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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTH ENDED JUNE 30, 2025

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

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 Aug 20, 2025, and should be read in conjunction with the interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2025. 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.

Volatus is an industry-leading provider of integrated aerial solutions across Canada, the United States, and the UK. The Company serves commercial and defense markets with imaging, inspection, surveillance, cargo delivery, equipment sales, training, and support. Through subsidiaries, Volatus also provides pipeline inspection and monitoring with piloted aircraft. All other activities are conducted in the remotely piloted sector.

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

Volatus Services

Volatus holds an RPAS Operating Certificate for the commercial operation of remotely piloted aircraft systems, as well as two Air Operator Certificates for piloted airplanes and helicopters. These authorities enable a full spectrum of aerial solutions under a robust regulatory framework. The Company recently surpassed 75,000 cumulative flight hours, underscoring both operational maturity and client trust.

- **Aerial Intelligence Services** – Comprehensive inspection, mapping, surveillance, and advanced data collection using both RPAS and piloted aircraft, enhanced with GIS, data management, and machine learning analytics.
- **Cargo and Logistics Solutions** – RPAS-based cargo transportation for time-critical deliveries and remote area access, supported by advancements in heavy-lift RPAS technology.
- **Consulting Services** – Advisory services supporting the development and scaling of RPAS programs, including BVLOS, heavy-lift, wildfire operations, training, and safety management.
- **Remote Operations** – The Operations Control Center (OCC) provides secure, global BVLOS oversight and RPAS-in-a-box deployments, enabling continuous and scalable remote operations.

Volatus Drones

Volatus Drones operates as a solution provider and value-added reseller (VAR), serving civil and defense markets. With distribution facilities in Canada, the U.S., and the U.K., it supplies platforms and sensors from more than 60 OEM partners while also driving the commercialization of proprietary Volatus technologies. This dual approach ensures customers receive complete, mission-ready solutions supported by integration, technical expertise, and lifecycle services.

Volatus Academy

Volatus Academy is a global RPAS training leader with operations in Canada, the U.S., and the U.K. Through subsidiaries iRed and UAVHub, it holds CAA Recognised Assessment Entity (RAE) status in the UK and delivers BINDT-accredited thermography programs. Training is offered through multiple delivery methods, including classroom instruction, hands-on flight training, virtual classes, and self-paced online learning. Since inception, Volatus and its subsidiaries have trained over 114,000 students worldwide, including 2,000+ youth and Indigenous participants through award-winning programs such as the Science Experiential Aerial Research (SEAR) Program. These initiatives generate high-margin revenue, build a skilled operator pipeline, and reinforce Volatus' leadership in global RPAS education.

Research and Development

Volatus continues to advance proprietary technologies that enable safe, scalable, and commercially viable RPAS operations. Platforms under active development and commercialization include:

- **Canary RPAS** – A next-generation small cargo drone approved for BVLOS operations and currently deployed in healthcare and community logistics projects.
- **AIRS 3** – An advanced integrity reporting system delivering real-time monitoring and regulatory-compliant inspection data for pipelines, utilities, and transportation corridors.

- **FLYTE** – A mission planning and execution platform integrating airspace data, weather, compliance, and analytics.
- **DroneSpot™** – A drone logistics depot providing automated landing, charging, and monitoring infrastructure for cargo operations.
- **Aeriport** – A modular docking and charging station enabling recurring, automated BVLOS operations.

The Company maintains an intellectual property portfolio that includes a growing number of North American patents, consisting of U.S. grants with parallel Canadian filings, publicly announced since 2019 and covering mission management, routing, safety, and drone infrastructure.

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. Since Q3 2024, 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 Q1 2025, the Company continued to work on customized features for specific customer requirements and ongoing improvements to support scalability.

Market Reach

Volatus has established operations across North America, Europe, the UK, and Latin America, serving civilian, industrial, and government clients. The Company maintains a presence for solution sales in Peru to support opportunities in the LATAM region. Volatus leverages its extensive pilot network and its Toronto-based OCC to deliver aerial intelligence and cargo solutions at scale.

Strategic Focus

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

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.

BUSINESS HIGHLIGHTS

Executive Overview

The second quarter of 2025 was transformative for the Company, marked by stronger liquidity, expanded regulatory authorities, and meaningful commercial wins across energy, defense, forestry, and agriculture. Through a combination of strategic financing, debt reduction, and operational execution, the Company reinforced its balance sheet while positioning for growth. Regulatory milestones expanded our ability to operate on a scale, while new commercial contracts and demonstrations created pathways for recurring and high-value revenues. Together, these achievements highlight a company that is financially stronger, operationally capable, and increasingly recognized as a trusted partner in delivering global aerial solutions.

Financing

The quarter was marked by decisive actions to strengthen the balance sheet and improve liquidity:

- Shares-for-debt settlements on Apr 11 and May 14 addressed over $3.0M of convertible debentures, reducing debt obligations and conserving cash.
- On Apr 28, we announced a $2.0M LIFE financing at $0.12, which successfully closed on May 1 for $3.0M in gross proceeds.
- On May 22, a further $0.45M debt was settled through a shares-for-debt transaction.
- On Jun 19, Investissement Québec increased its total commitment to $10.5M through a $3.0M convertible debenture (12.5% coupon, $0.202 conversion). On the same day, we announced a $4.0M LIFE financing at $0.20, later increased and successfully closed on Jun 27 for $5.0M in gross proceeds.
- As subsequent event, the Company has further raised $14.80M in equity financing.

These transactions materially reduced debt, enhanced liquidity, and provided the Company with the runway to advance strategic initiatives. The Company is expected to have a cash position of approximately $20M as of date of approval of the financial statements.

Major Regulatory Advancements Support National-Scale BVLOS Operations

Volatus secured one of the most comprehensive regulatory approvals in its history: a nationwide Special Flight Operations Certificate (SFOC) from Transport Canada. This SFOC authorizes Beyond Visual Line of Sight (BVLOS) operations under a range of previously restricted conditions, including:

- Nighttime BVLOS operations in uncontrolled airspace outside of aerodromes.

- Proximity operations within 100 feet vertically and 200 feet horizontally of buildings, power lines, towers, and rail corridors.
- Access to restricted and NOTAM-controlled airspace, subject to coordination.
- Operations in Canada's Northern Domestic Airspace, enabling missions in remote northern regions.
- Full integration with autonomous drone-in-a-box infrastructure, enabling remote launching, recharging, and data transfer under centralized control via the Company's Operations Control Center (OCC).

This approval builds on a series of earlier SFOCs and reinforces Volatus' status as one of the few Canadian operators authorized for national, complex BVLOS operations, positioning the Company to deploy its drone services at scale in sectors such as oil and gas, public safety, logistics, and infrastructure.

The Company also was given a one-year extension of the federal standing offer (PWGSC) to Mar 31, 2026, ensuring ongoing access to federal contracts.

Commercial Highlights

Commercial execution accelerated during the quarter with important wins across energy, defense, forestry, and agriculture:

- Clearance by two major oil & gas firms (Apr 15) for RPAS pipeline surveillance, expected to increase segment revenue by up to 20%.
- A defense demonstration for a G-20 client (Apr 24), showcasing fixed-wing VTOL and nano RPAS platforms, creating a pathway for potential follow-on contracts valued up to USD $8M.
- A collaboration with J.D. Irving, Limited (Jun 23) to deploy heavy-lift RPAS for large-scale tree planting, expanding into sustainable forestry applications.
- Award of a national agriculture contract (Jun 25) to deliver multispectral crop surveys at 21 sites across four provinces, establishing a new stream of recurring revenue.

Commercial Deployment of Autonomous and Remote Operations

Building on its regulatory foundation, Volatus made further progress commercializing autonomous operations. In Ontario, its DroneCare™ medical delivery program transitioned to fully remote oversight. This includes regular BVLOS flights between hospitals in the Milton and Oakville areas. These missions are now conducted without the need for ground observers**,** supported instead by Transport Canada-accepted ground-based radar for detect-and-avoid (DAA) compliance, with full oversight from the OCC in Toronto.

These successful implementations demonstrate a reliable pathway for long-term medical logistics and critical infrastructure monitoring two of the most commercially viable and socially impactful applications of BVLOS drone technology.

Expansion of Technology Integration and Strategic Collaborations

Volatus announced a key collaboration with Kongsberg Geospatial in Q1, integrating Kongsberg's IRIS Terminal, an advanced airspace monitoring and mission management system into an operator station at the Volatus OCC. The initiative enables third-party demonstrations and real-time BVLOS operations using shared situational awareness tools.

This integration represents a strategic step toward offering advanced remote operations not only for Volatus' own missions but also as an enabler for partners, customers, and OEMs seeking to validate and deploy autonomous flight operations in compliance with Canadian regulations.

Continued Growth in High-Margin Service Sectors
Volatus continued to gain traction in its core markets:

- **Oil and Gas:** The Company expanded its inspection services using the **AIRS 3 platform**, delivering advanced geospatial reporting and analytics to midstream clients. Enhanced methane detection and magnetometry surveys remained in strong demand across Canada and the U.S.
- **Energy and Utilities:** In Q1, Volatus neared completion of one of North America's largest solar farm inspection projects, which included the inspection of over **760,000 solar panels**. The Company also continued utility pole inspections in the U.S., including over 11,000 structures across multiple work packages.
- **Construction and Engineering:** Demand for LiDAR, façade, and roof inspections remained high, with continued activity from engineering firms and municipalities in Eastern Canada and new contracts secured in the U.S.
- **Public Safety and Border Security:** Volatus demonstrated its mobile drone-in-a-box systems for perimeter security and surveillance applications, including government clients. These systems support autonomous deployment from mobile platforms, with OCC integration enabling security, 24/7 oversight.

BUSINESS OUTLOOK & STRATEGY

Volatus is advancing its strategy against a backdrop of changing geopolitical circumstances, including heightened security concerns and Canada's commitment to increased defence spending. As noted by Mark Carney, the federal government is making multi-year commitments to expand defence budgets, while Hon. Mélanie Joly has emphasized the importance of building Canadian capacity and repatriating defence dollars historically spent abroad. These priorities align closely with Volatus' recapitalization and growth trajectory. *[Source: Carney, AP News, Aug 2024; Joly, ISED Canada, Aug 2025]*

The Company is accelerating the commercialization of its proprietary technologies—including Canary RPAS, DroneSpot™, FLYTE, AIRS 3, and Aeriport—and building out manufacturing capability to strengthen Canada's sovereign industrial base. Volatus has engaged actively with the Government of Canada and the Canadian

Armed Forces, submitting proposals and retaining a lobby firm to ensure its solutions are represented in national discussions on defence modernization, border protection, and Arctic sovereignty.

Across all business units, the Company is focused on converting its commercial and defence pipeline into long-term contracts. Volatus Services is expanding its offering by leveraging its Operations Control Center (OCC) and BVLOS approvals to deliver scalable remote operations. Volatus Drones continues to integrate technologies from 60+ OEMs while commercializing in-house innovations, providing mission-ready solutions to civil and defence customers. Volatus Academy is reinforcing its position as a trusted global training provider, ensuring a pipeline of qualified operators and strengthening relationships with government, industrial, and community partners.

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. The Company is focused on converting its $600M sales pipeline opportunities into recurring contracts.

Expanding into New Markets and Verticals: The Company plans to strengthen its presence in untapped geographic regions and explore opportunities in emerging verticals such as border and Arctic surveillance, 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.

Building Sovereign Capacity: Investment in design, production, and secure supply chains positions Volatus to anchor a Canadian hub for drone manufacturing and advanced aerial capabilities with export potential

Disciplined Growth – With a strong cash position and clear focus, Volatus is prioritizing profitable growth through solution sales, aerial services, and training while continuing to invest in future-ready technologies and evaluating potential accretive acquisition opportunities.

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.

Through these initiatives, Volatus is positioned to align with national priorities, expand its market presence, and deliver long-term value for stakeholders.

Q2 2025 RESULTS

	Three months ended Jun 30	
	2025	**2024**
Total Revenue	10,587,075	7,121,993
Gross Profit (as a % of revenues)	32%	35%
Loss from operations	(2,249,026)	(1,935,656)
Net loss and comprehensive Loss	(3,977,703)	(2,082,615)
Adjusted EBITDA loss	(276,259)	(1,852,178)
Net loss per share	(0.01)	(0.01)
Change in cash and cash equivalents	4,566,737	(902,402)

Q2 2025 Results

Volatus Aerospace reported total revenue of $10.59M in Q2 2025, a 49% increase year-over-year compared with $7.12 million in Q2 2024.

The quarter was shaped by two key factors:

- **Defense market demand for equipment** – Recent tariff policy announcements and increased NATO demand for drones drove a 104% quarter-over-quarter increase and an 114% year-over-year increase in equipment sales.
- **Execution in services revenue** – Services revenue grew 71% quarter-over-quarter from $3.2 million in Q1 2025 and 16% year-over-year from $4.75 million in Q2 2024.

As a result, the revenue mix in Q2 2025 was 48% equipment sales and 52% services, compared with 33% equipment and 67% services in Q2 2024. This shift demonstrates our ability to scale rapidly in response to market opportunities and capture growth across both segments of the industry.

Q2 2025 Gross Profit of $3,375,420. Gross Margin of 32%

Gross profit for Q2 2025 was $3,375,420, representing a gross margin of 32%, compared with 35% in Q2 2024. The modest decline in margin reflects a higher proportion of equipment sales in the revenue mix, as demand in the defense sector accelerated during the quarter.

Breaking down performance by segment:

- Services continued to deliver strong margins in the 40%–50% range, reinforcing the Company's strategic emphasis on high-value, recurring contracts that provide predictable cash flow.
- Equipment sales generated margins consistent with defense and commercial drone industry norms. Strategic sourcing from distributors, rather than OEMs, ensured immediate fulfillment of urgent orders and preserved flexibility in an evolving global supply chain environment.

Looking forward, the Company expects overall margins to strengthen as service revenues expand with seasonal activity and the ramp-up of newly secured contracts.

Q2 2025 Revenue Distribution

The Q2 2025 revenue mix was 48% equipment and 52% services, compared with 33% equipment and 67% services in Q2 2024. This shift was primarily driven by:

- Accelerated demand for drones and related equipment in the defense and public safety markets.
- Expansion of service contracts in the utility sector.

This flexibility underscores the Company's ability to adapt quickly to evolving customer needs and market conditions. Over the longer term, management expects the mix to normalize toward 55%–60% services and 40%–45% equipment, in line with our strategy to prioritize higher-margin, recurring service revenue.

Adjusted EBITDA (Earnings before Interest, Tax, Depreciation, and Amortization)

Volatus achieved a 85% year-over-year improvement in Adjusted EBITDA, reducing the loss from ($1.85 million) in Q2 2024 to ($276,259) in Q2 2025. This improvement was primarily driven by:

- Scale in overall revenue
- Increased service contracts
- Cost discipline and reductions in discretionary spending.
- Elimination of non-core development activities.
- Continued realization of merger synergies and integration benefits.

While certain costs for the period increased due to termination expenses, and legal fees, the overall operating expense base has been materially reduced. On a pro forma basis, considering the combined operations of Volatus Aerospace Corp. and Drone Delivery Canada, total operating expenses (excluding depreciation, finance cost and share based payments) in Q2 2024 were $4,964,058. In comparison, the equivalent expense base in Q1 2025 declined by $938,155, underscoring the effectiveness of ongoing cost optimization efforts.

This performance reflects continued success in aligning our cost structure with revenue priorities and positions the Company for continued EBITDA improvement as new service contracts ramp up. A detailed reconciliation of Adjusted EBITDA is provided later in this MD&A.

Cash Position and Strategic Use of Capital

The Company cash flow from operating activities was ($2,119,984) during the six months ended June 30, 2025. The Company also raised meaningful strategic capital from Investissement Québec. The cash and cash equivalents increased by $4,566,737, primarily due to the following:

- Equity and convertible debt financing of $10M
- Aggressive working capital management
- Conversion of debt into equity
- Strategic capital expenditures to support new service contracts and continued development of the drone technologies.
- Repayment of scheduled debt obligations.

The Company remains committed to disciplined capital management and is actively advancing a funding strategy to support both near-term growth and long-term value creation.

As at	June 30, 2025	December 31, 2024
Total Assets	60,622,186	57,804,071
Non-Current Assets	44,016,875	45,829,000
Goodwill	20,739,606	20,739,606
Total non-current Liabilities	19,689,773	11,099,860
Total Liabilities	30,336,944	31,467,306
Working Capital	5,958,140	(8,392,375)
Shareholder's Equity	30,285,242	26,336,765
Distribution or Cash Dividends	-	-

As at June 30, 2025, the Company held total assets of $60,622,186. The increase in total assets was due to changes in the cash position of the business and increase in receivables and other assets. Non-current assets decreased by $616,640 due to depreciation and reclassification/disposal of certain assets. The Company continued to deploy cash in operating activities and scale its service business. The decrease in total liabilities was driven by conversion of debt into equity.

RESULTS OF OPERATIONS

	Three months ended June 30	
	2025	2024
Revenue	10,587,075	7,121,993
Direct costs	7,211,655	4,617,447
Gross Profit	**3,375,420**	**2,504,546**
	32%	35%
OPERATING EXPENSES		
Advertising & marketing	428,128	397,357
IT & tech	118,017	259,456
Personnel	2,214,001	1,515,536
R&D	4,390	-
Office cost	714,212	554,050
Travel	73,765	40,143
External partner cost	473,390	430,141
Depreciation and amortization	1,429,826	1,116,698
Share based Payments	168,717	126,822
	5,624,446	**4,440,202**
(Loss) from Operations	**(2,249,026)**	**(1,935,656)**
OTHER ITEMS - INCOME/(EXPENSE)		
Finance cost	(1,897,745)	(491,664)
Other income (expense)	17,104	153
Gain (loss) on investments	-	-
Tax Expenses	210,377	-
Gain (Loss) on disposal of property and equipment	-	319,044
Foreign exchange translation	(58,413)	25,508
Net Loss	**(3,977,703)**	**(2,082,615)**
Owners of Volatus Aerospace Corp.	(3,266,866)	(2,070,150)
Non-controlling interest	(710,837)	(12,465)
	(3,977,703)	**(2,082,615)**
Loss per share		
Basic and diluted	(0.01)	(0.01)
Basic and diluted	546,773,393	224,312,559

The Company generates revenue from two principal business divisions: equipment sales and aerial services and training, which include drone-based services, training, and crewed long-liner pipeline inspections. In H1 2025, equipment sales delivered a gross margin within the range of defense sector and commercial drone players , while services ranged between 40% and 50% range. The sale to defense segment equipment yields lower gross margins than services and training, due to the nature of contracts and supply chain urgency. Despite a revenue mix of 48:52, the blended gross margin remained stable at 32%, slightly above expectations.

The Company continues to exercise cost discipline across discretionary spending areas. The marketing expenses reduced by $126,993, covering trade shows, advertising, business development initiatives, and investor engagement. This represents a 18% reduction compared to H1 2024. Investor relations (IR) spending totaled increased due to funding roadshows. Current IR activity is limited to essential functions, including platform fees, contractor oversight, and website maintenance.

While select one-time costs increased in the quarter, such as termination-related expenses, legal fees, and costs associated with discontinuation of non-core activities, the overall operating expense base declined materially. On a pro forma basis, inclusive of both Volatus Aerospace Corp. and Drone Delivery Canada, operating expenses totaled $10,310,964 in H1 2024. In H12025, those costs were reduced by $2,748,915, reflecting the successful execution of merger integration plans and the Company's focus on sustainable growth structure.

SUMMARY OF QUARTERLY RESULTS

The following selected quarterly financial data has been extracted from the financial statements prepared in accordance with International Financial Reporting Standards:

	Q2 2025	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024	Q4 2023	Q3 2023
Revenue	10,587,075	5,713,158	6,783,176	6,618,504	7,121,993	6,623,741	10,500,995	8,274,349
Direct costs	7,211,655	3,883,185	4,209,577	4,366,107	4,617,447	4,397,985	7,700,881	5,265,775
Gross Profit	**3,375,420**	**1,829,973**	**2,573,599**	**2,252,397**	**2,504,546**	**2,225,757**	**2,800,114**	**3,008,574**
	32%	32%	38%	34%	35%	34%	27%	36%
OPERATING EXPENSES								
Advertising & marketing	428,128	135,575	100,878	331,763	397,357	293,339	278,781	541,635
IT & tech	118,017	245,180	157,851	210,328	259,456	256,802	28,439	243,602
Personnel	2,214,001	2,440,528	1,958,572	1,787,175	1,515,536	2,196,722	1,312,983	1,727,086
R&D	4,390	11,756	25,429	4,011	-	11,840	771,861	104,832
Office cost	714,212	438,182	673,047	497,706	554,050	583,199	605,396	722,276
Travel	73,765	64,288	38,959	77,011	40,143	57,621	126,710	90,804
External partner cost	473,390	200,637	386,259	2,117,840	430,141	200,072	436,686	243,443
Depreciation and amortization	1,429,826	1,496,425	1,315,544	1,294,350	1,116,698	1,098,088	1,647,364	843,744
Share based Payments	168,717	165,454	77,523	124,861	126,822	126,822	173,671	195,372
	5,624,446	**5,198,025**	**4,734,061**	**6,445,045**	**4,440,202**	**4,824,504**	**5,381,891**	**4,712,793**
(Loss) from Operations	**(2,249,026)**	**(3,368,052)**	**(2,160,462)**	**(4,192,648)**	**(1,935,656)**	**(2,598,748)**	**(2,581,777)**	**(1,704,219)**
OTHER ITEMS - INCOME/(EXPENSE)								

Finance cost	(1,897,745)	(645,685)	(1,072,341)	(992,806)	(491,664)	(379,106)	(667,949)	(425,671)
Other income (expense)	17,104	(3,468)	(133,884)	(2,669)	153	(10,168)	14,955	(39,229)
Unrealized gain on investments	-	(58,963)	247,661	-	-			
Gain (Loss) on disposal of property and equipment	-	-	(1,541)	(194,662)	319,044	(7,184)	(125,476)	228,769
Foreign exchange translation	(58,413)	1,225	92,541	(109,037)	25,508	3,887	(24,156)	19,946
Net Loss	**(4,188,080)**	**(4,074,943)**	**(3,028,025)**	**(5,491,822)**	**(2,082,615)**	**(2,991,319)**	**(2,775,864)**	**(1,920,403)**
Deferred Tax Income/ (Expense)	210,377	(210,377)	(100,899)				**464,216**	
Net Loss	**(3,977,703)**	**(4,285,320)**	**(3,128,924)**	**(5,491,822)**	**(2,082,615)**	**(2,991,319)**	**(2,311,647)**	**(1,920,403)**
Total comprehensive Income (loss) for the period attributable to:								
Owners of Volatus Aerospace Corp.	(3,266,866)	(4,241,643)	(3,099,840)	(5,440,827)	(2,070,150)	(2,915,143)	(1,997,089)	(2,427,597)
Non-controlling interest	(710,837)	(43,677)	(29,084)	(50,994)	(12,465)	(76,176)	(314,559)	507,194
	(3,977,703)	**(4,285,320)**	**(3,128,924)**	**(5,491,822)**	**(2,082,615)**	**(2,991,319)**	**(2,311,647)**	**(1,920,403)**
Loss per share								
Basic and Diluted	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)

The Company's second quarter results reflected a significant rebound in activity, with revenues more than doubling from Q1 2025 and increasing 49% year-over-year. Growth was driven by strong equipment demand in the defense sector, supported by recent policy shifts and NATO-related procurement, as well as steady execution of service contracts across utilities and public safety.

Gross margin held at 32%, consistent with Q1 2025, as the higher proportion of equipment sales was offset by continued strength in services, which remain within the Company's 40–50% margin range. This balance highlights our ability to scale quickly in response to market opportunities while maintaining profitability discipline.

Operating expenses increased in the quarter, reflecting higher personnel and office costs, including severance and certain one-time expenses. Despite this, operating leverage improved as revenue growth outpaced expense increases, and the net loss attributable to shareholders narrowed compared with Q1 2025.

With revenues surpassing $10 million for the first time since Q4 2023, Q2 demonstrates the Company's ability to capture growth across both segments. Seasonal service activity and new contract execution are expected to support continued momentum through the second half of 2025.

LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of working capital as of June 30, 2025, and December 31, 2024:

	As at	
	30-Jun-25	31-Dec-24
Current Assets	16,605,311	11,975,071
Current Liabilities	10,647,171	20,367,446
Working Capital	5,958,140	(8,392,375)

As of June 30, 2025, the Company reported current assets of $16,605,311, an increase from $9,772,436 as of March 31, 2025, and $11,975,071 as of December 31, 2024. The increase was primarily driven by the completion of equity and convertible debt financing during the quarter, which strengthened the Company's cash position.

Current liabilities decreased to $10,647,171 as of June 30, 2025, compared to $22,031,245 as of March 31, 2025, and $20,367,446 as of December 31, 2024. The decrease reflects the reclassification of certain obligations to long-term debt after meeting working capital covenants, including the reclassification of EDC debt to non-current liabilities. In addition, a portion of debt was converted into equity, further reducing current obligations.

As a result, the Company reported a positive working capital position of $5,958,140, a significant improvement from a deficit of $12,258,809 at March 31, 2025, and $8,392,375 at December 31, 2024. This turnaround underscores both the impact of new financing activities and disciplined liability management.

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

CASH FLOW:

	Six Months ended	
	30-Jun-25	30-Jun-24
Cash generated from (used in) Operating Activities	(2,119,984)	(222,567)
Cash provided by (used in) Investing Activities	(410,959)	(372,390)
Cash provided by (used in) Financing Activities	7,097,680	(307,838)
Net change in Cash	4,566,737	(902,794)

Operating Activities
For the six months ended June 30, 2025, the Company used $2.1 million of cash in operating activities, compared with $0.2 million in the same period of 2024. The increase in outflows reflects higher activity levels and operating losses, partially offset by improvements in working capital management during Q2 2025.

Investing Activities
Net cash used in investing activities totaled $0.4 million for the six months ended June 30, 2025, consistent with the prior year period, and was primarily related to the investment in capital expenditure to execute service contracts.

Financing Activities
Net cash provided by financing activities was $7.1 million for the six months ended June 30, 2025, compared with a use of $0.3 million in the same period of 2024. The increase was due to equity and convertible debt financings completed in Q2 2025, as well as the conversion of certain debt into equity, which strengthened the Company's balance sheet and liquidity position.

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 June 2025	**Three Months ended June 2024**
Adjusted EBITDA (loss)	**(276,259)**	**(1,852,178)**
Interest	1,897,745	491,664
Depreciation	1,429,826	1,116,698
Share-based Payments	168,717	126,822
Severance/discontinued Cost	357,120	-
Foreign Exchange Translation	58,413	(25,508)
Tax Expense/(Income)	(210,377)	-
Proforma DDC Operating Expense	-	(1,479,239)
Net Loss	**(3,977,703)**	**(2,082,615)**

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

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

Trade payables and accrued liabilities:
On August 31, 2022, the Company entered into an independent consultant agreement ("Consultant Agreement") with GripFast Solutions Inc., a company controlled by an independent director, to provide consulting services to the Company for scaling in the defense sector. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under External Partner Cost in the consolidated statement of loss and comprehensive loss. For the quarter ended June 30, 2025, the Company incurred fees of $24,000 (2024- $24,000). As at June 30, 2025, the Company was indebted to this company in the amount of $40,000 (Dec 31, 2024 - $16,000).

Share Capital:

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

Loans & Advance:

The Company has entered into promissory notes with the directors of the Company in 2024, at interest rates ranging between 0% and 15.50% per annum. The amount of $1,256,763 is outstanding as at June 30, 2025 and repayable in full between August 2026 and June 2029. This amount is included in long-term borrowing in the consolidated balance sheet.

Key management compensation

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

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

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

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 June 30 2025, 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 $210,000 per annum, is payable. If the termination had occurred on June 30 2025, the amount payable under this agreement would be $210,000.

SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Common shares

On April 30, 2025, the Company closed its oversubscribed $3 million non-brokered listed issuer financing exemption (LIFE) private placement (the "LIFE Offering"). The Company issued 25,000,000 units of the Company ("Units") at a price of $0.12 per Unit for gross proceeds of $3,000,000. Each Unit is comprised of one common voting share in the capital of the Company ("Common Share") and one Common Share purchase warrant of the Company (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one Common Share (each, a "Warrant Share") at an exercise price of $0.20 per Warrant Share for a period of 36 months following the date of issuance.

On May 14, 2025, the Company completed its shares-for-debt transaction and issued a total of 20,174,280 common voting shares in the capital of the Company (the " Common Shares ") and 17,640,000 Common Share purchase warrants (each a " Warrant ") settling an aggregate debt of $3,026,142.00 owing to holders of unsecured convertible debentures of the Company (the " Debentures ") issued pursuant to a debenture indenture dated May 11, 2023. The Common Shares were issued at a deemed price of $0.15 per Common Share. Each Warrant is exercisable into one Common Share at an exercise price of $0.20 per Common Share for a period of three years from the date of issuance, subject to acceleration if, at any time following the date that is 4 months and one day following the date of issuance.

On June 19, 2025, the Company completed its share-for-debt conversion and issued a total of 3,720,000 units of the Company, settling the principal and accrued and unpaid interest in the amount of $446,400.00 owing to holders of unsecured non-convertible debentures of the Company. Each Unit is comprised of one Common Share and one common voting share purchase warrant of the Company, with each Warrant exercisable to purchase one additional Common Share at an exercise price of $0.20 per Common Share for a period of 36 months from the date of issuance. Each Warrant is exercisable into one Common Share at an exercise price of $0.20 per Common Share for a period of three years from the date of issuance, subject to acceleration if, at any time following the date that is 4 months and one day following the date of issuance.

On June 20, 2025, the Company announced closing of its non-brokered listed issuer financing exemption (LIFE) private placement (the "LIFE Offering"). The Company issued 25,000,000 units of the Company (" Units ") at a price of $0.20 per Unit for gross proceeds of $5,000,000. Each Unit is comprised of one common voting share in the capital of the Company (" Common Share ") and one-half of one Common Share purchase warrant of the Company (each whole warrant, a " Warrant "). Each Warrant entitles the holder thereof to purchase one Common Share (each, a " Warrant Share ") at an exercise price of $0.30 per Warrant Share for a period of 36 months following the date of issuance.

Preferred shares

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

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

Stock Options

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

	30-June-25		31-Dec-24	
	Number of Stock Options	**Weighted Average Exercise Price**	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	**16,566,515**	**0.30**	14,623,953	0.25
Granted	**10,423,000**	**0.03**	-	
Exercised	-	-	-	
Forfeited	**(157,100)**	**0.13**	(5,372,438)	0.56
Options – acquisition	-	-	7,315,000	0.58
Outstanding, end of period	**26,832,415**	**0.19**	16,566,515	0.30

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

	Options Outstanding			Options Exercisable		
Range of price (C$)	**Number of Stock Options outstanding**	**Weighted Average remaining contractual life (years)**	**Weighted Average Exercise Price**	**Number of Stock Options exercisable**	**Weighted Average remaining contractual life (years)**	**Weighted Average Exercise Price**
$0 to $0.05	10,423,000	4.64	0.03	-	-	-
$0.06 - $0.19	5,185,765	2.94	0.13	1,400,450	2.47	0.14
$0.20 - $0.35	1,963,500	2.04	0.20	1,561,875	2.05	0.20
$0.36 - $0.50	6,765,150	1.50	0.36	6,765,150	1.50	0.36
Additional Options due to Merger						
$0.20 - $0.49	450,000	2.59	0.26	500,000	2.59	0.26
$0.50- $0.75	2,045,000	1.40	0.61	2,045,000	1.40	0.61
	26,832,415	**3.05**	**0.19**	**12,222,475**	**1.71**	**0.36**

On Jan 2, 2025, the Company granted 1,977,000 additional options at an exercise price of $0.14 and 5,546,000 stock awards 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 rewards granted. The weighted average fair value at date of grant for the options granted was $0.106 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.14, risk-free interest rate of 3.22%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

On June 19, 2025, the Company granted 2,900,000 additional RSU that will vest over 3 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 $0.209 per option. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.21, risk-free interest rate of 3.37%, 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:

Sr. No	Issue Date	Number of warrants outstanding at June 30, 2025	Fair Value at June 30, 2025	Number of warrants outstanding at December 31, 2024	Fair Value at December 31, 2024	Exercise Price	Expiry Date
1	06-May-23	753,020	36,747	753,020	20,587	$0.28	06-May-25
2	06-May-23	4,723,110	107,437	4,723,110	107,437	$0.28	06-May-25
3	06-Nov-24	19,760,000	770,874	19,760,000	770,874	$0.20	06-Nov-26
4	06-Nov-24	1,335,215	71,948	1,383,620	71,948	$0.14	06-Nov-26
5	01-May-25	25,000,000	1,475,000	-	-	$0.20	01-May-28
6	14-May-25	17,640,000	1,040,760	-	-	$0.20	14-May-28
7	19-Jun-25	3,720,000	219,480	-	-	$0.20	19-Jun-28
8	27-Jun-25	12,500,000	1,075,000	-	-	$0.30	27-Jun-28
		85,431,345	**4,797,247**	**26,619,750**	**970,846**	**$0.22**	

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

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

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

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.06 per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.13, risk-free interest rate of 2.89%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

On May 14, 2025, Volatus issued 20,174,281 common shares and 17,640,000 warrants settling an aggregate debt of $3,026,142. The warrants have an exercise price of $0.20 and expiry after 36 months.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.06 per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.135, risk-free interest rate of 2.89%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

On June 25, Volatus issued 3,720,000 units to settle aggregate debt of $446,400. The warrants have an exercise price of $0.20 and expiry after 36 months.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.06 per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.135, risk-free interest rate of 2.89%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

On June 27, 2025, Volatus issued 25,000,000 units as part of its $5M financing. The warrants have an exercise price of $0.30 and expiry after 36 months.

The Company uses the Black-Scholes option pricing model to determine the fair value of warrants issued. The weighted average fair value at date of issue for the warrants issued was $0.086 per warrant. The following weighted average assumptions were used for the Black-Scholes valuation of share: share price of $0.20, risk-free interest rate of 2.65%, expected life of 5 years, expected volatility of 100% and expected dividends of Nil.

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 June 30, 2025:

Credit Risk

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

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

Foreign Currency Risk

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

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

SUBSEQUENT EVENTS

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

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

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

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

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. In addition, while the Company maintains an active sales pipeline and has announced certain contract wins, there can be no assurance that such opportunities will be realized on the timelines or terms anticipated. Customer funding availability, regulatory approvals, evolving procurement priorities, supplier performance, and broader geopolitical or economic conditions may materially influence the conversion of opportunities into revenues. As such, actual results may differ from management's expectations and forward-looking statements.

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.

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.