



VOLATUS AEROSPACE INC.

(Formerly Drone Delivery Canada Corp.)

Consolidated Financial Statements

For the years ended December 31, 2024, and December 31, 2023

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

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Independent Auditor's Report

To the Shareholders of Volatus Aerospace Inc.

Opinion

We have audited the consolidated financial statements of Volatus Aerospace Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2024 and 2023, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively IFRS Accounting Standards).

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 Group 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred a net loss of \$13.3 million during the year ended December 31, 2024 and, as of that date, has a working capital deficiency of \$8.4 million and an accumulated deficiency of \$33 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.



Transaction with Drone Delivery Canada Corp.

Description of the key audit matter

As outlined in Note 16 to the consolidated financial statements, Volatus Aerospace Corp. was acquired by Drone Delivery Canada Corp. through a merger, resulting in the formation of a combined entity.

Management applied significant judgement in estimating the fair value of the intangible assets acquired. Management used the relief from royalty method and multi-period excess earnings method to fair value the intangible assets acquired. The significant assumptions used in these models includes forecasted revenues, royalty rates and discount rates.

The transaction was determined to be a key audit matter requiring special audit consideration due to the significant judgement and estimation applied by management in estimating the fair values of the intangible assets acquired, including the development of significant assumptions. This, in turn, led to a high degree of auditor judgement, subjectivity, and effort in performing audit procedures and evaluating audit evidence related to the significant assumptions used by management.

How the key audit matter was addressed in the audit

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

- Evaluated the reasonableness of the assumptions used by management in the relief from royalty model and multi-period excess earning model related to forecasted revenues by considering management's budget, strategy and business plans approved by the Board of Directors and current and past performance of Drone Delivery Canada; and
- We utilized our valuation specialists to assist in evaluating the appropriateness of management's valuation methodologies and assessing the reasonableness of the royalty rate and discount rate used in the relief from royalty and multi-period excess earning models, to fair value the identifiable intangible assets.

Impairment of Goodwill

Description of the key audit matter

As discussed in Note 9 to the consolidated financial statements, the Company has goodwill of \$20.7 million which is required to be tested for impairment on an annual basis or more frequently if events of changes in circumstances indicate that the carrying amounts may not be recoverable.

Management applied significant judgement in determining the recoverable amount. The recoverable amount is based on a valuation methodology using a market-based approach. The

significant assumptions used in the market-based approach include revenue multiples derived from comparable public companies. Management concluded that there was no impairment of goodwill as at December 31, 2024, the date of the annual assessment.

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



How the key audit matter was addressed in the audit

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

- Evaluated the reasonableness of significant assumptions such as the selection of comparable companies;
- Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of management's valuation methodology and assessing the reasonableness of revenue multiples derived from a selection of comparable companies; and
- Reviewed the disclosures on the assumptions and the outcomes of the impairment testing presented in the consolidated financial statements.

Other Information

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

- The information, other than the consolidated financial statements and our auditor's report thereon, included in the Management Discussion and Analysis (the MD&A)

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the MD&A prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 29, 2025

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

	Notes	December 31, 2024	December 31, 2023
Assets			
Current			
Cash		1,558,909	1,256,743
Restricted cash		244,908	425,659
Trade and other receivables	5	4,502,679	3,815,478
Prepaid expenses, deposits, and other current assets	6	2,564,898	2,022,836
Inventories	10	3,103,677	2,983,632
Total current assets		11,975,071	10,504,348
Property, plant and equipment	7	9,715,359	9,290,336
Intangible assets	8	13,538,692	4,766,728
Right-of-use asset	20	1,835,343	1,351,082
Goodwill	9	20,739,606	963,604
Total non-current assets		45,829,000	16,371,750
Total Assets		57,804,071	26,876,098
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	11	6,331,383	4,424,484
Deferred revenue		623,497	210,700
Current portion of lease liability	21	765,498	542,298
Other short-term liabilities	13	952,614	7,084,475
Current portion of convertible debenture	18	2,435,375	-
Current portion of long-term borrowings	12	9,115,001	2,252,385
Contingent consideration		144,078	182,024
Total current liabilities		20,367,446	14,696,366
Long-term borrowings	12	5,548,463	5,775,102
Convertible Debentures	18	4,013,843	2,097,028
Deferred tax liability		-	283,130
Lease Liability	21	1,239,577	978,884
Contingent Consideration		297,977	507,692
Total non-current liabilities		11,099,860	9,641,836
Total Liabilities		31,467,306	24,338,202
Shareholders' Equity			
Common equity	17	46,615,125	13,360,860
Warrants reserve	17	7,026,618	6,192,685
Share-based payment reserve	17	2,954,307	2,427,813
Convertible Debenture - Options	18	2,760,433	200,356
Preferred shares	17	286,188	351,764
Deficit		(32,578,867)	(19,437,263)
Contributed Surplus	17	211,831	211,831
Non-controlling interest		(938,870)	(770,150)
Total Shareholders' Equity		26,336,765	2,537,896
Total Liabilities & Shareholders' Equity		57,804,071	26,876,098

Going concern (note 2)
Subsequent event (note 26)

Approved and authorized to issue by the Board of Directors

"Glen Lynch" _____

Director

"Andrew Leslie" _____

Director

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

Volatus Aerospace Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Notes	Twelve months ended December 31	
		2024	2023
Revenue	25	27,147,414	\$ 34,872,815
Direct costs		17,591,115	23,736,973
Gross Profit		9,556,299	11,135,842
OPERATING EXPENSES			
Advertising & marketing		1,123,337	1,856,220
IT & tech		884,437	669,096
Personnel		7,458,005	6,984,713
R&D		41,279	1,341,377
Office cost		2,308,002	2,830,861
Travel		213,733	479,163
External partner cost		3,134,312	1,281,121
Depreciation and amortization	7,8,20	4,824,680	4,033,731
Share based Payments		456,028	723,804
		20,443,813	20,200,086
(Loss) from Operations		(10,887,514)	(9,064,244)
OTHER ITEMS - INCOME/(EXPENSE)			
Finance cost	23	(2,935,917)	(1,775,236)
Bargain Purchase Gain		-	221,808
FV changes in Contingent Consideration		247,661	386,731
Other income (expense)		(146,568)	15,405
Gain (Loss) on disposal of property and equipment		115,657	92,782
Foreign exchange		12,900	(35,089)
Net Loss and comprehensive loss before Income Tax		(13,593,781)	(10,157,842)
Deferred Tax Income/ (Expense)	22	283,457	464,216
Net Loss and comprehensive loss		(13,310,324)	(9,693,626)
Total comprehensive Income (loss) for the period attributable to:			
Owners of Volatus Aerospace Corp.		(13,141,604)	(9,464,043)
Non-controlling interest		(168,720)	(229,583)
		(13,310,324)	(9,693,626)
Loss per share			
Basic and diluted	24	(0.04)	(0.04)

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

Volatus Aerospace Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Number of shares	Capital Stock	Number of preference shares	Preferred shares	Warrants Reserve	Share-based Reserve	Convertible debt - equity portion	Contributed surplus	Non-controlling interest	Deficit	Total Shareholders Equity
January 1, 2023	203,388,395	10,957,258	352,634	352,634	6,098,857	1,704,009	-	211,831	(1,779,222)	(7,127,402)	10,417,965
Repayment of preference shares				(870)							(870)
Shares Issued on acquisition	3,018,926	628,254									628,254
Stock options expense						723,804					723,804
Convertible debenture (net of tax)					93,828		200,356				294,184
Payment of contingent consideration through issue of shares	1,961,151	175,789									175,789
Acquisition of non-controlling interest	12,978,241	1,599,559							1,238,655	(2,845,818)	(7,604)
Net loss for the year									(229,583)	(9,464,043)	(9,693,626)
December 31, 2023	221,346,713	13,360,860	352,634	351,764	6,192,685	2,427,813	200,356	211,831	(770,150)	(19,437,263)	2,537,896
	Number of shares	Capital Stock	Number of preference shares	Preferred Shares	Warrants Reserve	Share-based Reserve	Convertible Debt - Equity Portion	Contributed Surplus	Non-Controlling Interest	Deficit	Total Shareholders Equity
January 1, 2024	221,346,713	13,360,860	352,634	351,764	6,192,685	2,427,813	200,356	211,831	(770,150)	(19,437,263)	2,537,896
Shares Issued on Acquisitions	227,629,394	31,727,464				70,466					31,797,930
Equity Offering	19,766,000	1,490,134			842,822						2,332,956
Warrant Exercise Preference Shares Redemption	99,166	36,667			(8,889)						27,778
Stock options expense			(66,446)	(65,576)							(65,576)
Convertible Debt Issuance (net of tax)						456,028					456,028
							2,560,077				2,560,077
Net loss for the year									(168,720)	(13,141,604)	(13,310,324)
December 31, 2024	468,841,273	46,615,125	286,188	286,188	7,026,618	2,954,307	2,760,433	211,831	(938,870)	(32,578,867)	26,336,765

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

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

	Year Ended December 31	
	2024	2023
OPERATING ACTIVITIES		
Net Loss	(13,310,324)	(9,693,626)
Adjustments For:		
Depreciation and Amortization	4,824,680	4,033,731
Gain on sale of property and equipment	(115,657)	(92,782)
Finance Cost	1,810,655	1,315,429
Interest Accretion	908,791	294,750
Share based Payments	456,028	723,804
Deferred Tax	(283,457)	(464,216)
Bargain Purchase Gain	-	(221,808)
FV changes in Contingent Consideration	(247,661)	(386,731)
Interest paid on Lease liability	216,471	165,057
Equity in Lieu of Services	75,000	-
	(5,665,474)	(4,326,392)
Net changes in non-cash working capital items:		
Restricted Cash	180,751	(64,811)
Trade and other receivables	(139,429)	195,508
Prepaid expenses and deposits	(241,906)	197,976
Inventories	(120,045)	778,399
Trade payables and accrued liabilities	700,397	835,637
Deferred revenue	193,088	137,229
Other short-term liabilities	(7,342,227)	169,317
Cash used in Operating Activities	(12,434,845)	(2,077,137)
INVESTING ACTIVITIES		
Net Additions to Property, Plant & Equipment	(1,376,636)	(1,734,936)
Net Addition to Intangible assets	(70,972)	-
Business Combination, Net of cash	782,894	(299,000)
Cash used in Investing Activities	(664,714)	(2,033,936)
FINANCING ACTIVITIES		
Net Proceeds from issuance of long-term loans	7,500,000	3,955,712
Repayment of borrowings	(1,508,969)	(3,851,813)
Repayment of Preference Shares	(65,576)	(870)
Repayment of lease obligations	(887,940)	(644,091)
Exercise of Warrants	27,778	-
Net Proceeds from issuance of common shares	2,332,956	-
Net Proceeds from issuance of convertible debenture	7,500,000	2,224,297
Finance and transaction cost of convertible debenture	(1,496,524)	-
Cash provided by Financing Activities	13,401,725	1,683,235
Net change in cash	302,166	(2,427,838)
Cash and cash equivalents, beginning of the period	1,256,743	3,684,581
Cash and cash equivalents, end of the period	1,558,909	1,256,743

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

1. The Company and its Operations

Volatus Aerospace Inc. (Formerly Drone Delivery Canada Corp.) ("Volatus" or the "Company") was incorporated under the Business Corporations Act (British Columbia) on February 2, 2011. The Company's principal office is located at 6221 Highway 7, Unit 6, Vaughan, Ontario L4H 0K8. The Company's shares trade on the Toronto Venture Exchange (the "TSXV") under the symbol "FLT" and OTC Markets (the "OTCQB") under the symbol "TAKOF".

On August 30, 2024, Volatus Aerospace Inc. (Drone Delivery Canada Corp.) entered into a plan of arrangement to acquire all outstanding shares in Volatus Aerospace Corp. and renamed as Volatus Aerospace Inc. Under the terms of arrangement, each shareholder of Volatus Aerospace Corp. received 1.785 shares of Drone Delivery Canada Corp. and a total of 224,344,723 shares were issued to Volatus shareholders.

For accounting purposes, the Acquisition constituted a reverse acquisition that involved a change of control of Drone Delivery Canada Corp. to form a new corporation that now carries on operations as Volatus Aerospace Inc.. Based on the guidance in IFRS 3, Business Combinations ("IFRS 3"), it was determined that Drone Delivery Canada Corp. is the accounting acquiree and Volatus Aerospace Corp. is the accounting acquirer. As a result, 2023 comparative information included herein is solely Volatus Aerospace Corp. See note 16 for details of the transaction.

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

Volatus is a leading provider of integrated drone solutions throughout Canada, the United States, the UK, and Norway. Operating a vast pilot network, Volatus serves commercial and defense markets with imaging, inspection, security and surveillance services, cargo services, equipment sales and support, training. Through its subsidiaries, Volatus carries on the business of pipeline inspection and monitoring, using piloted aircraft. All other activities are conducted in the remotely piloted sector of aviation.

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

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards and Interpretations (collectively IFRS Accounting Standards), as issued by the International Accounting Standards Board ("IASB"), effective for the year ended December 31, 2024, applicable to companies reporting under IFRS Accounting Standards, and have been consistently applied unless otherwise indicated.

These consolidated financial statements of the Company were approved by the Board of Directors on April 29, 2025.

Basis of measurement

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

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to meet and continue its obligations for at least the next twelve months from December 31, 2024. At December 31, 2024, the Company had not yet achieved profitable operations, had an accumulated deficit of \$33 million since its inception and a working capital deficiency of \$8.4 million. The Company has incurred a net loss of \$13.3 million for the year ended December 31, 2024. The Company expects to incur further losses in 2025 with the continued ramp up of business activities to service evolving market demands in a nascent industry.

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

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

Presentation currency

These consolidated financial statements are presented in Canadian dollars ("C\$"). The functional currency of the Company's subsidiaries is outlined in note 4.

Critical Judgments and estimates

The preparation of these financial statements in conformity with IFRS Accounting Standards 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.

Notes to Consolidated Financial Statements
For the twelve months ended December 31, 2024, and 2023

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

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

Purchase price equations

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

Impairment

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). The FVLCD calculation is based on available data from binding sales transacted, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. If no such transactions can be identified, an appropriate valuation model is used. Management applied significant judgement in determining the recoverable amounts. Fair value less costs of disposal is determined using market-based valuation techniques consistent with the principles of IFRS 13, including the use of earnings or revenue multiples derived from comparable public companies or transactions. If no observable market data is available, alternative valuation techniques may be used. Such valuations incorporate assumptions that market participants would use in pricing the asset or CGU, including estimates of expected future performance and associated risks. An impairment loss is recognized when the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses related to goodwill are not reversed in subsequent periods. Changes in these estimates and judgments could result in significant changes to management's conclusions with respect to asset impairment.

Contingent consideration liabilities

Contingent consideration liabilities are initially recorded on the date of a business combination and are payable on the achievement of certain financial targets in the post-acquisition periods. The obligation for contingent consideration is recorded at its estimated fair value at the various acquisition dates and the fair

value is re-assessed at the end of each reporting period. The estimated fair value of the applicable contingent consideration is calculated using the estimated financial outcome and resulting expected contingent consideration to be paid and inclusion of a discount rate as appropriate. Determining the probability of the acquired business achieving targets requires judgement. Changes in the fair value of the contingent consideration are included in the determination of net income/loss.

Estimated Useful Lives of Property and Equipment and Intangible Assets

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

Fair Value of Share-Based Payments

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

3. Summary of material accounting policies

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

Basic of consolidation

Subsidiaries

These consolidated financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements

of subsidiaries are included in these results from the date the control commences until the date control ceases. All intra-company balances and transactions are eliminated in preparing the consolidated financial statements.

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

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

Foreign currency

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

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

Revenue recognition

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

IFRS 15, Revenue from Contracts with Customers, applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRS Accounting Standards. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

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

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

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

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

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

Inventories

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

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

Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Costs include expenditures that are directly attributable to the acquisition and bringing the asset to the location and condition for its intended use. Depreciation is based on the estimated useful life of the asset and is provided on a straight-line method using the following annual rates:

Estimated useful lives are as follows:

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

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

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

Income taxes

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

Current tax

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

Deferred tax

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

Share-based payment arrangements

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

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

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

Intangible assets*Acquired Intangible Assets*

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

Estimated useful lives are as follows:

Category	Useful Life
Customer Relationships	7 years
Technology	10 - 20 years
Trademarks and brand names	5-10 Years

Impairment of non-financial assets

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

Non-controlling interests

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

Financial instruments

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

Notes to Consolidated Financial Statements
For the twelve months ended December 31, 2024, and 2023

Financial Assets

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

Financial Liabilities:

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

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

Classification of financial instruments

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

Financial instruments	Classification
Cash	Amortized cost
Restricted cash	Amortized cost
Trade and other receivables	Amortized cost
Trade payables and accrued liabilities	Amortized cost
Contingent consideration	FVTPL
Lease obligations	Amortized cost
Convertible debenture	Amortized cost
Loans and borrowings	Amortized cost

Leases

Lessee

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

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

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

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

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

Operating Segment

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

Loss per share

Basic loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. To compute diluted loss per share, adjustments are made to common shares outstanding, if applicable. The weighted average number of common shares

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

Compound financial instruments.

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

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

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

Accounting standards and amendments adopted during the year

The following new standards and amendments to existing standards were issued by the IASB and were adopted by the Company on January 1, 2024. There was no material impact on the adoption of these new standards in 2024.

Amendments to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

In October 2022, the IASB published amendments to the Classification of Liabilities as Current or Non-current in IAS 1 Presentation of Financial Statements. The amendments aim to improve the information companies provide when the right to defer settlement of a liability for at least 12 months is subject to the entity complying with covenants after the reporting date. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments require an entity to disclose information about these covenants in the notes to the financial statements

Accounting standards and amendments issued but not yet adopted.

The following accounting standards and amendments to accounting standards issued by the IASB have not yet been adopted by the Company. The Company is evaluating the impact of these standards and amendments on its consolidated financial statements.

Notes to Consolidated Financial Statements
For the twelve months ended December 31, 2024, and 2023

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 which sets out requirements for the presentation and disclosure of information in the financial statements. IFRS 18 will replace IAS 1 Presentation of Financial Statements but carries forward many of the requirements from IAS 1. The standard introduces new defined subtotals to be presented in the consolidated statements of operations, disclosure of management-defined performance measures related to the income statement and requirements for grouping of information. IFRS 18 is effective for annual periods beginning on or after January 1, 2027, with earlier adoption permitted.

Amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosure

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments which amends IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (the Amendments). The narrow scope amendments clarify classification guidance for financial assets with environmental, social and corporate governance features; and clarify the date on which a financial asset or financial liability is derecognized when using electronic payment systems. The amendments will be effective for annual reporting periods beginning on or after January 1, 2026, with earlier adoption permitted.

Comparative Information

Certain comparative information related to restricted cash has been reclassified to conform to the current year presentation.

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 results from the date that control commences until the date that control ceases. Details of the Company’s significant entities are as follows:

Name of Subsidiary	Principal Activity	Functional Currency	Country of Incorporation	Ownership Interest
Volatus Aerospace Corp.	Drone Solutions Provider	CAD	Canada	100%
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	90%
Indigenous Aerospace Corp.	RPAS/UAV Service and Training	CAD	Canada	100%
Volatus Aviation (Partner Jet Inc.)	Aircraft management & charter services	CAD	Canada	100%

Volatus Aerospace Inc.

Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

RPV Aviation Inc.	Regulatory Consulting	CAD	Canada	100%
MVT Geo Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
Canadian Air National Inc.	Pipeline Inspection & Surveillance Services	CAD	Canada	100%
Volatus Aerospace UK Ltd.	RPAS/UAV Service and Training	GBP	UK	100%
iRed Limited	RPAS/UAV Service and Training	GBP	UK	100%
Synergy Aviation Ltd.	Pipeline Inspection & Surveillance Services	CAD	Canada	51%
Synergy Flight Training Inc.	Aircraft Training	CAD	Canada	51%
Empire Drones LLC	Distribution & Services	USD	USA	100%
Sky Scape Industries, LLC	Drone Solutions Provider	USD	USA	100%
Aerial Motion Pictures Limited (UAV Hub)	RPAS/UAV Training	UK £	UK	100%
Open Sky Consulting International Ltd (Drone Mentor)	RPAS/UAV Training	UK £	UK	100%
Volatus Aerospace EU AS	Drone Solutions Provider	NOK	Norway	100%
Volatus Unmanned Services Inc.^{A1}		CAD	Canada	100%
- UAViation Aerial Solutions Limited	RPAS/UAV Service	CAD	Canada	100%
- SkyGate Videography Inc.	RPAS/UAV Service and Training	CAD	Canada	100%
- M3 Drone Services Limited	RPAS/UAV Service	CAD	Canada	100%
- M3 Drone Training Zone Inc.	RPAS/UAV Training	CAD	Canada	100%
- Canadian UAV Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
- OmniView Tech Corp.	Distribution & Service	CAD	Canada	100%

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

The 30% external shareholding of Volatus Flight Systems, 10% external shareholding of Volatus Aerospace USA Corp, are all attributable to Non-Controlling Interests in the consolidated financial statements.

Pursuant to plan of arrangement, on August 30, 2024, the Company completed the acquisition of all outstanding shares in Volatus Aerospace Corp. The consideration resulted in a merger of equals between Volatus Aerospace Corp. and Drone Delivery Canada Corp. And the Company was renamed form Volatus Aerospace Inc. Under the terms of the Arrangement, each former Volatus Aerospace Corp shareholder was entitled to receive 1.785 (the "Exchange Ratio")

Volatus Aerospace Inc.

Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

common voting shares of the Company for each Volatus Share held immediately prior to the effective time of the Arrangement (the “Consideration”). The Merger was structured as a 50/50 merger of equals with shareholders of both companies owning approximately 50% of the Company upon completion of the Arrangement.

For accounting and financial reporting purposes, Volatus Aerospace Corp. is the accounting acquirer and Drone Delivery Canada Corp. is the accounting acquiree. The transaction has been accounted for as a business combination as Drone Delivery Canada Corp. meets the definition of a business under IFRS 3 Business Combinations (Note 16)

5. Trade and other receivables

	December 31, 2024	December 31, 2023
Trade receivables	4,426,919	\$ 3,506,386
Accrued revenues	75,760	248,132
Tax credits receivable	-	56,778
Other receivables	-	21,748
Expected credit loss provision	-	(17,566)
Total	4,502,679	\$ 3,815,478

6. Prepaid expenses, deposits, and other current assets

	December 31, 2024	December 31, 2023
Prepaid expenses and deposits	2,046,579	\$ 1,256,943
Security deposit	253,166	329,111
Other current assets	265,153	436,782
Total	2,564,898	\$ 2,022,836

Volatus Aerospace Inc.

Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

7. Property, plant & equipment

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

Cost	Drones & Accessories	Machinery	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Vehicle	Aircraft	Construction in Progress	Total Tangible Assets
Balance, December 31, 2023	2,492,697	353,571	405,975	704,565	834,600	1,275,305	7,133,568	483,269	13,683,550
Additions	112,029	16,420	9,700	524	72,647	-	1,041,809	532,866	1,785,995
Additions related to business combinations	507,328	5,366	868,400	6,404	317,848	71,000	-	203,042	1,979,388
Foreign exchange adjustments	49,387	19,078	-	17,779	(2,967)	-	-	-	83,277
Disposals/Retirements	(6,801)	(5,000)	-	(151,789)	(14,606)	(455,076)	-	-	(633,272)
Balance, December 31, 2024	3,154,640	389,435	1,284,075	577,483	1,207,522	891,229	8,175,377	1,219,177	16,898,938
Accumulated Depreciation									
Balance, December 31, 2023	1,044,846	197,082	61,073	519,483	516,659	364,941	1,689,130	-	4,393,214
Depreciation for the year	673,870	52,476	65,083	25,228	153,109	217,160	1,859,729	-	3,046,655
Disposals/Retirements	(6,196)	-	-	(61,679)	(14,606)	(173,809)	-	-	(256,290)
Balance, December 31, 2024	1,712,520	249,558	126,156	483,032	655,162	408,292	3,548,859	-	7,183,579
Net carrying Amount	-	-	-	-	-	-	-	-	-
Balance, December 31, 2023	1,447,851	156,489	344,902	185,082	317,941	910,364	5,444,438	483,269	9,290,336
Balance, December 31, 2024	1,442,120	139,877	1,157,919	94,451	552,360	482,937	4,626,518	1,219,177	9,715,359

Volatus Aerospace Inc.

Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

8. Intangible assets

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

	Technology	Customer	Trademark/ Brand Names	Total
Cost				
Balance, December 31, 2023	644,248	4,843,995	867,548	6,355,791
Additions related to business combinations	8,812,785	-	995,130	9,807,915
Additions	5,892	-	5,483	11,375
Foreign exchange adjustments	58,731	-	866	59,597
Balance, December 31, 2024	9,521,656	4,843,995	1,869,027	16,234,678
Accumulated Depreciation				
Balance, December 31, 2023	193,275	1,086,826	308,962	1,589,063
Amortization for the year	213,416	691,999	201,508	1,106,923
Balance, December 31, 2024	406,691	1,778,825	510,470	2,695,986
Net carrying Amount				
December 31, 2023	450,973	3,757,169	558,586	4,766,728
December 31, 2024	9,114,965	3,065,170	1,358,557	13,538,692

9. Goodwill

	December 31, 2024	December 31, 2023
Balance, beginning of year	\$ 963,604	\$ 963,604
Acquisition (Note 16)	19,776,002	-
Balance, end of year	\$ 20,739,606	\$ 963,604

The Company performs an impairment test annually on December 31, 2024.

Notes to Consolidated Financial Statements
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At December 31, 2024, an impairment test was performed for the Company's group of cash generating units (group of CGU's) representing the Company as a whole. No impairment was identified.

The recoverable amount was determined using the FVLCD method, consistent with the provisions of IAS 36 and the fair value measurement framework established under IFRS 13 – Fair Value Measurement. This approach reflects the amount obtainable in an orderly transaction between market participants at the measurement date, less estimated selling costs.

The fair value was estimated using a market approach, applying a range of Enterprise Value ("EV")/Trailing Twelve-Months Revenue ("TTM") multiples derived from a group of publicly traded companies with operations comparable to those of the Company. The selected revenue multiple range of 2.6x to 4.3x was applied to trailing twelve-month revenue as of December 31, 2024. Selling costs were estimated at 3.0%, based on industry benchmarks.

Enterprise Value represents the total value of a business, including market capitalization, total debt, and minority interest, less cash and cash equivalents.

Trailing Twelve-Month Revenue refers to the company's total revenue generated over the past twelve consecutive months, ending on the valuation date (December 31, 2024).

A break-even multiple of 1.8x would be required to indicate impairment.

The valuation is classified as a Level 3 fair value measurement under the IFRS 13 hierarchy, due to the use of unobservable inputs including internally generated financial forecasts and judgment in selecting comparable companies.

10. Inventories

Inventory mainly consists of finished goods for drones and related accessories. No write-downs were made during the years ended December 31, 2024 and 2023. Direct costs for the year ended December 31, 2024 included \$6,396,999 of inventory sold (2023 - \$14,709,172).

11. Trade payables and accrued liabilities

(in C\$)	December 31, 2024	December 31, 2023
Accounts Payable	3,822,972	2,842,368
Deposits from customers	927,929	72,891
Payroll Liability	1,163,121	716,307
Other accrued Liabilities	417,361	792,918
Total	6,331,383	4,424,484

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12. Long-term Borrowings

(in C\$)	December 31, 2024	December 31, 2023
Aircraft Loans	4,322,705	5,068,310
Vehicles Loans	431,146	632,215
CEBA	398,727	480,000
Development Loan	166,688	333,344
Promissory Note	1,111,627	812,444
Term Loan	7,500,000	-
Other Loans	732,571	701,174
Total	14,663,464	8,027,487
Less: Current Portion of Long-Term Debt	(1,615,001)	(2,252,385)
Less: Term Loan treated as current Liability	(7,500,000)	-
Long-term borrowings	5,548,463	5,775,102

As at December 31, 2024, the Company was party to a \$7.5 million term loan agreement with Export Development Canada ("EDC"), bearing interest at Prime+8% and maturing in October 2028. The loan is subject to certain financial covenants, including a minimum working capital requirement calculated quarterly.

As of the reporting date, the Company was not in compliance with the minimum working capital covenant. As a result, the outstanding balance of the term loan has been classified as a current liability as at December 31, 2024, as the covenant breach was an event of default under the terms of the term loan agreement and provided the lender with the right to demand immediate repayment. Subsequent to year end, on April 14, 2025, EDC provided a waiver of the covenant breach at December 31, 2024. The Company is required to meet the financial covenants under the terms of the loan agreement commencing March 31, 2025. Management anticipates that it will not meet the financial covenants at March 31, 2025 and continues to be in active dialogue with EDC with respect to the Company's compliance with its financial covenants going forward.

Aircraft loans bear interest at rates ranging between 8.05 to 12% with expiries between July 2027 and Aug 2030. The loans are payable on a monthly basis with principal and interest.

Vehicle loans bear interest at rates ranging between 9.36% and 14% with expiries between August 2026 and June 2032. The loans are repayable on a monthly basis with principal and interest.

The Company applied for and received \$480,000 in Canada Emergency Business Account ("CEBA") loans in a prior year which are interest-free loans to cover operating costs impacted by the Covid-19 pandemic outbreak. Individual loans were granted to separate wholly owned subsidiaries of the Company. On January 31, 2024, the Company has selected the option to extend the repayment of CEBA loans over 3 years with a 5% annual interest charge. The amount outstanding as of December 31, 2024 is \$398,727.

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

Promissory notes bear interest at rates ranging between 0% and 15.50% with an expiry in 2026 and 2029 (note 14).

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Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

Other loans consist mainly of equipment loans that bear interest at rates ranging between 4% and 12% with expiries between 2025 and 2050.

13. Other Short-term Liabilities

	December 31, 2024	December 31, 2023
Shareholders loan	-	625,000
Other loans	952,614	494,475
Revolving Line of Credit	-	5,965,000
Total	952,614	\$ 7,084,475

Other loans consist of loans maturing within the next 12 months and have an interest rate between 9% and 12%. The Company fully repaid the revolving line of credit facility of \$6 million and the facility was closed.

14. Related Party Transactions

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

Trade payables and accrued liabilities:

On August 31, 2022, the Company entered into an independent consultant agreement (“Consultant Agreement”) with GripFast Solutions Inc., a company controlled by an independent director, to provide consulting services to the Company for scaling in the defense sector. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under External Partner Cost in the consolidated statement of loss and comprehensive loss. For the year ended December 31, 2024, the Company incurred fees of \$96,000 (2023- \$96,000). As at December 31, 2024, the Company was indebted to this company in the amount of \$16,000 (2023 - \$27,120).

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. (2023 – \$206,188) (Refer to Note 17)

Loans & Advance:

The Company has entered into promissory notes with the directors of the Company in 2024, at interest rates ranging between 0% and 15.50% per annum. The amount of \$1,111,627 is outstanding as at December 31, 2024 and repayable in full between August 2026 and June 2029. This amount is included in long-term borrowing in the consolidated balance sheet.

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15. Key management compensation

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

Compensation awarded to key management for the year ended December 31, 2024 and 2023 is summarized as follows:

	2024	2023
Salaries	<u>945,178</u>	894,887
Share-based payments	<u>364,271</u>	653,590
	<u>1,309,449</u>	<u>1,548,477</u>

16. Business Combinations

Acquisition of Volatus Aerospace Corp.

Pursuant to plan of arrangement, on August 30, 2024, the Company completed the acquisition of all outstanding shares in Volatus Aerospace Corp. as described in Note 1. The consideration resulted in a merger of equals between Volatus Aerospace Corp. and Drone Delivery Canada Corp ("DDC") and the Company was renamed form Volatus Aerospace Inc. Under the terms of the Arrangement, each former Volatus Aerospace Corp shareholder was entitled to receive 1.785 (the "Exchange Ratio") common voting shares of the Company for each Volatus Share held immediately prior to the effective time of the Arrangement (the "Consideration"). A total of 224,344,723 shares were issued to Volatus shareholders. The Merger was structured as a 50/50 merger of equals with shareholders of both companies owning approximately 50% of the Company upon completion of the Arrangement.

The Management performed an analysis under IFRS 3 and determined that Volatus Aerospace Corp. is the accounting acquirer of Drone Delivery Canada. As such, the Acquisition constitutes a Reverse Take Over for accounting purposes. Therefore, Volatus Aerospace Corp. is deemed to be the continuing enterprise for accounting purposes and accordingly its assets and liabilities are included in these consolidated financial statements at historical cost. Drone Delivery Canada Corp, being the acquired enterprise for accounting purposes, has its assets and liabilities included in these financial statements at their fair value on the date of the acquisition in accordance with IFRS 3. The acquisition is being accounted for using the acquisition method whereby the assets and liabilities of the acquiree are recorded at their fair values, with the excess of the aggregate consideration relative to the fair value of the identifiable net assets recorded as goodwill. The share consideration was determined based on the number of Volatus Aerospace Inc. shares acquired by Volatus Aerospace Corp. as part of the acquisition, which amounted to 224,199,312 common shares at \$0.14 per share.

Total Consideration	31,470,930
Common Shares Issued	31,400,464

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Option Value	70,466
Net assets acquired:	
Cash	685,621
Accounts Receivable	544,252
Prepaid Expenses	300,156
Accounts Payable	(1,141,934)
Lease liability	(802,939)
Deferred Revenue	(220,038)
Property Plant and Equipment	1,929,740
Right-of-use assets	802,940
Total net tangible assets	2,097,798
Identified intangible assets	
Tradename	995,130
Technology	8,602,000
Total identifiable intangible assets	\$ 9,597,130

Goodwill \$ 19,776,002

The Company (Volatus) incurred \$1,521,000 as acquisition-related costs.

The fair value of identifiable intangible assets was estimated using the Relief from Royalty and Multi-period Excess Earnings Method.

Key assumptions used in the valuation models included:

- A royalty rate of 2.00% for the trade name and 10.00% for the proprietary technology, based on a review of comparable market transactions and industry benchmarks;
- Projected revenues over a period of 10 to 15 years, reflecting the expected economic benefit from continued use of the trade name and technology;
- A corporate tax rate of 26.5%; and
- Discount rates of 15.8% for the trade name and 15.3% for the technology.

The goodwill recognized primarily represents:

- Expected synergies from combining operations and leveraging complementary technologies and customer relationships.
- The value of the assembled workforce.
- Future economic benefits arising from DDC's remote operations platform and regulatory approvals, which are not separately identifiable or recognized as intangible assets under IFRS 3.

Goodwill is not deductible for tax purposes.

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From the acquisition date (August 30, 2024) to December 31, 2024, DDC contributed:

- Revenue: \$41,923
- Net Loss: (\$842,472)

If the acquisition had occurred on January 1, 2024, management estimates that the consolidated results would have been:

- Pro Forma Revenue: \$27,325,936
- Pro Forma Net Loss: (\$20,335,021)

These pro forma results include adjustments to reflect the amortization of acquired intangible assets and exclusion of non-recurring acquisition-related costs.

Acquisition of UAV Hub and Drone Mentor

On January 2, 2024, Volatus acquired from an Unmanned Aerial Motion Pictures Ltd. (UAV Hub) and Open Sky Consulting International Ltd. (Drone Mentor), drone training companies based in the UK. Under the terms of the agreement the Company purchased 100% of the company for a consideration £150,000 (CAD \$252,000) on Closing by issuing 1,680,000 common shares at \$0.15 price per share.

Total Consideration	\$ 252,000
Net assets acquired:	
Cash	97,273
Accounts Receivable	3,523
Property, plant and equipment	49,645
Intangible assets	210,785
Accounts Payable and accrued liabilities	(64,569)
Non-current Loans	(44,657)

The breakdown of consideration paid is as follows:

Issuance of 1,680,000 common shares upon closing	\$ 252,000
Total consideration	252,000

The Company did not incur any acquisition-related costs.

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Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

17. Share Capital, Stock Options and Warrants

Authorized share capital

Unlimited number of common shares without par value.

Preferred shares

	December 31, 2024		December 31, 2023	
	Shares	Amount	Shares	Amount
Issued for acquisition of Partner Jet Corp.	206,188	\$ 206,188	206,188	\$ 206,188
UAViation Aerial Solutions Limited Investment	80,000	80,000	146,446	145,576
Total	286,188	\$ 286,188	352,634	\$ 351,764

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

Stock Options

The continuity of outstanding stock options has been disclosed pre-transaction (Volatus stand-alone) and post-transaction (have been adjusted to merger ratio of 1.785 (every option holder of Volatus Aerospace Corp received 1.785 options of Drone Delivery Canada)).

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

Pre-transaction continuity outstanding options are as follows:

	December 31, 2024		December 31, 2023	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	8,192,691	0.44	5,357,691	0.56
Granted	-		3,057,500	0.23
Exercised	-		-	
Forfeited	(337,500)	0.29	(222,500)	0.31
Outstanding, end of period	7,855,191	0.45	8,192,691	0.44

Post-Transaction continuity outstanding options (multiplying number of options by 1.785 and dividing exercise price by 1.785) are as follows:

	December 31, 2024		December 31, 2023	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price

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Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

Outstanding, beginning of period	14,623,953	0.25	9,563,478	0.32
Granted	-		5,457,638	0.13
Exercised	-		-	
Forfeited	(5,372,438)	0.56	(397,163)	0.17
Options – DDC acquisition (note 16)	7,315,000	0.58	-	-
Outstanding, end of period	16,566,516	0.30	14,623,953	0.25

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2024 before merger:

Range of price (C\$)	Options Outstanding			Options Exercisable		
	Number of Stock Options outstanding	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price	Number of Stock Options exercisable	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price
\$0.20 - \$0.30	2,965,191	3.44	0.23	678,941	2.87	0.25
\$0.31 - \$0.49	1,100,000	2.54	0.36	550,000	2.54	0.36
\$0.50 - \$0.65	3,790,000	2.00	0.65	2,660,000	2.00	0.65
	7,855,191	2.62	0.45	3,888,941	2.23	0.54

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2024 after merger (multiplying number of options by 1.785 and dividing exercise price by 1.785):

Range of price (C\$)	Options Outstanding			Options Exercisable		
	Number of Stock Options outstanding	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price	Number of Stock Options exercisable	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price
\$0.13 - \$0.19	5,239,316	3.61	0.13	1,211,910	2.87	0.14
\$0.20 - \$0.35	1,963,500	2.54	0.20	981,750	2.54	0.20
\$0.36 - \$0.50	6,765,150	2.00	0.36	4,748,100	2.00	0.36
<u>Additional Options due to Merger</u>						
\$0.20 - \$0.49	500,000	3.09	0.26	500,000	3.09	0.26
\$0.50- \$0.75	2,045,000	1.90	0.61	2,045,000	1.90	0.61

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Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

	16,566,516	2.54	0.30	9,486,760	2.20	0.37
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On August 11, 2023, the Company granted 3,057,500 additional options at an exercise price of \$0.23 that will be vested over four years and will expire five years from grant date.

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

On August 30, 2024, the Company did a reverse acquisition with Drone Delivery Canada Corp. and acquired 7,315,000 stock options with an average exercise price of \$0.58. The Company replaced the acquired DDC options with Volatus options with no changes to any terms of the options.

Warrants

Details of warrants and their fair value have been adjusted to merger ratio of 1.785 (every warrant holder of Volatus Aerospace Corp. received 1.785 warrants of Drone Delivery Canada):

Sr. No	Issue Date	Number of warrants outstanding at December 31, 2024	Fair Value at December 31, 2024	Number of Warrants Outstanding at December 31, 2023	Fair Value at December 31, 2023	Exercise Price	Expiry Date
1	06-Oct-22			20,957,746	1,878,565	\$0.28	05-Oct-24
2	06-Oct-22			1,569,863	167,100	\$0.20	05-Oct-24
3	06-May-23	753,020	20,587	753,020	20,587	\$0.28	06-May-25
4	06-May-23	4,723,110	107,437	4,723,110	107,437	\$0.28	06-May-25
5	06-Nov-24	19,760,000	770,874			\$0.20	06-Nov-26
6	06-Nov-24	1,383,620	71,948			\$0.14	06-Nov-26
		26,619,750	\$ 970,846	28,003,739	\$ 2,173,689		

As of December 31, 2024, the following warrants were outstanding and exercisable:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, Dec 31, 2023	28,003,739	0.28
Issued	21,143,620	0.20
Exercised	(99,166)	0.28
Forfeited	(22,428,443)	0.27
Outstanding, Dec 31, 2024	26,619,750	\$ 0.21

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On November 6, 2024, the Company granted 19,760,000 and 1,383,620 additional warrants at an exercise price of \$0.20 and \$0.14, respectively that will be expire after two years.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The fair value at date of warrants granted was \$0.039 and \$0.052 per warrant, respectively. The following weighted average assumptions were used for the Black-Scholes valuation of warrant: market price of \$0.125, risk-free interest rate of 3.26%, expiry after 2 years, expected volatility of 80% and exercise price of \$0.20 and \$0.14, respectively, and expected dividend yield of Nil.

18. Convertible Debenture

On October 21, 2024, Volatus issued a \$7.5 million secured convertible debenture (the "Convertible Debenture"). The Convertible Debenture bears interest at a rate of 12.5% per annum until its maturity date on October 21, 2029 (the "Maturity Date"). The interest portion for the first three-year period will be initially non-cash interest, and capitalized semi-annually, and convertible, at the holder's option at the then market price of the common shares as permissible by securities regulations and the rules of the TSX Venture Exchange, while the interest portion for the last two years will be payable, semi-annually, in cash at the Maturity Date, unless the Debenture is otherwise converted.

The Convertible Debenture includes the following material conversion and settlement options available to the holder or the Company:

General conversion option: The holder of the Convertible Debenture, at any time before maturity, can convert the outstanding principal amount into common shares for \$0.202 per share and the accrued and unpaid interest based on the market price of the common shares at the time of a conversion.

Prepayment option: The Company can prepay, at any time after October 21, 2027, the Convertible Debenture at 100% of the principal plus accrued and unpaid interest, provided the 40-day VWAP of common shares is equal or greater than \$0.303.

Redemption upon change of control: Upon a change of control, the holder has the right, at its option, to require the Company to purchase the Convertible Debenture for an amount equal to 120% principal amount plus accrued and unpaid interest.

Default: The Convertible Debenture also includes redemption mechanisms upon an event of default whereas the Company must repay the principal amount plus an additional amount representing a semi-annual compounded 30% internal rate of return.

The Convertible Debenture is secured against all of the present and future property of the Company.

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

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	Host (amortized cost)	Equity-classified conversion option	Total
	\$	\$	\$
Balance, January 1, 2024	-	-	-
Issuance	4,495,946	3,004,054	7,500,000
Transaction costs	(664,466)	(443,977)	(1,108,443)
Interest accretion	182,363	-	182,363
Balance, December 31, 2024	4,013,843	2,560,077	6,573,920

On May 11, 2023, the Company completed a convertible debenture (the “2023 Convertible Debenture”) unit financing to raise aggregate gross proceeds of \$2,646,000. The debentures bear interest at a rate of 12% per annum and mature 2 years from the closing date. The principal and interest outstanding under the debentures are convertible into Subordinate Voting Shares at \$0.50/share, and for every \$1,000 of debentures purchased, subscribers also received 1,000 common share purchase warrants for Subordinate Voting Shares exercisable at \$0.50/share.

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

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

The warrants were calculated using a Barrier Option Pricing Model.

Inputs used in valuing the components of the convertible debenture:

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

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

Debt Component	\$ 1,802,278
Conversion Feature	293,995

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Share Warrants	128,024
	2,224,297

As at December 31, 2024 the Debt component of the 2023 Convertible Debenture was recognised at \$2,435,376 after accretion of interest in the amount of \$699,968 (note 23).

19. Financial Instruments and Risk Management

The Company is exposed to various risks through its financial instruments. The following analysis provides a summary of the Company’s exposure to and concentrations of risk at December 31, 2024:

Credit Risk

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

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

Ageing	Under 30 days	31days - 60 days	61 days – 90 days	Over 90 days	Total
CAD	1,611,519	1,195,703	691,892	927,805	4,426,919

Foreign Currency Risk

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

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As of December 31, 2024, 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:

	2024		2023	
	USD	GBP	USD	GBP
Cash	173,197	192,539	893,825	108,098
Trade and other receivables	560,555	193,832	742,567	108,852
Trade payables and other accrued liabilities	(353,805)	(41,976)	(486,310)	(85,228)

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Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

Net assets	379,947	344,395	1,150,082	131,722
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Concentration Risk

The Company is not exposed to customer concentration risk as the Company's revenue are widely distributed across multiple customers and revenue streams.

Interest Rate Risk

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

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

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

Liquidity Risk

The Company is exposed to liquidity risk to the extent that it is required to meet its financial obligations as these become due. The Company's approach to managing liquidity risk is to ensure that it has sufficient cash and other current financial assets to meet its obligations when due, without incurring unacceptable losses or damage to the Company's reputation. Management forecasts cash flows to identify financing requirements. These requirements are then addressed through a combination of cash management and access to additional capital. Refer to note 2 for going concern.

The following summarizes the Company's contractual commitments as at December 31, 2024:

	Less than 1 Year	2-5 Year	Over 5 years	Total
Trade Payables and Accrued Liabilities	6,549,583	-	-	6,549,583
Other short-Term Liabilities	745,614	-	-	745,614
Contingent Consideration	144,078	297,977	-	442,055
Leases	765,498	1,239,577	-	2,005,075
Borrowings	11,184,127	4,544,818	500,152	16,229,097
Convertible Debenture	2,963,520	11,250,000	-	14,213,520
	22,352,420	17,332,372	500,152	40,184,944

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.

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Capital Management

The Company's objectives when managing capital are to:

- Safeguard its ability to continue as a going concern;
- Provide financial flexibility to support its strategic growth initiatives;
- Maintain a capital structure that optimizes the cost of capital while supporting the long-term interests of shareholders.

The Company's capital structure consists of:

- Shareholders' equity,
- Short-term and Long-term borrowings,
- Convertible debentures, and
- Lease liabilities.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may:

- Issue new shares,
- Adjust capital spending,
- Take on new debt or repay existing debt,
- Renegotiate credit terms, or
- Sell assets.

Fair Value

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs)

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Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

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

	December 31, 2024	December 31, 2023
Cash	1,558,909	1,256,743
Restricted cash	244,908	425,659
Trade and other receivables	4,502,679	3,815,478
Trade payables and accrued liabilities	6,331,383	4,424,484
Lease liability	2,005,075	1,521,182
Other short-term liabilities	745,614	7,084,475
Long-term borrowings	14,870,464	8,027,487
Convertible Debenture	6,449,218	2,097,028
Contingent Consideration	442,055	689,716

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

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

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

There were no transfers of assets or liabilities during the year ended December 31, 2024 (2023 - \$nil) between any levels within the fair value hierarchy.

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

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

(in C\$)	Vehicle and Equipment	Building	Total
Cost			
Balance, January 1, 2023	99,037	1,429,967	1,529,004
Additions during the year	19,679	828,549	848,228
Balance, December 31, 2023	118,716	2,258,516	2,377,232
Accumulated amortization			
Balance, January 1, 2023	13,425	520,998	534,423
Depreciation expense for the year	28,834	462,893	491,727
Balance, December 31, 2023	42,259	983,891	1,026,150

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Net book value			
Balance, January 1, 2023	85,612	908,969	994,581
Balance, December 31, 2023	76,457	1,274,625	1,351,082

(in C\$)	Vehicle and Equipment	Building	Total
Cost			
Balance, January 1, 2024	118,716	2,258,516	2,377,232
Additions during the year	257,313	95,111	352,424
Lease acquired in the DDC acquisition (note 16)	-	802,939	802,939
Balance, December 31, 2024	376,029	3,156,566	3,532,595
Accumulated amortization			
Balance, January 1, 2024	42,259	983,891	1,026,150
Depreciation expense for the year	89,575	581,527	671,102
Balance, December 31, 2024	131,834	1,565,418	1,697,252
Net book value			
Balance, January 1, 2024	76,457	1,274,625	1,351,082
Balance, December 31, 2024	244,195	1,591,148	1,835,343

21. Leases

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\$)	December 31, 2024	December 31, 2023
Balance, beginning of period	1,521,182	1,151,988
Additions	1,155,362	848,228
Interest	216,471	165,057
Payments	(887,940)	(644,091)
Balance, end of period	2,005,075	1,521,182
Current	765,498	542,298
Non-Current	1,239,577	978,884

Volatus Aerospace Inc.

Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

The lease liabilities were measured at the present value of future lease payments, discounted using the incremental borrowing rate applicable at the lease commencement date. The incremental borrowing rate reflects the rate the Company would have to pay to borrow, over a similar term and with similar security, the funds necessary to obtain an asset of similar value in a similar economic environment.

The incremental borrowing rates used ranged between 16% and 19%, depending on the lease term and geographic location of the asset.

22. Income Taxes

Income taxes consist of the following:

	2024	2023
The Company's income tax (recovery) is allocated as follows:		
Current tax (recovery) expense	-	-
Deferred tax (recovery) expense	(283,457)	(464,216)
Income tax expense/ (recovery)	\$ (283,457)	\$ (464,216)

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

	2024	2023
Net loss before income taxes	(13,593,781)	(10,157,842)
Effective income tax rate	26.50%	26.50%
Expected income tax expense/ (recovery)	(3,602,353)	(2,691,828)
Permanent differences and other	(299,036)	77,168
Deferred tax assets not recognized	3,617,932	2,150,444
Income tax expense/ (recovery)	(283,457)	(464,216)

Deferred tax liabilities recognized consists of:

	Balance January 1, 2024	Recognized in net income (loss)	Recognized in Goodwill	Recognized in Equity	Balance December 31, 2024
Property, plant and equipment	(609,848)	(82,534)	-	-	(692,382)
Share and debt issuance costs	(1,982)	210,142	-	-	208,160
Non-capital losses	1,006,693	252,476	-	-	1,259,169
Intangibles	(571,117)	188,647	-	-	(382,470)
Convertible debt	(106,875)	(252,016)	-	(70,747)	(429,638)

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Notes to Consolidated Financial Statements For the twelve months ended December 31, 2024, and 2023

ROU assets	-	(219,962)	-	-	(219,962)
Lease liabilities	-	257,123	-	-	257,123
Total		(283,130)		(70,747)	-

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

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Deferred tax assets have not been recognized in respect of some deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can utilize benefits therefrom.

Share and debt issue costs incurred in 2022 and 2024 will fully amortize in 2026 and 2028, respectively.

The Company has \$107,386,493 (2023: \$18,004,582) of non-capital losses available to offset future income for tax purposes of which \$95,484,727 are unrecognized. The non-capital losses expire as follows:

2031	\$	2,846,703
2032	\$	410,767
2033	\$	809,489
2034	\$	589,276
2035	\$	761,018
2036	\$	2,054,162
2037	\$	7,543,114
2038	\$	11,797,920
2039	\$	12,605,707
2040	\$	11,330,977
2041	\$	15,966,067
2042	\$	13,197,646
2043	\$	12,740,257
2044	\$	14,733,390
Total		\$ 107,386,493

Also, the Company has \$2,325,984 (2023: Nil) of restricted interest and financing expenses ('RIFE') available to offset future income for tax purposes, whole of which are unrecognized. These expenses can be carried forward indefinitely.

Notes to Consolidated Financial Statements
For the twelve months ended December 31, 2024, and 2023

23. Finance costs

Finance costs comprise the following:

(in C\$)	December 31, 2024	December 31, 2023
Bank Charges	81,108	110,496
Interest expense on lease liabilities	216,471	165,280
Interest expense on promissory note	48,140	61,860
Interest expense on Convertible Debt	908,791	294,750
Interest expense on short-term borrowings	1,003,366	373,414
Interest expense on long-term borrowings	678,041	769,436
	2,935,917	1,775,236

24. Earnings per share

The Company completed a reverse acquisition of Drone Delivery Canada Corp. on August 30, 2024 and 1.785 shares of Volatus Aerospace Inc. (formerly Drone delivery Canada Corp.) was issued for each share of Volatus Aerospace Corp. The Basic and dilutive earnings per share is calculated by dividing net loss attributable to shareholders by the sum of the weighted average number of shares outstanding. The weighted average number of common shares outstanding as of December 31, 2023 were updated to reflect the exchange ratio of 1.785. The Company's diluted loss per share does not include the effect of debentures, stock options and warrants as they are anti-dilutive:

	For the Year ended December 31	
	2024	2023
Net loss attributable to Volatus	(13,141,604)	(9,464,043)
Weighted average number of common shares outstanding	302,699,537	210,428,878
Basic and diluted loss per share	(0.04)	(0.04)

The Company issued additional 224,199,312 shares due to reverse acquisition of Drone Delivery Canada Corp. Refer Note 16.

25. Segment Information

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

The Company derives revenues in the following major categories:

Notes to Consolidated Financial Statements
For the twelve months ended December 31, 2024, and 2023

Revenue	2024	2023
Sale of Products	7,890,916	18,298,988
Provision of Services	19,256,498	16,573,827
Total Revenue	27,147,414	34,872,815

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

Revenue	2024	2023
Canada	17,581,356	21,938,048
United States	5,551,946	7,681,939
United Kingdom	3,919,775	5,252,828
Europe	94,337	-
Total Revenue	27,147,414	34,872,815

As at the year ended December 31, 2024, and 2023, there were no material contract liabilities or assets arising from short-term revenue contracts with the customers.

2024	Property, Plant and Equipment	Goodwill	Intangible assets	Right of use assets
Canada	8,938,970	20,739,606	10,755,613	1,779,529
United States	536,984	-	2,178,560	21,053
United Kingdom	239,405	-	604,519	34,761
Total	9,715,359	20,739,606	13,538,692	1,835,343

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

26. Subsequent Events

Management has evaluated subsequent events as of April 28, 2025, the date the consolidated financial statements.

On January 2, 2025, the Company converted \$80,000 of non-redeemable preference shares into common equity by issuing 666,667 shares.

On January 3, 2025, the Company acquired 7.47% of the minority interest of Synergy Aviation Limited for a sum of \$297,977 by issuing 2,128,407 common equity shares of the Company.

On February 24, 2025, the Company fulfilled its contingent consideration towards the acquisition of Skyscape Industries LLC by issuing 1,194,361 common equity shares of the Company.

On April 11, 2025, the Company announced the conversion of \$2,646,000 convertible debentures into common equity by issuing 20,157,908 shares and 17,639,995 warrants.

On April 4, 2025, subsequent to the reporting period ending December 31, 2024, the United States government announced the implementation of new import tariffs on goods originating from different countries, including drones and accessories. These measures were not in effect as of the reporting date and are considered a non-adjusting event under IAS 10 – Events After the Reporting Period.

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On April 28, 2025, the Company launched a non-brokered LIFE (Listed Issuer Financing Exemption) offering to raise up to \$2M that was oversubscribed and upsized to \$3M on April 29, 2025. The Company will be issuing up to 25,000,000 shares at \$0.12 per share and 25,000,000 warrants with an exercise price of \$0.20 for a period of 36 months.

The Company is currently assessing the financial impact of these tariffs on its future operations, supply chain costs, and pricing strategy. While it is expected that the tariffs may increase input costs for certain products, management is in the process of evaluating mitigation strategies, including supplier diversification and potential price adjustments.

As this event relates to conditions that arose after the reporting period, no adjustments have been made to the financial statements as at December 31, 2024.

End.