DRONE DELIVERY CANADA CORP.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019

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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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.

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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.

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.
March 22, 2021

Chartered Professional Accountants

Drone Delivery Canada Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

		December 31, 2020		December 31, 2019
ASSETS				
Current				
Cash and cash equivalents	$	**23,464,255**	$	9,773,012
Trade and other receivables (Note 4)		**522,848**		3,100,381
Prepaid expenses (Note 18)		**892,763**		202,590
		24,879,866		13,075,983
Equipment (Note 6)		**2,203,564**		2,053,360
Patents (Note 5)		**750,085**		691,762
Trademarks (Note 7)		**94,372**		21,475
Leasehold improvements (Note 8)		**999,178**		1,261,988
Right-of-use assets (Note 9)		**442,274**		604,334
TOTAL ASSETS	$	**29,369,339**	$	17,708,902
LIABILITIES				
Current				
Trade and other payables (Note 10, 18)	$	**1,787,650**	$	1,548,851
Lease obligations - current portion (Note 11)		**175,625**		156,295
		1,963,275		1,705,146
Lease obligations - long-term portion (Note 11)		**308,512**		463,800
TOTAL LIABILITIES		**2,271,787**		2,168,946
EQUITY				
Share capital		**69,543,950**		49,150,930
Share-based payments reserve		**18,922,208**		13,627,437
Deficit		**(61,368,606)**		(47,238,411)
TOTAL EQUITY		**27,097,552**		15,539,956
TOTAL LIABILITIES AND EQUITY	$	**29,369,339**	$	17,708,902

Nature of Operations (Note 1)
Subsequent Events (Note 21)

Approved on Behalf of the Board:

Signed *"Larry Taylor"*
Larry Taylor, Director

Signed *"Michael Zahra"*
Michael Zahra, CEO and Director

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

Drone Delivery Canada Corp.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

		Year Ended December 31,		
		2020		2019 (i)
REVENUE	**$**	**265,265**	$	-
OPERATING EXPENSES				
Service costs and materials		**152,707**		-
Advertising and promotion		**1,216,119**		795,539
Depreciation and amortization		**822,898**		393,281
Interest expense on lease obligations		**55,693**		66,582
Consulting (Note 18)		**1,968,967**		3,503,431
Interest and bank charges		**55,542**		7,427
Personnel expenses (Notes 18 and 20)		**3,216,232**		2,568,994
Office and general		**1,371,835**		1,618,931
Professional fees (Note 18)		**378,963**		312,306
Shareholder information		**286,162**		424,208
Research and development		**2,202,474**		2,540,609
Share-based compensation		**2,776,020**		3,608,844
TOTAL OPERATING EXPENSES	**$**	**14,503,612**	**$**	15,840,152
OPERATING LOSS	**$**	**(14,238,347)**	**$**	(15,840,152)
Interest Income		**(111,064)**		(250,990)
Foreign exchange losses		**2,912**		8,042
NET LOSS AND COMPREHENSIVE LOSS	**$**	**(14,130,195)**	**$**	(15,597,204)
Basic and diluted loss per share (Note 15)	**$**	**(0.08)**	$	(0.09)
Weighted average number of shares outstanding - basic and diluted		**184,675,882**		172,779,234

(i) Certain comparative figures have been reclassified to conform with current year presentation (see Note 2)

The accompanying notes form 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, 2018	161,799,709	35,441,020	10,744,453	(31,641,207)	14,544,266
Private placement, net of costs	8,694,200	9,504,822	-	-	9,504,822
Issuance of warrants	-	(1,476,125)	1,476,125	-	-
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	3,285,100	1,830,500	-	-	1,830,500
Exercise of options - valuation	-	1,200,373	(1,200,373)	-	-
Stock based compensation	-	-	3,608,844	-	3,608,844
Net loss for the period	-	-	-	(15,597,204)	(15,597,204)
Balance, December 30, 2019	**177,345,089**	**49,150,930**	**13,627,437**	**(47,238,411)**	**15,539,956**
Balance, December 31, 2019	**177,345,089**	**49,150,930**	**13,627,437**	**(47,238,411)**	**15,539,956**
Private placements, net of costs	28,911,000	21,006,296	-	-	21,006,296
Issuance of warrants	-	(3,064,346)	3,064,346	-	-
Issuance of broker warrants	-	(501,482)	501,482	-	-
Exercise of warrants - cash	500	475	-	-	475
Exercise of warrants - valuation	-	116	(116)	-	-
Exercise of options - cash	3,810,000	1,905,000	-	-	1,905,000
Exercise of options - valuation	-	1,046,961	(1,046,961)	-	-
Stock based compensation	-	-	2,776,020	-	2,776,020
Net loss for the period	-	-	-	(14,130,195)	(14,130,195)
Balance, December 31, 2020	**210,066,589**	**69,543,950**	**18,922,208**	**(61,368,606)**	**27,097,552**

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

Drone Delivery Canada Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended December 31, 2020	2019
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the period	$ **(14,130,195)**	$ (15,597,204)
Items not affecting cash:		
Depreciation of equipment and right-of-use assets	**813,256**	389,162
Interest expense on lease obligations	**55,693**	-
Amortization of patents	**9,642**	4,119
Stock-based compensation	**2,776,020**	3,608,844
Net change in non-cash working capital:		
Trade and other receivables	**2,577,533**	(1,430,484)
Prepaid expenses	**(690,173)**	11,852
Accounts payable and accrued liabilities	**238,800**	(692,690)
NET CASH USED IN OPERATING ACTIVITIES	$ **(8,349,424)**	$ (13,706,401)
INVESTING ACTIVITIES		
Acquisition of equipment	**(462,541)**	(2,088,085)
Acquisition of patents and trademarks	**(140,862)**	(221,198)
Acquisition of leasehold improvements	**(54,834)**	(1,332,807)
NET CASH USED IN INVESTING ACTIVITIES	$ **(658,237)**	$ (3,642,090)
FINANCING ACTIVITIES		
Lease payments	**(212,867)**	(171,079)
Private placements, net of costs	**21,006,296**	9,504,822
Proceeds from exercise of options	**1,905,000**	1,830,500
Proceeds from exercise of warrants	**475**	1,648,728
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ **22,698,904**	$ 12,812,971
INCREASE (DECREASE) IN CASH	**13,691,243**	(4,535,520)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**9,773,012**	14,308,532
CASH AND CASH EQUIVALENTS, END OF YEAR	$ **23,464,255**	$ 9,773,012

SUPPLEMENTARY CASH FLOW INFORMATION:

During fiscal 2020 and 2019, non-cash activites were conducted by the Company as follows:

	2020	2019
Investing Activities		
Acquistion of right-of-use assets	$ **(21,215)**	$ (791,174)
Financing Activities		
Increase in lease obligation	$ **21,215**	$ 791,174
Share issue costs	**(501,482)**	(109,456)
Issuance of broker warrants	**501,482**	109,456
	$ **21,215**	$ 791,174

The accompanying notes form 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 6221 Highway 7, Unit 6, Vaughan, Ontario L4H 0K8.

As at December 31, 2020, the Company had cash and cash equivalents of $23,464,255 (December 31, 2019 - $9,773,012) and working capital of $22,916,591 (December 31, 2019 - $11,370,837). 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 OTCQX Venture Market in the United States under the symbol "TAKOF".

COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. In mid-March 2020, federal, provincial, and local authorities in Canada, the United States, and other nations began to significantly restrict the ability of people to leave their homes and carry out normal day-day activities. These measures will have a significant, negative effect on the economy of all nations for an uncertain period of time. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and conditions of the Company in future periods.

2. BASIS OF PREPARATION

Statement of Compliance

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

The consolidated financial statements of the Company were approved by the Board of Directors on March 22, 2021.

Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which are measured at fair value. All financial information is presented in Canadian dollars unless otherwise noted and is the presentation currency of the Company.

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.

2. BASIS OF PREPARATION (continued)

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.

(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.

2. BASIS OF PREPARATION (continued)

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.

Reclassification of Expenses

During the current period, the company changed the presentation of personnel expenses, interest income, and consulting fees to reflect the nature of expenses. The Company adopted to change the presentation of expenses from a function of expense to the nature of expense due to increasing staffing, industry factors and operational changes in the Company. As a result, the following were reclassified for the year ended December 31, 2019:

(i). $2,568,994 representing salaries and benefits were reclassified from office & general to personnel expenses,

(ii). $250,990 was reclassified from office and general to Interest income,

(iii). $8,042 was reclassified from office and general to foreign exchange losses, and

(iv). $282,000 was reclassified from research & development to consulting.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

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, 2020, the Company had cash equivalents of $19,040,941, consisting of general investment certificates and money market mutual funds (2019 - $7,519,729).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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	3-10 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.
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 flight 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Revenue Recognition

The Company's commercial operations consist of drone delivery services to various customers. All revenue relating to drone delivery services is recognized as the Company satisfies its performance obligation over time in the statement of loss (income). Revenue is recognized over proportionate billing days completed compared to the total contracted billing days. Where payments are received in advance of completing the corresponding performance obligation, the amount is recognized as deferred revenue until such performance obligations are completed. The Company expects to recognize $225,222 of revenue related to performance obligations that are unsatisfied as of December 31, 2020.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

a. 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.

b. 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.

c. 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.

d. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. TRADE AND OTHER RECEIVABLES

As at December 31,		**2020**		2019
Trade receivables	$	60,850	$	-
Other receivables		461,998		3,100,381
	$	**522,848**	$	3,100,381

The Company's exposures to credit risk related to trade and other receivables are disclosed in Note 16

(Expressed in Canadian dollars)

5. PATENTS

Cost		
Balance, December 31, 2018	$	484,806
Additions		211,075
Balance, December 31, 2019	$	695,881
Additions		67,965
Balance, December 31, 2020	**$**	**763,846**

Accumulated Depreciation		
Balance, December 31, 2018	$	-
Depreciation		4,119
Balance, December 31, 2019	$	4,119
Depreciation		9,642
Balance, December 31, 2020	**$**	**13,761**

Carrying Value		
At December 31, 2019	$	691,762
At December 31, 2020	**$**	**750,085**

(Expressed in Canadian dollars)

6. EQUIPMENT

Cost	Lab & Other	Office	Flight Equipment	Assets Under Construction	Drone Parts	Total
Balance, December 31, 2018	$ 76,194	$ 84,521	$ -	$ -	$ -	$ 160,715
Additions	347,793	387,524	569,520	576,997	206,299	2,088,133
Balance, December 31, 2019	$ 423,987	$ 472,045	$ 569,520	$ 576,997	$ 206,299	$ 2,248,848
Additions	-	19,550	-	264,511	178,480	462,541
Transfers from assets under construction & drone parts	-	-	547,650	(419,219)	(128,431)	-
Balance, December 31, 2020	**$ 423,987**	**$ 491,595**	**$ 1,117,170**	**$ 422,289**	**$ 256,348**	**$ 2,711,389**
Accumulated Depreciation						
Balance, December 31, 2018	$ 23,095	$ 40,842	$ -	$ -	$ -	$ 63,937
Depreciation	56,748	59,354	15,449	-	-	131,551
Balance, December 31, 2019	$ 79,843	$ 100,196	$ 15,449	$ -	$ -	$ 195,488
Depreciation	76,249	95,541	140,547	-	-	312,337
Balance, December 31, 2020	**$ 156,092**	**$ 195,737**	**$ 155,996**	**$ -**	**$ -**	**$ 507,825**
Carrying Value						
At December 31, 2019	$ 344,144	$ 371,849	$ 554,071	$ 576,997	$ 206,299	$ 2,053,360
At December 31, 2020	**$ 267,895**	**$ 295,858**	**$ 961,174**	**$ 422,289**	**$ 256,348**	**$ 2,203,564**

7. TRADEMARKS

Balance, December 31, 2018	$ 11,352
Additions	10,123
Balance, December 31, 2019	$ 21,475
Additions	72,897
Balance, December 31, 2020	**$ 94,372**

(Expressed in Canadian dollars)

8. LEASEHOLD IMPROVEMENTS

Balance, December 31, 2018	$ -
Additions	1,332,807
Balance, December 31, 2019	$ 1,332,807
Additions	54,834
Balance, December 31, 2020	**$ 1,387,641**

Accumulated Depreciation	
Balance, December 31, 2018	$ -
Depreciation	70,819
Balance, December 31, 2019	$ 70,819
Depreciation	317,644
Balance, December 31, 2020	**$ 388,463**

Carrying Value	
At December 31, 2019	$ 1,261,988
At December 31, 2020	**$ 999,178**

9. 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
Additions	21,215
Depreciation	(183,275)
Balance, December 31, 2020	**$ 442,274**

Right of use assets consists of office, testing and operational facility leases and are amortized over an average useful life of 58.5 months.

Maturity Analysis - Contractual Undiscounted Cash Flows	
As at December 31, 2020:	
Less than one year	$ 216,054
Greater than one year	342,453
Balance, December 31, 2020	**$ 558,507**

Not included in the right-of uses assets is a five-year lease extension option for the Company's two facilities in Vaughan and three-year lease extension for another facility Vaughan. The lease extension is available to the Company should it choose to exercise its option at amount that is prevailing in the market at the time of renewal.

(Expressed in Canadian dollars)

10. TRADE AND OTHER PAYABLES

As at December 31,		**2020**		2019
Trade accounts payable and accrued liabilities	$	1,619,762	$	1,548,851
Deferred Revenue		167,888		-
	$	**1,787,650**	$	1,548,851

11. 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**
Additions		21,215
Accretion expense		55,693
Lease payments	$	(212,866)
Balance, December 31, 2020	**$**	**484,137**

As at December 31, 2020:		
Less than one year	$	175,625
Greater than one year		308,512
Total lease obligation	**$**	**484,137**

During the year ended December 31, 2020, the Company incurred $89,293 for leases with variable lease payments not included in lease liabilities. This amount is reassessed annually based on actual costs incurred. In addition, the Company paid $48,721 and $43,183 for low-value and short-term leases, respectively.

Occupancy Leases

On January 1, 2020, the Company entered into an office lease agreement with a corporation controlled by a former director to lease office space at $ 32,000 to $ 33,000 per year. The lease commenced on January 1, 2020 and expires on January 1, 2022.

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.

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 February 1, 2021.

12. 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 the 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%.

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 626,250 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%.

On August 5, 2020, the Company closed a prospectus offering, pursuant to which it issued an aggregate of 13,225,000 units (the "August 2020 Units") which included the exercise of the full over allotment option, at a price of $0.70 per August 2020 Unit (the "August 2020 Issue Price"), for aggregate gross proceeds of $9,257,500.

Each August 2020 Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant a "August 2020 Warrant"). Each August 2020 Warrant, subject to customary adjustments, shall be exercisable into one common share at an exercise price of $0.95 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 $907,023.

The 6,612,500 warrants issued in conjunction with the offering carried a $0.95 exercise price and a term of two years. These warrants were assigned a grant date fair value of $1,529,472 using the Black-Scholes option pricing model, based on a risk-free rate of 0.27%, an expected life of 2 years, an expected volatility of 65.50% and an expected dividend yield of 0%.

(Expressed in Canadian dollars)

12. CAPITAL STOCK (continued)

The underwriters were issued an aggregate of 793,500 broker warrants and were paid a cash commission equal to 6% of the gross proceeds raised in respect of the August 5, 2020 prospectus offering. Each broker warrant entitles the holder to one August 2020 Unit at the August 2020 Issue Price until August 5, 2022. The 793,500 broker warrants issued in conjunction with the offering carried a $0.70 exercise price and a term of two years. These broker warrants were assigned a grant date fair value of $243,605 using the Black-Scholes option pricing model, based on a risk-free rate of 0.27%, an expected life of 2 years, an expected volatility of 65.50% and an expected dividend yield of 0%.

On December 22, 2020, the Company closed a second prospectus offering in the fiscal year, pursuant to which it issued an aggregate of 15,686,000 units (the "December 2020 Units") which included the exercise of the full over allotment option, at a price of $0.88 per December 2020 Unit (the "December 2020 Issue Price"), for aggregate gross proceeds of $13,803,680.

Each December 2020 Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant a "December 2020 Warrant"). Each December 2020 Warrant, subject to customary adjustments, shall be exercisable into one common share at an exercise price of $1.20 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 $1,147,861.

The 7,843,000 warrants issued in conjunction with the offering carried a $1.20 exercise price and a term of two years. These warrants were assigned a grant date fair value of $1,534,874 using the Black-Scholes option pricing model, based on a risk-free rate of 0.22%, an expected life of 2 years, an expected volatility of 63.70% and an expected dividend yield of 0%.

The underwriters were issued an aggregate of 941,160 broker warrants and were paid a cash commission equal to 6% of the gross proceeds raised in respect of the December 22, 2020 prospectus offering. Each broker warrant entitles the holder to one December 2020 Unit at the December 2020 Issue Price until December 22, 2022. The 941,160 broker warrants issued in conjunction with the offering carried a $0.88 exercise price and a term of two years. These broker warrants were assigned a grant date fair value of $257,877 using the Black-Scholes option pricing model, based on a risk-free rate of 0.22%, an expected life of 2 years, an expected volatility of 63.70% and an expected dividend yield of 0%.

13. STOCK OPTIONS

The following table reflects the continuity of stock options for the year ended December 31, 2020 and 2019:

	Number of Stock Options Oustanding		Weighted Average Exercise Price
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
Granted	3,655,000		0.70
Expired	(650,000)		1.80
Exercised	(3,810,000)		0.50
Balance, December 31, 2020	**16,975,000**	**$**	1.12

(Expressed in Canadian dollars)

13. STOCK OPTIONS (continued)

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. The 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%; expected volatility of 110.14%; a risk-free rate of return of 1.18% and expected life of 5 years. The options vest at a rate of one third every six months from the date of the grant.
On September 24, 2020, the Company granted 2,915,000 options to purchase common shares of the Company to officers, directors, consultants and employees. Each option is exercisable at a price of $0.70 for a five year term. The fair value of $1,139,182 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%; expected volatility of 79.2%; a risk-free rate of return of 0.35% and expected life of 5 years. The options vest at a rate of one third every six months from the date of the grant.

On November 9, 2020, the Company granted 740,000 options to purchase common shares of the Company to officers, directors, consultants and employees. Each option is exercisable at a price of $0.70 for a five year term. The fair value of $293,262 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%; expected volatility of 78.4%; a risk-free rate of return of 0.47% and expected life of 5 years. The options vest at a rate of one third every six months from the date of the grant.

The following table reflects options outstanding as at December 31, 2020:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Options Outstanding
July 20, 2022	0.50	1.55 years	1,425,000
January 5, 2023	1.00	2.01 years	1,620,000
March 2, 2023	1.80	2.17 years	4,900,000
August 30, 2024	1.00	3.67 years	5,375,000
September 24, 2025	0.70	4.73 years	2,915,000
November 9, 2025	0.70	4.86 years	740,000
Balance, December 31, 2020	**1.12**	**3.13 years**	**16,975,000**

14. WARRANTS

	Number of Warrants Oustanding	Weighted Average Exercise Price
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
Issued	16,190,160	1.05
Exercised	(500)	0.95
Balance, December 31, 2020	**21,265,361**	**$** 1.16

(Expressed in Canadian dollars)

14. WARRANTS (continued)

The following table reflects the warrants outstanding as at December 31, 2020:

Expiry Date	Type		Exercise Price	Weighted Average Life Remaining	Warrants Outstanding		Black - Scholes Value
March 25, 2021	Broker Warrant		1.20	0.23	274,451		109,484
March 25, 2021	Warrant		1.50	0.23	4,801,250		1,476,125
August 5, 2022	Broker Warrant		0.70	1.59	793,500		243,605
August 5, 2022	Warrant		0.95	1.59	6,612,000		1,529,472
December 22, 2022	Broker Warrant		0.88	1.98	941,160		257,877
December 22, 2022	Warrant		1.20	1.98	7,843,000		1,534,874
		$	**1.15**	**1.29**	**21,265,361**	**$**	**5,151,437**

On August 5, 2020, the underwriters were issued an aggregate of 793,500 broker warrants in respect of the August 5, 2020 prospectus offering. Each broker warrant entitles the holder to one August 2020 Unit at the August 2020 Issue Price until August 5, 2022. The 793,500 broker warrants issued in conjunction with the offering carried a $0.70 exercise price and a term of two years. These broker warrants were assigned a grant date fair value of $243,605 using the Black-Scholes option pricing model, based on a risk-free rate of 0.27%, an expected life of 2 years, an expected volatility of 65.50% and an expected dividend yield of 0%.

On December 22, 2020, the underwriters were issued an aggregate of 941,160 broker warrants in respect of the December 22, 2020 prospectus offering. Each broker warrant entitles the holder to one December 2020 Unit at the December 2020 Issue Price until December 22, 2022. The 941,160 broker warrants issued in conjunction with the offering carried a $0.88 exercise price and a term of two years. These broker warrants were assigned a grant date fair value of $257,878 using the Black-Scholes option pricing model, based on a risk-free rate of 0.22%, an expected life of 2 years, an expected volatility of 63.70% and an expected dividend yield of 0%.

On March 25, 2019, the underwriters were issued an aggregate of 250,500 broker warrants 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 and were issued an aggregate of 23,951 broker warrants. Each broker warrant entitles the holder to one March 2019 Unit at the March 2019 Issue Price until March 25, 2021. The 23,951 broker warrants issued in conjunction with the offering carried 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%.

15. 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, 2020 and 2019.

(Expressed in Canadian dollars)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

The Company's financial instruments include cash and cash equivalents, trade receivables, trade and other payables, and lease obligations.

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

As as December 31,	Category		2020		2019
Cash and cash equivalents	FVTPL	$	23,464,255	$	9,773,012
Trade receivables	Amortized Cost	$	60,850	$	-
Trade and other payables	Amortized Cost	$	1,787,650	$	1,548,851
Lease obligation	Amortized Cost	$	484,137	$	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 trade receivables, trade and other payables 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.

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.

(Expressed in Canadian dollars)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 trade and other receivables. Trade and other receivables 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.

17. 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.

18. 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, executive officers and certain consultants.

During the fiscal year ended 2020 and 2019 the following compensation amounts were incurred in respect of key management personnel:

		2020		2019
Consulting fees and salaries	$	2,080,974	$	2,028,320
Severance		-		1,168,000
Share based compensation		2,174,754		2,825,087
	$	4,255,728	$	6,021,407

During fiscal 2020 and 2019, the Company allocated the $2,080,974 (2019 - $2,028,320) of consulting fees and salaries based on the nature of services provided: expensed $1,496,000 (2019- $1,496,000) to consulting; and expensed $584,974 (2019 - $532,320) to personnel expenses. Severance payments of $nil (2019 - $ 1,168,000) are included in consulting expense.

As at December 31, 2020, consulting fees of $440,000 (December 31, 2019 - $497,200) remain unpaid are included in trade and other payables. Consulting fees of $23,500 (December 31, 2019 - $99,440) paid in advance are included in prepaid expenses.

(Expressed in Canadian dollars)

18. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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 12 months' salary, or (ii) within twenty four months of, or in anticipation within 180 days of, a change in control, a termination payment equal to 18 months' salary, at $416,700 per annum, is payable. If the termination had occurred on December 31, 2020, the amount payable under this agreement would be $416,700.

The Company has an employment agreement with its CFO which provides that the CFO is entitled to, in the event that the CFO's employment is terminated (i) by the Company without cause, the greater of one month per year of service and six months' of notice or a termination payment in lieu thereof (as at December 31, 2020 representing a minimum payment of $105,000), or (ii) by the Company within twelve months following or within 180 before in anticipation of a change in control, a lump-sum payment equal to twelve months' salary (as at December 31, 2020 representing a payment of $210,000).

The Company has consulting agreements with a corporation controlled by a former director, a corporation controlled by a former Vice President, a corporation controlled by the former Chief Executive Officer and a corporation controlled by the former Chief Technology Officer, which provide that in the event the consulting agreements are terminated without cause, a termination payment for consulting fees for the remainder of the term, ranging from $210,000 to $282,000 per annum depending on the agreement, is payable. If all such terminations had occurred on December 31, 2020, the total amount payable under the agreements would be $2,163,500.

b) During the year ended December 31, 2020, rent of $38,233 (2019 - $64,800) was paid to a company jointly controlled by the former Chief Technology Officer and the former Chief Executive Officer of the Company. As at December 31, 2020, $nil was included in accounts payable and accrued liabilities (December 31, 2019 - $nil).

c) During the year ended December 31, 2020, legal fees of $354,045, (2019 - $250,212) were accrued or paid to a law firm in which a director of the Company is a partner. As at December 31, 2020, $162,183 was included in accounts payable and accrued liabilities (December 31, 2019 - $52,911).

d) During the year ended December 31, 2020, the Company expensed $45,618 (2019 - $38,529) to the Marrelli Group to act as Chief Financial Officer of the Company and to provide bookkeeping and other support services. As at December 31, 2020, $nil was included in accounts payable and accrued liabilities (December 31, 2019 - $15,075). As of September 8, 2020, Robert D.B Suttie ceased to act as Chief Financial Officer of the Company.

19. INCOME TAXES

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

		2020		2019
Deferred income tax asset				
Non-capital losses	$	13,313,300	$	9,961,100
Equipment and leasehold improvements		(198,000)		(198,400)
Patents and trademarks		(33,600)		(23,700)
Right-of-use assets		(117,200)		(160,100)
Lease obligations		128,300		164,300
Share issue costs		774,800		564,500
Valuation allowance		(13,867,600)		(10,307,700)
	$	-	$	-

(Expressed in Canadian dollars)

19. INCOME TAXES (continued)

The combined Canadian federal and provincial statutory income tax rate is 26.5%. The reconciliations of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended December 31, 2020 and 2019 are as follows:

		2020		2019
Loss before recovery of income taxes	$	(14,130,195)	$	(15,597,204)
Expected income tax recovery		(3,744,500)		(4,133,259)
Permanent differences and other		743,800		968,800
Share issue costs		(544,500)		(268,300)
Change in valuation allowance		3,545,200		3,432,759
Income tax expense reflected in the consolidated statements of loss and comprehensive loss	**$**	-	**$**	-

As at December 31, 2020, the Company has estimated non-capital losses of $50,200,000 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, 2031 and December 31, 2040.

20. RESEARCH GRANTS

During the year ended December 31, 2020, the Company received a grant of $282,411 from the National Research Council of Canada under the Industrial Research Assistance Program (IRAP). Proceeds from this grant have been applied against the Company's payroll expense included in personnel expenses.

21. SUBSEQUENT EVENTS

Subsequent to December 31, 2020, 845,261 broker warrants with exercise prices ranging from $0.70 to $1.20 were exercised resulting in 845,261 common shares and 422,630 warrants issued. The 422,630 warrants issued carry exercise prices ranging from $0.95 to $1.50 with expiry dates from March 25, 2021 to Dec 22, 2022. Subsequent to December 31, 2020, the Company has issued a total of 12,508,999 common shares relating to the exercise of share options and warrants for proceeds of $ 15,266,586.