VOLATUS AEROSPACE CORP.

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

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

60 Airport Road, Oro Medonte, ON L0L 2E0 | Tel: 514-447-7986 **www.volatusaerospace.com**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Volatus Aerospace Corp.:

Opinion

We have audited the consolidated financial statements of Volatus Aerospace Corp. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements presents fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

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

- Management's Discussion and Analysis; and

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

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

500 Danforth Ave., Suite 303
Toronto, ON M4K 1P6
Tel: 416-224-5777
www.mspartners.ca

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

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

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

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

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

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

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

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

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

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

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

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

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

MS Partners LLP

Licensed Public Accountants
Toronto, Canada
April 27, 2023

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

In C$	Notes	December 31, 2022	December 31, 2021
Assets			
Current			
Cash & cash equivalents		$ 3,684,581	$ 8,806,836
Trade and other receivables	5	4,330,189	698,355
Prepaid expenses, deposits, and other current assets	6	2,003,533	801,135
Inventory	10	3,762,031	686,610
Total current assets		**13,780334**	**10,992,937**
Property, plant and equipment	7	9,330,112	4,050,846
Intangible assets	8	8,815,125	5,811,929
Right-of-use asset	19	994,581	1,229,921
Goodwill	9	689,835	583,188
Total non-current assets		**19,829,653**	**11,675,884**
Total Assets		**$ 33,609,987**	**$ 22,668,821**
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	11	$ 3,397,068	$ 2,458,604
Deferred revenue		73,471	432,096
Current portion of lease liability	20	325,950	284,651
Other short-term liabilities	12	373,163	233,169
Current portion of long-term borrowings	12	1,995,681	202,136
Contingent consideration	18	-	10,000
Total current liabilities		**6,165,334**	**3,620,656**
Long-term borrowings	13	10,063,911	2,709,926
Lease Liability	20	826,038	1,078,196
Contingent Consideration	15, 18	2,356,850	-
Total non-current liabilities		**13,246,800**	**3,788,122**
Total Liabilities		**19,412,133**	**7,408,778**
Shareholders' Equity			
Common equity	16	10,957,258	9,110,305
Warrants reserve	16	6,098,857	4,053,191
Share-based reserve	16	1,704,009	459,152
Preferred shares	16	352,634	704,322
Retained earnings		(8,971,689)	(2,345,515)
Contributed Surplus	16	2,989,819	2,989,819
Non-controlling interest	15	1,066,963	288,768
Total Shareholders' Equity		**14,197,852**	**15,260,042**
Total Liabilities & Shareholders' Equity		**$ 33,609,987**	**$ 22,668,821**

Approved and authorized to issue by the Board of Directors
"Glen Lynch" ___________________________ Director
"Gordon Silverman" ___________________________ Director

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

(Expressed in Canadian Dollars)

	Notes	Year ended	Year ended
		December 31, 2022	**December 31, 2021**
Revenue		$ 29,771,139	$ 9,913,953
Cost of goods sold		17,210,773	6,298,929
Cost of providing services & training		4,215,013	1,086,314
Gross profit		**8,345,353**	**2,528,710**
OPERATING EXPENSES			
Audit fees		110,015	72,300
Advertising & marketing		2,225,224	521,250
IT & tech		512,056	169,571
Personnel		5,660,069	2,080,871
Research & development		541,023	-
Office cost		1,513,960	425,355
Travel		419,823	196,998
External partner cost		1,446,263	246,544
Depreciation	7,19	1,384,665	401,433
Share based Payments	14	1,244,858	459,152
		15,057,956	**4,573,473**
Loss from operations		**(6,712,603)**	**(2,044,763)**
OTHER INCOME/(EXPENSE)			
Canada Emergency Wage Subsidy		-	61,178
Finance cost	23	(526,238)	(438,954)
Goodwill impairment	9	-	(1,399,029)
Other income	21	411,502	131,785
Gain on disposal of assets		9,969	37,006
Foreign exchange translation		(182,774)	(25,958)
Net loss		**(7,000,144)**	**(3,678,734)**
OTHER COMPREHENSIVE LOSS			
Foreign operations - foreign currency translation differences		25,314	-
Comprehensive loss		**$ (6,974,830)**	**$ (3,678,734)**
Owners of Volatus Aerospace Corp.		(6,626,174)	(2,791,156
Non-controlling interest	7	(348,656)	(897,578)
		$ (6,974,830)	**$ (3,678,734)**
Net loss per share			
Basic		(0.063)	(0.033)
Diluted		(0.063)	(0.033)
Basic		104,932,598	84,447,725
Diluted		104,932,598	84,447,725

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

Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

	Number of shares *	Capital Stock	Preferred Shares	Warrants Reserve	Share-based Reserve	Contributed Surplus	Non-Controlling Interest	Retained Earnings	Total Shareholders Equity
Common Shares Balance, January 1, 2021	76,923,334	$ 200	$ -	$ -	$ -	$ 2,989,819	$ 1,186,346	$ 435,641	$ 4,612,006
Preference Shares Balance, January 1, 2021	704,322	-	704,322	-	-	-	-	-	704,322
Issuance of Stock Options	884,615	-	-	-	459,152	-	-	-	459,152
Shares Issued on Settlement of Debt	8,298,001	2,608,683	-	1,472,015	-	-	-	-	4,080,698
Shares Issued on Private Placement	14,051,932	5,915,962	-	2,581,176	-	-	-	-	8,497,138
Shares Issued on Acquisition of Partner Jet	1,677,840	1,090,103	-	-	-	-	-	-	1,090,103
Less: Private Placement expense	-	(504,643)	-	-	-	-	-	-	(504,643)
Net loss for the year	-	-	-	-	-	-	(897,578)	(2,781,156)	(3,678,734)
Common Shares Balance, December 31, 2021	**101,835,72**	**$ 9,110,305**		**$ 4,053,191**	**$ 459,152**	**$ 2,989,819**	**$ 288,768**	**$(2,345,515)**	**$ 14,555,720**
Preference Shares Balance, December 31, 2021	**704,322**		**$ 704,322**						**$ 704,322**

	Number of shares *	Capital Stock	Preferred Shares	Warrants Reserve	Share-based Reserve	Contributed Surplus	Non-Controlling Interest	Retained Earnings	Total Shareholders Equity
Common Shares Balance, January 1, 2022	101,835,722	$ 9,110,305	$ -	$ 4,053,191	$ 459,152	$ 2,989,819	$ 288,768	$ (2,345,515)	$ 14,555,720
Preference Shares Balance, January 1, 2022	704,322	-	704,322	-	-	-	-	-	704,322
Repayment of Preference shares	351,688	-	(351,688)	-	-	-	-	-	(351,688)
Shares Issued on Acquisition	349,399	145,001	-	-	-	-	-	-	145,001
Exercised Stock Options	16,924	5,063	-	-	-	-	-	-	5,063
Issuance of Stock Options	-	-	-	-	1,244,857	-	-	-	1,244,857
Net Proceeds from Issue of shares	11,741,031	1,696,889	-	2,045,666	-	-	-	-	3,742,555
Non-Controlling Interest - pursuant to Acquisition	-	-	-	-	-	-	1,126,851	-	1,126,851
Net loss for the year	-	-	-	-	-	-	(348,656)	(6,626,174)	(6,974,830)
Common Shares Balance, December 31, 2022	**113,943,079**	**$ 10,957,258**		**$ 6,098,857**	**$ 1,704,009**	**$ 2,989,819**	**$ 1,066,963**	**$ (8,971,689)**	**$ 13,845,218**
Preference Shares Balance, December 31, 2022	**352,634**		**$ 352,634**						**$ 352,634**

* Number of shares is inclusive of the 1:100,000 share split (March 9, 2021) and the 1:3.846166667 share split (May 19,2021)

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

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	Notes	Year ended December 31, 2022	2021
Cash flows used in operating activities:			
Net loss		$ (6,974,830)	$ (3,678,734)
Adjustments for items for items not affecting cash:			
Depreciation	7	1,367,503	401,433
Intangible assets impairment	8	17,162	
Loss (gain) on disposal of assets	19	(414)	37,006
Share based payments	14	1,244,858	459,152
Goodwill write-off	9	-	1,399,029
Foreign exchange gain		-	(19,874)
Finance cost		886,593	112,125
Net changes in non-cash working capital items:			
Trade and other receivables		(918,417)	185,640
Prepaid expenses and deposits		(251,711)	(503,444)
Inventory		(541,251)	(226,646)
Trade payables and accrued liabilities		(646,988)	901,765
Deferred revenue		(358,625)	(474,611)
Other short-term liabilities		(936,357)	(165,860)
		(7,112,474)	**(1,573,017)**
Cash flows used in investing activities:			
Disposal of (additions to) property, plant & equipment	7	642,456	(254,343)
Payment of acquisition related contingent consideration	18	(10,000)	(30,000)
Additions to right-of-use assets	19	(73,216)	-
Additions to intangible assets	8	-	(23,465)
Business acquisitions, net of cash acquired	14	(933,548)	(1,289,037)
		(374,308)	**(1,596,845)**
Cash flows from financing activities:			
Repayment of long-term loans	13	(820,958)	(81,400)
Payment of lease liabilities	20	(210,444)	(205,067)
Repayment of preferred shares	16	(351,688)	-
Proceeds from exercise of stock options	16	5,063	7,992,495
Proceeds from issuance of shares	16	3,742,555	-
Proceeds from issuance of convertible debt		-	4,080,698
		2,364,528	**11,786,726**
Net change in cash		(5,122,254)	8,616,863
Cash and cash equivalents, beginning of year		8,806,836	189,973
Cash and cash equivalents, end of year		**$ 3,684,581**	**$ 8,806,836**

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

1. The Company and its Operations

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

Volatus and entities it controls are together referred to in these consolidated financial statements as the "Company" or "VAC" or "Volatus". Refer to Note 4 for the Company's major subsidiaries.

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

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

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements as at and for the years ended December 31, 2022 and 2021, were authorized for issue by the Company's Board of Directors on April 27, 2023.

Basic of measurement

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

Operating Segment

The Company comprises three main business operations, which are all operating as a single operating and reporting segment.

Presentation currency

These consolidated financial statements are presented in Canadian dollars ("C$"), which is the functional currency of the Company and its subsidiaries unless otherwise stated. The functional currency of the Company's subsidiaries is outlined in note 4.

Judgments and estimates

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

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

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

Valuation of acquired intangible assets

The Company estimates the fair value of customer relationships and technology acquired in a business combination based on the income approach. The income approach is a valuation technique that calculates the fair value of an intangible asset based on the present value of future cash flows that the asset can be expected to generate over its remaining useful life. This valuation involves significant subjectivity and estimation uncertainty. Changes in these estimates and judgments could result in significant changes to the valuation of the intangible assets.

Business combinations

The consideration transferred and the acquiree's identifiable assets, and liabilities are measured at their fair value. The Company determines fair value by using appropriate valuation techniques which are generally based on a forecast of the total expected future net discounted cash flows. These evaluations are linked closely to the assumptions made by management regarding the future performance of the related assets.

Trade and other receivables

The recognition of trade and other receivables and loss allowances requires the Company to assess credit risk and collectability. The Company considers historical trends and any available information indicating a customer could be experiencing liquidity or going concern problems and the status of any contractual or legal disputes with customers in performing this assessment.

Contingent consideration liabilities

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

3. Significant accounting policies

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

Basic of consolidation

Subsidiaries

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

These consolidated financial statements include the accounts of the Company and its subsidiaries (note 4).

Non-controlling interest

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

Business combinations

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

The Company measures goodwill as the difference between the fair value of the consideration transferred, including the recognized amount of any non-controlling interests in the acquiree and the net recognized amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Company on behalf of the acquiree, the fair value of any contingent consideration and equity interests issued by the Company. Where a business combination is achieved in stages, previously held interests in the acquired entity are remeasured to fair value at the acquisition date, which is the date control is obtained and the resulting gain or loss, if any, is recognized in net income.

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

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

Foreign currency

Each of the Company's operating subsidiaries maintains its accounting records in its functional currency.

Foreign currency transactions

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

Foreign currency translation

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

Revenue recognition

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The company reports revenue under four revenue categories being, the sale of products, services, charter revenue, and training programs. Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for these goods and services.

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

Equipment Sales includes sale of drones, batteries, drone sets, and related accessories. This revenue is recognized when the goods leave the port of shipment or warehouse as significant risks and rewards are transferred immediately, and company has no control over the goods. Revenue from equipment sales is measured at the fair value of the consideration received less an appropriate deduction for actual and expected returns, discounts, net of sales taxes. The Company's return policy is generally limited to 10 days with unopened box and historically has been immaterial.

The Company administers frequent buyer loyalty programs. A portion of revenue from products sold that have an associated loyalty program is deferred based on an estimate of the amount to be earned and the likelihood of the customer reaching the threshold of earning the associated reward. The expected redemption percentage for all frequent buyer loyalty programs is based on historical redemption patterns and incorporates current information or trends. The revenue previously deferred is recognized when the points are redeemed or expire.

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

Sale of Services includes drone services provided by professional drone operators relating to inspection, imaging, and data processing to enterprises and other customers. These services are provided across multiple sectors and industries across Canada. The Company recognizes revenue from services once the service is completed, as this is when the customers have the ability to direct the use of and obtain the benefits of the service.

Sale of Training includes drone pilot training programs in digital, virtual, and onsite formats to various levels of drone pilots as defined by Transport Canada and platform or sector specific training programs. Training revenue is recognized according to the contractual provisions of the arrangement, which is generally when the service is provided or over the contractual period.

Rental income from operating leases where the Company is the lessor is recognized on a straight-line basis over the terms of the respective leases.

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

IFRS 15 applies a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the completion of services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those services.

This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

Inventories

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

If carrying value exceeds net realizable amount, a write-down is recognized. The write-downs are reversed if the circumstances that caused the initial write-down no longer exist. In addition, as part of inventory valuations, the Company accrues for inventory shrinkage for lost or stolen items based on historical trends, and obsolescence as applicable.

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

Property, plant, and equipment

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

Estimated useful lives are as follows:

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

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

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

Income taxes

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

Current tax

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

Deferred tax

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

Investment tax credits

The Company is entitled to both non-refundable and refundable investment tax credits for qualifying research and development activities. Credits claimed are subject to review by the Canada Revenue Agency. The Company has reasonable assurance regarding compliance with the relevant objective conditions and that the credit will be realized.

Share-based payment arrangements

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

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

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

Intangible assets

Goodwill

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

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ("CGU") to which it relates. The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other nonfinancial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified.

Acquired Intangible Assets

Intangible assets with indefinite useful lives are comprised of the acquired drone technologies and intellectual properties. The Company uses the income approach to value acquired technology and customer relationships intangible assets. Intangible assets with indefinite useful lives are measured at cost, less any accumulated impairment and are not amortized.

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

Research and development

The Company develops software and training modules that is used in providing processing services to customers. Expenditures on research activities are expensed as incurred. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in the consolidated statement of loss as incurred. Subsequent to initial recognition, development expenditure is carried at cost less accumulated amortization and any accumulated impairment losses.

Impairment of non-financial assets

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

For the purposes of impairment testing, goodwill is allocated to the CGU or a group of CGUs ("goodwill unit") that are considered to represent the lowest level within the group at which the goodwill is monitored for internal management purposes. As at December 31, 2022, goodwill is allocated as follows:

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

During the years ended December 31, 2022 and 2021, the Company recognized no impairment charges on its goodwill (Note 9). The total impairment charge on goodwill of $Nil (2021 - $1,399,029) represents a write-down of the goodwill acquired from Partner Jet CGU.

Determining the Recoverable Amount

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

Recording Impairments and Reversals of Impairments

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

Share capital

Common shares are classified as shareholders' deficit. Incremental costs directly attributable to the issuance of shares or options are shown in shareholders' deficit as a deduction, net of tax, from the proceeds of issuance.

Non-controlling interests

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

Provisions

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

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

Financial instruments

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

Financial Assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (''FVOCI''), or FVTPL. The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets classified as FVTPL are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as FVOCI are measured at fair value with any subsequent remeasurement recognized in other comprehensive income. When FVOCI financial assets that are not considered equity investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets not designated at FVTPL and held to maturity are measured at amortized cost using the effective interest rate method.

Financial Liabilities:

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

Impairment of financial assets

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

Classification of financial instruments

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

Financial instruments	**Classification**
Cash & cash equivalents	FVTPL
Trade and other receivables	Amortized cost
Trade payables and accrued liabilities	Amortized cost
Contingent consideration	FVTPL
Lease obligations	Amortized cost
Loans and borrowings	Amortized cost

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the asset. Any interest in transferred financial assets created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when its contractual obligations are discharged, cancelled, or expire.

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statements of financial position, where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents include cash investments in interest-bearing accounts and term deposits which can readily be redeemed for cash without penalty or are issued for terms of three months or less from the date of acquisition.

Borrowing costs

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

Leases

Lessee

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

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

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

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

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

Lessor

At the inception of the lease, the Company classifies each lease as either an operating lease or a finance lease. A lease is a finance lease if it transfers substantially all the risks and rewards of the underlying asset to the lessee; otherwise, the lease is an operating lease. Rental income from operating leases is recognized on a straight-line basis over the lease term.

Loss per share

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

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

Government grant

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the conditions of the grant and the grant will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses for the related costs for which the grants are intended to compensate.

Compound financial instruments

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

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

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

Adoption of new accounting standards

Amendment to IFRS 3, Reference to the Conceptual Framework

This amendment replaces references to the 2010 Conceptual Framework for Financial Reporting with references to the 2018 Conceptual Framework for Financial Reporting in order to determine what constitutes an asset or liability in a business combination, adds a new exception for certain liabilities and contingent liabilities to refer to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, or IFRIC 21, Levies, rather than to the 2018 Conceptual Framework, and clarifies that an acquirer should not recognize contingent assets at the acquisition date. The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022. The amendments described above had no impact on these consolidated financial statements.

Accounting standards and amendments issued but not yet adopted

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1")

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least twelve months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively. The Company is currently analyzing the impact this amendment will have on its consolidated financial statements.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued narrow-scope amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"). The amendments to IAS 8 clarify how companies distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company assessed the potential impact of the amendment and determined there to be no material impact on the consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendment to IAS 1 requires companies to disclose their material accounting policy information rather than its significant accounting policies. The amendment also clarifies that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied prospectively. The adoption of this standard will not have a material impact on the financial statements.

Amendments to IAS 12, Income Taxes ("IAS 12")

The amendments to IAS 12 provide clarifications in accounting for deferred tax on certain transactions such as leases and decommissioning obligations. The amendments clarify that the initial recognition exemption does not apply to transactions such as leases and decommissioning obligations. As a result, entities may need to recognize both a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied to transactions that occur on or after the beginning of the earliest comparative period presented. The adoption of this standard will not have a material impact on the financial statements.

4. Subsidiaries

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

Name of Subsidiary	Principal Activity	Currency	Country of Incorporation	Ownership Interest
Volatus Flight Systems Inc.	Fixed-wing Drone Technology	CAD	Canada	70%
Volatus Aerospace USA Corp.	Drone Solutions Provider	USD	USA	90%
ConnexiCore LLC	Drone Solutions Provider	USD	USA	100%
Indigenous Aerospace Corp.	RPAS/UAV Service and Training	CAD	Canada	49%
Volatus Aviation (Partner Jet Inc.)	Aircraft management & charter services	CAD	Canada	100%
RPV Aviation Inc.	Regulatory Consulting	CAD	Canada	100%
MVT Geo Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
Canadian Air National Inc.	Pipeline Inspection & Surveillance Services	CAD	Canada	100%
Volatus Aerospace UK Ltd.	RPAS/UAV Service and Training	GBP	UK	100%
iRed Limited	RPAS/UAV Service and Training	GBP	UK	51%
Synergy Aviation Ltd.	Pipeline Inspection & Surveillance Services	CAD	Canada	51%
Synergy Flight Training Inc.	Aircraft Training	CAD	Canada	51%
Volatus Unmanned Services Inc.^[1]		CAD	Canada	66%
- UAViation Aerial Solutions Limited	RPAS/UAV Service	CAD	Canada	100%
- SkyGate Videography Inc.	RPAS/UAV Service and Training	CAD	Canada	100%
- M3 Drone Services Limited	RPAS/UAV Service	CAD	Canada	100%
- M3 Drone Training Zone Inc.	RPAS/UAV Training	CAD	Canada	100%
- Canadian UAV Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
- OmniView Tech Corp.	Distribution & Service	CAD	Canada	100%

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

30% external shareholding of Volatus Flight Systems, 33.66% external shareholding of Volatus Unmanned Services, 10% external shareholding of Volatus Aerospace USA Corp (previously known as Tradeco One LLC), 51% external shareholding of Indigenous Aerospace Corp., 49% external shareholding of iRed Limited and Synergy Aviation Ltd. is attributable to Non-Controlling Interest in the consolidated financial statements.

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

5. Trade and other receivables

		December 31, 2022		December 31, 2021
Trade receivables	**$**	**4,056,665**	$	698,355
Accrued revenues		**68,598**		10,438
Tax credits receivable		**200,000**		-
Other receivable		**4,925**		10,822
Total	**$**	**4,330,189**	$	698,355

6. Prepaid expenses, deposits, and other current assets

		December 31, 2022		December 31, 2021
Prepaid expenses	**$**	**1,281,023**	$	607,678
Security deposit		**299,164**		165,974
Advance payment		**106,283**		-
Other current assets		**317,064**		27,482
Total	**$**	**2,003,533**	$	801,135

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

		December 31, 2022		December 31, 2021
Deposit towards training school	**$**	**12,000**	$	12,000
Deposit towards rental		**12,968**		5,670
Deposit towards trade show		**5,000**		19,384
Deposit towards aircraft		**128,937**		128,920
Other deposits		**140,258**		-
Total	**$**	**299,164**	$	165,974

7. Property, plant & equipment

	Drones & Accessories	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Vehicle	Aircraft & Accessories	Total
Cost							
Balance, December 31, 2020	387,620	-	12,966	60,020	64,696		525,302
Additions	162,036	17,695	31,184	45,491	-		256,406
Additions related to business combinations	55,037	-	372,697	289,939	-	3,462,085	4,179,758
Disposals/Retirements	(70,045)	-	-	(219)	-		(70,264)
Reclassifications & Transfers	8,500	-	-	(8,500)	-		-
Balance, December 31, 2021	**543,148**	**17,695**	**416,846**	**386,731**	**64,696**	**3,462,085**	**4,891,202**
Accumulated Depreciation							
Balance, December 31, 2020	189,940	-	7,098	21,479	8,626		227,144
Depreciation for the period	41,484	153	15,576	27,183	13,193	7,963	105,553
Accumulated depreciation related to business combinations	17,231	-	249,587	273,697	-		540,515
Disposals/Retirements	(32,856)	-	-	-	-		(32,856)
Reclassifications & Transfers	2,125	-	-	(2,125)	-		-
Balance, December 31, 2021	**217,925**	**153**	**272,261**	**320,234**	**21,819**	**7,963**	**840,355**
Net carrying Amount							
December 31, 2020	197,680	-	5,868	38,540	56,070	-	298,158
December 31, 2021	**325,223**	**17,542**	**144,585**	**66,497**	**42,877**	**3,454,122**	**4,050,846**

	Drones & Accessories	Machinery	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Vehicle	Aircraft & Accessories	Total
Cost								
Balance, December 31, 2021	543,148	-	17,695	416,847	386,731	64,696	3,462,085	4,891,202
Additions	819,154	19,842	365,560	35,161	126,553	909,513	528,188	2,803,971
Additions through business combinations	1,431,855	297,744	17,470	192,626	324,344	89,242	5,217,629	7,570,910
Disposals/Retirements	(187,197)	(5,615)	-	(200)	(17,561)	(375)	(3,462,085)	(3,673,033)
Reclassifications & Transfers	(5,190)	-	-	-	5,190	-	-	-
Balance, December 31, 2022	**2,601,770**	**311,971**	**400,725**	**644,434**	**825,257**	**1,063,076**	**5,745,817**	**11,593,050**
Accumulated Depreciation								
Balance, December 31, 2021	217,925	-	153	272,261	320,234	21,819	7,963	840,355
Depreciation for the year	309,345	9,386	20,366	40,960	85,955	115,883	477,053	1,058,948
Accumulated depreciation through business combinations	191,182	143,181	5,392	170,706	60,740	19,042	-	590,243
Disposals/Retirements	(7,392)	-	-	(200)	(13,206)	(375)	(205,435)	(226,608)
Balance, December 31, 2022	**711,060**	**152,567**	**25,911**	**483,727**	**453,723**	**156,369**	**279,580**	**2,262,938**
Net carrying Amount								
December 31, 2021	325,224	-	17,542	144,585	66,497	42,877	3,454,122	4,050,846
December 31, 2022	**1,890,710**	**159,404**	**374,814**	**160,707**	**371,534**	**906,707**	**5,466,237**	**9,330,112**

The Company acquired intangible assets as part of its acquisition of the assets of MVT Geo Solutions Inc., Canadian Air National Inc., RPV Aviation, Synergy Aviation Limited, Synergy Flight Training Inc., and iRed Limited (refer to note 15).

Included in the above balances as at December 31, 2022, are assets not being amortized with a net book value of $102,235 (2021 - $Nil) being construction in progress.

8. Intangible assets

	Technology	Customer	Brand name	Total
Cost				
Balance, December 31, 2021	4,322,715	1,292,774	196,440	5,811,929
Additions through business combinations	845,324	2,127,039	47,995	3,020,358
Balance, December 31, 2022	**5,168,039**	**3,419,813**	**244,435**	**8,832,287**
Accumulated Depreciation				
Balance, December 31, 2021	-	-	-	-
Impairment charge	17,162	-	-	17,162
Balance, December 31, 2022	**17,162**	**-**	**-**	**17,162**
Net carrying Amount				
December 31, 2021	4,322,715	1,292,774	196,440	5,811,929
December 31, 2022	**5,150,877**	**3,419,813**	**244,435**	**8,815,125**

9. Goodwill

	December 31, 2022	December 31, 2021
Balance, beginning of year	**$ 583,188**	$ -
Acquisitions (note 15)	**106,647**	583,188
Balance, end of year	**$ 689,835**	$ 583,188

The annual impairment test of goodwill was performed as of December 31, 2022 and did not result in any impairment loss.

10. Inventories

The amount of inventory recognized as an expense for the year ended December 31, 2022 was $16,840,123 (2021 - $6,154,956), which is presented within cost of sales in the consolidated statements of loss.

11. Trade payables and accrued liabilities

	December 31, 2022	December 31, 2021
Accounts Payable	**$ 2,804,243**	$ 1,563,078
Audit fees Payable	**80,000**	35,000
Tax Payable	**(318,460)**	(226,419)
Payroll Liability	**388,165**	236,806
Other	**443,120**	850,138
Total	**$ 3,397,068**	$ 2,458,604

12. Short-term borrowings

Current portion of long-term borrowings

		December 31, 2022		December 31, 2021
BDC Loans	$	785,485	$	45,384
Vehicle Financing		149,789		10,344
Western Economic Development		166,656		-
Natwatt		31,051		-
IWOCA		59,861		-
Other Loans		15,284		14,970
Promissory Notes		787,556		131,438
Total	**$**	**1,995,681**	$	202,136

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

Other short-term liabilities

		December 31, 2022		December 31, 2021
Shareholders loan	**$**	**313,208**	$	91,714
Other loans		**59,955**		66,455
Grant advance		**-**		75,000
Total	**$**	**373,163**	$	233,169

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

13. Long-term borrowings

(in C$)		**December 31, 2022**		December 31, 2021
BDC loans	**$**	**5,056,454**	$	149,488
PEI Finance loan		**6,739**		14,756
Vehicle financing		**493,597**		37,759
CEBA loan		**420,000**		360,000
SBA loan		**52,310**		48,430
Promissory notes		**262,443**		2,099,493
Desjardin loans		**200,000**		-
Western Economic Development		**333,344**		-
Natwest		**40,842**		-
IWOCA		**32,239**		-
Other loans		**3,165,943**		-
Total	**$**	**10,063,911**	$	2,709,926

The Company applied for and received $420,000 in Canada Emergency Business Account (“CEBA”) loans which are interest-free loans meant to cover operating costs impacted by the Covid-19 pandemic outbreak. Individual loans were granted to separate wholly owned subsidiaries of the Company.

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

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

The Company has entered into a demand revolving credit facility of $1,000,000 on June 2, 2022, which bears interest based on the bank’s prime rate plus 1.00%. On August 24, 2022, the Company has been extended additional demand revolving credit facility of $1,000,000. The total demand revolving facility that has been made available is $2,000,000. As at December 31, 2022, the amount drawn under this facility was $1,965,000, which was included in other loans. The other loans also include BDC equipment loans of $541,655 and additional demand revolving facility of $700,000 with a drawdown of $669,288.

14. 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 Company paid an indebted amount of $2,491,516 towards a promissory note and accrued liabilities against the purchase of a Citation X aircraft operated by Partner Jet (Volatus Aviation). The Citation X Jet was sold and thus the promissory note bearing an interest rate of five percent (5%) was settled on Q4 2022 (2021 - $2,230,931).

The Company also settled accounts payable of $19,320.12 towards purchase of fuel for operating the Citation X on Charter as pass through transaction to external vendors. The payable outstanding on Dec 31, 2022 is $3,424 (2021 – $123,241).

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 ended December 31, 2022, the Company incurred fees of $50,000 compared to $Nil in 2021. As at December 31, 2022, the Company was indebted to this company the amount of $8,000 (2021 - $Nil).

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. (2021 – $412,376). In 2022, $206,188 were repaid. (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.

Key management compensation

Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management for the years ended December 31, 2022 and 2021 included:

	2022	2021
Management Fees paid to company controlled by CFO	$ -	$ 72,000
Management Fees paid to company controlled by VP of Business Development	-	60,000
Salaries	856,651	282,194
Share-based Payments	1,168,658	399,262
Total	$ 2,025,309	$ 813,456

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 September 30, 2022, 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 September 30, 2022, the amount payable under this agreement would be $190,000.

15. Business Combination

RPV Aviation Inc.

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

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

Purchase Price Allocation - RPV	**$ 125,000**
Tangible assets acquired	
Cash & cash equivalents	622
Accounts receivables	17,283
Net fixed assets	1,924
Accounts payable and accrued liabilities	(6,773)
Tax liabilities	(2,138)
Identified intangible assets	

Customer relationships		75,827
Goodwill	$	38,256

The Company estimated the fair value as follows:

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

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

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

The 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. Impairment analysis has been done on December 31, 2022.

MVT Geo-Solutions Inc.

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

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

Purchase Price Allocation - MVT Geo	**$**	**995,001**
Cash & cash equivalents		107,072
Accounts receivables		160,866
Other current assets		88,565
Net fixed assets		577,336
Accounts payable and accrued liabilities		(369,631)
Other current liabilities		(48,635)
Tax liabilities		(35,257)
CEBA loan		(50,000)
Non-current loans		(351,370)
Identified intangible assets		
Customer Relationships		868,059
Website	$	47,995

The Company estimated the fair value as follows:

- Customer relationships based on an income approach, specifically multi-period excess earnings method, by identifying key customers, applying attribution rate of 20% per annum and discount rate of 16.90% per annum; and
- Website based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 0.5% and discount rate of 9.61% per annum.

Canadian Air National Inc.

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

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

Purchase Price Allocation - Canadian Air National	$	**85,000**
Cash		7,725
Accounts receivable		27,052
Accounts payable		(7,345)
Accrued and other liabilities		(10,823)
Net assets		**16,610**
Goodwill	$	68,390

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

The Company did not incur any acquisition-related costs.

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

The 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. The annual impairment test of goodwill was performed as of December 31, 2022 and did not result in an impairment loss.

Synergy Aviation Limited

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

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

Purchase Price	**$ 2,200,000**
Cash & cash equivalents	33,404
Accounts receivable	2,244,885
Inventory	2,498,334
Other current assets	919,647
Net fixed assets	6,282,499
Intangible assets	622,619
Accounts payable and accrued liabilities	(1,179,641)
Other current liabilities	(446,607)
Non-current liabilities	(8,701,822)
Non-controlling interest	(1,113,925)
Identifiable intangible assets	
Customer relationships	$ 1,040,608

The Company estimated the fair value as follows:

- Customer relationships based on an income approach, specifically multi-period excess earnings method, by identifying key customers, applying attribution rate of 20% per annum and discount rate of 19.40% per annum.

iRed Limited

On October 31, 2022, the Company acquired a controlling interest of 51% in iRed Limited, a drone services and training company based in Emsworth, England. The remaining 49% represents non-controlling interest. Under the terms of the agreement, Volatus will make an equity investment of £100,000 ($156,000) in iRed in exchange for newly issued shares (treasury shares) that will represent 51% of all outstanding shares. The transaction closed on October 31, 2022. At one year anniversary, the iRed shareholders will have an option to sell remaining shares for a total consideration of £100,000 ($156,850) for an equivalent number of Volatus shares at a valuation of $0.65 per share or 12 months anniversary price, whichever is lower.

Purchase Price	**$**	**156,000**
Cash & cash equivalents		5,909
Accounts receivable		266,887
Inventory		35,836
Other current assets		28,630
Net fixed assets		118,909
Intangible assets		222,705
Accounts payable and accrued liabilities		(80,901)
Other current liabilities		(235,897)
Non-Current Liabilities		(335,696)
Non-controlling interest		(12,927)
Identifiable intangible assets		
Customer relationships	$	142,545

The Company estimated the fair value as follows:

- Customer relationships based on an income approach, specifically multi-period excess earnings method, by identifying key customers, applying attribution rate of 20% per annum and discount rate of 19.40% per annum.

None of the acquisitions completed during the year ended December 31, 2022 were deemed to be individually significant.

16. Share Capital

Authorized share capital

Unlimited number of common shares without par value.

Issued common shares

	December 31, 2022		December 31, 2021	
	Shares	**Amount**	Shares	Amount
Shares outstanding, beginning of year	**101,835,722**	**$ 9,110,305**	76,923,334	$ 200
Issuance of stock options	**16,924**	**5,063**	884,615	-
Shares issued on settlement of debt	**-**	**-**	8,298,001	2,608,683
Shares issued on private placement	**-**	**-**	14,051,932	5,411,319
Shares issued on acquisition	**349,399**	**145,001**	1,677,840	1,090,103
Shares issued on prospectus and private placement	**11,741,034**	**1,696,889**	-	-
Total	**113,943,079**	**$ 10,957,258**	101,835,722	$ 9,110,305

Contributed surplus

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

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

Preferred shares

	December 31, 2022		December 31, 2021	
	Shares	**Amount**	Shares	Amount
Issued for acquisition of Partner Jet Corp. Initial minority equity Investment	**206,188**	**$ 206,188**	412,376	$ 412,376
UAViation Aerial Solutions Limited Investment	**146,446**	**146,446**	291,946	291,946
Total	**352,634**	**$ 352,634**	704,322	$ 704,322

The above preferred shares are non-redeemable and have no coupon interest payment and have a face value of $1. The preferred shares held by UAViation Aerial Solutions Limited are in the Volatus owned subsidiary, Volatus Unmanned Services Inc. (Refer note 4).

Stock options

On January 2, 2021, the Company granted 884,615 additional options (after splits) at an exercise price of $0.001 to be vested over three years. These options were accelerated and exercised into common shares on December 22, 2021 resulting in the issuance of 884,615 common shares.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. The weighted average fair value at date of grant for the options granted during the year ended December 31, 2021 was $0.52 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share:

share price of $0.52, risk-free interest rate of 0.39%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

On December 31, 2021, the Company granted 3,790,000 additional options at an exercise price of $0.65. 3,390,000 options will be vested over three years and 400,000 options will be vested over two years.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. The weighted average fair value at date of grant for the options granted during the year ended December 31, 2021 was $0.49 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.65, risk-free interest rate of 1.75%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

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

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

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. The weighted average fair value at date of grant for the options granted during the period ended June 30, 2022 was $0.27 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.36, risk-free interest rate of 3.30%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

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

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

Warrants

During the year ended December 31, 2021,

- $4,183,000 of unsecured convertible debentures, including accrued interest payable, were converted into 4,329,457 units of warrants at a value of $1,472,015. Each warrant is exercisable into one common share of the Company at an exercise price of $0.65 per warrant for a period of 2 years.
- The Company issued 8,004,985 units of warrants as part of its private placement round at a value of $2,581,176. 7,025,966 units of warrants are exercisable into one common share of the Company at an exercise price of $0.75 per warrant for a period of 2 years and 979,019 units of warrants are exercisable into one common share of the Company at an exercise price of $0.65 per warrant for a period of 2 years.

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

Details of warrants and their fair value:

Sr. No	Issue Date	Exercise Price	Expiry Date	Number of warrants outstanding at December 31, 2022	Fair Value at December 31, 2022	Number of Warrants Outstanding at December 31, 2021	Fair Value at December 31, 2021
1	22-Dec-21	$0.65	22-Dec-23	5,308,476	1,804,881	5,308,476	1,804,881
2	22-Dec-21	$0.75	22-Dec-23	7,025,966	2,248,310	7,025,966	2,248,310
3	06-Oct-22	$0.50	05-Oct-24	11,741,034	1,878,565	Nil	Nil
4	06-Oct-22	$0.36	05-Oct-24	879,475	167,100	Nil	Nil

The fair values of warrants were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2022	2021
Expected dividend yield	0%	0%
Risk-free interest rate	4.07%	0.22%-0.93%
Expected life	2 years	2 years
Estimated volatility	100%	100%

As of December 31, 2022, the following warrants were outstanding and exercisable:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2020	-	-
Issued	12,334,442	$0.71
Exercised	-	-
Forfeited	-	-
Outstanding, December 31, 2021	12,334,442	$0.71
Issued	12,620,509	$0.49
Exercised	-	-
Forfeited	-	-
Outstanding, December 31, 2022	**24,954,951**	**$0.60**

17. 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 condensed interim consolidated financial statements are presented in Canadian dollars, which is also the parent company's consolidated functional currency. Each entity within the consolidated group determines its own functional currency.

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

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As at December 31, 2022 the Company did not have any foreign currency hedges in place.

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

	2022		2021	
	USD	**GBP**	USD	GBP
Cash	**340,961**	**174,893**	168,337	$ -
Accounts receivable and other receivables	**229,767**	**125,483**	282,236	-
Accounts payable and other liabilities	**(318,217)**	**(71,678)**	(176,198)	-
Net assets	**252,512**	**228,699**	274,374	$ -

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.

18. Commitments

As part of the UAViation Aerial Solutions Limited's acquisition in 2021, the Company had recognized a contingent consideration of $10,000 that arises because of an earn-out commitment. This consideration was fulfilled and settled in 2022.

As part of OmniView Tech Corp. acquisition, the Company had committed to issuing fifty (50) additional shares in Volatus Unmanned Services to the former owners of Omniview as an earn-out commitment upon meeting defined targets. This consideration was fulfilled and settled in 2022.

As part of Synergy Aviation and iRed Limited acquisitions on Oct 31, 2022 (refer Note15), the Company has entered into earn-out provision subject to meeting certain revenue and Gross profit, and EBITDA targets. These earn-outs are payable on or before 31 December 2024.

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

The following tables reconcile the changes in ROU assets for the years ended December 31, 2022 and 2021:

	2022	2021
Cost		
Balance, beginning of year	$ 1,455,788	$ -
Additions	99,037	1,174,428
Disposal/impairment	(25,821)	-
Acquired through business acquisition	-	281,360
Balance, end of year	**1,529,004**	**1,455,788**
Accumulated amortization		
Balance, beginning of year	225,867	-
Disposal/impairment	(4,304)	-
Depreciation	312,860	225,867
Balance, end of year	**534,423**	**225,867**
Net book value	**$ 994,581**	$ 1,229,921

20. Leases

Company as a lessee

Leasing arrangements

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

Lease liabilities

Carrying amounts of lease liabilities are as follows:

(in C$)	**2022**	**2021**
Balance, beginning of year	$ 1,362,847	$ -
Additions	99,037	1,218,762
Disposal	(25,821)	-
Acquired through business acquisition	-	281,360
Interest	136,520	112,125
Payments	(424,485)	(249,400)
Balance, end of year	**1,151,988**	**1,362,847**
Current	325,950	284,651
Non-current	826,038	1,078,196

21. Government Grants

The Company was awarded a grant of $75,000 (2021 - $Nil) to one of its subsidiaries by Investment Quebec. The grant was started in 2020 to perform hot-spot detection for fire fighting and is non repayable. The grant has been recognized as part of other income.

22. Income Taxes

The Company has $10,833,971 (2021 - $3,859,141) of non-capital losses available to offset future income for tax purposes. The non-capital losses will expire as follows:

2040 - $156,597
2041 - $3,702,544
2042-- $6,974,830

The deferred tax liability and asset calculated using a tax rate expected to be recovered or settled of 26.50% (2021 – 26.50%) is as follows:

	2022	**2021**
Deferred Tax Asset		
Undeducted non-capital losses	(2,871,002)	(1,022,672)
Valuation allowance	2,871,002	1,022,672
Net deferred tax liability	-	-

The Company's effective tax rate which differs from the combined federal and provincial statutory rate of 26.50% (2021 – 26.50%), is reconciled as follows:

	2022	2021
Income before Income taxes	6,974,830	3,702,544
Income tax recovery @ 26.50%	1,848,330	981,174
Valuation allowance	(1,848,330)	(981,174)
Current Income tax expense (recovery)	-	-
Deferred tax recovery	-	-
Income tax recovery		

23. Finance costs

Finance costs comprise the following:

(in C$)		**December 31, 2022**		December 31, 2021
Bank Charges	**$**	**47,231**	$	11,299
Interest expense on lease liabilities		**136,520**		112,125
Interest expense on promissory note		**82,083**		2,999
Interest expense on Convertible Debt		**-**		276,797
Interest expense on long-term debt		**204,826**		18,308
Other interest		**55,577**		17,426
	$	**526,238**	$	438,954

24. Subsequent Events

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.

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 April 13, 2023, Volatus announced a brokered private placement of up to 3,000 convertible debenture units of the Corporation (the "**Debenture Units**") at a price of $1,000 per Debenture Unit for aggregate gross proceeds of up to $3,000,000 (the "**Offering**") with an additional 15% over-allotment option. Pursuant to the Offering, each Debenture Unit will be comprised of $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 the date that is 24 months from the date of issuance (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 coupon 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. Each Warrant will entitle the holder thereof to acquire one Common Share at a price of $0.50per Common Share for a period of 24months from the closing date of the Offering.

The Company has agreed to: (i) pay the Agents a cash fee 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) issue to the Agents such number of non-transferable Common Share purchase warrants (the "**Agent's 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 Agent's Warrant will entitle the holder thereof to acquire one Common Share at an exercise price of $0.50per Common Share for a period of 24 months from the closing date of the Offering.