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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2024

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MANAGEMENT'S DISCUSSION & ANALYSIS

This Management Discussion & Analysis ("MD&A") is intended to provide readers with the information that management believes is required to gain an understanding of the current results of Volatus Aerospace Inc. (the "Company" or "Volatus") and to assess the Company's prospects. The following MD&A is presented and dated as of April 29, 2025, and should be read in conjunction with the interim condensed consolidated financial statements and related notes for the year December 31, 2024. The Financial Statements presented herein include the accounts of the Company and all its subsidiaries. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations, and all amounts, unless otherwise indicated, are expressed in Canadian dollars.

NON-IFRS FINANCIAL MEASURES

In this MD&A we describe certain income and expense items that are unusual or non-recurring. There are terms not defined by International Financial Reporting Standards (IFRS). Our usage of these terms may vary from the usage adopted by other companies. Specifically, *Gross margin, Gross profit, and adjusted EBITDA (earnings before interest, tax, depreciation, and amortization)* are undefined terms by IFRS Accounting Standards. Management believes that gross profit, defined as revenue less cost of goods sold, is a useful supplemental measure of operations. Gross margin is defined as gross profit expressed as a percentage of revenue and provides insight into the proportion of revenue that exceeds direct costs. Adjusted EBITDA is a supplemental measure used by management and other users of Volatus' financial statements, including lenders and investors, to assess the financial performance of the Company's business without regard to financing methods or capital structure. Adjusted EBITDA is also a key metric that management uses prior to the execution of any strategic investing or financing opportunity. For example, management uses Adjusted EBITDA as a measure in determining the value of acquisitions, expansion opportunities, and dispositions. In addition, Adjusted EBITDA is utilized by financial institutions to measure borrowing capacity. The Company believes that Adjusted EBITDA is useful to management, lenders, and investors in assessing the underlying performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements. The Company defines Adjusted EBITDA as IFRS net loss excluding interest expense, depreciation and amortization expense, share-based payments, income tax expense, integration, and due diligence costs, one time profit or loss (non-recurring), and impairment of goodwill, property, plant, and equipment and right-of-use assets (ROU).

We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance International Financial Reporting Standards and International Accounting Standards and Interpretations (collectively IFRS Accounting Standards), as issued by the International Accounting Standards Board ("IASB").

FORWARD-LOOKING STATEMENTS

This management's discussion and analysis may contain statements about expected future events and financial and operating results of the Company that are forward-looking. All statements other than statements of historical fact may be forward-looking statements. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations, or conclusions will not prove to be accurate, that our assumptions may not be correct and that our financial performance objectives, vision and strategic goals will not be achieved. For example, statements in this MD&A relating to the Company's mission, expected timing for the marketing and sale of the Company's products, the Company's intentions with respect to growth and future acquisitions, expectations as to timing to commence operations at various locations and the potential benefits to the Company from such new operations, expectations as to the timing and quantity of sales and recognition of revenues and expenses and expectations as to Company growth are all forward-looking statements. The operations of the Company are subject to a number of risks, both anticipated and unanticipated. Please refer to the heading Cautionary Note Regarding Forward-Looking Information" and "Risk Factors – Risk Factors Relating to the Transaction" in the Information Circular to which this MD&A is attached.

BUSINESS OVERVIEW

Volatus Aerospace Inc. ("Volatus" or the "Company") (formerly known as Drone Delivery Canada Corp.) 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 Aerospace Corp. received 1.785 shares of Drone Delivery Canada Corp. Quarter ending December 31, 2024 will be the first full quarter of the combined entities. This acquisition highlights the integration of the Company's advanced drone technologies with Volatus Aerospace Corp's established market presence, revenue-generating services, and robust portfolio. Concurrent with the acquisition noted above, the Company was renamed Volatus Aerospace Inc. and is hereinafter referred to as "Volatus" or the "Company".

The Company is an industry 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.

Our Mission

We deliver innovative global aerial solutions, leveraging our expertise to drive meaningful outcomes for all stakeholders through a relentless focus on our people, processes and products.

Core Offerings

The Company's operations are organized into the following business lines:

Aerial Intelligence Services

Comprehensive inspection, mapping, surveillance, and advanced data collection services across industries such as oil & gas, energy utilities, infrastructure, forestry and agriculture, leveraging advanced data collection, management, and analytics, including GIS and machine learning tools.

Cargo and Logistics Solutions

Drone-based cargo transportation for time-critical deliveries and remote areas access. Pioneering new opportunities with remotely piloted systems for cargo logistics, including advancements in heavy-lift drone technology.

Equipment Sales and Maintenance

Distribution of drones, sensors, and related technology as a value-added reseller. Integration, customization, and post-sales support and maintenance for commercial and public safety markets.

Training and Certification

Comprehensive training programs for operators of drones and payloads. Sector specific data gathering techniques utilizing drones Pilot certification training in North America and the United Kingdom. Industry leading thermography and advanced sensor training and certification.

Research and Development

Commercializing proprietary technologies, such as the Canary, FLYTE virtual flight management software, AIRS 3 Advanced Integrity Reporting System, Aerieport drone nesting station, and DroneSpot™ infrastructure. Ongoing development of the Canary RPAS platform, as well as integrations with third-party technologies.

Market Reach

With operations across North America, Europe, the United Kingdom, and beyond, Volatus serves clients in civilian, industrial, and government sectors providing aerial intelligence and cargo solutions, leveraging its extensive pilot network and its GTA based operations control center ("OCC") to scale.

Strategic Focus

The Company's strategy focuses on scaling its services, expanding and deepening its market penetration, and driving innovation in both remotely piloted and piloted systems, addressing current market needs and preparing for future regulatory advancements. Volatus is positioned to lead the global aerial solutions industry.

Technology Development

Drone Platforms:

Canary Remotely Piloted Aircraft: The Canary is a cutting-edge cargo drone developed by Volatus, specifically designed for efficient and reliable delivery operations. Approved by Transport Canada for flights over people, the Canary is equipped with advanced safety and operational features, including an integrated weigh scale, an automated cargo drop mechanism, and robust LTE communication for seamless real-time connectivity. Tailored for high-value packages and medical supply deliveries, Canary is an ideal solution for time-sensitive and critical logistics. Its regulatory approval, combined with advanced functionality, positions Canary as a leading platform in autonomous cargo transportation.

We successfully completed the integration and testing of a new autopilot system, along with the installation and tuning campaign for the new anti-coaxial motor configuration. These advancements significantly enhance the Canary's control and stability, enabling it to operate effectively in higher winds and more inclement weather.

Our engineering team continued the integration of the latest Trimble GPS system. This state-of-the-art technology will allow the Canary to fly and land with centimeter-level accuracy, further enhancing its precision and operational reliability in challenging conditions.

Aerieport Drone Nesting Station: The Aerieport is Volatus' proprietary drone nesting station, enabling fully autonomous drone operations by serving as a secure base for landing, recharging, and data transfer. This innovative infrastructure supports scalable and efficient aerial solutions, advancing Volatus' vision for autonomous operations while strengthening its position in aerial intelligence and logistics. During Q324 the Aerieport was relocated to the Company's Vaughan based test site. Since that date, OCC operators and engineers have been trained on the system and are conducting regular flights for customer demonstrations and reliability testing.

DroneSpot™:

Our proprietary and patented infrastructure solution is designed to facilitate efficient and secure drone delivery operations. Serving as a designated takeoff and landing zone, DroneSpot™ locations are strategically established to optimize route planning and ensure compliance with aviation regulations. During Q3, the Company began the process of commercializing the DroneSpot™ as a stand along product with a monitoring service offered by our Operations Control Center.

AIRS 3 (Advanced Integrity Reporting System):

AIRS 3 is a proprietary software platform designed to revolutionize the data gathering, analysis and reporting of oil and gas client infrastructures. The system integrates data from aerial inspections with advanced reporting and analytics tools, enabling oil and gas operators to ensure pipeline integrity, operational efficiency, and regulatory compliance. During Q3, the Company continued to work on customized features for specific customer requirements and ongoing improvements to support scalability.

Service Operations

Aerial Intelligence Services:

The Company expanded its pipeline inspection operations, leveraging advanced sensor and gas detection technologies to secure new contracts with energy clients in North America.

Cargo and Logistics:

Phase 2 of a pilot project for medical supply delivery was launched in Edmonton, utilizing BVLOS capabilities. The project demonstrated the Company's ability to provide time-critical logistics solutions while meeting stringent regulatory standards.

Regulatory Achievements

The Company obtained multiple Special Flight Operating Certificates (SFOCs) from Transport Canada for BVLOS operations. These approvals bolster the Company's ability to scale operations across urban environments.

Operational Synergies

Integration of the Company's technology platforms and the OCC began the introduction of significant operational efficiencies, aimed at reducing response times and enabling more precise mission planning. Consolidation of internal training programs across the combined organization streamlined certifications and improved resource allocation.

Future Focus

- Continued development and commercialization of heavy-lift and BVLOS technologies.

- Deepening of advanced data collection in existing markets and continued expansion of aerial intelligence services into emerging markets, such as agriculture.

- Strengthening of global training programs, in both e-learning and in person, to meet growing market demand for advanced sensor certifications and training (such as thermography, multispectral, and mapping) along with continued support with drone operator certifications, especially in regions where regulations are changing.

Forward Strategy

Strategic Plans:

Commercializing New Technology: Volatus is focused on commercializing its proprietary technologies, both the operation and/or sale of the Canary to third party customers and marketing the DroneSpot™ as a stand-alone product with an optional remote monitoring / management service. In parallel, the company is actively scaling its cargo services in receptive markets, leveraging platforms like the Canary, to address growing demand for autonomous, high-value, and medical delivery logistics.

Expanding into New Markets and Verticals: The Company plans to strengthen its presence in untapped geographic regions such as Africa and explore opportunities in emerging verticals such as agriculture, forestry/wildfire, and environmental monitoring. By leveraging its existing expertise in aerial intelligence and drone logistics, Volatus aims to capture new revenue streams and diversify its service offerings.

Achieving Profitability Targets: Volatus remains committed to achieving profitability by driving operational efficiencies, optimizing its cost structure, and expanding its high-margin service offerings. With a focus on recurring revenue streams from long-term contracts and strategic partnerships, the company is poised to achieve sustained financial growth and deliver value to its stakeholders.

UAVs (Unmanned Aerial Systems) or RPAS (Remotely Piloted Aircraft Systems) are playing a significant role in the defense and commercial sectors, progressively replacing traditional modes of inspection, surveillance, survey, and transportation due to their inherent cost, safety, and efficiency. Numerous market studies have predicted significant growth in the use of UAVs in all sectors the Company is targeting.

BUSINESS HIGHLIGHTS

In line with our strategy to be a commercializing drone technology company, we have completed the acquisition of all outstanding shares of Drone Delivery Canada Corp. and renamed the Company Volatus Aerospace Inc. on August 30, 2024. This merger unlocks the phase of BVLOS operations and age of autonomy. This transaction is expected to drive material synergies in which Volatus conducts its inspections contracts and also will leverage the Operations Control Centre (OCC) to enable autonomous flights and Beyond Visual Line of Sight Operations (BVLOS) across Canada, the US and the European region.

Over the past several quarters, our management team has strategically shifted our focus towards services and long-term contracts, resulting in a significant transformation of our revenue streams. This strategic shift is evident in our evolving product mix. Two years ago, our revenue was primarily driven by equipment sales, which accounted for 75% of our product mix. Today, equipment sales represent approximately 30-40% of our revenue, while services now contribute 60-70%.

This change has not only diversified our revenue base but also led to higher gross margins for the Company. The increased demand for our specialized services in sectors such as pipeline surveillance, power utilities, and construction and engineering highlight our ability to secure long-term contracts and provide high-value solutions to our clients.

The successful integration of the two companies will further enhance our offerings, combining advanced services and technology sales to expand our market reach. We are committed to continuing this trajectory, leveraging our expertise and strategic partnerships to drive sustainable growth and profitability.

Completion of Acquisition of Drone Delivery Canada Corp.

On August 30, 2024, the transaction, resulted in the merger of equals between Drone Delivery Canada Corp. and Volatus Aerospace Corp. and the Company was renamed Volatus Aerospace Inc. This merger creates one of North America's leading drone services and technology companies. This strategic merger significantly expands our addressable market to an impressive $4 billion by 2030.

1.785 shares of Drone Delivery Canada were issued to each share of Volatus Aerospace Corp. This transaction was approved by regulators and shareholder group of both the entities.

This merger represents a transformative opportunity for our Company and shareholders, positioning us at the forefront of the drone services industry and setting the stage for robust growth and profitability in the years ahead.

Integration of Operations with Volatus Aerospace Corp. and Realized Synergies

We started the integration process on day 1 in order to achieve maximum efficiencies and synergies. The annualized cost synergies of the merger have approximated $3.77 million within the first 100 days. Original estimation was to achieve the synergies in the first 12 months.

Raised of $17.77 million in Debt and Equity

On Oct 21, 2024, the Company announced the closing of $15,000,000 combined funding from Investissement Québec and Export Development Canada ("EDC"). 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 funding is testament of support and trust institutional investors have on the future of drone technology.

On November 6, 2024, the Company announced the closing of $2,767,240 in equity financing. The Company issued 19,766,000 shares and warrants with an exercise price of $0.20 and expiry after 24 months.

Named the #2 Top Growing Company by The Globe and Mail

We are proud to announce that Volatus was ranked second on the 2024 Canada's Top Growing Companies list, published by The Globe and Mail's Report on Business on September 27th, 2024. The ranking highlights 416 of Canada's fastest-growing businesses, evaluated based on three-year revenue growth. Volatus achieved 17,336% growth over the past three years, driven by its aerial solutions across sectors such as oil and gas, energy utilities, public safety, and infrastructure.

Expansion in Europe

We have launched Volatus Aerospace Europe S.A., positioning the Company as a drone service provider in European markets. This expansion is to leverage our OCC (Operations Control Centre) capability to drive BVLOS operations. The team is actively working with customers and respective regulators to enable and implement a solution at scale.

Regulatory Advancements

We have obtained additional Special Flight Operating Certificates (SFOCs) from Transport Canada for complex BVLOS operations in urban environments, enabling the Company to fly without a visual observer for its DroneCare operations. This marks a significant milestone to pave a path of operating large scale operations in a scalable way with support of regulators.

Strong Performance in Oil and Gas Sector

Our pipeline surveillance activities in Canada demonstrated resilience despite facing typical seasonal challenges, including several days of sub-optimal operational temperatures. In the US, we are witnessing a robust increase in demand for our specialized magnetometry services, which provide precise identification and location of underwater pipelines for our oil and gas clients.

Leveraging advanced technologies such as ortho mosaic mapping and LiDAR, we are creating highly accurate reference maps. These maps are then enhanced with GPS-located pipeline data from our magnetometers, ensuring superior accuracy and efficiency in our operations. This critical work, initiated, is ongoing and continues to drive value for our customers.

Our commitment to innovation and excellence in the oil and gas sector underscores our position as a trusted partner in pipeline surveillance and mapping, positioning us for continued growth and success.

Power Utilities Update

Our Company started utility pole inspections for a power utility in the southern United States. Additionally, we secured several work packages totaling approximately 11,000 structures in the eastern and northeastern United States, as well as a program to inspect more than 762,000 solar panels in the midwestern region.

These activities demonstrate our ongoing commitment to serving the power utilities sector, including both traditional infrastructure and renewable energy projects.

Construction and Engineering Update

In Q1, we observed a notable increase in demand for our LiDAR services in Eastern Canada, driven by the needs of three major engineering firms and a large municipality. We anticipate this demand will continue to grow over the next two quarters.

Our façade and roofing inspection services also remain in strong demand. We have secured new contracts with two large industrial firms with facilities across the USA. Currently, we are working on two large facilities and expect to secure additional work in the near future.

These developments highlight our ability to meet the evolving needs of the construction and engineering sectors.

Acquisition of UAVHub and the Drone Mentor

The Company completed the acquisition of the two UK-based companies, Aerial Motion Pictures Ltd., dba UAVHub and Open Sky Consulting International Ltd., dba The Drone Mentor, providing world leading online video-based drone training and certification. The transaction was closed on Jan 2, 2024. Founded in 2014, UAVHub is the highest rated drone training and certification company in the UK. UAVHub currently service the regulated drone pilot space by delivering UK Civil Aviation Authority approved online training and have developed proprietary tools that help simplify regulatory compliance in this ever-evolving sector. The Drone Mentor specialises in non-regulatory based training and support for the uncrewed sector, facilitating the advancement of personal, professional, and business development-the 'second stage' of the 'drone journey' which is often not considered when pilots first start out; ensuring individual success and ultimately, the longevity of the industry as a whole.

BUSINESS OUTLOOK & STRATEGY

The commercial drone industry is highly dependent on regulations. The Company believes that drone regulations are evolving however, building a business model around anticipated regulatory changes will restrict the growth of the Company. The Company has designed a strategy that addresses current market needs within the existing regulatory framework and concurrently has started to get special approvals to perform BVLOS (Beyond Visual Line of Sight) missions as highlighted above. The Company believes in solving customer problems by providing customized solution that integrates its own technology along with the best fourth-party technologies available in the market. The intent is to create a "stickiness" with the customer to foster repeat business and the Company becomes a one stop solution for all drone needs. To enable this strategy, Volatus introduced the "Vetted by Volatus" program that can qualify great drone technologies as part of its integrated solutions.

The Company also realized that certain sectors cannot be disrupted using drones due to regulatory constraints and the slow adoption rates. In certain cases, the Company will use piloted aircraft and progressively introduce remotely piloted aircraft (drones) to supplant piloted aircraft activities to generating higher gross margins and environmental wins to its customers.

2024 RESULTS

	For the year ended Dec 31	
	2024	2023
Total Revenue	27,147,414	34,872,815
Gross profit (as a % of revenues)	35%	32%
Net loss from operations	(10,887,514)	(9,064,243)
Net loss and comprehensive Loss	(13,310,324)	(9,693,626)
Adjusted EBITDA loss	(3,420,797)	(3,643,968)
Net loss and comprehensive loss per share, basic and diluted		
- Basic	(0.04)	(0.04)
- Diluted	(0.04)	(0.04)
Change in cash and cash equivalents	302,166	(2,427,838)

Revenue Overview

In 2024, the Company delivered a robust 16% growth in its Services and Technology revenue, underscoring the strength and scalability of our high-margin, recurring revenue streams. This performance reflects strategic capital allocation towards business line that offer long-term growth and operational resilience.

While overall revenue declined by 22%, from $34.9 million in 2023 to $27.1 million in 2024, this was primarily attributable to a temporary contraction in Equipment revenue, specifically within our drone hardware business line. The decline was influenced by capital constraints during the first ten months of the year, which limited our ability to ramp up inventory in line with demand. Given our typical three-month sales cycle, inventory availability plays a pivotal role in revenue generation from hardware sales.

Recognizing this, management made a deliberate decision to prioritize investment in our Services and Technology division, where returns are more sustainable and aligned with our long-term strategic objectives. This shift supports a more resilient revenue base and positions the Company for stronger growth momentum in the coming years.

Gross Margin Improvement

The Company achieved a notable improvement in gross margin, increasing from 32% in 2023 to 35% in 2024. This enhancement reflects continued progress in operational efficiency and a favorable shift in our product mix, with a growing emphasis on higher-margin Services and Technology offerings.

The Services and Technology division, which contributed 71% of total revenue in 2024, delivered a gross margin of 42%, compared to 20% for Equipment sales. This shift in revenue composition played a key role in the overall margin uplift. Our strategic focus on expanding this business line is not only enhancing profitability in the short term but also positioning the Company for sustained margin strength.

Looking ahead, we expect Services and Technology to consistently generate gross margins in the range of 40% to 50%, supporting our commitment to long-term value creation and financial resilience.

Product Mix and Strategic Focus

In 2024, the Company's revenue composition shifted meaningfully, with Services accounting for 71% and Equipment contributing 29% of total revenue. This compares to a more balanced mix in 2023, where Equipment sales comprised 52% and Services 48% of total revenue.

The shift in 2024 reflects a strategic capital allocation decision made by management to prioritize the Services and Technology business line—areas that offer higher gross margins and recurring revenue potential. This reallocation was influenced by capital constraints early in the year, which temporarily limited our ability to scale hardware inventory and meet growing demand in that business line.

While the current product mix does not indicate a fixed long-term trend, it does illustrate our strategic direction. As the industry continues to mature, we expect a gradual and intentional transition toward a Services- and Technology-led revenue model, better aligned with our long-term growth objectives and profitability focus.

Adjusted EBITDA and Operational Efficiency

For the year ended December 31, 2024, the Company reported an Adjusted EBITDA of ($3,420,797). Notably, following the successful completion of the merger on August 30, 2024, the fourth quarter marked the first full quarter of combined operations. During Q4 2024, the Company delivered a near breakeven Adjusted EBITDA of ($206,900), demonstrating substantial operational progress post-integration.

In comparison, the standalone Adjusted EBITDA in Q4 2023 for Drone Delivery Canada was ($2,574,113), and for Volatus Aerospace Corp., it was ($769,943)—resulting in a combined pro forma figure of ($3,344,056). This represents a significant improvement of $3,137,156 year-over-year, underscoring the early success of integration efforts and management's focus on driving synergies.

This turnaround reflects our proactive approach in streamlining operations, eliminating redundancies, enhancing cost controls, and aligning the business for sustained profitability.

A detailed reconciliation of Adjusted EBITDA is provided in the subsequent section of this document.

Liquidity and Cash Position

The Company ended the year with a modest increase in cash and cash equivalents of $302,166. This was primarily supported by new borrowings and equity financing activities, which provided flexibility to support strategic initiatives and working capital needs. These inflows were partially offset by operating losses, working capital investments, and debt repayments.

Management remains focused on maintaining a prudent capital structure and ensuring adequate liquidity to support growth while progressing toward positive cash flow generation.

Q4 2024 RESULTS

The following is selected financial data for the fourth quarter ended December 31:

	Three months ended Dec 31	
	2024	**2023**
Total Revenue	6,783,176	10,500,995
Gross Profit (as a % of revenues)	38%	27%
Loss from operations	(2,160,462)	(2,581,777)
Net loss and comprehensive Loss	(3,028,025)	(2,311,647)
Adjusted EBITDA loss	(206,900)	(769,943)

During Q4 2024, the Company made meaningful progress in optimizing operations and shifting toward higher-margin revenue streams. Gross profit improved to 38% of revenues, up from 27% in the prior year, driven by a favorable product mix that emphasized services and technology over equipment sales.

While total revenue declined to $6.8 million compared to $10.5 million in Q4 2023, this reflects the strategic reduction in lower-margin equipment sales in favor of more stable and profitable service offerings. The Services and Technology business line, which continues to gain momentum in the oil & gas and utility inspection markets across Canada and the U.S., contributed significantly to this margin expansion.

Operating losses narrowed to ($2.16 million) in Q4 2024, reflecting cost efficiencies, reduced overhead, and the realization of early synergies from the recent merger. These improvements were further reflected in Adjusted EBITDA calculation where one-time and non-repeat expenses were eliminated.

The net loss and comprehensive loss of ($3.03 million) in Q4 2024 includes merger-related costs and non-cash adjustments. Excluding these items, the Company demonstrated solid progress toward breakeven and remains on track to achieve sustained profitability in future quarters.

Adjusted EBITDA

In Q4 2024, the Company reported an Adjusted EBITDA loss of ($206,900), reflecting a substantial improvement over the prior year. However, it's important to note that a direct year-over-year comparison is not strictly like-for-like due to the completion of the merger on August 30, 2024.

In comparison, the standalone Adjusted EBITDA in Q4 2023 was ($2,574,113) for Drone Delivery Canada and ($769,943) for Volatus Aerospace Corp., resulting in a combined pro forma Adjusted EBITDA of ($3,344,056). This indicates a year-over-year improvement of $3,137,156, a strong validation of management's early success in executing integration plans and realizing merger-related synergies.

This turnaround highlights our proactive approach in streamlining operations, eliminating redundancies, enhancing cost controls, and aligning the combined business for long-term, sustainable profitability.

As at	December 31, 2024	December 31, 2023
Total Assets	57,804,071	26,876,098
Non-Current Assets	45,829,000	16,371,750
Goodwill	20,739,606	963,604
Total non-current Liabilities	11,099,860	9,641,836
Total Liabilities	31,467,306	24,338,202
Working Capital	(8,392,375)	(4,192,018)
Shareholder's Equity	26,336,765	2,537,896
Distribution or Cash Dividends	-	-

As at December 31 2024, the Company held total assets of $57,804,071. The increase in total assets was due to changes in goodwill and intangible assets. The Company continued to deploy cash in operating activities and scale its service business. The increase in total liabilities was driven by increased accounts payable and increased borrowings due to financing in Nov 2024.

RESULTS OF OPERATIONS

	Twelve months ended Dec 31		
	2024	**2023**	**2022**
Product and Services Revenue	27,147,414	34,872,815	24,414,418
Aircraft Sale		-	5,356,721
Direct Cost	17,591,115	23,736,973	21,425,786
Gross Profit	**9,556,299**	**11,135,842**	**8,345,353**

	35%	32%	28%
OPERATING EXPENSES			
Advertising & marketing	1,123,337	1,856,220	2,225,224
IT & tech	884,437	669,096	512,056
Personnel	7,458,005	6,984,713	5,660,069
R&D	41,279	1,341,377	541,023
Office cost	2,308,002	2,830,861	1,513,960
Travel	213,733	479,163	419,823
External partner cost	3,134,312	1,281,121	1,556,278
Depreciation	4,824,680	4,033,731	1,866,791
Share based Payments	456,028	723,803	1,244,858
	20,443,813	**20,200,085**	**15,540,082**
(Loss) from Operations	(10,887,514)	(9,064,243)	(7,194,729)
OTHER ITEMS - INCOME/(EXPENSE)			
Finance cost	2,935,917)	(1,775,236)	526,238)
Goodwill Impairment		-	-
Bargain Purchase Gain		221,808	2,112,197
FV changes in Contingent Consideration	247,661	386,731	(33,846)
Other income (expense)	(146,568)	15,405	411,502
Gain (Loss) on disposal of drones	115,657	92,782	9,969
Foreign exchange translation	12,900	(35,089)	157,460)
Net Loss and comprehensive loss before tax	**(13,593,781)**	**(10,157,842)**	**(5,378,605)**
Deferred Tax Income/ (Expense)	283,457	464,216	(71,311)
Net loss and comprehensive loss after tax	**(13,310,324)**	**(9,693,626)**	**(5,449,916)**
Total comprehensive loss for the period attributable to:			
Owners of Volatus Aerospace	(13,141,604)	(9,464,043)	(4,623,378)
Non-controlling interest	(168,720)	(229,583)	(826,538)
	(13,310,324)	(9,693,626)	(5,449,916)
Loss per share			
Basic and Diluted	(0.04)	(0.04)	(0.02)

For the year ended December 31, 2024, the Company demonstrated strong strategic execution amidst a transformational year that included a successful merger and significant restructuring efforts. While top-line revenues declined due to planned changes in product focus, improvements in gross margin, cost control, and organizational alignment have positioned the Company for sustainable growth and profitability.

Revenue and Gross Margin Performance
Total revenue for 2024 was $27.1 million, compared to $34.9 million in 2023. This decline was primarily attributable to a reduction in equipment sales, as the Company deliberately shifted its focus toward higher-margin service and technology offerings, in alignment with long-term strategic objectives.

Despite lower revenues, gross profit margin improved to 35%, up from 32% in 2023 and 26% in 2021, reflecting continued success in rebalancing the product mix and scaling service-based solutions. The increasing proportion of aerial intelligence, data services, and recurring revenue sources contributed meaningfully to this margin uplift.

Operational Expenses and Strategic Investment
Total operating expenses remained flat year-over-year at approximately $20.4 million, despite merger integration and transitional overhead. This highlights management's discipline in containing costs even as the business underwent significant structural changes.

Key highlights include:

Advertising and marketing expenses were reduced by 40% year-over-year, reflecting a more focused approach to high-impact channels and event participation.

Investor relations spend was rationalized to $456,028 in 2024, down from $728,803 in 2023, as the Company paused new IR initiatives and streamlined contractor usage.

Personnel costs increased modestly to $7.46 million due to post-merger restructuring but reflect improved team integration and alignment toward core growth areas.

Office costs were reduced by over $500,000 as a result of leased space termination and insurance program reviews, initiated in H2 2023 and continuing into 2024.

External partner costs rose due to one-time consulting and legal services related to the merger. However, the Company has since consolidated service providers and realigned contracts, which is expected to yield savings going forward.

Operating and Net Loss
The Company reported a loss from operations of ($10.9 million), compared to ($9.1 million) in 2023. This increase is primarily due to one-time merger-related integration costs and depreciation expenses, both of which are non-recurring in nature and were planned as part of the strategic transition.

At the net level, the Company posted a comprehensive loss after tax of ($13.3 million), impacted by higher finance costs due to debt restructuring and lower recognition of bargain purchase gains compared to the prior year. Despite these challenges, the financial losses are largely attributable to non-cash adjustments and strategic investment, not underlying business weakness.

Looking Ahead

Management remains confident in the Company's direction. The structural foundation laid in 2024, including cost realignment, systems integration, and a refined go-to-market strategy, is expected to drive operational leverage in future periods.

The shift toward high-margin service lines, combined with an improved cost base and organizational efficiency, positions the Company for accelerated EBITDA recovery and long-term shareholder value creation.

SUMMARY OF QUARTERLY RESULTS

The following selected unaudited quarterly financial data has been extracted from the financial statements prepared in accordance with IFRS Accounting Standards:

	Q4 2024	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Revenue	6,783,176	6,618,504	7,121,993	6,623,741	10,500,995	8,274,349	8,684,991	7,412,480
Direct costs	4,209,577	4,366,107	4,617,447	4,397,985	7,700,881	5,265,775	5,724,516	5,045,802
Gross Profit	**2,573,599**	**2,252,397**	**2,504,546**	**2,225,757**	**2,800,114**	**3,008,574**	**2,960,475**	**2,366,678**
	38%	34%	35%	34%	27%	36%	34%	32%
OPERATING EXPENSES								
Advertising & marketing	100,878	331,763	397,357	293,339	278,781	541,635	629,686	406,118
IT & tech	157,851	210,328	259,456	256,802	28,439	243,602	211,960	185,095
Personnel	1,958,572	1,787,175	1,515,536	2,196,722	1,312,983	1,727,086	1,788,347	2,156,297
R&D	25,429	4,011	-	11,840	771,861	104,832	364,263	100,420
Office cost	673,047	497,706	554,050	583,199	605,396	722,276	610,650	892,539
Travel	38,959	77,011	40,143	57,621	126,710	90,804	167,364	94,285
External partner cost	386,259	2,117,840	430,141	200,072	436,686	243,443	326,979	274,013
Depreciation and amortization	1,315,544	1,294,350	1,116,698	1,098,088	1,647,364	843,744	797,487	745,136
Share based Payments	77,523	124,861	126,822	126,822	173,671	195,372	178,361	176,401
	4,734,061	**6,445,045**	**4,440,202**	**4,824,504**	**5,381,891**	**4,712,793**	**5,075,097**	**5,030,304**
(Loss) from Operations	**(2,160,462)**	**(4,192,648)**	**(1,935,656)**	**(2,598,748)**	**(2,581,777)**	**(1,704,219)**	**(2,114,622)**	**(2,663,626)**
OTHER ITEMS - INCOME/(EXPENSE)								
Finance cost	(1,072,341)	(992,806)	(491,664)	(379,106)	(667,949)	(425,671)	(368,635)	(312,982)
Other income (expense)	(133,884)	(2,669)	153	(10,168)	14,955	(39,229)	41,237	(1,558)
Unrealized gain on investments	247,661	-	-					
Gain (Loss) on disposal of property and equipment	(1,541)	(194,662)	319,044	(7,184)	(125,476)	228,769	(0)	(10,511)
Foreign exchange translation	92,541	(109,037)	25,508	3,887	(24,156)	19,946	(16,191)	(14,688)

Net Loss	**(3,028,025)**	**(5,491,822)**	**(2,082,615)**	**(2,991,319)**	**(2,775,864)**	**(1,920,403)**	**(2,458,211)**	**(3,003,365)**
Deferred Tax Income/ (Expense)	283,457				464,216			
Net Loss	**(3,028,025)**	**(5,491,822)**	**(2,082,615)**	**(2,991,319)**	**(2,311,647)**	**(1,920,403)**	**(2,458,211)**	**(3,003,365)**
Total comprehensive Income (loss) for the period attributable to:								
Owners of Volatus Aerospace	(2,715,484)	(5,440,827)	(2,070,150)	(2,915,143)	(1,997,089)	(2,427,597)	(2,427,468)	(2,611,890)
Non-controlling interest	(29,084)	(50,994)	(12,465)	(76,176)	(314,559)	507,194	(30,743)	(391,475)
	(2,744,568)	**(5,491,822)**	**(2,082,615)**	**(2,991,319)**	**(2,311,647)**	**(1,920,403)**	**(2,458,211)**	**(3,003,365)**
Loss per share								
Basic and Diluted	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.03)	(0.02)

The quarterly results are subject to seasonality. Services activities are slower in the first quarter due to adverse winter conditions in North America. Sales start to pick up again starting in the second quarter and are highest in the third quarter for services. Equipment sales are consistent throughout the year and fluctuate based on customer requirements. However, with expansion in the UK and focus on training, impact of seasonality is expected to reduce as these service offerings are not subject to seasonality.

The office expense, personnel cost, and depreciation expense increased in Q4 2024 due to merger with drone delivery Canada. The external partner cost was reduced because Q3 2024 was an outlier quarter as it included advisory fees related to merger of the transaction.

LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of working capital as of December 31, 2024 and December 31, 2023:

	As at	
	December 31 2024	**December 31, 2023**
Current Assets	11,975,071	10,504,348
Current Liabilities	20,367,446	14,696,366
Working Capital	(8,392,375)	(4,192,018)

Current Assets of $11,975,071 as of December 31 2024 (December 31, 2023 - $10,504,348). The balance was primarily comprised of cash (including restricted cash) of $ 1,803,817 trade receivables of $4,502,679, prepaid items and deposits of $2,564,898, and inventory of $3,103,677.

Current Liabilities of $20,367,446 as of December 31 2024 (December 31, 2023 - $14,696,366). The balance was primarily comprised of $7,500,000 term loan that was categorized as short-term debt because it failed to meet the debt covenant requirement, trade payables of $6,331,383, current portion of lease liability of $ 765,498, current portion of long-term borrowings of $9,115,001, and other short-term liabilities of $952,614.

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

The decrease in working capital was due to operating activities and increased debt obligations. Cash on hand including restricted cash increased from $1,682,402 at December 31, 2023 to $1,803,817 at December 31, 2024 as a result of debt and equity financing, loss from operations, investments in fixed assets, and debt repayment. The cash outflow was offset by issuance of convertible debenture, term loan, and equity financing.

Unless otherwise noted, the Company does not expect to be exposed to significant interest, currency or credit risks arising from these financial instruments.

As the Company prepares a path toward profitability over the next two years, it will be dependent on its ability to increase sales and maintain margins at current levels. This will be influenced by general economic conditions, financial, regulatory, and other factors, including factors beyond the Company's control. The Company may need additional capital and may raise additional funds should the Board of Directors of the Company deem it advisable to support its aggressive acquisition strategy. To date, the Company has had a negative operating cash flow position due to the Company investing in inventory buildup, product development and human capital to meet increased demand. As a result of the Company's business plan for the development of its products and services, the Company expects cash flow from operations to be negative until revenues increase to offset its operating expenditure.

Management intends to finance operating costs over the next twelve months predominantly with cash on hand and with the issuance of securities such as prospectus offerings, private placement of common shares and convertible debentures. Further, in order to maintain or adjust its capital structure, the Company may issue new shares, new debt, or scale back the size and nature of its operations. The Company is not subject to externally imposed capital requirements. As of December 31, 2024, shareholders' equity was $25,952,409 and on December 31, 2023, shareholder's equity was $2,537,896.

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.

CASH FLOW:

	Twelve months ended December 31	
	2024	**2023**
Net cash used in Operating Activities	(12,434,845)	(2,077,137)
Net cash used in Investment Activities	(664,714)	(2,033,936)
Net Cash provided by Financing Activities	13,401,725	1,683,235
Net change in cash	302,166	(2,427,838)

Operating Activities

The net cash used in operating activities was primarily due to due to the loss generated in 2024 and repayment of Other short-term liabilities.

Investing Activities

The net cash used in investment activities was primarily investment in fixed assets.

Financing Activities

The net cash provided by financing activities was primarily due to the addition of convertible debt after acquisition, term loan, and addition of loan from director of the Company.

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

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

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

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

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

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

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital to meet its liquidity requirements.

The Company considers the items included in shareholders' equity as capital. The Company manages its capital structure and will adjust it, when necessary, to have funds available to support its corporate activities. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the modest current business and financial size of the Company, is reasonable.

We expect, from time to time, to evaluate the acquisition of businesses, intellectual property, products and technologies for which a portion of the net proceeds may be used. There is always the potential that any acquisition or investment in a company or product has a negative impact on future cash flows of the Company.

RECONCILIATION OF ADJUSTED EBITDA TO NET LOSS

	Three months ended Dec 31, 2024	Twelve months ended Dec 31, 2024
Adjusted EBITDA (loss)	**(206,900)**	**(3,420,797)**
Interest	1,072,341	2,935,917
Depreciation	1,315,544	4,824,680
Share-based Payments	77,523	456,028
Transaction (M&A) related Costs	448,259	1,969,259
Foreign Exchange	(92,541)	(12,900)

Net Loss	**(3,028,025)**	**(13,593,781)**

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources.

RELATED PARTY TRANSACTIONS

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.

Trade payables and accrued liabilities:

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

Share Capital:

The Company has outstanding preferred shares valued at $206,188 that are non-redeemable and have no coupon interest payment and have a face value of $1 to a company controlled by a director of the Company. (2023 – $206,188)

Loans & Advance:

The Company has entered into a promissory note with the director of the Company in 2024, for a short-term loan at an interest rate of 9.20% per annum. The amount of $1,111,627 is outstanding as at Dec 31, 2024 and repayable in full between August 2026 and 2029.

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 Fiscal year 2024 and 2023 included:

	2024	2023
Salaries	**945,178**	894,887
Share-based Payments	**364,271**	653,590
	1,309,449	1,548,477

The Company has an employment agreement with its CEO which provides that in the event the CEO's employment is terminated by the Company without cause, (i) a lump sum payment equal to 18 months' salary, or (ii) within 90 days of, a change in control, a termination payment equal to 18 months' salary, at $350,000 per annum, is payable. If the termination had occurred on December 31, 2024, the amount payable under this agreement would be $525,000.

The Company has an employment agreement with its CFO which provides that in the event the CFO's employment is terminated by the Company without cause, (i) a lump sum payment equal to 12 months' salary, or (ii) within 90 days of, a change in control, a termination payment equal to 12 months' salary, at $190,000 per annum, is payable. If the termination had occurred on December 31, 2024, the amount payable under this agreement would be $190,000.

SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Preferred shares

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

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

Stock Options

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

The continuity of stock options during the period were as follows:
Pre-transaction continuity outstanding options are as follows:

	December 31, 2024	December 31, 2023

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

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

	December 31, 2024		December 31, 2023	
	Number of Stock Options	**Weighted Average Exercise Price**	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	**14,623,953**	**0.25**	9,563,478	0.32
Granted	**-**		5,457,638	0.13
Exercised	**-**		-	
Forfeited	**(5,372,438)**	**0.56**	(397,163)	0.17
Options – DDC acquisition (note 16)	**7,315,000**	**0.58**	-	-
Outstanding, end of period	**16,566,516**	**0.30**	14,623,953	0.25

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

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

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

	Options Outstanding			Options Exercisable		
Range of price (C$)	Number of Stock Options outstanding	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price	Number of Stock Options exercisable	Weighted Average remaining contractual life (years)	Weighted Average Exercise Price
$0.13 - $0.19	5,239,316	3.61	0.13	1,211,910	2.87	0.14
$0.20 - $0.35	1,963,500	2.54	0.20	981,750	2.54	0.20
$0.36 - $0.50	6,765,150	2.00	0.36	4,748,100	2.00	0.36
Additional Options due to Merger						
$0.20 - $0.49	500,000	3.09	0.26	500,000	3.09	0.26
$0.50- $0.75	2,045,000	1.90	0.61	2,045,000	1.90	0.61
	16,566,516	**2.54**	**0.30**	**9,486,760**	**2.20**	**0.37**

On August 11, 2023, the Company granted 3,057,500 additional options at an exercise price of $0.23 that will be vested over four years and will expire five years from grant date.
The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. The weighted average fair value at date of grant for the options granted was $0.18 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.23, risk-free interest rate of 4.25%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

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

Warrants

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

Sr. No	Issue Date	Number of warrants outstanding at December 31, 2024	Fair Value at December 31, 2024	Number of Warrants Outstanding at December 31, 2023	Fair Value at December 31, 2023	Exercise Price	Expiry Date
1	06-Oct-22			20,957,746	1,878,565	$0.28	05-Oct-24
2	06-Oct-22			1,569,863	167,100	$0.20	05-Oct-24
3	06-May-23	753,020	20,587	753,020	20,587	$0.28	06-May-25

4	06-May-23	4,723,110	107,437	4,723,110	107,437	$0.28	06-May-25
5	06-Nov-24	19,760,000	770,874			$0.20	06-Nov-26
6	06-Nov-24	1,383,620	71,948			$0.14	06-Nov-26
		26,619,750	**$ 970,846**	**28,003,739**	**$ 2,173,689**		

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

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

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

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

SUBSIDIARIES & ACQUISITIONS

Acquisition of Volatus Aerospace Corp.

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

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

Total Consideration		**31,470,930**
Common Shares Issued		31,400,464
Option Value		70,466
Net assets acquired:		
Cash		685,621
Accounts Receivable		544,252
Prepaid Expenses		300,156
Accounts Payable		(1,141,934)
Lease liability		(802,939)
Deferred Revenue		(220,038)
Property Plant and Equipment		1,929,740
Right-of-use assets		802,940
Total net tangible assets		2,097,798
Identified intangible assets		
Tradename		995,130
Technology		8,602,000
Total identifiable intangible assets	$	9,597,130
Goodwill	$	19,776,002

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

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

Key assumptions used in the valuation models included:

- A royalty rate of 2.00% for the trade name and 10.00% for the proprietary technology, based on a review of comparable market transactions and industry benchmarks.

- Projected revenues over a period of 10 to 15 years, reflecting the expected economic benefit from continued use of the trade name and technology.
- A corporate tax rate of 26.5%; and
- Discount rates of 15.8% for the trade name and 15.3% for the technology.

The goodwill recognized primarily represents:

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

Goodwill is not deductible for tax purposes.

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

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

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

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

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

Acquisition of UAV Hub and Drone Mentor

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

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

The breakdown of consideration paid is as follows:

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

The Company did not incur any acquisition-related costs.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

Critical accounting estimates and assumptions as well as critical judgements in applying the Company's accounting policies are detailed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2024.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Credit Risk

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

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

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

Foreign Currency Risk

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

The Company monitors its foreign exchange exposure and its hedging strategy on an ongoing basis. As of December 31, 2024, the Company did not have any foreign currency hedges in place.

The summary quantitative data about the Company's exposure to currency risk is as follows:

	2024		2023	
	USD	**GBP**	**USD**	**GBP**
Cash	**173,197**	**192,539**	**893,825**	**108,098**
Trade and other receivables	**560,555**	**193,832**	**742,567**	**108,852**
Trade payables and other accrued liabilities	**(353,805)**	**(41,976)**	**(486,310)**	**(85,228)**
Net assets S	**379,947**	**344,395**	**1,150,082**	**131,722**

Concentration Risk

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

Interest Rate Risk

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

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

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

Liquidity Risk

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

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

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

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes that a 10% movement in interest rates and foreign exchange rates that may reasonably be expected to occur over the next twelve-month period will not have a significant impact on the Company.

Capital Management

The Company's objectives when managing capital are to:

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

The Company's capital structure consists of:

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

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

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

Fair Value

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

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

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

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

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

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

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

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

SUBSEQUENT EVENTS

Management has evaluated subsequent events as of April 25, 2025, the date the consolidated financial statements.

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

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

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

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

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

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

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

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

BUSINESS RISKS

An investment in the Company's Common Shares is highly speculative and involves significant risks. **In addition to the other information contained in this MD&A and the documents incorporated by reference herein and therein, you should review and carefully consider the risks described herein.** The risks described herein are not the only risk factors facing us and should not be considered exhaustive. Additional risks and uncertainties not currently known to us, or that we currently consider immaterial, may also materially and adversely affect our business, operations and condition, financial or otherwise.

Limited Operating History in Evolving Industry
While the Company has been carrying on business since 1987, it has a limited operating history in the evolving drone business that may not develop as expected. The Company's growth in this business is subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources, and lack of significant revenues. There is no assurance that the Company will be successful in achieving a return on shareholder's investment and the likelihood of success must be considered in light of the early stage of operations.

The Company could incur substantial product liability claims relating to its products.
As a manufacturer and service provider in the unmanned aerial vehicle sector, and with aircraft and aviation sector companies under increased scrutiny, claims could be brought against the Company if use or misuse of one of its products causes, or merely appears to have caused, personal injury or death. In addition, defects in the Company's products may lead to other potential life, health and property risks. Any claims against the Company, regardless of their merit, could severely harm the financial condition of the Company and strain management and other resources. The Company is unable to predict if it will be able to obtain or maintain product liability insurance for any products that may be approved for marketing.

Ownership and Protection of Intellectual Property
The intellectual property used by the Company in its business is not protected by patents or registered design rights, which means that the Company cannot preclude or inhibit competitors from entering the same market if they develop the same or similar technology independently. The Company is particularly reliant, therefore, on copyright, trade secret protection and confidentiality and license agreements with its employees, suppliers, consultants and others to protect its intellectual property rights. Although the Company has taken steps it believes to be consistent with industry practice to reduce these risks, such steps may be inadequate. If the Company fails to register, renew or enforce intellectual property rights, or there is any unauthorized use or significant impairment of its intellectual property rights, the value of its products and services could be diminished, the Company's competitive position could be adversely affected and its business may suffer. In addition, fourth parties may independently discover the Company's trade secrets or access proprietary

information or systems and, in such cases, the Company may not be able to rely on any intellectual property rights to prevent the use of such trade secrets, information or systems by such parties.

In order to protect its intellectual property, the Company may be required to spend significant resources to monitor and protect its rights. Costly and time-consuming litigation could be necessary to determine and enforce the scope of the Company's proprietary rights and the outcome of such litigation could not be guaranteed. Further, any efforts by the Company to enforce its intellectual property rights may be met with defences, counterclaims and countersuits attacking the validity and enforceability of its intellectual property rights. Failure to prevent the use of such secrets, information or systems by such fourth parties could materially adversely affect the business.

Exposure to risks relating to non-performing strategic suppliers and reseller contracts and agreements, including delays

The Company's ability to serve its customers in a timely manner depends on the ability of its strategic suppliers and resellers to perform their obligations and deliver their products and/or services in a timely manner and in accordance with contractual requirements. The Company relies, to a substantial extent on supplier and reseller contracts and agreements. Any delay in delivery of parts and materials by original equipment manufacturers ("**OEMs**") will entail a hindrance in the Company's ability to fulfil its contractual obligations. In addition, changes in pricing, incentives or other terms or non-performance of strategic suppliers and resellers could materially adversely affect the Company's ability to perform and subject the Company to additional liabilities. Any non-performance by OEMs, suppliers or resellers, could have a material adverse effect on the Company's business, results of operations, financial condition, cash flows and/or prospects.

Supplier risk

The Company acquires most of the products it sells and the components for the manufacture of its products from suppliers and subcontractors. Supply of certain products and components is highly concentrated with a small number of suppliers. Such suppliers and subcontractors may not be committed or obligated to sell products to the Company. Suppliers of some of the components may require the Company to place orders with significant lead-times to assure supply in accordance with its manufacturing requirements. Any lack of working capital on the part of the Company may cause it to delay the placement of such orders and may result in delays in supply. Delays in supply may significantly hurt the Company's ability to fulfill our contractual obligations and may significantly hurt its business and result of operations. In addition, the Company may not be able to continue to obtain such components from these suppliers on satisfactory commercial terms. Disruptions of its manufacturing operations would ensue if the Company was required to obtain components from alternative sources, which would have an adverse effect on our business, results of operations and financial condition.

Emerging Industry

Company products and services are in new and rapidly evolving markets. The commercial drone market is in early stages of customer adoption. Accordingly, the Company's business and future prospects may be difficult to evaluate. The Company cannot accurately predict the extent to which demand for its products and services will develop and/or increase, if at all. The challenges, risks and uncertainties frequently encountered by companies in rapidly evolving markets could impact the Company's ability to do the following:

- generate sufficient revenue to obtain and/or maintain profitability;

- acquire and maintain market share;
- achieve or manage growth in operations;
- develop and renew contracts;
- attract and retain additional engineers and other highly-qualified personnel;
- successfully develop and commercially market products and services;
- adapt to new or changing policies and spending priorities of governments and government agencies; and
- access additional capital when required or on reasonable terms.

If the Company fails to address these and other challenges, risks and uncertainties successfully, its business, results of operations and financial condition would be materially harmed.

Difficulty to Forecast
The Company must rely largely on its own market research to forecast sales, as detailed forecasts are not generally obtainable from other sources at this preliminary stage of the industry. A failure in the demand for its products or services to materialize as a result of competition, technological change or other factors could have a material adverse effect on the businesses, results of operations and financial condition of the Company.

Industry Growth
There can be no assurance that the Company's targeted vertical and geographic markets will grow, or that they will be successful in establishing new vertical and geographic markets. If the various markets in which the Company's products and services compete fail to grow, or grow more slowly than anticipated, or if they are unable to establish themselves in new markets, their growth plans could be materially adversely affected.

Rapid Technology Developments
The industries within which the Company operates are characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. To keep pace with the technological developments, achieve product acceptance and remain relevant to users and therefore attractive to customers and infrastructure providers, the Company will need to continue developing new and upgraded functionality of its offerings and adapt to new business environments and competing technologies and offerings developed by its competitors. The process of developing new technology is complex and uncertain. To the extent the Company is not able to adapt to new technologies and/or standards, experiences delays in implementing adaptive measures or fails to accurately predict emerging technological trends and the changing needs of end-users, this could have a material adverse effect on the Company's prospects, business, financial condition or results of operations.

The Company has developed and is continuing to develop several offerings incorporating advanced technologies and the Company will pursue those offerings that it expects to have the best chance for success based on its expectations of future market demand. The development and application of new technologies involve time, substantial costs and risks. There can be no certainty that the Company will be able to develop new offerings and technologies to keep up to date with developments in the industries within which it operates and, in particular, to launch such offerings or technologies in a timely manner or at all. There can be no certainty that such offerings will be popular with end-users or that such offerings or new technologies will be reliable, robust and not susceptible to failure. Any of these factors could have a material adverse effect on the Company's prospects, business, financial condition or results of operations.

Defects in Offerings

Company's product and service offerings are highly complex and sophisticated and may contain design defects or errors that are difficult to detect and correct. Errors or defects may be found in new or existing offerings and, even if discovered, the Company may not be able to successfully correct such errors or defects in a timely manner or at all. The occurrence of errors and failures in the Company's offerings could result in loss of or delay in end user acceptance of its offerings and may harm the reputation of the Company. Correcting such errors and failures in its offerings could require significant expenditures by the Company, involving cost or time and effort of personnel. The consequences of such errors, failures and claims could have a material adverse effect on the Company's prospects, business, financial condition or results of operations.

Risk of Accidents

An accident involving a drone or UAV provided by the Company or another manufacturer could cause regulatory agencies around the world to tighten restrictions on the use of drones and UAVs, particularly overpopulated areas, and could cause the public to lose confidence in the Company's products. There are risks associated with unmanned systems and services, flight control, communications and/or other advanced technologies, and there may be accidents associated with these technologies, including crashes with or without personal injury. The safety of certain cutting-edge technologies depends in part on user interaction, and users may not be accustomed to using such technologies. The Company could face unfavorable and tightened regulatory control and intervention on the use of UAVs and other advanced technologies and be subject to liability and government scrutiny to the extent accidents associated with the Company's systems occur. Should a high-profile accident occur resulting in substantial casualty or damages, either involving the Company's products or products offered by other companies, public and political confidence in and regulatory attitudes toward UAVs could deteriorate. Any of the foregoing could materially and adversely affect the Company's reputation, results of operations, financial condition, cash flow, and/or future prospects.

Variable Revenues and Earnings

The revenues and earnings of the Company may fluctuate from quarter to quarter, which could affect the market price of the Company's Common Shares. Revenues and earnings may vary quarter to quarter as a result of a number of factors, including the timing of releases of new products or services, activities of the Company's competitors, cyclical fluctuations, concentration in the Company's customer bases, transition periods associated with the migration to new technologies, impairment of goodwill or intangible assets which may result in a significant change to earnings in the period in which an impairment is determined, and operating expenses that are generally fixed in the short-term and therefore difficult to rapidly adjust to different levels of business. Any of the factors listed above could cause significant variations to the Company's revenues, gross margins and earnings in any given quarter.

Operating Losses

The Company has incurred net losses since its inception. The Company cannot assure that it can become profitable or avoid net losses in the future or that there will be any earnings or revenues in any future quarterly or other periods. The Company expects that its operating expenses will increase as it grows its business, including expending substantial resources for research, development and marketing. As a result, any decrease or delay in generating revenues could result in material operating losses.

Internal Controls

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS Accounting Standards. However, internal controls over financial reporting are not guaranteed to provide absolute assurance with regard to the reliability of financial reporting and financial statements.

Regulatory Risks

There is currently a limited legislation/regulatory framework in place specific to the beyond visual line-of-sight operations of commercial drones in Canada or in the United States. All such operations are approved on a case-by-case basis, with company experience and safety record being the major factors in gaining such approvals. The Company has secured the services of Canadian and United States drone regulatory experts in assessing the regulatory regimes of each county and who work with the applicable regulators to secure flight approvals. No significant concerns have arisen, however there can be no assurance that such jurisdictions have enacted or will enact legislation or that, if enacted, the Company will be permitted or qualified to operate under such legislation. The Company's business plan assumes a legislative regime that allows such plans to be realized. If the Company cannot expand its operations in Canada, the United States or other international jurisdictions through local partners or otherwise or cannot fulfill its international business plan within the timeframes established by the Company, it could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

Regulatory approvals

Transport Canada is responsible for establishing, managing, and developing safety and security standards and regulations for civil aviation in Canada, and includes unmanned civil aviation (drones). Civil operations include law enforcement, scientific research, or use by private sector companies for commercial purposes. The Canadian Aviation Regulations (CARs) govern civil aviation safety and security in Canada, and by extension govern operation of drones in Canada to an acceptable level of safety. While Transport Canada has been a leader in the development of regulations for the commercial use of remotely piloted aircraft systems ("RPAS"), and continues to move forward rapidly with its regulatory development, it has acknowledged the challenge of regulations keeping pace with the rapid development in technology and the growing demand for commercial RPAS use, particularly in the beyond visual line-of-sight environment. In 2012, the Canadian Aviation Regulation Advisory Council UAS working group released its Phase 2 report which outlined a proposed set of revision to the CARs to permit Beyond Visual Line of Sight (BVLOS) operations. This report was the basis for the recently released NPA on lower risk beyond visual line-of-sight. Failure to obtain necessary regulatory approvals from Transport Canada or other governmental agencies, including the granting of certain SFOCs, or limitations put on the use of RPAS in response to public safety concerns, may prevent the Company from testing or operating its aircraft and/or expanding its sales which could have an adverse impact on the Company's business, prospects, results of operations and financial condition.

Geographical Expansion

The Company faces challenges in expanding into new geographic regions. The Company currently operates in Canada, the United States, and some parts of LATAM, but the Company may in the future seek to expand its presence in new geographic regions. Any international expansion of the Company's technologies, products and services will expose the Company to risks relating to staffing and managing cross-border operations; increased costs and difficulty protecting intellectual property and sensitive data; tariffs and other trade barriers; differing and potentially adverse tax consequences; increased and conflicting regulatory compliance requirements, including with respect to data privacy and security; lack of acceptance of the Company's technologies, products and services; challenges caused by distance, language, and cultural differences; exchange rate risk; and political instability. Accordingly, any efforts by the Company to expand its operations may not be successful, which could limit the Company's ability to grow its business.

Foreign Political and Legal Risk

The Company believes that a significant amount of its business opportunities lie outside of Canada, particularly in the United States. Many of the fourth-party products sold by the Company and a majority of the components needed to build the products that the Company expects to manufacture are made and purchased from countries outside of Canada, particularly in Asia. Operating in foreign countries and relying on suppliers in foreign countries exposes the Company to political risks, country risks and currency risks in many forms. In addition, in jurisdictions outside of Canada, there can be no assurance that any market for the Company's products will develop. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations, and the effects of competition. These factors may limit the Company's ability to successfully expand its operations into such jurisdictions, may interfere with its supply chains and may have a material adverse effect on the Company's business, financial condition and results of operations.

Inherent risks with conducting foreign operations include, but are not limited to: high rates of inflation; extreme fluctuations in currency exchange rates, military repression; war or civil war; social and labour unrest; organized crime; hostage taking; terrorism; violent crime; expropriation and nationalization; renegotiation or nullification of existing licenses, approvals, permits and contracts; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, currency controls and governmental regulations that favour or require the Company to award contracts in, employ citizens of, or purchase supplies from, the jurisdiction.

Governments in certain foreign jurisdictions intervene in their economies, sometimes frequently, and occasionally make significant changes in policies and regulations. Changes, if any, in investment policies or shifts in political attitude in the countries in which the Company will operate or purchase products from may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, importation of product and supplies, income and other taxes, royalties, the repatriation of profits, expropriation of property, foreign investment, maintenance of concessions, licenses, approvals and permits, environmental matters, land use, land claims of local people, water use and workplace safety. Failure to comply strictly with applicable laws, regulations and local practices could result in loss, reduction or expropriation of licenses, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

Factors which may Prevent Realization of Growth Targets

Company is currently in the early development stage and expects that, in the future, even if revenues continue to increase, its revenue growth may not continue at the same pace or may decline in the future. There are risks associated with Company's growth strategy, and such strategies may not succeed, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors, as well as the following:

- non-performance by fourth party contractors;
- increases in materials or labour costs;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity; and
- inability to attract sufficient numbers of qualified workers.

As a result, there is a risk that the Company may not have the capacity to meet customer demand or to meet future demand when it arises. In addition, the Company, expects to continue to expend substantial financial and other resources on:

- personnel, including significant increases to the total compensation as the Company pays its employees as it grows employee headcount;
- marketing, including expenses relating to increased direct marketing efforts;
- office and facility costs, as the Company increases the space it needs for its growing employee base; and
- general administration, including legal, accounting and other compliance expenses related to being a public company.

If the Company cannot manage growth effectively it could materially and adversely affect the business, financial condition, and results of operations of the Company.

Competition
The industry in which the Company operates, and in which the Company will operate, is very competitive. Numerous factors could affect the Company's competitive position.

The Company may face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company. Several of these companies may have greater name recognition and well-established relationships with some of the Company's target customers. Furthermore, these potential competitors may be able to adopt more aggressive pricing policies and offer more attractive terms to customers than the Company are able to offer. As such, the Company may face increasing price pressure from competitors and customers. In addition, current and potential competitors have established or may establish cooperative relationships amongst themselves or with fourth parties to compete more effectively. Existing and potential competitors may also develop enhancements to, or future generations of, competitive products and services that will have better performance features than the Company's products and services.

As a result of the early stage of the industry in which the Company operates, the Company can expect to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in marketing, sales and customer support. The Company may not have sufficient resources to maintain marketing, sales and customer support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

The Company expects to incur substantial research and development costs and devote significant resources to identifying and commercializing new products and services, which could significantly reduce its profitability and may never result in revenue to the Company.

The Company's future growth depends on penetrating new markets, adapting existing products to new applications, and introducing new products and services that achieve market acceptance. The Company plans to incur substantial research and development costs as part of its efforts to design, develop and commercialize new products and services and enhance its existing products. The Company believes that there are significant opportunities in a number of business areas. Because the Company accounts for research and development costs as operating expenses, these expenditures will adversely affect its earnings in the future. Further, the Company's research and development programs may not produce successful results, and its new products and services may not achieve market acceptance, create any additional revenue or become profitable, which could materially harm the Company's business, prospects, financial results and liquidity.

The Company's adoption of new business models could fail to produce any financial returns.
Forecasting the Company's revenues and profitability for new business models is inherently uncertain and volatile. The Company's actual revenues and profits for its business models may be significantly less than the Company's forecasts. Additionally, the new business models could fail for one or more of the Company's products and/or services, resulting in the loss of Company's investment in the development and infrastructure needed to support the new business models, and the opportunity cost of diverting management and financial resources away from more successful businesses.

Foreign currency risk
The Company does engage in significant transactions and activities in currencies other than its functional currency. Depending on the timing of the transactions and the applicable currency exchange rates such conversions may positively or negatively impact the Company.

The Company is subject to certain market-based financial risks associated with its operations.
The Company could be subject to interest rate risks, which is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities, however market fluctuations could increase the costs at which the Company can access capital and its ability to obtain financing and the Company's cash balances carry a floating rate of interest. In addition, the Company engages in transactions in currencies other than its functional currency. Depending on the timing of these transactions and the applicable currency exchange rates, conversions to the Company's functional currency may positively or negatively impact the Company

Brand Development
The brand identities that the Company has developed and that the Company will continue to develop has and will significantly contribute to the success of the Company's business. Maintaining and enhancing Volatus' current brand is critical to expanding the Company's customer base. The Company believes that the importance of brand recognition will continue to increase due to the relatively low barrier to entry in the industry. The Company's brand may be negatively impacted by a number of factors, including product malfunctions and data privacy and security issues. If the Company fails to maintain and enhance its brand, or incurs excessive expenses

in this effort, it could have a material adverse effect on the Company's prospects, businesses, financial condition or results of operations. Maintaining and enhancing the Company brand will depend largely on the Company's ability to continue to provide high-quality products and services, which the Company may not continue to do successfully.

Privacy Laws Compliance
The Company collects and stores personal information about its users and partners and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly user and partner lists, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach could have a material adverse effect on the Company's businesses, financial condition or results of operations.

In addition, there are a number of federal and provincial laws protecting the confidentiality of personal information and restricting the use and disclosure of that protected information. In particular, the privacy rules under the *Personal Information Protection and Electronics Documents Act* (Canada) ("PIPEDA"), protect personal information by limiting their use and disclosure of personal information. If the Company was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of personal information, they could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the businesses, financial condition or results of operations of the Company.

Cyber-threats
The Company and its customers are subject to cyber-attacks from cybercriminals. Rapid changes in attack vectors makes it difficult to stop attacks and adapt to new threats and the increased social hacking creates a cyber-threat risk for the Company. Information technology security breaches could lead to shutdowns or disruptions of the Company's systems and potential unauthorized disclosure of confidential information or data, including personal data. The Company may be required to expend significant capital or other resources to protect against the threat of security breaches or to alleviate problems caused by such breaches. The theft or unauthorized use or publication of confidential information or other proprietary business information, or privacy-related obligations or fourth parties, or any compromise of security that results in an unauthorized release, transfer of use of personally identifiable information or other customer data as a result of an information technology security incident, could adversely affect the Company's competitive position and reputation, and reduce marketplace acceptance of the Company's products, services and solutions. If the Company is unable to protect its products and services from cyberthreats, this could have a material adverse effect on the Company's business, results of operations, financial condition, cash flows and/or prospects.

Reputational Risk
The nature of the Company's operations and national and international operations entails that the Company is exposed to the risk of allegations which, whether they are true or not, could damage the Company's trust, standing and reputation towards its shareholders, partners, new investors, suppliers, customers and/or other business relations. For example, negative publicity may ensue if the Company is accused of non-compliance with regulatory requirements, involvement in bribery, unsafe products etc. The Company's standing and reputation may also be negatively affected by the non-compliance of its suppliers, customers and resellers. Negative publicity or a bad reputation may also affect the Company's contacts with regulators, causing

regulatory authorities to have a negative attitude towards the Company. If the Company's standing and reputation is harmed, then it could have a material adverse effect on the Company's business, results of operations, financial condition, cash flows and/or prospects.

Future Capital Requirements

The Company may need to raise additional funds through public or private debt or equity financings in order to: (i) fund ongoing operations; (ii) take advantage of opportunities, including more rapid expansion of the Company's business or the acquisition of complementary businesses; or (iii) respond to competitive pressures. Any additional capital raised through the sale of equity may dilute the Company's shareholders' ownership. Capital raised through debt financing would require the Company to make periodic interest payments and may impose restrictive covenants on the conduct of the Company's business. Furthermore, additional financings may not be available on terms favorable to the Company, or at all. A failure to obtain additional funding could prevent the Company from making expenditures that may be required to implement the Company's growth strategy and grow or maintain the Company's operations.

Operating Risk and Insurance Coverage

The Company has liability insurance coverage for its products and business operations. However, the Company may not be able to secure additional product liability insurance coverage on acceptable terms or at reasonable costs when needed. A successful liability claim against the Company due to injuries or damages suffered by customers could materially and adversely affect the Company's financial conditions, results of operations, cash flow, reputation and/or prospects. Even if unsuccessful, such a claim could cause the Company adverse publicity, require substantial costs to defend, and divert the time and attention of management. Furthermore, any jurisdiction relevant to the Company's business may impose requirements for maintaining certain minimum liability or other insurance relating to the operation of drones or UAVs. Such insurance policies could be costly, which would reduce the demand for the Company's products and services. Alternatively, certain insurance products that would be desirable to drone and UAV operators may not be commercially available, which would increase the risks of operating the Company's products and also reduce the demand for them. Further, changes in market conditions may increase insurance premiums, which could adversely affect the Company's financial conditions, results of operations, cash flow and/or prospects.

Dependence on Key Employees

Due to the technical nature of its business and the dynamic market in which the Company competes, the Company's success will depend in part on its ability to attract and retain highly skilled manufacturing, design, managerial, marketing, sales and technical personnel. In particular, the Company's future success will depend in part on the continued services of each of their proposed executive officers and other key employees. Competition for qualified personnel in the industry in which the Company will operate is intense. The loss of one or more key personnel may have a significant adverse effect on the Company's sales, operations and profits.

A significant growth in the number of personnel would place a strain upon the Company's management and resources.

The Company may experience a period of significant growth in the number of personnel that could place a strain upon its management systems and resources. The Company's future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage its workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against it, such a decision could adversely affect the Company's ability to continue operating and the market price for the Company's Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

Future Acquisitions

As part of the Company's business strategy, they may attempt to acquire businesses that it believes are a strategic fit with its businesses. The Company may not be able to complete such acquisitions on favorable terms, if at all. Any future acquisitions may result in unforeseen operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for ongoing development of its businesses. Since the Company may not be able to accurately predict these difficulties and expenditures, these costs may outweigh the value they realize from a future acquisition, and any acquisition the Company completes could be viewed negatively by its customers. Future acquisitions could result in issuances of securities that would dilute shareholders' ownership interest, the incurrence of debt, contingent liabilities, amortization of expenses related to other intangible assets, and the incurrence of large, immediate write-offs.

Volatus Aviation's (Partner Jet) Business Operations depend on Licenses

Essential to Volatus Aviation's operations is the CAR 704 commercial licenses granted by Transport Canada to Volatus Aviation. This licencing permits Volatus Aviation to operate a domestic and international air taxi service utilizing small jet aircraft and to transport passengers and cargo on a charter basis between Canada and other countries.

Fluctuations in Fuel Prices

Volatus Aviation requires significant quantities of fuel for its aircraft. Volatus Aviation is therefore exposed to commodity price risk associated with variations in the market price for petroleum products. The price of fuel is sensitive to, among other things, the price of crude oil, which has increased dramatically over the past few years, refining costs, and the cost of delivering the fuel. An extremely high fuel cost could adversely affect customer volumes as other cheaper modes of transportation are sought.

Government Regulations

Volatus Aviation's operations are subject to complex aviation, transportation, environmental, labour, employment and other laws, treaties and regulations. These laws and regulations generally require the Company to maintain and comply with a wide variety of certificates, permits, licenses and other approvals.

Severe Weather Patterns

Volatus Aviation may experience an increase in costs or inability to operate its business as a result of severe weather conditions or natural or manmade disasters, which could have a material adverse effect on the

Company's business, results of operations or financial condition. If Volatus Aviation is still able to provide services to its customers during a period of severe weather, particularly during any protracted period of time, there may be forced flight cancellations, or Volatus Aviation may not be able to offer flights in a timely manner.

The Company may be subject to the risks associated with foreign operations in other countries.
The Company's primary revenues are expected to be achieved in Canada and the US. However, the Company may expand to markets outside of North America and become subject to risks normally associated with conducting business in other countries. As a result of such expansion, the Company may be subject to the legal, political, social, and regulatory requirements and economic conditions of foreign jurisdictions. The Company cannot predict government positions on such matters as foreign investment, intellectual property rights or taxation. A change in government positions on these issues could adversely affect the Company's business.
If the Company expands its business to foreign markets, it will need to respond to rapid changes in market conditions, including differing legal, regulatory, economic, social, and political conditions in these countries. If the Company is not able to develop and implement policies and strategies that are effective in each location in which it does business, then the Company's business, prospects, results of operations and financial condition could be materially and adversely affected.

There are tax risks the Company may be subject to in carrying on business in Canada.
The Company is a resident of Canada for purposes of the *Income Tax Act* (Canada) (the "**Tax Act**"). Since the Company is operating in a new and developing industry there is a risk that foreign governments may look to increase their tax revenues or levy additional taxes to level the playing field for perceived disadvantages to traditional brick and mortar businesses. There is no guarantee that governments will not impose such additional adverse taxes in the future.

Catastrophic Events
Events beyond the control of the Company may damage its ability to accept customers' orders, maintain its production and sales or perform its services. In addition, these catastrophic events may negatively affect customers' demand for the Company's products and services. Such events include, but are not limited to, fires, earthquakes, terrorist attacks, outbreak of disease or pandemics and natural disasters. Despite any precautions the Company may take, system interruptions and delays could occur if there is a natural disaster, and such disruptions could harm the Company's ability to run its business and cause lengthy delays which could harm business, results of operations and financial condition of the Company.

The Company's business, operations and financial condition could be materially adversely affected by the COVID-19 pandemic or the outbreak of other epidemics, pandemics or other health crises. Such impacts could include, with respect to its operations, its suppliers' operations and its customers' operations, forced closures, mandated social distancing, isolation and/or quarantines, impacts of declared states of emergency, public health emergency and similar declarations and could include other increased government regulations, a material reduction in demand for the Company's products and services, reduced sales, higher costs for new capital, licensing delays, increased operating expenses, delayed performance of contractual obligations, product shipping delays, and potential supply and staff shortages, all of which would be expected to negatively impact the business, financial condition and results of operations of the Company and its ability to satisfy its obligations. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in the Company's facilities or a supplier's facilities. Should a customer, employee or visitor in any of the Company's facilities or a supplier's facilities become infected with a serious illness that has the potential to spread rapidly, this could place the Company's customers and workforce at risk

The conflict between Russia and Ukraine could destabilize global markets and threatens global peace.
On February 24, 2022, Russian military forces launched a full-scale military invasion of Ukraine. In response, Ukrainian military personal and civilians are actively resisting the invasion. Many countries throughout the world have provided aid to the Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in their resistance to the Russian invasion. The North Atlantic Treaty Organization ("**NATO**") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. The outcome of the conflict is uncertain and is likely to have wide ranging consequences on the peace and stability of the region and the world economy. Certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia and such sanctions may have far reaching effects on the global economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

Trade Policy and Geopolitical Risks

The Company operates in multiple international markets and is therefore exposed to risks arising from evolving global trade dynamics. In particular, changes in the United States' trade policies — including the imposition of tariffs or trade restrictions can have a material impact on the cost structure, supply chain, and competitiveness of our products. The ongoing uncertainty around global trade agreements and geopolitical developments, such as trade tensions between major economies, introduces volatility in demand patterns, currency exchange rates, and procurement strategies. Any escalation in protectionist measures may adversely affect our cross-border operations, increase compliance costs, and impact profitability.s

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to Volatus, including our consolidated subsidiaries, is made known to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal Control over Financial Reporting ("ICOFR")

Our management, with the participation of our CEO and CFO, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the CEO and CFO, our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS Accounting Standards. Our internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Volatus;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS Accounting Standards and that our receipts and expenditures are made only in accordance with authorization of management and our directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the annual or interim financial statements.

Limitations on the Effectiveness of Disclosure Controls and the Design of ICOFR:

Our management, including the CEO and CFO, do not expect that our disclosure controls and procedures and ICFR will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system objectives will be met. The likelihood of achievement is affected by limitations inherent in all internal control systems. These inherent limitations include the realities that judgments or decision making can be faulty, and that breakdowns occur because of simple errors or mistakes. Controls can also be circumvented in numerous ways including collusion, overrides and deception. In addition to the inherent limitations, the design of a control system must reflect that there are resource constraints, and the expected benefit of controls must be considered relative to the expected costs. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Further, no evaluation of controls can provide absolute assurance that all control issues within a company will be detected.

Additional Information

Additional information relating to the Company is available on the SEDAR website www.sedar.com.