



VOLATUS AEROSPACE CORP.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2023**

Volatus Aerospace Corp. Management's Discussion & Analysis For the three months ended March 31, 2023

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 May 25, 2023 and should be read in conjunction with the interim condensed consolidated financial statements and related notes for the three months ended March 31, 2023. 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, 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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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 Technologies Inc., Volatus Aerospace USA Corp., Volatus Aerospace LATAM S.A., Volatus Aerospace UK Limited and Volatus Aviation (consisting of Partner Jet Inc., Canadian Air National Inc., and Synergy Aviation Ltd.), is one of Canada's leading, technology-enabled data analytics, intelligence, and logistics 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 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 uncrewed applications with traditional crewed 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 Alberta, British Columbia, Manitoba, Ontario, Quebec, Prince Edward Island, New York (United States), Pennsylvania (United States), New Jersey (United States), Lima (Peru), and Emsworth (United Kingdom). The Company also has satellite offices in Florida, Nevada, Ohio, Illinois, Oklahoma, Oregon, Missouri, Texas, Maine, Colombia, 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.

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The Company under the Volatus Flight Systems Inc., and Volatus Technologies Inc., subsidiaries represent its technology arm. It offers system design engineering, research & development, and manufacturing. Volatus Flight Systems was formed in 2020 with the 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. Volatus Technologies, formed in 2021, focuses on additional technological solutions developed to cater to the defense market, mining, and remote surveillance operations. One variant of the fixed-wing drone, the drone-in-the-box solution, and the surveillance fixed wing-drone for defense 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 Company, under its Volatus Aviation segment, offers long-linear inspections such as pipeline, energy, rail, and cargo services. The Company uses its proprietary technology 'AIRS' to capture and process data that is shared through its Valqari platform.

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 quarter of 2023 is expected to be a slower period due to reduced service activities in North America. Winter weather conditions create this seasonality in the business in Canada and the Northern USA. The Company established a presence in London, England, to have a better access to potential sales in European territory and serve 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. The Company made an acquisition of Empire Drones Company LLC based out of New York to expand its distribution network in the United States of America. The Company leveraged its sales and business development team to expand its offerings to its customers in both the industrial and defense segment.

Despite the expected seasonality caused by colder temperatures in northern USA and Canada, the Company achieved a number of important milestones, including the following:

Acquisition of Empire Drones LLC

Volatus closed the acquisition of New York based Empire Drone Company LLC on January 31, 2023. Empire is a rapidly growing, value-added reseller focused on equipment and solution sales in the commercial and public safety markets in the United States. This acquisition will accelerate Volatus' growth in the vast USA market by maximizing gross margin performance through domestic supply and offer improved after sales support, maintenance, and repair by eliminating the need for cross border shipments. This acquisition also reduced the exchange currency risk especially involving good purchased in USD and sold in CAD. Empire,

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combined with Volatus existing distribution in Canada, LATAM, and now iRed in the UK, establishes Volatus to be a leader in equipment distribution and after-market support in the industry.

Fugitive Gas Detection Contract

Volatus expanded in the UK in 2022 with acquisition of iRed Remote Sensing. The Company signed a contract for monthly recurring inspections to detect fugitive methane leaks at 14 water treatment facilities across the northwest of the United Kingdom. Under the terms of the 12-month contract, iRed® will conduct remote analysis of infrastructure at water treatment facilities across the northwest UK using Optical Gas imaging cameras. According to "Faster and Further: Canada's Methane Strategy," Sept. 2022, Methane is a potent greenhouse gas with 25 times more global warming potential than carbon dioxide over a 100-year period. Fugitive methane emissions occurring due to leaks, loose valves, or venting of methane gas result in the loss of valuable energy, increased costs, and damage to the environment. Optical gas imaging (OGI) visualizes a narrow band of the infrared spectrum, allowing the identification of methane and other hydrocarbon gases which may otherwise be invisible to the naked eye. The added capability of Optical Gas Imaging is expected to open new doors with our existing oil and gas customers as well as create new opportunities in the North American waste management sector.

Volatus Aerospace Receives Canadian Transportation Agency License for Drone Cargo Services

In February 2023, the Company has been issued a Canadian Transportation Agency (CTA) License for domestic service, all-cargo aircraft. This license builds on the existing capabilities authorized by CTA licenses held by Volatus subsidiaries Partner Jet Inc. (Volatus Aviation) and Synergy Aviation. The addition of this license allows the Company to build its drone cargo capability under the Volatus brand in preparation for the anticipated Transport Canada/FAA regulatory changes. Positioning Volatus with this license is an important step toward the long-term vision of the Company in the drone cargo operations, since the Company is scheduled to take delivery of the first 3.8 tonne Natilus Kona uncrewed regional feeder aircraft in the near future.

Volatus Aerospace Secures Annual Recurring Contract to Expand Pipeline Corridor Surveillance in Eastern Canada

The Company has signed a 3-year master service agreement with a leading pipeline operator to provide pipeline right-of-way asset and environmental monitoring throughout Ontario. The agreement, signed on March 2nd, is estimated to generate revenues of up to \$5M over the next three years with margins within historical norms for jobs of this nature. The Company provides data gathering and analysis services to the oil and gas sector. The Company provides pipeline right-of-way surveillance services across Canada from Kitimat, British Columbia to Ottawa, Ontario. Combined with weekly patrols on an annual basis, the Volatus Group patrols over 1,600,000 kilometers of pipeline.

Volatus Aerospace Expands Electric Utilities Business in US with Acquisition of Sky Scape Industries, LLC.

In March 2023, the Company signed an arm's length definitive agreement to acquire Sky Scape Industries, LLC., a New Jersey based company providing airborne intelligence data services. Founded in 2014, Sky Scape Industries uses remote sensing techniques to provide comprehensive inspection services including facility, structural, line, and right of way for power utilities, emergency response for oil and gas, and façade inspection

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services for property management. The company utilizes crewed and uncrewed aircraft and has operated nationwide in over 24 states.

The acquisition was closed on April 5, 2023 for a total purchase price, subject to an earn-out provision of C\$783,900 to be paid as follows: An initial payment of approximately C\$368,500 in the form of newly issued common shares of Volatus Aerospace Corp. based on the share price at closing or the prior 30-day VWAP, whichever is higher. This converts to 969,737 common shares at the closing price of C\$0.38. The earn-out payment of US\$310,000, will be payable twelve (12) months after closing in the form of additional Volatus shares issued on the share price of C\$0.65 or the prior 30-day VWAP, whichever is higher. This payment is conditional on Sky Scape retaining approximately C\$1M of inspections already contracted for 2024.

RESULT AND BUSINESS OUTLOOK

Q1 2023 Total Reported Revenue of \$7,412,480

The Company increased its first quarter reported revenues from \$4,807,829 in Q1 of 2022 to \$7,412,480 in Q1 of 2023, a growth of 54%. On a proforma basis, the total revenue for the quarter ended March 31, 2023 was \$7,546,317.

Q1 2023 Gross Profit of \$2,366,679

The reported gross margin achieved in Q1 2023 averaged 32% (\$2,366,679) compared to 23% (\$1,092,840) in Q1 2022. Higher margins were due to increase in service activities. The gross margins by segment were 23% for equipment sales and 47% for services. Services segment is expected to consistently generate a gross margin of 40% to 45% over the long term. Gross margins generated from equipment sales have been adjusted for shipping costs, payment gateway fees, and other direct costs.

Q1 2023 Revenue Distribution

For the year ended March 31, 2023, product mix consisted of Equipment sales at 62%, and services at 38% compared to, equipment sales of 69% and revenue from services of 31% in Q1 2022. Over the long-term as the industry keeps maturing, the product mix will change more towards service segment that generates higher gross margins.

The distribution for product sales increased due to higher volume led by both commercial and defense segments. The increase in distribution for services compared to previous year was due to industrial adoption of drones and expansion of the Company in the long-linear inspection sector.

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

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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 Company also realized that certain sectors cannot be disrupted using drones due to regulatory guidelines and slow adoption rate. In certain cases, the Company will use conventional aircrafts – helicopters and fixed wing planes. And slowly introduce drones and replace these aircrafts generating higher gross margins and cost savings to its customers.

SELECTED FINANCIAL INFORMATION

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

Three months ended March 31,	2023	2022
Total Revenue	7,412,480	4,807,829
Gross Profit (as a % of revenues)	32%	23%
Loss from operations	(2,483,568)	(1,794,246)
Comprehensive loss	(3,003,365)	(1,774,397)
Adjusted EBITDA (loss)	(1,602,690)	(1,208,569)
Comprehensive loss per share, basic and diluted		
- Basic	(0.023)	(0.022)
- Diluted	(0.023)	(0.022)
Change in Cash and Cash Equivalents	(2,228,387)	(1,601,649)

Revenues for year Q1 2023 increased significantly due to the increased services in Oil and Gas segment and addition of service revenue due to acquisitions of Empire Drones.

The reported gross margin of the Company was 32% for Q1 2023 compared to 23% for Q1 2022. The average reported gross margin increased due to higher revenues from service businesses.

The Comprehensive Loss included finance expenses consisting mostly of interest on equipment loans, promissory notes and right-of-use expenses.

The adjusted EBITDA loss for quarter ended March 31, 2023, totalled (\$1,602,690), an increase from (\$1,208,569) in Q1 2022. The increase is attributable to scale in human capital to new regions, new entities due to acquisitions, and additional office expenses.

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The Cash and Cash Equivalents decreased by \$2,228,387 for the period ended March 31, 2023. The decrease was attributable to acquisitions, increase in working capital and CAPEX, and higher operating expenses. Cash used in operating activities was \$1,939,282. The increased cash use was due to advance payment to suppliers to a ramp up the inventory (prepaid expenses) to meet increased demand and higher receivables.

As at	March 31, 2023	December 31, 2022
Total Assets	32,395,901	33,609,987
Goodwill	689,835	689,835
Total non-current Liabilities	14,080,693	13,246,799
Working Capital	5,187,999	7,615,000
Shareholder's Equity	11,630,641	14,197,852
Distribution or Cash Dividends	-	-

As at March 31, 2023, the Company held total assets of \$32,395,901. The decrease in total assets was due to change in the current assets of the business. Non-current assets increased due to acquisition of Empire Drones. The Company continued to deploy cash in operating activities and scale its service segment. The increase in total liabilities was mainly driven by increased accounts payable and an increase in long-term borrowings due to acquisitions, and the addition of an operating line of credit. The Company has total cash of \$1,456,193 as of March 31, 2023.

RESULTS OF OPERATIONS

	Three months ended March 31	
	2023	2022
Revenues	\$ 7,412,480	\$ 4,807,829
Cost of goods sold	3,571,400	2,597,953
Cost of providing services & training	1,474,402	1,117,036
Gross profit	2,366,679	1,092,840
OPERATING EXPENSES		
Audit fees	1,866	-
Advertising & marketing	406,118	459,035
IT & tech	185,095	96,629
Personnel	2,156,297	1,148,094

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Research & development	100,420	-
Office cost	712,481	228,157
Travel	94,285	80,373
External partner cost	272,147	382,497
Depreciation	745,136	209,224
Share based Payments	176,401	283,076
	4,850,247	2,887,086
Loss from operations	(2,483,568)	(1,794,246)
OTHER INCOME/(EXPENSE)		
Unrealized loss on investment	(180,058)	-
Finance cost	(312,982)	(73,528)
Other income (expense)	(1,558)	107,788
Loss on disposal of assets	(10,511)	-
Foreign exchange translation	(28,590)	(14,412)
Net loss	(3,017,267)	(1,774,397)
OTHER COMPREHENSIVE LOSS		
Foreign operations - foreign currency translation differences	13,902	-
Comprehensive loss	\$ (3,003,365)	\$ (1,774,397)
Owners of Volatus Aerospace Corp.	(2,611,890)	(1,855,438)
Non-controlling interest	(391,475)	81,041
	\$ (3,003,365)	\$ (1,774,397)
Net loss per share		
Basic	(0.023)	(0.022)
Diluted	(0.023)	(0.022)
Basic	114,413,332	84,447,725
Diluted	114,413,332	84,447,725

The Company generated revenues from two major segments: Sale of equipment (drones and aircrafts) (products) and services consisting of drone services and training, and crewed services for long liner pipeline inspections. For the year quarter March 31, 2023, equipment segment generated a gross margin of 23% whereas services generated 47% gross margin. The sale of third-party products has low gross margins compared with services and training.

The Company spent \$406,118 on marketing activities including participation at trade shows, investor relations, advertising, and business development events. The Company has spent a total of \$140,781 on investor relations (IR) activities for Q1 2023. The Company has paused on any new IR initiatives starting Q2 2023.

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Personnel costs increased by \$1,008,203 for the quarter ended March 31, 2023 compared to Q1 2022. The majority of this increase is due to the hiring of additional business development and sales staff and additions due to acquisitions during the course of 2022 and Q1 2023.

Office costs increased from \$228,157 in Q1 2022 to \$712,481 in Q1 2023. The increase was attributable to insurance costs, maintenance, rental, and addition due to acquisitions. The external partner cost consists of third-party consulting firms, marketing firms, legal firms, and transfer agent fees.

The Company issued stock options under its Stock Option Plan 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:

	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Revenue	7,412,480	7,213,129	11,120,589	6,629,593
Cost of goods sold	(5,045,801)	(5,190,979)	(7,791,145)	(4,728,673)
GROSS PROFIT	2,366,679	2,022,150	3,329,444	1,900,920
<i>Gross Margin</i>	32%	28%	30%	29%
OPERATING EXPENSES				
Audit fees	1,866	90,000	10,000	10,015
Advertising & marketing	406,118	575,539	599,285	591,365
IT & tech	185,095	164,260	140,392	110,775
Personnel	2,156,297	1,552,913	1,393,606	1,565,456
Research & development	100,420	541,023	-	-
Office cost	712,481	490,740	378,474	416,589
Travel	94,285	144,372	140,622	54,456
External partner cost	272,147	512,171	393,238	158,356
Depreciation	745,136	604,849	270,081	300,511
Share based Payments	176,401	340,761	330,918	290,103
Total Operating Expense	4,850,247	5,016,629	3,656,615	3,497,626
Operating Expense Ratio	65%	70%	33%	53%
(Loss) from operations	(2,483,568)	(2,994,479)	(327,171)	(1,596,707)

OTHER ITEMS - NCOME/(EXPENSE)

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Finance cost	(312,982)	(249,798)	(121,672)	(81,239)
Other income (expense)	(1,558)	192,498	79,640	31,576
Unrealized loss on investment	(180,058)	-	-	-
Gain (loss) on disposal of drones	(10,511)	414	10,566	(1,011)
Foreign exchange translation	(28,590)	(195,277)	6,430	20,484
Net loss	(3,017,267)	(3,246,645)	(352,206)	(1,626,896)
OTHER COMPREHENSIVE LOSS				
Foreign operations - foreign currency translation differences	13,902	25,314	-	-
Comprehensive loss	(3,003,365)	(3,221,331)	(352,206)	(1,626,896)
Comprehensive (Loss) per share				
Basic	(0.023)	(0.030)	(0.013)	(0.019)
Diluted	(0.023)	(0.030)	(0.013)	(0.019)

Total revenue for the three months ended March 31, 2023, increased from \$4,807,829 in Q1 2022 to \$7,412,480 in Q1 2023. On a quarter-on-quarter growth basis, the revenue for three months ended March 31, 2023, increased by 3% as compared to quarter ended December 31, 2022. The seasonality in Q1 2023 slowed the sale of equipment and delayed the scale in service activities.

Gross margin increased from 23% in Q1 2022 to 32% in Q1 2023. As the product distribution changes and have more weightage towards services and Volatus own Integrated Technology Solutions, gross margin are expected to increase.

SG&A expenses increased by 68% on comparing Q1 2023 with Q1 2022. On a quarter-on-quarter growth between March 31, 2023, and December 31, 2022, the SG&A decreased by 3%. The increase was attributable to higher personnel costs, investment in research and development, higher office expenses and external partner costs. Some of the increase were attributable to three acquisitions closed in Q4 2022 and Q1 2023.

For three months ended March 31, 2023, the Company incurred a net loss of (\$2,483,568) compared to net loss of (\$1,794,246) in Q1 2022.

LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of working capital as of March 31, 2023 and December 31, 2022:

	As at	
	March 31, 2023	December 31, 2022
Current Assets	11,872,565	13,780,334
Current Liabilities	6,684,567	6,165,334

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Working Capital	5,187,999	7,615,000
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Current Assets of \$11,872,565 as of Mar 31, 2023 (December 31, 2022 - \$13,780,334). The balance was primarily comprised of cash of \$1,456,193, trade receivables of \$4,069,728, prepaid expense and deposits of \$3,248,870, and inventory of \$3,097,774.

Current Liabilities of \$6,684,567 as of Mar 31, 2023 (December 31, 2022 - \$6,165,334). The balance was primarily comprised of trade payables of \$3,526,988, lease liability of \$ 339,373, current portion of long-term borrowings of \$2,209,395, and other short-term liabilities of \$739,859.

The decrease in working capital for the three months ended Mar 31, 2023 was because of operating activities and increased debt due to acquisitions. The cash balance reduced between December 31, 2022 and Mar 31, 2023 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.

Due to the ongoing supply chain constraints, the Company has invested in inventory and advances 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, product development and human capital to meet increased demand. As a result of the Company's business plan 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 expenditure.

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 of Mar 31, 2023, shareholders' equity was \$11,630,641 and on December 31, 2022, shareholder's equity was \$14,197,852.

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

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

CASH FLOWS:

	Three months ended March 31	
	2023	2022
Net cash used in Operating Activities	(2,072,209)	(4,190,367)
Net cash used in Investment Activities	(777,455)	(1,383,120)
Net Cash provided by Financing Activities	621,274	(187,066)
Net change in cash	(2,228,388)	(5,760,554)

Operating Activities

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

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Investing Activities

The net cash used in investment activities was primarily due to the cost of acquisition of Empire Drone Company LLC. and investment in fixed assets.

Financing Activities

The net cash provided by financing activities was primarily due to the addition of debt during acquisition and addition of loan from director of the Company.

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.

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 March 31	
	2023	2022
Adjusted EBITDA (loss)	(1,602,690)	(1,208,569)
Interest	312,982	73,528
Depreciation	745,136	209,224
Share-based payments	176,401	283,076
Unrealized loss on Investment	180,058	-
Net loss	(3,017,267)	(1,774,397)

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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 party with no mark-up or margin. The payable outstanding on March 31, 2023 is \$3,424.

On August 31, 2022, the Company entered into an independent consultant agreement ("Consultant Agreement") with GripFast Solutions Inc., a company controlled by an independent director, to provide consulting services to the Company for scaling in the defense sector. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under External Partner Cost. For the year period ended March 31, 2023, the Company incurred fees of \$24,000 in Q1 2023 compared to \$50,000 in 2022. As at March 31, 2023, the Company was indebted to this company the amount of \$8,000 (2022 - \$8,000).

Share Capital:

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

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

Loans & Advance:

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

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 months ended March 31, 2023 and 2022 included:

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	31 March 2023	31 March 2022
Salaries	221,250	210,000
Share-based Payments	152,975	283,076
Total	\$ 2,025,309	\$ 493,076

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 March 31, 2023, the amount payable under this agreement would be \$525,000.

The Company has an employment agreement with its CFO which provides that in the event the CFO's employment is terminated by the Company without cause, (i) a lump sum payment equal to 12 months' salary, or (ii) within 90 days of, a change in control, a termination payment equal to 12 months' salary, at \$190,000 per annum, is payable. If the termination had occurred on March 31, 2023, the amount payable under this agreement would be \$190,000.

CONTRACTUAL OBLIGATIONS

The following tables reconcile the changes in ROU assets:

	March 31, 2023	December 31, 2022
Cost		
Balance, beginning of year	\$ 1,529,004	\$ 1,455,788
Additions	-	99,037
Disposal/impairment	-	(25,821)
Balance, end of year	1,529,004	1,529,004
Accumulated amortization		
Balance, beginning of year	534,423	225,867
Disposal/impairment	-	(4,304)
Depreciation	81,064	312,860
Balance, end of year	615,487	534,423
Net book value	\$ 913,517	\$ 994,581

SHARE CAPITAL

The Company's authorized share capital is unlimited common shares without par value. As of March 31, 2023, there were 114,664,617 issued and outstanding common shares and 352,634 issued and outstanding preference shares. In addition, there were 5,180,000 share options outstanding at an exercise price ranging

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from \$0.36 and \$0.65 per share and 24,954,951 warrants outstanding with exercise prices ranging from \$0.36 and \$0.75 per share.

SUBSIDIARIES & ACQUISITIONS

Volatus Drones (Empire Drone Company LLC)

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

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

The Company estimated the fair value as follows:

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

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

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

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

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FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Assets and Liabilities

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

Risk Management

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

Credit Risk

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

Foreign Currency Risk

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

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

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

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.

Market Risk

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

Interest Rate Risk

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

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

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

Liquidity Risk

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

Sensitivity Analysis

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

BUSINESS RISKS

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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.

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

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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;
- 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.

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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.

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

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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, 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-

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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 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

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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 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.

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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.

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

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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.

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.

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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

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.

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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.

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.

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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 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.

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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, 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.

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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;
- 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 ICFR:

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

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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 April 4, 2023, Volatus acquired Sky Scape Industries LLC., a New Jersey based company providing airborne intelligence data services. Under the terms of the definitive agreement, as amended following the completion of due diligence, the total purchase price, subject to an earn-out provision, is US\$585,000 (C\$783,900) to be paid as follows: An initial payment of approximately US\$275,000 (C\$368,500) in the form of newly issued common shares of Volatus Aerospace Corp. based on the share price at closing or the prior 30-day VWAP, whichever is higher. This converts to 969,737 common shares at the closing price of C\$0.38. The earn-out payment of US\$310,000 (C\$416,905), will be payable twelve (12) months after closing in the form of additional Volatus common shares issued on the share price of C\$0.65 or the prior 30-day VWAP, whichever is higher. This payment is conditional on Sky Scape retaining approximately C\$1M of inspection revenue previously contracted to be performed in 2024.

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

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

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

End.

Additional Information

Additional information relating to the Company is available on the SEDAR website www.sedar.com.