



DRONE DELIVERY CANADA CORP.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2021 AND 2020
(UNAUDITED)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed consolidated interim financial statements of Drone Delivery Canada Corp. (the "Company") are the responsibility of management and the Board of Directors.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it with sufficient knowledge to support management representations that it has exercised reasonable diligence in that (i) the unaudited condensed interim 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 unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim 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.

NOTICE TO READER

The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. The financial statements have not been reviewed by the Company's auditors.

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

	March 31, 2021	December 31, 2020
ASSETS		
Current		
Cash and cash equivalents	\$ 35,194,409	\$ 23,464,255
Trade and other receivables (Note 3)	750,180	522,848
Prepaid expenses (Note 16)	937,553	892,763
	36,882,142	24,879,866
Equipment (Note 5)	2,088,051	2,203,564
Patents (Note 4)	759,969	750,085
Trademarks (Note 6)	96,353	94,372
Leasehold improvements (Note 7)	920,296	999,178
Right-of-use assets (Note 8)	396,527	442,274
TOTAL ASSETS	\$ 41,143,338	\$ 29,369,339
LIABILITIES		
Current		
Trade and other payables (Note 9, 16)	\$ 1,021,149	\$ 1,787,650
Lease obligations - current portion (Note 10)	169,466	175,625
	1,190,615	1,963,275
Lease obligations - long-term portion (Note 10)	272,768	308,512
TOTAL LIABILITIES	1,463,383	2,271,787
EQUITY		
Share capital	95,327,937	69,543,950
Share-based payments reserve	10,156,058	18,922,208
Deficit	(65,804,040)	(61,368,606)
TOTAL EQUITY	39,679,955	27,097,552
TOTAL LIABILITIES AND EQUITY	\$ 41,143,338	\$ 29,369,339

Nature of Operations (Note 1)

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 interim condensed consolidated financial statements.

Drone Delivery Canada Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Expressed in Canadian dollars) (Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
REVENUE	\$ 194,676	\$ 2,545
OPERATING EXPENSES		
Service costs and materials	61,675	28,504
Advertising and promotion	1,244,251	833,115
Depreciation and amortization	208,278	206,048
Interest expense on lease obligations	11,734	14,650
Consulting (Note 16)	480,687	363,396
Loss on disposal of equipment	43,847	-
Interest and bank charges	4,972	2,523
Personnel expenses (Note 16)	1,012,464	952,190
Office and general	379,420	279,612
Professional fees (Note 16)	114,724	68,602
Shareholder information	78,475	59,381
Research and development	368,623	741,843
Share-based compensation	624,033	592,301
TOTAL OPERATING EXPENSES	\$ 4,633,183	\$ 4,142,165
OPERATING LOSS	\$ (4,438,507)	\$ (4,139,620)
Interest Income	(10,216)	(25,037)
Foreign exchange losses	7,143	1,099
NET LOSS AND COMPREHENSIVE LOSS	\$ (4,435,434)	\$ (4,115,682)
Basic and diluted loss per share (Note 14)	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding - basic and diluted	216,965,081	177,465,911

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

Drone Delivery Canada Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian dollars) (Unaudited)

	Number of Shares	Common Shares (\$)	Share-based Payments Reserve (\$)	Deficit (\$)	Total (\$)
Balance, December 31, 2019	177,345,089	49,150,930	13,627,437	(47,238,411)	15,539,956
Exercise of options - cash	785,000	392,500	-	-	392,500
Exercise of options - valuation	-	192,490	(192,490)	-	-
Stock based compensation	-	-	592,301	-	592,301
Net loss for the period	-	-	-	(4,115,682)	(4,115,682)
Balance, March 31, 2020	178,130,089	49,735,920	14,027,248	(51,354,093)	12,409,075
Balance, December 31, 2020	210,066,589	69,543,950	18,922,208	(61,368,606)	27,097,552
Exercise of broker warrants - cash	845,261	745,424	-	-	745,424
Exercise of broker warrants - valuation	-	179,399	(179,399)	-	-
Exercise of warrants - cash	3,873,000	4,804,219	-	-	4,804,219
Exercise of warrants - valuation	-	979,483	(979,483)	-	-
Exercise of options - cash	8,666,661	10,844,161	-	-	10,844,161
Exercise of options - valuation	-	8,231,301	(8,231,301)	-	-
Stock based compensation	-	-	624,033	-	624,033
Net Loss for the period	-	-	-	(4,435,434)	(4,435,434)
Balance, March 31, 2021	223,451,511	95,327,937	10,156,058	(65,804,040)	39,679,955

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

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the period	\$ (4,435,434)	\$ (4,115,682)
Items not affecting cash:		
Depreciation of equipment and right-of-use assets	205,376	220,698
Interest expense on lease obligations	11,734	14,650
Amortization of patents	2,902	4,119
Stock-based compensation	624,033	592,301
Loss on disposal of equipment	43,847	-
Net change in non-cash working capital:		
Trade and other receivables	(227,330)	2,667,828
Prepaid expenses	(44,790)	(52,066)
Accounts payable and accrued liabilities	(766,501)	(618,713)
NET CASH USED IN OPERATING ACTIVITIES	\$ (4,586,163)	\$ (1,286,865)
INVESTING ACTIVITIES		
Acquisition of equipment	(9,082)	(231,801)
Acquisition of patents and trademarks	(14,767)	(3,769)
Acquisition of leasehold improvements	-	(51,437)
NET CASH USED IN INVESTING ACTIVITIES	\$ (23,849)	\$ (287,007)
FINANCING ACTIVITIES		
Lease payments	(53,638)	(63,377)
Proceeds from exercise of options	10,844,161	392,500
Proceeds from exercise of warrants	4,804,219	-
Proceeds from exercise of broker warrants	745,424	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 16,340,166	\$ 329,123
INCREASE (DECREASE) IN CASH	11,730,154	(1,244,749)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	23,464,255	9,773,012
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 35,194,409	\$ 8,528,263

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

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

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 March 31, 2021, the Company had cash and cash equivalents of \$35,194,409 (December 31, 2020 - \$23,464,255) and working capital of \$35,691,527 (December 31, 2020 - \$22,916,591). 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 condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and on a basis consistent with the accounting policies disclosed in the Company’s annual audited consolidated financial statements for the year ended December 31, 2020. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC. These condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2020.

These condensed interim consolidated financial statements of the Company were approved by the Board of Directors on May 12, 2021.

Basis of Presentation

These unaudited condensed interim 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.

Basis of Consolidation

These condensed interim 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.

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars) (Unaudited)

3. TRADE AND OTHER RECEIVABLES

	March 31, 2021	December 31 2020
Trade receivables	\$ 45,200	\$ 60,850
Other receivables	704,980	461,998
	\$ 750,180	\$ 522,848

4. PATENTS

Cost

Balance, December 31, 2019	\$ 695,881
Additions	67,965
Balance, December 31, 2020	\$ 763,846
Additions	12,786
Balance, March 31, 2021	\$ 776,632

Accumulated Depreciation

Balance, December 31, 2019	\$ 4,119
Depreciation	9,642
Balance, December 31, 2020	\$ 13,761
Depreciation	2,902
Balance, March 31, 2021	\$ 16,663

Carrying Value

At December 31, 2020	\$ 750,085
Balance, March 31, 2021	\$ 759,969

5. EQUIPMENT

Cost	Assets					
	Lab & Other	Office	Flight Equipment	Under Construction	Drone Parts	Total
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
Additions	-	-	-	2,310	6,772	9,082
Disposals	-	-	(68,531)	-	-	(68,531)
Transfers from assets under construction & drone parts	-	-	28,212	26,653	(54,865)	-
Balance, March 31, 2021	\$ 423,987	\$ 491,595	\$ 1,076,851	\$ 451,252	\$ 208,255	\$ 2,651,940

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

Accumulated Depreciation

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
Depreciation	15,449	19,056	46,243	-	-	80,748
Disposal	-	-	(24,684)	-	-	(24,684)
Balance, March 31, 2021	\$ 171,541	\$ 214,793	\$ 177,555	\$ -	\$ -	\$ 563,889

Carrying Value

At December 31, 2020	\$ 267,895	\$ 295,858	\$ 961,174	\$ 422,289	\$ 256,348	\$ 2,203,564
At March 31, 2021	\$ 252,446	\$ 276,802	\$ 899,296	\$ 451,252	\$ 208,255	\$ 2,088,051

6. TRADEMARKS

Balance, December 31, 2019	\$ 21,475
Additions	72,897
Balance, December 31, 2020	\$ 94,372
Additions	1,981
Balance, March 31, 2021	\$ 96,353

7. LEASEHOLD IMPROVEMENTS

Balance, December 31, 2019	\$ 1,332,807
Additions	54,834
Balance, December 31, 2020	\$ 1,387,641
Additions	-
Balance, March 31, 2021	\$ 1,387,641

Accumulated Depreciation

Balance, December 31, 2019	\$ 70,819
Depreciation	317,644
Balance, December 31, 2020	\$ 388,463
Depreciation	78,882
Balance, March 31, 2021	\$ 467,345

Carrying Value

At December 31, 2020	\$ 999,178
At March 31, 2021	\$ 920,296

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

8. RIGHT-OF-USE ASSETS

Balance, December 31, 2019	\$	604,334
Additions		21,215
Depreciation		(183,275)
Balance, December 31, 2020	\$	442,274
Depreciation		(45,747)
Balance, March 31, 2021	\$	396,527

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 March 31, 2021:

Less than one year	\$	205,532
Greater than one year		299,213
Balance, March 31, 2021	\$	504,745

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.

9. TRADE AND OTHER PAYABLES

	March 31, 2021	December 31, 2020
Trade accounts payable and accrued liabilities	\$ 1,017,936	\$ 1,619,762
Deferred Revenue	3,213	167,888
	\$ 1,021,149	\$ 1,787,650

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

10. 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, 2019	\$	620,095
Additions		21,215
Accretion expense	\$	55,693
Lease payments		(212,866)
Balance, December 31, 2020	\$	484,137
Accretion expense		11,734
Lease payments	\$	(53,637)
Balance, March 31, 2021	\$	442,234
As at March 31, 2021:		
Less than one year	\$	169,466
Greater than one year		272,768
Total lease obligation	\$	442,234

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 December 31, 2021.

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

11. 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%.

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

11. 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%.

12. STOCK OPTIONS

The following table reflects the continuity of stock options for the three months ended March 31, 2021 and 2020:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2019	17,780,000 \$	1.10
Exercised	(785,000)	0.50
Balance, March 31, 2020	16,995,000 \$	1.10
Balance, December 31, 2020	16,975,000	1.12
Exercised	(8,666,661)	1.25
Granted	300,000	1.70
Balance, March 31, 2021	8,608,339 \$	1.02

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

12. STOCK OPTIONS (continued)

During the three months ended March 31, 2021 the Company granted 300,000 options to purchase common shares of the Company to certain consultants and employees. Each option is exercisable at a price of \$1.70 for a five year term. The fair value of \$335,320 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%; expected volatility of 79.0%; a risk-free rate of return of 0.61% 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 March 31, 2021:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Options Outstanding
July 20, 2022	0.50	1.30 years	600,000
January 5, 2023	1.00	1.77 years	420,000
March 2, 2023	1.80	1.92 years	1,575,000
August 30, 2024	1.00	3.42 years	2,291,671
September 24, 2025	0.70	4.49 years	2,681,668
November 9, 2025	0.70	4.61 years	740,000
February 4, 2026	1.70	4.85 years	200,000
March 4, 2026	1.70	4.93 years	100,000
Balance, March 31, 2021	1.02	3.40 years	8,608,339

13. WARRANTS

	Number of Warrants Outstanding	Weighted Average Exercise Price
Balance, December 31, 2019 and March 31, 2020	5,075,701 \$	1.48
Balance, December 31, 2020	21,265,261 \$	1.16
Issued	422,631	1.17
Exercised	(4,718,261)	1.18
Expired	(3,380,213)	1.49
Balance, March 31, 2021	13,589,418 \$	1.07

The 4,718,261 warrants exercised during the three months ended March 31, 2021, generated proceeds of \$5,549,643. The warrants exercised included 845,262 broker warrants, which yielded an issuance of 422,631 warrants. On March 25, 2021, 3,380,213 warrants expired unexercised.

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

13. WARRANTS (continued)

The following table reflects the warrants outstanding as at March 31, 2021:

Expiry Date	Type	Exercise Price	Weighted Average Life Remaining	Warrants Outstanding	Black - Scholes Value
August 5, 2022	Broker Warrant	0.70	1.35	436,425	170,523
August 5, 2022	Warrant	0.95	1.35	5,506,051	1,269,654
December 22, 2022	Broker Warrant	0.88	1.73	658,812	206,302
December 22, 2022	Warrant	1.20	1.73	6,988,130	1,365,965
		\$ 1.07	1.56	13,589,418	\$ 3,012,444

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%.

14. 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 three months ended March 31, 2021 and 2020.

15. 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:

	Category	March 31, 2021	December 31, 2020
Cash and cash equivalents	FVTPL	\$ 35,194,409	\$ 23,464,255
Trade receivables	Amortized Cost	\$ 45,200	\$ 60,850
Trade and other payables	Amortized Cost	\$ 1,021,149	\$ 1,787,650
Lease obligation	Amortized Cost	\$ 442,234	\$ 484,137

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

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.

Drone Delivery Canada Corp.

Notes to Condensed Interim Consolidated Financial Statements (Expressed in Canadian dollars) (Unaudited)

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, executive officers and certain consultants.

During the three months ended March 31, 2021 and 2020 the following compensation amounts were incurred in respect of key management personnel:

	March 31, 2021	March 31, 2020
Consulting fees and salaries	\$ 650,950	\$ 362,175
Share based compensation	454,305	824,318
	\$ 1,105,255	\$ 1,186,493

During the three months ended March 31, 2021 and 2020, the Company allocated the \$650,950 (2020 - \$362,175) of consulting fees and salaries based on the nature of services provided: expensed \$374,000 (2020 - \$264,000) to consulting; and expensed \$276,950 (2020 - \$98,175) to personnel expenses.

As at March 31, 2021, consulting fees of \$nil (December 31, 2020 - \$440,000) remain unpaid are included in trade and other payables. Consulting fees of \$23,500 (December 31, 2020 - \$23,500) 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 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 \$429,000 per annum, is payable. If the termination had occurred on March 31, 2021, the amount payable under this agreement would be \$429,000.

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 March 31, 2021 representing a minimum payment of \$108,000), 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 March 31, 2021 representing a payment of \$216,000).

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 March 31, 2021, the total amount payable under the agreements would be \$1,835,000.

- b) During the three months ended March 31, 2021, rent of \$8,267 (2020 - \$16,200) was paid to a company jointly controlled by the former Chief Technology Officer and the former Chief Executive Officer of the Company. As at March 31, 2021, \$nil was included in accounts payable and accrued liabilities (December 31, 2020 - \$nil).
- c) During the three months ended March 31, 2021, legal fees of \$85,293, (2020 - \$17,613) were accrued or paid to a law firm in which a director of the Company is a partner. As at March 31, 2021, \$55,638 was included in accounts payable and accrued liabilities (December 31, 2020 - \$162,183).