



VOLATUS AEROSPACE INC.
(Formerly Drone Delivery Canada Corp.)

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2025

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

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these interim condensed consolidated financial statements, they must be accompanied by a notice indicating that these interim condensed consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

Volatus Aerospace Inc.
Condensed Interim Consolidated Statements of Financial Position - Unaudited
(Expressed in Canadian Dollars)

	Notes	September 30, 2025	December 31, 2024
Assets			
Current			
Cash		17,274,905	1,558,909
Restricted Cash		553,972	244,908
Trade and other receivables	5	6,718,745	4,502,679
Prepaid expenses, deposits, and other current assets	6	2,310,745	2,564,898
Inventories	10	3,295,934	3,103,677
Total current assets		30,154,301	11,975,071
Property, plant and equipment	7	7,176,073	9,715,359
Intangible assets	8	12,603,393	13,538,692
Right-of-use asset	19	1,913,503	1,835,343
Goodwill	9	20,739,606	20,739,606
Total non-current assets		42,432,575	45,829,000
Total Assets		72,586,876	57,804,071
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	11	4,129,095	6,331,383
Deferred revenue		152,390	623,497
Current portion of lease liability	20	985,113	765,498
Other short-term liabilities	13	147,730	952,614
Current portion of convertible debt	17	-	2,435,375
Current portion of long-term borrowings	12	2,247,729	9,115,001
Deferred / Contingent consideration		-	144,078
Total current liabilities		7,662,057	20,367,446
Long-term borrowings	12	10,598,965	5,548,463
Convertible debentures	17	7,447,525	4,013,843
Lease Liability	20	1,090,814	1,239,577
Contingent consideration		-	297,977
Total non-current liabilities		19,137,304	11,099,860
Total Liabilities		26,799,361	31,467,306
Shareholders' Equity			
Common equity	16	73,997,650	46,615,125
Warrants reserve	16	13,444,172	7,026,618
Share-based payment reserve	16	3,170,203	2,954,307
Convertible Debenture - Options	17	3,804,034	2,760,433
Preferred shares	16	206,188	286,188
Deficit		(47,750,647)	(32,578,867)
Contributed Surplus		211,831	211,831
Non-controlling interest		(1,295,916)	(938,870)
Total Shareholders' Equity		45,787,515	26,336,765
Total Liabilities & Shareholders' Equity		72,586,876	57,804,071

Going concern (note 2)
Subsequent event (note 21)

Approved and authorized to issue by the Board of Directors
"Glen Lynch" _____
"Andrew Leslie" _____

Director
Director

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

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

	Notes	Three months ended September 30		Nine months ended September 30	
		2025	2024	2025	2024
Revenue		10,605,438	6,618,504	26,905,671	20,364,238
Direct costs		7,134,827	4,366,107	18,229,667	13,381,538
Gross Profit		3,470,611	2,252,397	8,676,004	6,982,700
OPERATING EXPENSES					
Advertising & marketing		321,558	331,763	885,261	1,022,459
IT & tech		521,629	210,328	884,826	726,586
Personnel		2,574,798	1,787,175	7,372,814	5,499,433
R&D		834	4,011	16,980	15,851
Office cost		395,516	497,706	1,808,904	1,634,955
Travel		101,097	77,011	239,150	174,774
External partner cost		399,524	2,117,840	1,074,035	2,748,053
Depreciation and amortization	7,8,19	1,334,223	1,294,350	4,493,731	3,509,136
Share based payments		670,844	124,861	1,015,697	378,505
		6,320,023	6,445,045	17,791,398	15,709,752
(Loss) from operations		(2,849,412)	(4,192,648)	(9,115,394)	(8,727,052)
OTHER ITEMS - INCOME/(EXPENSE)					
Finance cost		(1,874,601)	(992,806)	(4,263,996)	(1,863,576)
Other income (expense)		42,803	(2,669)	56,439	(12,684)
Loss on investments		-	-	(58,963)	-
Loss on extinguishment of financial liabilities		-	-	(1,558,758)	-
Gain (loss) on disposal of property and equipment		597	(194,662)	597	117,198
Loss on modification of convertible debt		-	-	(672,444)	-
Foreign exchange		140,881	(109,037)	83,693	(79,641)
Net Loss		(4,539,732)	(5,491,822)	(15,528,826)	(10,565,756)
Total comprehensive income (loss) for the period attributable to:					
Owners of Volatus Aerospace Corp.		(4,545,679)	(5,440,827)	(15,171,780)	(10,426,120)
Non-controlling interest		5,947	(50,994)	(357,046)	(139,636)
		(4,539,732)	(5,491,822)	(15,528,826)	(10,565,756)
Loss per share					
Basic and diluted		(0.01)	(0.02)	(0.03)	(0.04)
Weighted average number of common shares outstanding					
Basic and diluted		524,144,739	249,689,240	524,144,739	249,689,240

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

Volatus Aerospace Inc.
Condensed Interim Consolidated Statements of Changes in Equity - unaudited
(Expressed in Canadian Dollars)

	Number of shares	Capital Stock	Number of preference shares	Preferred Shares	Warrants Reserve	Share-based Reserve	Convertible Debt - Equity Portion	Contributed Surplus	Non-Controlling Interest	Deficit	Total Shareholders Equity
January 1, 2024	224,199,312	13,360,860	352,634	351,764	6,192,685	2,427,813	200,356	211,831	(770,150)	(19,437,263)	2,537,896
Shares Issued on acquisition	224,344,723	37,244,886									37,244,886
Warrant exercise	74,375	27,501			(6,667)						20,834
Stock options expense						378,505					378,505
Net loss for the period									(139,636)	(10,426,120)	(10,565,756)
September 30, 2024	448,619,201	50,633,247	352,634	351,764	6,186,018	2,806,318	200,356	211,831	(909,786)	(29,863,384)	29,616,365

	Number of shares	Capital Stock	Number of preference shares	Preferred Shares	Warrants Reserve	Share-based Reserve	Convertible Debt - Equity Portion	Contributed Surplus	Non-Controlling Interest	Deficit	Total Shareholders Equity
December 31, 2024	468,841,273	46,615,125	286,188	286,188	7,026,618	2,954,307	2,760,433	211,831	(938,870)	(32,578,867)	26,336,765
Shares issued on acquisition	4,635,860	849,971	-	-	-	-	-	-	-	-	849,971
Equity offering	78,519,231	13,790,270	-	-	6,842,040	-	-	-	-	-	20,632,310
Warrant exercise	35,295,397	8,787,286	-	-	(1,721,206)	-	-	-	-	-	7,066,080
Debt issuance/conversion	23,894,280	3,204,700	-	-	1,296,720	-	1,043,601	-	-	-	5,545,021
Preferred shares redemption	666,667	80,000	(80,000)	(80,000)	-	-	-	-	-	-	-
Stock options expense	-	-	-	-	-	648,031	-	-	-	-	648,031
Stock options exercise	1,368,126	670,298	-	-	-	(432,135)	-	-	-	-	238,163
Net loss for the period	-	-	-	-	-	-	-	-	(357,046)	(15,171,780)	(15,528,826)
September 30, 2025	613,220,834	73,997,650	206,188	206,188	13,444,172	3,170,203	3,804,034	211,831	(1,295,916)	(47,750,647)	45,787,515

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

Volatus Aerospace Inc.
Condensed Interim Consolidated Statements of Cash Flows - unaudited
(Expressed in Canadian Dollars)

	Nine Months Ended September 30	
	2025	2024
OPERATING ACTIVITIES		
Net loss for the period	(15,528,826)	(10,565,756)
Adjustments For:		
Depreciation and amortization	4,493,731	3,509,136
Gain on sale of property and equipment	(597)	(117,198)
Finance cost	3,970,214	1,863,576
Share based payments	1,015,697	378,505
Loss on modification of convertible debt	672,444	-
Loss on extinguishment of financial liabilities	1,558,758	-
Interest expenses on lease liability	293,782	-
Loss on investment	58,793	-
Unrealized foreign exchange loss/(gain)	12,057	79,641
	(3,453,947)	(4,852,094)
Net changes in non-cash working capital items:		
Restricted cash	(309,064)	-
Trade and other receivables	(2,216,066)	(1,447,933)
Prepaid expenses and deposits	254,153	775,708
Inventories	529,736	(72,487)
Trade payables and accrued liabilities	(2,588,396)	5,860,350
Deferred revenue	(471,107)	59,580
Other short-term liabilities	(804,884)	(243,488)
Cash generated from (used in) Operating Activities	(9,059,575)	79,635
INVESTING ACTIVITIES		
Additions to property, plant & equipment	(758,390)	(661,781)
Proceeds on disposal of property, plant & equipment	31,887	-
Additions to intangible assets	(317,176)	-
Business combination, net of cash acquired	-	823,184
Cash provided by (used in) Investing Activities	(1,043,679)	161,402
FINANCING ACTIVITIES		
Repayment of borrowings	(4,230,820)	(845,656)
Repayment of lease obligations	(1,010,005)	(603,875)
Exercise of warrants and stock options	7,303,912	-
Net proceeds from common equity	20,988,000	-
Net proceeds from issuance of convertible debenture	2,768,163	205,528
Cash provided by (used in) Financing Activities	25,819,250	(1,244,003)
Net change in cash	15,715,996	(1,002,965)
Cash and cash equivalents, beginning of the period	1,558,909	1,682,402
Cash and cash equivalents, end of the period	17,274,905	679,437

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

**Notes to Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2025 (unaudited)**

1. The Company and its Operations

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

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

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

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

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

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards and Interpretations as issued by the International Accounting Standards Board (collectively, "IFRS Accounting Standards") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the December 31, 2024 audited annual consolidated financial statements, which have been prepared in accordance with IFRS Accounting Standards.

These consolidated financial statements of the Company were approved by the Board of Directors on December 1, 2025.

Basis of measurement

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

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to meet and continue its obligations for at least the next twelve months from September 30, 2025. On September 30, 2025, the Company had not yet achieved profitable operations, had an accumulated deficit of \$47.75 million since its inception and positive working capital of \$22.49 million. The Company expects to incur further operating losses in 2025 with the continued ramp up of business activities to service evolving market demands in a nascent industry.

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2025 (unaudited)

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

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

Presentation currency

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

Critical judgments and estimates

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

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

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

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.

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2025 (unaudited)

Debt modification

During the period, 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 profit or loss. Given the complexity and subjectivity involved in these assessments, this area represents a significant source of estimation uncertainty in the interim financial statements.

Impairment

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

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.

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2025 (unaudited)

3. Summary of material accounting policies

These condensed consolidated interim financial statements have been prepared following the same accounting principles and methods of computation as in outlined in the Company’s consolidated financial statements for the year ended December 31, 2024. A description of the accounting standards and interpretations that have been adopted by the Company can be found in the notes of the annual financial statements for the year ended December 31, 2024. The preparation of the condensed consolidated interim financial statements requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. These condensed consolidated interim financial statements include estimates, which by their nature, are uncertain. These assumptions and associated estimates are based on historical experience and other factors that are considered to be relevant. As such, actual results may differ from estimates, and the effect of such differences may be material. Significant estimates and judgements used in the preparation of these condensed consolidated interim financial statements remained unchanged from those disclosed in the Company’s annual consolidated financial statements for the year ended December 31, 2024.

4. Subsidiaries

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

Name of Subsidiary	Principal Activity	Functional Currency	Country of Incorporation	Ownership Interest
Volatus Aerospace Corp.	Drone Solutions Provider	CAD	Canada	100%
Volatus Flight Systems Inc.	Fixed-wing Drone Technology	CAD	Canada	70%
Volatus Aerospace USA Corp.	Drone Solutions Provider	USD	USA	90%
ConnexiCore LLC	Drone Solutions Provider	USD	USA	90%
Indigenous Aerospace Corp.	RPAS/UAV Service and Training	CAD	Canada	100%
Volatus Aviation (Partner Jet Inc.)	Aircraft management & charter services	CAD	Canada	100%
RPV Aviation Inc.	Regulatory Consulting	CAD	Canada	100%
MVT Geo Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
Canadian Air National Inc.	Pipeline Inspection & Surveillance Services	CAD	Canada	100%
Volatus Aerospace UK Ltd.	RPAS/UAV Service and Training	GBP	UK	100%
iRed Limited	RPAS/UAV Service and Training	GBP	UK	100%
Synergy Aviation Ltd.	Pipeline Inspection & Surveillance Services	CAD	Canada	58%
Synergy Flight Training Inc.	Pilot Training	CAD	Canada	58%
Empire Drones LLC	Distribution & Services	USD	USA	100%
Sky Scape Industries, LLC	Drone Solutions Provider	USD	USA	100%
Aerial Motion Pictures Limited (UAV Hub)	RPAS/UAV Training	GBP	UK	100%
Open Sky Consulting International Ltd (Drone Mentor)	RPAS/UAV Training	GBP	UK	100%
Volatus Aerospace EU AS	Drone Solutions Provider	NOK	Norway	100%

Volatus Aerospace Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2025 (unaudited)

Volatus Unmanned Services Inc.¹		CAD	Canada	100%
- UAViation Aerial Solutions Limited	RPAS/UAV Service	CAD	Canada	100%
- SkyGate Videography Inc.	RPAS/UAV Service and Training	CAD	Canada	100%
- M3 Drone Services Limited	RPAS/UAV Service	CAD	Canada	100%
- M3 Drone Training Zone Inc.	RPAS/UAV Training	CAD	Canada	100%
- Canadian UAV Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
- OmniView Tech Corp.	Distribution & Service	CAD	Canada	100%

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

The 30% external shareholding of Volatus Flight Systems, 10% external shareholding of Volatus Aerospace USA Corp, 42.5% external shareholding of Synergy Aviation Ltd. , are all attributable to Non-Controlling Interests in the consolidated financial statements.

5. Trade and other receivables

	September 30, 2025	December 31, 2024
Trade receivables	6,583,107	4,426,919
Accrued revenues	135,638	75,760
Total	6,718,745	4,502,679

6. Prepaid expenses, deposits, and other current assets

	September 30, 2025	December 31, 2024
Prepaid expenses	1,530,257	2,046,579
Security deposit	359,707	253,166
Other current assets	420,781	265,153
Total	2,310,745	2,564,898

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2025 (unaudited)

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
Net carrying Amount									
Balance, December 31, 2023	1,447,851	156,489	344,902	185,082	317,941	910,364	5,444,438	483,269	9,290,336
Balance, December 31, 2024	1,442,120	139,877	1,157,919	94,451	552,360	482,937	4,626,518	1,219,177	9,715,359

Cost	Drones & Accessories	Machinery	Leasehold Improvements	Furniture & Fixtures	Computer & Equipment	Vehicle	Aircraft	WIP	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	36,082	11,340	-	2,196	17,539	-	392,538	298,696	758,391
Disposals/Reclassification	(46,500)	-	-	(7,658)	-	-	(952,495)	-	(1,006,652)
Balance, September 30, 2025	3,144,222	400,775	1,284,075	572,021	1,225,061	891,229	7,615,420	1,517,873	16,650,677
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 period	491,200	94,627	265,350	5,406	334,645	82,427	1,253,741	-	2,527,396
Foreign exchange adjustments	16,998	-	-	-	-	-	-	-	16,998
Disposals/reclassification	(2,221)	-	-	-	-	-	(251,148)	-	(253,369)
Balance, September 30, 2025	2,218,497	344,185	391,506	488,438	989,807	490,719	4,551,452	-	9,474,604
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, September 30, 2025	925,725	56,590	892,569	83,583	235,254	400,510	3,063,969	1,517,873	7,176,073

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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
Net carrying Amount				
December 31, 2023	450,973	3,757,169	558,586	4,766,728
December 31, 2024	9,114,965	3,065,170	1,358,557	13,538,692

	Technology	Customer	Trademark/ Brand Names	Total
Cost				
Balance, December 31, 2024	9,521,656	4,843,995	1,869,027	16,234,678
Additions	317,176	-	-	317,176
Balance, September 30, 2025	9,838,832	4,843,995	1,869,027	16,551,854
Accumulated Depreciation				
Balance, December 31, 2024	406,691	1,778,825	510,470	2,695,986
Amortization for the period	526,649	518,999	206,827	1,252,475
Balance, September 30, 2025	933,340	2,297,824	717,297	3,948,461
Net carrying Amount				
Balance, December 31, 2024	9,114,965	3,065,170	1,358,557	13,538,692
Balance, September 30, 2025	8,905,492	2,546,171	1,151,730	12,603,393

9. Goodwill

	September 30, 2025	December 31, 2024
Balance, beginning of year	20,739,606	963,604
Acquisitions	-	19,776,002
Balance, end of year	20,739,606	20,739,606

The Company performs an impairment test annually. Last impairment test was done on December 31, 2024. There were no indicators of impairment at September 30, 2025.

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10. Inventories

Inventory mainly consists of finished goods of drones and related accessories. No write-downs were made during the period ended September 30, 2025 and 2024. Direct costs for the quarter ended September 30, 2025 included \$4,949,412 of inventory sold (2024 - \$5,057,099).

11. Trade payables and accrued liabilities

(in C\$)	September 30, 2025	December 31, 2024
Accounts payable	1,787,872	3,822,972
deposits	402,400	927,929
Payroll liability	1,218,362	1,163,121
Other accrued liabilities	720,461	417,361
Total	4,129,095	6,331,383

12. Long-term Borrowings

(in C\$)	September 30, 2025	Dec 31, 2024
Aircraft loans	2,936,190	4,322,705
Vehicles loans	281,522	431,146
CEBA	397,036	398,727
Development loan	41,696	166,688
Promissory note	1,181,874	1,111,627
Term loan	7,500,000	7,500,000
Other loans	508,376	732,571
Total	12,846,694	14,663,464
Less: Current Portion of Long-Term Debt	(2,247,729)	(1,615,001)
Less: Term Loan treated as current liability	-	(7,500,000)
Long-term borrowings	10,598,965	5,548,463

As at September 30, 2025, the Company was party to a \$7.5 million term loan agreement with Export Development Canada ("EDC"), bearing interest at Prime+8% and maturing in October 2028. The loan is subject to certain financial covenants, including a minimum working capital requirement calculated quarterly.

As at December 31, 2024, the Company was not in compliance with the minimum working capital covenant, and accordingly the loan was classified as a current liability. As at September 30, 2025, the Company had met the compliance with the covenant, and the loan is therefore not classified as a current liability at the reporting date.

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

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

The Company applied for and received \$480,000 in Canada Emergency Business Account ("CEBA") loans in a prior year which are interest-free loans to cover operating costs impacted by the Covid-19 pandemic outbreak. Individual loans were granted to separate wholly owned subsidiaries of the Company. On January 31, 2024, the Company has

**Notes to Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2025 (unaudited)**

selected the option to extend the repayment of CEBA loans over 3 years with a 5% annual interest charge. The amount outstanding as of September 30, 2025 is \$397,036 (December 31, 2024 balance at \$398,727).

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

Promissory notes bear interest at rates ranging between 0% and 15.50% with an expiry in 2026 and 2029 (note 15).

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

(in C\$)	September 30, 2025	December 31, 2024
Other loans	147,730	952,614
Total	147,730	952,614

Other loans consist of loans maturing within the next 12 months and have an annualized interest rate between 9% and 12%.

14. Related Party Transactions

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

Trade payables and accrued liabilities:

On August 31, 2022, the Company entered into an independent consultant agreement (“Consultant Agreement”) with GripFast Solutions Inc., a company controlled by an independent director, to provide consulting services to the Company for scaling in the defense sector. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under external partner cost in the consolidated statement of loss and comprehensive loss. For the quarter ended September 30, 2025, the Company incurred fees of \$24,000 (2024 - \$24,000). As at September 30, 2025, the Company was indebted to this company in the amount of \$Nil (December 31, 2024 - \$16,000).

Share Capital:

The Company has outstanding preferred shares valued at \$206,188 that are non-redeemable and have no coupon interest payment and have a face value of \$1 to a company controlled by a director of the Company. (2024 – \$206,188) (Refer to Note 16)

Loans & Advance:

The Company has entered into promissory notes with the directors of the Company in 2024, at interest rates ranging between 0% and 15.50% per annum. The amount of \$1,181,874 is outstanding as at September 30, 2025 and repayable in full between August 2026 and June 2029. This amount is included in long-term borrowing in the consolidated balance sheet.

15. Key management compensation

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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 September 30, 2025 and 2024 is summarized as follows:

	Three months ended		Nine months ended	
	30-Sep-25	30-Sep-24	30-Sep-25	30-Sep-24
Salaries	281,250	156,201	721,561	589,701
Share-based payments	174,356	94,355	356,803	291,114
	455,606	250,556	1,078,364	880,815

16. Share Capital, Stock Options and Warrants

Authorized share capital

Unlimited number of common shares without par value.

Common shares

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 in the capital of the Company ("Common Share") and one Common Share purchase warrant of the Company (each common share purchase whole warrant, a "May LIFE Warrant"). Each Warrant entitles the holder thereof to purchase one Common Share (each, a "Warrant Share") at an exercise price of \$0.20 per May LIFE Warrant Share for a period of 36 months following the date of issuance.

On May 14, 2025, the Company completed its shares-for-debt transaction and 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.

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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 Common Share purchase warrant of the Company (each whole warrant, a "June LIFE Warrant"). Each June LIFE Warrant entitles the holder thereof to purchase one Common Share (each, a "June LIFE Warrant Share") at an exercise price of \$0.30 per June LIFE Warrant Share for a period of 36 months following the date of issuance.

As disclosed above, the Company entered into agreement with debt holders to settle the outstanding convertible debentures and unsecured non-convertible debentures through the issuance of common shares and common shares purchase warrants 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 profit or 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 Common Share purchase warrant of the Company (each whole warrant, a "July LIFE Warrant"). Each July LIFE Warrant entitles the holder thereof to purchase one Common Share (each, a "July LIFE Warrant Share") at an exercise price of \$0.76 per July LIFE Warrant 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 Common Share purchase warrant of the Company (each whole warrant, an "August LIFE Warrant"), 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, amounted to \$367,666, which is included in the total share-based payment expenses of \$1,015,697 for the period. As part of purchase agreement, seller was entitled to earn-out clause and the arrangement involved the direct

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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.

Preferred shares

	September 30, 2025		December 31, 2024	
	Shares	Amount	Shares	Amount
Issued for acquisition of Partner Jet Corp.	206,188	206,188	206,188	206,188
UAViation Aerial Solutions Limited Investment	-	-	80,000	80,000
Total	206,188	206,188	286,188	286,188

The above preferred shares are non-redeemable and have a face value of \$1. The preferred shares outstanding at December 31, 2024 in UAViation Aerial Solutions Limited are in the Volatus owned subsidiary, Volatus Unmanned Services Inc. have been settled in full in 2025 by issuing common equity.

Stock Options

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

	September 30, 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	(166,138)	0.14	(5,372,438)	0.56
Exercised	(1,368,126)	0.29	-	-
Granted	1,977,000	0.14	-	-
Expired	(707,149)	0.58	-	-
Options – acquisition	-	-	7,315,000	0.58
Outstanding, end of period	16,302,102	0.27	16,566,515	0.30

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2025:

Range of price (C\$)	Options Outstanding			Options Exercisable		
	Number of Stock Options outstanding	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price	Number of Stock Options exercisable	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price
\$0.10 - \$0.19	6,547,290	3.27	0.13	2,065,622	2.84	0.13
\$0.20 - \$0.35	2,157,312	1.88	0.21	1,599,500	1.90	0.21
\$0.36 - \$0.50	6,247,500	1.25	0.36	6,247,500	1.25	0.36
\$0.50 - \$0.75	1,350,000	1.49	0.58	1,350,000	1.49	0.58
	16,302,102	2.16	0.27	11,262,622	1.67	0.33

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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 (RSU)

On January 2, 2025, the Company granted 5,546,000 RSU's 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 RSU's 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 RSU's that will vest over three years and will expire five years from grant date.

	September 30, 2025		December 31, 2024	
	Number of RSU	Weighted Average Exercise Price	Number of RSU	Weighted Average Exercise Price
Outstanding, beginning of period	-	-	-	-
Granted	9,946,000	-	-	-
Forfeited	(271,000)	-	-	-
Outstanding, end of period	9,675,000	-	-	-

The following table summarizes information about RSUs outstanding and exercisable as at September 30, 2025:

	RSU Outstanding			RSU Exercisable		
	Number of RSU outstanding	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price	Number of RSU exercisable	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price
2025 Issuance	9,675,000	4.45	-	-	-	-
Total	9,675,000	4.45	-	-	-	-

Warrants

Details of warrants and their value:

Sr. No	Issue Date	Number of warrants outstanding at September 30, 2025	Number of warrants outstanding at December 31, 2024	Exercise Price	Expiry Date
1	06-May-23	-	753,020	\$0.28	06-May-25
2	06-May-23	-	4,723,110	\$0.28	06-May-25

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3	06-Nov-24	4,345,005	19,760,000	\$0.20	06-Nov-26
4	06-Nov-24	372,552	1,383,620	\$0.14	06-Nov-26
5	01-May-25	7,666,666	-	\$0.20	01-May-28
6	14-May-25	17,640,000	-	\$0.20	14-May-28
7	19-Jun-25	3,720,000	-	\$0.20	19-Jun-28
8	27-Jun-25	10,964,000	-	\$0.30	27-Jun-28
9	17-Jul-25	9,615,385	-	\$0.76	17-Jul-28
10	14-Aug-25	4,644,231	-	\$0.76	14-Aug-28
11	14-Aug-25	557,308	-	\$0.76	14-Aug-26
		59,525,147	26,619,750	\$0.36	

As of September 30, 2025, the following warrants were outstanding and exercisable:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, Dec 31, 2024	26,619,750	0.22
Issued	73,676,924	0.30
Expired	(5,476,130)	0.28
Exercised	(35,295,397)	0.20
Outstanding, September 30, 2025	59,525,147	0.36

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 per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of \$0.13, risk-free interest rate of 2.53%, expected life of 5 years, expected volatility of 72% 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 25, 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.

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On June 27, 2025, Volatus issued 25,000,000 units as part of its \$5 million LIFE (Listed Issuer Financing Exemption) Offering financing. Each Unit is comprised of one common voting share in the capital of the Company (" Common Share ") and one-half of one Common Share purchase warrant 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 (Listed Issuer Financing Exemption) Offering financing. Each Unit is comprised of one common voting share in the capital of the Company (" Common Share ") and one-half of one Common Share purchase warrant 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 (Listed Issuer Financing Exemption) Offering financing. Each Unit is comprised of one common voting share in the capital of the Company (" Common Share ") and one-half of one Common Share purchase warrant 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:

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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 (the "Host") of the instrument is classified at amortized cost, whereas the conversion option is equity classified and the prepayment and redemption features (the "Embedded Derivative"), which has a negligible value, is classified as fair value through profit and loss ("FVTPL").

The modification of the debenture was deemed to be a substantial modification, resulting in an extinguishment of the original Convertible Debenture and the recognition of a new instrument. Upon extinguishment of the old Convertible Debenture, a loss of \$672,444 has been recognised 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 fair value of the liability component of the modified instrument is recognised as a financial liability in the amount of \$7,154,912 and the residual effect of the modification is recognised in equity in the amount of \$1,073,855, for a total of \$8,228,767 representing the fair value of the old liability component of \$5,228,767 plus the additional cash received upon the issuance of \$3,000,000 of principal. Fees in the amount of \$231,837 have been incurred in connection with the amendment and restatement of the convertible debenture. These fees have been allocated to each of the new instrument components, based on their relative value as at modification date. The transaction costs of \$231,837 are then allocated \$201,583 to the liability and \$30,255 to the equity portions based on the allocation of proceeds.

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

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 September 30, 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 trade and other receivables. The maximum

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exposure to credit risk is the carrying amount as reported on the financial statements. Credit risk on trade and other receivables is minimized because of the constant review and evaluation of the account balances.

The Company also maintains an allowance for credit losses at an estimated amount, allocating sufficient protection against losses resulting from collecting less than full payments from its receivables. There is no indication, as at this date, that the debtors will not meet their obligations, except as has been provided for as bad debts during the reporting periods. The Company manages its credit risk relating to its trade receivables through credit approval and monitoring procedures, including senior management prior approval of all sales. Such approvals are based on trade information, payment history, credit rating and financial analysis, where possible. There are no significantly aged trade and other receivables on September 30, 2025 and 2024.

Foreign Currency Risk

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

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As of September 30, 2025, the Company did not have any foreign currency hedges in place.

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

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

(in C\$)	Vehicle and Equipment	Building	Total
Cost			
Balance, January 1, 2025	376,029	3,156,566	3,532,595
Additions during the period	653,525	176,407	829,933
Derecognition on lease termination	-	(632,807)	(632,807)
Balance, September 30, 2025	1,029,554	2,700,166	3,729,721
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 period	207,975	505,885	713,861
Balance, September 30, 2025	339,809	1,476,408	1,816,218
Net book value			
Balance, January 1, 2025	244,195	1,591,148	1,835,343
Balance, September 30, 2025	689,745	1,223,758	1,913,503

20. Leases

Company as a lessee

Leasing arrangements

The Company leases various items of real estate property and vehicles used in its operations. The lease terms are generally between 4 and 6 years. There are some leases with renewal options that are included when management

Notes to Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2025 (unaudited)

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\$)	September 30, 2025	December 31, 2024
Balance, beginning of period	2,005,075	1,521,182
Additions	829,933	1,155,362
Derecognition on lease termination	(42,858)	-
Interest	293,782	216,471
Payments	(1,010,005)	(887,940)
Balance, end of period	2,075,927	2,005,075
Current	985,113	765,498
Non-Current	1,090,814	1,239,577

21. Subsequent Events

On October 27, 2025, the Company announced the intellectual property acquisition of Unmanned Aerial Systems from a UK engineering firm for gross proceeds of \$2 million payable in common shares at \$0.75 (15 days VWAP from signing of definitive agreement). One half of the Common Shares (1,315,790) to be issued shall have the customary no-trade hold period of 4 months from the date of issuance and the other half of the common Shares (1,315,790) to be issued will have a no-trade hold period of 24 months from the date of issuance. The transaction was closed on November 10, 2025.

On November 26, 2025, the Company announced that it had closed its bought-deal public offering (the "Offering") and non-brokered private placement (the "November Private Placement") for aggregate gross proceeds of \$26,391,500. Pursuant to the Public Offering, a total of 38,352,000 Common Shares were issued at a price of \$0.60 per Common Share, including an aggregate of 5,002,500 Common Shares issued as a result of the full exercise of the over-allotment option (the "Over-Allotment Option"). Pursuant to the November Private Placement, 5,633,333 Common Shares were at a price of \$0.60 per Common Share, to certain international strategic investors. The Public Offering was conducted by a syndicate of underwriters led by Stifel Nicolaus Canada Inc., and including Ventum Financial Corp., Canaccord Genuity Corp. and Haywood Securities Inc. (collectively, the "Underwriters"). The Underwriters received a cash commission equal to 6.0% of the gross proceeds of the Public Offering (including the gross proceeds raised pursuant to the full exercise of the Over-Allotment Option) in addition to an advisory fee of \$22,374 (inclusive of HST). The Company also paid finder's fees in the amount of \$120,000 to certain persons who assisted the Company with the November Private Placement. The Company intends to use the net proceeds for development of the Company's Mirabel Manufacturing Hub, research and development of drone technologies to support the defence sector, potential acquisitions related to the defence sector, capital expenditures and for working capital and general corporate purposes.