



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

Condensed Interim Consolidated Financial Statements

For the three and nine months ended Sept 30, 2024

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

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

| | Notes | 30-Sep-24 | 31-Dec-23 |
|------------------------------------------------------|-------|-------------------|-------------------|
| Assets | | | |
| Current | | | |
| Cash | | 679,437 | 1,682,402 |
| Trade and other receivables | 5 | 5,811,185 | 3,815,478 |
| Prepaid expenses, deposits, and other current assets | 6 | 1,547,284 | 2,022,836 |
| Inventories | 10 | 3,056,119 | 2,983,632 |
| Total current assets | | 11,094,025 | 10,504,348 |
| Property, plant and equipment | 7 | 9,131,028 | 9,290,336 |
| Intangible assets | 8 | 32,441,859 | 4,766,728 |
| Right-of-use asset | 20 | 1,987,202 | 1,351,082 |
| Goodwill | 9 | 8,426,401 | 963,604 |
| Total non-current assets | | 51,986,490 | 16,371,750 |
| Total Assets | | 63,080,515 | 26,876,098 |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities | | | |
| Trade payables and accrued liabilities | 11 | 11,490,822 | 4,424,484 |
| Deferred revenue | | 490,319 | 210,700 |
| Current portion of lease liability | 21 | 739,388 | 542,298 |
| Other short-term liabilities | 13 | 6,840,984 | 7,084,475 |
| Current portion of long-term borrowings | 12 | 4,318,357 | 2,252,385 |
| Deferred/ Contingent consideration | | 182,024 | 182,024 |
| Total current liabilities | | 24,061,893 | 14,696,366 |
| Long-term borrowings | 12 | 4,900,008 | 5,775,102 |
| Convertible Debentures | 18 | 2,302,556 | 2,097,028 |
| Deferred tax liability | | 283,130 | 283,130 |
| Lease Liability | 21 | 1,408,871 | 978,884 |
| Contingent Consideration | | 507,692 | 507,692 |
| Total non-current liabilities | | 9,402,258 | 9,641,836 |
| Total Liabilities | | 33,464,151 | 24,338,202 |
| Shareholders' Equity | | | |
| Common equity | 17 | 50,633,247 | 13,360,860 |
| Warrants reserve | 17 | 6,186,018 | 6,192,685 |
| Share-based payment reserve | 17 | 2,806,318 | 2,427,813 |
| Convertible Debenture - Options | 18 | 200,356 | 200,356 |
| Preferred shares | 17 | 351,764 | 351,764 |
| Deficit | | (29,863,384) | (19,437,263) |
| Contributed Surplus | 17 | 211,831 | 211,831 |
| Non-controlling interest | | (909,786) | (770,150) |
| Total Shareholders' Equity | | 29,616,365 | 2,537,896 |
| Total Liabilities & Shareholders' Equity | | 63,080,515 | 26,876,098 |

Going concern (note 2)
Subsequent event (note 22)

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

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

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

| | Three months ended | | Nine months ended Sep 30 | |
|-------------------------------------------------------------------------|--------------------|--------------------|--------------------------|-----------------------|
| | 2024 | 2023 | 2024 | 2023 |
| Revenue | \$ 6,618,504 | \$ 8,274,349 | \$ 20,364,238 | \$ 24,371,820 |
| Direct costs | 4,366,107 | 5,265,775 | 13,381,538 | 16,036,092 |
| Gross Profit | 2,252,397 | 3,008,574 | 6,982,700 | 8,335,728 |
| OPERATING EXPENSES | | | | |
| Advertising & marketing | 331,763 | 541,635 | 1,022,459 | 1,577,438 |
| IT & tech | 210,328 | 243,602 | 726,586 | 640,657 |
| Personnel | 1,787,175 | 1,727,086 | 5,499,433 | 5,671,730 |
| R&D | 4,011 | 104,832 | 15,851 | 569,515 |
| Office cost | 497,706 | 722,223 | 1,634,955 | 1,943,408 |
| Travel | 77,011 | 90,804 | 174,774 | 352,453 |
| External partner cost | 2,117,840 | 243,443 | 2,748,053 | 841,568 |
| Depreciation and amortization | 1,294,350 | 843,744 | 3,509,136 | 2,386,367 |
| Share based payments | 124,861 | 195,372 | 378,505 | 550,134 |
| | 6,445,045 | 4,712,741 | 15,709,752 | 14,533,270 |
| (Loss) from Operations | (4,192,648) | (1,704,167) | (8,727,052) | (6,197,542) |
| OTHER ITEMS - INCOME/(EXPENSE) | | | | |
| Finance cost | (992,806) | (425,671) | (1,863,576) | (1,107,288) |
| Other income (expense) | (2,669) | (39,229) | (12,684) | 450 |
| Unrealized gain on investments | - | (53) | - | (284,929) |
| Gain (Loss) on disposal of property and equipment | (194,662) | 228,769 | 117,198 | 218,258 |
| Foreign exchange translation | (109,037) | 19,948 | (79,641) | (10,933) |
| Net Loss | (5,491,822) | (1,920,403) | \$ (10,565,756) | \$ (7,381,984) |
| Total comprehensive Income (loss) for the period attributable to | | | | |
| Owners of Volatus Aerospace Corp. | (5,440,827) | (2,427,597) | (10,426,120) | (7,466,955) |
| Non-controlling interest | (50,994) | 507,194 | (139,636) | 84,972 |
| | (5,491,822) | (1,920,403) | (10,565,756) | (7,381,983) |
| Loss per share | | | | |
| Basic and diluted | (0.02) | (0.01) | (0.04) | (0.04) |
| Weighted average number of common shares outstanding | | | | |
| Basic and diluted | 249,689,240 | 207,060,830 | 249,689,240 | 207,060,830 |

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

Volatus Aerospace Inc.
Condensed Consolidated Interim 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 |
|--------------------------------------------------------------|--------------------|-------------------|-----------------------------|------------------|------------------|---------------------|-----------------------------------|---------------------|--------------------------|---------------------|-------------------|
| January 1, 2023 | 203,388,396 | 10,957,258 | 352,634 | 352,634 | 6,098,857 | 1,704,009 | 200,356 | 211,831 | (1,779,222) | (7,127,402) | 10,618,321 |
| Shares Issued on Acquisition | 3,018,926 | 628,254 | | | | | | | | | 628,254 |
| Stock options expense | | | | | | 354,762 | | | | | 354,762 |
| Private Placement Acquisition of non-controlling interest | | | | | | | 124,657 | | | | 124,657 |
| Net loss for the period | | | | | | | | | (422,218) | (5,039,358) | (5,461,576) |
| Sept 30, 2023 | 206,407,322 | 11,585,512 | 352,634 | 352,634 | 6,098,857 | 2,058,771 | 325,013 | 211,831 | (2,201,440) | (12,166,760) | 6,264,418 |
| | 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 |
| 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) |
| Sept 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 |

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

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

| | Nine Months Ended Sep 30 | |
|-----------------------------------------------------------|---------------------------------|--------------------|
| | 2024 | 2023 |
| OPERATING ACTIVITIES | | |
| Net Loss | (10,565,756) | (7,381,983) |
| Adjustments For: | | |
| Depreciation and Amortization | 3,509,136 | 2,386,367 |
| Gain on sale of property and equipment | (117,198) | (218,258) |
| Finance Cost | 1,863,576 | 1,107,288 |
| Share based Payments | 378,505 | 550,134 |
| Share of loss from joint venture | - | 284,929 |
| Unrealized Foreign Exchange Loss/(Gain) | 79,641 | - |
| | (4,852,094) | (3,271,523) |
| Net changes in non-cash working capital items: | | |
| Trade and other receivables | (1,447,933) | (1,099,808) |
| Prepaid expenses and deposits | 775,708 | (854,675) |
| Inventories | (72,487) | 811,325 |
| Trade payables and accrued liabilities | 5,860,350 | 1,064,943 |
| Deferred revenue | 59,580 | 18,682 |
| Other short-term liabilities | (243,491) | 262,505 |
| Cash generated from (used in) Operating Activities | 79,634 | (3,068,554) |
| INVESTING ACTIVITIES | | |
| Additions to Property, Plant & Equipment | (661,781) | (1,422,223) |
| Addition to Intangibles | - | - |
| Acquisition of businesses, net of cash acquired | 823,184 | (299,000) |
| Investment in Associate/JV | - | (286,423) |
| Cash (used in) Investing Activities | 161,402 | (2,007,646) |
| FINANCING ACTIVITIES | | |
| Net Proceeds/(Repayment) of long-term loans | (717,355) | 765,016 |
| Repayment of lease obligations | (732,176) | (443,335) |
| Net proceeds from issuance of convertible debenture | 205,528 | 2,224,297 |
| Proceeds/(Repayment) of Preference Shares | - | (870) |
| Cash provided by (used in) Financing Activities | (1,244,003) | 2,545,108 |
| Net change in cash | (1,002,966) | (2,531,092) |
| Cash and cash equivalents, beginning of the period | 1,682,402 | 3,684,581 |
| Cash and cash equivalents, end of the period | 679,437 | 1,153,489 |

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

**Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended Sept 30, 2024 (unaudited)**

1. The Company and its Operations

Volatus Aerospace Inc. ("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, the Company acquired all outstanding shares in Volatus Aerospace Corp. and renamed as Volatus Aerospace Inc. Under the terms of arrangement, each shareholder of Volatus received 1.785 shares of Drone Delivery Canada Corp. See note 16 for details of the transaction.

Volatus and entities it controls are together referred to in these consolidated financial statements as the "Company" or "VAI" 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, and the UK. Operating a vast pilot network, Volatus serves commercial and defense markets with imaging, inspection, security and surveillance services, cargo services, equipment sales and support, training. Through its subsidiaries, Volatus carries on the business of pipeline inspection and monitoring, using piloted aircraft. All other activities are conducted in the remotely piloted sector of aviation.

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

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), effective for the quarter ended Sept 30, 2024, applicable to companies reporting under IFRS, and have been consistently applied unless otherwise indicated.

These consolidated financial statements of the Company were approved by the Board of Directors on Nov 28, 2024.

Basic of measurement

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

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 Sept 30, 2024. On Sept 30, 2024, the Company had not yet achieved profitable operations, had an accumulated deficit of \$29.86 million since its inception and negative working capital of \$13 million. The Company expects to incur further operating losses to the end of 2024 with the continued ramp up of business activities to service evolving market demands in a nascent industry.

The Company's ability to continue as a going concern is dependent upon the successful execution of management's operating and strategic plan which includes, amongst other things, securing additional financing to meet its ongoing operating requirements to fund inventory levels and fulfil new service contracts and, ultimately, the attainment of

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended Sept 30, 2024 (unaudited)

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 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:

Purchase price equations

The acquired assets and assumed liabilities are generally recognized at fair value on the date the Company obtains control of a business. The measurement of each business combination is based on the information available on the acquisition date. Management applied significant judgement in estimating the fair value of the contingent consideration 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. Changes in these estimates and judgments could result in significant changes to the valuation of the intangible assets.

Impairment

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal ("FVLCD") and its value in use ("VIU"). The FVLCD calculation is based on available data from binding sales transactions, 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. The recoverable amounts of the CGU were based on the FVLCD method using discounted cash flow models. Significant assumptions used in the discounted cash flow models included revenue growth rates, EBITDA margins

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended Sept 30, 2024 (unaudited)

and discount rates. Changes in these estimates and judgments could result in significant changes to management's conclusions with respect to asset impairment.

Contingent consideration liabilities

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

Estimated Useful Lives of Property and Equipment and Intangible Assets

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

Fair Value of Share-Based Payments

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

3. Summary of material accounting policies

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, 2023. 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, 2023. 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

Volatus Aerospace Inc.

Notes to Condensed Consolidated Interim Financial Statements For the three and nine months ended Sept 30, 2024 (unaudited)

interim financial statements remained unchanged from those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2023.

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 | 100% |
| Indigenous Aerospace Corp. | RPAS/UAV Service and Training | CAD | Canada | 49% |
| Volatus Aviation (Partner Jet Inc.) | Manned Aircraft Operations | CAD | Canada | 100% |
| RPV Aviation Inc. | Regulatory Consulting | CAD | Canada | 100% |
| MVT Geo Solutions Inc. | RPAS/UAV Services | CAD | Canada | 100% |
| Canadian Air National Inc. | Pipeline Inspection & Surveillance Services | CAD | Canada | 100% |
| Volatus Aerospace UK Ltd. | RPAS/UAV Services and Training | GBP | UK | 100% |
| iRed Limited | RPAS/UAV Services and Training | GBP | UK | 100% |
| Synergy Aviation Ltd. | Pipeline Inspection & Surveillance Services | CAD | Canada | 51% |
| Synergy Flight Training Inc. | Flight Training | CAD | Canada | 51% |
| Empire Drones LLC | RPAS/UAV Sales & Support | USD | USA | 100% |
| Sky Scape Industries, LLC | Drone Solutions Provider | USD | USA | 100% |
| Aerial Motion Pictures Limited (UAV Hub) | RPAS/UAV Training | UK £ | UK | 100% |
| Open Sky Consulting International Ltd (Drone Mentor) | RPAS/UAV Training | UK £ | UK | 100% |
| Volatus Unmanned Services Inc.^{A1} | | CAD | Canada | 100% |
| - UAViation Aerial Solutions Limited | RPAS/UAV Services | CAD | Canada | 100% |
| - SkyGate Videography Inc. | RPAS/UAV Services and Training | CAD | Canada | 100% |
| - M3 Drone Services Limited | RPAS/UAV Services | CAD | Canada | 100% |
| - M3 Drone Training Zone Inc. | RPAS/UAV Training | CAD | Canada | 100% |
| - Canadian UAV Solutions Inc. | RPAS/UAV Services | CAD | Canada | 100% |
| - OmniView Tech Corp. | RPAS/UAV Sales and Support | CAD | Canada | 100% |

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

Volatus Aerospace Inc.

Notes to Condensed Consolidated Interim Financial Statements For the three and nine months ended Sept 30, 2024 (unaudited)

The 30% external shareholding of Volatus Flight Systems, 10% external shareholding of Volatus Aerospace USA Corp, 51% external shareholding of Indigenous Aerospace Corp., 49% external shareholding of Synergy Aviation Ltd. And Synergy Flight Training Inc. are all attributable to Non-Controlling Interests in the consolidated financial statements.

On August 29, 2023, the Company acquired the non-controlling interest of 33.66% of Volatus Unmanned Services by issuing 7,270,723 shares of Volatus Aerospace Inc. at \$0.22 and, on Nov 16, 2023, the Company acquired the minority interest of 49% of iRed Ltd. by issuing 1,098,684 shares of Volatus Aerospace Inc. at \$0.16 and cash of \$34,170. The difference between the value of the cash and share consideration paid and the carrying value of the non-controlling interest at the time of the transaction was recorded as an adjustment to retained earnings.

5. Trade and other receivables

| (in C\$) | Sept 30, 2024 | Dec 31, 2023 |
|-------------------------|---------------|--------------|
| Trade receivables | 5,793,124 | \$ 3,506,386 |
| Accrued revenues | 15,912 | 248,131 |
| Tax credits receivable | - | 56,778 |
| Other receivable | 2,149 | 21,748 |
| Provision for bad debts | - | (17,566) |
| Total | \$ 5,811,185 | \$ 3,815,478 |

6. Prepaid expenses, deposits, and other current assets

| (in C\$) | Sept 30, 2024 | Dec 31, 2023 |
|----------------------|---------------|--------------|
| Prepaid Expenses | \$ 915,563 | \$ 1,256,943 |
| Security Deposit | 292,453 | 329,111 |
| Advance payment | - | 436,782 |
| Other current assets | 339,267 | |
| Total | \$ 1,547,284 | \$ 2,022,836 |

Deposits

| (in C\$) | Sept 30, 2024 | December 31, 2023 |
|---------------------------------|---------------|-------------------|
| Deposit towards Training School | \$ 12,000 | \$ 12,000 |
| Deposit towards rental | 57,876 | 80,848 |
| Deposit towards trade show | - | - |
| Deposit towards Aircraft | 139,434 | 128,937 |
| Other deposits | 83,144 | 107,326 |
| Total | \$ 292,453 | \$ 329,111 |

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended Sept 30, 2024 (unaudited)

7. Property, plant & equipment

| Cost | Drones & Accessories | Machinery | Leasehold Improvements | Furniture & Fixtures | Computer & Equipment | Vehicle | Aircraft | WIP | 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 | 13,683,551 |
| Additions | 59,636 | 16,420 | 4,319 | | 60,691 | | 662,758 | 547,738 | 1,351,562 |
| Additions related to business combinations | 609,870 | | 96,332 | 6,649 | 163,094 | 28,201 | | 189,452 | 1,093,598 |
| Disposals/Retirements | (6,801) | | (140,255) | (11,536) | (2,461) | (528,728) | | | (689,780) |
| Balance, Sept 30, 2024 | 3,155,402 | 369,991 | 366,371 | 699,679 | 1,055,924 | 774,779 | 7,796,326 | 1,220,459 | 15,438,930 |
| Accumulated Depreciation | | | | | | | | | |
| Balance, December 31, 2023 | 1,044,846 | 197,081 | 61,073 | 519,483 | 516,659 | 364,942 | 1,689,130 | - | 4,393,215 |
| Depreciation for the period | 526,735 | 32,400 | 27,378 | 30,600 | 65,147 | 173,094 | 1,375,580 | - | 2,230,934 |
| Accumulated depreciation related to business combinations | | | | | | | | | - |
| Disposals/Retirements | (6,196) | | (81,123) | (4,351) | (1,729) | (222,847) | | | (316,247) |
| Balance, Sept 30, 2024 | 1,565,385 | 229,481 | 7,328 | 545,732 | 580,077 | 315,188 | 3,064,710 | - | 6,307,902 |
| Net carrying Amount | | | | | | | | | |
| 31-Dec-23 | 1,447,851 | 156,489 | 344,902 | 185,082 | 317,941 | 910,364 | 5,444,438 | 483,269 | 9,290,337 |
| 30-Sep-24 | 1,590,017 | 140,509 | 359,043 | 153,946 | 475,847 | 459,591 | 4,731,616 | 1,220,459 | 9,131,028 |

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended Sept 30, 2024 (unaudited)

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 | 27,896,282 | - | 590,519 | 28,486,801 |
| Reclassifications & Transfers | | | | - |
| Balance, Sept 30, 2024 | 28,540,530 | 4,843,995 | 1,458,067 | 34,842,592 |
| Accumulated Depreciation | | | | |
| Balance, December 31, 2023 | 193,275 | 1,086,826 | 308,962 | 1,589,063 |
| Amortization for the period | 164,554 | 518,965 | 128,152 | 811,671 |
| Balance, Sept 30, 2024 | 357,829 | 1,605,791 | 437,114 | 2,400,734 |
| Net carrying Amount | | | | |
| 31-Dec-23 | 450,973 | 3,757,169 | 558,586 | 4,766,728 |
| 30-Sep-24 | 28,182,701 | 3,238,204 | 1,020,953 | 32,441,859 |

The purchase price allocation related to the acquisition of Drone Delivery Canada Corp. is preliminary and has been prepared in accordance with IFRS 3 - *Business Combinations*. The fair values of technology acquired are subject to change as additional information becomes available and further analyses are completed. Adjustments, if any, to the preliminary allocation will be finalized within the measurement period, which is up to 12 months from the acquisition date, as permitted by IFRS 3. These adjustments may result in changes to the reported amounts of technology and may have a material impact on the financial statements.

9. Goodwill

| | Sept 30, 2024 | December 31, 2023 |
|----------------------------|---------------|-------------------|
| Balance, beginning of year | \$ 963,604 | \$ 963,604 |
| Acquisitions | 7,462,797 | - |
| Balance, end of year | \$ 8,426,401 | \$ 963,604 |

On August 30, 2024, the Company acquired all outstanding shares in Volatus Aerospace Corp and the accounting was done as reverse acquisition as per IFRS 3. The purchase price allocation related to the acquisition of Volatus Aerospace Corp. is preliminary and has been prepared in accordance with IFRS 3 - *Business Combinations*. The fair values of identifiable assets acquired, and liabilities assumed are subject to change as additional information becomes available and further analyses are completed. Adjustments, if any, to the preliminary allocation will be finalized within the measurement period, which is up to 12 months from the acquisition date, as permitted by IFRS

Notes to Condensed Consolidated Interim Financial Statements
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3. These adjustments may result in changes to the reported amounts of assets, liabilities, and goodwill, and may have a material impact on the financial statements.

The Company performs an impairment test annually. Last impairment test was done on December 31, 2023. No impairment testing was performed on Sept 30, 2024

10. Inventories

Inventory mainly consists of finished goods of drones and related accessories. No write-downs were made during the period ended Sept 30, 2024, and 2023. Direct costs for the nine months ended Sept 30, 2024 included \$5,057,099 of inventory sold (2023 - \$9,475,568).

11. Trade payables and accrued liabilities

| (in C\$) | Sept 30, 2024 | | Dec 31, 2023 | |
|---------------------------|---------------|-------------------|--------------|------------------|
| Accounts Payable | \$ | 10,062,321 | \$ | 2,915,259 |
| Payroll Liability | \$ | 987,102 | | 716,307 |
| Other accrued Liabilities | \$ | 441,398 | | 792,918 |
| Total | \$ | 11,490,822 | \$ | 4,424,484 |

12. Long-term Borrowings

| (in C\$) | Sep 30, 2024 | | Dec 31, 2023 | |
|------------------------------------------------|--------------|--------------------|--------------|--------------------|
| Aircraft Loans | | 4,525,345 | | 5,068,310 |
| Vehicles Loans | | 465,706 | | 632,215 |
| CEBA | | 396,125 | | 480,000 |
| Development Loan | | 308,570 | | 333,344 |
| Promissory Note | | 2,482,499 | | 812,444 |
| Other Loans | | 1,040,122 | | 701,175 |
| Total | \$ | 9,218,365 | \$ | 8,027,487 |
| Less: Current Portion of Long-Term Debt | \$ | (4,318,357) | \$ | (2,252,385) |
| Long-term borrowings | \$ | 4,900,008 | \$ | 5,775,102 |

Aircraft loans bear interest at rates ranging between 9.50% to 12% with expiries between July 2027 and Aug 2030. The loans are payable monthly with principal and interest.

Vehicle loans bear interest at rates ranging between 3.5% and 14% with expiries between March 2026 and June 2032. The loans are repayable monthly with principal and interest.

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The promissory notes are loans with interest rates between 8.5% and 9.5% and are repayable in between 2024 and 2029. The repayment terms of shareholders loans are monthly and a balloon payment at the end of maturity along with interest accrued.

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 chosen the option to extend the repayment of CEBA loans over 3 years with a 5% annual interest charge.

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

Promissory notes bear interest at rates ranging between 9% and 10% with an expiry in 2024.

Other loans consist mainly of equipment loans that bear interest at rates ranging between 4% and 12% with expiries between 2024 and 2050.

13. Other Short-term Liabilities

| (in C\$) | Sep 30, 2024 | Dec 31, 2023 |
|--------------------------|---------------------|---------------------|
| Shareholders Loan | \$ - | 786,362 |
| Other Loans ST | 895,984 | 333,113 |
| Revolving Line of Credit | 5,945,000 | 5,965,000 |
| Total | \$ 6,840,984 | \$ 7,084,475 |

The Company has demand revolving credit facilities totalling \$6,000,000 through its subsidiaries bearing interest at rates ranging between 9% and 12%.

The other loans are short-term loans with interest rates between 9% and 15% and are repayable in the next twelve months.

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 Sept 30, 2024, the Company

Notes to Condensed Consolidated Interim Financial Statements
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incurred fees of \$72,000 (2023- \$72,000). As at Sept 30, 2024, the Company was indebted to this company in the amount of \$81,360 (2023 - \$27,120).

Share Capital:

The Company has outstanding preferred shares valued at \$206,188 that are non-redeemable and have no coupon interest payment and have a face value of \$1 to a company controlled by a director of the Company. (2022 – \$206,188) (Refer to Note 17)

Loans & Advance:

The Company has entered into promissory notes with a director of the Company on March 17, 2023, April 2024, and May 2024 for short-term loans at an interest rate ranging between 8.5% and 12% per annum. The amount of \$1,776,234 is outstanding as at Sept 30, 2024 and repayable between 2024 and 2029. This amount is included in other short-term and 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 period ended Sept 30, 2024 and 2023 is summarized as follows:

| | Three months ended | | Nine months ended | |
|----------------------|--------------------|---------------|-------------------|---------------|
| | Sept 30, 2024 | Sept 30, 2023 | Sept 30, 2024 | Sept 30, 2023 |
| Salaries | 156,201 | 221,250 | 589,701 | 663,750 |
| Share-based payments | 94,355 | 157,435 | 291,114 | 465,086 |
| | 250,556 | 378,685 | 889,815 | 797,262 |

16. Business Combinations

Acquisition of UAV Hub and Drone Mentor

On January 2, 2024, Volatus acquired from an individual 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 \$225,000) on Closing by issuing 1,680,000 common shares at \$0.15 price per share.

Volatus Aerospace Inc.

Notes to Condensed Consolidated Interim Financial Statements For the three and nine months ended Sept 30, 2024 (unaudited)

| | |
|--------------------------------------------------|-------------------|
| Total Consideration | \$ 252,000 |
| Net assets acquired: | |
| Cash | 97,273 |
| Accounts Receivable | 3,522 |
| Property, plant and equipment | 49,645 |
| Accounts Payable and accrued liabilities | (64,569) |
| Non-current Loans | (44,657) |
| Identified intangible assets – Brand and Website | |
| Website | \$ 207,106 |

The breakdown of consideration paid is as follows:

| | |
|--------------------------------------------------|----------------|
| Issuance of 1,680,000 common shares upon closing | \$ 225,000 |
| Total consideration | 225,000 |

The Company did not incur any acquisition-related costs.

Acquisition of **Volatus Aerospace Corp.**

Pursuant to plan of arrangement, on August 30, 2024, the Company completed the acquisition of all outstanding shares in Volatus Aerospace Corp. The consideration resulted in a merger of equals between Volatus Aerospace Corp. and Drone Delivery Canada Corp. And the Company was renamed form Volatus Aerospace Inc. Under the terms of the Arrangement, each former Volatus Aerospace Corp shareholder was i 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”). The Merger was structured as a 50/50 merger of equals with shareholders of both companies owning approximately 50% of the Company upon completion of the Arrangement.

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

The purchase consideration to complete the transaction and the fair value of the net assets acquired were as follows:

Total consideration paid was at fair value of \$0.165 shares and issuance of 224,199,312 shares.

| | |
|----------------------------------------------|----------------------|
| Total Consideration (equity) | \$ 36,992,886 |
| Net assets acquired: | |
| Cash | 725,911 |
| Accounts receivable and other current assets | 844,408 |

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| | |
|-------------------------------------------|---------------|
| Property, plant and equipment | 1,031,667 |
| Patents | 301,185 |
| Trademark | 92,093 |
| Right-of-use assets | 802,939 |
| Accounts Payable and accrued liabilities | (1,141,419) |
| Lease obligations | (802,939) |
| Deferred revenue | (220,038) |
| Identified intangible assets – Technology | |
| Technology | \$ 27,896,282 |

Goodwill (Balance) \$ 7,462,797.2

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

The purchase price allocation related to the acquisition of volatus Aerospace Corp. is preliminary and has been prepared in accordance with IFRS 3 - *Business Combinations*. The fair values of identifiable assets acquired, and liabilities assumed are subject to change as additional information becomes available and further analyses are completed. Adjustments, if any, to the preliminary allocation will be finalized within the measurement period, which is up to 12 months from the acquisition date, as permitted by IFRS 3. These adjustments may result in changes to the reported amounts of assets, liabilities, and goodwill, and may have a material impact on the financial statements.

17. Share Capital, Stock Options and Warrants

Authorized share capital

Unlimited number of common shares without par value. On June 15, 2022, the Company filed an amendment of its notice of articles in order to implement a variable voting system by creating two new classes of shares, variable voting shares and common voting shares. The amendments to the articles of the Company ensure that the Company will continue to meet the Canadian ownership requirements of the Canadian Transportation Agency ("CTA") under section 61 of the Act. The amendments were approved by shareholders of the Company at its annual general and special meeting held on May 11, 2022. The previously issued common shares were cancelled and substituted for the new variable voting shares and common voting shares.

As of Sept 30, 2024, the shares issuable by the Company consist of an unlimited number of variable voting shares and an unlimited number of common voting shares. The two classes of shares are without par value and have equivalent rights as shareholders except for voting rights.

A common voting share will be automatically converted into one variable voting share, without any further act of the Company or the holder, if such common voting share is or becomes beneficially owned or controlled, directly or indirectly, otherwise than by way of a security only, by a person who is not a Canadian within the meaning of the CTA. Each issued and outstanding variable voting share will be automatically converted into one common voting share, without any further act on the part of the Company or the holder, if (a) such variable voting share

Notes to Condensed Consolidated Interim Financial Statements
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becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian within the meaning of the CTA, or (b) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions. Variable voting shares carry one vote per variable voting share held, unless any of the thresholds set forth below would otherwise be surpassed at any time, in which case the vote attached to a variable voting share will decrease as described below.

Single Non-Canadian Holder

If at any time:

a single non-Canadian holder of variable voting shares, either individually or in affiliation with any other person, holds a number of variable voting shares outstanding that, as a percentage of the total number of all voting shares outstanding, exceeds 25% or

the total number of votes that would be cast by or on behalf of a single non-Canadian holder, either individually or in affiliation with any other person, at any meeting would exceed 25% of the total number of votes cast at such meeting,

then the vote attached to each variable voting share held by such single non-Canadian holder, will decrease proportionately and automatically without further act or formality only to such extent that, as a result (i) the variable voting shares held by such single non-Canadian holder do not carry in the aggregate more than 25% of the aggregate votes attached to all issued and outstanding voting shares of the Company, and (ii) the total number of votes cast by or on behalf of such single non-Canadian holder at the meeting do not exceed in the aggregate 25% of the total number of votes cast at such meeting.

Non-Canadian Holder Authorized to Provide Air Service

If at any time:

one or more non-Canadians authorized to provide an air service in any jurisdiction, collectively hold, either individually or in affiliation with any other person, a number of variable voting shares outstanding that, as a percentage of the total number of all voting shares outstanding, after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by any single non-Canadian holder as set out above under the variable voting shares held by any single non-Canadian holder as set out above under "Single Non- Canadian Holder" (if any, as the case may be) exceeds 25%, or

the total number of votes that would be cast by or on behalf of non-Canadian holders authorized to provide air service, after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by any single non-Canadian holder as set out above under "Single Non-Canadian Holder" (if any, as the case may be), exceed 25% of the total number of votes cast at such meeting,

then the vote attached to each variable voting share held by all non-Canadian holders authorized to provide air service will decrease proportionately and automatically without further act or formality only to such extent that, as a result (i) the variable voting shares held by all non-Canadian holders authorized to provide air service do not carry in the aggregate more than 25% of the aggregate votes attached to all issued and outstanding voting shares of the Company, and (ii) the total number of votes cast by or on behalf of all non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service at any meeting do not exceed in the aggregate 25% of the total number of votes cast at such meeting.

Volatus Aerospace Inc.

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General – All Holders of Variable Voting Shares

If at any time:

the number of variable voting shares outstanding as a percentage of the total number of all voting shares outstanding, after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by any single non-Canadian holder under “Single Non-Canadian Holder” and after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by non-Canadian holders authorized to provide air service as set out above under “Non-Canadian Holder Authorized to Provide Air Service” (in each case, if any, as may be required), exceeds 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the Board), or

the total number of votes that would be cast by or on behalf of holders of variable voting shares at any meeting would, after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by any single non-Canadian holder as set out above under “Single Non-Canadian Holder” and after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by non-Canadian holders authorized to provide air service as set out above under “Non-Canadian Holder Authorized to Provide Air Service” (in each case, if any, as may be required), exceed 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the Board) of the total number of votes cast at such meeting, then the vote attached to each variable voting share will decrease proportionately and automatically without further act or formality only to such extent that, as a result (i) the variable voting shares do not carry more than 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the Board) of the aggregate votes attached to all issued and outstanding voting shares of the Company, and (ii) the total number of votes cast by or on behalf of holders of variable voting shares at any meeting do not exceed 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the Board) of the total number of votes cast at such meeting.

Preferred shares

| | Sept 30, 2024 | | December 31, 2023 | |
|-----------------------------------------------|----------------|----------------|-------------------|-------------------|
| | Shares | Shares | Shares | Amount |
| Issued for acquisition of Partner Jet Corp. | 206,188 | 206,188 | 206,188 | \$ 206,188 |
| UAViation Aerial Solutions Limited Investment | 146,446 | 146,446 | 146,446 | 146,446 |
| Total | 352,634 | 352,634 | 352,634 | \$ 352,634 |

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

Stock Options

Volatus Aerospace Inc.

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

Pre-transaction continuity outstanding options are as follows:

| | 30-Sep-24 | | 31-Dec-23 | |
|-----------------------------------|-------------------------|---------------------------------|-------------------------|---------------------------------|
| | Number of Stock Options | Weighted Average Exercise Price | Number of Stock Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | 8,192,691 | 0.55 | 5,357,691 | 0.62 |
| Granted | - | | 3,057,500 | 0.36 |
| Exercised | - | | - | |
| Forfeited | (177,500) | 0.27 | (222,500) | 0.36 |
| Outstanding, end of period | 8,015,190 | 0.45 | 8,192,691 | 0.56 |

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

| | 30-Sep-24 | | 31-Dec-23 | |
|-----------------------------------|-------------------------|---------------------------------|-------------------------|---------------------------------|
| | Number of Stock Options | Weighted Average Exercise Price | Number of Stock Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | 14,623,953 | 0.31 | 9,563,478 | 0.35 |
| Granted | - | | 5,457,638 | 0.20 |
| Exercised | - | | - | |
| Forfeited | -316,838 | 0.15 | (397,163) | 0.20 |
| Options Issued (M&A related) | 7,315,000 | 0.58 | - | - |
| Outstanding, end of period | 21,622,115 | 0.36 | 14,623,953 | 0.31 |

The following table summarizes information about stock options outstanding and exercisable as at Sept 30, 2024 before merger:

| Range of price (C\$) | Options Outstanding | | | Options Exercisable | | |
|----------------------|-------------------------------------|-----------------------------------------------------|---------------------------------|-------------------------------------|-----------------------------------------------------|---------------------------------|
| | Number of Stock Options outstanding | Weighted Average remaining contractual life (years) | Weighted Average Exercise Price | Number of Stock Options exercisable | Weighted Average remaining contractual life (years) | Weighted Average Exercise Price |
| \$0.20 - \$0.30 | 2,323,750 | 3.87 | 0.23 | 701,441 | 3.15 | 0.25 |
| \$0.31 - \$0.49 | 600,000 | 2.79 | 0.36 | 600,000 | 2.79 | 0.36 |

Volatus Aerospace Inc.

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| | | | | | | |
|-----------------|------------------|-------------|-------------|------------------|-------------|-------------|
| \$0.50 - \$0.65 | 1,130,000 | 2.25 | 0.64 | 2,659,944 | 2.25 | 0.65 |
| | 4,053,750 | 3.26 | 0.36 | 3,961,385 | 2.49 | 0.54 |

The following table summarizes information about stock options outstanding and exercisable as at Sept 30, 2024 after merger (multiplying number of options by 1.785 and dividing exercise price by 1.785):

| Range of price (C\$) | Options Outstanding | | | Options Exercisable | | |
|-----------------------------------------|-------------------------------------|-----------------------------------------------------|---------------------------------|-------------------------------------|-----------------------------------------------------|---------------------------------|
| | Number of Stock Options outstanding | Weighted Average remaining contractual life (years) | Weighted Average Exercise Price | Number of Stock Options exercisable | Weighted Average remaining contractual life (years) | Weighted Average Exercise Price |
| \$0.13 - \$0.19 | 4,147,894 | 3.87 | 0.13 | 1,252,072 | 3.15 | 0.14 |
| \$0.20 - \$0.35 | 1,071,000 | 2.79 | 0.2 | 1,071,000 | 2.79 | 0.20 |
| \$0.36 - \$0.50 | 2,017,050 | 2.25 | 0.36 | 4,748,000 | 2.25 | 0.36 |
| <u>Additional Options due to Merger</u> | | | | | | |
| \$0.20 - \$0.35 | | | | 975,000 | 3.28 | 0.25 |
| \$0.36 - \$0.50 | | | | - | - | - |
| \$0.50 - \$0.75 | | | | 6,140,000 | 2.22 | 0.60 |
| \$0.76 - \$2.00 | | | | 200,000 | 1.35 | 1.70 |
| | 7,235,944 | 3.26 | 0.21 | 14,386,072 | 2.41 | 0.44 |

Warrants

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

| Sr. No | Issue Date | Number of warrants outstanding at December 31, 2023 | Fair Value at December 31, 2023 | Number of Warrants Outstanding at December 31, 2022 | Fair Value at December 31, 2022 | Exercise Price | Expiry Date |
|--------|------------|-----------------------------------------------------|---------------------------------|-----------------------------------------------------|---------------------------------|----------------|-------------|
| 1 | 22-Dec-21 | - | - | 9,475,630 | 1,804,881 | 0.36 | 22-Dec-23 |
| 2 | 22-Dec-21 | - | - | 12,541,349 | 2,248,310 | 0.42 | 22-Dec-23 |
| 3 | 06-Oct-22 | 20,957,746 | 1,878,565 | 20,957,746 | 1,878,565 | \$0.28 | 05-Oct-24 |
| 4 | 06-Oct-22 | 1,569,863 | 167,100 | 1,569,863 | 167,100 | \$0.20 | 05-Oct-24 |
| 5 | 06-May-23 | 753,020 | 20,587 | - | - | \$0.28 | 06-May-25 |
| 6 | 06-May-23 | 4,723,110 | 107,437 | - | - | \$0.28 | 06-May-25 |
| | | 28,003,739 | 2,173,689 | 44,544,588 | 6,098,856 | | |

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| Sr. No | Issue Date | Number of warrants outstanding at Sept 30, 2024 | Fair Value at Sept 30, 2024 | Number of warrants outstanding at December 31, 2023 | Fair Value at December 31, 2023 | Exercise Price | Expiry Date |
|--------|------------|-------------------------------------------------|-----------------------------|-----------------------------------------------------|---------------------------------|----------------|-------------|
| 3 | 06-Oct-22 | 20,883,371 | 1,871,898 | 20,957,746 | 1,878,565 | \$0.28 | 05-Oct-24 |
| 4 | 06-Oct-22 | 1,569,863 | 167,100 | 1,569,863 | 167,100 | \$0.20 | 05-Oct-24 |
| 5 | 06-May-23 | 753,020 | 20,587 | 753,020 | 20,587 | \$0.28 | 06-May-25 |
| 6 | 06-May-23 | 4,723,110 | 107,437 | 4,723,110 | 107,437 | \$0.28 | 06-May-25 |
| | | 27,929,364 | 2,167,022 | 28,003,739 | 2,173,689 | | |

As of Sept 30, 2024, the following warrants were outstanding and exercisable:

| | Number of Warrants | Weighted Average Exercise Price |
|-----------------------------------|--------------------|---------------------------------|
| Outstanding, Dec 31, 2023 | 28,003,739 | \$ 0.28 |
| Issued | - | - |
| Exercised | (74,375) | \$ 0.28 |
| Forfeited | - | - |
| Outstanding, Sept 30, 2024 | 27,929,364 | \$ 0.49 |

18. Convertible Debenture

On May 11, 2023, the Company completed a convertible debenture unit financing to raise aggregate gross proceeds of \$2,646,000. The debentures bear interest at a rate of 12% per annum and mature 2 years from the closing date. The principal and interest outstanding under the debentures are convertible into Subordinate Voting Shares at \$0.50/share, and for every \$1000 of debentures purchased, subscribers also received 1000 common share purchase warrants for Subordinate Voting Shares exercisable at \$0.50/share.

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

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

The warrants were calculated using a Barrier Option Pricing Model.

Inputs used in valuing the components of the convertible debenture:

| | 2023 | 2022 |
|-----------------------|-------|------|
| Risk free rate | 3.89% | - |
| Expected life (years) | 2 | - |

Notes to Condensed Consolidated Interim Financial Statements
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| | | |
|------------------------|--------|---|
| Volatility | 55% | - |
| Underlying stock price | \$0.30 | - |
| Barrier Price | \$1.0 | - |
| Strike price | \$0.50 | - |

The Company incurred \$421,703 as transaction costs that are directly attributable to the issuance of the convertible debenture and have been allocated to each component of the convertible debenture based on the respective fair value allocation.

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

| | |
|--------------------|--------------|
| Debt Component | \$ 1,802,278 |
| Conversion Feature | 293,995 |
| Share Warrants | 128,024 |
| | 2,224,297 |

The conversion feature and share warrants were recognised in the financial statements net of tax amounting to \$127,835 and allocated to conversion feature and share warrants based on their respective fair values. As at Sept 30, 2024 the Debt component was recognised at \$2,302,556 after accretion of interest in the amount of \$862,163.

19. Financial Instruments and Risk Management

The Company is exposed to various risks through its financial instruments. The following analysis provides a summary of the Company's exposure to and concentrations of risk at Sept 30, 2024:

Credit Risk

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

The Company also maintains an allowance for credit losses at an estimated amount, allocating sufficient protection against losses resulting from collecting less than full payments from its receivables. There is no indication, as at this date, that the debtors will not meet their obligations, except as has been provided for as bad debts during the reporting periods. The Company manages its credit risk relating to its trade receivables through credit approval and monitoring procedures, including senior management prior approval of all sales. Such approvals are based on trade information, payment history, credit rating and financial analysis, where possible. There are no significantly aged trade and other receivables on Sept 30, 2024 and 2023.

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

Notes to Condensed Consolidated Interim Financial Statements
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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 June 30, 2024, the Company did not have any foreign currency hedges in place.

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

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

| (in C\$) | Vehicle and Equipment | Building | Total |
|-------------------------------------|-----------------------|---------------------|---------------------|
| Cost | | | |
| Balance, January 1, 2023 | 99,037 | 1,429,967 | 1,529,004 |
| Additions during the period | 19,679 | 828,549 | 848,228 |
| Disposal | | | - |
| Lease acquired in the acquisition | | | - |
| Balance, Dec 31, 2023 | 118,716 | 2,258,516 | 2,377,232 |
| Accumulated amortization | | | |
| Balance, January 1, 2023 | 13,425 | 520,998 | 534,423 |
| Disposal | | | - |
| Depreciation expense for the period | 28,834 | 462,893 | 491,727 |
| Balance, Dec 31, 2023 | 42,259 | 983,891 | 1,026,150 |
| Net book value | | | |
| December 31, 2022 | 85,612 | 908,969 | 994,581 |
| Dec 31, 2023 | \$ 76,457 | \$ 1,274,625 | \$ 1,351,082 |

| (in C\$) | Vehicle and Equipment | Building | Total |
|-------------------------------------|-----------------------|---------------------|---------------------|
| Cost | | | |
| Balance, January 1, 2024 | 118,716 | 2,258,516 | 2,377,232 |
| Additions during the period | 204,601 | 95,121 | 299,712 |
| Disposal | | | - |
| Lease acquired in the acquisition | | 802,939 | 802,939 |
| Balance, Sept 30, 2024 | 323,317 | 3,156,566 | 3,479,883 |
| Accumulated amortization | | | |
| Balance, January 1, 2024 | 42,259 | 983,891 | 1,026,150 |
| Disposal | | | - |
| Depreciation expense for the period | 53,914 | 412,617 | 466,531 |
| Balance, Sept 30, 2024 | 96,173 | 1,396,508 | 1,492,681 |
| Net book value | | | |
| Balance, January 1, 2024 | 76,457 | 1,274,625 | 1,351,082 |
| Balance, Sept 30, 2024 | \$ 227,144 | \$ 1,760,058 | \$ 1,987,202 |

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended Sept 30, 2024 (unaudited)

21. Leases

Company as a lessee

Leasing arrangements

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

Lease liabilities

Carrying amounts of lease liabilities are as follows:

| (in C\$) | 30-Sep-24 | 31-Dec-23 |
|-------------------------------------|------------------|------------------|
| Balance, beginning of period | 1,521,182 | \$ 1,151,988 |
| Additions | 1,102,651 | 848,228 |
| Interest | 128,301 | 165,057 |
| Payments | (603,875) | (644,091) |
| Balance, end of period | 2,148,259 | 1,521,182 |

22. Subsequent Events

On Oct 21, 2024, the Company announced the closing of \$15,000,000 combined funding from Investissement Québec and Export Development Canada ("EDC") (together, the "New Financing"). The total funding is comprised of \$7.5 million from Investissement Québec in the form of a secured convertible debenture (the "Debenture") and \$7.5 million from EDC in the form of a term loan (the "Term Loan").

The Debenture, with a term of five years, will be senior secured and convertible at the holder's option into Volatus common shares (the "Common Shares") at a Conversion Price of \$0.202 per Common Share (\$0.36 Volatus referenced share price prior to the DDC Merger, adjusted). The Debenture will bear 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 (the "TSXV"), while the interest portion for the last two years will be payable, semi-annually, in cash until the Maturity Date, unless the Debenture is otherwise converted at the Conversion Price, at any time and at the holder's option before the Maturity Date.

The Term Loan from Export Development Canada (EDC) will be senior secured and non-convertible with an interest rate of Prime+8% and a term of four years with a balloon payment of up to \$4.5M at the end of the fourth year on 21st October 2028.

The Company intends to use the net proceeds from the offering towards repayment of existing debt, financing inventory, capital expenditures, working capital needs of the Company directly associated with its export contract, and general corporate purposes. A currently outstanding senior loan of approximately \$6 million provided by a major Canadian bank will be repaid from the proceeds of the New Financing.

Notes to Condensed Consolidated Interim Financial Statements
For the three and nine months ended Sept 30, 2024 (unaudited)

On November 6, 2024, the Company closed the sale of 19,766,000 units of the Company ("**Units**") at a price of \$0.14 per Unit (the "**Issue Price**") for aggregate gross proceeds of \$2,767,240.00 (the "**Offering**"). Each Unit consists of one common voting share of the Company (a "**Common Share**") and one common voting share purchase warrant of the Company (a "**Warrant**"). Each Warrant entitles the holder thereof to purchase one Common Share of the Company (each, a "**Warrant Share**") at a price of \$0.20 per Warrant Share for a period of 24 months following the closing of the Offering.

The Offering was conducted by Ventum Financial Corp. and Cormark Securities Inc., as co-lead agents, together with Desjardins Securities Inc. and Raymond James Ltd. (collectively, the "**Agents**") pursuant to an agency agreement dated November 6, 2024. The Company paid to the Agents: (i) a cash commission of \$193,706.80; and (ii) non-transferrable compensation options of the Company ("**Compensation Option Units**") exercisable at any time prior to November 6, 2024 to acquire up to 1,383,620 units of the Company ("**Compensation Option Units**") at a price equal to the Issue Price, subject to adjustment in certain events. The Compensation Option Units have the same terms as the Units sold in the Offering.

End.