VOLATUS AEROSPACE INC.

(Formerly Drone Delivery Canada Corp.)

Consolidated Financial Statements

For the years ended December 31, 2025, and December 31, 2024

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

6221 Hwy 7, Unit 6, Vaughan, ON, L4H 0R6, Canada | Tel: 514-447-7986 www.volatusaerospace.com

BDO

Tel: (416) 865-0200
Fax: (416) 865-0887
www.bdo.ca

BDO Canada LLP
222 Bay Street, Suite 2200
Toronto, Ontario
M5K 1H1

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 statement of financial position as at December 31, 2025 and 2024, 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, 2025 and 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

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.

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.

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, 2025, 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 management's valuation methodology and assessing the 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), and

Our opinion on the consolidated financial statements does not cover the other information and we do 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 as issued by the IASB, 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes 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
March 30, 2026

(Expressed in Canadian Dollars)

	Notes	December 31, 2025	December 31, 2024
Assets			
Current			
Cash		41,114,832	1,558,909
Restricted cash		29,372	244,908
Trade and other receivables	5	3,368,470	4,502,679
Prepaid expenses, deposits, and other current assets	6	1,756,129	2,564,898
Inventories	10	3,266,550	3,103,677
Total current assets		**49,535,353**	**11,975,071**
Property, plant and equipment	7	5,548,323	9,715,359
Intangible assets	8	15,113,662	13,538,692
Right-of-use asset	19	1,718,821	1,835,343
Goodwill	9	20,739,606	20,739,606
Total non-current assets		**43,120,412**	**45,829,000**
Total Assets		**92,655,765**	**57,804,071**
Liabilities and Equity			
Current liabilities			
Trade payables and accrued liabilities	11	3,433,728	6,331,383
Deferred revenue		78,102	623,497
Current portion of lease liability	20	888,174	765,498
Other short-term liabilities	13	-	952,614
Current portion of convertible debenture	17	-	2,435,375
Current portion of long-term borrowings	12	8,652,631	9,115,001
Deferred / Contingent consideration		-	144,078
Total current liabilities		**13,052,635**	**20,367,446**
Long-term borrowings	12	3,003,475	5,548,463
Convertible debentures	17	7,885,106	4,013,843
Lease Liability	20	1,010,676	1,239,577
Contingent consideration		-	297,977
Total non-current liabilities		**11,899,257**	**11,099,860**
Total Liabilities		**24,951,892**	**31,467,306**
Shareholders' Equity			
Common equity	16	103,053,180	46,615,125
Warrants reserve	16	12,977,274	7,026,618
Share-based payment reserve	16	2,921,500	2,954,307
Convertible Debenture - options	17	3,651,645	2,760,433
Preferred shares	16	206,188	286,188
Deficit		(53,943,094)	(32,578,867)
Accumulated other comprehensive income		175,493	-
Contributed surplus	16	211,831	211,831
Equity Attributable to Owners of The Company		**69,254,017**	**27,275,635**
Non-controlling interest		(1,550,144)	(938,870)
Total Equity		**67,703,873**	**26,336,765**
Total Liabilities & Equity		**92,655,765**	**57,804,071**

Subsequent event (note 25)

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.

(Expressed in Canadian Dollars)

	Notes	Twelve months ended December 31	
		2025	**2024**
Revenue	24	34,204,035	27,147,414
Direct costs		23,103,079	17,591,115
Gross Profit		**11,100,956**	**9,556,299**
OPERATING EXPENSES			
Advertising & marketing		1,158,403	1,123,337
IT & tech		1,254,814	884,437
Personnel		10,817,374	7,458,005
R&D		251,848	41,279
Office cost		2,453,184	2,308,002
Travel		516,596	213,733
External partner cost		2,078,418	3,134,312
Depreciation and amortization	7,8,19	6,144,872	4,824,680
Share based Payments		1,278,631	456,028
		25,954,140	**20,443,813**
(Loss) from Operations		**(14,853,184)**	**(10,887,514)**
OTHER ITEMS - INCOME/(EXPENSE)			
Finance cost	22	(5,208,855)	(2,935,917)
Loss on extinguishment of financial liabilities	16	(1,558,758)	-
FV changes in contingent consideration		-	247,661
Other income (expense)		127,264	(146,568)
Loss on modification of convertible debenture	17	(672,444)	
Gain on disposal of property and equipment		3,013	115,657
Impairment loss on property and equipment		(178,175)	
Foreign exchange		193,473	12,900
Net loss before income tax		**(22,147,666)**	**(13,593,781)**
Deferred tax income/ (expense)	21	152,389	283,457
Net loss after income tax		**(21,995,277)**	**(13,310,324)**
OTHER COMPREHENSIVE LOSS			
Items that maybe reclassified subsequently to profit or loss			
Foreign currency translation adjustment		195,268	-
Net loss and comprehensive loss		**(21,800,009)**	**(13,310,324)**
Net loss attributable to			
Owners of Volatus Aerospace Inc.		(21,364,227)	(13,141,604)
Non-controlling interest		(631,050)	(168,720)
		(21,995,277)	**(13,310,324)**
Total Comprehensive loss attributable to			
Owners of Volatus Aerospace Inc.		(21,188,735)	(13,141,604)
Non-controlling interest		(611,274)	(168,720)
		(21,800,009)	**(13,310,324)**
Loss per share attributable to ordinary shareholders		(0.04)	(0.04)
Basic and diluted	23	543,912,520	302,699,537

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

(Expressed in Canadian Dollars)

	Number of Shares	Capital Stock	Preferred Shares	Warrants Reserve	Share-based Reserve	Convertible Debt - Equity Portion	Contributed Surplus	Accumulated other comprehensive income	Deficit	Total	Non-Controlling Interest	Total Equity
January 1, 2024	221,346,713	13,360,860	351,764	6,192,685	2,427,813	200,356	211,831	-	(19,437,263)	3,308,046	(770,150)	2,537,896
Shares Issued on Acquisitions	227,629,394	31,727,464	-	-	70,466	-	-	-	-	31,797,930	-	31,797,930
Equity Offering	19,766,000	1,490,134	-	842,822	-	-	-	-	-	2,332,956	-	2,332,956
Warrant Exercise	99,166	36,667	-	(8,889)	-	-	-	-	-	27,778	-	27,778
Preference Shares Redemption	-	-	(65,576)	-	-	-	-	-	-	(65,576)	-	(65,576)
Stock options expense	-	-	-	-	456,028	-	-	-	-	456,028	-	456,028
Convertible Debt Issuance	-	-	-	-	-	2,560,077	-	-	-	2,560,077	-	2,560,077
Net loss for the year	-	-	-	-	-	-	-	-	(13,141,604)	(13,141,604)	(168,720)	(13,310,324)
December 31, 2024	**468,841,273**	**46,615,125**	**286,188**	**7,026,618**	**2,954,307**	**2,760,433**	**211,831**	**-**	**(32,578,867)**	**27,275,635**	**(938,870)**	**26,336,765**

	Number of Shares	Capital Stock	Preferred Shares	Warrants Reserve	Share-based Reserve	Convertible Debt - Equity Portion	Contributed Surplus	Accumulated other comprehensive income	Deficit	Total	Non-Controlling Interest	Total Equity
December 31, 2024	**468,841,273**	**46,615,125**	**286,188**	**7,026,618**	**2,954,307**	**2,760,433**	**211,831**	**-**	**(32,578,867)**	**27,275,635**	**(938,870)**	**26,336,765**
Shares issued on acquisition	7,267,436	2,692,076	-	-	-		-	-	-	**2,692,076**	-	**2,692,076**
Equity offering	122,505,064	37,911,368	-	6,842,040	-	-	-	-	-	**44,753,408**	-	**44,753,408**
Warrant exercise	43,721,083	11,040,857	-	(2,188,104)	-	-	-	-	-	**8,852,753**	-	**8,852,753**
Debt issuance/conversion	23,894,280	3,204,700	-	1,296,720	-	891,212	-	-	-	**5,392,632**	-	**5,392,632**
Preferred shares redemption	666,667	80,000	(80,000)	-	-	-	-	-	-	**-**	-	**-**
Stock options expense	-	-	-	-	1,090,965	-	-	-	-	**1,090,965**	-	**1,090,965**
Stock options exercise	1,349,820	1,509,054	-	-	(1,123,772)	-	-	-	-	**385,282**		**385,282**
Other comprehensive loss	-	-	-	-	-	-	-	175,493	-	**175,493**	19,776	**195,269**
Net loss for the year	-	-	-	-	-	-	-	-	(21,364,227)	**(21,364,227)**	(631,050)	**(21,995,277)**
December 31, 2025	**668,245,623**	**103,053,180**	**206,188**	**12,977,274**	**2,921,500**	**3,651,645**	**211,831**	**175,493**	**(53,943,094)**	**69,254,017**	**(1,550,144)**	**67,703,873**

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	
	2025	**2024**
OPERATING ACTIVITIES		
Net loss	**(21,995,277)**	**(13,310,324)**
Adjustments For:		
Depreciation and amortization	6,144,872	4,824,680
Impairment loss on property and equipment	178,175	-
Gain on sale of property and equipment	(3,013)	(115,657)
Finance cost	5,888,871	1,810,655
Interest accretion	-	908,791
Share based payments	1,458,631	456,028
Deferred tax	(152,389)	(283,457)
FV changes in contingent consideration	-	(247,661)
Interest expenses on lease liability	327,850	216,471
Loss on modification of convertible debt	672,444	-
Loss on extinguishment of financial liabilities	1,558,393	-
Unrealized foreign exchange loss/(gain)	22,803	-
Non-cash other income items	58,793	75,000
Net changes in non-cash working capital items:		
Restricted cash	215,536	180,751
Trade and other receivables	1,147,858	(139,429)
Prepaid expenses and deposits	810,831	(241,906)
Inventories	579,783	(120,045)
Trade payables and accrued liabilities	(2,920,659)	700,397
Deferred revenue	(544,557)	193,088
Other short-term liabilities	(952,614)	(7,342,227)
Cash generated from (used in) Operating Activities	**(7,503,669)**	**(12,434,845)**
INVESTING ACTIVITIES		
Additions to property, plant & equipment	(1,249,146)	(1,376,636)
Proceeds on disposal of property, plant & equipment	25,026	-
Additions to intangible assets	(447,217)	(70,972)
Business combination, net of cash acquired	-	782,894
Cash provided by (used in) Investing Activities	**(1,671,337)**	**(664,714)**
FINANCING ACTIVITIES		
Net Proceeds from issuance of long-term loans	-	7,500,000
Net Repayment of borrowings	(6,902,481)	(1,508,969)
Repayment of preference shares	-	(65,576)
Repayment of lease obligations	(1,281,102)	(887,940)
Exercise of warrants and stock options	9,238,035	27,778
Net proceeds from common equity	44,753,408	2,332,956
Net proceeds from issuance of convertible debenture	2,768,163	7,500,000
Finance and transaction cost of convertible debenture	-	(1,496,524)
Cash provided by (used in) Financing Activities	**48,576,023**	**13,401,725**
Net change in cash	39,401,017	302,166
Cash and cash equivalents, beginning of the period	1,558,909	1,256,743
Effect of foreign exchange rate changes	154,906	-
Cash and cash equivalents, end of the period	**41,114,832**	**1,558,909**

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.) is a company domiciled in Canada. 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". 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.

On August 30, 2024, Volatus Aerospace Inc. entered into a plan of arrangement to acquire all outstanding shares in Volatus Aerospace Corp. and renamed as Volatus Aerospace Inc.

Volatus is a leading provider of integrated drone solutions throughout Canada, the United States, the United Kingdom, 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 and 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, critical judgements and estimates

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements have been approved for issuance by the Company's Board of Directors on March 30, 2026.

Basis of measurement

The consolidated financial statements have been prepared on the going concern basis, primarily on historical cost basis, 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.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars ("C$"), which is the Company's functional currency.

Critical judgments and estimates

The preparation of these consolidated 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 and the reported amounts of revenue and expenses recognized during the reporting periods. Actual results may differ from those estimates.

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

The section below contains details of the accounting policies subject to judgments and estimates that the Company believes could have the most significant impact on the amounts recognized in these consolidated financial statements.

Business Combinations

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.

Debt modification

During the fiscal year 2025, the Company undertook a modification of certain existing debt arrangements. The assessment of whether the modification constituted a substantial modification or a continuation of the original liability required significant judgement. In determining the appropriate accounting treatment under IFRS 9, Financial Instruments, management considered both quantitative and qualitative factors, including changes in contractual terms such as interest rates, maturities, and covenants, as well as the overall economic impact to the Company. Where the modification was deemed substantial, the original liability was derecognized and a new financial liability was recognized at fair value. Where the modification was not substantial, the carrying amount of the existing liability was adjusted for any modification gain or loss recognized in the consolidated statement of loss.

Impairment

The Company assesses at each reporting date whether there is any indication that property, plant and equipment (PPE) or other non-financial assets may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset or the cash-generating unit (CGU) to which the asset belongs.

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it may be impaired.

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 the consolidated statement of 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.

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 and warrants

Fair value of stock options and warrants 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 and warrants 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 of options and warrants and amount of 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.

Basis of consolidation

Subsidiaries

These consolidated financial statements incorporate the results of the Company and entities controlled by the Company. 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 inter-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. Refer to 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 or liabitilies 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 of the estimated 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

Transactions in foreign currencies are translated into the respective functional currencies of subsidiaries of the Company at the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are re-measured to the functional currency at the rates prevailing at the reporting 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.

Functional and presentation currency

Each of the Company's foreign operations determines its own functional currency with transactions of each foreign operation measured using that functional currency. Assets and liabilities of foreign operations having a functional currency other than the Canadian dollar presentation currency have been translated at the exchange rate prevailing at the end of each reporting period. Income and expense items are translated to the presentation currency at the exchange rates at the dates of the transaction. Foreign currency differences are recognized in OCI and accumulated in the Accumulated other comprehensive income reserve, except to the extent that the translation difference is allocated to NCI.

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: the sale of products, aviation services, drone services, 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:The Company's contracts with customers may include multiple performance obligations. However, goods and services are generally distinct and are often contracted separately or through individual purchase orders. Accordingly, in most cases, each contract contains a single performance obligation. Where multiple performance obligations are identified within a single contract, the transaction price is allocated based on relative standalone selling prices.

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 based on the transaction price less an appropriate deduction for discounts, net of sales taxes.

Revenue from 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 when the service is provided.

Revenue from drone services consist of services provided by professional drone operators relating to the inspection, imaging and data processing to customers. These services are provided across multiple sectors and industries across Canada, USA and the UK. The Company recognizes revenue over time when the service is provided.

Revenue from training services include 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 over time according to the contractual provisions of the arrangement, which is generally when the service is provided or over the contractual period.

Inventories

Inventories are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price of inventory during the normal course of business less estimated selling expenses. If the cost of inventory exceeds net realizable value, a write-down is recognized.

The cost of inventories is assigned based on weighted average cost and includes costs incurred in bringing the inventories to their present location and condition. 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.

Property, plant, and equipment

Property, plant, and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition and bringing the asset to the location and condition for its intended use. Depreciation is recognized in the statement of loss on a straight-line basis over the following estimated useful lives of the assets:

Category	Estimated Useful Lives
Drones & Accessories	1-4 years
Computer & Equipment	3-4 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. 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.

Income taxes

Income tax expense comprises of current and deferred tax.

Current tax

The current tax is expected taxes payable or receivable based on taxable profit or loss for the year. Taxable profit (loss) differs from profit (loss) 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-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

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Cost comprises the fair value of consideration transferred and any costs directly attributable to acquiring the asset and preparing it for its intended use.

Intangible assets are recognized only when it is probable that the expected future economic benefits attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Residual values are assumed to be nil. Amortization methods and useful lives are reviewed at the end of each reporting period and adjusted prospectively, if appropriate.

Intangible assets are tested for impairment when there is an indication that the carrying amount may not be recoverable, in accordance with IAS 36 Impairment of 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	Estimated Useful Lives
Customer Relationships	7 years
Technology	10 - 15 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. Impairment of goodwill cannot be reversed. 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 or at the present ownership’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. Financial assets are derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers substantially all the risks and rewards of ownership in the financial asset to another party. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire. On initial recognition, all financial instruments are measured at fair value.

Financial Assets

At initial recognition, the Company classifies financial assets according to the Company’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is classified in one of the following measurement categories: amortized cost, fair value through other comprehensive income (‘’FVOCI’’) or fair value through profit or loss (“FVTPL”). Financial assets at amortized cost are non-derivative financial assets with the objective to be held for collection of contractual cash flows and whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Financial assets classified as FVTPL are measured at fair value, with changes in fair value recognized in profit or loss in the period they arise.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in profit or loss.

Financial Liabilities

The Company classifies its financial liabilities as either financial liabilities at FVTPL or amortized cost. Financial liabilities are subsequently measured at amortized cost using the effective interest method. Financial liabilities at FVTPL are stated at fair value, with changes in fair value 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. Expected credit losses are measured on either a 12-month or lifetime basis. For trade receivables, the Company applies the simplified approach and recognizes lifetime expected credit losses from initial recognition.

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

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that are convertible into a fixed number of the Company’s own equity instruments at the option of the holder. The conversion feature meets the fixed-for-fixed criterion and is therefore classified as an equity component.

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.

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, as the Company's operating results are regularly reviewed by the Chief Operating Decision Maker as one integrated business 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.

Accounting standards and amendments issued but not yet effective

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.

<u>IFRS 18 – Presentation and Disclosure in Financial Statements</u>

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. The Company is assessing the impacts IFRS 18 will have on the consolidated financial statements.

<u>Amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosure</u>

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. The Company is assessing the impacts the amendments to IFRS 9 and IFRS 7 will have on the consolidated financial statements.

4. Subsidiaries

These consolidated financial statements include entities controlled by the Company. Control exists when the Company has the ability to direct the relevant activities and the returns of an entity. The financial statements of these entities are included in these 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 2024	Ownership Interest 2025
Volatus Aerospace Canada Corp.	Drone Solutions Provider	CAD	Canada	100%	100%
Volatus Flight Systems Inc.	Fixed-wing Drone Technology	CAD	Canada	70%	70%
Volatus Aerospace USA Corp.	Drone Solutions Provider	USD	USA	90%	90%
ConnexiCore LLC	Drone Solutions Provider	USD	USA	90%	90%
Indigenous Aerospace Corp.	RPAS/UAV Service and Training	CAD	Canada	100%	100%
Volatus Aviation (Partner Jet Inc.)	Aircraft management & charter services	CAD	Canada	100%	100%
RPV Aviation Inc.	Regulatory Consulting	CAD	Canada	100%	100%
MVT Geo Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%	100%
Canadian Air National Inc.	Pipeline Inspection & Surveillance Services	CAD	Canada	100%	100%
Volatus Aerospace UK Ltd.	RPAS/UAV Service and Training	GBP	UK	100%	100%
iRed Limited	RPAS/UAV Service and Training	GBP	UK	100%	100%
Synergy Aviation Ltd.	Pipeline Inspection & Surveillance Services	CAD	Canada	51%	59%
Synergy Flight Training Inc.	Aircraft Training	CAD	Canada	51%	59%
Empire Drones LLC	Distribution & Services	USD	USA	100%	100%
Sky Scape Industries, LLC	Drone Solutions Provider	USD	USA	100%	100%
Aerial Motion Pictures Limited (UAV Hub)	RPAS/UAV Training	GBP	UK	100%	100%
Open Sky Consulting International Ltd (Drone Mentor)	RPAS/UAV Training	GBP	UK	100%	100%
Volatus Aerospace EU AS	Drone Solutions Provider	NOK	Norway	100%	100%
Volatus Unmanned Services Inc.^[1]		CAD	Canada	100%	100%
- UAViation Aerial Solutions Limited	RPAS/UAV Service	CAD	Canada	100%	100%
- SkyGate Videography Inc.	RPAS/UAV Service and Training	CAD	Canada	100%	100%
- M3 Drone Services Limited	RPAS/UAV Service	CAD	Canada	100%	100%
- M3 Drone Training Zone Inc.	RPAS/UAV Training	CAD	Canada	100%	100%
- Canadian UAV Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%	100%
- OmniView Tech Corp.	Distribution & Service	CAD	Canada	100%	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.

5. Trade and other receivables

	December 31, 2025	December 31, 2024
Trade receivables (Note 18)	**3,320,186**	4,426,919
Accrued revenues	**48,284**	75,760
Total	**3,368,470**	4,502,679

6. Prepaid expenses, deposits, and other current assets

	December 31, 2025	December 31, 2024
Prepaid expenses	**1,147,442**	2,046,579
Security deposit	**358,687**	253,166
Other current assets	**250,000**	265,153
Total	**1,756,129**	2,564,898

7. Property, plant & equipment

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**

Cost	Drones & Accessories	Machinery	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Vehicle	Aircraft	Construction in Progress	Total Tangible Assets
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
Additions	54,294	26,108	1,665	7,224	64,578	-	563,221	779,368	1,496,458
Foreign exchange adjustments	(21,625)	7,225	-	6,052	710	(29,257)		-	(36,895)
Disposals/Retirements	(16,884)	(28,708)	-	(221,432)	(273,803)	(15,000)		(178,175)	(734,002)
Reclassification	191,250	-	-	-	-	-	(952,495)	(1,498,299)	(2,259,544)
Balance, December 31, 2025	**3,361,675**	**394,060**	**1,285,740**	**369,327**	**999,007**	**846,972**	**7,786,103**	**322,071**	**15,364,955**
Accumulated Depreciation									
Balance, December 31, 2024	1,712,520	249,558	126,156	483,032	655,162	408,292	3,548,859	-	**7,183,579**
Depreciation for the year	865,148	90,436	348,794	18,850	211,642	172,770	1,728,513	-	3,436,153
Foreign exchange adjustments	(13,786)	5,124	-	5,140	173	(14,790)	-	-	(18,139)
Disposals/Retirements	(2,221)	(28,708)	-	(221,432)	(272,870)	(8,583)		-	(533,814)
Reclassification							(251,147)		(251,147)
Balance, December 31, 2025	**2,561,661**	**316,410**	**474,950**	**285,590**	**594,107**	**557,689**	**5,026,225**	**-**	**9,816,632**
Net carrying Amount									
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
Balance, December 31, 2025	**800,014**	**77,650**	**810,790**	**83,737**	**404,900**	**289,283**	**2,759,878**	**322,071**	**5,548,323**

8. Intangible assets

	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**
Cost				
Balance, December 31, 2024	9,521,656	4,843,995	1,869,027	16,234,678
Additions	3,328,414	-	-	3,328,414
Foreign exchange adjustments	31,671	5,601	(50,492)	(13,220)
Balance, December 31, 2025	**12,881,741**	**4,849,596**	**1,818,535**	**19,549,872**
Accumulated Depreciation				
Balance, December 31, 2024	406,691	1,778,825	510,470	2,695,986
Amortization for the year	786,007	692,033	262,184	1,740,224
Balance, December 31, 2025	1,192,698	2,470,858	772,654	4,436,210
Net carrying Amount				
December 31, 2024	9,114,965	3,065,170	1,358,557	13,538,692
December 31, 2025	**11,689,043**	**2,378,738**	**1,045,881**	**15,113,662**

During the year, the Company completed an asset acquisition resulting in the recognition of developed unmanned aerial system (“UAS”) intellectual property.

The acquired intellectual property consists of:

- Aircraft and system designs
- Engineering drawings and CAD models
- Technical and production documentation
- Validated performance and test data
- Associated know-how and unregistered intellectual property

Accordingly, the entire consideration transferred was allocated to intangible assets.

The intellectual property was acquired through the issuance of 2,631,579 common shares. In accordance with IFRS 13 Fair Value Measurement, the consideration was measured at fair value using the quoted market price of the Company’s shares on the acquisition date of November 1, 2025, resulting in an initial carrying value of $1,842,105.

9. Goodwill

	December 31, 2025	December 31, 2024
Balance, beginning of year	**20,739,606**	963,604
Acquisition	**-**	19,776,002
Balance, end of year	**20,739,606**	20,739,606

The Company performs an impairment test annually as of December 31.

At December 31, 2025 and 2024, an impairment test was performed for the Company's group of cash generating units, which represents the Company as a whole and is the lowest level at which goodwill is monitored for internal management purposes.

No impairment was recognized for the years ended December 31, 2025 and 2024.

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 6.0x to 8.0x was applied to trailing twelve-month revenue as of December 31, 2025. Selling costs were estimated at 2.5%, 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 as at December 31, 2025.

A break-even multiple of 1.5x 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, 2025 and 2024. Direct costs for the year ended December 31, 2025 included $13,139,598 of inventory sold (2024 - $6,396,999).

11. Trade payables and accrued liabilities

	December 31, 2025	December 31, 2024
Accounts payable	**1,432,276**	3,822,972
Deposits from customers	**262,062**	927,929
Payroll liability	**1,365,245**	1,163,121
Other accrued liabilities	**374,145**	417,361
Total	**3,433,728**	6,331,383

12. Long-term Borrowings

	December 31, 2025	December 31, 2024
Aircraft loans	**2,731,555**	4,322,705
Vehicles loans	**231,130**	431,146
CEBA borrowing	**369,504**	398,727
Development loan	**-**	166,688
Promissory note	**1,095,850**	1,111,627
Term loan	**6,750,000**	7,500,000
Other loans	**478,067**	732,571
Total	**11,656,106**	14,663,464
Less: Current portion of long-term debt	**(1,902,631)**	(1,615,001)
Less: Term loan treated as current liability	**(6,750,000)**	(7,500,000)
Long-term borrowings	**3,003,475**	5,548,463

As at December 31, 2025, the Company was party to a $6.8 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 and fixed charge coverage ratio annually. As of the reporting date, the Company was not in compliance with the minimum fixed charge coverage ratio covenant. As a result, the outstanding balance of the term loan has been classified as a current liability as at December 31, 2025, 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 February 3, 2026, EDC provided a waiver of the covenant breach at December 31, 2025.

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 9.3% 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.

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

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, 2025	December 31, 2024
Other loans	-	952,614
Total	-	952,614

Other loans consist of loans maturing within the next 12 months and have an interest rate between 9% and 12%. The repayment of other short-term liabilities primarily relates to the settlement of bridge financing in the form of non-convertible debt, which was repaid in accordance with agreed terms during the period.

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.

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, 2025, the Company incurred fees of $96,000 (2024- $96,000). As at December 31, 2025, the Company was indebted to this company in the amount of $8,000 (2024 - $16,000).

During the year, the Company entered into financing arrangements with its Chief Financial Officer ("CFO"), who is a member of key management personnel. In order to support short-term working capital requirements, the CFO advanced funds to the Company to finance operating expenditures. Total advances amounted to $938,442 and were outstanding for a period of ranging between 3 and 6 months. The advances were unsecured and were non-interest bearing. The amount outstanding as at December 31, 2025 is $78,465.

Management has determined that these transactions were conducted in the normal course of operations and were necessary to bridge the Company's short-term liquidity needs prior to obtaining external financing.

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 (2024 – $206,188). Refer to Note 16.

Promissory notes:

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 $1,095,850 is outstanding as at December 31, 2025 (2024 - $1,111,627) and repayable in full between August 2026 and June 2029. This amount is included in long term liabilities in the consolidated balance sheet.

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, 2025 and 2024 is summarized as follows:

	2025	2024
Salaries	**1,261,707**	945,178
Share-based payments	**521,595**	364,271
	1,783,302	1,309,449

16. Share Capital, Stock Options and Warrants

Authorized share capital

Unlimited number of common shares without par value.

Common shares

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.

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 (“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.

On May 1, 2025, the Company closed its oversubscribed $3 million non-brokered listed issuer financing exemption (“LIFE’) private placement (the " May LIFE Offering"). The Company issued 25,000,000 units of the Company ("May LIFE Units") at a price of $0.12 per May LIFE Unit for gross proceeds of $3,000,000. Each May LIFE Unit is comprised of one common voting share of the Company (“Common Share”) and one warrant to purchase one Common Share of the Company (a “May LIFE Warrant”). Each May LIFE Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.20 per share for a period of 36 months following the date of issuance.

On May 14, 2025, the Company issued a total of 20,174,280 Common Shares and 17,640,000 Common Share purchase warrants (each a “ Debenture Warrant ”) settling an aggregate principal and accrued and unpaid interest in the amount of $2,759,089 owing to holders of unsecured convertible debentures of the Company issued pursuant to a debenture indenture dated May 11, 2023. The Common Shares were issued at a deemed price of $0.15 per Common Share. Each Debenture Warrant is exercisable into one Common Share at an exercise price of $0.20 per Common Share for a period of three years from the date of issuance, subject to acceleration if, at any time following the date that is 4 months and one day following the date of issuance.

On June 19, 2025, the Company completed its share-for-debt conversion and issued a total of 3,720,000 units of the Company (the “Debt Settlement Units”), settling the principal and accrued and unpaid interest in the amount of $446,400 owing to holders of unsecured non-convertible debentures of the Company. Each Debt Settlement Unit is comprised of one Common Share and one Common Share purchase warrant of the Company (each a “Debt Settlement Warrant”), with each Debt Settlement Warrant exercisable to purchase one additional Common Share at an exercise price of $0.20 per Common Share for a period of 36 months from the date of issuance, subject to acceleration if, at any time following the date that is 4 months and one day following the date of issuance.

On June 27, 2025, the Company announced closing of its non-brokered LIFE private placement (the "June LIFE Offering"). The Company issued 25,000,000 units of the Company (the "June LIFE Units") at a price of $0.20 per June LIFE Unit for gross proceeds of $5,000,000. Each June LIFE Unit is comprised of one Common Share and one-half of one warrant to purchase one Common Share of the Company (each whole warrant, a “June LIEF Warrant”). Each June LIFE Warrant entitles the holder thereof to purchase one Common at an exercise price of $0.30 per share for a period of 36 months following the date of issuance.

As disclosed above, the Company entered into an agreement with debt holders to settle the outstanding convertible debentures and unsecured non-convertible debentures through the issuance of common shares and warrants to purchase common shares of the Company. The transactions are accounted for in accordance with *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*.

The carrying amount of the financial liability extinguished for convertible debentures and unsecured non-convertible debenture amounted to $2,759,089 and $446,400, respectively. The common shares and warrants issued as consideration were measured at their fair value at the date of settlement, determined to be $3,641,336 and $1,123,440, respectively, based on the quoted market price and fair value assessed through the Black Scholes Model. As a result, a loss on extinguishment of financial liabilities of $881,718 and $677,040, respectively, were recognized in the consolidated statement of loss for the period.

These issuance of equity instruments were recognized directly in equity, net of applicable transaction costs.

On July 17, 2025, the Company announced closing of its non-brokered LIFE private placement (the "July LIFE Offering"). The Company issued 19,230,770 units of the Company (“July LIFE Units") at a price of $ 0.52 per July LIFE Unit for gross proceeds of approximately $10,000,000. Each July LIFE Unit is comprised of one Common Share and one-half of one warrant to purchase one Common Share of the Company (each whole warrant, a “July LIFE Warrant”). Each July LIFE Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.76 per share for a period of 36 months following the date of issuance.

On August 14, 2025, the Company announced closing of its brokered bought deal of LIFE private placement (the "August LIFE Offering"). The Company issued a total of 9,288,462 units of the Company (the “August LIFE Units”) at a price of $0.52 per August LIFE Unit for gross proceeds of $4,830,000, including the August LIFE Units issued pursuant to the underwriters’ over-allotment option. Each August LIFE Unit consists of one Common Share and one-half of one warrant to purchase one Common Share of the Company (each whole warrant, an “August LIFE Warran ”), with each August LIFE Warrant entitling the holder thereof to acquire one Common Share at an exercise price of $0.76 per share at any time on or before August 14, 2028. The Company also issued to the underwriters 557,308 non-transferable broker warrants (the “Broker Warrants”). Each Broker Warrant entitles the holder thereof to acquire one Common Share at a price of $0.76 per share at any time on or before August 14, 2026.

On July 3, 2025, the Company issued 1,313,092 common shares to a director of Empire Drone LLC, a subsidiary of the Company, amounting to $367,666, which is included in the total share-based payment expenses of $1,278,631 in the consolidated statement of loss for the period. As part of the purchase agreement, the seller was entitled to earn-out clause and the arrangement involved the direct issuance of common shares rather than equity instruments granted under an option-based plan, the related amount was recognized in equity through capital stock, rather than through the share-based payment reserve.

On November 26, 2025, the Company closed a brokered bought-deal public offering, issuing 38,352,000 common shares at $0.60 per share, including 5,002,500 common shares issued pursuant to the full exercise of the over-allotment option, for aggregate gross proceeds of approximately $23,011,500.

In addition, the Company completed a non-brokered private placement of 5,633,333 common shares at $0.60 per share, for aggregate gross proceeds of $3,380,000

Preferred shares

	Number of Shares	Amount
Outstanding, December 31, 2024	**286,188**	**$286,188**
Conversion to Common Shares	(80,000)	(80,000)
Outstanding, December 31, 2025	**206,188**	**$206,188**
Outstanding, December 31, 2023	286,188	$286,188
Conversion to Common Shares	-	-
Outstanding, December 31, 2024	286,188	$286,188

The preferred shares are non-redeemable and have a face value of $1 pre share. The preferred shares outstanding at December 31, 2024, held in UAViation Aerial Solutions Limited, a wholly owned subsidiary of the Company, have been settled in full through the issuance of common shares during the year-ended December 31, 2025.

Stock Options

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

	December 31, 2025		December 31, 2024	
	Number of Stock Options	**Weighted Average Exercise Price**	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	**16,566,515**	**0.30**	14,623,953	0.25
Forfeited	**(269,719)**	**0.14**	(5,372,438)	0.56
Exercised	**(1,349,820)**	**0.29**	-	-
Granted	**1,977,000**	**0.14**	-	-
Expired	**(942,334)**	**0.34**	-	-
Options – acquisition	**-**	**-**	7,315,000	0.58
Outstanding, end of period	**15,981,643**	**0.28**	16,566,515	0.30

The weighted average share price (at the date of exercise) of options exercised during the year was $0.47 (2024 - $nil).

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2025:

	Options Outstanding			Options Exercisable		
Range of price (C$)	**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**
$0.10 - $0.19	6,401,831	3.01	0.13	2,030,438	2.61	0.13
$0.20 - $0.35	2,182,312	1.64	0.21	1,778,000	1.67	0.21
$0.36 - $0.50	6,247,500	1.00	0.36	6,247,500	1.00	0.36
$0.50- $0.75	1,150,000	1.48	0.56	1,150,000	1,48	0.56
	15,981,643	**1.93**	**0.26**	**11,874,244**	**1.37**	**0.32**

On January 2, 2025, the Company granted 1,977,000 additional options at an exercise price of $0.14.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock rewards granted. The weighted average fair value at date of grant for the options granted was $0.106 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.14, risk-free interest rate of 3.22%, 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.

Restricted Stock Units (“RSUs”)

On January 2, 2025, the Company granted 5,546,000 RSUs that will be vested over four years and will expire five years from grant date. On April 28,2025, the Company granted 1,500,000 RSUs that will vest in one year and will expire five years from grant date. On June 19, 2025, the Company granted 2,900,000 additional RSUs that will vest over three years and will expire five years from grant date.

	December 31, 2025		December 31, 2024	
	Number of RSUs	**Weighted Average Exercise Price**	Number of RSU	Weighted Average Exercise Price
Outstanding, beginning of period	-	-	-	-
Granted	**9,946,000**	-	-	-
Forfeited	**(382,000)**	-	-	-
Outstanding, end of period	**9,564,000**	-	-	-

The following table summarizes information about RSUs outstanding and exercisable as at December 31, 2025:

	RSUs Outstanding			RSUs Exercisable		
	Number of RSUs outstanding	**Weighted Average remaining**	**Weighted Average**	**Number of RSUs exercisable**	**Weighted Average remaining**	**Weighted Average**

		contractual life (years)	Exercise Price		contractual life (years)	Exercise Price
2025 Issuance	9,564,000	4.20	-	-	-	-
Total	**9,564,000**	**4.20**	**-**	**-**	**-**	**-**

Warrants

The following table outlines the details of each warrant outstanding as at December 31, 2025 and 2024:

		As at December 31, 2025		As at December 31, 2024			
Series	**Issuance Date**	**Number of warrants outstanding**	**Grant date Fair Value**	**Number of warrants outstanding**	**Grant date Fair Value**	**Exercise Price**	**Expiry Date**
1	06-May-23	-	-	753,020	20,587	$0.28	06-May-25
2	06-May-23	-	-	4,723,110	107,437	$0.28	06-May-25
3	06-Nov-24	5,846,000	227,994	19,760,000	770,874	$0.20	06-Nov-26
4	06-Nov-24	337,552	17,553	1,383,620	71,948	$0.14	06-Nov-26
5	01-May-25	7,666,666	375,667	-		$0.20	01-May-28
6	14-May-25	7,833,319	407,333	-		$0.20	14-May-28
7	19-Jun-25	3,720,000	379,440	-		$0.20	19-Jun-28
8	27-Jun-25	10,899,000	1,547,658	-		$0.30	27-Jun-28
9	17-Jul-25	9,615,385	2,730,769	-		$0.76	17-Jul-28
10	14-Aug-25	4,624,231	1,026,579	-		$0.76	14-Aug-28
11	14-Aug-25	557,308	10,032	-		$0.76	14-Aug-26
		51,099,461	**6,723,024**	**26,619,750**	**970,846**		

As of December 31, 2025, the following warrants were outstanding and exercisable:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2024	**26,619,750**	**$0.22**
Issued	73,676,924	0.28
Expired	(5,476,130)	0.28
Exercised	(43,721,083)	0.20
Outstanding, December 31, 2025	**51,099,461**	**$0.38**
Outstanding, December 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, December 31, 2024	26,619,750	$0.22

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.

On May 1, 2025, Volatus issued 25,000,000 units as part of its $3 million financing with an exercise price of $0.20 and expiry after 36 months.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.049 (2024 - $0.039 and $0.052) per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.13 (2024 - $0.125), risk-free interest rate of 2.53% (2024 – 3.26%), expected life of 5 years (2024 – 2 years), expected volatility of 72% (2024 – 80%) and expected dividends of Nil.

On May 14, 2025, Volatus issued 20,174,281 common shares and 17,640,000 warrants settling an aggregate debt of $2,646,000. The warrants have an exercise price of $0.20 and expiry after 36 months.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.052 per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.135, risk-free interest rate of 2.89%, expected life of 3 years, expected volatility of 72% and expected dividends of Nil.

On June 19, 2025, Volatus issued 3,720,000 units to settle aggregate debt of $446,400. The warrants have an exercise price of $0.20 and expiry after 36 months.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.102 per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.20, risk-free interest rate of 2.89%, expected life of 3 years, expected volatility of 76% and expected dividends of Nil.

On June 27, 2025, Volatus issued 25,000,000 units as part of its $5 million LIFE Offering financing. Each Unit is comprised of one common voting share in the capital of the Company and one-half of one warrant to purchase one Common Share of the Company . The warrants have an exercise price of $0.30 and expiry after 36 months.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.142 per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.285, risk-free interest rate of 2.65%, expected life of 3 years, expected volatility of 76% and expected dividends of Nil.

On July 17, 2025, Volatus issued 19,230,770 units as part of its $10 million LIFE Offering financing. Each Unit is comprised of one common voting share in the capital of the Company and one-half of one warrant to purchase one Common Share of the Company . The warrants have an exercise price of $0.76 and expiry of 36 months.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.284 per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.61, risk-free interest rate of 2.82%, expected life of 3 years, expected volatility of 78% and expected dividends of Nil.

On August 14, 2025, Volatus issued 9,288,462 units as part of its $4.83 million bought deal LIFE Offering financing. Each Unit is comprised of one common voting share in the capital of the Company and one-half of one warrant to purchase one Common Share of the Company. The Company also issued 557,308 agent warrants as part of the financing. The warrants have an exercise price of $0.76 and expiry of 36 months.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.222 per warrant and $0.144. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.48, risk-free interest rate of 2.69%, expected life of 3 years and 1 year respectively, expected volatility of 80% and 111% respectively, and expected dividends of Nil.

17. Convertible Debenture

On June 18, 2025, Volatus modified its existing Convertible Debenture to allow the issuance of an additional tranche of $3 million of secured convertible debenture (the "Convertible Debenture"), bringing the principal amount under the instrument from $7.5 million to $10.5 million. 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 June 18, 2028, 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 Convertible Debenture represents a compound financial instrument with an embedded derivative requiring separation. The debt host portion of the instrument is classified at amortized cost, whereas the conversion option is equity classified and the prepayment and redemption features, which has a negligible value, is classified as fair value through profit and loss.

The amendment resulted in a substantial modification and the extinguishment of the original Convertible Debenture and the recognition of a new instrument. A loss of $672,444 has been recognised related to the extinguishment, representing the difference between the fair value of the old liability component at the modification date of $5,228,767 and its carrying amount of $4,556,323.

Upon modification, the liability component is recognised at $7,154,912 and the residual amount of $1,073,855 is recognised in equity. Transaction costs of $231,837 were incurred in connection with the amendment and have been allocated between the liability and equity components based on their relative fair values. Deferred taxes of $152,389 were recorded as a reduction of the equity component.

The fair value of the liability component was calculated using a discount rate of 25.44% and the embedded derivative is classified as a Level 3 fair value measurement.

18. 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, 2025:

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 cash and trade and other receivables. The maximum exposure to credit risk is the carrying amount as reported on the financial statements. The Company's cash is held in reputable banks in Canada and management believes the risk of loss to be remote. 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.

Aging	Under 30 days	31days - 60 days	61 days – 90 days	Over 90 days	Total
CAD	1,829,421	748,519	504,085	286,445	3,368,470

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. While the Company also has operations in Norway, exposure to Norwegian krone (NOK) is not considered material and is therefore not included in the sensitivity analysis below.

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As of December 31, 2025, 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:

	2025		2024	
	USD	**GBP**	**USD**	**GBP**
Cash	**3,450,792**	**535,010**	173,197	192,539
Trade and other receivables	**322,799**	**203,889**	560,555	193,832
Trade payables and other accrued liabilities	**(250,360)**	**(245,173)**	(353,805)	(41,976)
Long-term borrowings	**(448,913)**	**(33,498)**	(928,847)	(75,432)
Net assets	**3,074,318**	**460,228**	(548,900)	268,963

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.

As at December 31, 2025, the Company's cash balance of $41,114,832 is expected to be sufficient to meet its obligations as they fall due for at least the next twelve months from the reporting date of these consolidated financial statements.

The Company however has not yet achieved profitable operations and 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.

The following summarizes the Company's contractual commitments as at December 31, 2025:

	Less than 1 Year	2-5 Years	Over 5 years	Total
Trade Payables and Accrued Liabilities	3,433,728		-	3,433,728
Leases	959,887	863,004	-	1,822,891
Borrowings	4,679,690	9,861,115	161,495	14,702,300
Convertible Debenture	-	18,492,389	-	18,492,389
	9,073,306	**29,216,508**	**161,495**	**38,451,309**

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 will not have a significant impact on the Company.

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)

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

	December 31, 2025	December 31, 2024
Cash	**41,114,832**	1,558,909
Restricted cash	**29,372**	244,908
Trade and other receivables	**3,368,470**	4,502,679
Trade payables and accrued liabilities	**3,433,728**	6,331,383
Lease liability	**1,898,850**	2,005,075
Other short-term liabilities	**-**	745,614
Long-term borrowings	**11,656,106**	14,870,464
Convertible Debenture	**7,885,106**	6,449,218
Contingent Consideration	**-**	442,055

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 long-term borrowings and convertible debenture approximate fair value based upon a discounted cash flows method using discount rates that reflects current market interest rate for similar financial instruments with comparable terms and remaining maturities at the end of 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, 2025 (2024 - $nil) between any levels within the fair value hierarchy.

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

The following tables reconcile the changes in ROU assets:

(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 acquisition	-	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**

(in C$)	Vehicle and Equipment	Building	Total
Cost			
Balance, January 1, 2025	376,029	3,156,566	3,532,595
Additions during the year	713,479	176,407	889,886
Derecognition on lease termination	-	(632,807)	(632,807)
Balance, December 31, 2025	**1,089,508**	**2,700,166**	**3,789,674**
Accumulated amortization			
Balance, January 1, 2025	131,834	1,565,418	1,697,252
Derecognition on lease termination	-	(594,895)	(594,895)
Depreciation expense for the year	322,426	646,070	968,496
Balance, December 31, 2025	**454,260**	**1,616,593**	**2,070,853**
Net book value			
Balance, January 1, 2025	**244,195**	**1,591,148**	**1,835,343**
Balance, December 31, 2025	**635,248**	**1,083,573**	**1,718,821**

20. 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, 2025	December 31, 2024
Balance, beginning of period	**2,005,075**	1,521,182
Additions	**889,886**	1,155,362
Derecognition on lease termination	**(42,858)**	-
Interest	**327,850**	216,471
Payments	**(1,281,103)**	(887,940)
Balance, end of period	**1,898,850**	2,005,075
Current	**888,174**	765,498
Non-Current	**1,010,676**	1,239,577

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.

21. Income Taxes

Income taxes consist of the following:

	2025	2024
The Company's income tax (recovery) is allocated as follows:		
Current tax (recovery) expense	**-**	-
Deferred tax (recovery) expense	**(152,389)**	(283,457)
Income tax expense/ (recovery)	**(152,389)**	(283,457)

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:

	2025	2024
Net loss before income taxes	**(22,147,666)**	(13,593,781)
Effective income tax rate	**26.50%**	26.50%
Expected income tax expense/ (recovery)	**(5,869,131)**	(2,691,828)
Permanent differences and other	**826,901**	(299,036)
Deferred tax assets not recognized	**4,889,841**	3,617,932
Income tax expense/ (recovery)	**(152,389)**	(283,457)

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	(610,176)	(82,206)	-	-	(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)
ROU assets	-	(219,962)	-	-	(219,962)
Lease liabilities	-	257,123	-	-	257,123
Total	**(283,457)**	**354,204**	**-**	**(70,747)**	**-**

	Balance January 1, 2025	Recognized in net income (loss)	Recognized in Goodwill	Recognized in Equity	Balance December 31, 2025
Property, plant and equipment	(692,382)	784,780	-	-	92,398
Share and debt issuance costs	208,160	(68,332)	-	53,419	193,248
Non-capital losses	1,259,169	(187,847)	-	-	1,071,322
Intangibles	(382,470)	42,648	-	-	(339,822)
Convertible debt	(429,638)	(424,642)	-	(205,808)	(1,060,087)
ROU assets	(219,962)	41,930	-	-	(178,032)
Lease liabilities	257,123	(36,148)	-	-	220,974
Total	**-**	**152,389**	**-**	**(152,389)**	**-**

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, 2024 and 2025 will fully amortize in 2026, 2028 and 2029, respectively.

The Company has $118,251,739 (2024: $107,386,494) of non-capital losses available to offset future income for tax purposes of which $108,644,020 (2024: $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	$17,623,685
2042	$13,197,646
2043	$14,414,910
2044	$14,635,828
2045	$7,630,537
Total	**$ 118,251,739**

Also, the Company has $ 5,447,823 (2024- 2,325,984) of restricted interest and financing expenses ('RIFE') available to offset future income for tax purposes, all of which are unrecognized. These expenses can be carried forward indefinitely.

22. Finance costs

Finance costs comprise the following:

(in C$)	December 31, 2025	December 31, 2024
Bank charges, penalties, and financing fees	**536,156**	81,108
Interest expense on lease liabilities	**327,850**	216,471
Interest expense on promissory note	**76,710**	48,140
Interest expense on convertible debt	**1,450,031**	908,791
Interest expense on short-term borrowings	**433,496**	1,003,366
Interest expense on long-term borrowings	**2,384,612**	678,041
	5,208,855	2,935,917

23. Loss per share

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	
	2025	2024
Net comprehensive loss attributable to Owners of Volatus	**(21,188,735)**	(13,141,604)
Weighted average number of common shares outstanding	**543,912,520**	302,699,537
Basic and diluted loss per share	**(0.04)**	(0.04)

24. 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:

Revenue	**December 31, 2025**	December 31, 2024
Sale of Products	**16,255,712**	7,890,916
Provision of Services	**17,948,323**	19,256,498
Total Revenue	**34,204,035**	27,147,414

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

Revenue	**December 31, 2025**	December 31, 2024
Canada	**19,258,543**	17,581,356
United States	**4,926,577**	5,551,946
Europe & United Kingdom	**10,018,915**	4,014,112
Total Revenue	**34,204,035**	27,147,414

As at the year ended December 31, 2025, and 2024, there were no material contract liabilities or assets arising from short-term revenue contracts with the customers.

2025	Property, Plant and Equipment	Goodwill	Intangible assets	Right of use assets
Canada	5,093,091	20,739,606	13,633,336	1,611,512
United States	294,920	-	1,132,815	78,930
United Kingdom	160,312	-	347,511	28,380
Total	**5,548,323**	**20,739,606**	**15,113,662**	**1,718,821**

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**

25. Subsequent Events

Management has evaluated subsequent events as of March 30, 2026, the date the consolidated financial statements.

On March 04, 2026, the Company announced the acquisition of the remaining 41.53% interest of Synergy Aviation Limited through the issuance of 2,443,494 common shares valued at $1,630,054.

On February 26, 2026, the Company entered into a new lease agreement for a standalone facility located in Mirabel, Québec, with a commencement date of March 1, 2026 and a term of ten years ending February 28, 2036. The leased premises comprise approximately 50,526 square feet and will be used for the manufacturing, storage and assembly of drones and related operations. Under the terms of the agreement, the Company is required to pay base rent that escalates annually over the lease term, with annual net rent of approximately $412,800 in the first year, increasing to approximately $791,100 by the final year, in addition to operating costs, including estimated additional rent of approximately $176,832 per annum, subject to annual adjustments and applicable sales taxes. This lease represents a significant long-term commitment for the Company and will result in the recognition of a right-of-use asset and corresponding lease liability upon commencement in accordance with IFRS 16. As the agreement was entered into after the reporting date, this event is considered a non-adjusting subsequent event and no adjustments have been made to the consolidated financial statements as at December 31, 2025.

On March 20, 2026, the Common shares of the Company listed on the Toronto Stock Exchange under symbol "FLT", with voluntary delisting from the TSX Venture Exchange.

End.