



DRONE DELIVERY CANADA CORP.  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2022 AND 2021  
(UNAUDITED)

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## **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, 2022	December 31, 2021
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 1)	\$ 24,322,228	\$ 27,674,955
Trade and other receivables (Note 3)	194,825	421,330
Prepaid expenses (Note 15)	497,159	505,888
	<b>25,014,212</b>	<b>28,602,173</b>
Equipment (Note 5)	2,207,626	2,296,980
Patents (Note 4)	816,470	812,462
Trademarks (Note 6)	107,824	107,383
Leasehold improvements (Note 7)	698,228	781,525
Right-of-use assets (Note 8)	344,799	358,880
<b>TOTAL ASSETS</b>	<b>\$ 29,189,159</b>	<b>\$ 32,959,403</b>
<b>LIABILITIES</b>		
Current		
Trade and other payables (Note 14)	\$ 1,182,801	\$ 1,390,285
Lease obligations - current portion (Note 9)	222,379	183,324
Deferred revenue	325,901	396,651
	<b>1,731,081</b>	<b>1,970,260</b>
Lease obligations - long-term portion (Note 9)	167,278	227,278
<b>TOTAL LIABILITIES</b>	<b>1,898,359</b>	<b>2,197,538</b>
<b>EQUITY</b>		
Share capital	96,311,976	96,311,976
Share-based payments reserve	10,636,347	10,518,174
Deficit	(79,657,523)	(76,068,285)
<b>TOTAL EQUITY</b>	<b>27,290,800</b>	<b>30,761,865</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 29,189,159</b>	<b>\$ 32,959,403</b>

Nature of Operations (Note 1)

Approved on Behalf of the Board:

Signed "Larry Taylor"  
Larry Taylor, Director

Signed "Steve Magirias"  
Steve Magirias, CEO

*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, 2022	Three Months Ended March 31, 2021
<b>REVENUE</b>	<b>\$ 142,750</b>	<b>\$ 194,676</b>
<b>OPERATING EXPENSES</b>		
Service costs and materials	56,732	61,675
Advertising and promotion	38,166	1,244,251
Depreciation and amortization	235,971	208,278
Interest expense on lease obligations	9,549	11,734
Consulting (Note 15)	619,474	480,687
Impairment of equipment (Note 5)	-	43,847
Interest and bank charges	5,435	4,972
Personnel expenses (Note 15)	1,648,875	1,012,464
Office and general	451,442	379,420
Professional fees (Note 15)	134,749	114,724
Shareholder information	134,752	78,475
Research and development	300,102	368,623
Share-based compensation (Note 15)	118,173	624,033
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 3,753,419</b>	<b>\$ 4,633,183</b>
<b>OPERATING LOSS</b>	<b>\$ (3,610,669)</b>	<b>\$ (4,438,507)</b>
Interest income	(23,969)	(10,216)
Foreign exchange losses	2,537	7,143
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (3,589,238)</b>	<b>\$ (4,435,434)</b>
<b>Basic and diluted loss per share (Note 13)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of shares</b>		
<b>outstanding - basic and diluted</b>	<b>222,547,506</b>	<b>216,965,081</b>

*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, 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 year	-	-	-	(4,435,434)	(4,435,434)
<b>Balance, March 31, 2021</b>	<b>223,451,511</b>	<b>95,327,937</b>	<b>10,156,058</b>	<b>(65,804,040)</b>	<b>39,679,955</b>
<b>Balance, December 31, 2021</b>	<b>224,199,012</b>	<b>96,311,976</b>	<b>10,518,174</b>	<b>(76,068,285)</b>	<b>30,761,865</b>
Stock based compensation	-	-	118,173	-	118,173
Net Loss for the year	-	-	-	(3,589,238)	(3,589,238)
<b>Balance, March 31, 2022</b>	<b>224,199,012</b>	<b>96,311,976</b>	<b>10,636,347</b>	<b>(79,657,523)</b>	<b>27,290,800</b>

*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, 2022	Three Months Ended March 31, 2021
<b>CASH (USED IN) PROVIDED BY:</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (3,589,238)	\$ (4,435,434)
Items not affecting cash:		
Depreciation of equipment and right-of-use assets	231,553	205,376
Interest expense on lease obligations	9,549	11,734
Amortization of patents	4,418	2,902
Stock-based compensation	118,173	624,033
Impairment of equipment	-	43,847
Net change in non-cash working capital:		
Trade and other receivables	226,505	(227,330)
Prepaid expenses	8,729	(44,790)
Accounts payable and accrued liabilities	(278,234)	(766,501)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>\$ (3,268,545)</b>	<b>\$ (4,586,163)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of equipment	(1,393)	(9,082)
Acquisition of patents and trademarks	(8,868)	(14,767)
Acquisition of leasehold improvements	(11,200)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (21,461)</b>	<b>\$ (23,849)</b>
<b>FINANCING ACTIVITIES</b>		
Lease payments	(62,721)	(53,638)
Proceeds from exercise of options	-	10,844,161
Proceeds from exercise of warrants	-	4,804,219
Proceeds from exercise of broker warrants	-	745,424
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>\$ (62,721)</b>	<b>\$ 16,340,166</b>
<b>INCREASE IN CASH</b>	<b>(3,352,727)</b>	<b>11,730,154</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>27,674,955</b>	<b>23,464,255</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 24,322,228</b>	<b>\$ 35,194,409</b>

**SUPPLEMENTARY CASH FLOW INFORMATION:**

During the three month ended March 31, 2022 and 2021 non-cash activities were conducted by the Company as follows:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
<b>Investing Activities</b>		
Acquisition of right-of-use assets	\$ (32,228)	-
<b>Financing Activities</b>		
Increase in lease obligation	\$ 32,228	-

*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)

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### 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, 2022, the Company had cash and cash equivalents of \$24,322,228 (December 31, 2021 - \$27,674,955) and working capital of \$23,283,131 (December 31, 2021 - \$26,631,913). 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. Federal, provincial, and local authorities in Canada, the United States, and other nations continue to significantly restrict the ability of people to leave their homes and carry out normal day-day activities. These measures could 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, 2021. 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, 2021.

These condensed interim consolidated financial statements of the Company were approved by the Board of Directors on May 17, 2022.

#### **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 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)

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### 3. TRADE AND OTHER RECEIVABLES

	March 31, 2022	December 31, 2021
Trade receivables	\$ 27,736	\$ 24,346
Other receivables	59,929	212,054
SR&ED tax credit receivables	107,160	184,930
	<b>\$ 194,825</b>	<b>\$ 421,330</b>

### 4. PATENTS

#### Cost

Balance, December 31, 2020	\$ 763,846
Additions	77,680
Balance, December 31, 2021	\$ 841,526
Additions	8,427
<b>Balance, March 31, 2022</b>	<b>\$ 849,953</b>

#### Accumulated Depreciation

Balance, December 31, 2020	\$ 13,761
Depreciation	15,303
Balance, December 31, 2021	\$ 29,064
Depreciation	4,418
<b>Balance, March 31, 2022</b>	<b>\$ 33,483</b>

#### Carrying Value

At December 31, 2021	\$ 812,462
<b>At March 31, 2022</b>	<b>\$ 816,470</b>



## Drone Delivery Canada Corp.

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

#### 5. EQUIPMENT

Cost	Assets						Total
	Lab & Other	Office	Flight Equipment	Under Construction	Drone Parts		
Balance, December 31, 2020	\$ 423,987	\$ 491,595	\$ 1,117,170	\$ 422,289	\$ 256,348	\$	2,711,389
Additions	-	-	-	107,456	381,559		489,015
Impairment of equipment	-	-	(120,677)	-	-		(120,677)
Transfers from assets under construction	-	-	378,464	(95,009)	(283,455)		-
Balance, December 31, 2021	\$ 423,987	\$ 491,595	\$ 1,374,957	\$ 434,736	\$ 354,452	\$	3,079,727
Additions	-	-	-	1,393	-		1,393
Transfers from assets under construction	12,000	-	61,998	(44,250)	(29,747)		-
<b>Balance, March 31, 2022</b>	<b>\$ 435,987</b>	<b>\$ 491,595</b>	<b>\$ 1,436,955</b>	<b>\$ 391,879</b>	<b>\$ 324,705</b>	<b>\$</b>	<b>3,081,120</b>

#### Accumulated Depreciation

Balance, December 31, 2020	\$ 156,092	\$ 195,737	\$ 155,996	\$ -	\$ -	\$	507,825
Depreciation	56,357	69,500	197,816	-	-		323,673
Impairment of equipment	-	-	(48,751)	-	-		(48,751)
Balance, December 31, 2021	\$ 212,449	\$ 265,237	\$ 305,061	\$ -	\$ -	\$	782,747
Depreciation	12,399	14,804	63,544	-	-		90,747
<b>Balance, March 31, 2021</b>	<b>\$ 224,848</b>	<b>\$ 280,041</b>	<b>\$ 368,605</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$</b>	<b>873,494</b>

#### Carrying Value

At December 31, 2021	\$ 211,538	\$ 226,358	\$ 1,069,896	\$ 434,736	\$ 354,452	\$	2,296,980
<b>At March 31, 2022</b>	<b>\$ 211,139</b>	<b>\$ 211,555</b>	<b>\$ 1,068,349</b>	<b>\$ 391,879</b>	<b>\$ 324,705</b>	<b>\$</b>	<b>2,207,626</b>

During the year ended December 31, 2021, the Company incurred physical damages to certain Flight equipment. As a result, the Company subsequently disposed of the assets, and recorded an impairment charge of which \$43,847 was incurred during the three months ended March 31, 2021, based on the cost less accumulated amortization of the assets.

#### 6. TRADEMARKS

Balance, December 31, 2020	\$	94,372
Additions		13,011
Balance, December 31, 2021	\$	107,383
Additions		441
<b>Balance, March 31, 2022</b>	<b>\$</b>	<b>107,824</b>

## Drone Delivery Canada Corp.

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

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### 7. LEASEHOLD IMPROVEMENTS

#### Cost

Balance, December 31, 2020	\$ 1,387,641
Additions	107,666
Balance, December 31, 2021	\$ 1,495,307
Additions	11,200
<b>Balance, March 31, 2022</b>	<b>\$ 1,506,507</b>

#### Accumulated Depreciation

Balance, December 31, 2020	\$ 388,463
Depreciation	325,319
Balance, December 31, 2021	\$ 713,782
Depreciation	94,497
<b>Balance, March 31, 2022</b>	<b>\$ 808,279</b>

#### Carrying Value

At December 31, 2021	\$ 781,525
<b>At March 31, 2022</b>	<b>\$ 698,228</b>

### 8. RIGHT-OF-USE ASSETS

Balance, December 31, 2020	\$ 442,274
Additions	108,652
Depreciation	(192,046)
Balance, December 31, 2021	\$ 358,880
Additions	32,228
Depreciation	(46,309)
<b>Balance, March 31, 2022</b>	<b>\$ 344,799</b>

Right of use assets consists of office, testing and operational facility leases and are amortized over an average useful life of 33.5 months.

#### Maturity Analysis - Contractual Undiscounted Cash Flows

As at March 31, 2022:	
Less than one year	\$ 222,379
Greater than one year	167,278
<b>Balance, March 31, 2022</b>	<b>\$ 389,657</b>

## Drone Delivery Canada Corp.

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

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#### 8. RIGHT-OF-USE ASSETS (continued)

Not included in the right of use assets are lease extensions for four facilities in Ontario, consisting of a five-year lease extension for the Company's head office, a one-year lease extension for a second office, and two-year lease extensions for its test range and new commercialization centre. The lease extensions are available to the Company should it choose to exercise its option at amount that is prevailing in the market at the time of renewal. During the three months ended March 31, 2022, The Company signed a one-year lease extension for its second facility in Vaughan, resulting in an addition to right-of-use-asset of \$32,228.

#### 9. 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, 2020	\$ 484,137
Additions	108,652
Accretion expense	43,864
Lease payments	\$ (226,050)
<b>Balance, December 31, 2021</b>	<b>\$ 410,603</b>
Additions	32,228
Accretion expense	9,549
Lease payments	\$ (62,721)
<b>Balance, March 31, 2022</b>	<b>\$ 389,657</b>
<b>As at March 31, 2022:</b>	
Less than one year	\$ 222,379
Greater than one year	167,278
<b>Total lease obligation</b>	<b>\$ 389,657</b>

#### Occupancy Leases

In 2021, 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. On June 1, 2021, the Company extended this lease for an additional two years until December 31, 2023, increasing monthly lease payments to \$2,500.

During the year 2021, the Company entered into a two-year lease for a new commercialization centre in Ontario, commencing September 1, 2021, obliging the Company to make minimum monthly lease payments of \$2,500 until August 31, 2023.

On January 5, 2022, the Company entered into a lease extension for one of its existing office lease agreements with a corporation controlled by a former director to lease office space at \$ 34,000 per year. The lease extension commenced on February 1, 2022 and expires on January 31, 2023.

# Drone Delivery Canada Corp.

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

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### 10. CAPITAL STOCK

#### (a) AUTHORIZED

Unlimited number of common and special shares, without par value

#### (b) ISSUED

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

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

The 4,175,000 warrants issued in conjunction with 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)

### 10. 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%.

### 11. STOCK OPTIONS

The following table reflects the continuity of stock options for the three months ended March 31, 2022 and 2021:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
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
Balance, December 31, 2021	7,905,005	1.04
Expired	(128,334)	0.78
<b>Balance, March 31, 2022</b>	<b>7,776,671 \$</b>	<b>1.04</b>

## Drone Delivery Canada Corp.

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

#### 11. STOCK OPTIONS (continued)

During the three months ended March 31, 2022 the Company granted \$nil (March 31, 2021 - 300,000) options to purchase common shares of the Company to certain consultants and employees. Each option is exercisable at a price of \$nil (March 31, 2021 - \$1.70) for a five year term. The fair value of \$nil (March 31, 2021 - \$335,320) was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield \$nil (March 31, 2021 - 0%); expected volatility of \$nil (March 31, 2021 - 79%); a risk-free rate of return of \$nil (March 31, 2021 - 0.61%) and expected life of nil (March 31, 2021 - 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, 2022:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Weighted Average Life Remaining</b>	<b>Options Outstanding</b>
July 20, 2022	0.50	0.30 years	600,000
January 5, 2023	1.00	0.77 years	420,000
March 2, 2023	1.80	0.92 years	1,575,000
August 30, 2024	1.00	2.42 years	2,041,670
September 24, 2025	0.70	3.49 years	2,120,001
November 9, 2025	0.70	3.61 years	720,000
February 4, 2026	1.70	3.85 years	200,000
March 4, 2026	1.70	3.93 years	100,000
<b>Balance, March 31, 2022</b>	<b>1.04</b>	<b>2.32 years</b>	<b>7,776,671</b>

#### 12. WARRANTS

	<b>Number of Warrants Outstanding</b>	<b>Weighted Average Exercise Price</b>
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
<b>Balance, March 31, 2021</b>	<b>13,589,418 \$</b>	<b>1.07</b>
Balance, December 31, 2021	13,531,918 \$	1.07
<b>Balance, March 31, 2022</b>	<b>13,531,918 \$</b>	<b>1.07</b>

During the three months ended March 31, 2021, 4,718,261 warrants were exercised into common shares of the company for 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)

#### 12. WARRANTS (continued)

The following table reflects the warrants outstanding as at March 31, 2022:

Expiry Date	Type	Exercise Price	Weighted		Warrants Outstanding	Black - Scholes Value
			Average Life Remaining			
August 5, 2022	Broker Warrant	0.70	0.35		436,425	170,523
August 5, 2022	Warrant	0.95	0.35		5,506,051	1,269,654
December 22, 2022	Broker Warrant	0.88	0.73		658,812	206,302
December 22, 2022	Warrant	1.20	0.73		6,930,630	1,354,726
		\$ 1.07	0.50		13,531,918	\$ 3,001,205

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%.

#### 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 three months ended March 31, 2022 and 2021.

#### 14. 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, 2022		December 31, 2021
Cash and cash equivalents	FVTPL	\$	24,322,228	\$	27,674,955
Trade receivables	Amortized Cost	\$	27,736	\$	24,346
Trade and other payables	Amortized Cost	\$	1,182,801	\$	1,390,285
Lease obligation	Amortized Cost	\$	389,657	\$	410,602

# Drone Delivery Canada Corp.

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

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### 14. 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.

### 15. 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, 2022 and 2021 the following compensation amounts were incurred in respect of key management personnel:



## Drone Delivery Canada Corp.

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

#### 15. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	March 31, 2022	March 31, 2021
Consulting fees and salaries	\$ 958,735	\$ 650,950
Share based compensation	58,877	454,305
	\$ 1,017,612	\$ 1,105,255

During the three months ended March 31, 2022 and 2021, the Company allocated the \$958,735 (2021 - \$ 650,950) of consulting fees and salaries based on the nature of services provided: expensed \$330,000 (2021 - \$374,000) to consulting; and expensed \$628,755 (2021 - \$276,950) to personnel expenses, of which \$429,000 relates to the severance payment for the former CEO.

As at March 31, 2022, consulting fees of \$26,555 (December 31, 2021 - \$389,800) remain unpaid are included in trade and other payables. Consulting fees of \$nil (December 31, 2021 - \$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 \$325,000 per annum, is payable. If the termination had occurred on March 31, 2022, the amount payable under this agreement would be \$325,000.

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, 2022 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, 2022 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 \$1,108,000.

- b) During the three months ended March 31, 2022, rent of \$9,530 (March 31, 2021 - \$8,267) 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, 2022, \$2,767 was included in prepaid expenses (December 31, 2021 - \$2,767).
- c) During the three months ended March 31, 2022, marketing and advertising expenses of \$10,000 (March 31, 2021 - \$10,000) was paid to a company controlled by the former Chief Executive officer of the Company.
- d) During the three months ended March 31, 2022, legal fees of \$124,728 (March 31, 2021 - \$85,293) were accrued or paid to a law firm in which a director of the Company is a partner. As at March 31, 2022, \$44,511 was included in accounts payable and accrued liabilities (December 31, 2021 - \$25,216).
- e) During the three months ended March 31, 2022, board of directors fees of \$30,250 (March 31, 2021 - \$nil) was paid to the members of the board of directors as remuneration for their services. As at March 31, 2022, \$22,250 was included in accounts payable and accrued liabilities (December 31, 2021 - \$22,250).