



DRONE DELIVERY CANADA CORP.  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2019 AND 2018  
(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)**

<b>As at</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 17,565,284	\$ 14,308,532
Amounts receivable	2,331,296	1,669,897
Prepaid expenses (Note 14)	167,796	214,442
	<b>20,064,376</b>	<b>16,192,871</b>
Equipment (Note 4)	347,762	96,778
Patents (Note 3)	581,993	484,806
Trademarks (Note 8)	11,352	11,352
Leasehold Improvements (Note 5)	598,872	-
Right-of-use assets (Note 6)	637,793	-
<b>TOTAL ASSETS</b>	<b>\$ 22,242,148</b>	<b>\$ 16,785,807</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Note 14)	\$ 939,261	\$ 2,241,541
Lease obligation - current portion (Note 7)	198,044	-
	<b>1,137,305</b>	<b>2,241,541</b>
Lease obligation - long-term portion (Note 7)	468,505	-
<b>TOTAL LIABILITIES</b>	<b>1,605,810</b>	<b>2,241,541</b>
<b>EQUITY</b>		
Share capital (Note 10)	47,687,590	35,441,020
Share-based payments reserve	11,813,400	10,744,453
Deficit	(38,864,652)	(31,641,207)
	<b>20,636,338</b>	<b>14,544,266</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 22,242,148</b>	<b>\$ 16,785,807</b>

**Nature of Operations** (Note 1)**Subsequent Events** (Note 15)**Commitments** (Note 9)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>OPERATING EXPENSES</b>				
Advertising and promotion	\$ 67,117	\$ 995,144	\$ 667,339	\$ 1,827,190
Amortization	47,695	4,628	96,227	7,496
Consulting (Note 14)	1,053,348	179,141	2,056,024	548,704
Interest and bank charges	2,367	1,998	4,235	2,923
Office and general (Note 14)	868,767	210,795	1,222,918	549,523
Professional fees (Note 14)	59,785	28,817	105,062	46,206
Shareholder information	97,351	27,633	291,202	106,568
Research and development	1,004,108	1,182,026	1,596,110	2,241,089
Share-based compensation	233,369	2,675,759	1,184,328	4,182,011
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (3,433,907)</b>	<b>\$(5,305,941)</b>	<b>\$ (7,223,445)</b>	<b>\$(9,511,710)</b>
<b>Basic and diluted loss per share (Note 13)</b>	<b>\$ (0.02)</b>	<b>\$ (0.03)</b>	<b>\$ (0.04)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of shares outstanding - basic and diluted</b>	<b>173,766,124</b>	<b>161,337,309</b>	<b>168,738,144</b>	<b>154,655,573</b>

*The accompanying notes are an integral part of these condensed interim 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, 2017	147,893,239	25,771,813	5,715,365	(12,029,342)	19,457,836
Exercise of warrants - cash	13,312,270	5,963,531	-	-	5,963,531
Exercise of warrants - valuation	-	3,221,311	(3,221,311)	-	-
Exercise of options - cash	200,000	100,000	-	-	100,000
Exercise of options - valuation	-	82,420	(82,420)	-	-
Stock based compensation	-	-	4,182,011	-	4,182,011
Net loss for the period	-	-	-	(9,511,710)	(9,511,710)
<b>Balance, June 30, 2018</b>	<b>161,405,509</b>	<b>35,139,075</b>	<b>6,593,645</b>	<b>(21,541,052)</b>	<b>20,191,668</b>
Balance, December 31, 2018	161,799,709	35,441,020	10,744,453	(31,641,207)	14,544,266
Private placement, net of costs	8,350,000	9,084,249	-	-	9,084,249
Issuance of warrants	-	(1,340,175)	1,340,175	-	-
Issuance of broker warrants	-	(120,564)	120,564	-	-
Exercise of warrants - cash	2,180,080	763,028	-	-	-
Exercise of warrants - valuation	-	572,053	(572,053)	-	-
Exercise of options - cash	3,285,100	1,830,500	-	-	1,830,500
Exercise of options - valuation	-	1,100,510	(1,100,510)	-	-
Exercise of overallotment option - shares	344,200	356,969	-	-	-
Exercise of overallotment option - warrants	-	-	96,443	-	-
Stock based compensation	-	-	1,184,328	-	1,184,328
Net loss for the period	-	-	-	(7,223,445)	(7,223,445)
<b>Balance, June 30, 2019</b>	<b>175,959,089</b>	<b>47,687,590</b>	<b>11,813,400</b>	<b>(38,864,652)</b>	<b>19,419,898</b>

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

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

<b>For the Six Months Ended June 30,</b>	<b>2019</b>	<b>2018</b>
<b>CASH (USED IN) PROVIDED BY:</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (7,223,445)	\$ (9,511,710)
Items not affecting cash:		
Amortization	96,227	7,496
Stock-based compensation	1,184,328	4,182,011
Accretion of lease liability	(85,675)	-
Net change in non-cash working capital:		
Amounts receivable	(661,399)	(355,917)
Prepaid expenses	46,646	127,273
Accounts payable and accrued liabilities	(1,267,573)	(333,199)
	<b>(7,910,891)</b>	<b>(5,884,046)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of equipment	(267,487)	(35,178)
Acquisition of patents	(97,187)	(72,779)
Leasehold improvements	(598,872)	-
	<b>(963,546)</b>	<b>(107,957)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	9,084,249	-
Proceeds from exercise of options	1,830,500	100,000
Proceeds from exercise of warrants	763,028	5,962,891
Proceeds from exercise of overallotment option	453,412	-
	<b>12,131,189</b>	<b>6,062,891</b>
<b>CHANGE IN CASH</b>	<b>3,256,752</b>	<b>70,888</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>14,308,532</b>	<b>18,897,345</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 17,565,284</b>	<b>\$ 18,968,233</b>

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

# Drone Delivery Canada Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(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 6175 Highway 7, Unit 10, Vaughan, Ontario L4H 0P6.

As at June 30, 2019, the Company had cash and cash equivalents of \$17,565,284 (December 31, 2018 - \$18,897,345) and working capital of \$18,927,071 (December 31, 2018 - \$14,308,532). Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and its liabilities for the ensuing twelve months as they normally fall due.

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

On June 4, 2019, the Company announced it had entered into an agreement with Air Canada (TSX:AC) ("AC") effective May 29, 2019 whereby Air Canada Cargo will market and sell DDC's drone delivery services in Canada using Air Canada Cargo's marketing and sales platforms and resources.

Pursuant to the terms of the agreement and subject to DDC obtaining required regulatory approvals, DDC will build and operate up to 150,000 drone delivery routes in Canada. These routes will include timetables, flight schedules, payload capacities, type of drones to be deployed, and payment terms. DDC's services will be marketed as a premium offering, and Air Canada Cargo has agreed that it shall not use or engage with any other drone delivery service providers.

Air Canada Cargo has agreed to sell, market and promote DDC's drone delivery services on the agreed routes, leveraging Air Canada Cargo's expertise in the cargo world, brand presence and sales network. The initial term of the Agreement is ten years from the effective date of May 29, 2019.

### 2. ACCOUNTING POLICIES

#### Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. 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, 2018.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 30, 2019.

#### 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. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these unaudited condensed interim consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

#### 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.. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

# Drone Delivery Canada Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

---

### 2. ACCOUNTING POLICIES (Continued)

#### Accounting Pronouncements Adopted During the Period

##### Accounting for Leases - IFRS 16

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

At January 1, 2019, the Company adopted the following and there was no material impact on the Company's financial statements. The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

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

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

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

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

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

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

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

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

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

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



# Drone Delivery Canada Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

### 2. ACCOUNTING POLICIES (Continued)

#### Accounting Pronouncements Adopted During the Period (Continued)

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

The Company adopted this standard and the impact on the Company's unaudited condensed interim consolidated financial statements are disclosed in note 6 and 7.

#### Uncertainty over Income Tax Treatments - IFRIC 23

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

### 3. PATENTS

Balance, December 31, 2017	\$	307,005
Additions		177,801
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>484,806</b>
Additions		97,187
<b>Balance, June 30, 2019</b>	<b>\$</b>	<b>581,993</b>
<b>Accumulated Depreciation</b>		
Balance, December 31, 2017 and December 31, 2018	\$	-
Depreciation		-
<b>Balance, June 30, 2019</b>	<b>\$</b>	<b>-</b>
<b>Carrying Value</b>		
At December 31, 2018	\$	484,806
<b>At June 30, 2019</b>	<b>\$</b>	<b>581,993</b>

# Drone Delivery Canada Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

### 4. EQUIPMENT

<b>Cost</b>	<b>Automobile</b>	<b>Lab</b>	<b>Office</b>	<b>Total</b>
Balance, December 31, 2017	\$ 8,750	\$ 9,652	\$ 84,521	\$ 102,923
Additions	-	57,792	-	57,792
Balance, December 31, 2018	\$ 8,750	\$ 67,444	\$ 84,521	\$ 160,715
Additions	-	121,295	146,192	267,487
<b>Balance, June 30, 2019</b>	<b>\$ 8,750</b>	<b>\$ 188,739</b>	<b>\$ 230,713</b>	<b>\$ 428,202</b>

#### Accumulated Depreciation

Balance, December 31, 2017	\$ 3,150	\$ 6,671	\$ 29,922	\$ 39,743
Depreciation	1,120	12,154	10,920	24,194
Balance, December 31, 2018	\$ 4,270	\$ 18,825	\$ 40,842	\$ 63,937
Depreciation	448	10,585	5,470	16,503
<b>Balance, June 30, 2019</b>	<b>\$ 4,718</b>	<b>\$ 29,410</b>	<b>\$ 46,312</b>	<b>\$ 80,440</b>

#### Carrying Value

At December 31, 2018	\$ 4,480	\$ 48,619	\$ 43,679	\$ 96,778
<b>At June 30, 2019</b>	<b>\$ 4,032</b>	<b>\$ 159,329</b>	<b>\$ 184,401</b>	<b>\$ 347,762</b>

### 5. LEASEHOLD IMPROVEMENTS

Leasehold improvements consists of costs incurred to build out the Company's 16,000 square foot operations centre. Upon the centre being put into use, leasehold improvements will amortized on a straight-line basis over the term of the underlying lease.

### 6. Rights-of-use Assets

IFRS 16 - right-of-use asset recognition	\$ 717,517
<b>Right-of-use assets at January 1, 2019</b>	<b>717,517</b>
Depreciation	(79,724)
<b>Balance, June 30, 2019</b>	<b>\$ 637,793</b>

Right-of-use assets consists of office, testing and operations facility leases and are amortized over an average of 54 months.

#### Maturity Analysis - Contractual Undiscounted Cash Flows

As at June 30, 2019	
Less than one year	\$ 92,404
Greater than one year	809,620
<b>Total undiscounted lease obligation</b>	<b>\$ 902,024</b>

# Drone Delivery Canada Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

### 7. Lease liabilities

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		717,517
Interest expense		35,248
Lease payments		(86,116)
<b>Balance, June 30, 2019</b>	<b>\$</b>	<b>666,649</b>
As at June 30, 2019		
Less than one year	\$	198,044
Greater than one year		468,505
<b>Total lease obligation</b>	<b>\$</b>	<b>666,549</b>

### 8. TRADEMARKS

Balance, December 31, 2017	\$	-
Additions		11,352
<b>Balance, December 31, 2018 and June 30, 2019</b>	<b>\$</b>	<b>11,352</b>

# Drone Delivery Canada Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

---

### 9. COMMITMENTS

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

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

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

### 10. CAPITAL STOCK

#### (a) AUTHORIZED

Unlimited number of common and special shares, without par value

#### (b) ISSUED

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

Each March 2019 Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant a "March 2019 Warrant"). Each March 2019 Warrant, subject to customary adjustments, shall be exercisable into one common share at an exercise price of \$1.50 per common share for a period of two years from the closing of the offering, subject to certain conditions. Total cash costs of issue amounted to \$773,911.

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

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

The 250,500 broker warrants issued in conjunction with 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 \$99,499 using the Black-Scholes option pricing model, based on a risk-free rate of 1.48%, an expected life of 2 years, an expected volatility of 67.50% and an expected dividend yield of 0%.

On April 12, 2019, the Underwriters of the March 25, 2019 prospectus offering partially exercised their over-allotment option in respect of the March 25, 2019 prospectus offering, purchasing an additional 344,200 common shares in the Company and 626,500 March 2019 Warrants of the Company, for additional gross proceeds of \$482,352. 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 overallotment 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 \$21,065 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%.

# Drone Delivery Canada Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

### 11. STOCK OPTIONS

The following table reflects the continuity of stock options for the six months ended June 30, 2019 and 2018:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance - December 31, 2017	8,770,000	\$ 0.50
Granted	7,320,000	1.57
Exercised	(200,000)	0.50
<b>Balance, June 30, 2018</b>	<b>15,890,000</b>	<b>1.06</b>
Balance - December 31, 2018	15,690,000	1.02
Exercised	(3,285,000)	0.55
<b>Balance - June 30, 2019</b>	<b>12,405,000</b>	<b>\$ 1.15</b>

The following table reflects options outstanding as at June 30, 2019:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Options Outstanding
July 20, 2022	0.50	3.05 years	3,135,000
September 20, 2022	0.50	3.22 years	2,100,000
January 5, 2023	1.00	3.52 years	1,620,000
March 2, 2023	1.80	3.67 years	5,300,000
August 2, 2023	1.80	4.09 years	250,000
	<b>\$ 1.15</b>	<b>3.42 years</b>	<b>12,405,000</b>

### 12. WARRANTS

The following table reflects the continuity of warrants for the six months ended June 30, 2019 and 2018:

	Number of Warrants Outstanding	Weighted Average Exercise Price
Balance - December 31, 2017	16,897,853	\$ 0.45
Exercised	(13,312,270)	0.45
Expired	(19,503)	0.45
<b>Balance, June 30, 2018</b>	<b>3,566,080</b>	<b>0.46</b>
Balance, December 31, 2018	3,566,080	1.49
Issued	4,449,451	1.49
Exercised	(2,180,080)	0.35
<b>Balance - June 30, 2019</b>	<b>5,835,451</b>	<b>\$ 0.46</b>

# Drone Delivery Canada Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

### 12. WARRANTS (Continued)

The following table reflects warrants outstanding as at June 30, 2019:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Warrants Outstanding	Black-Scholes Value
March 25, 2021	1.20	1.73 years	274,451	\$ 120,564
March 25, 2021	1.50	1.73 years	4,175,000	1,340,175
October 25, 2019	0.65	0.32 years	1,386,000	539,015
	<b>\$ 0.46</b>	<b>1.40 years</b>	<b>5,835,451</b>	<b>\$ 1,999,754</b>

### 13. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share, which reflects the maximum possible dilution from the potential exercise of warrants and stock options, is the same as basic loss per share for the six months ended June 30, 2019 and 2018.

### 14. RELATED PARTY TRANSACTIONS AND BALANCES

- a) During the three and six months ended June 30, 2019, the Company incurred \$70,500 and \$725,000, respectively plus HST, inclusive of a \$584,000 severance payment. (three and six months ended June 30, 2018 - \$70,500 and \$141,000, plus HST, respectively) in service fees, to a corporation controlled by a former director, for developing the business operations strategy of the Company. As at June 30, 2019, \$nil is included in accounts payable (December 31, 2018 - \$384,200), and \$26,555 is included in prepaids (December 31, 2018 - \$26,555) pertaining to these fees. During the three and six months ended June 30, 2019, the Company incurred \$52,500 and \$105,000, respectively plus HST (three and six months ended June 30, 2018 - \$52,500 and \$105,000, plus HST, respectively) in consulting fees, to a corporation controlled by the Vice President, for developing the business operations strategy of the Company. As at June 30, 2019, included in accounts payable is \$nil (December 31, 2018 - \$384,200), and in prepaids is \$19,775 (December 31, 2018 - \$19,775) pertaining to these fees. During the three and six months ended June 30, 2019, the Company incurred \$654,500 and \$689,000, plus HST, inclusive of a \$584,000 severance payment. (three and six months ended June 30, 2018 - \$70,500 and \$141,000 plus HST, respectively) in consulting fees, to a corporation controlled by the Chief Executive Officer for consulting fees. As at June 30, 2019, \$nil (December 31, 2018 - \$384,200) is included in accounts payable and \$26,555 is included in prepaids (December 31, 2018 - \$26,555) pertaining to these fees. During the three and six months ended June 30, 2019, the Company incurred \$70,500 and \$141,000 plus HST, respectively (three and six months ended June 30, 2018 - \$70,500 and \$141,000 plus HST, respectively) in consulting fees, to the Chief Technology Officer of the Company for consulting fees. As at June 30, 2019, \$nil is included in accounts payable (December 31, 2018 - \$384,200), and \$26,555 is included in prepaids (December 31, 2018 - \$26,555) pertaining to these fees.

On June 10, 2019, Mr. Michael Zahra was appointed CEO, replacing Mr. Tony Di Benedetto. From the period from June 10, 2019 through June 30, 2019, the Company expensed \$60,352 in salary to Mr. Zahra. As at June 30, 2019 \$23,866 was included in accounts payable and accrued liabilities, pertaining to these fees and ancillary expense reimbursements.

- b) During the three and six months ended June 30, 2019, rent of \$16,200 and \$32,400, respectively (three and six months ended June 30, 2018 - \$16,000 and \$25,600, respectively) was paid to a company controlled by an officer who is also a director of the Company. As at June 30, 2019, \$nil was included in accounts payable and accrued liabilities (December 31, 2018 - \$nil), and \$6,102 was included in prepaid expenses (December 31, 2018 - \$nil)

# Drone Delivery Canada Corp.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

(UNAUDITED)

---

### 14. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

- c) During the three and six months ended June 30, 2019, legal fees of \$23,500 and \$38,800, respectively (three and six months ended June 30, 2018 - \$6,848) were accrued or paid to a law firm in which a director of the Company is a partner. As at June 30, 2019, \$30,806 was included in accounts payable and accrued liabilities (December 31, 2018 - \$43,110).
- d) During the three and six months ended June 30, 2019, the Company expensed \$15,664 and \$22,568 (three and six months ended June 30, 2018 - \$7,178 and \$13,168) to Marrelli Support Services Inc. ("Marrelli Support"), The Canadian Venture Building Inc., and DSA Corporate Services Inc. ("DSA"), together known as the "Marrelli Group" for:
  - (i) Robert D.B. Suttie, President of Marrelli Support, to act as Chief Financial Officer ("CFO") of the Company;
  - (ii) Bookkeeping and office support services;
  - (iii) Regulatory filing services
  - (iv) Executive office rental

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

As of June 30, 2019, the Marrelli Group was owed \$3,005 (December 31, 2018 - \$10,338). These amounts are included in accounts payable and accrued liabilities. Included in prepaid expenses is \$nil paid to the Marrelli Group pertaining to prepayment of certain regulatory filing fees (December 31, 2018 - \$14,096).

The above noted transactions are in the normal course of business and are measured at the exchange amount, as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

### 15. SUBSEQUENT EVENTS

On August 30, 2019, the Company granted an aggregate of 5,375,000 options to purchase common shares of the Company exercisable at a price of \$1.00 per share for a period of five years to certain directors, officers, consultants and employees. The options are subject to a vesting period released 1/3 every six months from the date of grant pursuant to the terms of the stock option plan of the Company.