VOLATUS AEROSPACE CORP.

Consolidated Financial Statements

For the years ended December 31, 2023, and December 31, 2022

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. and its subsidiaries (the Company), which comprise the consolidated statement of financial position as at December 31, 2023 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Valuation of the contingent consideration and customer relationships acquired in the Sky Scape Industries LLC and Empire Drone Company LLC acquisitions

Description of the key audit matter

As discussed in note 17 to the consolidated financial statements, the Company completed two acquisitions for Empire Drone Company LLC and Sky Scape Industries LLC for aggregated consideration of approximately $1.2 million.

Management applied significant judgement in estimating the fair value of the contingent consideration and customer relationships. Management used the multi-period excess earnings method to fair value customer relationships using discounted cash flow models.

Business combinations were determined to be a key audit matter requiring special audit consideration due to the significant judgement by management in estimating the fair value of the customer relationships and contingent consideration.

How the Audit Matter was Addressed in the Audit

Our audit procedures included, but were not limited, to the following:

- We reviewed the purchase agreements;
- We tested the mathematical accuracy of the discounted cash flow models;
- We evaluated the reasonableness of significant assumptions used in the valuation models to fair value the customer relationships and significant assumptions used to fair value the contingent consideration acquired considering the past performance of the entities and projected future and economic conditions; and
- Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of management's valuation methodology and assessing the reasonableness of the discount rates.

Goodwill Impairment

Description of the key audit matter

As discussed in Note 10 to the consolidated financial statements, the Company has $1 million of goodwill which is required to be tested for impairment on an annual basis or more frequently if events of changes in circumstances indicate that the carrying amounts may not be recoverable.

Management applied significant judgement in determining the recoverable amount. The recoverable amount is based on a valuation methodology using a discounted cash flow model. The significant assumptions used in the discounted cash flow model include the discount rate and revenue and EBITDA growth rates. Management concluded that there was no impairment of goodwill as at December 31, 2023, the date of the annual assessment.

This area was determined to be a key audit matter requiring special audit consideration given there are significant estimates and judgement involved in the determination of the recoverable amount.

How the key audit matter was addressed in the audit

Our audit procedures included, but were not limited, to the following:

- Tested the mathematical accuracy of the discounted cash flow model;
- Evaluated the reasonableness of significant assumptions such as revenue and EBITDA growth rates applied by management in the discounted cash flow model by considering management's budget, strategy and business plan approved by the Board of Directors, current and past performance and industry data, where applicable;

- Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of management's valuation methodology and assessing the reasonableness of the discount rate; and

- Reviewing the disclosures on the assumptions and the outcomes of the impairment testing presented in the consolidated financial statements.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 4 to the financial statements, which explains that certain comparative information presented:

- for the year ended December 31, 2022 has been restated.

- as at January 1, 2022 has been derived from the statement of financial position as at December 31, 2021 (not presented herein).

Our opinion is not modified in respect of this matter.

The financial statements for the year ended December 31, 2022 and December 31, 2021 (not presented herein but from which the comparative information as at January 1, 2022 has been derived), excluding the adjustments that were applied to restate certain comparative information were audited by another auditor who expressed an unmodified opinion on those financial statements on April 27, 2023.

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to restate certain comparative information:

- for the year ended December 31, 2022.

- as at January 1, 2022.

In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements:

- for the year ended December 31, 2022.

- for the year ended December 31, 2021 (not presented herein).

- as at January 1, 2022.

Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $9.7 million during the year ended December 31, 2023 and, as of that date, has negative working capital of $4.2 million and an accumulated deficiency of $19.4 million. The Company must utilize its current cash reserves and pursue other financing transactions in 2024 to fund its operating requirements. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information other than the financial statements and the auditor's report thereon, included in the Management Discussion and Analysis (the MD&A).

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.

We obtained the MD&A prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 IFRS, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

(*signed) BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
May 12, 2024

Volatus Aerospace Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2023	December 31, 2022	January 1, 2022
Assets			(Restated – Note 4)	(Restated – Note 4)
Current				
Cash		$ 1,682,402	$ 3,684,581	$ 8,806,836
Trade and other receivables	6	3,815,478	4,330,189	698,355
Prepaid expenses, deposits, and other current assets	7	2,022,836	2,003,533	801,134
Inventories	11	2,983,632	3,762,031	686,610
Total current assets		**10,504,348**	**13,780,334**	**10,992,935**
Property, plant, and equipment	8	9,290,336	9,330,112	4,050,846
Intangible assets	9	4,766,728	4,128,674	1,607,604
Right-of-use asset	21	1,351,082	994,581	1,229,921
Goodwill	10	963,604	963,604	856,957
Total non-current assets		**16,371,750**	**15,416,971**	**7,745,328**
Total Assets		**$ 26,876,098**	**$ 28,197,305**	**$ 18,738,263**
Liabilities and Shareholders' Equity				
Current liabilities				
Trade payables and accrued liabilities	12	$ 4,424,484	$ 3,397,068	$ 2,458,604
Deferred revenue		210,700	73,471	432,096
Current portion of lease liability	22	542,298	325,950	284,651
Other short-term liabilities	14	7,084,475	3,539,106	233,169
Current portion of long-term borrowings	13	2,252,385	1,995,681	202,136
Deferred/ Contingent consideration		182,024	-	10,000
Total current liabilities		**14,696,366**	**9,331,277**	**3,620,656**
Long-term borrowings	13	5,775,102	6,897,969	2,709,926
Convertible debenture	19	2,097,028	-	-
Deferred tax liability	23	283,130	619,511	260,319
Lease liability	22	978,884	826,038	1,078,196
Contingent consideration		507,692	1,104,543	-
Total non-current liabilities		**9,641,836**	**9,448,061**	**4,048,441**
Total Liabilities		**24,338,202**	**18,779,338**	**7,669,097**
Shareholders' Equity				
Common equity	18	13,360,860	10,957,258	9,110,305
Warrants reserve		6,192,685	6,098,857	4,053,191
Share-based payment reserve		2,427,813	1,704,009	459,152
Convertible Debenture - options		200,356	-	
Preferred shares	18	351,764	352,634	704,322
Deficit		(19,437,263)	(7,127,402)	(2,504,024)
Contributed surplus		211,831	211,831	211,831
Non-controlling interest		(770,150)	(1,779,222)	(965,611)
Total Shareholders' Equity		**2,537,896**	**10,417,966**	**11,069,166**
Total Liabilities & Shareholders' Equity		**$ 26,876,098**	**$ 28,197,305**	**18,738,263**

Going concern (note 2)
Subsequent event (note 27)

Approved and authorized to issue by the Board of Directors
“Glen Lynch” __________________________ Director
“Gordon Silverman” __________________________ Director
The accompanying notes are an integral part of these - consolidated financial statements.

(Expressed in Canadian Dollars)

		Year ended December 31, 2023	Year ended December 31, 2022 (Restated - Note 4)
Revenue	26	34,872,815	29,771,139
Direct costs		23,736,973	21,425,786
Gross profit		**11,135,842**	**8,345,353**
OPERATING EXPENSES			
Advertising & marketing		1,856,220	2,225,224
IT & tech		669,096	512,056
Personnel		6,984,713	5,660,069
R&D		1,341,377	541,023
Office cost		2,830,861	1,513,960
Travel		479,163	419,823
External partner cost		1,281,121	1,556,278
Depreciation and amortization	8,9,21	4,033,731	1,866,791
Share based payments		723,803	1,244,858
		20,200,085	**15,540,082**
Loss before the following undernoted items		**(9,064,243)**	**(7,194,729)**
OTHER ITEMS - INCOME/(EXPENSE)			
Finance cost	24	(1,775,236)	(526,238)
Bargain purchase gain	17	221,808	2,112,197
Fair value changes in contingent consideration		386,731	(33,846)
Other income (expense)		15,405	411,502
Gain (Loss) on disposal of property and equipment		92,782	9,969
Foreign exchange		(35,089)	(157,460)
Net Loss and comprehensive loss before Income Tax		**(10,157,842)**	**(5,378,605)**
Deferred tax income/ (expense)	23	464,216	(71,311)
Net Loss and comprehensive Loss after tax		**(9,693,626)**	**(5,449,916)**
Total loss and comprehensive loss for the year attributable to:			
Owners of Volatus Aerospace Corp.		(9,464,043)	(4,623,378)
Non-controlling interest		(229,583)	(826,538)
		(9,693,626)	**(5,449,916)**
Loss per share			
Basic and diluted	25	(0.08)	(0.04)

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

(Expressed in Canadian Dollars)

	Number of shares	Capital stock	Number of Preference shares #	Preferred shares	Warrants reserve	Share-based reserve	Contributed surplus	Non-controlling interest	Deficit	Total Shareholders Equity
January 1, 2022 (restated Note 4)	101,835,722	9,110,305	704,322	704,322	4,053,191	459,152	211,831	(965,611)	(2,504,024)	$11,069,166
Repayment of preference shares			(351,688)	(351,688)						$(351,688)
Shares Issued on acquisition	349,399	145,001								$145,001
Exercised stock options	16,924	5,063								$5,063
Stock options expense						1,244,857				$1,244,857
Net Proceeds from issue of share units	11,741,034	1,696,889			2,045,666					$3,742,555
Acquisition of non-controlling interest								12,927		$12,927
Net loss for the year	-	-		-	-	-	-	(826,538)	(4,623,378)	$(5,449,917)
December 31, 2022 (restated Note 4)	**113,943,079**	**$10,957,258**	**352,634**	**$352,634**	**$6,098,857**	**$1,704,009**	**$211,831**	**$(1,779,222)**	**$(7,127,402)**	**$10,417,966**

	Number of shares	Capital Stock	Number of preference shares	Preferred shares	Warrants reserve	Share-based reserve	Convertible debt - equity portion	Contributed surplus	Non-controlling interest	Deficit	Total Shareholders Equity
January 1, 2023	113,943,079	10,957,258	352,634	352,634	6,098,857	1,704,009	-	211,831	(1,779,222)	(7,127,402)	$10,417,965
Repayment of preference shares				(870)							$(870)
Shares Issued on acquisition	1,691,275	628,254									$628,254
Stock options expense						723,804					$723,804
Convertible debenture (net of tax)					93,828		200,356				$294,184
Payment of contingent consideration through issue of shares	1,098,684	175,789									$175,789
Acquisition of non-controlling interest	7,270,723	1,599,559							1,238,655	(2,845,818)	(7,604)
Net loss for the year									(229,583)	(9,464,043)	$(9,693,626)
December 31, 2023	**124,003,761**	**$13,360,860**	**352,634**	**$351,764**	**$6,192,685**	**$2,427,813**	**$200,356**	**$211,831**	**($770,150)**	**$(19,437,263)**	**$2,537,896**

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

Volatus Aerospace Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended	
	December 31, 2023	**December31, 2022** (restated - Note 4)
OPERATING ACTIVITIES		
Net loss	(9,693,626)	(5,449,916)
Adjustments For:		
Depreciation and amortization	4,033,731	1,849,630
Impairment of intangible assets	-	17,162
Gain on sale of property and equipment	(92,782)	(414)
Finance cost	1,315,429	750,073
Interest accretion on convertible debenture	294,750	-
Share based payments	723,804	1,244,858
Deferred tax	(464,216)	71,311
Bargain purchase gain	(221,808)	(2,112,197)
Fair value changes in contingent consideration	(386,731)	33,846
Interest paid on lease liability	165,057	136,520
	(4,326,392)	(3,459,128)
Net changes in non-cash working capital items:		
Trade and other receivables	556,356	(918,417)
Prepaid expenses and deposits	197,976	(251,711)
Inventory	778,399	(541,251)
Trade payables and accrued liabilities	835,637	(646,988)
Deferred revenue	137,229	(358,625)
Other short-term liabilities	169,317	(936,357)
Cash (used in) Operating Activities	**(1,651,478)**	**(7,112,473)**
INVESTING ACTIVITIES		
Acquisition of property, plant & equipment	(1,734,936)	48,434
Payment of contingent consideration	-	(10,000)
Acquisition of businesses, net of cash acquired	(299,000)	(933,548)
Cash (used in) Investing Activities	**(2,033,936)**	**(895,114)**
FINANCING ACTIVITIES		
Proceeds from borrowings	3,955,712	2,644,022
Repayment of borrowings	(3,851,813)	(2,870,958)
Repayment of preference shares	(870)	(351,688)
Repayment of lease obligations	(644,091)	(283,660)
Proceeds on exercise of stock options	-	5,063
Net proceeds from issuance of shares	-	3,742,555
Net proceeds from issuance of convertible debenture	2,224,297	-
Cash provided by Financing Activities	**1,683,235**	**2,885,334**
Net change in cash	(2,002,179)	(5,122,253)
Cash and cash equivalents, beginning of the period	3,684,581	8,806,836
Cash and cash equivalents, end of the period	**1,682,402**	**3,684,581**
Supplemental Disclosures		
Acquisitions of property and equipment through financing	542,086	594,022

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

1. The Company and its Operations

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

Volatus and entities it controls are together referred to in these consolidated financial statements as the "Company" or "VAC" or "Volatus". Refer to Note 5 for the Company's major subsidiaries.

Volatus is a leading provider of integrated drone solutions throughout Canada, the United States, and the UK. Operating a vast pilot network, Volatus serves commercial and defense markets with imaging and inspection, security and surveillance, equipment sales and support, training, design, manufacturing, and R&D. Through its subsidiaries Synergy Aviation Ltd., Canadian Air National Inc., Volatus carries on the business of aircraft management, pipeline inspection and monitoring, aircraft sales, charter sales, and cargo services using piloted, remotely piloted, and autonomous aircraft.

2. Basis of preparation, going concern and critical judgements and estimates

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), effective for the year ended December 31, 2023, applicable to companies reporting under IFRS, and have been consistently applied unless otherwise indicated.

These consolidated financial statements of the Company were approved by the Board of Directors on May 12, 2024.

Basic of measurement

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

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to meet and continue its obligations for at least the next twelve months from December 31, 2023. At December 31, 2023, the Company had not yet achieved profitable operations, had an accumulated deficit of $19.5 million since its inception and negative working capital of $4.2 million. The Company expects to incur further operating losses in 2024 with the continued ramp up of business activities to service evolving market demands in a nascent industry.

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

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

Presentation currency

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

Critical Judgments and estimates

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

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

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

Purchase price equations

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

Impairment

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

Contingent consideration liabilities

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

Estimated Useful Lives of Property and Equipment and Intangible Assets

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

Fair Value of Share-Based Payments

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

3. Summary of material accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company’s subsidiaries, unless otherwise noted.

Basic of consolidation

Subsidiaries

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

These consolidated financial statements include the accounts of the Company and its subsidiaries (note 5).

Non-controlling interest

In the case of a business combination involving less than 100% of ownership interests, a non-controlling interest is measured either at fair value or at the non-controlling interest's share of the identifiable net assets of the acquiree. The basis of measurement is determined on a transaction-by-transaction basis.

Business combinations

Acquisitions are accounted for using the acquisition method required by IFRS 3 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.

The Company uses its best estimates and assumptions to reasonably value assets and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. Upon conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to profit or loss.

Foreign currency

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.

The consolidated financial statements include the accounts of the Company's subsidiaries. Assets and liabilities have been translated into Canadian dollar using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in the statement of loss and comprehensive loss.

Revenue recognition

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The company reports revenue under four revenue categories being, the sale of products, services (aviation and drones),and training program services. The payment terms range between 30 to 60 days.

IFRS 15, Revenue from Contracts with Customers, 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 transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or 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.

The following describes the nature and timing of the satisfaction of performance obligations in contracts with customers:

Revenue from equipment Sales includes the sale of drones, batteries, drone sets, and related accessories. This revenue is recognized at a point in time when the goods leave the port of shipment or warehouse. Revenue from equipment sales is measured at the fair value of the consideration received less an appropriate deduction for, discounts, net of sales taxes.

Revenue from the provision of Aviation services includes services provided by aircraft pilots relating to pipeline patrolling and inspection. These services are provided across Canada. The Company recognizes revenue over time as the service is completed, as this is when the customers have the ability to direct the use of and obtain the benefits of the service.

Revenue from the provision of drone services consists of service 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, USA, and UK. The Company recognizes revenue over time as the services are completed, as this is when the customers have the ability to direct the use of and obtain the benefits of the service.

Revenue from the provision of training services 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. Training revenue is recognized as revenue over time according to the contractual provisions of the arrangement, which is generally when the service is provided.

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 based on normal operating capacity. Costs are assigned to individual items of inventory based on weighted average costs. Net realizable value is the estimated selling price of inventory during the normal course of business less estimated selling expenses.

If carrying value exceeds net realizable amount, a write-down is recognized.

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 based on the estimated useful life of the asset and is provided on a straight-line method using the following annual rates:

Estimated useful lives are as follows:

Category	Useful Life
Drones & Accessories	1-4 years
Computer & Equipment	4 years
Furniture & Fixtures	5-8 years
Leasehold Improvements	10 years
Machinery	5 years
Aircraft & Accessories	3-10 years
Vehicles	5 years

The estimated useful lives, 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.

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 loss and comprehensive loss 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.

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.

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.

Intangible assets

Acquired Intangible Assets

The Company uses the income approach to value acquired technology and customer relationship intangible assets. The income approach is a valuation technique that calculates the estimated fair value of an intangible asset based on the estimated future cash flows that the asset can be expected to generate over its remaining useful life. The Company utilizes the discounted cash flow ("DCF") methodology which is a form of the income approach that begins with a forecast of the annual cash flows that a market participant would expect the subject intangible asset to generate over a discrete projection period. The forecasted cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows, again, from a market participant perspective. The present value of the forecasted cash flows is then added to the present value of the residual value of the intangible asset (if any) at the end of the discrete projection period to arrive at a conclusion with respect to the estimated fair value of the subject intangible assets.

Estimated useful lives are as follows:

Category	Useful Life
Customer Relationship	7 years
Technology	7- 10 years
Trademarks and brand names	5-7 Years

Impairment of non-financial assets

At the end of each reporting period, the Company's non-financial assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. When an impairment loss subsequently reverses (except for goodwill), the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value of the consideration received or receivable, or at the non-controlling interest's proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the acquisition.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial Assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (''FVOCI''), or FVTPL. The classification depends on the purpose for which the financial assets were acquired. Financial assets classified as FVTPL are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as FVOCI are measured at fair value with any subsequent remeasurement recognized in other comprehensive income. Financial assets at amortized cost are non-derivative financial assets that are held for collection of contractual cash flows, where those cash flows represent repayments of principal and interest.

Financial Liabilities:

The Company classifies its financial liabilities as either financial liabilities at FVTPL or amortized cost. Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at FVTPL are stated at fair value with changes being recognized in profit or loss.

Impairment of financial assets

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. 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.

Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics and management intent as outlined below:

Financial instruments	**Classification**
Cash & cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Trade payables and accrued liabilities	Amortized cost
Deferred / contingent consideration	FVTPL
Lease obligations	Amortized cost
Convertible debenture	Amortized cost
Loans and borrowings	Amortized cost

Leases

Lessee

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right of control for the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Operating Segment

Management has determined that the Company operates in one reportable operating segment providing integrated drone solutions.

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.

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.

Comparative Information

Certain comparative information was reclassified to conform to the current year's presentation.

Accounting standards and amendments adopted during the year

The following new standards and amendments to existing standards were issued by the IASB and were adopted by the Company on January 1, 2023.

Amendments to IAS 1 Presentation of Financial Statements
Applying the amendments, an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments to IAS 1 were made to explain how an entity could identify a material accounting policy. The amendment had minimal impact to the Company and certain accounting policies were reduced from the financial statements that were not deemed material.

Amendments to IAS 8 - Definition of Accounting Estimates
In February 2021, the IASB issued amendments to IAS 8, 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. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendment had no material impact to the Company.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
In May 2021, the IASB issued amendments to IAS 12, Income Taxes ('IAS 12'), which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The amendment had no material impact to the Company.

Accounting standards and amendments issued but not yet adopted.

The following new standards and amendments to existing standards were issued by the IASB and are expected to be adopted by the Company in 2024 or later.

Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify how to classify debt and other liabilities as current or non-current. The amendments help to determine whether, in the consolidated statements of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments also include clarifying the classification requirements for debt and equity might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The Company does not expect the adoption to have a material impact on its consolidated financial statements.

4. Restatement of previously issued financial statements

During the year, certain errors were identified that relate to prior years with respect to the following:

- the classification of certain intangible assets that were classified as intangible assets with indefinite useful lives but should be classified as intangibles with finite useful lives.
- Recognition of deferred taxes, intangible assets, and deferred/contingent consideration related to certain acquisitions in the prior year and resulting adjustments to goodwill and bargain purchase gain.
- The classification of a debt arrangement that was classified as long-term but should be classified as a short-term liability.

Summarized below is the impact to the comparative financial statements for these adjustments:

Consolidated Statement of Financial Position

	December 31, 2022 Previously reported	**Adjustments**	**December 31, 2022 As restated**
Intangible assets	8,815,125	(4,686,451)	4,128,674
Goodwill	689,835	273,769	963,604
Total Assets	**33,609,987**	**(4,412,682)**	**29,197,305**
Other short-term liabilities	373,163	3,165,943	3,539,106
Total current liabilities	**6,165,334**	3,165,943	**9,331,277**
Deferred tax liability	-	619,511	619,511
Long-term borrowings	10,063,911	(3,165,942)	6,897,969
Contingent consideration	2,356,850	(1,252,307)	1,104,543
Total non-current liabilities	**13,246,800**	(3,798,739)	**9,448,061**
Total Liabilities	**19,412,133**	(632,795)	**18,779,338**
Deficit	(8,971,689)	1,844,287	(7,127,402)
Contributed Surplus	2,989,819	(2,777,988)	211,830
Non controlling interest	1,066,963	(2,846,185)	(1,779,222)
Total Shareholders Equity	**14,197,852**	(3,779,886)	**10,417,966**

	January 1, 2022 Previously reported	**Adjustments**	**January 1, 2022 As restated**
Intangible assets	5,811,929	(4,204,325)	1,607,604
Goodwill	583,188	273,769	856,957
Total Assets	**22,668,821**	(3,930,556)	**18,738,264**
Deferred tax liability	-	260,319	260,319
Total non-current liabilities	**3,788,122**	260,319	**4,048,441**
Total Liabilities			
Non controlling interest	288,768	(1,254,379)	(965,611)
Deficit	(2,345,515)	(158,509)	(2,504,024)
Contributed Surplus	2,989,819	(2,777,988)	211,831
Total Shareholders Equity	15,260,042	(4,190,876)	11,069,166

Consolidated Statement of Loss and Comprehensive Loss

	For the year ended December 31, 2022 Previously reported	Adjustments	For the year ended December 31, 2022 As restated
Depreciation and amortization	-	(482,126)	(482,126)
Bargain purchase gain	-	2,112,197	2,112,197
Fair value changes in contingent consideration		(33,846)	(33,846)
Deferred tax expense	-	(71,311)	(71,311)
Net Loss and comprehensive loss	**6,974,830**	**(1,524,914)**	**5,449,916**
Owners of Volatus Aerospace	**(6,626,174)**	**2,002,796**	**(4,623,378)**
Non-controlling interest	**(348,656)**	**(477,882)**	**(826,538)**
EPS – basic and diluted	**($0.06)**	**$0.02**	**($0.04)**

Consolidated Statement of Changes in Equity

	January 1, 2022 Previously reported	Adjustments	January 1, 2022 As restated
Non-controlling interest	288,768	(1,254,379)	(965,611)
Deficit	(2,345,515)	(158,509)	(2,504,024)
Contributed Surplus	$2,989,819	(2,777,988)	211,831

	December 31, 2022 Previously reported	Adjustments	December 31, 2022 As restated
Non-controlling interest	$1,066,963	(2,846,185)	(1,779,222)
Deficit	($8,971,689)	1,844,287	(7,127,402)
Contributed Surplus	$2,989,819	(2,777,989)	211,831

Consolidated Statement of Cash Flows

	For the year ended December 31, 2022 Previously reported	Adjustments	For the year ended December 31, 2022 As restated
Net loss	(6,974,830)	1,524,914	(5,449,916)
Depreciation and amortization	1,367,503	482,126	1,849,630
Deferred income taxes	-	71,311	71,311
Bargain purchase gain	-	(2,112,197)	(2,112,197)
Fair value changes on contingent consideration	-	33,846	33,846
Total cash outflows from operating activities	**(7,112,174)**	-	**(7,112,174)**

5. Subsidiaries

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

Name of Subsidiary	Principal Activity	Functional Currency	Country of Incorporation	Ownership Interest
Volatus Flight Systems Inc.	Fixed-wing Drone Technology	CAD	Canada	70%
Volatus Aerospace USA Corp.	Drone Solutions Provider	USD	USA	90%
ConnexiCore LLC	Drone Solutions Provider	USD	USA	100%
Indigenous Aerospace Corp.	RPAS/UAV Service and Training	CAD	Canada	49%
Volatus Aviation (Partner Jet Inc.)	Aircraft management & charter services	CAD	Canada	100%
RPV Aviation Inc.	Regulatory Consulting	CAD	Canada	100%
MVT Geo Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
Canadian Air National Inc.	Pipeline Inspection & Surveillance Services	CAD	Canada	100%
Volatus Aerospace UK Ltd.	RPAS/UAV Service and Training	GBP	UK	100%
iRed Limited	RPAS/UAV Service and Training	GBP	UK	100%
Synergy Aviation Ltd.	Pipeline Inspection & Surveillance Services	CAD	Canada	51%
Synergy Flight Training Inc.	Aircraft Training	CAD	Canada	51%
Empire Drones LLC	Distribution & Services	USD	USA	100%
Sky Scape Industries, LLC	Drone Solutions Provider	USD	USA	100%
Aerial Motion Pictures Limited (UAV Hub)	RPAS/UAV Training	UK £	UK	100%
Open Sky Consulting International Ltd (Drone Mentor)	RPAS/UAV Training	UK £	UK	100%
Volatus Unmanned Services Inc.^[1]		CAD	Canada	100%
- UAViation Aerial Solutions Limited	RPAS/UAV Service	CAD	Canada	100%
- SkyGate Videography Inc.	RPAS/UAV Service and Training	CAD	Canada	100%
- M3 Drone Services Limited	RPAS/UAV Service	CAD	Canada	100%
- M3 Drone Training Zone Inc.	RPAS/UAV Training	CAD	Canada	100%
- Canadian UAV Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
- OmniView Tech Corp.	Distribution & Service	CAD	Canada	100%

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

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

On August 29, 2023, the Company acquired the non-controlling interest of 33.66% of Volatus Unmanned Services by issuing 7,270,723 shares of Volatus Aerospace Corp. at $0.22 and, on Nov 16, 2023, the Company acquired the minority interest of 49% of iRed Ltd. by issuing 1,098,684 shares of Volatus Aerospace Corp. at $0.16 and cash of

$34,170. The difference between the value of the cash and share consideration paid and the carrying value of the non-controlling interest at the time of the transaction was recorded as an adjustment to retained earnings.

6. Trade and other receivables

	December 31, 2023	December 31, 2022
Trade receivables	**$ 3,506,386**	$ 4,056,665
Accrued revenues	**248,132**	68,599
Tax credits receivable	**56,778**	200,000
Other receivables	**21,748**	4,925
Expected credit loss provision	**(17,566)**	-
Total	**$ 3,815,478**	$ 4,330,189

7. Prepaid expenses, deposits, and other current assets

	December 31, 2023	December 31, 2022
Prepaid expenses	**$ 1,256,943**	$ 1,281,023
Security deposit	**329,111**	299,163
Other current assets	**436,782**	423,347
Total	**$ 2,022,836**	$ 2,003,533

8. Property, plant & equipment

Cost	Drones & Accessories	Machinery	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Vehicle	Aircraft	Construction in Progress	Total Tangible Assets
Balance, December 31, 2022	2,601,771	315,471	400,725	640,933	825,256	1,063,077	5,643,582	102,235	11,593,050
Additions	128,351	38,100	5,250	63,027	52,456	61,664	2,227,419	381,034	2,957,301
Additions related to business combinations	77,794	-	-	7,481	8,973	168,750	-	-	262,998
Disposals/Retirements	(315,219)	-	-	(6,876)	(52,085)	(18,186)	(737,433)	-	(1,129,799)
Balance, December 31, 2023	**2,492,697**	**353,571**	**405,975**	**704,565**	**834,600**	**1,275,305**	**7,133,568**	**483,269**	**13,683,550**
Accumulated Depreciation									
Balance, December 31, 2022	711,061	153,150	20,519	483,146	459,114	156,367	279,580	-	2,262,937
Depreciation for the year	597,307	43,931	40,554	41,776	120,094	221,933	1,605,242	-	2,670,837
Disposals/Retirements	(263,522)	-	-	(5,439)	(62,549)	(13,359)	(195,692)	-	(540,561)
Balance, December 31, 2023	**1,044,846**	**197,081**	**61,073**	**519,483**	**516,659**	**364,941**	**1,689,130**	**-**	**4,393,214**
	-	-	-	-	-	-	-	-	-
Net carrying Amount	-	-	-	-	-	-	-	-	-
December 31, 2022	1,890,710	162,320	380,206	157,788	366,141	906,709	5,364,002	102,236	9,330,112
December 31, 2023	**1,447,851**	**156,489**	**344,902**	**185,082**	**317,941**	**910,364**	**5,444,438**	**483,269**	**9,290,336**

9. Intangible assets

	Technology	Customer	Trademark / Brand Names	Total
Cost				
Balance, December 31, 2022 (restated, Note 4)	644,248	3,334,774	867,548	4,846,570
Additions related to business combinations (note 17)	-	1,509,221	-	1,509,221
Balance, December 31, 2023	**644,248**	**4,843,995**	**867,548**	**6,355,791**
Accumulated Depreciation				
Balance, December 31, 2022 (restated, Note 4)	128,850	422,071	166,975	717,896
Amortization for the year	64,425	664,755	141,987	871,167
Balance, December 31, 2023	**193,275**	**1,086,826**	**308,962**	**1,589,063**
Net carrying Amount				
December 31, 2022	515,398	2,912,703	700,573	4,128,674
December 31, 2023	**450,973**	**3,757,169**	**558,586**	**4,766,728**

10. Goodwill

	December 31, 2023	December 31, 2022 (Restated – note 4)
Balance, beginning of year	**$ 963,604**	$ 856,957
Acquisitions	-	106,647
Balance, end of year	**$ 963,604**	$ 963,604

The Company performs an impairment test annually on December 31, 2023.

At December 31, 2023, an impairment test was performed for the Company's group of cash generating units (group of CGU's) representing the Company as a whole. No impairment was identified.

The recoverable amount of the Company's CGUs were determined based on fair value, which is a level 3 fair value and was determined by discounting future cash flows over a period of up to five years. Cash flows beyond the five-year period were extrapolated using estimated growth rates.

The following table outlines the key assumptions for the grouping of CGUs.

Assumption	Approach
EBITDA margins	Based on past performance and expectations for the future.
Annual revenue growth rates	Annual growth rates are forecasted over a five-year period based on historical performance and expectations of market development.
Long-term growth rates	The weighted average growth rate used to extrapolate cash flows beyond the budgeted period.
Discount rate	Calculated basis of Weighted Average Cost of Capital of the CGU

The calculation of the FVLCOD discounted cash flow model was based on the following key assumptions:

The discount rate was estimated based on the Company's weighted average cost of capital, taking into account the nature of the assets being valued and their specific risk profile. The after-tax discount rates used in determining the recoverable amount for the group of CGU's was 20% (December 31, 2022 – 14%).

• The revenue growth rates are based on management's internal forecast and projections. Annual revenue growth rates for 2024 - 2028 were estimated between 20% and 50%.

• The long-term growth rate after 5 years used in determining the recoverable amount is 2% (December 31, 2022 - 2%).

• EBITDA for the five years is based on management's internal forecast and projections. EBITDA margins were projected to be 3% to 15%.

11. Inventories

Inventory mainly consists of finished goods of drones and related accessories. No write-downs were made during the years ended December 31, 2023 and 2022. Direct costs for the year ended December 31, 2023 included $14,709,172 of inventory sold (2022 - $12,824,117).

12. Trade payables and accrued liabilities

		December 31, 2023		December 31, 2022
Accounts Payable	$	2,915,259	$	2,804,243
Payroll		716,307		388,165
Other accrued Liabilities		792,918		204,660
Total	**$**	**4,424,484**	$	3,397,068

13. Long-term Borrowings

		Dec 31, 2023		December 31, 2022 (Restated - note 4)
Aircraft Loans	**$**	**5,068,310**	$	5,841,939
Vehicle Loans		**632,215**		643,386
CEBA		**480,000**		420,000
Development Loan		**333,343**		500,000
Promissory Note		**812,444**		1,049,999
Other loans		**701,175**		438,326
Total	**$**	**8,027,487**	$	8,893,650
Less: Current Portion of Long-Term Borrowings	$	(2,252,385)	$	(1,995,681)

Long-term borrowings	**$**	**5,775,102**	$	6,897,969

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

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

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

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

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

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

14. Other Short-term Liabilities

		December 31, 2023		December 31, 2022 (Restated – note 4)
Shareholders loan (note 15)	**$**	**625,000**		-
Other loans		**494,475**		373,163
Revolving Line of Credit		**5,965,000**		3,165,943
Total	**$**	**7,084,475**	$	3,539,106

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

The shareholders loans are short-term loans with interest rates between 9% and 10% and are repayable in full in 2024. The repayment terms of shareholders loans are monthly and a balloon payment at the end of maturity along with interest accrued.

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

15. Related Party Transactions

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

Trade payables and accrued liabilities:

On August 31, 2022, the Company entered into an independent consultant agreement ("Consultant Agreement") with GripFast Solutions Inc., a company controlled by an independent director, to provide consulting services to the Company for scaling in the defense sector. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under External Partner Cost in the consolidated statement of loss and comprehensive loss. For the year period ended December 31, 2023, the Company incurred fees of $96,000 (2022- $50,000). As at December 31, 2023, the Company was indebted to this company in the amount of $27,120 (2022 - $8,000).

Share Capital:

The Company has outstanding preferred shares valued at $206,188 that are non-redeemable and have no coupon interest payment and have a face value of $1 to a company controlled by a director of the Company. (2022 – $206,188) (Refer to Note 18)

Loans & Advance:

The Company has entered into a promissory note with the director of the Company on March 17, 2023, for a short-term loan at an interest rate of 9.2% per annum. The amount of $625,000 is outstanding as at Dec 31, 2023 and repayable in full on June 30, 2024. This amount is included in other short-term liabilities in the consolidated balance sheet.

16. Key management compensation

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

Compensation awarded to key management for the year ended December 31, 2023 and 2022 is summarized as follows:

	2023	2022
Salaries	**894,887**	856,651
Share-based payments	**653,590**	1,168,658
	1,548,477	2,025,309

17. Business Combinations

Volatus Drones (Empire Drone Company LLC)

On January 31, 2023, Volatus acquired Empire Drone Company LLC., a drone network and reseller based out of New York, United States. Under the terms of the agreement the Company purchased 100% of the company for a cash consideration US$300,000 (CAD $401,790) on Closing; (ii) US$ 350,000 of common shares with the number of shares calculated using a floor price of CDN$0.65 per common share or 30 days VWAP, whichever is higher on Closing; and (iii) subject to the achievement of certain revenue milestones 12 months after closing, issue additional common shares of US$350,000 with the number of shares calculated using a floor price of CDN$0.65 per common share or 30 days VWAP on first anniversary from Closing, whichever is higher. The share consideration per (ii) above was recorded at its fair value of US$184,000 (CAD $259,754). The contingent share consideration per (iii) above was recorded as its estimated fair value of US$28,000 (CAD $ 37,946).

Total consideration	**$ 699,490**
Net assets acquired:	
Cash & cash equivalents	102,790
Accounts receivables	49,249
Inventory	217,279
Property, plant and equipment	8,907
Accounts payable and accrued liabilities	(157,769)
Other current liabilities	(93,085)
Non-current loans	(327,398)
Identified intangible assets – customer relationships	1,121,325
Bargain Purchase Gain	(221,808)

The breakdown of consideration paid is as follows:

Cash	$401,790
Issuance of 721,538 common shares upon closing	$ 259,754
Contingent consideration (earnout)	37,946
Total consideration	**$ 699,490**

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 25% per annum.

The Company did not incur any acquisition-related costs.

Sky Scape Industries, LLC

On April 4, 2023, Volatus acquired Sky Scape Industries LLC., a New Jersey based company providing airborne intelligence data services. Under the terms of the definitive agreement, as amended following the completion of due diligence, the total purchase price, subject to an earn-out provision, is US$585,000 (C$783,900) to be paid as follows: An initial payment of approximately US$275,000 (C$368,500) in the form of newly issued common shares of Volatus Aerospace Corp. based on the share price at closing or the prior 30-day VWAP, whichever is higher. This converts to 969,737 common shares at the closing price of C$0.38. The earn-out payment of US$310,000, will be payable twelve (12) months after closing in the form of additional Volatus common shares with the number of shares calculated using a floor price of C$0.65 or the prior 30-day VWAP, whichever is higher. This payment is conditional on Sky Scape retaining a certain inspection contract to be performed in 2024. The contingent share consideration was recorded as its estimated fair value of US$107,500 (C$144,078)

Issuance of 969,737 common shares upon closing	$ 368,500
Contingent consideration (earnout)	144,078
Total consideration	**$ 512,578**
Net assets acquired:	
Property, plant and equipment	252,349
Identified intangible assets - Customer relationships	387,896
Long-term borrowing	(127,667)
Net assets acquired	**512,578**

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 25I% per annum.

The Company did not incur any acquisition-related costs.

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.

Synergy Aviation Limited

On October 31, 2022, the Company acquired a controlling interest of 51% in Synergy Aviation Ltd and its subsidiary, Synergy Flight Training Limited, an Alberta-based Oil and Gas pipeline inspection, surveillance, and training company. The remaining 49% represents non-controlling interest. Under the terms of the agreement, Volatus will make an equity investment of $2,290,000 in Synergy Aviation over the course of 10 months from closing in exchange for newly issued shares that will represent 51% of all outstanding shares. The remaining 49% will be acquired at the option of Synergy shareholders in 2024 after meeting minimum operational and financial metrics for a maximum value of $2,200,000 in exchange for Volatus shares. The number of shares to be issued is based on a formula within the purchase sale agreement that is based on 30 days VWAP (volume weighted average price) on date of Closing with a minimum floor price of $0.65 per share, whichever is higher.

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

	(Restated – Note 4)
Total consideration	**$ 3,205,923**
Net assets acquired:	
Cash & cash equivalents	783,404
Other receivable	1,540,000
Accounts receivables	2,244,805
Inventory	2,498,334
Other current assets	919,647
Property, plant and equipment	6,282,499
Intangible assets	622,619
Accounts payable and accrued liabilities	(1,179,641)
Deferred tax liability	(285,726)
Other current liabilities	(446,607)
Non-current liabilities	(8,701,822)
Identified intangible assets – customer relationships	1,040,608
Bargain Purchase Gain	(2,112,197)

Cash	$ 750,000
Deferred consideration	1,540,000
Deferred consideration – 49%	915,923
Total consideration	**$ 3,205,923**

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 19.4% per annum.

The deferred consideration for the additional 49% interest is reflected as a liability and measured at its estimated redemption amount.

18. Share Capital, Stock Options and Warrants

Authorized share capital

Unlimited number of common shares without par value.

Preferred shares

	December 31, 2023		December 31, 2022	
	Shares	**Amount**	Shares	Amount
Issued for acquisition of Partner Jet Corp.	**206,188**	**$ 206,188**	206,188	$ 206,188
UAViation Aerial Solutions Limited Investment	**146,446**	**145,576**	146,446	146,446
Total	**352,634**	**$ 351,764**	352,634	$ 352,634

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

Stock Options

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

	2023		2022	
	Number of Stock Options	**Weighted Average Exercise Price**	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	5,357,691	0.56	3,984,615	0.63
Granted	3,057,500	0.23	1,640,000	0.36
Exercised	-	-	(16,924)	0.30
Forfeited	(222,500)	0.31	(250,000)	0.36
Outstanding, December 31	**8,192,691**	**0.44**	5,357,691	0.56

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2023:

	Options Outstanding			**Options Exercisable**		
Range of price (C$)	**Number of Stock Options outstanding**	**Weighted Average remaining contractual life (years)**	**Weighted Average Exercise Price**	**Number of Stock Options exercisable**	**Weighted Average remaining contractual life (years)**	**Weighted Average Exercise Price**
$0.20 - $0.30	3,152,691	4.46	0.23	177,691	1.77	0.30
$0.31 - $0.49	1,250,000	3.53	0.36	362,500	3.57	0.36
$0.50 - $0.65	3,790,000	3.00	0.65	2,660,000	3.00	0.65
	8,192,691	**3.64**	**0.45**	**3,200,191**	**3.00**	**0.60**

On August 11, 2023, the Company granted 3,057,500 additional options at an exercise price of $0.23 that will be vested over four years and will expire five years from grant date.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. The weighted average fair value at date of grant for the options granted was $0.18 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.23, risk-free interest rate of 4.25%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

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

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

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

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

Warrants

Details of warrants and their fair value:

Sr. No	Issue Date	Number of warrants outstanding at December 31, 2023	Fair Value at December 31, 2023	Number of Warrants Outstanding at December 31, 2022	Fair Value at December 31, 2022	Exercise Price	Expiry Date
1	22-Dec-21	-	-	5,308,476	1,804,881	0.65	22-Dec-23
2	22-Dec-21	-	-	7,025,966	2,248,310	0.75	22-Dec-23
3	06-Oct-22	11,741,034	1,878,565	11,741,034	1,878,565	$0.50	05-Oct-24
4	06-Oct-22	879,475	167,100	879,475	167,100	$0.36	05-Oct-24
5	11-May-23	421,860	20,587	-	-	$0.50	06-May-25
6	11-May-23	2,646,000	107,437	-	-	$0.50	06-May-25
		15,688,369	**2,173,689**	**24,954,951**	**6,098,856**		

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2022	24,954,951	$ 0.60
Issued (note 19)	3,067,860	$ 0.50
Exercised	-	-
Forfeited	(12,334,442)	$ 0.71
Outstanding, December 31, 2023	**15,688,369**	**$ 0.49**

19. Convertible Debenture

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

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

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

The warrants were calculated using a Barrier Option Pricing Model.

Inputs used in valuing the components of the convertible debenture:

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

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

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

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

The conversion feature and share warrants were recognised in the financial statements net of tax amounting to $127,835 and allocated to conversion feature and share warrants based on their respective fair values. As at December 31, 2023 the Debt component was recognised at $2,097,028 after accretion of interest in the amount of $294,750 (note 24).

20. Financial Instruments and Risk Management

The Company is exposed to various risks through its financial instruments. The following analysis provides a summary of the Company's exposure to and concentrations of risk at December 31, 2023:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. The Company's main credit risk related to its trade and other receivables. The maximum exposure to credit risk is the carrying amount as reported on the financial statements. Credit risk on trade and other receivables is minimized because of the constant review and evaluation of the account balances.

The Company also maintains an allowance for credit losses at an estimated amount, allocating sufficient protection against losses resulting from collecting less than full payments from its receivables. There is no indication, as at this date, that the debtors will not meet their obligations, except as has been provided for as bad debts during the reporting periods. The Company manages its credit risk relating to its trade receivables through credit approval and monitoring procedures, including senior management prior approval of all sales. Such approvals are based on trade information, payment history, credit rating and financial analysis, where possible. There are no significantly aged trade and other receivables at December 31, 2023 and 2022.

Foreign Currency Risk

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

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

The summary quantitative data about the Company's exposure to currency risk is as follows:

	2023		2022	
	USD	**GBP**	USD	GBP
Cash	**893,825**	**108,098**	340,961	174,893
Trade and other receivables	**742,567**	**108,852**	229,767	125,483
Trade payables and other accrued liabilities	**(486,310)**	**(85,228)**	(318,216)	(71,677)
Net assets	**1,150,082**	**131,722**	252,512	228,699

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.

Interest Rate Risk

The Company is subject to the risks associated with debt financing, including the risk of interest rates on floating-rate debt.

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

The Company is also exposed to interest rate risk on its Credit Facility which fluctuates based on prime or floating bankers' acceptance rates.

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. Refer to note 2 for going concern.

The following summarizes the Company's contractual commitments as at December 31, 2023:

	Less than 1 Year	**2-5 Year**	**Over 5 years**	**Total**
Trade Payables and Accrued Liabilities	4,424,484			4,424,484
Other short-Term Liabilities	7,084,475			7,084,475
Contingent Consideration	182,024	507,692		689,716
Leases	756,962	915,948		1,672,910
Borrowings	875,174	2,011,869	7,242,991	10,130,034
Convertible Debenture	317,520	2,963,520		3,281,040
	13,640,639	**6,399,029**	**7,242,991**	**27,282,659**

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.

Fair Value

Financial assets and liabilities recognized or disclosed at fair value are classified in the fair value hierarchy based upon the nature of the inputs used in the determination of fair value. The levels of the fair value hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - 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)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs)

The following table summarizes the carrying value of the Company's financial instruments:

	December 31, 2023	December 31, 2022
Cash	1,682,402	3,684,581
Trade and other receivables	3,815,478	4,330,189
Trade payables and accrued liabilities	4,424,484	3,397,068
Lease liability	1,521,182	1,151,988
Other short-term liabilities	7,084,475	3,539,106
Long-term borrowings	8,027,487	8,893,650
Convertible Debenture	2,097,028	-
Contingent Consideration	689,716	1,104,543

Due to the short-term maturities of cash, trade and other receivables, trade payables and accrued liabilities and other short-term liabilities, the carrying amounts of these financial instruments approximate fair value at the respective balance sheet date.

The carrying value of lease liabilities, long-term debt approximate fair value based upon a discounted cash flows method using a discount rate that reflects the Company's borrowing rate at the end of the year.

Deferred / contingent consideration is a level 3 financial liability that is recognized at fair value with changes in fair value recorded in the consolidated statement of loss and comprehensive loss at each reporting period end date.

There were no transfers of assets or liabilities during the year ended December 31, 2023 (2022 - $nil) between any levels within the fair value hierarchy.

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

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

	Vehicle and Equipment	Building	Total
Cost			
Balance, January 1, 2023	99,037	1,429,967	1,529,004
Additions	19,679	828,549	848,228
Balance, December 31, 2023	**118,716**	**2,258,516**	**2,377,232**
Accumulated amortization			
Balance, January 1, 2023	13,425	520,998	534,423
Depreciation	28,834	462,893	491,727
Balance, December 31, 2023	**42,259**	**983,891**	**1,026,150**
Net book value			
December 31, 2022	85,612	908,969	994,581
December 31, 2023	**$ 76,457**	**$ 1,274,625**	**$ 1,351,082**

22. Leases

Company as a lessee

Leasing arrangements

The Company leases various items of real estate property and vehicles used in its operations. The lease terms are generally between 4 and 6 years. There are some leases with renewal options that are included when management is reasonably certain they will be exercised. Management uses significant judgement in determining whether these extensions are reasonably certain to be exercised.

Lease liabilities

Carrying amounts of lease liabilities are as follows:

	December 31, 2023	December 31, 2022
Balance, beginning of year	$1,151,988	$ 1,362,847
Additions	848,228	99,037
Disposals	-	(25,821)
Interest	165,057	136,520
Payments	(644,091)	(424,485)
Balance, end of year	**1,521,182**	**1,151,988**
Current	542,298	325,950
Non-current	978,884	826,038

23. Income Taxes

Income taxes consists of the following:

	2023	2022 (restated – Note 4)
Deferred tax expense (recovery)	(464,216)	71,311

Reported income tax expense differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to loss before income tax due to the following:

	2023	2022 (restated – Note 4)
Loss before income tax	$ (10,157,842)	$ (5,378,605)
Effective income tax rate	26.5%	26.5%

Expected income tax recovery	(2,691,828)	(1,425,330)
Permanent differences and other	77,168	316,437
Deferred tax assets not recognized	2,150,444	1,180,204
	$ (464,216)	$ 71,311

Deferred tax assets recognized consist of:

	Balance January 1, 2023 (restated – Note 4)	**Recognized in net income (loss)**	**Recognized in Goodwill**	**Recognized in Equity**	**Balance December 31, 2023**
Property, plant and equipment	(938,745)	328,897	-	-	(609,848)
Share issuance costs	20,449	(22,431)	-	-	(1,982)
Non-capital losses	947,867	58,826	-	-	1,006,693
Intangibles	(649,082)	77,964	-	-	(571,117)
Convertible debt	-	20,960	-	(127,835)	(106,875)
Total	$(619,511)	464,216	-	(127,835)	(283,130)

	Balance January 1, 2022 (restated – Note 4)	**Recognized in net income (loss)**	**Recognized in Goodwill**	**Recognized in Equity**	**Balance December 31, 2022 (restated – Note 4)**
Property, plant and equipment	(7,229)	(115,419)	(816,096)	-	(938,745)
Share issuance costs	-	20,449	-	-	20,449
Non-capital losses	13,450	23,659	910,758	-	947,867
Intangibles	(266,540)	-	(382,542)	-	(649,082)
Convertible debt	-	-	-	-	-
Total	$(260,319)	(71,311)	(287,881)	-	(619,511)

Company has $18,004,582 (2022 - $10,833,971) of non-capital losses available to offset future income for tax purposes of which $16,997,889 losses are unrecognized. The non-capital losses will expire as follows:

2041	3,517,080
2042	6,974,803
2043	7,512,699
	$18,004,582

24. Finance costs.

Finance costs comprise the following:

(in C$)	**December 31, 2023**	December 31, 2022

Bank charges	**110,496**	$	47,231
Interest expense on lease liabilities	**165,280**		136,520
Interest expense on promissory notes	**61,860**		82,084
Interest expense on Convertible Debt	**294,750**		-
Interest expense on short-term borrowings	**373,414**		93,594
Interest expense on long-term borrowings	**769,436**		166,809
	1,775,236	$	526,238

25. Earnings per share

Basic and dilutive earnings per share is calculated by dividing net loss attributable to shareholders by the sum of the weighted average number of shares outstanding. The Company's diluted loss per share does not include the effect of debentures, stock options and warrants as they are anti-dilutive:

	For the Year ended December 31	
	2023	**2022**
		(Restated - note 4)
Net loss attributable to Volatus	(9,464,043)	(4,623,379)
Weighted average number of common shares outstanding	117,887,327	104,932,598
Basic and diluted loss per share	**(0.08)**	**(0.04)**

26. Segment Information

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

The Company derives revenues in the following major categories:

Revenue	**2023**	**2022**
Sale of Products	18,298,988	22,573,402
Provision of Services	16,573,827	7,197,737
Total Revenue	**34,872,815**	**29,771,139**

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

Revenue:	**2023**	**2022**

Canada	21,938,048	25,562,122
United States	7,681,939	3,827,322
United Kingdom	5,252,828	381,695
Total Revenue	**34,872,815**	**29,771,139**

As at the year ended December 31, 2023, and 2022, there were no material contract liabilities or assets arising from short-term revenue contracts with the customers.

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

2022	**Property, plant and equipment**	**Goodwill**	**Intangible assets**	**Right of use assets**
Canada	8,155,569	963,604	3,260,738	994,581
United States	1,051,772		513,504	
United Kingdom	122,771		354,432	
Totals	**9,330,112**	**963,604**	**4,128,674**	**994,581**

27. Subsequent Events

Management has evaluated subsequent events as of May 04, 2024, the date the consolidated financial statements.

On January 2, 2024, the Company announced the acquisition of Aerial Motion Pictures Ltd, dba UAVHUB and 100% of the outstanding shares in Open Sky consulting International Ltd dba Drone Mentor for a total share consideration of £150,000.