DRONE DELIVERY CANADA CORP.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Drone Delivery Canada Corp. (the "Company") were prepared by management in accordance with International Financial Reporting Standards. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB").

Management has established processes which are in place to provide them with sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

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Independent Auditor's Report

To the Shareholders of Drone Delivery Canada Corp.

Opinion

We have audited the consolidated financial statements of Drone Delivery Canada Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Carly Bergman.

"D&H Group LLP"

Vancouver, B.C.
April 29, 2020

Chartered Professional Accountants

Drone Delivery Canada Corp.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

As at December 31,	2019	2018
ASSETS		
Current		
Cash and cash equivalents	$ 9,773,012	$ 14,308,532
Amounts receivable	3,100,381	1,669,897
Prepaid expenses (Note 16)	202,590	214,442
	13,075,983	16,192,871
Equipment (Note 4)	2,053,360	96,778
Patents (Note 3)	691,762	484,806
Trademarks (Note 5)	21,475	11,352
Leasehold improvements (Note 6)	1,261,988	-
Right-of-use assets (Note 7)	604,334	-
TOTAL ASSETS	$ 17,708,902	$ 16,785,807
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 16)	$ 1,548,851	$ 2,241,541
Lease obligations - current portion (Note 8)	156,295	-
	1,705,146	2,241,541
Lease obligations - long-term portion (Note 8)	463,800	-
TOTAL LIABILITIES	2,168,946	2,241,541
EQUITY		
Share capital (Note 10)	49,150,930	35,441,020
Share-based payments reserve	13,627,437	10,744,453
Deficit	(47,238,411)	(31,641,207)
	15,539,956	14,544,266
TOTAL LIABILITIES AND EQUITY	$ 17,708,902	$ 16,785,807

Nature of Operations (Note 1)
Commitments and Contingencies (Note 9)
Subsequent Events (Note 18)

Approved on Behalf of the Board:

"Michael Zahra" — **Director**

"Chris Irwin" — **Director**

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

Drone Delivery Canada Corp.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

For the Year Ended December 31,	2019	2018
OPERATING EXPENSES		
Advertising and promotion	$ 795,539	$ 2,711,258
Depreciation of equipment, leasehold improvements and right-of-use assets	389,162	24,194
Amortization of patents	4,119	-
Accretion	66,582	-
Consulting (Note 16)	3,221,431	2,323,982
Interest and bank charges	7,427	4,878
Office and general (Note 16)	3,944,977	1,695,569
Professional fees (Note 16)	312,306	144,910
Shareholder information	424,208	255,520
Research and development	2,822,609	4,041,790
Share-based compensation	3,608,844	8,409,764
NET LOSS AND COMPREHENSIVE LOSS	$ (15,597,204)	$ (19,611,865)
Basic and diluted loss per share (Note 13)	$ (0.09)	$ (0.12)
Weighted average number of shares outstanding - basic and diluted	172,779,234	159,817,208

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

Drone Delivery Canada Corp.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

`	Number of Shares	Common Shares ($)	Share-based Payments Reserve ($)	Deficit ($)	Total ($)
Balance, December 31, 2017	147,893,239	25,771,813	5,715,365	(12,029,342)	19,457,836
Exercise of warrants - cash	13,256,470	5,963,531	-	-	5,963,531
Exercise of warrants - valuation	-	3,221,290	(3,221,290)	-	-
Exercise of options - cash	650,000	325,000	-	-	325,000
Exercise of options - valuation	-	159,386	(159,386)	-	-
Stock based compensation	-	-	8,409,764	-	8,409,764
Net loss for the year	-	-	-	(19,611,865)	(19,611,865)
Balance, December 31, 2018	**161,799,709**	**35,441,020**	**10,744,453**	**(31,641,207)**	**14,544,266**
Private placement, net of costs	8,350,000	9,051,410	-	-	9,051,410
Issuance of warrants	-	(1,340,175)	1,340,175	-	-
Issuance of broker warrants	-	(109,456)	109,456	-	-
Exercise of warrants - cash	3,566,080	1,648,728	-	-	1,648,728
Exercise of warrants - valuation	-	1,111,068	(1,111,068)	-	-
Exercise of options - cash	3,285,000	1,830,500	-	-	1,830,500
Exercise of options - valuation	-	1,200,373	(1,200,373)	-	-
Exercise of overallotment option - shares	344,300	453,412	-	-	453,412
Exercise of overallotment option - warrants	-	(135,950)	135,950	-	-
Stock based compensation	-	-	3,608,844	-	3,608,844
Net loss for the year	-	-	-	(15,597,204)	(15,597,204)
Balance, December 31, 2019	**177,345,089**	**49,150,930**	**13,627,437**	**(47,238,411)**	**15,539,956**

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

Drone Delivery Canada Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)

For the year ended December 31,	2019	2018
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the year	**$ (15,597,204)**	$ (19,611,865)
Items not affecting cash:		
Depreciation of equipment, leasehold improvements and right-of-use assets	**389,162**	24,194
Amortization of patents	**4,119**	-
Stock-based compensation	**3,608,844**	8,409,764
Net change in non-cash working capital:		
Amounts receivable	**(1,430,484)**	(857,043)
Prepaid expenses	**11,852**	55,809
Accounts payable and accrued liabilities	**(692,690)**	1,348,742
	(13,706,401)	(10,630,399)
INVESTING ACTIVITIES		
Acquisition of equipment	**(2,088,085)**	(57,792)
Acquisition of patents	**(211,075)**	(177,801)
Acquisition of leasehold improvements	**(1,332,807)**	-
Acquisition of trademarks	**(10,123)**	(11,352)
	(3,642,090)	(246,945)
FINANCING ACTIVITIES		
Repayment of lease obligations	**(171,079)**	-
Private placement, net of costs	**9,051,410**	-
Proceeds from exercise of options	**1,830,500**	325,000
Proceeds from exercise of warrants	**1,648,728**	5,963,531
Proceeds from exercise of overallotment option	**453,412**	-
	12,812,971	6,288,531
CHANGE IN CASH	**(4,535,520)**	(4,588,813)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**14,308,532**	18,897,345
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 9,773,012**	$ 14,308,532

SUPPLEMENTARY CASH FLOW INFORMATION:

During fiscal 2019 and 2018, non-cash activities were conducted by the Company as follows:

	2019	2018
Investing Activities		
Acquisition of right-of-use assets	**$ (791,174)**	$ -
Financing Activities		
Increase in lease obligations	**$ 791,174**	$ -
Share issue costs	**(109,459)**	-
Issuance of broker warrants	**109,459**	-
	$ 791,174	$ -

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

1. NATURE OF OPERATIONS

Drone Delivery Canada Corp. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on February 2, 2011. The Company is a developmental technology company with a focus on designing, developing and implementing a commercially viable drone delivery system within the Canadian geography. The Company's principal office is located at 6175 Highway 7, Unit 10, Vaughan, Ontario L4H 0P6.

As at December 31, 2019, the Company had cash and cash equivalents of $9,773,012 (December 31, 2018 - $14,308,532) and working capital of $11,370,837 (December 31, 2018 - $13,951,330). Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and its liabilities for the ensuing twelve months as they normally fall due.

The Company's Common Shares are listed for trading on the TSXV under the symbol "FLT" and the Frankfurt Stock Exchange under the symbol "A2AMGZ", and are quoted on the OTCQB Venture Market in the United States under the symbol "TAKOF".

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or continue operations.

Statement of Compliance

These consolidated financial statements have also been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on April 28, 2020.

Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiary, Drone Delivery Canada Inc.. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Judgments and Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

(a) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

(b) The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of the right-of-use assets and lease liabilities, and the resulting interest and depreciation expense. Actual results could differ significantly as a result of these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- Incremental borrowing rate: The rates used to present value the future lease payments are based on judgments about the economic environment in which the Company operates and theoretical analyses about the security provided by the underlying leased asset, the amount of funds required to be borrowed in order to meet the future lease payments associated with the leased asset, and the term for which these funds would be borrowed.
- Lease term: In determining the period which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

(c) Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Determining the fair value of such share-based awards requires judgment as to the appropriate valuation model and the inputs for the model require assumptions including the rate of forfeiture of options granted, the expected life of the option, the expected volatility of the Company's share price, the risk-free interest rate and expected dividends.

(d) Amounts recorded for depreciation and amortization expense are based on the Company's componentization of its property and equipment and intangible assets and management's estimates of the useful life, pattern of consumption of future economic benefits of the Company's property and equipment and intangible assets. These estimates affect the carrying amount of property and equipment and intangible assets.

(EXPRESSED IN CANADIAN DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Judgments (Continued)

(e) Depreciation and amortization are calculated to write off the cost, less estimated residual value, of assets on a systematic and rational basis over their expected useful lives. Estimates of residual value and useful lives are based on data and information from various sources including industry practice and management's expectations. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions. Although management believes the estimated useful lives of the Company's property and equipment and intangible assets are reasonable, it is possible that changes in estimates could occur, which may affect the expected useful lives and salvage values of the property and equipment and intangible assets.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(a) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

(b) Depreciation and amortization expense is allocated based on assumed useful life of the equipment, leasehold improvements, right-of-use assets and patents. Should the useful life differ from the initial estimate, an adjustment would be made to the statement of comprehensive loss.

Cash and Cash Equivalents

Cash includes cash in bank and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. As at December 31, 2019, the Company had cash equivalents of $7,519,729, consisting of general investment certificates and money market mutual funds (2018 - $365,963).

Equipment

Equipment is recorded at cost less accumulated depreciation. Depreciation is recorded using the following rates and methods so as to recognize the costs of assets over their useful lives:

Automobile	25%	Declining balance
Lab	25%	Declining balance
Office equipment	25%	Declining balance
Flight equipment - software	10 years	Straight-line
Flight equipment - drones	3 years	Straight-line
Flight equipment - radar	10 years	Straight-line

Assets under construction are measured at cost and consist of drone units and drone support infrastructure under construction. Assets under construction are not amortized until completed, commissioned, and ready for use.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment (Continued)

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statement of comprehensive income or loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

The Company compares the carrying value of equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

Leasehold Improvements

Leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the term of the related lease using the straight-line method.

Patents

Patents are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful life of the patents. Amortization shall be recorded when the patent process is complete and the patents have been approved.

Trademarks

Trademarks are recorded at cost. The Company expects to renew the trademarks at each expiry date indefinitely, and expects these assets to generate economic benefit in perpetuity. As such, the Company has assessed these trademarks to have indefinite useful lives.

Internally Generated Intangible Assets - Research and Development Expenditures

Expenditures on research activities are recognized as an expense in the period incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- Understanding of how the intangible asset will generate probable future economic benefits;
- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and,
- The ability to reliably measure the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above.

Where no internally generated intangible asset can be recognized, development expenditures are recognized in profit or loss in the period incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Deferred income taxes are provided in full, using the liability method, on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using income tax rates and income tax laws that have been enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Financial Instruments

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

(ii) Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise.

(iii) Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

(iv) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of net (loss) income.

Share Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issuance of common shares are recognized as a deduction from equity. Cash received for common shares yet to be issued is recorded as share subscriptions received when a legal obligation to issue the shares exists.

Share-based Payments

The fair value, at the grant date, of equity-settled share awards is charged to comprehensive loss over the period for which the benefits of employees and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in the share award reserve. The fair value of awards is calculated using an option pricing model which considers the following factors:

- Exercise price
- Expected volatility
- Risk-free interest rate
- Expected life of the award
- Current market price of the underlying shares
- Expected forfeitures

Equity Financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and develop a commercially viable drone delivery system. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the share purchase warrants issued in private placements is determined by an option pricing model, calculated on the announcement date. The balance, if any, is allocated to the attached common shares.

Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements Adopted During the Period

Accounting for Leases - IFRS 16

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity's lease obligations.

On January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 Leases were not reassessed for whether a lease existed.

On transition to IFRS 16, the Company has elected to not recognize right of use assets and lease liabilities that have lease terms which end within 12 months of the date of initial application and leases of low-value assets.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonable certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

(EXPRESSED IN CANADIAN DOLLARS)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements Adopted During the Period (Continued)

Accounting for Leases - IFRS 16 (Continued)

The Company adopted this standard and the impact on the Company's consolidated financial statements are disclosed in Notes 7 and 8.

Uncertainty over Income Tax Treatments - IFRIC 23

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. The Company adopted this standard at January 1, 2019 and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

3. PATENTS

Balance, December 31, 2017	$	307,005
Additions		177,801
Balance, December 31, 2018	**$**	**484,806**
Additions		211,075
Balance,December 31, 2019	**$**	**695,881**
Accumulated Depreciation		
Balance, December 31, 2017 and December 31, 2018	$	-
Amortization		4,119
Balance, December 31, 2019	**$**	**4,119**
Carrying Value		
At December 31, 2018	$	484,806
At December 31, 2019	**$**	**691,762**

(EXPRESSED IN CANADIAN DOLLARS)

4. EQUIPMENT

Cost	Automobile	Lab	Office	Flight Equipment	Assets Under Construction	Drone Parts	Total
Balance, December 31, 2017	$ 8,750	$ 9,652	$ 84,521	$ -	$ -	$ -	$ 102,923
Additions	-	57,792	-	-	-	-	57,792
Balance, December 31, 2018	$ 8,750	$ 67,444	$ 84,521	$ -	$ -	$ -	$ 160,715
Additions	-	347,793	387,524	569,520	576,997	206,299	2,088,133
Balance, December 31, 2019	**$ 8,750**	**$ 415,237**	**$ 472,045**	**$ 569,520**	**$ 576,997**	**$ 206,299**	**$ 2,248,848**
Accumulated Depreciation							
Balance, December 31, 2017	$ 3,150	$ 6,671	$ 29,922	$ -	$ -	$ -	$ 39,743
Depreciation	1,120	12,154	10,920	-	-	-	24,194
Balance, December 31, 2018	$ 4,270	$ 18,825	$ 40,842	$ -	$ -	$ -	$ 63,937
Depreciation	1,120	55,628	59,354	15,449	-	-	131,551
Balance, December 31, 2019	**$ 5,390**	**$ 74,453**	**$ 100,196**	**$ 15,449**	**$ -**	**$ -**	**$ 195,488**
Carrying Value							
At December 31, 2018	$ 4,480	$ 48,619	$ 43,679	$ -	$ -	$ -	$ 96,778
At December 31, 2019	**$ 3,360**	**$ 340,784**	**$ 371,849**	**$ 554,071**	**$ 576,997**	**$ 206,299**	**$ 2,053,360**

(EXPRESSED IN CANADIAN DOLLARS)

5. TRADEMARKS

Balance, December 31, 2017	$	-
Additions		11,352
Balance, December 31, 2018	$	11,352
Additions		10,123
Balance, December 31, 2019	**$**	**21,475**

6. LEASEHOLD IMPROVEMENTS

Leasehold improvements consists of costs incurred to build out the Company's 16,000 square foot operations centre (the "Operations Centre"). Upon the Operations Centre being put into use in October 2019, amortization commenced and is recorded on a straight-line basis over the term of the underlying lease.

Cost		
Balance, December 31, 2017	$	-
Additions		-
Balance, December 31, 2018	$	-
Additions		1,332,807
Balance, December 31, 2019	**$**	**1,332,807**

Accumulated Depreciation		
Balance, December 31, 2017	$	-
Depreciation		-
Balance, December 31, 2018	$	-
Depreciation		70,819
Balance, December 31, 2019	**$**	**70,819**

Carrying Value		
At December 31, 2018	$	-
At December 31, 2019	**$**	**1,261,988**

7. RIGHT-OF-USE ASSETS

IFRS 16 - right-of-use asset recognition	$	791,174
Right-of-use assets at January 1, 2019		**791,174**
Depreciation		(186,840)
Balance, December 31, 2019	**$**	**604,334**

Right-of-use assets consists of office, testing and operations facility leases and are amortized over an average of 58.5 months.

Maturity Analysis - Contractual Undiscounted Cash Flows		
As at December 31, 2019:		
Less than one year	$	241,116
Greater than one year		504,853
Total undiscounted lease obligation	$	745,969

(EXPRESSED IN CANADIAN DOLLARS)

8. LEASE OBLIGATIONS

At the commencement date of the leases, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 10%, which is the Company's incremental borrowing rate. The continuity of the lease liabilities are presented in the table below:

Balance, December 31, 2018	$ -
Additions	791,174
Accretion expense	66,582
Lease payments	(237,661)
Balance, December 31, 2019	$ 620,095

As at December 31, 2019:	
Less than one year	$ 156,295
Greater than one year	463,800
Total lease obligation	$ 620,095

During the year ended December 31, 2019, the Company incurred $53,540 for leases with variable lease payments not included in lease liabilities. This amount is reassessed annually based on actual costs incurred. In addition, not included in lease liabilities, the Company also paid an aggregate amount of $30,295 and $36,600 for low-value and short-term leases, respectively.

9. COMMITMENTS AND CONTINGENCIES

Occupancy Leases

On January 1, 2016, the Company entered into an office lease agreement with a corporation controlled by a director to lease office space at $ 57,000 to $ 60,750 per year. The lease commenced on January 1, 2016 and expires on January 1, 2021.

On February 4, 2019, the Company entered into a lease for a 16,000 square foot operations facility in Vaughan, Ontario, obliging the Company to make minimum monthly lease payments between $11,404 and $12,746 for five years. The lease will expire in the year ended December 31, 2024.

On February 19, 2019, the Company entered into a lease for a drone testing facility in Vaughan, Ontario, obliging the Company to make minimum monthly lease payments of $2,000 until January 15, 2020.

COVID-19

Due to the worldwide COVID-l9 outbreak, material uncertainties may come into existence that could influence management's going concern assumption. Management cannot accurately predict the future impact COVID-19 may have on:

- Global oil prices;
- Demand for drone delivery services;
- The severity and the length of potential measures taken by governments to manage the spread of the virus and their effect on labour availability and supply lines;
- Availability of essential supplies;
- Purchasing power of the Canadian dollar; and
- Ability to obtain funding.

At the date of the approval of these consolidated financial statements, the Canadian government has not introduced measures which impede the activities of the Company. Management believes the business will continue and accordingly, the current situation bears no impact on management's going concern assumption. However, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

10. CAPITAL STOCK

(a) AUTHORIZED

Unlimited number of common and special shares, without par value

(b) ISSUED

On March 25, 2019, the Company closed a prospectus offering, pursuant to which it issued an aggregate of 8,350,000 units (the "March 2019 Units"), at a price of $1.20 per March 2019 Unit (the "March 2019 Issue Price"), for aggregate gross proceeds of $10,020,000.

Each March 2019 Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant a "March 2019 Warrant"). Each March 2019 Warrant, subject to customary adjustments, shall be exercisable into one common share at an exercise price of $1.50 per common share for a period of two years from the closing of the offering, subject to certain conditions. Total cash costs of issue amounted to $968,590.

The 4,175,000 warrants issued in conjunction with with offering carried a $1.50 exercise price and a term of two years. These warrants were assigned a grant date fair value of $1,340,175 using the Black-Scholes option pricing model, based on a risk-free rate of 1.48%, an expected life of 2 years, an expected volatility of 67.50% and an expected dividend yield of 0%.

Broker warrants entitling the holder to one March 2019 Unit at $1.20 until March 25, 2021. The underwriters were issued an aggregate of 250,500 broker warrants and were paid a cash commission equal to 6% of the gross proceeds raised in respect of the March 25, 2019 prospectus offering. Each broker warrant entitles the holder to one March 2019 Unit at the March 2019 Issue Price until March 25, 2021.

The 250,500 broker warrants issued in conjunction with offering carried a $1.20 exercise price and a term of two years. These broker warrants were assigned a grant date fair value of $99,474 using the Black-Scholes option pricing model, based on a risk-free rate of 1.48%, an expected life of 2 years, an expected volatility of 67.50% and an expected dividend yield of 0%.

On April 12, 2019, the Underwriters of the March 25, 2019 prospectus offering partially exercised their over-allotment option in respect of the March 25, 2019 prospectus offering, purchasing an additional 344,200 common shares in the Company and 626,500 March 2019 Warrants of the Company, for additional gross proceeds of $482,353. Commissions of $28,941 were paid, representing 6% of the gross proceeds raised in respect of this partial exercise of the over-allotment option.

Under the terms of the over-allotment exercise, an aggregate of 23,951 broker warrants were issued, on April 12, 2019 with an exercise price of $1.20, expiring March 25, 2021. These broker warrants were assigned a grant date fair value of $9,985 using the Black-Scholes option pricing model, based on a risk-free rate of 1.63%, an expected life of 1.95 years, an expected volatility of 66.94% and an expected dividend yield of 0%.

(EXPRESSED IN CANADIAN DOLLARS)

11. STOCK OPTIONS

The following table reflects the continuity of stock options for the year ended December 31, 2019 and 2018:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance - December 31, 2017	8,770,000	$ 0.50
Granted	7,570,000	1.58
Exercised	(650,000)	0.50
Balance - December 31, 2018	15,690,000	1.02
Granted	5,375,000	1.00
Exercised	(3,285,000)	0.56
Balance - December 31, 2019	**17,780,000**	**$ 1.10**

On August 30, 2019, the Company granted 5,375,000 options to purchase common shares of the Company to officers, directors, consultants and employees. Each option is exercisable at a price of $1.00 for a five year term. A fair value of $4,237,650 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $1.00 expected volatility 110.14% a risk-free rate of return 1.18% and expected life of 5 years. The options vest at a rate of one third every six months from the date of grant.

On January 5, 2018, the Company granted 2,020,000 incentive stock options to directors, officers, employees and consultants of the Company. The options are exercisable at $1.00 per share, expire January 5, 2023, and vest at a rate of one third every six months from the date of grant. The resulting fair value of $1,398,244 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility from 105.11%; a risk-free interest rate of 1.97% and an expected life of 5 years.

On March 2, 2018, the Company granted 5,300,000 incentive stock options to directors, officers, employees and consultants of the Company. The options are exercisable at $1.80 per share, expire March 2, 2023, and vest at a rate of one third every six months from the date of grant. The resulting fair value of $7,453,920 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility from 111.06%; a risk-free interest rate of 2.01% and an expected life of 5 years.

On August 2, 2018, the Company granted 250,000 incentive stock options to a consultant of the Company. The options are exercisable at $1.80 per share, expire August 2, 2023, and vest at a rate of one third every six months from the date of grant. The resulting fair value of $309,600 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility from 111.06%; a risk-free interest rate of 2.26% and an expected life of 5 years.

(EXPRESSED IN CANADIAN DOLLARS)

11. STOCK OPTIONS (Continued)

The following table reflects options outstanding as at December 31, 2019:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Options Outstanding
July 20, 2022	0.50	2.55 years	4,510,000
September 20, 2022	0.50	2.72 years	725,000
January 5, 2023	1.00	3.02 years	1,620,000
March 2, 2023	1.80	3.17 years	5,300,000
August 2, 2023	1.80	3.59 years	250,000
August 30, 2024	1.00	4.67 years	5,375,000
	$ 1.10	**3.44 years**	**17,780,000**

12. WARRANTS

The following table reflects the continuity of warrants for the year ended December 31, 2019 and 2018:

	Number of Warrants Outstanding	Weighted Average Exercise Price
Balance - December 31, 2017	16,897,853	$ 0.45
Exercised	(13,312,270)	0.45
Expired	(19,503)	0.38
Balance, December 31, 2018	3,566,080	1.46
Issued	5,075,701	1.48
Exercised	(3,566,080)	0.47
Balance - December 31, 2019	**5,075,701**	**$ 1.48**

The following table reflects warrants outstanding as at December 31, 2019:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Warrants Outstanding	Black-Scholes Value
March 25, 2021	1.20	1.23 years	274,451	$ 109,459
March 25, 2021	1.50	1.23 years	4,801,250	1,476,125
	$ 1.48	**1.23 years**	**5,075,701**	**$ 1,585,584**

(EXPRESSED IN CANADIAN DOLLARS)

12. WARRANTS (Continued)

On January 24, 2018, the Company elected to accelerate the expiry of the February 28, 2019 $0.45 common share purchase Warrants. Pursuant to the terms of the warrant indenture (“Warrant Indenture”), as amended, governing the Warrants, the expiry of the Warrants may be accelerated should the volume weighted average price at which the common shares trade on the TSXV or such other Canadian stock exchange on which the Common Shares are trading, exceed $1.00 for 10 consecutive trading days at any time following the date of issuance of the Warrants, the Company may give notice to the holders of the Warrants that the Warrants shall expire on the date which is 30 calendar days following the date of such notice and a press release is issued by the Company on the same date of such notice given to the holders of the Warrants announcing the amended expiry date. During the year ended December 31, 2018, 13,223,170 of these warrants were exercised, yielding $5,950,427 in cash proceeds. 15,003 of the warrants expired unexercised.

13. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share, which reflects the maximum possible dilution from the potential exercise of warrants and stock options, is the same as basic loss per share for the years ended December 31, 2019 and 2018.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts payable and accrued liabilities, and lease obligations.

The carrying amounts shown in the statement of financial position are as follows:

As at December 31,	2019	2018
Cash and cash equivalents	$ 9,773,012	$ 14,308,532
Accounts payable and accrued liabilities	$ 1,548,851	$ 2,241,541
Lease obligation	$ 620,095	$ -

Financial Instruments

IFRS 7 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurements as follows:

Level 1 - applied to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 - applies to assets or liabilities for which there are unobservable market data.

The carrying value of accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these instruments. Pursuant to IFRS 7, the fair value of cash and cash equivalents is measured on a recurring basis based on Level 1 inputs.

Risk Management Disclosures

The Company is exposed to risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company’s risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Company is exposed is described below.

(EXPRESSED IN CANADIAN DOLLARS)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Financial Risks

Risk management is carried out by the Company's management team under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, and amounts receivable. Amounts receivable consists primarily of harmonized taxes receivable from the Government of Canada. Cash and cash equivalents are held with reputable Canadian chartered banks and money market mutual funds, the balances of which are closely monitored by management. Management believes that the credit risk with respect to financial instruments included in cash and cash equivalents, is minimal.

15. CAPITAL RISK MANAGEMENT

The Company manages, as capital, the components of shareholders' equity and its cash. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure, and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow or adjust the amount of cash. The Company does not anticipate the payment of dividends in the foreseeable future.

16. RELATED PARTY TRANSACTIONS AND BALANCES

a) 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 its executive officers.

During fiscal 2019 and 2018 the following compensation amounts were incurred in respect of key management personnel:

	2019	2018
Consulting fees and salaries	$ 2,028,320	$ 2,416,000
Severance	1,168,000	-
Share based compensation	2,825,087	6,749,887
	$ 6,021,407	$ 9,165,887

During fiscal 2019, the Company allocated the $2,028,320 (2018 - $2,416,000) of consulting fees and salaries based on the nature of services provided: expensed $1,496,000 (2018 - $2,416,000) to consulting; and expensed $532,320 (2018 - $Nil) to office and general. Severance payments of $1,168,000 (2018 - $Nil) are included in consulting expense.

As at December 31, 2019, consulting fees of $497,200 (2018 - $1,536,800) remain unpaid are included in accounts payable and accrued liabilities. Consulting fees of $99,440 (2018 - $99,440) paid in advance are included in prepaid expenses.

The Company has an employment agreement with its CEO which provides that in the event the CEO's employment is terminated without cause or upon a change of control of the Company, a termination payment of one year of salary, at $375,000 per annum, is payable. If the termination had occurred on December 31, 2019, the amount payable under the agreement would be $375,000.

(EXPRESSED IN CANADIAN DOLLARS)

16. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

a) Key Management Compensation (Continued)

The Company has consulting agreements with a corporation controlled by a former director, a corporation controlled by the Vice President, a corporation controlled by the former Chief Executive Officer and a corporation controlled by the Chief Technology Officer, which provide that in the event the consulting agreements are terminated without cause or upon a change of control of the Company, a termination payment of two years of consulting fees, ranging from $210,000 to $282,000 per annum depending on the agreement, is payable. If all such terminations had occurred on December 31, 2019, the total amount payable under the agreements would be $2,112,000.

b) During the year ended December 31, 2019, rent of $64,800 (2018 - $64,000) was paid to a company controlled by an officer who is also a director of the Company. As at December 31, 2019, $nil was included in accounts payable and accrued liabilities (2018 - $nil).

c) During the year ended December 31, 2019, legal fees of $250,212 (2018 - $40,780) were accrued or paid to a law firm in which a director of the Company is a partner. As at December 31, 2019, $52,911 was included in accounts payable and accrued liabilities (2018 - $43,110).

d) During the year ended December 31, 2019, the Company expensed $38,529 (2018 - $64,854) to Marrelli Support Services Inc. (“Marrelli Support”), The Canadian Venture Building Inc., and DSA Corporate Services Inc. (“DSA”), together known as the “Marrelli Group” for:

(i) Robert D.B. Suttie, President of Marrelli Support, to act as Chief Financial Officer (“CFO”) of the Company;
(ii) Bookkeeping and office support services;
(iii) Regulatory filing services; and
(iv) Executive office rental

The Marrelli Group is also reimbursed for out of pocket expenses.

As of December 31, 2019, the Marrelli Group was owed $15,075 (December 31, 2018 - $10,338). These amounts are included in accounts payable and accrued liabilities. Included in prepaid expenses is $nil paid to the Marrelli Group pertaining to prepayment of certain regulatory filing fees (2018 - $14,096).

17. INCOME TAXES

The significant components of the Company's deferred income taxes are as follows as at December 31:

	2019	2018
Deferred income tax asset		
Non-capital losses	$ 9,884,500	$ 6,360,700
Equipment and leasehold improvements	(219,900)	(12,900)
Patents and trademarks	(23,700)	(15,800)
Right-of-use assets	(160,100)	-
Lease obligation	164,300	-
Share issue costs	424,100	316,900
Valuation allowance	(10,069,200)	(6,648,900)
	$ -	$ -

(EXPRESSED IN CANADIAN DOLLARS)

17. INCOME TAXES (Continued)

The statutory tax rate is 26.5%. The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Loss before recovery of income taxes	$ (15,597,204)	$ (19,611,865)
Expected income tax recovery	$ (4,133,259)	$ (5,197,100)
Permanent difference	968,800	2,243,800
Share issue costs	(268,300)	-
Change in valuation allowance	3,432,759	2,953,300
Income tax expense reflected in the consolidated statements of loss and comprehensive loss	$ -	$ -

As at December 31, 2019, the Company has estimated non-capital losses of $37,300,000 for Canadian income tax purposes that may be carried forward to reduce taxable income of future years. The non-capital losses expire in the tax years ending between December 31, 2034 and December 31, 2039.

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

Subsequent to December 31, 2019, the Company issued 1,585,000 shares on the exercise of share options for proceeds of $792,500.