



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

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2025

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

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

	Notes	June 30, 2025	December 31, 2024
		(Restated – Note 5)	
Assets			
Current			
Cash		6,125,646	1,558,909
Restricted Cash		219,792	244,908
Trade and other receivables	6	5,084,609	4,502,679
Prepaid expenses, deposits, and other current assets	7	2,188,778	2,564,898
Inventories	11	2,582,005	3,103,677
Total current assets		16,200,830	11,975,071
Property, plant and equipment	8	7,952,254	9,715,359
Intangible assets	9	13,008,784	13,538,692
Right-of-use asset	20	2,082,975	1,835,343
Goodwill	10	20,739,606	20,739,606
Total non-current assets		43,783,619	45,829,000
Total Assets		59,984,449	57,804,071
Liabilities and Shareholders' Equity			
Current liabilities			
Trade payables and accrued liabilities	12	7,358,120	6,331,383
Deferred revenue		215,620	623,497
Current portion of lease liability	21	837,984	765,498
Other short-term liabilities	14	690,294	952,614
Current portion of convertible debt	19	-	2,435,375
Current portion of long-term borrowings	13	1,628,997	9,115,001
Deferred/ Contingent consideration		-	144,078
Total current liabilities		10,731,015	20,367,446
Long-term borrowings	13	11,963,552	5,548,463
Convertible Debentures	18	7,009,945	4,013,843
Lease Liability	21	1,379,240	1,239,577
Contingent Consideration		-	297,977
Total non-current liabilities		20,352,737	11,099,860
Total Liabilities		31,083,752	31,467,306
Shareholders' Equity			
Common equity	17	54,564,429	46,615,125
Warrants reserve	17	11,321,886	7,026,618
Share-based payment reserve	17	3,299,160	2,954,307
Convertible Debenture - Options	18	3,804,034	2,760,433
Preferred shares	17	206,188	286,188
Deficit		(43,204,968)	(32,578,867)
Contributed Surplus		211,831	211,831
Non-controlling interest		(1,301,863)	(938,870)
Total Shareholders' Equity		28,900,697	26,336,765
Total Liabilities & Shareholders' Equity		59,984,449	57,804,071

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

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 June 30		Six months ended June 30	
		2025	2024	2025	2024
		(Restated – Note 5)		(Restated – Note 5)	
Revenue		10,587,075	7,121,993	16,300,233	13,745,735
Direct costs		7,211,655	4,617,447	11,094,840	9,015,432
Gross Profit		3,375,420	2,504,546	5,205,393	4,730,303
OPERATING EXPENSES					
Advertising & marketing		428,128	397,357	563,703	690,696
IT & tech		118,017	259,456	363,197	516,257
Personnel		2,147,111	1,515,536	4,798,016	3,712,258
R&D		4,390	-	16,146	11,840
Office cost		795,819	554,050	1,413,388	1,137,248
Travel		73,765	40,143	138,053	97,763
External partner cost		473,874	430,141	674,511	630,213
Depreciation and amortization	8,9,20	1,663,083	1,116,698	3,159,508	2,214,787
Share based Payments		179,399	126,822	344,853	253,644
		5,883,586	4,440,202	11,471,375	9,264,707
(Loss) from Operations		(2,508,166)	(1,935,656)	(6,265,982)	(4,534,404)
OTHER ITEMS - INCOME/(EXPENSE)					
Finance cost		(1,743,710)	(491,664)	(2,389,395)	(870,770)
Other income (expense)		17,104	153	13,636	(10,015)
Gain (loss) on investments		-	-	(58,963)	-
Loss on extinguishment of financial liabilities	17	(1,558,758)	-	(1,558,758)	-
Loss on modification of convertible debt	17	(672,444)	-	(672,444)	-
Gain on disposal of property and equipment		-	319,044	-	311,860
Foreign exchange translation		(58,413)	25,508	(57,188)	29,395
Net Loss		(6,524,387)	(2,082,615)	(10,989,094)	(5,073,934)
Total Comprehensive Income (Loss) for the period attributable to:					
Owners of Volatus Aerospace Inc.		(6,509,690)	(2,070,150)	(10,626,101)	(4,985,293)
Non-controlling interest		(14,697)	(12,465)	(362,993)	(88,641)
		(6,524,387)	(2,082,615)	(10,989,094)	(5,073,934)
Loss per share					
Basic and diluted		(0.01)	(0.01)	(0.02)	(0.02)
Weighted average number of common shares outstanding					
Basic and diluted		546,773,393	224,312,559	546,773,393	224,312,559

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 Preferred Shares	Preferred Shares	Warrants Reserve	Share-based Reserve	Convertible Debt - Equity Portion	Contributed Surplus	Non-Controlling Interest	Deficit	Total
December 31, 2023	221,346,713	13,360,860	352,634	351,764	6,192,685	2,427,813	200,356	211,831	(770,150)	(19,437,263)	2,537,896
Shares Issued on Acquisition	2,998,800	252,000									252,000
Stock options expense						253,644					253,644
Net loss for the period									(88,641)	(4,985,293)	(5,073,934)
June 30, 2024	224,345,513	13,612,860	352,634	351,764	6,192,685	2,681,457	200,356	211,831	(858,791)	(24,422,557)	(2,030,395)

	Number of shares	Capital Stock (Restated – Note 5)	Number of Preferred Shares	Preferred Shares	Warrants Reserve (Restated – Note 5)	Share-based Reserve (Restated – Note 5)	Convertible Debt - Equity Portion (Restated – Note 5)	Contributed Surplus	Non-Controlling Interest (Restated – Note 5)	Deficit (Restated – Note 5)	Total Shareholders Equity (Restated – Note 5)
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	3,322,768	482,305	-	-	-	-	-	-	-	-	482,305
Equity Offering	50,000,000	4,174,071	-	-	3,000,000	-	-	-	-	-	7,174,071
Warrant Exercise	48,405	8,228	-	-	(1,452)	-	-	-	-	-	6,776
Debt Issuance/Conversion	23,894,280	3,204,700	-	-	1,296,720	-	1,043,601	-	-	-	5,545,021
Pref Shares Redemption	666,667	80,000	(80,000)	(80,000)	-	-	-	-	-	-	-
Stock options expense	-	-	-	-	-	344,853	-	-	-	-	344,853
Net loss for the period	-	-	-	-	-	-	-	-	(362,993)	(10,626,101)	(10,989,094)
June 30, 2025	546,773,393	54,564,429	206,188	206,188	11,321,886	3,299,160	3,804,034	211,831	(1,301,863)	(43,204,968)	28,900,697

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)

	Six months ended Jun 30	
	2025 (Restated – Note 5)	2024
OPERATING ACTIVITIES		
Net Loss	(10,989,094)	(5,073,934)
Adjustments For:		
Depreciation and Amortization	3,159,508	2,214,787
Gain on sale of property and equipment	-	(311,860)
Finance Cost	2,231,090	796,910
Loss on extinguishment of financial liabilities	1,558,758	-
Share based Payments	344,853	253,644
Interest paid on Lease liability	158,305	73,860
Loss on modification of convertible debt	672,444	-
Loss on investment	58,963	-
Unrealized Foreign Exchange Loss/(Gain)	-	267,409
	<u>(2,805,173)</u>	<u>(1,779,185)</u>
Net changes in non-cash working capital items:		
Restricted cash	25,116	-
Trade and other receivables	(581,930)	(92,393)
Prepaid expenses and deposits	376,120	(65,516)
Inventories	1,223,019	145,992
Trade payables and accrued liabilities	1,014,410	1,501,866
Deferred revenue	(407,877)	(44,361)
Other short-term liabilities	(262,320)	111,029
Deferred/ Contingent consideration	-	-
Cash generated from (used in) Operating Activities	<u>(1,418,635)</u>	<u>(222,567)</u>
INVESTING ACTIVITIES		
Additions to Property, Plant & Equipment	(810,248)	(469,662)
Disposal of Property, Plant & Equipment	15,117	-
Addition to Intangibles	(317,176)	-
Business Combination, Net Cash	-	97,273
Cash provided by (used in) Investing Activities	<u>(1,112,307)</u>	<u>(372,390)</u>
FINANCING ACTIVITIES		
Repayment of borrowings	(2,200,225)	67,066
Repayment of lease obligations	(670,933)	(374,904)
Proceeds from exercise of Warrants	6,776	-
Net Proceeds from Common Equity	7,182,408	-
Net Proceeds from issuance of debenture	2,779,653	-
Cash provided by (used in) Financing Activities	<u>7,097,679</u>	<u>(307,838)</u>
Net change in cash	<u>4,566,737</u>	<u>(902,794)</u>
Cash and cash equivalents, beginning of the period	1,558,909	1,682,402
Cash and cash equivalents, end of the period	<u>6,125,646</u>	<u>779,607</u>

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

**Notes to Condensed Interim Consolidated Financial Statements
For the three and six months ended June 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 November 3, 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 June 30, 2025. On June 30, 2025, the Company had not yet achieved profitable operations, had an accumulated deficit of \$43.20 million since its inception and positive working capital of \$5.47 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 six months ended June 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:

Purchase price equations

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

Notes to Condensed Interim Consolidated Financial Statements
For the three and six months ended June 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.

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.

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

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, 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.		CAD	Canada	58%

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

	Pipeline Inspection & Surveillance Services			
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	UK £	UK	100%
Open Sky Consulting International Ltd (Drone Mentor)	RPAS/UAV Training	UK £	UK	100%
Volatus Aerospace EU AS	Drone Solutions Provider	NOK	Norway	100%
Volatus Unmanned Services Inc.^{A1}		CAD	Canada	100%
- UAViation Aerial Solutions Limited	RPAS/UAV Service	CAD	Canada	100%
- SkyGate Videography Inc.	RPAS/UAV Service and Training	CAD	Canada	100%
- M3 Drone Services Limited	RPAS/UAV Service	CAD	Canada	100%
- M3 Drone Training Zone Inc.	RPAS/UAV Training	CAD	Canada	100%
- Canadian UAV Solutions Inc.	RPAS/UAV Service	CAD	Canada	100%
- OmniView Tech Corp.	Distribution & Service	CAD	Canada	100%

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

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

5. Restatement of previously issued financial statements

Subsequent to the issuance of the Company's condensed interim consolidated financial statements for the three and six months ended June 30, 2025, management identified certain errors and classification adjustments affecting previously issued interim financial information for the three and the six months ended June 30, 2025.

The restatements were made to correct the presentation and recognition of several items, including:

- The accounting for the extinguishment of certain financial liabilities;
- Equity reclassifications arising from accounting for LIFE unit offerings and convertible instruments;
- Recognition and classification of certain items within inventory and operating expenses;
- Derecognition of expired lease assets;
- Reclassification within tax expense and operating expenses;
- Reclassification within Long-term borrowings and Current portion of long-term borrowings;
- Record the share-based compensation for the option granted in June;
- Change in accounting for the convertible debt;
- Adjust the underestimation of amortization of intangibles and leasehold improvements;
- Calculation of non-controlling interests ("NCI"), and
- Certain other balance-sheet reclassifications between accounts payable and short-term liabilities.

Summarized below is the impact to the comparative financial statements for these adjustments:

Volatus Aerospace Inc.

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

Consolidated Statement of Financial Position

	June 30, 2025 Previously reported	Adjustments	June 30, 2025 As restated
Inventories	2,986,486	(404,481)	2,582,005
Intangible assets	13,148,439	(139,655)	13,008,784
Property, plant and equipment	8,045,855	(93,601)	7,952,254
Total Assets	60,622,186	(637,737)	59,984,449
Trade payables and accrued liabilities	7,695,834	(337,714)	7,358,120
Other short-term liabilities	352,096	338,198	690,294
Convertible Debentures	6,263,621	746,324	7,009,945
Current portion of long-term borrowings	1,545,637	83,360	1,628,997
Long-term borrowings	12,046,912	(83,360)	11,963,552
Total Liabilities	30,336,944	746,808	31,083,752
Common equity	53,832,452	731,977	54,564,429
Warrants reserve	10,835,406	486,480	11,321,886
Share-based payment reserve	3,288,478	10,682	3,299,160
Convertible Debenture - Options	3,691,647	112,387	3,804,034
Deficit	(40,087,376)	(3,117,592)	(43,204,968)
Non controlling interest	(1,693,384)	391,521	(1,301,863)
Total Shareholders Equity	30,285,242	(1,384,545)	28,900,696
Total Liabilities & Shareholders' Equity	60,622,186	(637,737)	59,984,449

Consolidated Statement of Loss and Comprehensive Loss

	For the three months ended June 30, 2025 Previously reported	Adjustments	For the three months ended June 30, 2025 As restated
Personnel	2,214,001	(66,890)	2,147,111
Depreciation and amortization	1,429,826	233,257	1,663,083
Office cost	714,212	81,607	795,819
Share based Payments	168,717	10,682	179,399
External partner cost	473,390	484	473,874
(Loss) from Operations	(2,249,026)	(259,140)	(2,508,166)
Finance cost	(1,897,745)	154,035	(1,743,710)
Tax Expenses	210,377	(210,377)	-
Loss on extinguishment of financial liabilities	-	(1,558,758)	(1,558,758)
Loss on modification of convertible debt	-	(672,444)	(672,444)
Net Loss and comprehensive loss	(3,977,703)	(2,546,684)	(6,524,387)
Owners of Volatus Aerospace Inc.	(3,266,866)	(3,242,824)	(6,509,690)
Non-controlling interest	(710,837)	696,140	(14,697)

	For the six months ended June 30, 2025 Previously reported	Adjustments	For the six months ended June 30, 2025 As restated
Personnel	4,654,529	143,487	4,798,016
Depreciation and amortization	2,926,251	233,257	3,159,508
Office cost	1,152,394	260,994	1,413,388

Volatus Aerospace Inc.

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

External partner cost	674,027	484	674,511
Share based Payments	334,171	10,682	344,853
(Loss) from Operations	(5,617,078)	(648,904)	(6,265,982)
Finance cost	(2,543,430)	154,035	(2,389,395)
Loss on extinguishment of financial liabilities	-	(1,558,758)	(1,558,758)
Loss on modification of convertible debt	-	(672,444)	(672,444)
Net Loss and comprehensive loss	(8,263,023)	(2,726,071)	(10,989,094)
Owners of Volatus Aerospace	(7,508,509)	(3,117,592)	(10,626,101)
Non-controlling interest	(754,514)	391,521	(362,993)

Consolidated Statement of Changes in Equity

	For the six months ended June 30, 2025 Previously reported	Adjustments	For the six months ended June 30, 2025 As restated
Capital Stock	53,832,452	731,977	54,564,429
Warrants reserve	10,835,406	486,480	11,321,886
Share-based Reserve	3,288,478	10,682	3,299,160
Convertible Debt - Equity Portion	3,691,647	112,387	3,804,034
Non-Controlling Interest	(1,693,384)	391,521	(1,301,863)
Deficit	(40,087,376)	(3,117,592)	(43,204,968)

Consolidated Statement of Cash Flows

	For the six months ended June 30, 2025 Previously reported	Adjustments	For the six months ended June 30, 2025 As restated
Net loss	(8,263,023)	(2,726,071)	(10,989,094)
Adjustments For:			
Loss on extinguishment of financial liabilities	-	1,558,758	1,558,758
Loss on modification of convertible debt	-	672,444	672,444
Finance Cost	2,385,125	(154,035)	2,231,090
Depreciation and Amortization	2,926,251	233,257	3,159,508
Share based Payments	334,171	10,682	344,853
Net changes in non-cash working capital items			
Inventories	117,191	1,105,828	1,223,019
Trade payables and accrued liabilities	1,352,122	(337,712)	1,014,410
Other short-term liabilities	(600,518)	338,198	(262,320)
Cash generated from (used in) Operating Activities	(2,119,984)	701,349	(1,418,635)
Disposal of Property, Plant & Equipment	716,466	(701,349)	15,117
Cash provided by (used in) Investing Activities	(410,958)	(701,349)	(1,112,307)

Volatus Aerospace Inc.

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

6. Trade and other receivables

	June 30, 2025	December 31, 2024
Trade receivables	5,073,736	4,426,919
Accrued revenues	10,873	75,760
Total	5,084,609	4,502,679

7. Prepaid expenses, deposits, and other current assets

	June 30, 2025	December 31, 2024
Prepaid expenses	1,544,920	2,046,579
Security deposit	327,763	253,166
Other current assets	316,095	265,153
Total	2,188,778	2,564,898

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

8. 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 (Restated – Note 5)	Furniture & Fixtures	Computer & Equipment	Vehicle	Aircraft	WIP	Total Tangible Assets (Restated – Note 5)
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	350,552	810,247
Additions related to business combinations	-	-	-	-	-	-	-	-	-
Disposals/Reclassification	(22,867)	-	-	-	-	-	(952,495)	-	(975,362)
Balance, June 30, 2025	3,167,855	400,775	1,284,075	579,679	1,225,061	891,229	7,615,421	1,569,729	16,733,823
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	430,547	69,921	201,977	15,741	91,960	50,599	973,616	-	1,834,361
Foreign exchange adjustments	16,998								16,998
Disposals/Reclassification	(2,221)						(251,148)		(253,369)
Balance, June 30, 2025	2,157,844	319,479	328,133	498,773	747,122	458,891	4,271,327	-	8,781,569
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, June 30, 2025	1,010,011	81,296	955,942	80,906	477,939	432,338	3,344,093	1,569,729	7,952,254

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

9. Intangible assets (Restated – Note 5)

	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
Foreign exchange adjustments		(4,029)		(4,029)
Balance, June 30, 2025	9,838,832	4,839,966	1,869,027	16,547,825
Accumulated Depreciation				
Balance, December 31, 2024	406,691	1,778,825	510,470	2,695,986
Amortization for the period	367,028	346,600	129,427	843,055
Balance, June 30, 2025	773,719	2,125,425	639,897	3,539,041
Net carrying Amount				
Balance, December 31, 2024	9,114,965	3,065,170	1,358,557	13,538,692
Balance, June 30, 2025	9,065,113	2,714,541	1,229,130	13,008,784

10. Goodwill

	June 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. No impairment testing was performed on June 30, 2025.

11. Inventories

Inventory mainly consists of finished goods of drones and related accessories. No write-downs were made during the years ended June 30, 2025 and 2024. Direct costs for the quarter ended June 30, 2025 included \$5,689,326 of inventory sold (2024 - \$4,112,908).

During the period, the Company reclassified certain property, plant and equipment to inventory as the assets were designated for sale. The transfer was recognized at the asset's carrying amount at the date of reclassification. The assets were subsequently sold during the period.

12. Trade payables and accrued liabilities

(in C\$)	June 30, 2025 (Restated – Note 5)	December 31, 2024
Accounts Payable	4,949,032	3,822,972
Deposits	561,975	927,929
Payroll Liability	1,177,376	1,163,121
Other accrued Liabilities	669,737	417,361
Total	7,358,120	6,331,383

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

13. Long-term Borrowings (Restated – Note 5)

(in C\$)	June 30, 2025	Dec 31, 2024
Aircraft Loans	3,389,226	4,322,705
Vehicles Loans	337,697	431,146
CEBA	397,866	398,727
Development Loan	83,360	166,688
Promissory Note	1,256,763	1,111,627
Term Loan	7,500,000	7,500,000
Other Loans	627,637	732,571
Total	13,592,549	14,663,464
Less: Current Portion of Long-Term Debt	(1,628,997)	(1,615,001)
Less: Term Loan treated as current liability	-	(7,500,000)
Long-term borrowings	11,963,552	5,548,463

As at June 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 of the reporting date, the Company has met the compliance with the minimum working capital covenant and thus the loan is not categorized as current liability.

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

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

The Company applied for and received \$480,000 in Canada Emergency Business Account ("CEBA") loans in a prior year which are interest-free loans to cover operating costs impacted by the Covid-19 pandemic outbreak. Individual loans were granted to separate wholly owned subsidiaries of the Company. On January 31, 2024, the Company has selected the option to extend the repayment of CEBA loans over 3 years with a 5% annual interest charge. The amount outstanding as of June 30, 2025 is \$397,866 (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.

14. Other Short-term Liabilities

(in C\$)	June 30, 2025 (Restated – Note 5)	December 31, 2024
Other Loans	690,294	952,614
Total	690,294	952,614

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

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

15. 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 June 30, 2025, the Company incurred fees of \$24,000 (2024- \$24,000). As at June 30, 2025, the Company was indebted to this company in the amount of \$40,000 (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 17)

Loans & Advance:

The Company has entered into promissory notes with the directors of the Company in 2024, at interest rates ranging between 0% and 15.50% per annum. The amount of \$1,256,763 is outstanding as at June 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.

16. Key management compensation

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

Compensation awarded to key management for the year ended June 30, 2025 and 2024 is summarized as follows:

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Salaries	440,311	442,500
Share-based payments	86,105	196,759
	<u>526,416</u>	<u>639,259</u>

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

17. Share Capital, Stock Options and Warrants**Authorized share capital**

Unlimited number of common shares without par value.

Common shares

On April 30, 2025, the Company closed its oversubscribed \$3 million non-brokered listed issuer financing exemption (LIFE) private placement (the "LIFE Offering"). The Company issued 25,000,000 units of the Company ("Units") at a price of \$0.12 per Unit for gross proceeds of \$3,000,000. Each 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 whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one Common Share (each, a "Warrant Share") at an exercise price of \$0.20 per 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 voting shares in the capital of the Company (the "Common Shares") and 17,640,000 Common Share purchase warrants (each a "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 (the "Debentures") 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 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, 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 Unit is comprised of one Common Share and one common voting share purchase warrant of the Company, with each 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. Each 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 20, 2025, the Company announced closing of its non-brokered listed issuer financing exemption (LIFE) private placement (the "LIFE Offering"). The Company issued 25,000,000 units of the Company ("Units") at a price of \$0.20 per Unit for gross proceeds of \$5,000,000. 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 (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one Common Share (each, a "Warrant Share") at an exercise price of \$0.30 per 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*.

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

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.

Preferred shares

	June 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 in UAViation Aerial Solutions Limited are in the Volatus owned subsidiary, Volatus Unmanned Services Inc. have been settled in full by issuing common equity.

Stock Options

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

	June 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	(157,100)	0.23	(5,372,438)	0.56
Granted	1,977,000	0.14	-	-
Options – acquisition	-	-	7,315,000	0.58
Outstanding, end of period	18,386,415	0.28	16,566,515	0.30

The following table summarizes information about stock options outstanding and exercisable as at June 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	7,162,765	3.38	0.13	1,400,450	2.47	0.14
\$0.20 - \$0.35	1,963,500	2.04	0.20	1,561,875	2.05	0.20
\$0.36 - \$0.50	6,765,150	1.50	0.36	6,765,150	1.50	0.36

Volatus Aerospace Inc.

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

Additional Options due to Merger

\$0.20 - \$0.49	450,000	2.59	0.26	500,000	2.59	0.26
\$0.50 - \$0.75	2,045,000	1.40	0.61	2,045,000	1.40	0.61
	18,386,415	2.31	0.28	12,222,475	1.71	0.36

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.

RSU (Restricted Stock Units)

On January 2, 2025, the Company granted 5,546,000 restricted stock units that will be vested over four years and will expire five years from grant date.

On June 19, 2025, the Company granted 2,900,000 additional RSU that will vest over three years and will expire five years from grant date.

	June 30, 2025		December 31, 2024	
	Number of RSU	Weighted Average Exercise Price	Number of RSU	Weighted Average Exercise Price
Outstanding, beginning of period	-	-	-	-
Granted	8,446,000	-	-	-
Outstanding, end of period	8,446,000	-	-	-

The following table summarizes information about stock options outstanding and exercisable as at June 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	8,446,000	4.67	-	-	-	-
Total	8,446,000	4.67	-	-	-	-

Warrants

Details of warrants and their value:

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

Sr. No	Issue Date	Number of warrants outstanding at June 30, 2025	Number of warrants outstanding at December 31, 2024	Exercise Price	Expiry Date
1	06-May-23	753,020	753,020	\$0.28	06-May-25
2	06-May-23	4,723,110	4,723,110	\$0.28	06-May-25
3	06-Nov-24	19,760,000	19,760,000	\$0.20	06-Nov-26
4	06-Nov-24	1,335,215	1,383,620	\$0.14	06-Nov-26
5	01-May-25	25,000,000	-	\$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	12,500,000	-	\$0.30	27-Jun-28
		85,431,345	26,619,750	\$0.22	

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, Dec 31, 2024	26,619,750	0.21
Issued	58,860,000	0.22
Exercised	(48,405)	0.14
Outstanding, June 30, 2025	85,431,345	0.22

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.

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

On June 27, 2025, Volatus issued 25,000,000 units as part of its \$5 million LIFE (Listed Issuer Financing Exemption) Offering financing. 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.

18. Convertible Debenture (Restated – Note 5)

On June 18, 2025, Volatus modified its existing Convertible Debenture to allow the issuance of an additional tranche of \$3 million of secured convertible debenture (the "Convertible Debenture"), bringing the principal amount under the instrument from \$7.5 million to \$10.5 million. The Convertible Debenture bears interest at a rate of 12.5% per annum until its maturity date on October 21, 2029 (the "Maturity Date"). The interest portion for the first three-year period will be initially non-cash interest, and capitalized semi-annually, and convertible, at the holder's option at the then market price of the common shares as permissible by securities regulations and the rules of the TSX Venture Exchange, while the interest portion for the last two years will be payable, semi-annually, in cash at the Maturity Date, unless the Debenture is otherwise converted.

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

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

Prepayment option: The Company can prepay, at any time after June 18, 2028, the Convertible Debenture at 100% of the principal plus accrued and unpaid interest, provided the 40-day VWAP of common shares is equal or greater than \$0.303.

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

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

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

The Convertible Debenture represents a compound financial instrument with an embedded derivative requiring separation. The debt host portion (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.

Notes to Condensed Interim Consolidated Financial Statements
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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.

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 June 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 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 June 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 June 30, 2025, the Company did not have any foreign currency hedges in place.

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

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, 2025	376,029	3,156,566	3,532,595
Additions during the period	767,635	-	767,635
Derecognition on lease termination	-	(632,807)	(632,807)
Lease acquired in the acquisition	-	-	-
Balance, June 30, 2025	1,143,664	2,523,759	3,667,423
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	142,236	339,855	482,091
Balance, June 30, 2025	\$ 274,070	\$ 1,310,378	\$ 1,584,448
Net book value			
Balance, January 1, 2025	\$ 244,195	\$ 1,591,148	\$ 1,835,343
Balance, June 30, 2025	\$ 869,594	\$ 1,213,381	\$ 2,082,975

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\$)	June 30, 2025	December 31, 2024
Balance, beginning of period	2,005,075	1,521,182
Additions	767,635	1,155,362
Derecognition on lease termination	(42,858)	-
Interest	158,305	216,471
Payments	(670,933)	(887,940)
Balance, end of period	2,217,224	2,005,075
Current	837,984	765,498
Non-Current	1,379,240	1,239,577

**Notes to Condensed Interim Consolidated Financial Statements
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22. 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 closing is subject to Board and regulatory approvals.

On August 14, 2025, the Company announced closing of its brokered bought deal of listed issuer financing exemption (LIFE) private placement (the "LIFE Offering"). The Company issued including 15% over-allotment option of a total of 9,288,462 units of the Company at a price of \$0.52 per Offered Security for gross proceeds of \$4,830,000. Each Offered Security consists of one common share of the Company and one-half of one common share purchase warrant of the Company (each whole warrant, a "Warrant"), with each Warrant entitling the holder thereof to acquire one common share of the Company at an exercise price of \$0.76 per share at any time on or before August 14, 2028. The net proceeds raised under the Offering will be used for expansion into the defense business segment of the Company, to increase inventory of drone systems to fulfill increased demand in the United States, Canada, and internationally, and for general working capital and corporate purposes. 8,076,924 units of the Offered Securities were sold to purchasers in reliance on the "Listed Issuer Financing Exemption" ("LIFE") provided for in Part 5A of National Instrument 45-106 – *Prospectus Exemptions* ("NI 45-106") and Coordinated Blanket Order 45-935 issued by the Canadian Securities Administrators. Offered Securities sold pursuant to LIFE are not subject to any statutory hold periods under applicable Canadian securities laws.. 1,211,538 units of the Offered Securities sold pursuant to the Underwriter over-allotment option were sold in reliance on the "accredited investor" exemption from the prospectus requirements under NI 45-106 and are subject to a four-month hold period

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

The Company intends to use the net proceeds of the LIFE Financing for expansion into the defense business segment of the Company, increase inventory of drone systems to fulfill increased demand in the United States, Canada, and internationally, and for general working capital and corporate purposes.

In connection with the LIFE Offering, the Company paid an aggregate of \$600,000 as finder's fees to certain persons who assisted the Company with the LIFE Offering. The LIFE Offering is subject to final approval of the TSX Venture Exchange.