



DRONE DELIVERY CANADA CORP.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2023 AND 2022
(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)

	June 30, 2023	December 31, 2022
ASSETS		
Current		
Cash and cash equivalents (Note 1)	\$ 10,646,723	\$ 15,298,794
Trade and other receivables (Note 3)	215,741	486,664
Inventory	-	118,624
Prepaid expenses (Note 15)	568,925	343,590
	11,431,389	16,247,672
Equipment (Note 5)	1,867,714	2,018,824
Patents (Note 4)	756,964	771,078
Trademarks (Note 6)	107,383	107,383
Leasehold improvements (Note 7)	229,333	424,332
Right-of-use assets (Note 8)	148,606	178,964
TOTAL ASSETS	\$ 14,541,389	\$ 19,748,253
LIABILITIES		
Current		
Trade and other payables (Note 15)	\$ 612,491	\$ 909,917
Lease obligations - current portion (Note 9)	134,697	200,200
Deferred revenue	3,846	103,205
	751,034	1,213,322
Lease obligations - long-term portion (Note 9)	37,965	19,815
TOTAL LIABILITIES	788,999	1,233,137
EQUITY		
Share capital	96,312,330	96,312,330
Share-based payments reserve	12,157,996	11,685,302
Deficit	(94,717,936)	(89,482,516)
TOTAL EQUITY	13,752,390	18,515,116
TOTAL LIABILITIES AND EQUITY	\$ 14,541,389	\$ 19,748,253

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 June 30		Six Months Ended June 30	
	2023	2022	2023	2022
REVENUE	\$ 175,975	\$ 199,478	\$ 751,360	\$ 342,228
OPERATING EXPENSES				
Service costs and materials	94,562	46,131	256,902	102,863
Advertising and promotion	37,069	27,172	62,146	65,339
Depreciation and amortization	237,302	252,504	475,873	488,475
Interest expense on lease obligations	3,724	9,676	8,732	19,224
Consulting (Note 15)	358,807	491,133	735,370	1,110,607
Interest and bank charges	1,843	2,195	3,788	7,629
Personnel expenses (Notes 15 & 16)	1,174,214	1,567,851	2,429,589	3,216,726
Office and general	402,809	527,163	740,974	978,605
Professional fees (Note 15)	89,629	204,261	238,223	339,009
Shareholder information	128,088	80,246	214,392	214,998
Research and development	246,208	446,288	571,940	746,391
Share-based compensation (Note 15)	228,672	70,325	472,694	188,498
TOTAL OPERATING EXPENSES	\$ 3,002,927	\$ 3,724,944	\$ 6,210,623	\$ 7,478,363
OPERATING LOSS	\$ (2,826,952)	\$ (3,525,466)	\$ (5,459,263)	\$ (7,136,135)
Interest income	(135,831)	(52,441)	(230,968)	(76,410)
Other income	-	(58,590)	-	(58,590)
Foreign exchange losses	5,581	5,801	7,125	8,338
NET LOSS AND COMPREHENSIVE LOSS	\$ (2,696,702)	\$ (3,420,236)	\$ (5,235,420)	\$ (7,009,474)
Basic and diluted loss per share (Note 13)	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.03)
Weighted average number of shares outstanding - basic and diluted	224,199,312	224,199,012	224,199,312	224,199,012

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	Share Capital (\$)	Share-based Payments Reserve (\$)	Deficit (\$)	Total (\$)
Balance, December 31, 2021	224,199,012	96,311,976	10,518,174	(76,068,285)	30,761,865
Share-based compensation	-	-	188,498	-	188,498
Net Loss for the period	-	-	-	(7,009,474)	(7,009,474)
Balance, June 30, 2022	224,199,012	96,311,976	10,706,672	(83,077,759)	23,940,889
Balance, December 31, 2022	224,199,312	96,312,330	11,685,302	(89,482,516)	18,515,116
Share-based compensation	-	-	472,694	-	472,694
Net Loss for the period	-	-	-	(5,235,420)	(5,235,420)
Balance, June 30, 2023	224,199,312	96,312,330	12,157,996	(94,717,936)	13,752,390

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 June 30		Six Months Ended June 30	
	2023	2022	2023	2022
CASH (USED IN) PROVIDED BY:				
OPERATING ACTIVITIES				
Net loss for the period	\$ (2,696,702)	\$ (3,420,236)	\$ (5,235,420)	\$ (7,009,474)
Items not affecting cash:				
Depreciation of equipment, leasehold improvements and right-of-use assets	230,245	248,085	461,759	479,638
Interest expense on lease obligations	3,724	9,676	8,732	19,224
Amortization of patents	7,057	4,419	14,114	8,837
Share-based compensation	228,672	70,325	472,694	188,498
Net change in non-cash working capital:				
Trade and other receivables	741,421	(281,194)	270,923	(54,689)
Prepaid expenses	(239,447)	(67,554)	(225,336)	(58,826)
Inventory	-	-	118,624	-
Trade and other payables	(369,320)	151,882	(396,784)	(126,352)
NET CASH USED IN OPERATING ACTIVITIES	\$ (2,094,350)	\$ (3,284,597)	\$ (4,510,694)	\$ (6,553,143)
INVESTING ACTIVITIES				
Acquisition of equipment	(1,794)	(48,913)	(29,260)	(50,306)
Acquisition of patents and trademarks	-	-	-	(8,867)
Acquisition of leasehold improvements	-	(6,930)	-	(18,130)
NET CASH USED IN INVESTING ACTIVITIES	\$ (1,794)	\$ (55,843)	\$ (29,260)	\$ (77,303)
FINANCING ACTIVITIES				
Lease payments	(54,728)	(63,646)	(112,117)	(126,366)
NET CASH USED IN FINANCING ACTIVITIES	\$ (54,728)	\$ (63,646)	\$ (112,117)	\$ (126,366)
DECREASE IN CASH	(2,150,872)	(3,404,086)	(4,652,071)	(6,756,813)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,797,595	24,322,228	15,298,794	27,674,955
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 10,646,723	\$ 20,918,142	\$ 10,646,723	\$ 20,918,142

SUPPLEMENTARY CASH FLOW INFORMATION:

During the three and six months ended June 30, 2023 and 2022 non-cash activities were conducted by the Company as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2023	2022	2023	2022
Investing Activities				
Acquisition of right-of-use assets	\$ (56,032)	\$ (32,228)	\$ (56,032)	\$ (32,228)
Financing Activities				
Increase in lease obligation	\$ 56,032	\$ 32,228	\$ 56,032	\$ 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)

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 June 30, 2023, the Company had cash and cash equivalents of \$10,646,723 (December 31, 2022 - \$15,298,794) and working capital of \$10,680,355 (December 31, 2022 - \$15,034,350). 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 “A3DP5Y” 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, 2022. 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, 2022.

These condensed interim consolidated financial statements of the Company were approved by the Board of Directors on August 16, 2023.

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)

3. TRADE AND OTHER RECEIVABLES

	June 30, 2023	December 31, 2022
Trade receivables	\$ 10,500	\$ 24,390
GST/HST receivable	41,412	81,557
SR&ED tax credit receivable	163,829	380,717
	\$ 215,741	\$ 486,664

4. PATENTS

Cost

Balance, December 31, 2021	\$	841,526
Balance, December 31, 2022	\$	841,526
Balance, June 30, 2023	\$	841,526

Accumulated Amortization

Balance, December 31, 2021	\$	29,064
Amortization		41,384
Balance, December 31, 2022	\$	70,448
Amortization		14,114
Balance, June 30, 2023	\$	84,562

Carrying Value

At December 31, 2022	\$	771,078
At June 30, 2023	\$	756,964

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, 2021	\$ 423,987	\$ 491,595	\$ 1,374,957	\$ 434,736	\$ 354,452	\$ 3,079,727
Additions	-	-	-	42,598	106,781	149,379
Impairment of equipment	-	-	(53,813)	(30,752)	-	(84,565)
Transfers from assets under construction	33,404	-	133,583	(123,121)	(43,866)	-
Balance, December 31, 2022	\$ 457,391	\$ 491,595	\$ 1,454,727	\$ 323,461	\$ 417,367	\$ 3,144,541
Additions	20,978	-	5,584	1,309	1,389	29,260
Transfers from assets under construction	1,685	-	-	(1,685)	-	-
Balance, June 30, 2023	\$ 480,054	\$ 491,595	\$ 1,460,311	\$ 323,085	\$ 418,756	\$ 3,173,801

Accumulated Depreciation

Balance, December 31, 2021	\$ 212,449	\$ 265,237	\$ 305,061	\$ -	\$ -	\$ 782,747
Depreciation	47,038	53,993	267,215	-	-	368,246
Impairment of equipment	-	-	(25,276)	-	-	(25,276)
Balance, December 31, 2022	\$ 259,487	\$ 319,230	\$ 547,000	\$ -	\$ -	\$ 1,125,717
Depreciation	23,509	22,290	134,571	-	-	180,370
Balance, June 30, 2023	\$ 282,996	\$ 341,520	\$ 681,571	\$ -	\$ -	\$ 1,306,087

Carrying Value

At December 31, 2022	\$ 197,904	\$ 172,365	\$ 907,727	\$ 323,461	\$ 417,367	\$ 2,018,824
At June 30, 2023	\$ 197,058	\$ 150,075	\$ 778,740	\$ 323,085	\$ 418,756	\$ 1,867,714

During the year-ended December 31, 2022, the Company recorded an impairment charge with a net book value of \$59,289, related to flight equipment and assets under construction due to some parts being damaged.

6. TRADEMARKS

Balance, December 31, 2021	\$ 107,383
Balance, December 31, 2022	\$ 107,383
Balance, June 30, 2023	\$ 107,383

Drone Delivery Canada Corp.

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

7. LEASEHOLD IMPROVEMENTS

Cost

Balance, December 31, 2021	\$ 1,495,307
Additions	27,615
Balance, December 31, 2022	\$ 1,522,922
Additions	-
Balance, June 30, 2023	\$ 1,522,922

Accumulated Depreciation

Balance, December 31, 2021	\$ 713,782
Depreciation	384,808
Balance, December 31, 2022	\$ 1,098,590
Depreciation	194,999
Balance, June 30, 2023	\$ 1,293,589

Carrying Value

At December 31, 2022	\$ 424,332
At June 30, 2023	\$ 229,333

8. RIGHT-OF-USE ASSETS

Balance, December 31, 2021	\$ 358,880
Additions	32,228
Depreciation	(212,144)
Balance, December 31, 2022	\$ 178,964
Additions	56,032
Depreciation	(86,390)
Balance, June 30, 2023	\$ 148,606

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 June 30, 2023:	
Less than one year	\$ 145,378
Greater than one year	35,638
Balance, June 30, 2023	\$ 181,015

Drone Delivery Canada Corp.

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

8. RIGHT-OF-USE ASSETS (continued)

Not included in the right of use assets are lease extensions for three facilities in Ontario, consisting of a five-year lease extension for the Company's head 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 six months ended June 30, 2023, The Company signed a two-year lease extension for its Ontario Test Range, resulting in an addition to right-of-use-asset of \$56,032.

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, 2021	\$	410,602
Additions		32,228
Accretion expense	\$	33,527
Lease payments		(256,342)
Balance, December 31, 2022	\$	220,015
Additions		56,032
Accretion expense		8,732
Lease payments	\$	(112,116)
Balance, June 30, 2023	\$	172,662
As at June 30, 2023:		
Less than one year	\$	134,697
Greater than one year		37,965
Total lease obligation	\$	172,662

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 April 20th 2023, the Company extended this lease for an additional two years, commencing August 1, 2023, increasing monthly lease payments to \$2,700.

Drone Delivery Canada Corp.

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

10. CAPITAL STOCK

The following table reflects issued and outstanding shares by class as at June 30, 2023:

	June 30, 2023	December 31, 2022
Number of variable voting shares	49,049,262	48,516,154
Number of common voting shares	175,150,050	175,683,158
Total issued and outstanding shares	224,199,312	224,199,312

On June 15, 2022, the Company filed an amendment of its notice of articles in order to implement a variable voting system by creating two new classes of shares, variable voting shares and common voting shares. The amendments to the articles of the Company ensure that the Company will continue to meet the Canadian ownership requirements under the Canadian Transportation Agency ("CTA") under section 61 of the Act. The amendments were approved by shareholders of the Company at its annual general and special meeting held on May 11, 2022. The previously issued common shares were cancelled and substituted for the new variable voting shares and common voting shares.

As at June 30, 2023, the shares issuable by the Company consist of an unlimited number of variable voting shares and an unlimited number of common voting shares. The two classes of shares are without par value and have equivalent rights as shareholders except for voting rights.

A common voting share will be automatically converted into one variable voting share, without any further act of the Company or the holder, if such common voting share is or becomes beneficially owned or controlled, directly or indirectly, otherwise than by way of a security only, by a person who is not a Canadian within the meaning of the CTA. Each issued and outstanding variable voting share will be automatically converted into one common voting share, without any further act on the part of the Company or the holder, if (a) such variable voting share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian within the meaning of the CTA, or (b) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions. Variable voting shares carry one vote per variable voting share held, unless any of the thresholds set forth below would otherwise be surpassed at any time, in which case the vote attached to a variable voting share will decrease as described below.

Single Non-Canadian Holder

If at any time:

- a) a single non-Canadian holder of variable voting shares, either individually or in affiliation with any other person, holds a number of variable voting shares outstanding that, as a percentage of the total number of all voting shares outstanding, exceeds 25% or
- b) the total number of votes that would be cast by or on behalf of a single non-Canadian holder, either individually or in affiliation with any other person, at any meeting would exceed 25% of the total number of votes cast at such meeting,

then the vote attached to each variable voting share held by such single non-Canadian holder, will decrease proportionately and automatically without further act or formality only to such extent that, as a result (i) the variable voting shares held by such single non-Canadian holder do not carry in the aggregate more than 25% of the aggregate votes attached to all issued and outstanding voting shares of the Company, and (ii) the total number of votes cast by or on behalf of such single non-Canadian holder at the meeting do not exceed in the aggregate 25% of the total number of votes cast at such meeting.

Drone Delivery Canada Corp.

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

10. CAPITAL STOCK (continued)

Non-Canadian Holder Authorized to Provide Air Service

If at any time:

- a) one or more non-Canadians authorized to provide an air service in any jurisdiction, collectively hold, either individually or in affiliation with any other person, a number of variable voting shares outstanding that, as a percentage of the total number of all voting shares outstanding, after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by any single non-Canadian holder as set out above under the variable voting shares held by any single non-Canadian holder as set out above under “Single Non- Canadian Holder” (if any, as the case may be) exceeds 25%, or
- b) the total number of votes that would be cast by or on behalf of non-Canadian holders authorized to provide air service, after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by any single non-Canadian holder as set out above under “Single Non-Canadian Holder” (if any, as the case may be), exceed 25% of the total number of votes cast at such meeting,

then the vote attached to each variable voting share held by all non-Canadian holders authorized to provide air service will decrease proportionately and automatically without further act or formality only to such extent that, as a result (i) the variable voting shares held by all non-Canadian holders authorized to provide air service do not carry in the aggregate more than 25% of the aggregate votes attached to all issued and outstanding voting shares of the Company, and (ii) the total number of votes cast by or on behalf of all non-Canadian holders authorized to provide air service and by persons in affiliation with any non-Canadian holders authorized to provide air service at any meeting do not exceed in the aggregate 25% of the total number of votes cast at such meeting.

General – All Holders of Variable Voting Shares

If at any time:

- a) the number of variable voting shares outstanding as a percentage of the total number of all voting shares outstanding, after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by any single non-Canadian holder under “Single Non-Canadian Holder” and after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by non-Canadian holders authorized to provide air service as set out above under “Non-Canadian Holder Authorized to Provide Air Service” (in each case, if any, as may be required), exceeds 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the Board), or
- b) the total number of votes that would be cast by or on behalf of holders of variable voting shares at any meeting would, after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by any single non-Canadian holder as set out above under “Single Non-Canadian Holder” and after the application of the automatic proportionate decrease to the votes attached to all of the variable voting shares held by non-Canadian holders authorized to provide air service as set out above under “Non-Canadian Holder Authorized to Provide Air Service” (in each case, if any, as may be required), exceed 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the Board) of the total number of votes cast at such meeting,

Drone Delivery Canada Corp.

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

10. CAPITAL STOCK (continued)

then the vote attached to each variable voting share will decrease proportionately and automatically without further act or formality only to such extent that, as a result (i) the variable voting shares do not carry more than 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the Board) of the aggregate votes attached to all issued and outstanding voting shares of the Company, and (ii) the total number of votes cast by or on behalf of holders of variable voting shares at any meeting do not exceed 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the Board) of the total number of votes cast at such meeting.

11. STOCK OPTIONS

The following table reflects the continuity of stock options for the six months ended June 30, 2023 and 2022:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2021	7,905,005 \$	1.04
Expired	(128,334)	0.78
Granted	5,875,000	0.56
Balance, June 30, 2022	13,651,671 \$	0.59
Balance, December 31, 2022	14,066,671	0.80
Forefeited	(371,666)	0.50
Expired	(2,410,001)	1.51
Balance, June 30, 2023	11,285,004 \$	0.66

The following table reflects options outstanding as at June 30, 2023:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Options Outstanding
August 30, 2024	1.00	1.17 years	2,041,670
September 24, 2025	0.70	2.24 years	1,873,334
November 9, 2025	0.70	2.36 years	620,000
February 4, 2026	1.70	2.60 years	200,000
June 23, 2027	0.56	3.98 years	5,350,000
December 15, 2027	0.25	4.46 years	1,200,000
Balance, June 30, 2023	0.66	3.12 years	11,285,004

Drone Delivery Canada Corp.

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

12. WARRANTS

	Number of Warrants Outstanding	Weighted Average Exercise Price
Balance, December 31, 2021	13,531,918 \$	1.07
Balance, June 30, 2022	13,531,918 \$	1.07
Balance, December 31, 2022	-	-
Balance, June 30, 2023	- \$	-

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 and six months ended June 30, 2023 and 2022.

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	June 30, 2023	December 31, 2022
Cash and cash equivalents	FVTPL	\$ 10,646,723	\$ 15,298,794
Trade receivables	Amortized Cost	\$ 10,500	\$ 24,390
Trade and other payables	Amortized Cost	\$ 612,491	\$ 909,917
Lease obligation	Amortized Cost	\$ 172,662	\$ 220,015

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.

Drone Delivery Canada Corp.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 six months ended June 30, 2023 and 2022 the following compensation amounts were incurred in respect of key management personnel:

	June 30, 2023	June 30, 2022
Consulting fees and salaries	\$ 893,488	\$ 1,511,374
Share based compensation	174,661	99,225
	\$ 1,068,149	\$ 1,610,599

During the six months ended June 30, 2023 and 2022, the Company allocated the \$893,488 (2022 - \$1,511,374) of consulting fees and salaries based on the nature of services provided: expensed \$519,944 (2022 - \$660,000) to consulting; and expensed \$373,544 (2022 - \$851,374) to personnel expenses.

As at June 30, 2023, consulting fees of \$nil (December 31, 2022 - \$32,234) remain unpaid are included in trade and other payables. Consulting fees of \$nil (December 31, 2022 - \$nil) paid in advance are included in prepaid expenses.

Drone Delivery Canada Corp.

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

15. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The Company has an employment agreement with its CEO which provides that in the event the CEO's employment is terminated by the Company without cause, (i) a lump sum payment equal to 12 months' salary (as at June 30, 2023 representing a payment of \$341,250), 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 (as at June 30, 2023 representing a payment of \$511,875).

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 June 30, 2023 representing a minimum payment of \$115,500), or (ii) by the Company within twelve months of, or in anticipation within 180 days of, a change in control, a lump-sum payment equal to twelve months' salary (as at June 30, 2023 representing a payment of \$231,000).

During the three months ended June 30, 2023, the Company terminated consulting agreements for key management personnel, which resulted in a severance payment of \$136,065 and is included in consulting fees. The Company has a consulting agreement with a corporation controlled by the Director of field operations, which provide that in the event the consulting agreement is terminated without cause, a termination payment for consulting fees for the remainder of the term is payable. If such termination had occurred on June 30, 2023, the total amount payable under the agreement would be \$87,500.

- b) During the six months ended June 30, 2023, rent of \$3,202 (June 30, 2022 - \$25,538) was paid to a company jointly controlled by the former Chief Technology Officer and the former Chief Executive Officer of the Company. As at June 30, 2023, \$nil was included in prepaid expenses (December 31, 2022 - \$2,767).
- c) During the six months ended June 30, 2023, marketing and advertising expenses of \$nil (June 30, 2022 - \$10,000) was paid to a company controlled by the former Chief Executive officer of the Company.
- d) During the six months ended June 30, 2023, legal fees of \$150,440 (June 30, 2022 - \$253,881) were accrued or paid to a law firm in which a director of the Company is a partner. As at June 30, 2023, \$18,146 was included in trade and other payables (December 31, 2022 - \$25,216).
- e) During the six months ended June 30, 2023, board of directors fees of \$44,500 (June 30, 2022 - \$52,500) was paid to the members of the board of directors as remuneration for their services. As at June 30, 2023, \$22,250 was included in trade and other payables (December 31, 2022 - \$22,250).

Drone Delivery Canada Corp.

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

16. RESEARCH GRANTS

During the three and six months ended June 30, 2023, the Company reiterated its estimate for the refundable Ontario Innovation Tax Credit ("OITC") for qualifying scientific research and experimental development ("SR&ED") expenses. During the three months ended June 30, 2023, the 2021 claim of \$216,888 was received. OITC refundable tax credits are recognized in the profit and loss as other income. As at June 30, 2023, \$163,829 is recorded in trade and other receivables (December 31, 2022 - \$380,717).

On March 15, 2023, the Company was awarded a grant of up to \$75,000 in funding from the Downsview Aerospace Innovation and Research (DAIR) Green Fund for its clean energy drone delivery solution. The DAIR Green Fund provides financial support for collaborative projects that can demonstrate an impact on the future of aerospace through sustainable and green aviation technologies and solutions. Proceeds of \$40,000 from this grant have been applied against the Company's payroll expense included in personnel expenses.