



**VOLATUS AEROSPACE CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022**

***SHAPING THE FUTURE WITH DRONE TECHNOLOGIES***

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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**MANAGEMENT'S DISCUSSION & ANALYSIS**

This Management Discussion & Analysis ("MD&A") is intended to provide readers with the information that management believes is required to gain an understanding of the current results of Volatus Aerospace Corp. (the "Company" or "Volatus") and to assess the Company's prospects. The following MD&A is presented and dated as of Nov 07, 2022 and should be read in conjunction with the condensed consolidated interim financial statements and related notes for the three and nine months ended September 30, 2022. The Financial Statements presented herein include the accounts of the Company and all its subsidiaries. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations and all amounts, unless otherwise indicated, are expressed in Canadian dollars.

**NON-IFRS FINANCIAL MEASURES**

In this MD&A we describe certain income and expense items that are unusual or non-recurring. There are terms not defined by International Financial Reporting Standards (IFRS). Our usage of these terms may vary from the usage adopted by other companies. Specifically, *Gross margin, blended Gross margin, Gross profit, and adjusted EBITDA (earnings before interest, tax, depreciation, and amortization)* are undefined terms by IFRS. Management believes that gross profit, defined as revenue less cost of goods sold, is a useful supplemental measure of operations. Adjusted EBITDA is a supplemental measure used by management and other users of Volatus' financial statements, including lenders and investors, to assess the financial performance of the Company's business without regard to financing methods or capital structure. Adjusted EBITDA is also a key metric that management uses prior to the execution of any strategic investing or financing opportunity. For example, management uses Adjusted EBITDA as a measure in determining the value of acquisitions, expansion opportunities, and dispositions. In addition, Adjusted EBITDA is utilized by financial institutions to measure borrowing capacity. The Company believes that Adjusted EBITDA is useful to management, lenders, and investors in assessing the underlying performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements. The Company defines Adjusted EBITDA as IFRS net loss excluding interest expense, depreciation and amortization expense, share-based payments, income tax expense, integration costs, acquisition cost, and impairment of goodwill, property, plant, and equipment and right-of-use assets (ROU).

We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance with International Financial Reporting Standards ("IFRS").

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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**FORWARD LOOKING STATEMENTS**

*This management's discussion and analysis may contain statements about expected future events and financial and operating results of the Company that are forward looking. All statements other than statements of historical fact may be forward-looking statements. By their nature, forward looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our financial performance objectives, vision and strategic goals will not be achieved. For example, statements in this MD&A relating to the Company's mission, expected timing for the marketing and sale of the Company's products, the Company's intentions with respect to growth and future acquisitions, expectations as to timing to commence operations at various locations and the potential benefits to the Company from such new operations, expectations as to the timing and quantity of sales and recognition of revenues and expenses and expectations as to Company growth are all forward looking statements. The operations of the Company are subject to a number of risks, both anticipated and unanticipated. Please refer to the heading "Cautionary Note Regarding Forward-Looking Information" and "Risk Factors – Risk Factors Relating to the Transaction" in the Information Circular to which this MD&A is attached.*

**BUSINESS OVERVIEW**

Volatus was incorporated on December 17, 1987, and has its registered office located at 60 Airport Road, Oro Medonte, Ontario L0L 2E0, Canada. The Company, through its subsidiaries, including, Volatus Unmanned Services Inc., Volatus Flight Systems Inc., Volatus Aerospace USA Corp., and Volatus Aviation (registered as Partner Jet Inc.) is one of Canada's leading, technology-enabled unmanned aerial solutions providers and manned aviation management company. Steeped with aviation experience, the Company is dedicated to commercializing the full potential of unmanned technologies throughout the Americas and around the world. With locations across Canada, the United States, Latin America, and the United Kingdom, the Company offers a comprehensive range of solutions for both civilian and military applications.

The Company's mission is to be a leading, fully integrated unmanned technologies and services business and be at the forefront of melding unmanned applications with traditional aviation service offerings. In addition, one of our goals is to increase sustainability and help people do more for the planet. We're reducing the environmental impact of our operations and working to empower people everywhere to live more sustainably.

The Company has acquired several established UAV (Unmanned Aerial Vehicles commonly known as Drones or Remotely Piloted Aircraft) technology and solution businesses to consolidate its position as an international player with operations from coast to coast across the Americas. The Company has a physical presence in British Columbia, Manitoba, Ontario, Quebec, Prince Edward Island, and Pennsylvania. The Company also has satellite offices in New York, Florida, Nevada, Texas, Maine, Columbia, the UK and Peru. In addition, a network of over 1200 Transport Canada and FAA-qualified UAV pilots is available to the Company to support service delivery in every province and territory of Canada and the US.

The Company under the Volatus Flight Systems subsidiary represents its technology arm. It offers system design engineering, research & development, and manufacturing. This subsidiary was formed in 2020 with the

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## Volatus Aerospace Corp. Management's Discussion & Analysis For the three and nine months ended September 30, 2022

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acquisition of the assets of Brican Flight Systems Inc. These assets include the intellectual property rights to the TD100 (since renamed M100 Velos and E100 Vedette) UAV program. The fixed-wing drone technology is the culmination of over 10 years of research and development activity leading to a commercialization readiness state. Two variants of the fixed-wing drones, the multi-fueled powered Velos and electrically powered Vedette, are expected to be marketed and sold commencing in 2023

The Company, under its Volatus Unmanned Services and Volatus Aerospace USA subsidiaries, offers unmanned aerial vehicle (UAV) system sales and training; aerial inspection and imaging services; data processing and management, maintenance, and repair to numerous industries.

The commercial distribution activities are centered around its distribution agreement with the world's leading manufacturer and supplier of consumer and enterprise level drones throughout Canada and the US.

UAVs are playing a significant role in the defense and commercial sectors, progressively replacing traditional modes of inspection, surveillance, survey and transportation due to their inherent cost, safety and efficiency. Numerous market studies have predicted significant growth in the use of UAVs in all sectors the Company is targeting.

### BUSINESS HIGHLIGHTS

The first half of 2022 was expected to be a slow period due to reduced drone activities in Canada. Severe weather conditions create this seasonality in the business in Canada and the Northern USA. The third quarter is a stronger quarter compared to the first two quarters. Due to the Russian invasion of Ukraine, the significance of drones in the defense segment has increased dramatically. This has created opportunities for Volatus specifically in the ISTAR (Intelligence, Surveillance, Target-Acquisition, and Reconnaissance) categories. We have seen an increase in demand in our drone sales activities. This includes both third party OEM drones and our own technology solutions produced at Lake Simcoe Regional Airport facility. The Company established a presence in London, England, to have a better access to potential sales in NATO countries to meet the demand for drones in defense. The Company continued to execute its strategy of creating partnerships with technology companies across the globe. It leveraged its sales and business development team to expand its offerings to its customers in both the industrial and defense segment. The Company also made an additional strategic acquisition in the second and fourth quarter to expand its business vertical into pipeline inspections and new geographies.

#### **Introducing a Subsidized Financing Program for rapid drone adoption**

On July 6, 2022, Volatus announced a full-service financing program for enterprises and industrial drone equipment in partnership with Mitsubishi HC Capital Canada to help drone service providers, public safety agencies, and industrial clients leverage the rapid evolution of related technologies in Canada and the US. This program will help counter increasing interest rates due to inflation and the slow credit approval process. The Financing approval for customers is targeted within 48 hours for sums up to \$2 million per transaction. This program is expected to boost revenue across segments, reduce accounts receivable, and create a competitive advantage for Volatus.

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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**Closing of Financing – Raised \$4.2M**

On July 25, 2022, Volatus announced a prospectus offering to raise \$4,000,000 and concurrent private placement on the same terms of up to \$500,000. The Company oversubscribed and closed the financing by raising a total of approximately \$4.2M on October 6, 2022. The closing cash position of \$ 6,021,163 as of Sept 30, 2022, does not include the \$4,200,000 raised as a result of this funding drive.

**Volatus Redeploys Capital**

As part of the amalgamation with Partner Jet Corp, in late 2021, Volatus assumed control of a Cessna Citation X business jet that was dedicated to revenue-generating third-party charter services. Continuing this activity was in line with our strategy to eventually merge manned and unmanned aircraft activity, such as large cargo drones, as the regulatory environment evolves. However, as a result of the acquisition of Canadian Air National Inc., as reported in the second quarter 2022 financial statement and the potential acquisition of Synergy Aviation in Q4 2022 (see Subsequent Events below), Volatus will have three Transport Canada-approved air operating certificates and licenses through these acquisitions. The Citation X generated a gross margin of 14% in Q2 2022 and no revenues during Q3 due to scheduled maintenance activities and pilot shortage. To remain focused on core business activities of drones and surveillance and to take advantage of elevated used aircraft values, Volatus has sold the Citation X aircraft with proceeds of approximately \$5.3 million with a gross margin of 33%. This capital will be used to repay the debt related to aircraft and deploy in uncrewed and inspection and surveillance business.

**BVLOS Approval and Conducting Remote Flight Operations**

On August 10, 2022, Volatus received a Beyond Visual Line of Sight ("BVLOS") Special Flight Operations Certificate (SFOC) from Transport Canada to operate a remotely piloted aircraft (RPAS, drone) without a visual observer using a ground-based optical detect and avoid system. This is a key milestone in the commercialization of the AERIEPORT nesting station and a necessary and important step toward commercializing drone technologies at scale in Canada.

Following the approval, Volatus remotely operated multiple drones in flight at Las Vegas, NV, from its remote operations center at the Lake Simcoe Regional Airport in Ontario. This demonstration showcased the industry, the capabilities of remote operations and the path to commercializing BVLOS missions.

**Strategic Partnership with Radar Company**

To grow BVLOS operations on a large scale, Volatus collaborated with Accipiter Radar Technologies Inc. to facilitate and commercialize drone flights beyond visual line of sight (BVLOS). This will allow Volatus to introduce clean energy drone solutions for a variety of aerial inspections in oil and gas pipeline, energy, railway, and arctic surveillance using remotely piloted aircraft (drones) operating beyond visual line of sight. This partnership will play a key role in expanding our service offerings for long linear inspections in pipeline, rail and power line applications.

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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**Profit with Purpose**

The Company has signed and successfully completed RPAS technical skills training program with Moose Cree First Nation. The training activity took place in the Moose Cree community, and Volatus is actively mentoring members of the community in developing its critical skills and infrastructure for a robust RPAS business servicing the community.

**ESG (Environment Social and Governance) Initiative**

Because drones are battery operated or require less fuel to operate than crewed aircraft, they are—by default—a green technology that can help multiple industries reduce their Scope 3 carbon emissions. As a responsible corporation, Volatus has taken the initiative of measuring the reduction of greenhouse gas emissions across sectors when replacing carbon-heavy legacy practices with drones. The Company is implementing an environmental impact reporting strategy that will begin in Q4 of this year. This initiative will not only help Volatus quantify its impact on the environment but also expand its access to environmentally conscious impact investments and funds. With impact investments reaching over \$1 Trillion in U.S. dollars globally and 50% of those investments located within the U.S. and Canada, it is an initiative that is not only socially and environmentally responsible but also financially responsible.

**Scaling Product Offerings and Capitalizing Defense Segment**

Due to the Russian invasion of Ukraine, the demand for drones in defense applications has scaled significantly across the globe. Expanding in the United Kingdom and Europe was initially planned to take place in 2023/2024 but current opportunities accelerated the plan. Volatus had begun delivery of intelligence, surveillance, and reconnaissance (“ISR”) drones to a consortium of organizations supporting Ukraine.

The Company Signed a global marketing and distribution agreement with UK based UAVTEK Limited and entered into strategic partnership with Aerovel Corporation, manufacturer of the Flexrotor drone. Both partnerships will allow the Company to market and sell high-endurance intelligence, target acquisition, and reconnaissance platforms tailored for ISR roles.

The Company made a major defense debut at CANSEC, Canada’s global defense and security trade show in Ottawa, Ontario on June 1<sup>st</sup> and 2<sup>nd</sup>. At the event, through the strong support of Global Affairs Canada, the Company held high-level meetings with military attaches from Latin America, Europe and Africa.

The Company appointed Lt. General (Ret’d) Andrew Leslie to Board of Directors. Lt. General Leslie is an expert in leadership, governance, risk management and ethics, and will provide independent advice to the Board of Directors and Leadership with particular focus on defense. Born into a multi-generational military and public service family, he has been a soldier, business leader, and a Member of Parliament for the federal riding of Orléans (2015). As a parliamentarian, he was a member of the Privy Council, Chief Government Whip, and Parliamentary Secretary focused on Canada–US relations, helping with NAFTA and other global matters.

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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### **Introducing Vetted by Volatus Program**

Volatus provides custom solutions that use in-house and OEM drone technologies. As the OEM drone market is crowded with smaller players, Volatus has introduced the "Vetted by Volatus" program. Under this program, before the technology is sold or integrated by Volatus, a team of drone experts performs due diligence on the technology and certifies it as ready to be sold. Through our RPV Aviation subsidiary, the Company has leveraged RPV's regulatory strengths to assist OEM partners achieve compliance for their intended use. This program enables us to offer the best technology solutions to the industry and defense sectors.

### **Commercializing American UAV Technologies**

Volatus signed an exclusive sales and distribution agreement with American UAV manufacturer Full Throttle Aerial to expand public safety and commercial offering with North American drone solutions. To diversify the product portfolio in the commercial and public safety sectors, the addition of various American and European UAV technologies will expand Volatus offering and integrated solutions segment. These partnerships enable the Company to provide a portfolio of technologies that are "Vetted by Volatus" to support defense and public safety sectors seeking domestic technology solutions.

### **Product Development**

On June 20, 2022, Volatus at the Annual Energy Drone & Robotics Summit in Houston, Texas, introduced the Aerieport, an all-weather drone nesting station. This solution is designed to operate remotely in extreme temperatures ranging from -50°C to +50°C. It features an onboard weather station, a 4 SIM, 5G, highspeed LTE connection with Satcom option, an integrated ground-based detect and avoid system, a mission planner and remote operations system. Industry applications include oil and gas, rail, utilities, forestry, security, mining, agriculture, construction, and infrastructure. This product is expected to revolutionize various sectors through remote autonomous flights.

### **Expanded in Latin America**

The Company signed a Joint Venture agreement and expanded in Latin America with the local drone service provider to capitalize on the existing business and infrastructure. Volatus will hold 75% of the JV business and the business will be called Volatus Aerospace LATAM.

### **Setting a Strong Foothold in Quebec**

The Company made a strategic move with the acquisition of MVT Geo Solutions Inc February 28, 2022. This acquisition enhanced the Company's service and data processing capabilities in the province of Quebec and Eastern Canada. Volatus will integrate the operations of MVT to provide data insights and scale its LiDAR expertise across Canada.

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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### **Expanded in Pipeline Inspection Business**

The Company through the acquisition of Canadian Air National Inc., a commercial aircraft operator, has expanded into pipeline inspections for the oil and gas industry. Building on a 3-year contract with a major gas utility, we intend to introduce sensor and drone technologies to monitor pipeline integrity.

### **Scaling Public Safety**

The Company has hired key resources from the US public safety sector. These hires were made to expand the offerings to Public Safety organizations in the United States & Canada. The Solutions include selling drone technologies, providing surveillance service capabilities, drone training, customized solutions, and integrations.

### **Introducing Drone Network News**

As part of creating a drone community and demonstration of thought leadership, Volatus introduced Drone Network News. This channel is developed to educate various stakeholders in the industry and enable sharing of knowledge and informed decision making. This channel highlights all the key developments in the drone industry across the globe through articles, discussions, and podcasts with the key leaders.

### **Trading on OTCQB – VLTF**

On March 2, 2022, the Company qualified to trade its shares on the OTCQB market under the ticker symbol VLTF. This will provide additional liquidity to the shares and access to the US capital market.

## **Q3 RESULT AND BUSINESS OUTLOOK**

### **Q3 2022 Total Revenues of \$11,120,589**

As industry adopts the use of unmanned aerial vehicles in various segments the demand for drone technologies is increasing at an accelerated rate. The Russian invasion of Ukraine accelerated adoption of drone technologies across the globe. The Company increased its revenues from \$3,286,395 in Q3 of 2021 to \$11,120,589 in Q3 of 2022. On a quarter-on-quarter growth basis (Q3 2022 and Q2 2022), overall revenues grew by 68%, Product sales decreased by 9% but were offset by services (aerial intelligence) sales that have grown by 16%. The first two quarters were slow quarters in terms of drone service activities. The growth in Q3 2022 was driven by higher service activities and the sale of the Citation X. The aircraft has been grounded since Mid-May 2022 and sale compensates for lost charter service revenue over the past 5 months. The Company has maintained highly diversified revenue base with sales of drone equipment, drones-as-a-service, drone training, and traditional crewed aircraft sales and services.



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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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**Q3 Gross Profit of \$3,329,444**

The gross margin achieved in Q3 2022 averaged 30% compared to 22% in Q2 2021 and 29% in Q2 2022. Higher margins in Q3 2022 were due to increased services activities and the sale of the Citation X. Q2 2022 gross margins by segment were 36% for drone services and training activities, 25% for product sales and 33% for aviation sales and services. Gross margins generated from equipment sales have been adjusted for shipping costs, payment gateway fees, and other direct costs. The gross margin from services and training has been consistent for the first nine months of 2022 at 43%.

**Q3 Revenue Distribution**

The product sales consisted of 42% of overall sales distribution in Q3 2022 compared to 77% in Q1 2022. The change in distribution is because of sale of aircraft. The services and training consisted of 10% of overall sales distribution in Q3 2022 compared to 14% in Q2 2022. And the aviation sales and services consisted of 48% of overall sales distribution in Q3 2022 compared to 8% in Q2 2022. After adjusting the impact of aircraft sale, the sales distribution in Q3 2022 for product sales is 81% revenue and for services and training is 19%. The distribution for product sales increased due to higher volume led by both commercial and defense segments. The increase in distribution for services and training was due to higher services activities in Q3 2022, as summer arrived, activities in drone services increased. The uncrewed segment (formerly known as unmanned segment) consisting of product sales, services, and training division generated 52% of overall revenue, whereas crewed segment (formerly known as manned aviation) consisting of traditional aviation division generated only 48%. However, this trend is temporarily skewed due to sale of aircraft. On go forward basis, acquisition of Synergy Aviation will reflect as revenue from crewed segment.

**BUSINESS OUTLOOK AND STRATEGY**

The commercial drone industry is highly dependent on regulations. However recent activities in Ukraine have accelerated the adoption of drones in the defense segment. The Company believes that drone regulations are evolving however, building a business model around anticipated regulatory changes will restrict the growth of the Company. The Company has designed a strategy that addresses current market needs within the existing regulatory framework and concurrently has started to get special approvals to perform BVLOS (Beyond Visual Line of Sight) missions. The Company believes in solving customer problems by providing customized solution that integrates its own technology along with the best third-party technologies available in the market. The intent is to create a "stickiness" with the customer to foster repeat business and the Company becomes a one stop solution for all drone needs. To enable this strategy, Volatus introduced the "Vetted by Volatus" program that can qualify great drone technologies as part of its integrated solutions.

The move to become a publicly traded company has enabled the Company to scale and capture a larger share of the market through internal growth and acquisitions. The Company can leverage its common shares as alternate currency to close potential acquisitions. This strategy has allowed the Company to expand its reach across Canada, the US, and some parts of Latin America. Due to the recent Russian invasion of Ukraine, Volatus accelerated its global expansion plan and has opened an office in London, UK to provide drone technology solutions to NATO countries.

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

**SELECTED FINANCIAL INFORMATION**

The following selected financial data has been extracted from the condensed consolidated interim financial statements for the fiscal years indicated and should be read in conjunction with the condensed consolidated interim financial statements.

	Three months ended Sept 30		Nine months ended Sept 30	
	2022	2021	2022	2021
Total Revenue	11,120,589	3,286,395	22,558,010	6,982,261
Gross Profit (as a % of revenues)	30%	22%	28%	27%
Net Income (Loss)	(327,171)	(597,304)	(3,694,924)	(716,135)
Comprehensive Income (Loss)	(352,206)	(707,613)	(3,684,121)	(933,965)
Adjusted EBITDA (loss)	370,465	(356,814)	(1,589,995)	(159,797)
Comprehensive Income (Loss) per share, basic and diluted				
- Basic	(0.0128)	(0.0001)	(0.0339)	(0.0022)
- Diluted	(0.0128)	(0.0001)	(0.0339)	(0.0022)
Change in Cash and Cash Equivalents	4,583,677	(1,601,649)	(2,785,673)	362,076

Revenues for the three months ended September 30, 2022 increased significantly due to the sale of the Citation X and increases in services activities. The revenue distribution from product and services increased in Q3 2022 to 81%. The scale was due to scale in defense segment, presence in new markets, exit from charter business, increased demand and low impact of seasonality. Sale of the Citation X to redeploy capital to other revenue-generating initiatives

The blended gross margin of the Company was 30% for the period. The blended gross margins increased due to higher revenues from product and aircraft sales that generated higher margins and more revenue from drones-as-a-service segment which have generates higher gross margins (43% gross margin for nine months ended September 30, 2022).

The Comprehensive Loss of \$352,206 included finance expense consisting mostly of interest on promissory notes and right-of-use expenses.

The adjusted EBITDA for three months ended September 30, 2022, totaled \$370,465, an increase from (\$707,613) in Q3 2021. The increase is attributable to the sale of the Citation X.

The Cash and Cash Equivalents increased by \$4,583,677 for the three months ended September 30, 2022. The increase was mostly attributable to the sale of the Citation X. Cash used in operating activities was \$4,531,099.

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

The increased cash use was due to a ramp up in inventory (and prepaid expenses) to meet increased demand and higher receivables. Due to supply chain constraints, the Company increased the inventory holdings to minimize the impact on revenue opportunities. Accounts receivables increased by \$1,228,848 in the first nine months ended September 30, 2022.

As at	September 30, 2022	December 31, 2021
Total Assets	23,290,219	22,668,821
Goodwill	689,835	583,188
Total non-current Liabilities	5,956,786	3,788,122
Working Capital	6,756,147	7,372,281
Shareholder's Equity	12,630,082	15,260,042
Distribution or Cash Dividends	-	-

As at September 30, 2022, the Company held total assets of \$23,290,219. The increase in total assets was due to the sale of the Citation X that generated cash of \$5,345,730 excluding any sales related expenses. The Company continued to deploy cash in operating activities and scale its uncrewed segment. The increase in total liabilities was mainly driven by increased accounts payable and increase in long-term borrowings due to acquisitions, and addition of an operating line of credit. The Company has total proforma cash of \$10,247,935 as of September 30, 2022 including the closing of financing of \$4,226,772 excluding fees and related expenses. The Company will have a net proforma cash balance of approximately \$6,826,832 after repayment of debt related to the Citation X and other expenses related to financing activities.

### RESULTS OF OPERATIONS

	Three months ended		Nine months ended	
	Sept 30, 2022	Sept 30, 2021	Sept 30, 2022	Sept 30, 2021
Revenue	\$ 11,120,589	\$ 3,286,395	\$ 22,558,010	\$ 6,982,261
Cost of goods sold	7,074,150	2,218,337	13,450,267	4,567,461
Cost of providing services & training	716,995	335,638	2,784,540	563,337



**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

<b>GROSS PROFIT</b>	<b>3,329,444</b>	<b>732,420</b>	<b>6,323,203</b>	<b>1,851,462</b>
<b>OPERATING EXPENSES</b>				
Audit fees	10,000	-	20,015	32,000
Advertising & marketing	599,285	230,190	1,649,685	327,956
IT & tech	140,392	41,932	347,796	84,819
Personnel	1,393,606	650,009	4,083,957	1,198,900
Office cost	378,474	136,043	1,023,220	267,263
Travel	140,622	54,688	275,452	71,938
External partner cost	393,238	29,069	934,091	103,442
Depreciation	270,081	117,391	779,816	273,897
Share based Payments	330,918	70,404	904,097	207,384
	<b>3,656,615</b>	<b>1,329,724</b>	<b>10,018,127</b>	<b>2,567,597</b>
<b>(Loss) from operations</b>	<b>(327,171)</b>	<b>(597,304)</b>	<b>(3,694,924)</b>	<b>(716,135)</b>
<b>OTHER ITEMS - INCOME/(EXPENSE)</b>				
Canada Emergency Wage Subsidy	-	-	-	61,178
Finance cost	(121,672)	(163,005)	(276,440)	(292,887)
Other income (expense)	79,640	58,641	265,183	60,285
Gain (Loss) on disposal of drones	10,566	-	9,555	(37,409)
Foreign exchange translation	6,430	(5,945)	12,503	(8,998)
<b>Net and Comprehensive Income (Loss)</b>	<b>\$ (352,206)</b>	<b>\$ (707,613)</b>	<b>\$ (3,684,121)</b>	<b>\$ (933,965)</b>
Owners of Volatus Aerospace Corp.	(1,309,955)	6,606	(3,462,028)	(173,048)
Non-controlling interest	957,749	(714,219)	(222,094)	(760,917)
	<b>(352,206)</b>	<b>(707,613)</b>	<b>(3,684,121)</b>	<b>(933,965)</b>
<b>Earning (Loss) per share</b>				
Basic	(0.0128)	0.0001	(0.0339)	(0.0022)
Diluted	(0.0128)	0.0001	(0.0339)	(0.0022)

The Company generated revenues from three major segments: Sale of drones and equipment (products), drone services and training, and aviation sales and services. Drone services and drone training generated gross margins of 36% in Q3 2022. The sale of third-party products has low gross margins compared with services and training. The blended gross margin for Q3 2022 (three months ended September 30, 2022) averaged 30% and gross margin for nine months ended September 30, 2022, averaged 28%.

The Company spent \$599,285 on marketing activities including participation at trade shows, investor relations, advertising, and business development events. The Company has spent a total of \$314,798 on investor relations (IR) activities in the first nine months of 2022. IR activities will continue to scale in the coming quarters to create more awareness.

Personnel costs increased by \$743,598 for the three months ended September 30, 2022 compared to Q3 2021. The majority of this increase is due to the hiring of additional business development and sales staff during the

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

course of 2022. On a quarter-to-quarter growth basis, personnel cost reduced by 11% from \$1,565,456 in Q2 2022 to \$1,393,606 in Q3 2022.

Office costs reduced by 9% from \$416,589 in Q2 2022 to \$378,474 and the external partner cost consists of third-party consulting firms, marketing firms, legal firms, and transfer agent fees. The cost reduced on a quarter-to-quarter basis due to a one-time expense incurred in Q1 2022 related to the due diligence activities relating to the potential acquisition of Delta Drone.

The Company has issued stock options to certain mid-management personnel, officers, and directors of the company. These options were issued at a weighted average exercise price of \$0.55 with vesting period of 2 and 3 years.

#### SUMMARY OF QUARTERLY RESULTS

The following selected quarterly financial data has been extracted from the financial statements, prepared in accordance with International Financial Reporting Standards:

	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Revenue	11,120,589	6,629,593	4,807,829	2,931,692
Cost of goods sold	7,791,145	(4,728,673)	(3,714,989)	(2,254,444)
<b>GROSS PROFIT</b>	<b>3,329,444</b>	1,900,920	1,092,840	677,248
<i>Gross Margin</i>	<b>30%</b>	29%	23%	23%
<b>OPERATING EXPENSES</b>				
Audit fees	10,000	10,015	-	40,300
Advertising & marketing	599,285	591,365	459,035	193,294
IT & tech	140,392	110,775	96,629	84,752
Personnel	1,393,606	1,565,456	1,148,094	881,972
Office cost	378,474	416,589	228,157	158,093
Travel	140,622	54,456	80,373	125,059
External partner cost	393,238	158,356	382,497	143,102
Depreciation	270,081	300,511	209,224	127,536
Share based Payments	330,918	290,103	283,076	251,768
Total Operating Expense	3,656,615	3,497,626	2,887,086	2,005,876
Operating Expense Ratio	33%	53%	60%	68%
<b>(Loss) from operations</b>	<b>(327,171)</b>	(1,596,707)	(1,794,246)	(1,328,628)
<b>OTHER ITEMS - NCOME/(EXPENSE)</b>				
Finance cost	(121,672)	(81,239)	(73,528)	(146,066)
Goodwill Impairment	-	-	-	(1,399,029)

**Volatus Aerospace Corp.  
Management's Discussion & Analysis  
For the three and nine months ended September 30, 2022**

Other income	<b>79,640</b>	31,576	107,788	71,500
Gain (Loss) on disposal of drones	<b>10,566</b>	(1,011)	-	74,415
Foreign exchange translation	<b>6,430</b>	20,484	(14,412)	(16,960)
<b>Net and Comprehensive (Loss)</b>	<b>(352,206)</b>	(1,626,896)	(1,774,397)	(2,744,770)
<b>Comprehensive (Loss) per share</b>				
Basic	<b>(0.0128)</b>	(0.004)	(0.022)	(0.0309)
Diluted	<b>(0.0128)</b>	(0.004)	(0.022)	(0.0309)

Total revenue for the three months ended Sept 30, 2022, increased from \$3,286,395 in Q2 2022 to \$11,120,589 in Q3 2022. On a quarter-on-quarter growth basis, the revenue for three months ended Sept 30, 2022, increased by 68% as compared to quarter ended June 30, 2022. This growth was driven by the sale of products, the Citation X and services sales.

Gross margin increased from 22% in Q3 2021 to 30% in Q3 2022. As the product distribution changes and have more weightage towards services and Volatus own Integrated Technology Solutions, gross margin will increase.

SG&A expenses increased by 5% on a quarter-on-quarter growth between September 30, 2022, and June 30, 2022. The increase was attributable to higher advertisement and marketing expenses, higher travel expenses and external partner costs. However, the operating expense ratio for three months ended September 30, 2022 was at 33% compared to 53% for the three months ended June 30, 2022.

For three months ended September 30, 2022, the Company incurred a net loss of (\$327,171) compared to net loss of (\$1,596,706) in Q2 2022.

#### LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of working capital as at September 30, 2022 and December 31, 2021:

	September 30, 2022	As at December 31, 2021
Current Assets	<b>11,459,497</b>	10,992,937
Current Liabilities	<b>4,703,351</b>	3,620,656
Working Capital	6,756,147	7,372,281

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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Current Assets of \$11,459,497 as at Sept 30, 2022 (December 31, 2021 - \$10,992,937). The balance was primarily comprised of cash of \$6,021,163, trade receivables of \$2,220,969, prepaid expense and deposits of \$1,420,301, and inventory of \$1,797,064.

Current Liabilities of \$4,703,351 as at Sept 30, 2022 (December 31, 2021 - \$3,620,656). The balance was primarily comprised of trade payables of \$3,724,314, lease liability of \$ 310,418, current portion of long-term borrowings of \$350,886, and other short-term liabilities of \$281,478.

The decrease in working capital for the three-month ended Sept 30, 2022 was because operating activities, investment in fixed assets, and acquisitions. The cash balance reduced between December 31, 2021 and June 30, 2022 which has been used to scale the company, invest in fixed assets, and close acquisitions. In order to manage working capital efficiently, the Company has entered into a demand revolving credit facility of \$2,000,000, which bears interest based on the bank's prime rate plus 2.78%. The interest rate has gone up from prime + 1% to Prime + 2.78% compared due to the guarantee issued by EDC. As at Sept 30, 2022, the amount drawn under this facility was \$1,800,000, which was included in other loans.

Due to the supply chain constraint, the Company decided to invest in inventory and advance to suppliers as the procurement cycle started to increase. This enabled rapid scale and availability of inventory to satisfy the increased market demand.

Unless otherwise noted, the Company does not expect to be exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair value of these financial instruments approximates their carrying values because of their short-term nature. Volatus also plans to finance its operations through private and public offerings.

As the Company prepares a path toward profitability in the near future, it will be dependent on its ability to increase sales and maintain margins at current levels. This will be influenced by general economic conditions, financial, regulatory and other factors, including factors beyond the Company's control. The Company may need additional capital and may raise additional funds should the Board of Directors of the Company deem it advisable to support its aggressive acquisition strategy. To date, the Company has had a negative operating cash flow position due to the Company investing in inventory buildup and human capital to meet increased demand. In addition, as a result of the Company's business plans for the development of its products and services, the Company expects cash flow from operations to be negative until revenues improve to offset its operating expenditures. The Company's cash flow from operations may be affected in the future by expenditures incurred by the Company in continuing product and services development.

Management intends to finance operating costs over the next twelve months predominantly with cash on hand, profits, and with the issuance of securities such as the prospectus offering, private placement of common shares and convertible debentures. Further, in order to maintain or adjust its capital structure, the Company may issue new shares, new debt, or scale back the size and nature of its operations. The Company is not subject to externally imposed capital requirements. As at Sept 30, 2022, shareholders' equity was \$12,630,082 and at December 31, 2021, shareholder's equity was \$15,260,042.

On July 25, 2022, The Company announced the filing of a preliminary short form prospectus offering 11,111,200 units of the Company (the "Units") at a price of \$0.36 per Unit (the "Offering Price") for aggregate gross

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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proceeds to the Company of up to \$4,000,032. Each Unit of will consist of one common share (a "Common Share") and one common share purchase warrant (each, a "Warrant"). Each Warrant will entitle the holder to acquire one additional Common Share at an exercise price of \$0.50 per Common Share for a period of 24 months from the closing of the Offering. In addition, the Company is undertaking, concurrent with the prospectus offering, a non-brokered private placement of up to 1,388,900 Units at the Offering Price for gross proceeds of up to \$500,004 on same terms. The final prospectus was filed on September 16, 2022 with closing expected in early October 2022.

**CASH FLOWS:**

	<b>For the three months ended September 30, 2022</b>
Net cash used in Operating Activities	(4,531,099)
Net cash used in Investment Activities	(435,936)
Net Cash provided by Financing Activities	2,181,362
Net change in cash	(2,785,673)

*Operating Activities*

The net cash used in operating activities was primarily due to increase in prepaid expenses, inventory and trade receivables.

*Investing Activities*

The net cash used in investment activities was primarily due to the cost of acquisition of MVT Geo Solutions Inc., RPV Aviation Inc., and Canadian Air National Inc., and investment in fixed assets, especially drones.

*Financing Activities*

The net cash provided by financing activities was primarily due to the addition of debt during acquisition and addition of demand revolving credit facility.

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital to meet its liquidity requirements

The Company considers the items included in shareholders' equity as capital. The Company manages its capital structure and will adjust it, when necessary, to have funds available to support its corporate activities. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the modest current business and financial size of the Company, is reasonable.



**Volatus Aerospace Corp.  
Management's Discussion & Analysis  
For the three and nine months ended September 30, 2022**

We expect, from time to time, to evaluate the acquisition of businesses, intellectual property, products and technologies for which a portion of the net proceeds may be used. There is always the potential that any acquisition or investment in a company or product has a negative impact on future cash flows of the Company.

**RECONCILIATION OF ADJUSTED EBITDA TO NET LOSS**

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
<b>Adjusted EBITDA (loss)</b>	<b>370,465</b>	(356,814)	<b>(1,589,994)</b>	(159,797)
Interest	<b>121,672</b>	163,005	<b>276,440</b>	292,887
Depreciation	<b>270,081</b>	117,391	<b>779,816</b>	273,897
Share-based Payments	<b>330,918</b>	70,404	<b>904,097</b>	207,384
Acquisition Cost (Legal)	-	-	<b>133,774</b>	-
<b>Net Loss</b>	<b>(352,206)</b>	(707,613)	<b>(3,684,121)</b>	(933,965)

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources.

**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 are reimbursed at cost to the related

**Volatus Aerospace Corp.**  
**Management’s Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

party with no mark-up or margin. \$19,814.50 is owed towards the supply of fuel to support Citation X charter operations.

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

On August 31, 2022, the Company entered into an independent consultant agreement (“Consultant Agreement”) with GripFast Solutions Inc., a company controlled by Andrew Leslie, independent director, to provide consulting services to the Company for scaling in the defense sector. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under External Partner Cost. For the nine months ended Sept 30, 2022, the Company incurred fees of \$26,000 compared to \$Nil in 2021. As at Sept 30, 2022, the Company was indebted to this company the amount of \$8,000 (December 31, 2021 - \$nil).

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

**Key management compensation**

Key management includes the Company’s directors and members of the executive management team. Compensation awarded to key management for the three and nine months ended September 30, 2022 and 2021 included:

	Three months ended, September 30		Nine months ended, September 30	
	2022	2021	2022	2021
Management Fees paid to company controlled by CFO	\$ -	\$ 27,000	\$ -	\$ 45,000
Management Fees paid to company controlled by VP of Business Development	-	22,500	-	37,500
Salaries	221,250	18,000	635,400	109,377
Share-based Payments	303,922	70,404	867,993	207,384
	<u>\$ 540,918</u>	<u>\$ 137,904</u>	<u>\$ 1,534,097</u>	<u>\$ 399,261</u>

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, 2022, the amount payable under this agreement would be \$525,000.

**Volatus Aerospace Corp.  
Management's Discussion & Analysis  
For the three and nine months ended September 30, 2022**

The Company has an employment agreement with its CFO which provides that in the event the CFO's employment is terminated by the Company without cause, (i) a lump sum payment equal to 12 months' salary, or (ii) within 90 days of, a change in control, a termination payment equal to 12 months' salary, at \$180,000 per annum, is payable. If the termination had occurred on June 30, 2022, the amount payable under this agreement would be \$180,000.

### CONTRACTUAL OBLIGATIONS

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

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

### SHARE CAPITAL

The Company's authorized share capital is unlimited common shares without par value. As at September 30, 2022, there were 102,202,045 issued and outstanding common shares and 704,322 issued and outstanding preference shares. In addition, there were 5,230,000 share options outstanding at an exercise prices ranging from \$0.36 and \$0.65 per share and 12,334,442 warrants outstanding with exercise prices ranging from \$0.65 and \$0.75 per share.

### SUBSIDIARIES & ACQUISITIONS

**RPV Aviation Inc.**

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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

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

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

The Company estimated the fair value as follows:

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

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

The Company did not incur any acquisition-related costs.

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

The Company conducted its annual goodwill impairment analysis as at December 31, 2021. The impairment analysis involved comparing the carrying amount of each CGU's assets and liabilities to their respective recoverable amounts. The recoverable amount was determined using the value in use approach measured by discounting the future expected cash flows of the CGUs.

**Volatus Aerospace Corp.  
Management’s Discussion & Analysis  
For the three and nine months ended September 30, 2022**

No impairment analysis has been done on June 30, 2022. The next impairment analysis is scheduled on December 31, 2022.

**MVT Geo-Solutions Inc.**

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

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

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

The Company estimated the fair value as follows:

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

**Volatus Aerospace Corp.  
Management's Discussion & Analysis  
For the three and nine months ended September 30, 2022**

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

**Canadian Air National Inc.**

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

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

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

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

The Company did not incur any acquisition-related costs.

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

The Company conducted its annual goodwill impairment analysis as at December 31, 2021. The impairment analysis involved comparing the carrying amount of each CGU's assets and liabilities to their respective recoverable amounts. The recoverable amount was determined using the value in use approach measured by discounting the future expected cash flows of the CGUs.

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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No impairment analysis has been done on June 30, 2022. The next impairment analysis is scheduled on December 31, 2022.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial Assets and Liabilities

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

### Risk Management

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

#### a) Credit Risk

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

#### b) Foreign Currency Risk

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

**Volatus Aerospace Corp.**  
**Management’s Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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 March 31, 2022 the Company did not have any foreign currency hedges in place.

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

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

c) Concentration Risk

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

d) Market Risk

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

e) Liquidity Risk

The Company is exposed to liquidity risk to the extent that it is required to meet its financial obligations as these become due. The Company’s approach to managing liquidity risk is to ensure that it has sufficient cash and other current financial assets to meet its obligations when due, without incurring unacceptable losses or damage to the Company’s reputation. Management forecasts cash flows to identify financing requirements.



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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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These requirements are then addressed through a combination of cash management and access to additional capital.

## **BUSINESS RISKS**

An investment in the Company's Common Shares is highly speculative and involves significant risks. **In addition to the other information contained in this MD&A and the documents incorporated by reference herein and therein, you should review and carefully consider the risks described herein.** The risks described herein are not the only risk factors facing us and should not be considered exhaustive. Additional risks and uncertainties not currently known to us, or that we currently consider immaterial, may also materially and adversely affect our business, operations and condition, financial or otherwise.

### **Limited Operating History in Evolving Industry**

While the Company has been carrying on business since 1987, it has a limited operating history in the evolving drone segment that may not develop as expected. The Company's growth in this segment is subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources, and lack of significant revenues. There is no assurance that the Company will be successful in achieving a return on shareholder's investment and the likelihood of success must be considered in light of the early stage of operations.

### **The Company could incur substantial product liability claims relating to its products.**

As a manufacturer and service provider in the unmanned aerial vehicle sector, and with aircraft and aviation sector companies under increased scrutiny, claims could be brought against the Company if use or misuse of one of its products causes, or merely appears to have caused, personal injury or death. In addition, defects in the Company's products may lead to other potential life, health and property risks. Any claims against the Company, regardless of their merit, could severely harm the financial condition of the Company and strain management and other resources. The Company is unable to predict if it will be able to obtain or maintain product liability insurance for any products that may be approved for marketing.

### **Ownership and Protection of Intellectual Property**

The intellectual property used by the Company in its business is not protected by patents or registered design rights, which means that the Company cannot preclude or inhibit competitors from entering the same market if they develop the same or similar technology independently. The Company is particularly reliant, therefore, on copyright, trade secret protection and confidentiality and license agreements with its employees, suppliers, consultants and others to protect its intellectual property rights. Although the Company has taken steps it believes to be consistent with industry practice to reduce these risks, such steps may be inadequate. If the Company fails to register, renew or enforce intellectual property rights, or there is any unauthorized use or significant impairment of its intellectual property rights, the value of its products and services could be diminished, the Company's competitive position could be adversely affected and its business may suffer. In addition, third parties may independently discover the Company's trade secrets or access proprietary information or systems and, in such cases, the Company may not be able to rely on any intellectual property rights to prevent the use of such trade secrets, information or systems by such parties.

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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In order to protect its intellectual property, the Company may be required to spend significant resources to monitor and protect its rights. Costly and time-consuming litigation could be necessary to determine and enforce the scope of the Company's proprietary rights and the outcome of such litigation could not be guaranteed. Further, any efforts by the Company to enforce its intellectual property rights may be met with defences, counterclaims and countersuits attacking the validity and enforceability of its intellectual property rights. Failure to prevent the use of such secrets, information or systems by such third parties could materially adversely affect the business.

**Exposure to risks relating to non-performing strategic suppliers and reseller contracts and agreements, including delays**

The Company's ability to serve its customers in a timely manner depends on the ability of its strategic suppliers and resellers to perform their obligations and deliver their products and/or services in a timely manner and in accordance with contractual requirements. The Company relies, to a substantial extent on supplier and reseller contracts and agreements. Any delay in delivery of parts and materials by original equipment manufacturers ("OEMs") will entail a hindrance in the Company's ability to fulfil its contractual obligations. In addition, changes in pricing, incentives or other terms or non-performance of strategic suppliers and resellers could materially adversely affect the Company's ability to perform and subject the Company to additional liabilities. Any non-performance by OEMs, suppliers or resellers, could have a material adverse effect on the Company's business, results of operations, financial condition, cash flows and/or prospects.

**Supplier risk**

The Company acquires most of the products it sells and the components for the manufacture of its products from suppliers and subcontractors. Supply of certain products and components is highly concentrated with a small number of suppliers. Such suppliers and subcontractors may not be committed or obligated to sell products to the Company. Suppliers of some of the components may require the Company to place orders with significant lead-times to assure supply in accordance with its manufacturing requirements. Any lack of working capital on the part of the Company may cause it to delay the placement of such orders and may result in delays in supply. Delays in supply may significantly hurt the Company's ability to fulfill our contractual obligations and may significantly hurt its business and result of operations. In addition, the Company may not be able to continue to obtain such components from these suppliers on satisfactory commercial terms. Disruptions of its manufacturing operations would ensue if the Company was required to obtain components from alternative sources, which would have an adverse effect on our business, results of operations and financial condition.

**Emerging Industry**

Company products and services are in new and rapidly evolving markets. The commercial drone market is in early stages of customer adoption. Accordingly, the Company's business and future prospects may be difficult to evaluate. The Company cannot accurately predict the extent to which demand for its products and services will develop and/or increase, if at all. The challenges, risks and uncertainties frequently encountered by companies in rapidly evolving markets could impact the Company's ability to do the following:

- generate sufficient revenue to obtain and/or maintain profitability;
- acquire and maintain market share;
- achieve or manage growth in operations;
- develop and renew contracts;

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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- attract and retain additional engineers and other highly-qualified personnel;
- successfully develop and commercially market products and services;
- adapt to new or changing policies and spending priorities of governments and government agencies; and
- access additional capital when required or on reasonable terms.

If the Company fails to address these and other challenges, risks and uncertainties successfully, its business, results of operations and financial condition would be materially harmed.

**Difficulty to Forecast**

The Company must rely largely on its own market research to forecast sales, as detailed forecasts are not generally obtainable from other sources at this preliminary stage of the industry. A failure in the demand for its products or services to materialize as a result of competition, technological change or other factors could have a material adverse effect on the businesses, results of operations and financial condition of the Company.

**Industry Growth**

There can be no assurance that the Company's targeted vertical and geographic markets will grow, or that they will be successful in establishing new vertical and geographic markets. If the various markets in which the Company's products and services compete fail to grow, or grow more slowly than anticipated, or if they are unable to establish themselves in new markets, their growth plans could be materially adversely affected.

**Rapid Technology Developments**

The industries within which the Company operates are characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. To keep pace with the technological developments, achieve product acceptance and remain relevant to users and therefore attractive to customers and infrastructure providers, the Company will need to continue developing new and upgraded functionality of its offerings and adapt to new business environments and competing technologies and offerings developed by its competitors. The process of developing new technology is complex and uncertain. To the extent the Company is not able to adapt to new technologies and/or standards, experiences delays in implementing adaptive measures or fails to accurately predict emerging technological trends and the changing needs of end-users, this could have a material adverse effect on the Company's prospects, business, financial condition or results of operations.

The Company has developed and is continuing to develop several offerings incorporating advanced technologies and the Company will pursue those offerings that it expects to have the best chance for success based on its expectations of future market demand. The development and application of new technologies involve time, substantial costs and risks. There can be no certainty that the Company will be able to develop new offerings and technologies to keep up to date with developments in the industries within which it operates and, in particular, to launch such offerings or technologies in a timely manner or at all. There can be no certainty that such offerings will be popular with end-users or that such offerings or new technologies will be reliable, robust and not susceptible to failure. Any of these factors could have a material adverse effect on the Company's prospects, business, financial condition or results of operations.

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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**Defects in Offerings**

Company's product and service offerings are highly complex and sophisticated and may contain design defects or errors that are difficult to detect and correct. Errors or defects may be found in new or existing offerings and, even if discovered, the Company may not be able to successfully correct such errors or defects in a timely manner or at all. The occurrence of errors and failures in the Company's offerings could result in loss of or delay in end user acceptance of its offerings and may harm the reputation of the Company. Correcting such errors and failures in its offerings could require significant expenditures by the Company, involving cost or time and effort of personnel. The consequences of such errors, failures and claims could have a material adverse effect on the Company's prospects, business, financial condition or results of operations.

**Risk of Accidents**

An accident involving a drone or UAV provided by the Company or another manufacturer could cause regulatory agencies around the world to tighten restrictions on the use of drones and UAVs, particularly overpopulated areas, and could cause the public to lose confidence in the Company's products. There are risks associated with unmanned systems and services, flight control, communications and/or other advanced technologies, and there may be accidents associated with these technologies, including crashes with or without personal injury. The safety of certain cutting-edge technologies depends in part on user interaction, and users may not be accustomed to using such technologies. The Company could face unfavorable and tightened regulatory control and intervention on the use of UAVs and other advanced technologies and be subject to liability and government scrutiny to the extent accidents associated with the Company's systems occur. Should a high-profile accident occur resulting in substantial casualty or damages, either involving the Company's products or products offered by other companies, public and political confidence in and regulatory attitudes toward UAVs could deteriorate. Any of the foregoing could materially and adversely affect the Company's reputation, results of operations, financial condition, cash flow, and/or future prospects.

**Variable Revenues and Earnings**

The revenues and earnings of the Company may fluctuate from quarter to quarter, which could affect the market price of the Company's Common Shares. Revenues and earnings may vary quarter to quarter as a result of a number of factors, including the timing of releases of new products or services, activities of the Company's competitors, cyclical fluctuations, concentration in the Company's customer bases, transition periods associated with the migration to new technologies, impairment of goodwill or intangible assets which may result in a significant change to earnings in the period in which an impairment is determined, and operating expenses that are generally fixed in the short-term and therefore difficult to rapidly adjust to different levels of business. Any of the factors listed above could cause significant variations to the Company's revenues, gross margins and earnings in any given quarter.

**Operating Losses**

The Company has incurred net losses since its inception. The Company cannot assure that it can become profitable or avoid net losses in the future or that there will be any earnings or revenues in any future quarterly or other periods. The Company expects that its operating expenses will increase as it grows its business,

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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including expending substantial resources for research, development and marketing. As a result, any decrease or delay in generating revenues could result in material operating losses.

**Internal Controls**

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. However, internal controls over financial reporting are not guaranteed to provide absolute assurance with regard to the reliability of financial reporting and financial statements.

**Regulatory Risks**

There is currently a limited legislation/regulatory framework in place specific to the beyond visual line-of-sight operations of commercial drones in Canada or in the United States. All such operations are approved on a case-by-case basis, with company experience and safety record being the major factors in gaining such approvals. The Company has secured the services of Canadian and United States drone regulatory experts in assessing the regulatory regimes of each country and who work with the applicable regulators to secure flight approvals. No significant concerns have arisen, however there can be no assurance that such jurisdictions have enacted or will enact legislation or that, if enacted, the Company will be permitted or qualified to operate under such legislation. The Company's business plan assumes a legislative regime that allows such plans to be realized. If the Company cannot expand its operations in Canada, the United States or other international jurisdictions through local partners or otherwise or cannot fulfill its international business plan within the timeframes established by the Company, it could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

**Regulatory approvals**

Transport Canada is responsible for establishing, managing, and developing safety and security standards and regulations for civil aviation in Canada, and includes unmanned civil aviation (drones). Civil operations include law enforcement, scientific research, or use by private sector companies for commercial purposes. The Canadian Aviation Regulations (CARs) govern civil aviation safety and security in Canada, and by extension govern operation of drones in Canada to an acceptable level of safety. While Transport Canada has been a leader in the development of regulations for the commercial use of remotely piloted aircraft systems ("RPAS"), and continues to move forward rapidly with its regulatory development, it has acknowledged the challenge of regulations keeping pace with the rapid development in technology and the growing demand for commercial RPAS use, particularly in the beyond visual line-of-sight environment. In 2012, the Canadian Aviation Regulation Advisory Council UAS working group released its Phase 2 report which outlined a proposed set of revision to the CARs to permit Beyond Visual Line of Sight (BVLOS) operations. This report was the basis for the recently released NPA on lower risk beyond visual line-of-sight. Failure to obtain necessary regulatory approvals from Transport Canada or other governmental agencies, including the granting of certain SFOCs, or limitations put on the use of RPAS in response to public safety concerns, may prevent the Company from testing or operating its aircraft and/or expanding its sales which could have an adverse impact on the Company's business, prospects, results of operations and financial condition.

**Geographical Expansion**

The Company faces challenges in expanding into new geographic regions. The Company currently operates in Canada, the United States, and some parts of LATAM, but the Company may in the future seek to expand its

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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presence in new geographic regions. Any international expansion of the Company's technologies, products and services will expose the Company to risks relating to staffing and managing cross-border operations; increased costs and difficulty protecting intellectual property and sensitive data; tariffs and other trade barriers; differing and potentially adverse tax consequences; increased and conflicting regulatory compliance requirements, including with respect to data privacy and security; lack of acceptance of the Company's technologies, products and services; challenges caused by distance, language, and cultural differences; exchange rate risk; and political instability. Accordingly, any efforts by the Company to expand its operations may not be successful, which could limit the Company's ability to grow its business.

**Foreign Political and Legal Risk**

The Company believes that a significant amount of its business opportunities lie outside of Canada, particularly in the United States. Many of the third-party products sold by the Company and a majority of the components needed to build the products that the Company expects to manufacture are made and purchased from countries outside of Canada, particularly in Asia. Operating in foreign countries and relying on suppliers in foreign countries exposes the Company to political risks, country risks and currency risks in many forms. In addition, in jurisdictions outside of Canada, there can be no assurance that any market for the Company's products will develop. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations, and the effects of competition. These factors may limit the Company's ability to successfully expand its operations into such jurisdictions, may interfere with its supply chains and may have a material adverse effect on the Company's business, financial condition and results of operations.

Inherent risks with conducting foreign operations include, but are not limited to: high rates of inflation; extreme fluctuations in currency exchange rates, military repression; war or civil war; social and labour unrest; organized crime; hostage taking; terrorism; violent crime; expropriation and nationalization; renegotiation or nullification of existing licenses, approvals, permits and contracts; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, currency controls and governmental regulations that favour or require the Company to award contracts in, employ citizens of, or purchase supplies from, the jurisdiction.

Governments in certain foreign jurisdictions intervene in their economies, sometimes frequently, and occasionally make significant changes in policies and regulations. Changes, if any, in investment policies or shifts in political attitude in the countries in which the Company will operate or purchase products from may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, importation of product and supplies, income and other taxes, royalties, the repatriation of profits, expropriation of property, foreign investment, maintenance of concessions, licenses, approvals and permits, environmental matters, land use, land claims of local people, water use and workplace safety. Failure to comply strictly with applicable laws, regulations and local practices could result in loss, reduction or expropriation of licenses, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

**Factors which may Prevent Realization of Growth Targets**

Company is currently in the early development stage and expects that, in the future, even if revenues continue to increase, its revenue growth may not continue at the same pace or may decline in the future. There are risks

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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associated with Company's growth strategy, and such strategies may not succeed, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors, as well as the following:

- non-performance by third party contractors;
- increases in materials or labour costs;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity; and
- inability to attract sufficient numbers of qualified workers.

As a result, there is a risk that the Company may not have the capacity to meet customer demand or to meet future demand when it arises. In addition, the Company, expects to continue to expend substantial financial and other resources on:

- personnel, including significant increases to the total compensation as the Company pays its employees as it grows employee headcount;
- marketing, including expenses relating to increased direct marketing efforts;
- office and facility costs, as the Company increases the space it needs for its growing employee base; and
- general administration, including legal, accounting and other compliance expenses related to being a public company.

If the Company cannot manage growth effectively it could materially and adversely affect the business, financial condition, and results of operations of the Company.

**Competition**

The industry in which the Company operates, and in which the Company will operate, is very competitive. Numerous factors could affect the Company's competitive position.

The Company may face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company. Several of these companies may have greater name recognition and well-established relationships with some of the Company's target customers. Furthermore, these potential competitors may be able to adopt more aggressive pricing policies and offer more attractive terms to customers than the Company are able to offer. As such, the Company may face increasing price pressure from competitors and customers. In addition, current and potential competitors have established or may establish cooperative relationships amongst themselves or with third parties to compete more effectively. Existing and potential competitors may also develop enhancements to, or future generations of, competitive products and services that will have better performance features than the Company's products and services.



**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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As a result of the early stage of the industry in which the Company operates, the Company can expect to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in marketing, sales and customer support. The Company may not have sufficient resources to maintain marketing, sales and customer support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

The Company expects to incur substantial research and development costs and devote significant resources to identifying and commercializing new products and services, which could significantly reduce its profitability and may never result in revenue to the Company.

The Company's future growth depends on penetrating new markets, adapting existing products to new applications, and introducing new products and services that achieve market acceptance. The Company plans to incur substantial research and development costs as part of its efforts to design, develop and commercialize new products and services and enhance its existing products. The Company believes that there are significant opportunities in a number of business areas. Because the Company accounts for research and development costs as operating expenses, these expenditures will adversely affect its earnings in the future. Further, the Company's research and development programs may not produce successful results, and its new products and services may not achieve market acceptance, create any additional revenue or become profitable, which could materially harm the Company's business, prospects, financial results and liquidity.

**The Company's adoption of new business models could fail to produce any financial returns.**

Forecasting the Company's revenues and profitability for new business models is inherently uncertain and volatile. The Company's actual revenues and profits for its business models may be significantly less than the Company's forecasts. Additionally, the new business models could fail for one or more of the Company's products and/or services, resulting in the loss of Company's investment in the development and infrastructure needed to support the new business models, and the opportunity cost of diverting management and financial resources away from more successful businesses.

**Foreign currency risk**

The Company does engage in significant transactions and activities in currencies other than its functional currency. Depending on the timing of the transactions and the applicable currency exchange rates such conversions may positively or negatively impact the Company.

**The Company is subject to certain market-based financial risks associated with its operations.**

The Company could be subject to interest rate risks, which is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities, however market fluctuations could increase the costs at which the Company can access capital and its ability to obtain financing and the Company's cash balances carry a floating rate of interest. In addition, the Company engages in transactions in currencies other than its functional currency. Depending on the timing of these transactions and the applicable currency exchange rates, conversions to the Company's functional currency may positively or negatively impact the Company.



**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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**Brand Development**

The brand identities that the Company has developed and that the Company will continue to develop has and will significantly contribute to the success of the Company's business. Maintaining and enhancing Volatus' current brand is critical to expanding the Company's customer base. The Company believes that the importance of brand recognition will continue to increase due to the relatively low barrier to entry in the industry. The Company's brand may be negatively impacted by a number of factors, including product malfunctions and data privacy and security issues. If the Company fails to maintain and enhance its brand, or incurs excessive expenses in this effort, it could have a material adverse effect on the Company's prospects, businesses, financial condition or results of operations. Maintaining and enhancing the Company brand will depend largely on the Company's ability to continue to provide high-quality products and services, which the Company may not continue to do successfully.

**Privacy Laws Compliance**

The Company collects and stores personal information about its users and partners and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly user and partner lists, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach could have a material adverse effect on the Company's businesses, financial condition or results of operations.

In addition, there are a number of federal and provincial laws protecting the confidentiality of personal information and restricting the use and disclosure of that protected information. In particular, the privacy rules under the *Personal Information Protection and Electronics Documents Act* (Canada) ("PIPEDA"), protect personal information by limiting their use and disclosure of personal information. If the Company was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of personal information, they could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the businesses, financial condition or results of operations of the Company.

**Cyber-threats**

The Company and its customers are subject to cyber-attacks from cybercriminals. Rapid changes in attack vectors makes it difficult to stop attacks and adapt to new threats and the increased social hacking creates a cyber-threat risk for the Company. Information technology security breaches could lead to shutdowns or disruptions of the Company's systems and potential unauthorized disclosure of confidential information or data, including personal data. The Company may be required to expend significant capital or other resources to protect against the threat of security breaches or to alleviate problems caused by such breaches. The theft or unauthorized use or publication of confidential information or other proprietary business information, or privacy-related obligations or third parties, or any compromise of security that results in an unauthorized release, transfer of use of personally identifiable information or other customer data as a result of an information technology security incident, could adversely affect the Company's competitive position and reputation, and reduce marketplace acceptance of the Company's products, services and solutions. If the Company is unable to protect its products and services from cyberthreats, this could have a material adverse effect on the Company's business, results of operations, financial condition, cash flows and/or prospects.

**Reputational Risk**

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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The nature of the Company's operations and national and international operations entails that the Company is exposed to the risk of allegations which, whether they are true or not, could damage the Company's trust, standing and reputation towards its shareholders, partners, new investors, suppliers, customers and/or other business relations. For example, negative publicity may ensue if the Company is accused of non-compliance with regulatory requirements, involvement in bribery, unsafe products etc. The Company's standing and reputation may also be negatively affected by the non-compliance of its suppliers, customers and resellers. Negative publicity or a bad reputation may also affect the Company's contacts with regulators, causing regulatory authorities to have a negative attitude towards the Company. If the Company's standing and reputation is harmed, then it could have a material adverse effect on the Company's business, results of operations, financial condition, cash flows and/or prospects.

**Future Capital Requirements**

The Company may need to raise additional funds through public or private debt or equity financings in order to: (i) fund ongoing operations; (ii) take advantage of opportunities, including more rapid expansion of the Company's business or the acquisition of complementary businesses; or (iii) respond to competitive pressures. Any additional capital raised through the sale of equity may dilute the Company's shareholders' ownership. Capital raised through debt financing would require the Company to make periodic interest payments and may impose restrictive covenants on the conduct of the Company's business. Furthermore, additional financings may not be available on terms favorable to the Company, or at all. A failure to obtain additional funding could prevent the Company from making expenditures that may be required to implement the Company's growth strategy and grow or maintain the Company's operations.

**Operating Risk and Insurance Coverage**

The Company has liability insurance coverage for its products and business operations. However, the Company may not be able to secure additional product liability insurance coverage on acceptable terms or at reasonable costs when needed. A successful liability claim against the Company due to injuries or damages suffered by customers could materially and adversely affect the Company's financial conditions, results of operations, cash flow, reputation and/or prospects. Even if unsuccessful, such a claim could cause the Company adverse publicity, require substantial costs to defend, and divert the time and attention of management. Furthermore, any jurisdiction relevant to the Company's business may impose requirements for maintaining certain minimum liability or other insurance relating to the operation of drones or UAVs. Such insurance policies could be costly, which would reduce the demand for the Company's products and services. Alternatively, certain insurance products that would be desirable to drone and UAV operators may not be commercially available, which would increase the risks of operating the Company's products and also reduce the demand for them. Further, changes in market conditions may increase insurance premiums, which could adversely affect the Company's financial conditions, results of operations, cash flow and/or prospects.

**Dependence on Key Employees**

Due to the technical nature of its business and the dynamic market in which the Company competes, the Company's success will depend in part on its ability to attract and retain highly skilled manufacturing, design, managerial, marketing, sales and technical personnel. In particular, the Company's future success will depend in part on the continued services of each of their proposed executive officers and other key employees. Competition for qualified personnel in the industry in which the Company will operate is intense. The loss of one or more key personnel may have a significant adverse effect on the Company's sales, operations and profits.

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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**A significant growth in the number of personnel would place a strain upon the Company's management and resources.**

The Company may experience a period of significant growth in the number of personnel that could place a strain upon its management systems and resources. The Company's future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage its workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

**Litigation**

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against it, such a decision could adversely affect the Company's ability to continue operating and the market price for the Company's Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

**Future Acquisitions**

As part of the Company's business strategy, they may attempt to acquire businesses that it believes are a strategic fit with its businesses. The Company may not be able to complete such acquisitions on favorable terms, if at all. Any future acquisitions may result in unforeseen operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for ongoing development of its businesses. Since the Company may not be able to accurately predict these difficulties and expenditures, these costs may outweigh the value they realize from a future acquisition, and any acquisition the Company completes could be viewed negatively by its customers. Future acquisitions could result in issuances of securities that would dilute shareholders' ownership interest, the incurrence of debt, contingent liabilities, amortization of expenses related to other intangible assets, and the incurrence of large, immediate write-offs.

**Volatus Aviation's (Partner Jet) Business Operations depend on Licenses**

Essential to Volatus Aviation's operations is the CAR 704 commercial licenses granted by Transport Canada to Volatus Aviation. This licencing permits Volatus Aviation to operate a domestic and international air taxi service utilizing small jet aircraft and to transport passengers and cargo on a charter basis between Canada and other countries.

**Fluctuations in Fuel Prices**

Volatus Aviation requires significant quantities of fuel for its aircraft. Volatus Aviation is therefore exposed to commodity price risk associated with variations in the market price for petroleum products. The price of fuel is sensitive to, among other things, the price of crude oil, which has increased dramatically over the past few years, refining costs, and the cost of delivering the fuel. An extremely high fuel cost could adversely affect customer volumes as other cheaper modes of transportation are sought.

**Government Regulations**

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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Volatus Aviation's operations are subject to complex aviation, transportation, environmental, labour, employment and other laws, treaties and regulations. These laws and regulations generally require the Company to maintain and comply with a wide variety of certificates, permits, licenses and other approvals.

**Severe Weather Patterns**

Volatus Aviation may experience an increase in costs or inability to operate its business as a result of severe weather conditions or natural or manmade disasters, which could have a material adverse effect on the Company's business, results of operations or financial condition. If Volatus Aviation is still able to provide services to its customers during a period of severe weather, particularly during any protracted period of time, there may be forced flight cancellations, or Volatus Aviation may not be able to offer flights in a timely manner.

**The Company may be subject to the risks associated with foreign operations in other countries.**

The Company's primary revenues are expected to be achieved in Canada and the US. However, the Company may expand to markets outside of North America and become subject to risks normally associated with conducting business in other countries. As a result of such expansion, the Company may be subject to the legal, political, social, and regulatory requirements and economic conditions of foreign jurisdictions. The Company cannot predict government positions on such matters as foreign investment, intellectual property rights or taxation. A change in government positions on these issues could adversely affect the Company's business. If the Company expands its business to foreign markets, it will need to respond to rapid changes in market conditions, including differing legal, regulatory, economic, social, and political conditions in these countries. If the Company is not able to develop and implement policies and strategies that are effective in each location in which it does business, then the Company's business, prospects, results of operations and financial condition could be materially and adversely affected.

**There are tax risks the Company may be subject to in carrying on business in Canada.**

The Company is a resident of Canada for purposes of the *Income Tax Act* (Canada) (the "Tax Act"). Since the Company is operating in a new and developing industry there is a risk that foreign governments may look to increase their tax revenues or levy additional taxes to level the playing field for perceived disadvantages to traditional brick and mortar businesses. There is no guarantee that governments will not impose such additional adverse taxes in the future.

**Catastrophic Events**

Events beyond the control of the Company may damage its ability to accept customers' orders, maintain its production and sales or perform its services. In addition, these catastrophic events may negatively affect customers' demand for the Company's products and services. Such events include, but are not limited to, fires, earthquakes, terrorist attacks, outbreak of disease or pandemics and natural disasters. Despite any precautions the Company may take, system interruptions and delays could occur if there is a natural disaster, and such disruptions could harm the Company's ability to run its business and cause lengthy delays which could harm business, results of operations and financial condition of the Company.

The Company's business, operations and financial condition could be materially adversely affected by the COVID-19 pandemic or the outbreak of other epidemics, pandemics or other health crises. Such impacts could include, with respect to its operations, its suppliers' operations and its customers' operations, forced closures,

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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mandated social distancing, isolation and/or quarantines, impacts of declared states of emergency, public health emergency and similar declarations and could include other increased government regulations, a material reduction in demand for the Company's products and services, reduced sales, higher costs for new capital, licensing delays, increased operating expenses, delayed performance of contractual obligations, product shipping delays, and potential supply and staff shortages, all of which would be expected to negatively impact the business, financial condition and results of operations of the Company and its ability to satisfy its obligations. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in the Company's facilities or a supplier's facilities. Should a customer, employee or visitor in any of the Company's facilities or a supplier's facilities become infected with a serious illness that has the potential to spread rapidly, this could place the Company's customers and workforce at risk

**The conflict between Russia and Ukraine could destabilize global markets and threatens global peace.**

On February 24, 2022, Russian military forces launched a full-scale military invasion of Ukraine. In response, Ukrainian military personal and civilians are actively resisting the invasion. Many countries throughout the world have provided aid to the Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in their resistance to the Russian invasion. The North Atlantic Treaty Organization ("NATO") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. The outcome of the conflict is uncertain and is likely to have wide ranging consequences on the peace and stability of the region and the world economy. Certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia and such sanctions may have far reaching effects on the global economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to Volatus, including our consolidated subsidiaries, is made known to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that appropriate decisions can be made regarding public disclosure.

### Internal Control over Financial Reporting ("ICFR")

Our management, with the participation of our CEO and CFO, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the CEO and CFO, our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Volatus;

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**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS and that our receipts and expenditures are made only in accordance with authorization of management and our directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the annual or interim financial statements.

Limitations on the Effectiveness of Disclosure Controls and the Design of ICOFR:

Our management, including the CEO and CFO, do not expect that our disclosure controls and procedures and ICFR will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system objectives will be met. The likelihood of achievement is affected by limitations inherent in all internal control systems. These inherent limitations include the realities that judgments or decision making can be faulty, and that breakdowns occur because of simple errors or mistakes. Controls can also be circumvented in numerous ways including collusion, overrides and deception. In addition to the inherent limitations, the design of a control system must reflect that there are resource constraints, and the expected benefit of controls must be considered relative to the expected costs. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Further, no evaluation of controls can provide absolute assurance that all control issues within a company will be detected.

## SUBSEQUENT EVENTS

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

### Closing of Financing

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

**Volatus Aerospace Corp.**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2022**

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**Acquisitions**

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

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

**End.**

**Additional Information**

Additional information relating to the Company is available on the SEDAR website [www.sedar.com](http://www.sedar.com).