



VOLATUS AEROSPACE CORP.

Interim Condensed Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2023

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

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NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

| In C\$ | Notes | June 30, 2023 | December 31, 2022 |
|--|--------|----------------------|----------------------|
| Assets | | | |
| Current | | | |
| Cash & cash equivalents | | \$ 1,311,977 | \$ 3,684,581 |
| Trade and other receivables | 4 | 4,679,055 | 4,330,189 |
| Prepaid expenses, deposits, and other current assets | 5 | 2,614,001 | 2,003,533 |
| Inventory | 9 | 3,271,330 | 3,762,031 |
| Total current assets | | 11,876,363 | 13,780,334 |
| Property, plant and equipment | 6 | 9,175,205 | 9,330,112 |
| Intangible assets | 7 | 10,173,955 | 8,815,125 |
| Investment in joint venture | 20 | 1,547 | - |
| Right-of-use asset | 18 | 852,229 | 994,581 |
| Goodwill | 8 | 689,835 | 689,835 |
| Total non-current assets | | 20,892,771 | 19,829,653 |
| Total Assets | | \$ 32,769,134 | \$ 33,609,987 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities | | | |
| Trade payables and accrued liabilities | 10 | \$ 3,904,488 | \$ 3,397,068 |
| Deferred revenue | | 132,404 | 73,471 |
| Current portion of lease liability | 19 | 354,011 | 325,950 |
| Other short-term liabilities | 11 | 736,247 | 373,163 |
| Current portion of long-term borrowings | 11 | 3,207,863 | 1,995,681 |
| Total current liabilities | | 8,335,014 | 6,165,334 |
| CEBA loan | | 480,000 | 420,000 |
| Convertible debenture - Loan | 15 | 2,099,640 | |
| Long-term borrowings | 11 | 8,328,649 | 10,063,911 |
| Lease Liability | 19 | 648,374 | 826,038 |
| Contingent Consideration | 14, 17 | 3,033,509 | 2,356,850 |
| Total non-current liabilities | | 14,590,172 | 13,246,800 |
| Total Liabilities | | 22,925,186 | 19,412,133 |
| Shareholders' Equity | | | |
| Common equity | 15 | 11,585,512 | 10,957,258 |
| Warrants reserve | 15 | 6,098,857 | 6,098,857 |
| Share-based reserve | 15 | 2,058,771 | 1,704,009 |
| Preferred shares | 15 | 352,634 | 352,634 |
| Convertible debenture - Options | 15 | 124,657 | |
| Retained earnings | | (14,011,047) | (8,971,689) |
| Contributed Surplus | 15 | 2,989,819 | 2,989,819 |
| Non-controlling interest | | 644,746 | 1,066,963 |
| Total Shareholders' Equity | | 9,843,948 | 14,197,852 |
| Total Liabilities & Shareholders' Equity | | \$ 32,769,134 | \$ 33,609,987 |

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 interim condensed consolidated financial statements.

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

| | Notes | Three months ended | | Six months ended | |
|---|-------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | June 30, 2023 | June 30, 2022 | June 30, 2023 | June 30, 2022 |
| Revenues | | \$ 8,684,991 | \$ 6,629,593 | \$ 16,097,471 | \$ 11,437,421 |
| Cost of goods sold | | 3,333,805 | 3,778,163 | 6,905,205 | 6,376,116 |
| Cost of providing services & training | | 2,390,710 | 950,510 | 3,865,112 | 2,067,546 |
| Gross profit | | 2,960,475 | 1,900,920 | 5,327,153 | 2,993,759 |
| OPERATING EXPENSES | | | | | |
| Audit fees | | 1,001 | 10,015 | 2,867 | 10,015 |
| Advertising & marketing | | 629,686 | 591,365 | 1,035,804 | 1,050,400 |
| IT & tech | | 211,960 | 110,775 | 397,055 | 207,404 |
| Personnel | | 1,788,347 | 1,565,456 | 3,944,644 | 2,690,350 |
| Research & development | | 364,263 | - | 464,683 | - |
| Office cost | | 505,832 | 416,589 | 1,218,313 | 644,746 |
| Travel | | 167,364 | 54,456 | 261,649 | 134,829 |
| External partner cost | | 325,978 | 158,356 | 598,125 | 540,853 |
| Depreciation | 6,18 | 797,487 | 300,511 | 1,542,623 | 509,735 |
| Share based Payments | 13 | 178,361 | 290,103 | 354,762 | 573,179 |
| | | 4,970,279 | 3,497,626 | 9,820,525 | 6,361,512 |
| Loss from operations | | (2,009,804) | (1,596,706) | (4,493,372) | (3,367,753) |
| OTHER ITEMS - INCOME/(EXPENSE) | | | | | |
| Unrealized loss on investment | | (104,818) | - | (284,876) | - |
| Finance cost | | (368,635) | (81,239) | (681,617) | (154,768) |
| Other income (expense) | | 41,237 | 31,576 | 39,679 | 185,543 |
| Loss on disposal of assets | | - | (1,011) | (10,511) | (1,011) |
| Foreign exchange translation | | (5,995) | 20,484 | (34,585) | 6,073 |
| Net loss | | \$ (2,448,015) | \$ (1,626,896) | \$ (5,465,282) | \$ (3,331,915) |
| OTHER COMPREHENSIVE LOSS | | | | | |
| Foreign operations - foreign currency translation differences | | (10,196) | - | 3,706 | - |
| Comprehensive loss | | \$ (2,458,211) | \$ (1,626,896) | \$ (5,461,576) | \$ (3,331,915) |
| Owners of Volatus Aerospace Corp. | | (2,427,468) | (366,012) | (5,039,358) | (2,152,072) |
| Non-controlling interest | 7 | (30,743) | (1,260,884) | (422,218) | (1,179,843) |
| | | (2,458,211) | (1,626,896) | (5,461,576) | (3,331,915) |
| Net Loss per share | | | | | |
| Basic | | (0.021) | (0.004) | (0.047) | (0.021) |
| Diluted | | (0.021) | (0.004) | (0.047) | (0.021) |
| Basic | | 115,634,354 | 102,075,878 | 115,634,354 | 102,075,878 |
| Diluted | | 115,634,354 | 102,075,878 | 115,634,354 | 102,075,878 |

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

Volatus Aerospace Corp.

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

| | Number of shares | Capital Stock | Preferred Shares | Warrants Reserve | Share-based Reserve | Convertible Debenture - Options | Contributed Surplus | Non-Controlling Interest | Retained Earnings | Total Shareholders Equity |
|---|--------------------|----------------------|-------------------|---------------------|---------------------|---------------------------------|---------------------|--------------------------|-----------------------|---------------------------|
| Common shares balance, January 1, 2023 | 113,943,079 | \$ 10,957,258 | \$ - | \$ 6,098,857 | \$ 1,704,009 | \$ - | \$ 2,989,819 | \$ 1,066,963 | \$ (8,971,689) | \$ 13,845,218 |
| Preference shares balance, January 1, 2023 | 352,634 | - | 352,634 | - | - | - | - | - | - | 352,634 |
| Shares issued on acquisition | 1,691,275 | 628,254 | - | - | - | - | - | - | - | 628,254 |
| Issuance of stock options | - | - | - | - | 354,762 | - | - | - | - | 354,762 |
| Private placement | - | - | - | - | - | 124,657 | - | - | - | 124,657 |
| Net loss for the period | - | - | - | - | - | - | - | (422,218) | (5,039,358) | (5,461,576) |
| Common shares balance, June 30, 2023 | 115,634,354 | \$ 11,585,512 | | \$ 6,098,857 | \$ 2,058,771 | \$ 124,657 | \$ 2,989,819 | \$ 644,746 | \$(14,011,047) | \$ 9,491,314 |
| Preference shares balance, June 30, 2023 | 352,634 | | \$ 352,634 | | | | | | | \$ 352,634 |

| | Number of shares | Capital Stock | Preferred Shares | Warrants Reserve | Share-based Reserve | Contributed Surplus | Non-Controlling Interest | Retained Earnings | Total Shareholders Equity |
|---|--------------------|---------------------|-------------------|---------------------|---------------------|---------------------|--------------------------|----------------------|---------------------------|
| Common shares balance, January 1, 2022 | 101,835,722 | \$ 9,110,305 | \$ - | \$ 4,053,191 | \$ 459,152 | \$ 2,989,819 | \$ 288,768 | \$ (2,345,515) | \$ 14,555,720 |
| Preference shares balance, January 1, 2022 | 704,322 | - | 704,322 | - | - | - | - | - | 704,322 |
| Shares issued on acquisition | 349,399 | 145,001 | - | - | - | - | - | - | 145,001 |
| Exercised Stock Options | 16,924 | 5,063 | - | - | - | - | - | - | 5,063 |
| Issuance of stock options | - | - | - | - | 573,179 | - | - | - | 573,179 |
| Net loss for the period | - | - | - | - | - | - | (1,179,843) | (2,152,072) | (3,331,915) |
| Common shares balance, June 30, 2022 | 102,202,045 | \$ 9,260,370 | | \$ 4,053,191 | \$ 1,032,331 | \$ 2,989,819 | \$ (891,075) | \$(4,497,587) | \$ 11,947,050 |
| Preference shares balance, June 30, 2022 | 704,322 | | \$ 704,322 | | | | | | \$ 704,322 |

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

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

| | Notes | Six months ended June 30 | |
|---|-------|--------------------------|---------------------|
| | | 2023 | 2022 |
| Cash flows used in operating activities: | | | |
| Net loss | | \$ (5,555,868) | \$ (3,331,914) |
| Adjustments for items for items not affecting cash: | | | |
| Depreciation | 6 | 1,542,623 | 509,735 |
| Gain on disposal of assets | 18 | (10,511) | - |
| Share based payments | 13 | 354,762 | 578,243 |
| Share of loss from joint venture | 20 | 284,876 | - |
| Net changes in non-cash working capital items: | | | |
| Trade and other receivables | | (299,617) | (1,019,806) |
| Prepaid expenses and deposits | | (393,188) | (709,394) |
| Inventory | | 490,701 | (1,454,264) |
| Trade payables and accrued liabilities | | 349,968 | (632,134) |
| Deferred revenue | | 58,933 | (416,173) |
| Other short-term liabilities | | 270,000 | (2,410) |
| Contingent Consideration | | - | 15,000 |
| | | <u>(2,813,028)</u> | <u>(5,198,848)</u> |
| Cash flows used in investing activities: | | | |
| Additions to property, plant & equipment | 6 | (809,042) | (1,437,384) |
| Payment of acquisition related contingent consideration | 17 | - | - |
| Investment in joint venture | 20 | (286,423) | - |
| Additions to intangible assets | 7 | (237,824) | (133,142) |
| Business acquisitions, net of cash acquired | 13 | 69,496 | (944,582) |
| | | <u>(1,263,793)</u> | <u>(2,515,108)</u> |
| Cash flows from financing activities: | | | |
| Proceeds/(Repayment) of long-term loans | 12 | (370,477) | 331,744 |
| Net Proceeds from Convertible Debenture | 21 | 2,224,297 | - |
| Payment of lease liabilities | 19 | (149,603) | 12,862 |
| | | <u>1,704,217</u> | <u>344,606</u> |
| Net change in cash | | <u>(2,372,604)</u> | <u>(7,369,350)</u> |
| Cash and cash equivalents, beginning of year | | 3,684,581 | 8,806,836 |
| Cash and cash equivalents, end of period | | \$ 1,311,977 | \$ 1,437,486 |

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

Notes to Interim Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2023 and 2022

1. The Company and its Operations

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

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

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

Volatus is a leading provider of integrated drone solutions throughout Canada, the United States, Latin America and Europe. Operating a vast pilot network, Volatus serves commercial and defense markets with imaging and inspection, security and surveillance, equipment sales and support, training, design, manufacturing, and R&D. Through its 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**Statement of compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2022. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC. These interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2022. Certain information provided for the prior period has been reclassified to conform to the presentation adopted for the period ended June 30, 2023.

These interim condensed consolidated financial statements of the Company were approved by the Board of Directors on August 28, 2023.

Basic of measurement

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

Presentation currency

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

Notes to Interim Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2023 and 2022

Basic of consolidation

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

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

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

3. Subsidiaries

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

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

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

Volatus Aerospace Corp.

Notes to Interim Condensed Consolidated Financial Statements For the three and six months ended June 30, 2023 and 2022

The 30% external shareholding of Volatus Flight Systems, 33.66% external shareholding of Volatus Unmanned Services, 10% external shareholding of Volatus Aerospace USA Corp), 51% external shareholding of Indigenous Aerospace Corp., 49% external shareholding of iRed Limited and 49% external shareholding of Synergy Aviation Ltd. are all attributable to Non-Controlling Interests in the interim condensed consolidated financial statements.

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

4. Trade and other receivables

| | June 30, 2023 | December 31, 2022 |
|------------------------|---------------|-------------------|
| Trade receivables | \$ 4,532,831 | \$ 4,056,665 |
| Accrued revenues | 95,830 | 68,598 |
| Tax credits receivable | 30,873 | 200,000 |
| Other receivable | 19,521 | 4,925 |
| Total | \$ 4,679,055 | \$ 4,330,189 |

5. Prepaid expenses, deposits, and other current assets

| | June 30, 2023 | December 31, 2022 |
|----------------------|---------------|-------------------|
| Prepaid expenses | \$ 1,991,909 | \$ 1,281,023 |
| Security deposit | 320,904 | 299,164 |
| Advance payment | - | 106,283 |
| Other current assets | 301,187 | 317,064 |
| Total | \$ 2,614,001 | \$ 2,003,533 |

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

| | June 30, 2023 | December 31, 2022 |
|---------------------------------|---------------|-------------------|
| Deposit towards training school | \$ 12,000 | \$ 12,000 |
| Deposit towards rental | 43,727 | 12,968 |
| Deposit towards trade show | - | 5,000 |
| Deposit towards aircraft | 128,937 | 128,937 |
| Other deposits | 136,239 | 140,258 |
| Total | \$ 320,904 | \$ 299,164 |

Volatus Aerospace Corp.

Notes to Interim Condensed Consolidated Financial Statements For the three and six months ended June 30, 2023 and 2022

6. Property, plant & equipment

| | Drones & Accessories | Machinery | Leasehold Improvements | Furniture & Fixtures | Computer & Equipment | Vehicle | Aircraft & Accessories | Total |
|---------------------------------|-------------------------|----------------|---------------------------|-------------------------|-------------------------|------------------|---------------------------|-------------------|
| Cost | | | | | | | | |
| Balance, December 31, 2022 | 2,601,770 | 311,971 | 400,725 | 644,434 | 825,257 | 1,063,076 | 5,745,817 | 11,593,050 |
| Additions | 75,274 | 38,080 | 5,250 | 51,028 | 30,880 | 4,368 | 353,011 | 557,891 |
| Additions through acquisitions | 208,165 | - | - | 7,481 | 18,701 | 451,550 | - | 685,897 |
| Disposals/Retirements | (20,544) | - | - | - | - | - | - | (20,544) |
| Balance, June 30, 2023 | 2,864,665 | 350,051 | 405,975 | 702,943 | 874,838 | 1,518,994 | 6,098,828 | 12,816,294 |
| Accumulated Depreciation | | | | | | | | |
| Balance, December 31, 2022 | 711,060 | 152,567 | 25,911 | 483,727 | 453,723 | 156,369 | 279,580 | 2,262,938 |
| Depreciation for the period | 317,490 | 23,895 | 14,863 | 23,934 | 54,934 | 127,911 | 817,590 | 1,380,617 |
| Disposals/Retirements | (2,466) | - | - | - | - | - | - | (2,466) |
| Balance, June 30, 2023 | 1,026,084 | 176,462 | 40,774 | 507,661 | 508,657 | 284,280 | 1,097,170 | 3,641,089 |
| Net carrying Amount | | | | | | | | |
| December 31, 2022 | 1,890,710 | 159,404 | 374,814 | 157,790 | 371,534 | 906,707 | 5,466,237 | 9,330,112 |
| June 30, 2023 | 1,838,581 | 173,589 | 365,201 | 195,282 | 366,181 | 1,234,714 | 5,001,658 | 9,175,205 |

Included in the above balances as at June 30, 2023, are assets not being amortized with a net book value of \$332,546 (2022 - \$102,235) being work in progress.

Volatus Aerospace Corp.

Notes to Interim Condensed Consolidated Financial Statements For the three and six months ended June 30, 2023 and 2022

7. Intangible assets

| | Technology | Customer | Brand name | Total |
|---------------------------------|------------------|------------------|----------------|-------------------|
| Cost | | | | |
| Balance, December 31, 2022 | 5,168,039 | 3,419,813 | 244,435 | 8,832,287 |
| Additions through acquisitions | - | 1,358,830 | - | 1,358,830 |
| Balance, June 30, 2023 | 5,168,039 | 4,778,643 | 244,435 | 10,191,117 |
| Accumulated Depreciation | | | | |
| Balance, December 31, 2022 | 17,162 | - | - | 17,162 |
| Impairment charge | - | - | - | - |
| Balance, June 30, 2023 | 17,162 | - | - | 17,162 |
| Net carrying Amount | | | | |
| December 31, 2022 | 5,150,877 | 3,419,813 | 244,435 | 8,815,125 |
| June 30, 2023 | 5,150,877 | 4,778,643 | 244,435 | 10,173,955 |

No impairment analysis has been done on June 30, 2023. The next impairment analysis is scheduled on December 31, 2023.

8. Goodwill

| | June 30, 2023 | December 31, 2022 |
|----------------------------|---------------|-------------------|
| Balance, beginning of year | \$ 689,835 | \$ 583,188 |
| Acquisitions (note 14) | - | 106,647 |
| Balance, end of year | \$ 689,835 | \$ 689,835 |

No impairment analysis has been done on June 30, 2023. The next impairment analysis is scheduled on December 31, 2023.

9. Inventories

The amount of inventory recognized as an expense for the three months period ended June 30, 2023 was \$3,221,397 (three month ended June 30, 2022 - \$3,739,743), which is presented within cost of sales in the interim condensed consolidated statements of loss.

10. Trade payables and accrued liabilities

| | June 30, 2023 | December 31, 2022 |
|--------------------|---------------------|---------------------|
| Accounts Payable | \$ 2,636,404 | \$ 2,804,243 |
| Audit fees Payable | - | 80,000 |
| Tax Payable | (274) | (318,460) |
| Payroll Liability | 502,016 | 388,165 |
| Other | 766,342 | 443,120 |
| Total | \$ 3,904,488 | \$ 3,397,068 |

Volatus Aerospace Corp.

Notes to Interim Condensed Consolidated Financial Statements For the three and six months ended June 30, 2023 and 2022

11. Short-term borrowings

Current portion of long-term borrowings

| | June 30, 2023 | December 31, 2022 |
|------------------------------|---------------------|---------------------|
| BDC loans | \$ 785,789 | \$ 785,485 |
| Vehicle financing | 155,561 | 149,789 |
| Western Economic Development | 166,656 | 166,656 |
| Natwatt | 25,248 | 31,051 |
| IWOCA | 64,626 | 59,861 |
| Operating loans | 1,000,000 | - |
| Other loans | 210,299 | 15,284 |
| Promissory notes | 799,684 | 787,556 |
| Total | \$ 3,207,863 | \$ 1,995,681 |

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

Other short-term liabilities

| | June 30, 2023 | December 31, 2022 |
|-------------------|-------------------|-------------------|
| Shareholders loan | \$ 679,292 | \$ 313,208 |
| Other loans | 56,955 | 59,955 |
| Total | \$ 736,247 | \$ 373,163 |

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

12. Long-term borrowings

| | June 30, 2023 | December 31, 2022 |
|------------------------------|---------------------|---------------------|
| BDC loans | \$ 4,348,428 | \$ 5,056,454 |
| Vehicle financing | 406,195 | 493,597 |
| SBA loan | 50,709 | 52,310 |
| Promissory notes | 133,536 | 262,443 |
| Desjardin loans | 200,000 | 200,000 |
| Western Economic Development | 250,016 | 333,344 |
| Natwest | 33,479 | 40,842 |
| IWOCA | - | 32,239 |
| Operating loans | 2,671,118 | 2,634,288 |
| Other loans | 235,168 | 538,394 |
| Total | \$ 8,328,649 | \$ 9,643,911 |

The Company applied for and received \$480,000 in Canada Emergency Business Account ("CEBA") loans which are interest-free loans meant to cover operating costs impacted by the Covid-19 pandemic outbreak. Individual loans were granted to separate wholly owned subsidiaries of the Company.

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

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

The Company has a demand revolving credit facility of \$3,000,000 through its subsidiary Omniview Tech Corp. As at June 30, 2023, the amount drawn under this facility was \$2,995,000, which was included in other loans.

The Company entered into a term loan agreement through its subsidiary Volatus Drones for principle of \$215,000 USD. As at June 30, 2023, there's balance of \$91,415 USD which is included in other loans.

13. Related Party Transactions

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

Trade payables and accrued liabilities:

Volatus Aviation is engaged in a pass-through transaction with Flight Solutions Services Inc., a company controlled by a director of the Company. Aircraft operating expenses relating to Partner Jet activities are reimbursed at cost to the related party with no mark-up or margin. The payable outstanding on June 30, 2023 is \$3,424.

On August 31, 2022, the Company entered into an independent consultant agreement ("Consultant Agreement") with GripFast Solutions Inc., a company controlled by an independent director, to provide consulting services to the Company for scaling in the defense sector. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under External Partner Cost. For the year period ended June 30, 2023, the Company incurred fees of \$24,000 in Q2 2023 compared to \$50,000 in 2022. As at June 30, 2023, the Company was indebted to this company the amount of \$8,000 (2022 - \$8,000).

Share Capital:

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

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

Loans & Advance:

The Company has entered into a promissory note with the director of the Company on March 17, 2023 for a short-term loan of \$500,000 at an interest rate of 9.20% p.a. The same amount is indebted as at June 30, 2023.

Key management compensation

Notes to Interim Condensed Consolidated Financial Statements
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Key management includes the Company’s directors and members of the executive management team. Compensation awarded to key management for the three and six months ended June 30, 2023 and 2022 included:

| | Three months ended June 30 | | Six months ended June 30 | |
|----------------------|----------------------------|---------|--------------------------|---------|
| | 2023 | 2022 | 2023 | 2022 |
| Salaries | 221,250 | 210,000 | 442,500 | 420,000 |
| Share-based Payments | 201,787 | 274,455 | 354,762 | 557,531 |
| | 423,037 | 484,455 | 797,262 | 977,531 |

The Company has an employment agreement with its CEO which provides that in the event the CEO’s employment is terminated by the Company without cause, (i) a lump sum payment equal to 18 months’ salary, or (ii) within 90 days of, a change in control, a termination payment equal to 18 months’ salary, at \$350,000 per annum, is payable. If the termination had occurred on June 30, 2023, the amount payable under this agreement would be \$525,000.

The Company has an employment agreement with its CFO which provides that in the event the CFO’s employment is terminated by the Company without cause, (i) a lump sum payment equal to 12 months’ salary, or (ii) within 90 days of, a change in control, a termination payment equal to 12 months’ salary, at \$190,000 per annum, is payable. If the termination had occurred on June 30, 2023, the amount payable under this agreement would be \$190,000.

14. Business Combination

Volatus Drones (Empire Drone Company LLC)

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

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

The Company estimated the fair value as follows:

Notes to Interim Condensed Consolidated Financial Statements
For the three and six months ended June 30, 2023 and 2022

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

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

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

No impairment analysis has been done on June 30, 2023. The next impairment analysis is scheduled on December 31, 2023.

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 (C\$416,905), will be payable twelve (12) months after closing in the form of additional Volatus common shares issued on the share price of C\$0.65 or the prior 30-day VWAP, whichever is higher. This payment is conditional on Sky Scape retaining approximately C\$1M of inspection revenue previously contracted to be performed in 2024.

This transaction did not qualify as business combination under IFRS 3 and has been accounted for as asset acquisition.

Purchase price allocation

| | |
|--|-------------------|
| Issuance of 969,737 common shares upon closing | \$ 368,500 |
| Contingent consideration (earnout) (i) | 416,905 |
| Total consideration | \$ 785,405 |

Allocation of purchase price

| | |
|--|----------------|
| Property, plant and equipment (note 6) | 675,248 |
| Intangible asset (note 7) | 237,824 |
| Long-term borrowing | -127,667 |
| Net assets acquired | 785,405 |

(i) The earnout has a fair value of \$416,905 as of date of acquisition and was recorded as "Contingent consideration".

15. Share Capital

Authorized share capital

Unlimited number of common shares without par value.

Volatus Aerospace Corp.

Notes to Interim Condensed Consolidated Financial Statements For the three and six months ended June 30, 2023 and 2022

Issued common shares

| | June 30, 2023 | | December 31, 2022 | |
|---|--------------------|----------------------|--------------------|----------------------|
| | Shares | Amount | Shares | Amount |
| Shares outstanding, beginning of year | 113,943,079 | \$ 10,957,258 | 101,835,722 | \$ 9,110,305 |
| Issuance of stock options | - | - | 16,924 | 5,063 |
| Shares issued on acquisition | 1,691,275 | 628,254 | 349,399 | 145,001 |
| Shares issued on prospectus and private placement | - | - | 11,741,034 | 1,696,889 |
| Total | 115,634,354 | \$ 11,585,512 | 113,943,079 | \$ 10,957,258 |

Contributed Surplus

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

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

Preferred shares

| | June 30, 2023 | | December 31, 2022 | |
|--|----------------|-------------------|-------------------|-------------------|
| | Shares | Amount | Shares | Amount |
| Issued for acquisition of Partner Jet Corp. Initial minority equity Investment | 206,188 | \$ 206,188 | 206,188 | \$ 206,188 |
| UAViation Aerial Solutions Limited Investment | 146,446 | 146,446 | 146,446 | 146,446 |
| Total | 352,634 | \$ 352,634 | 352,634 | \$ 352,634 |

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

Stock options

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

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

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. The weighted average fair value at date of grant for the options granted during the period ended June 30, 2022 was \$0.27 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share:

Notes to Interim Condensed Consolidated Financial Statements
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share price of \$0.36, risk-free interest rate of 3.30%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

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

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

Convertible debenture – Options

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

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

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

Volatus Aerospace Corp.

Notes to Interim Condensed Consolidated Financial Statements For the three and six months ended June 30, 2023 and 2022

The aggregate issuance costs related to this issuance, including the commission, in the total amount of \$421,704 paid in cash were recorded as a reduction of convertible debenture.

The conversion option attached to the Debenture is recorded under “Convertible Debenture – Options” in the Shareholder’s Equity section of the interim condensed consolidated statement of financial position. The equity component corresponds to the consideration received, less the fair value of the financial liability at the time of issuance. The liability component, which is accounted for at amortized cost, is recorded under “Convertible Debenture – Loan” in the Liabilities section of the interim condensed consolidated statement of financial position for a net amount at initial recording of \$2,099,639, including issuance costs, and was determined assuming a 15% discount rate.

Warrants

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

Details of warrants and their fair value:

| Sr. No | Issue Date | Exercise Price | Expiry Date | Number of warrants outstanding at June 30, 2023 | Fair Value at June 30, 2023 | Number of Warrants Outstanding at December 31, 2022 | Fair Value at December 31, 2022 |
|--------|------------|----------------|-------------|---|-----------------------------|---|---------------------------------|
| 1 | 22-Dec-21 | \$0.65 | 22-Dec-23 | 5,308,476 | 1,804,881 | 5,308,476 | 1,804,881 |
| 2 | 22-Dec-21 | \$0.75 | 22-Dec-23 | 7,025,966 | 2,248,310 | 7,025,966 | 2,248,310 |
| 3 | 06-Oct-22 | \$0.50 | 05-Oct-24 | 11,741,034 | 1,878,565 | 11,741,034 | 1,878,565 |
| 4 | 06-Oct-22 | \$0.36 | 05-Oct-24 | 879,475 | 167,100 | 879,475 | 167,100 |
| 5 | 11-May-23 | \$0.50 | 11-May-25 | 3,067,860 | - | - | - |

As of June 30, 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 | 3,067,860 | \$0.50 |
| Exercised | - | - |
| Forfeited | - | - |
| Outstanding, June 30, 2023 | 28,022,811 | \$0.59 |

Notes to Interim Condensed Consolidated Financial Statements
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16. Financial Instruments and Risk Management**Financial Assets and Liabilities**

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

Risk Management

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

Credit Risk

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

Foreign Currency Risk

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

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

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As at June 30, 2023 the Company did not have any foreign currency hedges in place.

Concentration Risk

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

Market Risk

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

Interest Rate Risk

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

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

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

Liquidity Risk

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

Sensitivity Analysis

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

17. Commitments

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

As part of Sky Scape Industries acquisition, the Company has entered into earn-out provision subject to renewal of a contract. These earn-outs are payable on or before 31 December 2024.

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

The following tables reconcile the changes in ROU assets:

Volatus Aerospace Corp.

Notes to Interim Condensed Consolidated Financial Statements For the three and six months ended June 30, 2023 and 2022

| | June 30, 2023 | December 31, 2022 |
|---------------------------------|-------------------|-------------------|
| Cost | | |
| Balance, beginning of year | \$ 1,529,004 | \$ 1,455,788 |
| Additions | 19,655 | 99,037 |
| Disposal/impairment | - | (25,821) |
| Balance, end of year | 1,548,659 | 1,529,004 |
| Accumulated amortization | | |
| Balance, beginning of year | 534,423 | 225,867 |
| Disposal/impairment | - | (4,304) |
| Depreciation | 162,007 | 312,860 |
| Balance, end of year | 696,430 | 534,423 |
| Net book value | \$ 852,229 | \$ 994,581 |

19. Leases

Company as a lessee

Leasing arrangements

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

| | June 30, 2023 | December 31, 2022 |
|-----------------------------|------------------|-------------------|
| Balance, beginning of year | \$1,151,988 | \$ 1,362,847 |
| Additions | 19,656 | 99,037 |
| Disposal | - | (25,821) |
| Interest | 59,241 | 136,520 |
| Payments | (228,501) | (424,485) |
| Balance, end of year | 1,002,385 | 1,151,988 |
| Current | 354,011 | 325,950 |
| Non-current | 648,374 | 826,038 |

20. Investment in Joint Venture

Volatus Aerospace Corp.

Notes to Interim Condensed Consolidated Financial Statements For the three and six months ended June 30, 2023 and 2022

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

The following table reconciles the change in the investment in joint venture as at June 30, 2023:

| | June 30, 2023 | December 31, 2022 |
|-------------------------------|-----------------|-------------------|
| Balance, beginning of year | \$ - | \$ - |
| Additional investment | 286,423 | - |
| Unrealized loss on fair value | (284,876) | - |
| Balance, end of year | \$ 1,547 | \$ - |

End.