(EXPENSE)</b>			
Canada Emergency Wage Subsidy		61,178	-
Unrealized gain on investments		-	494,851
Finance cost	23	(438,954)	(153)
Goodwill Impairment	16	(1,399,029)	-
Other income (expense)		131,785	-
Gain (Loss) on disposal of drones and accessories	9	37,006	-
Foreign exchange translation		(25,958)	(59)
<b>Net and Comprehensive Income (Loss)</b>		<b>\$ (3,678,734)</b>	<b>\$ 435,641</b>
<b>Total comprehensive Income (loss) for the period attributable to:</b>			
Owners of Volatus Aerospace Corp.		(2,781,156)	440,101
Non-controlling interest	10	(897,578)	(4,460)
		<b>(3,678,734)</b>	<b>435,641</b>
<b>Earning (Loss) per share</b>			
Basic		(0.033)	0.006
Diluted		(0.033)	0.006
<b>Weighted average number of common shares outstanding</b>			
Basic		84,447,725	76,923,334
Diluted		84,447,725	77,807,949

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

Volatus Aerospace Corp.

Consolidated Statements of Changes in Equity

	Number of shares *	Capital Stock	Preferred Shares	Warrants Reserve	Share-based Reserve	Contributed Surplus	Non-Controlling Interest	Retained Earnings	Total Shareholders Equity
Balance, January 1, 2020	-	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -
Equity Contribution	76,923,334	200	-	-	-	222,259	-	-	222,459
Shares issued upon acquisition	-	-	-	-	-	2,767,560	1,186,346	-	3,953,906
Issuance of Preferred Shares	0	-	704,322	-	-	-	-	-	704,322
Net Income for the year	-	-	-	-	-	-	-	435,641	435,641
		\$							
<b>Balance, December 31, 2020</b>	<b>76,923,334</b>	<b>200</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,989,819</b>	<b>\$ 1,186,346</b>	<b>\$ 435,641</b>	<b>\$ 4,612,006</b>
<b>Preference Shares Balance, December 31, 2020</b>	<b>\$ 704,322</b>		<b>\$ 704,322</b>						<b>\$ 704,322</b>

	Number of shares *	Capital Stock	Preferred Shares	Warrants Reserve	Share-based Reserve	Contributed Surplus	Non-Controlling Interest	Retained Earnings	Total Shareholders Equity
		\$							
Common Shares Balance, January 1, 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
Issuance of Stock Options	884,615	-	-	-	459,152	-	-	-	\$ 459,152
Shares Issued on Settlement of Debt	8,298,001	2,608,683	-	1,472,015	-	-	-	-	\$ 4,080,698
Shares Issued on Private Placement	14,051,932	5,915,962	-	2,581,176	-	-	-	-	\$ 8,497,138
Shares Issued on Acquisition of Partner Jet	1,677,840	1,090,103	-	-	-	-	-	-	\$ 1,090,103
Less: Private Placement expense	-	(504,643)	-	-	-	-	-	-	(504,643)
Net loss for the year	-	-	-	-	-	-	(897,578)	(2,781,156)	(3,678,734)
		\$							
<b>Common Shares Balance, December 31, 2021</b>	<b>101,835,722</b>	<b>9,110,305</b>		<b>\$ 4,053,191</b>	<b>\$ 459,152</b>	<b>\$ 2,989,819</b>	<b>\$ 288,768</b>	<b>\$ -2,345,515</b>	<b>\$ 14,555,720</b>
<b>Preference Shares Balance, December 31, 2021</b>	<b>704,322</b>		<b>\$ 704,322</b>						<b>\$ 704,322</b>

\* 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.

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

## Consolidated Statements of Cash Flows

	Year ended December 31,	
	2021	2020
<b>OPERATING ACTIVITIES</b>		
Net and Comprehensive Income (Loss)	(3,678,734)	435,641
Adjustments For:		
Depreciation	401,433	-
Loss on disposal of drones and accessories	37,006	-
Share based Payments	459,152	
Unrealized (gain) on investments	-	(494,851)
Goodwill write-off	1,399,029	
Unrealized Foreign Exchange Loss/(Gain)	(19,874)	
Finance Cost	112,125	
	(1,289,863)	(59,210)
<b>Net changes in non-cash working capital items:</b>		(37,773)
Trade and other receivables	185,640	
Prepaid expenses and deposits	(503,444)	
Inventory	(226,646)	
Trade payables and accrued liabilities	901,765	
Deferred revenue	(474,611)	
Other short-term liabilities	(165,860)	
<b>Cash (used in) Operating Activities</b>	<b>(1,573,017)</b>	<b>(96,983)</b>
<b>INVESTING ACTIVITIES</b>		
Additions to Property, Plant & Equipment	(254,343)	(2,071)
Additions to Intangible Assets	(23,465)	-
Business Combination, Net Cash	(1,289,037)	74,091
<b>Cash (used in) Investing Activities</b>	<b>(1,566,845)</b>	<b>72,020</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds/(Repayment) of Long-Term Loans	(81,400)	-
Contingent Consideration	(30,000)	
Lease Payment	(205,067)	-
Net Proceed from Common Equity	7,992,495	214,936
Net Proceeds from Convertible Debt	4,080,698	
<b>Cash provided by Financing Activities</b>	<b>11,756,726</b>	<b>214,936</b>
Net change in cash	8,616,863	189,973
Cash and cash equivalents, beginning of the period	189,973	-
<b>Cash and cash equivalents, end of the period</b>	<b>8,806,836</b>	<b>189,973</b>

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



## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

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### 1. Nature of Operations & Going Concern

Volatus Aerospace Corp. (the "Company") was incorporated on November 8, 2019 with its registered office in 60 Airport Road, Oro Medonte, Ontario L0L 2E0, Canada. On June 30, 2021, the Company completed private placement of subscription receipt financing and raised \$9,133,756 by issuing 14,051,932 subscription receipts at a price of \$0.65 per subscription receipt. The Company entered into definitive transaction agreement (the "Definitive Agreement") with Partner Jet Corp. pursuant to which the Company will acquire all of the issued and outstanding securities of Partner Jet Corp. (the "RTO Transaction"), which will be structured as a reverse takeover. On Dec 22, 2021, the Company amalgamated with Partner Jet Corp under a reverse takeover transaction to form Volatus Aerospace Corp. Under the terms of the Amalgamation, each shareholder of Volatus received 2.95454 shares of the amalgamated entity and each shareholder of Partner Jet received 1 share of the amalgamated entity. See Note 5 for details of the RTO Transaction. The company's shares trade on Toronto Venture Exchange (the "TSXV") under the symbol "VOL".

Volatus and entities it controls are together referred to in these consolidated financial statements as the "Company" or "VAC" or "Volatus". Refer to Note 10 for the Company's major subsidiaries.

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

### 2. Statement of Compliance

These consolidated financial statements of the Company, approved by the Board of Directors on April 28, 2022, have been prepared consistently in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS effective or issued as at April 28, 2022.

### 3. Basis of Preparation

These 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.

**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2021 and December 31, 2020**

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**3. Basis of Preparation (Continued)**

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

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

These consolidated financial statements include the accounts of the Company and its subsidiaries (note 10).

**Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars (“C\$”), the Company’s functional and presentation currency.

**Judgments and Estimates**

The preparation of these consolidated financial statements in accordance with IFRS requires Management to make judgments and estimates that affect:

- the application of accounting policies;
- the reported amounts of assets and liabilities;
- disclosures of contingent assets and liabilities; and
- the reported amounts of revenue and expenses during the reporting periods.

Actual results may differ from estimates made in these consolidated financial statements.

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.

**4. Summary of Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except as noted below and have been applied consistently throughout the Company.

**a) Revenue recognition**

The company earns its revenue from the sale of products, services, charter revenue, and training programs.

Revenue is recognized as follows:

Equipment Sales includes sale of drones, batteries, drone sets, and related accessories. This revenue is recognized when the goods leave the port of shipment or warehouse as significant risks and rewards are transferred

**4. Summary of Accounting Policies (Continued)**

**a) Revenue recognition (Continued)**

immediately, and company has no control over the goods. Revenue from equipment sales is measured at the fair value of the consideration received less an appropriate deduction for actual and expected returns, discounts, net of sales taxes.

Sale of Services includes drone services provided by professional drone operators relating to inspection, imaging, and data processing to enterprises and other customers. These services are provided across multiple sectors and industries across Canada.

Sale of Charter services include charter revenue from the Company's owned aircraft and is recognized at the completion of each charter flight.

Sale of Training includes drone pilot training programs in digital, virtual, and onsite formats to various levels of drone pilots as defined by Transport Canada and platform or sector specific training programs.

Revenue is only recognized to the extent that evidence of an arrangement exists, collection is reasonably certain, the sales price is fixed or determinable and title and risk have passed to the customer and the cost of sales is readily determinable.

IFRS 15 applies a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the completion of services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

**b) Cash and cash equivalents**

Cash and cash equivalents consist of cash and short-term guaranteed investment certificates, which are carried at the lower of cost and fair value. Cash equivalents are highly liquid and mature within a 90-day period from the date of purchase.

**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2021 and December 31, 2020**

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**4. Summary of Accounting Policies (Continued)****c) Property, plant, and equipment**

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Costs include expenditures that are directly attributable to the acquisition and bringing the asset to the location and condition for its intended use. Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives using the straight-line method:

Estimated useful lives are as follows:

<b>Category</b>	<b>Useful Life</b>
Drones	4 years
Drone Accessories	4 years
Computer & Equipment	4 years
Furniture & Fixtures	5 years
Leasehold Improvements	10 years
Aircraft	10 years
Vehicles	5 years
Cameras	4 years
Batteries	1 year

Management has, effective January 1, 2021, revised the useful life estimate of computer and equipment from 3 years to 4 years and leasehold improvements from 5 years to 10 years. In 2020, the company did not have any leasehold improvements. This change in estimate will not have any effect on the prior period reported profits.

The estimated useful live, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Property, plant and equipment are grouped into cash generating units (CGU) and reviewed for impairment when events or changes in circumstances indicate that the carrying value of the CGU may not be recoverable.

**d) Income taxes**

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of income and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**4. Summary of Accounting Policies (Continued)****d) Income taxes (continued)***Deferred tax*

Deferred tax is recognized using the liability method, with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future tax profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Any such reduction will be reversed to the extent that it becomes probable that sufficient taxable income will be provided.

**e) Foreign currency translation**

In preparing the consolidated financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Management has determined that the functional currency of the Company and its subsidiaries is the Canadian dollar.

**f) Share-based payment arrangements**

Equity-settled share-based payments to employees and directors and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of equity-settled share-based transactions was determined using the Black-Scholes Model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (equity-settled employee benefits reserve). At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees and directors are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2021 and December 31, 2020**

**4. Summary of Accounting Policies (Continued)**

**g) Purchase**

Purchase is recognized when all risks and rewards associated with the purchase are transferred to the Company, when goods are received and in control of the Company.

**h) Impairment of assets**

The carrying amounts of property, plant and equipment, right-of-use assets, investments in associates, goodwill and intangible assets with (infinite useful lives) are reviewed at the end of each reporting period to determine whether there are any indicators of impairment. Indicators of impairment may include a significant decline in asset market value, material adverse changes in the external operating environment which affect the manner in which the asset is used or is expected to be used, obsolescence, physical damage of the asset, or expected permanent closing of the store related to a property lease. If any such indicators exist, then the recoverable amount of the asset is estimated. Goodwill and intangible assets with indefinite useful lives and intangible assets not yet available for use are not amortized but are tested for impairment at least annually or whenever there is an indicator that the asset may be impaired.

For the purposes of impairment testing, goodwill is allocated to the CGU or a group of CGUs (“goodwill unit”) that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes. As at December 31, 2021, goodwill is allocated as follows:

	<b>Goodwill unit description</b>
Volatus goodwill	A group of CGUs comprised of all acquired companies, excluding Partner Jet
Partner Jet goodwill	One CGU comprised of Partner Jet brand

During the years ended December 31, 2021 and 2020, the Company recognized impairment charges on its goodwill (Note 15). The total impairment charge on goodwill of \$1,422,840 (2020 - \$Nil) represents a write-down of the goodwill acquired from Partner Jet CGU.

**Determining the Recoverable Amount**

An impairment loss is recognized when the carrying amount of an asset exceeds the recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less cost to sell (FVLCS) and its Value in Use (VIU). In assessing VIU, the estimated future cash flows are discounted to their present value. Cash flows are discounted using a discount rate that includes a risk premium specific to each line of business. The Company estimates cash flows before taxes based on the most recent actual results or budgets. Cash flows are then extrapolated over a period of up to five years, taking into account a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal values is based on the Bank of Canada’s target inflation rate or a growth rate specific to the individual item being tested based on Management’s estimate.

**4. Summary of Accounting Policies (Continued)****Recording Impairments and Reversals of Impairments**

Impairments and reversals of impairments are recognized in other income in the Consolidated Statements of Income. Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated and then impairments of goodwill cannot be reversed. Impairments of other assets recognized in prior periods are assessed at the end of each reporting period to determine if the indicators of impairment have reversed or no longer exist. An impairment loss is reversed if the estimated recoverable amount exceeds the carrying amount. The increased carrying amount of an asset attributable to a reversal of impairment may not exceed the carrying amount that would have been determined had no impairment been recognized in prior periods.

**i) Inventories**

Inventories are carried at the lower of cost and net realizable value. Cost comprises of direct materials, direct labour, and appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realizable value is the estimated selling price of inventory during the normal course of business less estimated selling expenses.

Cash consideration received from vendors is recognized as a reduction to the cost of related inventory, unless the cash consideration received is either a reimbursement of incremental costs incurred by the Company or a payment for assets or services delivered to the vendor.

The cost of inventories includes costs incurred in bringing the inventories to their present location and condition.

All inventories are finished goods and includes drones, accessories, and batteries.

**j) Intangible Assets****Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable assets acquired and liabilities assumed in a business combination. Goodwill is measured at cost less any accumulated impairment and is not amortized.

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ("CGU") to which it relates. Goodwill is not amortized but is evaluated for impairment against the carrying amount of the CGU annually or more often if events or circumstances indicate that there may be an impairment. The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other nonfinancial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified. Goodwill is stated at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

**4. Summary of Accounting Policies (Continued)**

**j) Intangible Assets (continued)**

**Goodwill (Continued)**

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. Management uses judgment in estimating the recoverable amounts of the Company's CGUs and uses internally developed models that consider various factors and assumptions including forecasted cash earnings, growth rates and discount rates. The use of different assumptions and estimates could influence the determination of the existence of impairment and the valuation of goodwill.

**Indefinite Life Intangible Assets**

Intangible assets with indefinite useful lives are comprised of the acquired drone technologies and intellectual properties.

Intangible assets with indefinite useful lives are measured at cost, less any accumulated impairment and are not amortized. Expenditures on research activities are expensed as incurred.

**k) Equity**

The Company's equity comprises the proceeds received for its issued common shares less any costs of issuance, contributed surplus arising from the fair value of the stock options granted and its net and comprehensive profit or loss since incorporation.

Repurchased shares are removed from equity. No gain or loss is recognized in net income on the purchase, sale, issue, or cancellation of the Company's shares.

**l) Financial instruments**

**Financial Assets:**

Financial assets are categorized for subsequent measurement as follows:

*Amortized cost*

Financial assets that are held in a business model with the objective of collecting contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI") are measured at amortized cost ("AC"). The Company's trade and other receivables are measured at amortized cost. Gains and losses are recognized in the statement of income when the trade and other receivables are derecognized or impaired.

*Financial assets at fair value through profit and loss*

Financial assets that are held for trading and derivative assets are required to be measured at fair value through profit and loss ("FVTPL"). Financial assets that meet certain conditions may be designated at fair value through profit and loss upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in profit and loss as incurred.



**4. Summary of Accounting Policies (Continued)**

**l) Financial instruments (continued)**

Assets in this category are subsequently measured at fair value with gains or losses recognized in profit and loss. The fair values of derivative financial instruments are based on changes in observable prices in active markets or by a valuation technique where no market exists.

The company's cash and cash equivalents are designed as financial assets at fair value through profit and loss.

*Fair value through other comprehensive income*

Financial assets that are held to both collect contractual cash flows and for sale are required to be measured at fair value through other comprehensive income ("FVOCI"). Other financial assets, provided they are not held for trading and have not been designated as at fair value through profit and loss, can be designated as at fair value through other comprehensive income on initial recognition.

Gains and losses are recognized in other comprehensive income and presented in the available for sale reserve within equity, except for the accretion in value based on the effective interest method, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit and loss. Financial assets measured at fair value through other comprehensive income for which fair value cannot be estimated reliably, are measured at cost and any impairment losses are recognized in profit and loss. Upon initial recognition, attributable transaction costs are recognized in profit and loss as incurred. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from equity to profit and loss and presented as a reclassification adjustment within other comprehensive income.

**Impairment of financial assets at amortized cost**

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

**Financial Liabilities:**

Financial liabilities are categorized as follows for subsequent measurement:

*Amortized cost*

Financial liabilities that are not otherwise measured as at fair value through profit and loss or designated at fair value are measured at amortized cost using the effective interest rate method. Any host contract in a hybrid instrument is also measured at amortized cost. Gains and losses are recognized in profit and loss when the liabilities are derecognized.

**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2021 and December 31, 2020**

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**4. Summary of Accounting Policies (Continued)**

**l) Financial instruments (continued)**

**Financial Liabilities (continued):**

Transaction costs incurred in connection with the issuance of loans and borrowings are capitalized and recorded as a reduction of the carrying amount of the related financial liabilities and amortized using the effective interest method.

The Company's financial liabilities measured at amortized cost include trade payables and accrued liabilities, Other short-term liabilities, long-term borrowing, CEBA loan, and contingent consideration.

*Financial liabilities at fair value through profit and loss*

Financial liabilities that are held for trading and stand-alone derivative liabilities are required to be measured at fair value through profit and loss ("FVTPL"). When certain conditions are satisfied, embedded derivatives are required to be separately recognized and measured at fair value with subsequent changes in fair value recognized in profit and loss. A designation can be made at initial recognition for financial liabilities that include one or more embedded derivatives, provided the host contract is not a financial asset, to measure the entire hybrid instrument at fair value. Where certain criteria are met, for example measurement at amortized cost would create measurement inconsistencies, the financial liability can also be designated at fair value.

For such designated financial liabilities, the amount of the change in fair value that relates to changes in the entity's own credit risk is recognized in other comprehensive income and the remaining amount of the change in fair value is recognized in profit and loss. All contingent consideration payable is also included in this category.

The Company has not designated any financial instruments as hedges for accounting purposes.

The fair values of financial liabilities are based on changes in observable prices in active markets or by a valuation technique where no market exists. Transaction costs attributable to the issuance of financial liabilities at fair value through profit and loss are recognized in profit and loss as incurred.

**Classification:**

All financial instruments measured at fair value and for which fair value is disclosed are categorized into one of three hierarchy levels. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

(i) Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

(ii) Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2021 and December 31, 2020**

**4. Summary of Accounting Policies (Continued)**

**m) Financial instruments (continued)**

**Financial Liabilities (continued)**

(iii) Level 3 Inputs - techniques which use inputs which have a significant effect on the recorded fair value for the asset or liability that are not based on observable market data (unobservable inputs).

De-recognition:

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

	Measurement category under IFRS 9
Cash and cash equivalents	Financial assets at FVTPL
Trade and other receivables	Financial assets at amortized cost
Investment in marketable securities	Financial assets at FVTPL
Trade payables and accrued liabilities, Other short-term liabilities, long-term borrowings, CEBA loan, and Contingent consideration	Financial liabilities at amortized cost

**n) Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

Onerous Contracts: A provision for onerous contracts would be recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision would be measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company would recognize any impairment loss on the assets associated with the contract.

**4. Summary of Accounting Policies (Continued)**

**o) Accounting judgments and estimates**

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual outcomes could differ from these estimates.

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Estimates are based on a number of factors, including historical experience, current events and actions that the Company may undertake in the future, and other assumptions that are believed to be reasonable under the circumstances. By their nature, these estimates are subject to measurement uncertainty. Key areas of estimation, where management has made subjective judgments, often as a result of matters that are inherently uncertain, are the allowance for doubtful accounts, valuation of deferred income taxes, useful lives and amortization of depreciable assets, measurement of share-based compensation plan and provisions. Significant changes in assumptions could result in a material adjustment to the carrying amounts of assets and liabilities and revenues and expenses.

**p) Borrowing Costs**

Borrowing costs directly attributable to the acquisition of a qualifying asset are capitalized. Qualifying assets are those that require a minimum of three months to prepare for their intended use. All other borrowing costs are recognized in cost of producing revenue or in net finance costs in the Consolidated Statements of Income in the period in which they are incurred.

**q) Debt**

Debt is classified as current when the Company expects to settle the liability in its normal operating cycle, it holds the liability primarily for the purpose of trading, the liability is due to be settled within 12 months after the date of the Statement of Financial Position, or it does not have an unconditional right to defer settlement of the liability for at least 12 months after the date of the Statement of Financial Position.

**r) Business Combinations**

The Company applies the acquisition method in accounting for business combinations.

The Company measures goodwill as the difference between the fair value of the consideration transferred, including the recognized amount of any non-controlling interests in the acquiree and the net recognized amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Company on behalf of the acquiree, the fair value of any contingent consideration and equity interests issued by the Company.

**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2021 and December 31, 2020**

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**4. Summary of Accounting Policies (Continued)**

**r) Business combinations (continued)**

Where a business combination is achieved in stages, previously held interests in the acquired entity are remeasured to fair value at the acquisition date, which is the date control is obtained and the resulting gain or loss, if any, is recognized in net income.

The fair values of property and equipment recognized as a result of a business combination is based on either the cost approach or market approach, as applicable. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each act knowledgeably and willingly. For the cost approach, the current replacement cost or reproduction cost for each major asset is calculated.

The fair values of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of sale and a reasonable profit margin based on the effort required to complete and sell the inventories. Transaction costs that the Company incurs in connection with a business combination are expensed immediately.

The company has not disclosed the proforma revenue and profit or loss of combined entity for the current reporting period as though the acquisition occurred at the beginning of the reporting period as required by IFRS 3.B64(q) because of differential accounting practices adopted by acquirees and inadequate daily accounting practises adopted in periods before acquisition.

**s) Loss per share**

Basic loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. To compute diluted loss per share, adjustments are made to common shares outstanding, if applicable. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would be outstanding if, at the beginning of the period or at the time of issuance, all options and warrants were exercised. The proceeds from exercise are assumed to be used to purchase the Company's common shares at their average market price during the period. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period

The common shares outstanding used for computation of loss per share reflect the share split described in Note 16. This presentation is consistent with the principles in IAS 33.64, which requires calculation of basic and diluted loss per share for all periods presented to be adjusted retrospectively if changes occur to the capital structure after the reporting period but before the financial statements are authorized for issue.

**4. Summary of Accounting Policies (Continued)**

**t) Compound financial instruments**

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

**u) Application of new International Financial Reporting Standards (“IFRS”)**

*Amendment to IFRS 16, COVID-19-Related Rent Concessions beyond June 30, 2021*

In March 2021, the IASB extended, by one year, the May 2020 amendment that permits lessees, as a practical expedient, not to assess whether particular rent concessions that reduce lease payments occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

The amendment is effective for annual periods beginning on or after April 1, 2021, with earlier application permitted. The amendment did not have an impact on the consolidated financial statements.

*Amendments to IFRS 3, Business Combinations*

In October 2018, the IASB issued amendments to the guidance in IFRS 3, Business Combinations, which revise the definition of a business for acquisition accounting purposes. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present. To be considered a business without outputs, there will now need to be an organized workforce present. Under the new standard, the changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions.

The amendments to IFRS 3 were effective for business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting periods beginning on or after January 1, 2020. The amendment did not have an impact on the consolidated financial statements. The Company will continue to assess the impact of this standard on a case-by-case basis upon future acquisitions performed but does not anticipate a material impact due to the nature and structure of its historical acquisitions.

**4. Summary of Accounting Policies (Continued)**

**v) Future Accounting Pronouncements**

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

*IAS 1: Classification of Liabilities as Current or Non-Current and Deferral of Effective Date*

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. These amendments:

- specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months;
- provide that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and
- clarify when a liability is considered settled.

On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance by one year to annual periods beginning on or after January 1, 2023 and is to be applied retrospectively. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

*IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors*

In February 2021, the IASB issued amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments also clarify the measurement techniques and inputs used to develop accounting estimates.

The new guidance will be effective for annual periods beginning on or after January 1, 2023, with earlier application permitted, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date.

*IAS 37 Contingent Onerous contracts – Cost of Fulfilling a Contract - Amendments to IAS 37*

In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities, and Contingent Assets. The amendments specify which costs should be included when assessing whether a contract will be loss-making. These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted. The Company does not anticipate a significant impact on its consolidated financial statements as a result of this amendment.

**4. Summary of Accounting Policies (Continued)**

**v) Future Accounting Pronouncements (Continued)**

*IAS 12, Income Taxes*

In May 2021, the IASB published Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12) that clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change is an exemption from the initial recognition exemption, which does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. The amendments to IAS 12 are effective for annual reporting periods beginning on or after January 1, 2023. The Company does not anticipate a significant impact on its consolidated financial statements as a result of this amendment.

**w) Investment in Associates**

Associates are entities over which the Company has significant influence and that are neither a subsidiary nor an interest in a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. Associates are accounted for using the equity method. The Company's share of its associates' post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates; unrealized losses are also eliminated unless there is evidence of the impairment of the asset transferred.

**x) Government Grant**

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses for the related costs for which the grants are intended to compensate.



# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 5. Reverse Takeover (RTO) Transaction

Pursuant to definitive Agreement (Note 1), on December 22, 2021, upon completion of the RTO Transaction, Partner Jet Corp. (PJT) and Volatus Aerospace Corp. amalgamated pursuant to the *Business Corporations Act* (Ontario) to form a new corporation called Volatus Aerospace Corp. ("Volatus") which will carry on the business of Volatus as its primary business while continuing to carry on the current business of Partner Jet as well.

For accounting and financial reporting purposes, Volatus Aerospace Corp. is the accounting acquirer and Partner Jet Corp. is the accounting acquiree. The RTO has been accounted for as a business combination as Partner Jet meets the definition of a business under IFRS 3 Business Combinations.

The purchase consideration to complete the RTO and the fair value of the net assets acquired were as follows:

<b>Partner Jet Purchase Price Allocation</b>		<b>(in C\$)</b>
Purchase Price		1,090,103
Fair Value of previous investment held by Volatus		907,227
<b>Total Purchase Price</b>		<b>1,997,330</b>
<b>Assets</b>		
Cash	723,624	
Accounts Receivable	77,205	
Accrued Receivables	11,070	
Prepaid Expenses	50,812	
Other Current Assets	299,915	
Non-Current Assets	3,472,731	
Accounts Payable	(369,944)	
Accrued Liabilities	(850,057)	
Other Current Liabilities	(199,725)	
Deferred Revenue	(397,837)	
Long-Term Liabilities	(2,099,493)	
Canada Emergency Business Account (CEBA) Loan	(120,000)	
<b>Net Assets</b>		<b>598,301</b>
<b>Goodwill</b>		<b>1,399,029</b>

As a result of this reverse asset acquisition, a goodwill of \$1,422,840 has been recorded to reflect the difference between cost of acquisition less the net fair value of the assets acquired. This goodwill was written-off as part of the impairment testing as of December 31, 2021 (Note 16).

### Closing of Subscription Receipt Financing

The Company has raised \$9,133,756 through subscription receipts on June 30, 2021. Each subscription receipt consists of 1 share in resulting entity (to be named Volatus Aerospace Corp.) and half warrant. Each warrant can be converted into 1 equity share with an expiry of 24 months from the anniversary of the closing of the RTO and exercise

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

price of \$0.75 per share (Refer Note 17). The subscription receipts have converted into 14,051,932 shares at an issue price of \$0.65 per share. The Company has 7,025,966 outstanding warrants from this financing.

### Finder's Fees

In connection with the Subscription Receipt Financing, the finder's fees consist of aggregate of \$636,362.90 in cash payments and the issuance of 979,010 finder's compensation warrants (the "compensation warrants") to eligible finders. 50% of cash fees (\$318,182) was paid on closing of subscription receipt financing and balance 50% was paid during escrow release. Each Compensation Warrant entitles the holder thereof to purchase one Common Share of Volatus at a price of \$0.65 for a period of 24 months.

The RTO Transaction was completed by the filing of articles of amalgamation for the Company and Partner Jet Corp. on December 22, 2021, resulting in, among other things, conversion of the Subscription Receipts to shares and warrants, the release of the Subscription Receipt, the amalgamation of the Company and Partner Jet Corp. to form a newly amalgamated company called Volatus Aerospace Corp. ("Amalco") and the conversion of all outstanding securities of the Company into an equal number of equivalent securities of Amalco. The TSX Venture Exchange issued its final bulletin accepting the listing of the shares of Amalco on December 30, 2021 and the shares of Amalco began trading on the TSX Venture Exchange on January 4, 2022. (Refer Note 26)

### 6. Cash & Cash Equivalents

Cash and cash equivalents comprise the following:

(in C\$)	December 31, 2021	December 31, 2020
Cash	\$ 37,821	\$ 1,253
Bank	8,746,829	183,131
Paypal	22,186	5,589
Cash & Cash Equivalent	\$ 8,806,836	\$ 189,973

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 7. Receivables, Other Assets, and Inventory

(in C\$)	December 31, 2021	December 31, 2020
Trade Receivables	\$ 698,355	\$ 71,611

#### Prepaid Expenses and Deposits

(in C\$)	December 31, 2021	December 31, 2020
Prepaid Expenses	\$ 607,678	\$ 19,672
Security Deposit	165,974	17,000
Other current assets	27,483	38,209
Total	\$ 801,135	\$ 74,881

#### Inventory

(in C\$)	December 31, 2021	December 31, 2020
Inventory	\$ 686,610	\$ 56,617
<b>Receivable &amp; other current assets</b>	<b>\$ 2,186,100</b>	<b>\$ 203,109</b>

The annual impairment test was conducted, and no inventory write down was noted for the year ended December 31, 2021 and the year ending December 31, 2020.

### 8. Investment in Marketable Securities

Investment in marketable securities are investments held for sale and the Company does not have control or significant influence. The shares in the public company were classified as FVTPL and were recorded at fair value using the quoted market price as of December 31, 2020 and were therefore were classified as level 1 within the fair value hierarchy.

During the year ending December 31, 2021, the Company through RTO acquired Partner Jet Corp. and thus have \$ NIL investment in marketable securities.

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 9. Property, Plant & Equipment

	Drones & Accessories	Camera & Accessories	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Batteries	Health & Safety	Vehicle	Aircraft	Total Tangible Assets	Intangible Assets	Total
<b>Cost</b>												
Balance, December 31, 2020	328,483	21,964	-	12,966	60,020	37,173	-	64,696	-	525,302	4,077,082	4,602,384
Additions	143,615	4,194	17,695	27,684	45,491	14,227	3,500	-	-	256,406	23,465	279,871
Additions related to business combinations	55,037	-	-	372,697	289,939	-	-	-	3,462,085	4,179,758	1,711,382	5,891,141
Disposals/Retirements	(66,618)	-	-	-	(219)	(3,427)	-	-	-	(70,264)	-	(70,264)
Reclassifications & Transfers	8,500	-	-	-	(8,500)	-	-	-	-	-	-	-
<b>Balance, December 31, 2021</b>	<b>469,017</b>	<b>26,158</b>	<b>17,695</b>	<b>413,346</b>	<b>386,731</b>	<b>47,973</b>	<b>3,500</b>	<b>64,696</b>	<b>3,462,085</b>	<b>4,891,202</b>	<b>5,811,929</b>	<b>10,703,131</b>
<b>Accumulated Depreciation</b>												
Balance, December 31, 2020	149,498	9,673	-	7,098	21,479	30,769	-	8,626	-	227,144	-	227,144
Depreciation for the period	18,126	6,307	153	15,430	27,183	17,052	146	13,193	7,963	105,553	-	105,553
Accumulated depreciation related to business combinations	17,231	-	-	249,587	273,697	-	-	-	-	540,515	-	540,515
Disposals/Retirements	(29,429)	-	-	-	-	(3,427)	-	-	-	(32,856)	-	(32,856)
Reclassifications & Transfers	2,125	-	-	-	(2,125)	-	-	-	-	-	-	-
<b>Balance, December 31, 2021</b>	<b>157,551</b>	<b>15,980</b>	<b>153</b>	<b>272,115</b>	<b>320,234</b>	<b>44,394</b>	<b>146</b>	<b>21,819</b>	<b>7,963</b>	<b>840,355</b>	<b>-</b>	<b>840,355</b>
<b>Net carrying Amount</b>												
31-Dec-20	178,985	12,291	-	5,868	38,540	6,404	-	56,070	-	298,158	4,077,082	4,375,240
<b>31-Dec-21</b>	<b>311,466</b>	<b>10,178</b>	<b>17,542</b>	<b>141,231</b>	<b>66,497</b>	<b>3,579</b>	<b>3,354</b>	<b>42,877</b>	<b>3,454,122</b>	<b>4,050,846</b>	<b>5,811,929</b>	<b>9,862,775</b>

During the period ended March 31, 2021, the Company acquired intangible assets as part of its acquisition of the assets of OmniView Tech Corp. and Canadian UAV Solutions Inc. (refer to note 16). On July 31, 2021, the Company acquired intangible assets as part of its acquisition of the assets ConnexiCore LLC (refer to note 16)

Management conducted its test of impairment for both the tangible and intangible assets and no indicators of impairment were noted for the year ending December 31, 2021 and the year ended December 31, 2020.

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 10. 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 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	Fixed-wing Drone Technology	Canada	70%
Volatus Aerospace USA Corp. (Formerly TradeCo One LLC)	Drone Solutions Provider	USA	90%
ConnexiCore LLC	Drone Solutions Provider	USA	100%
Indigenous Aerospace Corp.	RPAS/UAV Service and Training	Canada	49%
Partner Jet Inc.	Aircraft management	Canada	100%
<b>Volatus Unmanned Services<sup>1</sup></b>		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	RPAS/UAV Service	Canada	100%
- OmniView Tech Corp.	Distribution & Service	Canada	100%

<sup>1</sup> - 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 USA Corp (previously known as Tradeco One LLC), and 51% external shareholding of Indigenous Aerospace Corp. is attributable to Non-Controlling Interest in the consolidated financial statements.

### 11. Deposits

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

(in C\$)	December 31, 2021	December 31, 2020
Deposit towards Training School	\$ 12,000	\$ 12,000
Deposit towards rental	5,670	-
Deposit towards trade show	19,384	
Deposit towards Aircraft	128,920	5,000
Total	\$ 165,974	\$ 17,000

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 12. Trade Payables and Accrued Liabilities

(in C\$)	December 31, 2021	December 31, 2020
Accounts Payable	\$ 1,563,078	\$ 24,101
Audit fees Payable	\$ 35,000	25,000
Tax Payable	(226,419)	6,822
Payroll Liability	\$ 236,806	36,025
Other	\$ 850,138	22,402
<b>Total</b>	<b>\$ 2,458,604</b>	<b>\$ 114,350</b>

### 13. Short-term Borrowings

#### Current Portion of long-term borrowings

(in C\$)	December 31, 2021	December 31, 2020
BDC Loans	\$ 45,384	\$ 45,384
Vehicle Financing	10,344	10,344
Other Loans	14,970	-
Promissory Notes	131,438	-
<b>Total</b>	<b>\$ 202,136</b>	<b>\$ 55,728</b>

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

#### Other short-term liabilities

(in C\$)	December 31, 2021	December 31, 2020
Shareholders Loan	\$ 91,714	\$ 93,143
Other Loans	66,455	6,948
Grant Advance	75,000	
<b>Total</b>	<b>\$ 233,169</b>	<b>\$ 100,091</b>

The shareholders' loan is interest-free and does not have any payment terms.

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 14. Long-Term Borrowings

(in C\$)	December 31, 2021	December 31, 2020
BDC Loans	\$ 149,488	\$ 194,872
PEI Finance Loan	14,756	25,000
Vehicle Financing	37,759	40,642
CEBA Loan	360,000	100,000
SBA Loan	48,430	-
Promissory Notes	2,099,493	-
<b>Total</b>	<b>\$ 2,709,926</b>	<b>\$ 360,514</b>

The Company applied for and received the \$360,000 Canada Emergency Business Account (“CEBA”) which is an interest-free loan to cover operating costs which was offered in the context of the Covid-19 pandemic outbreak.

Repaying the balance of the loan on or before December 31, 2022, will result in a loan forgiveness of \$20,000 for each \$60,000 CEBA loan. On December 31, 2022, the Corporation has the option to extend the loan for 3 years and it will bear a 5% interest rate.

The Company was also approved for PEI Financing loan applied towards financing equipment purchase and working capital management due to be paid in full by 2026.

### 15. Related Party Transactions

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

#### Trade payables and accrued liabilities:

Company also received a working capital advance of \$200,000 from a company controlled by a Board member. This advance was repaid before the end of 2021.

On May 1, 2021, the Company entered into an independent Consultant Agreement with a company controlled by Abhinav Singhvi, CFO, to provide executive consulting services to the Company. 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 as Payroll Expenses. For the year ended December 31, 2021, the Company incurred fees of \$72,000 compared to Nil in 2020. As at December 31, 2021, the Company was indebted the amount of \$5,085.

On May 1, 2021, the Company entered into an independent Consultant Agreement with a company controlled by Rob Walker, VP of Business Development, to provide executive consulting services to the Company. 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 as Payroll Expenses. For the year ended December 31, 2021, the Company incurred fees of \$60,000 compared to Nil in 2020. As at December 31, 2021, the Company was indebted the amount of \$7,875.

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# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

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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 year ended December 31, 2021 and 2020 included:

	Year ended December 31	
	2021	2020
Management Fees paid to company controlled by CFO	72,000	-
Management Fees paid to company controlled by VP of Business Development	60,000	-
Salaries	282,194	-
Share-based Payments	399,262	-

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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 December 31, 2021, 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 December 31, 2021, the amount payable under this agreement would be \$180,000.

On December 31, 2021, the Company granted 3,790,000 options to officers, board of directors, and an employee of the Company.



# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 16. Business Combination

On March 31, 2021, Volatus Unmanned Services closed the acquisition of two companies: OmniView Tech Corp. and Canadian UAV Solutions Inc. by acquiring 100% of outstanding shares of these entities in exchange for minority equity stakes in Volatus Unmanned Services as part of its roll up strategy to expand its presence in Canada.

On July 31, 2021, Volatus Aerospace Corp. closed the acquisition of Connexicore LLC by acquiring 100% of outstanding shares of these entities in exchange for minority equity stakes in Volatus USA Corp as part of its roll up strategy to expand its presence in the USA.

On Dec 22, 2021, the Company amalgamated with Partner Jet Corp under a reverse takeover transaction to form Volatus Aerospace Corp. Under the terms of the Amalgamation, each shareholder of Volatus received 2.95454 shares of the amalgamated entity and each shareholder of Partner Jet Corp. received 1 share of the amalgamated entity resulting in total of 1,677,840 shares in the Company.

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

#### OmniView Tech Corp.

OmniView Tech Corp. Purchase Price Allocation	
<b>Purchase Price</b>	\$ 2,000,000
<b>Tangible Assets Acquired</b>	
Cash & Cash Equivalents	363,057
Accounts Receivables	361,173
Inventory	403,348
Prepaid Expenses	222,810
Other CA	60,300
Net Fixed Assets	121,802
Right-of-Use Asset	281,360
Accounts Payable and accrued Liabilities	(209,034)
Other Current Liabilities	(416,028)
Tax Liabilities	(129,245)
CEBA Loan	(60,000)
Lease Liability	(281,360)
<b>Identified Intangible Assets</b>	
Customer Relationships	698,603
Website	307,207
<b>Goodwill</b>	<b>276,007</b>

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 16. Business Combination (Continued)

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 17.20% 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 16.48% per annum.

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 Company conducted its annual goodwill impairment analysis as at December 31, 2021. 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.

#### Canadian UAV Solutions

Canadian UAV Solutions Purchase Price Allocation		
<b>Purchase Price</b>		<b>\$ 10</b>
Cash & Cash Equivalents	33,068	
Accounts Receivables & Current Assets	2,721	
Net Fixed Assets	43,608	
Other Current Liabilities	(10,206)	
Tax Liabilities		
CEBA Loan	(60,000)	
Shareholders Loan	(70,955)	
<b>Identified Intangible Assets</b>		
<b>Customer Relationships</b>		<b>61,774</b>

The Company estimated the fair value of 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 17.20% per annum.

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 16. Business Combination (Continued)

#### ConnexiCore LLC

On July 31, 2021, the Company has completed the acquisition of ConnexiCore LLC, Pennsylvania based on-demand nationwide commercial drone services and solutions provider that specializes in aerial data collection, image and video analysis, aerial mapping, and 3D photogrammetry for industrial clients for an equity value of US\$175,000, assuming all debt of ConnexiCore, and issuing 10% equity of Volatus Aerospace USA Corp. (formerly known as TradeCo One LLC). Volatus Aerospace USA Corp. Volatus paid cash of US\$ 459,229 to acquire 100% outstanding shares of ConnexiCore (US\$175,000) and retire long-term debt (US\$284,229). Purchase Price allocation has been shown below (in C\$).

<b>ConnexiCore Purchase Price Allocation</b>		<b>(in C\$)</b>
<b>Purchase Price</b>		<b>\$ 574,679</b>
Cash and Cash Equivalents	115,092	
Computer and Equipments	2,096	
Accounts Payable	(13,453)	
Credit Card Liabilities	(15,215)	
Deferred Revenue	(66,320)	
Log-term loans	(91,319)	
<b>Identified Intangible Assets</b>		
<b>Website</b>		<b>196,440</b>
<b>Customer Relationships</b>		<b>447,357</b>

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 5% per annum and discount rate of 17.20% 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 16.48% per annum.

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 16. Business Combination (Continued)

#### Partner Jet Corp.

On Dec 22, 2021, the Company amalgamated with Partner Jet Corp under a reverse takeover transaction to form Volatus Aerospace Corp. Under the terms of the Amalgamation, each shareholder of Volatus received 2.95454 shares of the amalgamated entity and each shareholder of Partner Jet Corp. received 1 share of the amalgamated entity resulting in total of 1,677,840 shares in the Company.

<b>Partner Jet Purchase Price Allocation</b>		<b>(in C\$)</b>
Purchase Price		1,090,103
Fair Value of previous investment held by Volatus		907,227
<b>Total Purchase Price</b>		<b>1,997,330</b>
<b>Assets</b>		
Cash	723,624	
Accounts Receivable	77,205	
Accrued Receivables	11,070	
Prepaid Expenses	50,812	
Other Current Assets	299,915	
Non-Current Assets	3,472,731	
Accounts Payable	(369,944)	
Accrued Liabilities	(850,057)	
Other Current Liabilities	(199,725)	
Deferred Revenue	(397,837)	
Long-Term Liabilities	(2,099,493)	
Canada Emergency Business Account (CEBA) Loan	(120,000)	
<b>Net Assets</b>		<b>598,301</b>
<b>Goodwill</b>		<b>1,399,029</b>

**Notes to Consolidated Financial Statements**  
**For the years ended December 31, 2021 and December 31, 2020**

**16. Business Combination (Continued)**

**Impairment of Goodwill**

Management performed its annual impairment analysis as at December 31, 2021. The Company determined the recoverable amount based on a value in use calculation using the following key assumptions:

- 5 year post tax cash flow projections expected to be generated based on a financial forecast with a terminal growth rate of 2%
- Budgeted cash flows calculated using a weighted average revenue EBITDA margin of 1.07% were estimated by management based on the past performance and future growth prospects
- Cash flows were discounted at the weighted average cost of capital of 7.5% based on peer group averages and adjusted for the Partner Jet’s risk factors.

Based on the annual goodwill impairment test, the Company deemed that the goodwill of Partner Jet Corp required impairment, as such the Company recorded the impairment of \$1,399,029. The key assumptions used in the calculations of the recoverable amounts include sales growth per year, changes in cost of sales and capital expenditures based on internal forecasts.

The carrying amount of the Partner Jet CGU was reduced to its recoverable amount which is \$Nil through recognition of an impairment charge against goodwill. This loss was disclosed as a separate line item in the consolidated statements of loss and comprehensive loss.

**17. 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
<b>Total</b>		

- 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 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)

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 17. Share Capital (Continued)

#### **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	December 31, 2021	December 31, 2020
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
<b>Total</b>		<b>\$ 704,322</b>	<b>\$ 704,322</b>

All of 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 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 Dec 22, 2021 into 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.

#### **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.

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 17. Share Capital (Continued)

Details of warrants and their fair value:

Issue Date	Exercise Price	Expiry Date	Number of warrants outstanding at December 31, 2021	Fair Value at December 31, 2021	Number of Warrants Outstanding at December 31, 2020	Fair Value at December 31, 2020
Dec 22, 2021	\$0.65	Dec 22, 2023	5,308,476	1,804,881	-	-
Dec 22, 2021	\$0.75	Dec 22, 2023	7,025,966	2,248,309	-	-

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, 2020	-	-
Issued	12,334,442	\$ 0.71
Exercised	-	-
Forfeited	-	-
<b>Outstanding, December 31, 2021</b>	<b>12,334,442</b>	<b>\$ 0.71</b>

**18. 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 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.



# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 18. Financial Instruments and Risk Management (Continued)

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As at December 31, 2021, 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:

	Year Ended December 31	
	2021	2020
Cash	168,337	-
Accounts Receivable and other current assets	282,236	-
Accounts Payable and other Liabilities	(176,198)	-
<b>Net US dollars assets (liabilities)</b>	<b>274,374</b>	<b>-</b>

As at December 31, 2021, with other variables unchanged, a 10% change in the U.S. dollar to Canadian Dollar exchange rate would impact the Company's net loss by approximately \$612 (2020 - \$nil) as a result of translating the statements of comprehensive loss of foreign subsidiaries.

#### 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.

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 18. 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.

### 19. Commitments

As part of the UAviation Aerial Solutions Limited's acquisition, the Company has recognized a contingent consideration of \$10,000 that arises because of an earn-out commitment.

The Company had previously recognized short-term and long-term contingent consideration of \$20,000 and \$30,000, respectively, because of associate investment in Canadian UAV Solutions Inc. On March 31, 2021, the company acquired 100% of Canadian UAV Solutions and thus has no such contingent consideration remains outstanding.

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.

### 20. Right-of-use assets

As of December 31, 2021, the Company's right-of-use assets consisted of the followings:

(In C\$)	Total
<b>Cost</b>	
Balance, January 1, 2021	-
Additions during the period	1,174,428
Lease acquired in the acquisition	281,360
<b>Balance, December 31, 2021</b>	<b>1,455,788</b>
<b>Accumulated amortization</b>	
Balance, January 1, 2021	-
Depreciation expense for the period	225,867
<b>Balance, December 31, 2021</b>	<b>225,867</b>
<b>Net book value</b>	
December 31, 2020	-
<b>December 31, 2021</b>	<b>\$ 1,229,921</b>

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 21. Right-of-use assets (Continued)

The Company closed the acquisition of OmniView Tech Corp on March 31, 2021 and acquired long-term lease of \$281,360 on OmniView's office space (refer Note 16) as part of the acquisition.

For the year ended December 31, 2021, the Company paid a total cash outflow of \$205,067 for leases (2020 - \$nil), and recognized net rent expense of \$137,275 (2020 - \$207) related to its short-term leases, leases of low-value assets, and variable lease payments

### 22. Income Taxes

The Company has \$3,859,141 (2020 - \$156,597) of non-capital losses available to offset future income for tax purposes. The non-capital losses will expire as follows:

2040 - \$156,597  
2041 - \$3,702,544

The deferred tax liability and asset calculated using a tax rate expected to be recovered or settled of 26.50% (2020 – 26.50%) is as follows:

	2021	2020
Deferred Tax Asset		
Undeducted non-capital losses	(1,022,672)	(41,498)
Valuation allowance	1,022,672	41,498
Net deferred tax liability	-	-

The Company's effective tax rate which differs from the combined federal and provincial statutory rate of 26.50% (2020 – 26.50%), is reconciled as follows:

	2021	2020
Income before Income taxes	3,702,544	435,641
Income tax recovery @ 26.50%	981,174	115,445
Unrealized (gain) loss on investments - FVTPL		(131,136)
Valuation allowance	(981,174)	15,691
Current Income tax expense (recovery)	-	-
Deferred tax recovery	-	-
Income tax recovery		

# Volatus Aerospace Corp.

## Notes to Consolidated Financial Statements For the years ended December 31, 2021 and December 31, 2020

### 23. Finance Costs

Finance costs comprise the following:

(in C\$)	December 31, 2021	December 31, 2020
Bank Charges	\$ 11,299	\$ 153
Interest expense on lease liabilities	112,125	-
Interest expense on promissory note	2,999	-
Interest expense on Convertible Debt	276,797	-
Interest expense on long-term debt	18,308	-
Other	17,426	-
	\$ 438,954	\$ 153

### 24. Government Grants

#### Lake Simcoe Regional Airport Grant:

The Company was awarded a grant totaling \$100,000 by the Simcoe County Economic Development Office to set up its R&D facility at Lake Simcoe Regional Airport. This facility will be used to develop Company owned proprietary fixed-wing drones – M100 Velos and E100 Vedette and assembly under contract third party drones. The facility is expected to be operational in Q2 2022. During the year, the Company has not met the eligibility criteria and the grant sum is not recognized in the financial statements.

#### Southwestern Ontario Development Fund (SWODF) Grant:

The Company has been awarded \$375,000 by the Ministry of Economic Development, Job Creation and Trade (MEDJCT) to support the development of Volatus Flight Systems technology at the Lake Simcoe Regional Airport Facility. This funding has been granted on eligible project investment of \$2,507,740 over the period of 3 years until December 2024. During the year, the Company has received \$75,000 in grants and has recognized as advance received on Statement of Financial Position as the eligibility criteria are not fulfilled.

#### PEI INNOVATION

Prince Edward Island Government through Innovation PEI has approved an incentive program to 100% owned subsidiary of Volatus. Under this program, the Company will get rental rebates, marketing incentives, and labour rebates subject to terms and conditions as mentioned in the agreement. During the year, the Company met the eligibility requirements and applied for \$12,600 (2020 - \$Nil), which is included in accounts receivable as at December 31, 2021. The entire amount is non-repayable and has been collected subsequent to year-end. The grant has been recognized as deduction of rent expense on the Statement of Loss and Comprehensive Loss for the year ended December 31, 2021.

### 25. Segmented Information

The Company operates under one reporting segment.

**26. Subsequent Events**

The Canadian economy is currently undergoing significant uncertainties due to the impact of the COVID19 Virus. This uncertainty has unlocked significant value in the unmanned space and impacted the supply chain. The volatile effect of this COVID19 pandemic on the economy and the Company is not currently determinable but does not pose a major business risk on a go-forward basis.

Pursuant to definitive Agreement (Note 1), on December 22, 2021, upon completion of the RTO Transaction, Partner Jet Corp. (PJT) and Volatus Aerospace Corp. amalgamated pursuant to the *Business Corporations Act* (Ontario) to form a new corporation called Volatus Aerospace Corp. ("Volatus") which will carry on the business of Volatus as its primary business while continuing to carry on the current business of Partner Jet as well. The TSX Venture Exchange issued its final bulletin accepting the listing of the shares of Amalco (Volatus) on December 30, 2021 and the shares of Amalco began trading on the TSX Venture Exchange on January 4, 2022.

On January 31, 2022, Volatus acquired RPV Aviation, an Ontario-based regulatory Consulting Company specializing in the safety and certification of unmanned aircraft, for a total cash value of \$120,000, payable in four quarterly instalments. The purchase price includes a contingent consideration of \$20,000 payable on the first anniversary of acquisition upon meeting performance guarantees.

On February 24, 2022, Russian troops started invading Ukraine. This has led to sanctions imposed by different countries on Russia (and, in certain cases, Belarus). The war 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.

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 \$145,000 in shares in Volatus Aerospace Corp. The Company assumes all assets and liabilities of MVT as part of the transaction.

**End.**