

Drone Delivery Canada Corp.
Management's Discussion and Analysis
For the Six Months Ended June 30, 2023
Expressed in Canadian Dollars
Dated August 16, 2023

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Drone Delivery Canada Corp. (formerly Asher Resources Corporation) ("DDC" or the "Company") and constitutes management's review of the factors that affected the Company's financial and operating performance for the six months ended June 30, 2023. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2022, together with the notes thereto. Information contained herein is presented as at August 16, 2023, unless otherwise indicated.

Description of Business

Drone Delivery Canada Corp. (TSXV:FLT) is an early stage, pioneering technology company focused on designing, developing, and implementing commercially viable drone-based logistics systems. Based in Vaughan, Ontario, the Company's patented, award-winning, fully integrated hardware/software platform is intended to be used as a managed service business model. The Company is providing a turnkey logistics solution for delivery of goods, where time is of the essence, and to limit person-to-person contact. The system is airframe agnostic, meaning third party drones or manned rotary or fixed wing aircraft could potentially also be integrated into the Company's solution with engineering efforts.

The Company, first of its kind to market in North America, is scalable to operational capabilities 24 hours a day, 365 days a year and is the first cargo logistics drone operator to have received a Compliant Operator Status Certificate awarded by Transport Canada. The Company has also been granted a domestic cargo licence under the Canada Transportation Act ("CTA") and Air Transport Regulations (Canada). The Company currently has one operating drone deemed fully compliant (Sparrow), and has two other drones in development (Canary, and Condor). The Company is focusing on servicing a variety of vertical markets, including but not limited to remote communities, Indigenous communities, courier services, retail, Ecommerce, mining, oil & gas, healthcare & pharmaceutical, government, military, shore-to-ship, and construction applications in Canada and potentially internationally.

The current legislation and regulatory framework in place with respect to commercial drone use in Canada and internationally is evolving. The Company continues to work closely with Transport Canada, the Federal Aviation Administration, and other international regulators.

Highlights

Product Development

Condor

The Company is currently developing the Condor, a two-stroke gasoline helicopter. The Condor has a maximum payload of 180 kg, a range of 200 km, and a maximum take-off weight of 476 kg. The Company has sourced the airframe from a third-party manufacturer and is currently integrating its proprietary technology onto the Condor. The Condor will add to the Company's portfolio of drones and intends on initially servicing remote rural areas in Canada and potentially in international markets.

To date, the Company has successfully tested a number of systems, avionics, and components including testing related to cold-weather performance, functional testing, wind performance, cargo-area temperature profiles, long-duration flight testing, aircraft attitude, position controller tuning, autonomy, and autonomous waypoint navigation. In addition, the Company has completed the following upgrades: prototype of the new avionics'

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systems, including field testing of the components; installation of additional sensors and new flight actuators to enable enhanced autonomous operations and improved flight performance; and upgrade of the engine control unit and other mechanical systems, including flight testing of these systems. The Company has performed these test flights in Alberta, Quebec, and Ontario at its test range facility.

During the three months ended June 30, 2023, the Company continued its development of the Condor, focusing on flight testing and tuning a Condor aircraft for Innovative Solutions Canada ("ISC"), which was delivered during Q1 2023. The Condor that was delivered to ISC experienced an accident during the three months ended June 30, 2023 that resulted in a total loss of the aircraft while conducting tests during the first phase as related to the ISC contract. The Company immediately activated its emergency response plan and is nearing the conclusion of the investigation process of the incident, while working with various third-party investigators to assist in identifying the root cause of the incident. The Company has taken precautions for future planned missions to improve the collection of telemetry and other mission critical data. In addition, the Company is in the process of getting an additional Condor aircraft ready for flight testing in order to continue to service the ISC contract, while simultaneously looking at making some improvements in avionics' components.

The Company is anticipating completing endurance testing in 2023 in Foremost Alberta as part of the ISC contract. Based on the completed testing to date, the Company continues to believe it will be able to deploy the Condor in certain low-risk commercial customer pilot applications in remote and rural environments, as intended. The timing and completion of the development and commercialization of the Condor is dependent on several risk factors including, without limitation, the Company's ability to fill future staffing requirements, actual and potential pandemic-related delays, successful development and testing of certain components of the Condor, and supplier and supply chain risks. Readers are encouraged to review in detail the headings "Risks and Uncertainties" and "Forward-Looking Statements" in this MD&A, as well as risk factors set out in the Company's Annual Information Form.

Canary (Next Generation Sparrow)

The Company has been developing the Next Generation Sparrow, known as the Canary, which will provide additional use cases for drone delivery as a result of feature enhancements. The development which began in 2021 includes an onboard integrated scale and an aircraft parachute recovery system, which is expected to reduce ground risk and thereby could assist in being permitted to fly over people. The Canary will have similar payload and range capabilities of the current Sparrow, with additional functionality.

To date, the Company has tested several systems including avionics system configuration, communications with FLYTE management system, communications with the smart battery system, aircraft tuning, aircraft ground and vibration testing, propulsion system testing, on-board sensor testing, and endurance testing, while simultaneously advancing the integration of other related ground infrastructure. The Company has also field tested the parachute recovery system multiple times as well as completed drop tests to evaluate the injury severity from the kinetic energy impact of the Canary while descending under a parachute. The results of these tests have been positive with respect to the low level of injury severity potential. The Canary is equipped with an automatic trigger device that detects potential issues with the aircraft and automatically deploys the parachute under certain circumstances, which has now also been field tested. In addition, the Company has conducted extreme climate testing, including cold weather flight tests at -35 degree Celsius, hot weather flight tests at +50 degrees Celsius, high humidity tests at 95% humidity, in addition to wind tunnel testing.

During the three months ended June 30, 2023, the Company completed the final milestone in the development of the Canary, with Transport Canada accepting the Company's declaration for the Canary to now operate over people. Subsequent to June 30, 2023, the Company deployed the Canary on a test basis on the Care-by-Air route to validate the performance of the vehicle and its integration into FLYTE. The test flight on the Care-by-Air route

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resulted in a 9% reduction in flight duration, a 42% reduction in battery power consumption, and a 46% reduction in noise level as compared to the Sparrow.

FLYTE

FLYTE is the Company's proprietary flight management software and the core component of the Company's delivery platform. The Company is continually developing and enhancing FLYTE to add new functionality and use cases to further enable delivery capabilities depot-to-depot. Integration of FLYTE and other proprietary and third-party technology is a on going requirement for the Company, as such the Company will continue to invest in the development and enhancement of FLYTE on a long-term basis.

To date, the Company has tested many components of the FLYTE software, including communications between an RPA, battery charging stations, DroneSpots, and weather stations. FLYTE is currently operational for the Sparrow, and integration for the Canary has been completed subject to final production testing, with ongoing integration of FLYTE into Condor underway. The Company has been updating FLYTE to allow for further scalability from a Pilot in Command ("PIC") perspective by modifying the user interface to allow for simultaneous flights to be monitored by its Operations Control Centre.

During the three months ended June 30, 2023, the Company continued with testing of the Sparrowhawk ground-based detect and avoid ("DAA") system from Canadian UAV, which it had purchased late in fiscal 2022. The DAA system purchased from Canadian UAV has been previously approved by Transport Canada to support beyond visual line-of-sight ("BVLOS") operations and is currently being tested in its commercial operation at Halton Health Care and DSV. Furthermore, the Company continued with testing of the Canary integration into FLYTE, using the Care-by-Air route as a pilot to validate final production, which the Company concluded during the quarter.

Future Technology

The Company is currently in the process of assessing and evaluating detect and avoid ("DAA") technology for integration into the Company's drones and proprietary technology, amongst other related technologies. DAA will enable the Company to reduce air risk as defined by Transport Canada and other regulators. The Company will continue to rely on visual observers for operations that have this requirement, until such DAA technology has been developed and integrated. Although the Company is in the process of assessing and evaluating DAA technology from a technological, regulatory, and financial feasibility aspect, no assurance can be given that such DAA technology will be developed and or advanced by the Company, if the DAA technology is not feasible. The Company may ultimately use a combination of drone-based and ground based DAA with or without visual observers as required to meet the regulations of the regulator where the Company intends to operate.

Commercial Agreements

DSV Air & Sea Inc.

On October 23, 2019, with the assistance of Air Canada, the Company entered into a commercial agreement dated October 22, 2019, with DSV Air & Sea Inc. Canada ("**DSV**"). The first DSV route became operational on March 23, 2020, with an initial term of fifteen months.

On June 24, 2021, the Company announced that it had renewed the agreement between DSV and the Company on a month-to-month basis for the first DSV route, as the initial term concluded during the three months ended June 30, 2021, as defined in the original agreement.

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On March 15, 2022, the Company received approval from Transport Canada for the implementation of dangerous goods transportation with the DSV route.

On September 30, 2022, the Company and DSV agreed to cancel the monthly commercial agreement for the first DSV route. While the Company has stopped operations at the first DSV route, the Company has kept its infrastructure in place at DSV to facilitate the Halton Health Care contract. The month-to-month contract for the first DSV route represented less than 10% of the revenue for the twelve months ending December 31, 2022.

During the three months ended March 31, 2023, the Company began and completed the installation of a ground based DAA system at DSV's warehouse in Milton, Ontario. The Company intends on testing this solution in its commercial operation between DSV and Halton Healthcare, with plans for future expansion, if proven successfully. The DAA system is intended to enable BVLOS operations with the expectation of eliminating visual observers once approved by Transport Canada.

University of British Columbia

On May 20, 2021, the Company announced that it has been selected by the University of British Columbia ("UBC") to deploy DDC's patented drone delivery solution at the Stelat'en First Nation, for UBC's "Remote Communities Drone Transport Initiative ("DTI")" program. On July 15, 2021, the Company announced that it had signed a commercial agreement with UBC to deploy DDC's patented drone delivery solution between Stelat'en First Nation and the Village of Fraser Lake, located in Central Northern British Columbia, Canada. The term of the agreement was 12 months and included an upfront payment as well as recurring monthly payments. The Company began implementation of the project during the third quarter of 2021 and the route became operational as of October 18, 2021. On May 18, 2022, the Company received a Special Flight Operations Certificate ("SFOC") from Transport Canada for BVLOS operations at the Stelat'en First Nation and Fraser Lake route.

On August 4, 2022, the Company completed the implementation of dangerous goods transportation for the UBC's DTI, with all operations conducted in accordance with Transportation of Dangerous Goods ("TDG") Directorate approvals, the Canadian Aviation Regulations and Transport Canada special flight operations certificates, making DDC the first operator to be issued a TDG certificate.

On October 18, 2022, the twelve-month contract with UBC concluded, as defined in the original commercial agreement.

Edmonton International Airport

On July 8, 2021, the Company entered into commercial agreements with each of Edmonton International Airport ("EIA"), Apple Express Courier Ltd and Ziing Final Mile Inc. (the "Customers") to deploy DDC's patented drone delivery solution at the Edmonton International Airport. DDC has enabled a defined route from EIA to make deliveries off airport property utilizing the Sparrow to service the customers. The term of the agreement is 12 months and includes an upfront payment as well as recurring monthly payments. The Company began implementation of the project during the third quarter of 2021 and the route became operational as of May 26, 2022.

On May 24, 2023, the Company announced that it had secured a three-month extension between EIA and the Company.

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Bell Mobility Inc

On April 13, 2022, the Company entered into a collaboration agreement with Bell Mobility Inc. ("Bell"), to work together for a three-year term in respect of development of certain products and services in order to improve technology as it relates to 5G network and multi-access edge computing for autonomous drone performance. The collaboration will focus on the development of technologies that will evaluate, in a controlled environment, new capabilities to support Beyond Visual Line of Sight, Command and Control, Remote Identification, and Unmanned Aerial System Traffic Management, based on 5G and Multi-access Edge Compute.

Halton Healthcare

On June 17, 2022, the Company entered into agreements with each of DSV Air & Sea Inc., and Halton Healthcare Services Corporation ("Halton Healthcare") to deploy the Company's drone delivery solution to establish an additional transportation link for Oakville Hospital. This initiative was developed in collaboration with McMaster University ("MU") through DSV as their current logistics partner. MU's expertise, in the medical field, will benefit from the information and data collected throughout the project, ultimately interested in integrating drones into the nuclear isotope supply chain. The route for this pilot project is between DSV's head office in Milton and Oakville Trafalgar Memorial Hospital, otherwise known as the Care by Air route, relying on DSV's existing DroneSpot takeoff and landing infrastructure and setting up additional infrastructure at the hospital. The term of the agreement is 6 months and includes an upfront payment. The Company began implementation during the third quarter of 2022 and the route became operational effective November 7, 2022. Subsequent to June 30, 2023, the six-month contract concluded with Halton Healthcare.

Government of Canada

On March 21, 2023, the Company entered into an agreement with the Canadian Government to work with Transport Canada in operating and evaluating DDC's proprietary drone delivery platform using the Condor. The contract has a value of up to \$1.2M, is with the Canadian government's Innovative Solutions Canada ("ISC") program and is expected to be completed over three phases by December 2023. Furthermore, the contract stipulates for the delivery of a Condor aircraft to the Canadian Government and involves three phases of testing that will include: short range flights, long range endurance flights, and extreme environmental testing. The Company completed the delivery of the aircraft prior to March 31, 2023.

During the three months ended June 30, 2023, the Condor that was delivered to ISC experienced an accident that resulted in a total loss of the aircraft while conducting tests during the first phase as related to the ISC contract. The Company has additional Condor aircrafts on hand that it intends on utilizing to continue to service the test objectives of the ISC contract, however, the Company could experience delays in servicing this contract as the Company works towards getting the additional Condor aircraft ready for the test objectives.

Commercial Entry into the United States

On July 9, 2020, the Company commenced the initial steps of the process to enter the United States market as a drone delivery operator.

The Company has had numerous discussions with various potential US-based partners who have expressed positive interest in working with DDC to provide the Company's proprietary systems to support drone delivery solutions for multiple vertical markets and use-cases in multiple geographies.

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During the year ended December 31, 2021, the Company completed its evaluation of the requirements under the 55lbs MTOW (maximum take-off weight) drone class for a US-based partner to operate the Canary according to the applicable United States legislation (FAA Part 135). The Canary is currently undergoing testing and development in Canada, and will be evaluated for potential entry into the USA once commercially available in Canada. The Company will need to obtain various certifications in the USA, including a Type Certificate, Production Certificate, and Airworthiness Certificate, in addition to other requirements in order for the Canary to fly in the USA. Although the Company is in the process of testing and developing the Canary, no assurances can be given that the Canary will be developed satisfactorily from a regulatory, technological, and financial feasibility aspect that allows entry into the United States

The Company is currently permitted to conduct limited delivery operations in the United States using visual line of sight regulations under applicable United States legislation (FAA Part 107) and continues to explore US-based partnership opportunities to facilitate commercial and testing opportunities.

While the Company continues to seek potential US-based partners for commercial entry, the priority for the Company is to first achieve commercial growth in Canada as the Company continues to advance its technologies within Canada through product development and further regulatory approvals. The Company has achieved a number of regulatory approvals in Canada to date with the Sparrow, including numerous SFOC's for BVLOS operations and dangerous goods transportation for specific routes, however the Company is seeking to expand its regulatory approval on longer and more complex routes and airspace, while continuing to integrate DAA technologies for further automation of its products, which are expected to yield significant operational efficiencies. The Company believes commercial success in Canada will enable expansion into other geographical areas, however no assurances can be given that such expansions or operational efficiencies will be successful or achieved.

Additions to Management

On February 9, 2022, the Company announced the appointment of Steve Magirias as Chief Executive Officer, effective February 22, 2022. Steve brings over twenty years of experience with both mature well-established organizations and nimble entrepreneurial companies, along with a combination of talents and experiences. His experience includes a background in manufacturing, product development, quality control and operations in wholesale, retail and direct to consumer markets. Steve most recently served as Vice President of Operations at The Orthotic group and previously held the role of COO at Roma Mouldings and previous senior positions in Don Anderson Haulage, Curtiss-Wright – Indal Technologies, and Husky Injection.

In addition, effective February 22, 2022, Michael Zahra departed as President and Chief Executive Officer and resigned as a director of the Company, and accepted a position with the Advisory Board. In connection with Mr. Zahra's departure, a severance amount of \$429,000 was paid during the three months ended March 31, 2022, as per the terms of his employment agreement.

On April 7, 2022, the Company announced the departure of Steve Bogie, Vice President, Flight Operations & Technology.

On February 27, 2023, the Company announced the expiration of the consulting agreement for Richard Buzbuzian and his resignation from the Advisory Board. Mr. Buzbuzian is the former President of the Company, as well as a former director.

Corporate Update

On July 27, 2021, the Company announced that it had become the first publicly traded drone delivery company to be granted a domestic cargo licence under the Canada Transportation Act ("CTA") and Air Transport Regulations (Canada). The CTA licence is mandatory for any air carrier intending to provide scheduled, commercial air services in Canada, whether carrying cargo or passengers. Section 61(a)(i) of the CTA requires that, among other things, the Company must be able to establish at all times that at least 51% of the voting interests of the Company are owned and controlled by Canadians. The Company initially received an exemption from such rule from the Minister of Transportation until June 22, 2022.

On January 5, 2022, the Company announced that it had completed an amalgamation with its wholly owned subsidiary, 1336099 B.C. Ltd (formerly, Drone Delivery Canada Inc.), effective January 1, 2022. The amalgamated entity continued under the name "Drone Delivery Canada Corp".

On June 15, 2022, the Company filed an amendment of its notice of articles and 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 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.

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

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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.

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 "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,

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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

On June 23, 2022, the Company granted stock options to purchase an aggregate of 5,875,000 common shares of the Company exercisable at a price of \$0.56 per common share for a period of five years, to certain officers, directors, advisors, and consultants of the Company. The options shall vest 1/3 after every six months following the date of grant, and additionally options granted to officers, employees and certain advisors and consultants of the Company are subject to certain performance-based vesting criteria.

On December 15, 2022, the Company granted stock options to purchase an aggregate of 1,275,000 common shares of the Company exercisable at a price of \$0.245 per common share for a period of five years, to certain employees, of the Company. The options shall vest 1/3 after every six months following the date of grant, and additionally options granted are subject to certain performance-based vesting criteria.

Summary of Quarterly Results

A summary of selected information for each of the eight most recently completed quarters is presented below:

For the Period Ended	Revenue	Net income (loss) ^{(1) (2)}	Net loss per share, basic and diluted ^{(3) (4)}	Total Assets
2023 – June 30	175,975	(2,696,702)	(0.01)	14,541,389
2023 – March 31	575,385	(2,538,718)	(0.01)	17,373,711
2022 – December 31	237,192	(2,604,257)	(0.01)	19,748,253
2022 – September 30	247,026	(3,800,501)	(0.02)	22,740,668
2022 – June 30	199,478	(3,420,236)	(0.02)	25,937,161
2022 – March 31	142,750	(3,589,238)	(0.02)	29,189,159
2021 – December 31	115,349	(3,070,545)	(0.02)	32,959,403
2021 – September 30	6,286	(3,326,435)	(0.01)	36,079,447

⁽¹⁾ Loss from continuing operations attributable to owners of the parent, in total;

⁽²⁾ Loss attributable to owners of the parent, in total;

⁽³⁾ Loss from continuing operations attributable to owners of the parent, on a per-share and diluted basis; and

⁽⁴⁾ Loss attributable to owners of the parent, on a per-share and diluted basis.

Discussion of Operations for the three and six months ended June 30, 2023 and 2022

The following discussion includes an explanation of the primary factors in changes in revenue and operating expenses for the three and six months ended June 30, 2023, and 2022.

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	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	2023	2022	Change		2023	2022	Change	
	\$	\$	\$	%	\$	\$	\$	%
DRONE SERVICE REVENUE	175,975	199,478	(23,503)	-12%	751,360	342,228	409,132	120%
OPERATING EXPENSES								
Service Costs and materials	94,562	46,131	48,431	105%	256,902	102,863	154,039	150%
Advertising & Promotion	37,069	27,172	9,897	36%	62,146	65,339	(3,193)	-5%
Depreciation	237,302	252,504	(15,202)	-6%	475,873	488,475	(12,602)	-3%
Interest expense on lease obligations	3,724	9,676	(5,952)	-62%	8,732	19,224	(10,492)	-55%
Consulting	358,807	491,133	(132,326)	-27%	735,370	1,110,607	(375,237)	-34%
Interest and bank charges	1,843	2,195	(352)	-16%	3,788	7,629	(3,841)	-50%
Personnel Expenses	1,174,214	1,567,851	(393,637)	-25%	2,429,589	3,216,726	(787,137)	-24%
Office and general	402,809	527,163	(124,354)	-24%	740,974	978,605	(237,631)	-24%
Professional fees	89,629	204,261	(114,632)	-56%	238,223	339,009	(100,786)	-30%
Shareholder information	128,088	80,246	47,842	60%	214,392	214,998	(606)	0%
Research and development	246,208	446,288	(200,080)	-45%	571,940	746,391	(174,451)	-23%
Share based compensation	228,672	70,325	158,347	225%	472,694	188,498	284,196	151%
OPERATING EXPENSES	3,002,927	3,724,944	(722,017)	-19%	6,210,623	7,478,363	(1,267,740)	-17%
OPERATING LOSS	(2,826,952)	(3,525,466)	698,514	-20%	(5,459,263)	(7,136,135)	1,676,872	-23%
Interest Income	(135,831)	(52,441)	(83,390)	159%	(230,968)	(76,410)	(154,558)	202%
Other income		(58,590)	58,590	100%		(58,590)	58,590	100%
Foreign exchange Losses	5,581	5,801	(220)	-4%	7,125	8,338	(1,213)	-15%
NET LOSS AND COMPREHENSIVE LOSS	(2,696,702)	(3,420,236)	723,534	-21%	(5,235,420)	(7,009,474)	1,774,054	-25%

Revenue

Three Months Ended June 30, 2023 vs Three Months Ended June 30, 2022

For the three months ended June 30, 2023, revenue was \$175,975 as compared to \$199,478 for the same period last year. The decrease in revenue is due to the conclusion of the UBC, DSV, and Bell contracts that concluded subsequent to June 30, 2022, which was partially offset by the inclusion of the ISC and DSV-Halton Healthcare contracts. In addition, the EIA contract was operational for entire quarter ending June 30, 2023, but had a decrease in pricing on renewal, as compared to partially operational during the same period last year.

Six Months Ended June 30, 2023 vs Six Months Ended June 30, 2022

For the six months ended June 30, 2023, revenue was \$751,360 as compared to \$342,228 for the same period last year. The increase in revenue is due to the sale of the Condor to the Canadian Government as part of the contract with ISC, the inclusion of the DSV-Halton Healthcare contract that went operational subsequent to June 30, 2022, and the EIA contract that was fully operational during six months ended June 30, 2023, as compared to partially operational during the same period last year. The increase in revenue was partially offset due to the conclusion of the UBC, DSV, and Bell contracts.

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Operating Expenses

Three Months Ended June 30, 2023 vs Three Months Ended June 30, 2022

Operating expenses for the three months ended June 30, 2023, decreased by \$722,017 or 19% as compared to the three months ended June 30, 2022. The decrease is primarily attributed to personnel expenses, research & development, consulting, and office & general expenditures, partially offset by an increase in share-based compensation, and service costs & materials.

Personnel expenses decreased by \$393,637 or 25% due to lower staffing levels in the Company's operations, and administrative support functions, partially offset by higher wage rates. The Company currently incurs labour costs for safety pilots, visual observers, and operators for the operational control centre in connection with customer contracts for the duration of the project in addition to the implementation phase.

Research & development expenditures decreased by \$200,080 or 45% due to lower expenditures incurred for Canary, as the Company completed the last development milestone during the quarter. Furthermore, due to the crash of the Condor during the quarter while servicing the ISC contract, development work on the Condor was paused and shifted towards investigation of the root cause, utilizing internal and external resources. The Company also experienced lower expenditures on FLYTE as compared to the same period last year due to timing and completion of Canary, battery charging stations and general FLYTE development. The decrease was partially offset by increased expenditures around the integration and testing of the ground based detect and avoid system.

Consulting expenditures decreased by \$132,326 or 27% due to timing of expenditures, and lower fees experienced with specific consultants.

Office and general decreased by \$124,354 or 24% due to the lower costs incurred related to the annual general meeting, and lower administrative costs due to lower staffing levels.

Service costs and materials increased by \$48,431 or 105% due to costs related to servicing the ISC contract, an increase in repairs & maintenance on some older ground infrastructure at the Company's test site and customer related projects, partially offset by lower support cost requirements for the Company's operational control centre, and lower installation and decommissioning costs at customer projects. The Company is continually refining its requirements for its operational control centre as it continues through the commercialization of its drone delivery solution, servicing additional customer contracts and incurring repairs and maintenance. The Company incurs expenditures related to the deployment of its drone delivery solution to the customer's site, which include installation costs, transportation and materials, where the timing of such costs is dependant on a number of factors.

Share based compensation increased by \$158,347 or 225% due to timing of additional stock options granted during 2022 that have not fully vested yet as compared to the prior year.

Operating Expenses

Six Months Ended June 30, 2023 vs Six Months Ended June 30, 2022

Operating expenses for the six months ended June 30, 2023, decreased by \$1,267,740 or 17% as compared to the six months ended June 30, 2022. The decrease is primarily attributed to personnel expenses, research & development, consulting, and office & general expenditures, partially offset by an increase in share-based compensation, and service costs & materials.

Personnel expenses decreased by \$787,137 or 24% as a result of a severance amount of \$429,000 that was recorded in the prior year related the former CEO as per the terms of his employment agreement, lower staffing

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levels in the Company's operations, and administrative support functions, partially offset by higher wage rates. The Company currently incurs labour costs for safety pilots, visual observers, and operators for the operational control centre in connection with customer contracts for the duration of the project in addition to the implementation phase.

Research & development expenditures decreased by \$174,451 or 23% due to lower expenditures incurred for Canary, as the Company completed the last development milestone during the six months ended June 30, 2023. Furthermore, due to the crash of the Condor during the quarter while servicing the ISC contract, development work on the Condor was paused and shifted towards investigation of the root cause, utilizing internal and external resources. The Company also experienced lower expenditures on FLYTE as compared to the same period last year due to timing and completion of Canary, battery charging stations and general FLYTE development. The decrease was partially offset by increased expenditures around the integration and testing of the ground based detect and avoid system and Condor integration into FLYTE.

Consulting expenditures decreased by \$375,237 or 34% due to timing of expenditures, and lower fees experienced with specific consultants.

Office and general decreased by \$237,631 or 24% due to the lower costs incurred related to the annual general meeting, and lower administrative costs due to lower staffing levels.

Service costs and materials increased by \$154,039 or 150% due to the sale of a Condor drone as part of the contract with the Canadian government, an increase in repairs & maintenance on some older ground infrastructure at the Company's test site and customer related projects, partially offset by lower support cost requirements for the Company's operational control centre, and lower installation and decommissioning costs at customer projects. The Company is continually refining its requirements for its operational control centre as it continues through the commercialization of its drone delivery solution, servicing additional customer contracts and incurring repairs and maintenance. The Company incurs expenditures related to the deployment of its drone delivery solution to the customer's site, which include installation costs, transportation and materials, where the timing of such costs is dependant on a number of factors.

Share based compensation increased by \$248,196 or 151% due to timing of additional stock options granted during 2022 that have not fully vested yet as compared to the prior year.

Liquidity and Capital Resources

The Company had working capital as at June 30, 2023 of \$10,680,355 (December 31, 2022 – \$15,034,350), and cash and cash equivalent balance of \$10,646,723 (December 31, 2022 - \$15,298,794).

The Company has no credit facilities with financial institutions. Accordingly, its financial instruments consist of cash and cash equivalents, trade receivables, and trade payables. Unless otherwise noted, the Company does not expect to be exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair value of these financial instruments approximates their carrying values because of their short-term nature.

At this time, the Company is not anticipating an ongoing profit from operations, therefore it will be dependent on its ability to obtain equity or debt financing for growth. The Company may need additional capital and may raise additional funds should the board of directors of the Company (the "Board of Directors") deem it advisable. To date, the Company has had negative operating cash flow because its revenues did not exceed its operating expenses. In addition, as a result of the Company's business plans for the development of its services, the

Company expects cash flow from operations to be negative until revenues improve to offset its operating expenditures. The Company's cash flow from operations may be affected in the future by expenditures incurred by the Company to continue to develop its products and services. The amounts set out above for use as working capital may be used to offset this anticipated negative operating cash flow.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Examples of significant estimates made by management include estimating the useful life of equipment and assumptions used for share-based compensation. Actual results may differ from those estimates. A detailed summary of the Company's critical accounting estimates and sources of estimation is included in Note 2 to the December 31, 2022 audited annual consolidated financial statements.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on the results of operations or financial condition of the Company.

Capital Management

The Company manages, as capital, the components of shareholders' equity and its cash. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow or adjust the amount of cash. The Company does not anticipate the payment of dividends in the foreseeable future.

The Company considers its capital to be equity, comprising share capital, share-based payments reserve and deficit, which at June 30, 2023 totalled \$13,752,390 (December 31, 2022 - \$18,515,116). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. Information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the three and six months ended June 30, 2023.

Related Party Transactions

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:

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	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.

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).

Additional Disclosure for Venture Issuers Without Significant Revenue

Office and general for the six months ended June 30, 2023 and 2022 are comprised of the following:

Six Months Ended June 30	2023	2022
	(\$)	(\$)
Office and General	232,170	406,199
Computer and Software Expense	168,222	234,736
Travel Expense	52,981	43,927
Rent	52,825	61,717
Insurance	126,837	140,744
Utilities	80,485	68,479
Freight	27,454	22,803
	740,974	978,605

Disclosure of Outstanding Share Data

The Company's authorized share capital is unlimited variable voting shares and unlimited common voting shares without par value. As at August 16, 2023, there were 224,199,312 issued and outstanding variable voting shares and common voting shares. In addition, there were 11,285,004 share options outstanding, at exercise prices ranging from \$0.25 to \$1.70.

Risks and Uncertainties

The success of the Company is dependent, among other things, on obtaining sufficient funding to enable the Company to develop its business. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further development of its projects with the possible loss of such projects. The Company may require new capital to continue to operate its business, and there is no assurance that capital will be available when needed, if at all. It is likely such additional capital will be raised through the issuance of additional equity, which will result in dilution to the Company's shareholders.

The operations of the Company may require licenses and permits from various local, provincial and federal governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out development of its business or operations.

Certain directors or proposed directors of the Company are also directors, officers or shareholders of other companies. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest, which they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

As might be reasonably anticipated in a transportation (land, marine, air) industry and related business and

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operations, the Company may, and expects, to have occurrences from time to time, in testing, at pilot projects or at commercial operations, resulting in the full or partial loss and resulting write-off of a drone or related system hardware, employee or third party bodily injury, damage to third party property, pause in operations, pause in revenue from commercial operations, pause in regulatory licence(s), breach of contract, inability to secure future contracts, inability to raise funds, loss of brand reputation, unfavourable impact on stock price or other unfavourable impact on the Company, and/or claims for liability, for which the Company may or may not have sufficient insurance or financial ability to endure.

The Company does not have a historical track record of operating upon which investors may rely. Consequently, investors will have to rely on the expertise of the Company's management, and their own due diligence on the industry in which the Company intends to operate. The Company does not have a history of earnings or the provision of return on investment, and there is no assurance that it will produce revenue, operate profitably or provide a return on investment in the future.

COVID-19

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

Dependence on Key Employees

The Company's business and operations are dependent on retaining the services of a small number of key employees. The success of the Company is, and will continue to be, to a significant extent, dependent on the expertise and experience of these employees. The loss of one or more of these employees could have a materially adverse effect on the Company. The Company does not maintain insurance on any of its key employees.

Potential Dilution

The issue of common shares of the Company upon the exercise of the options and warrants will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional option and warrants or additional common shares from time to time in the future. If it does so, the ownership interest of the Company's then current shareholders could also be diluted.

Aviation Risks

A significant portion of the DDC business is based on the operation and flight of unmanned aerial vehicles, or "drones". The operation of any aerial vehicle may pose a risk or hazard to those both in the air and on the ground. Furthermore, this is an evolving area of business and activity and the regulatory environment for drones has not yet fully developed. As such, in the event policy changes occur respecting the operation of drones, there is a risk the Company may find itself to be in non-compliance with these new regulations. While the Company has taken measures it deems appropriate to mitigate the risks associated with these activities, and while the Company will strive to keep abreast on new regulatory changes associated with drones, there is no assurance that an incident involving one of these drones, or the Company's non-compliance with this evolving area of law and regulation, would not create a significant liability for the Company in the future.

Operational Risks

The Company will be affected by a number of operational risks and the Company may not be adequately insured for certain risks, including: cybersecurity, labour disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; and natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. A defect, error, sabotage or failure in the Company's technology, or involving the Company's products and/or services, could result in injury, death or property damage and significantly damage the Company's reputation. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's technologies or products, personal injury or death, environmental damage, adverse impacts on the Company's operation, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have a material and adverse impact on the Company's business, prospects, financial condition and results of operations. Although the Company does carry insurance for a number of risks, including but not limited to aviation, auto, and commercial general liability, the Company may be subject to or affected by liability or sustain loss for certain risks and hazards against which the Company cannot insure or which the Company may elect not to insure because of the cost. This potential lack of insurance coverage could have an adverse impact on the Company's business, prospects, results of operations and financial condition.

Current Global Financial Conditions and Trends

Securities of technology companies in public markets have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in Canada and globally, and market perceptions of the attractiveness of particular industries. The price of the securities of Companies in the technology sector are also significantly affected by proposed and newly enacted laws and regulations, currency exchange fluctuation and the political environment in the local, provincial and federal jurisdictions in which the Company does business. The economy remains in a period of significant economic volatility, which is expected to continue in the near to mid term.

Regulation and Permitting

Transport Canada is responsible for establishing, managing, and developing safety and security standards and regulations for civil aviation in Canada, and includes unmanned civil aviation (drones). Civil operations include law enforcement, scientific research, or use by private sector companies for commercial purposes. The Canadian Aviation Regulations (CARs) govern civil aviation safety and security in Canada, and by extension govern operation of drones in Canada to an acceptable level of safety.

Transport Canada continues to be a leader in the development of regulations for the commercial use of Remotely Piloted Aircraft Systems ("RPAs"), and continues to move forward rapidly with its regulatory development. It is expected that new regulations permitting low-risk BVLOS operations be published by Transport Canada in 2023. These rules will permit routine operations of more complex flights (including heavier aircraft, BVLOS operations, etc.) without requiring specific requirements.

Although failure to obtain necessary regulatory approvals from Transport Canada or other governmental agencies, including the granting of certain SFOCs, or limitations put on the use of RPAs in response to public safety concerns, may prevent the Company from testing or operating its aircraft and/or expanding its sales which could have an adverse impact on the Company's business, prospects, results of operations and financial condition, it is anticipated that the advancement of Transport Canada's new regulations will mitigate these risks.

Evolving Markets

The Company's RPAS technologies are in new and rapidly evolving markets. The commercial RPAS market is in early stages of customer adoption. Accordingly, the Company's business and future prospects may be difficult to evaluate. The Company cannot accurately predict the extent to which demand for its products and services will develop and/or increase, if at all. The challenges, risks and uncertainties frequently encountered by companies in rapidly evolving markets could impact the Company's ability to do the following:

- generate sufficient revenue to obtain and/or maintain profitability;
- acquire and maintain market share;
- achieve or manage growth in operations;
- develop and renew contracts;
- attract and retain additional engineers and other highly qualified personnel;
- successfully develop and commercially market products and services;
- adapt to new or changing policies and spending priorities of governments and government agencies; and
- access additional capital when required or on reasonable terms.

If the Company fails to address these and other challenges, risks and uncertainties successfully, its business, results of operations and financial condition would be materially harmed.

Legislative Regime

Although Transport Canada is progressing their updated RPAS regulations quickly, there is currently a limited legislation/regulatory framework in place specific to drones over 25 kg and the beyond visual line-of-sight operations of commercial drones in Canada or in the United States. All such operations are currently approved on a case-by-case basis, with company experience and safety processes being the major factors in gaining such approvals for such operations. The Company has secured the services of Canadian and United States drone regulatory experts in assessing the regulatory regimes of each country and who work with the applicable regulators to secure flight approvals. The Company continues to review the regulatory regimes in specific international jurisdictions to determine the viability of expanding operations to such other international jurisdictions.

Based on the regulatory development efforts on a global level, the Company's business plan with respect to United States and other international activities assumes a flexible legislative regime in such jurisdictions that allows such plans to be realized. If the Company cannot expand its operations in the United States or other international jurisdictions through local partners or otherwise or cannot fulfill its international business plan within the timeframes established by the Company, it could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

Industry Growth

The Company relies on industry experts and research reports to predict the potential in the drone delivery market. If such analysts have not predicted the market correctly, it can have an adverse effect on the Company's targeted customer and revenue base. As the drone industry is an evolving industry, the Company cannot accurately predict the future growth rates or sizes of these markets. Demand for these types of products and services may not increase, or may decrease, either generally or in specific markets, for particular types of products or during particular time periods. Although the Company plans to seek to expand its customer base in the future to potentially include foreign countries, governments, consumer, and commercial customers, there can be no assurance that such efforts will be successful. The expansion of the drone delivery markets in general, and the market for the Company's products and services in particular, depends on a number of factors, including but not limited to the following:

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- customer satisfaction with these types of products and services;
- the cost, performance and reliability of the Company's products and services and products and services offered by competitors;
- customer perceptions regarding the effectiveness and value of these types of products and services;
- limitations on the Company's ability to market its products and services; and
- obtaining timely regulatory approvals.

Uncertainty of New Business Models

Forecasting the revenues and profitability for new business models is inherently uncertain and volatile. The Company's actual revenues and profits for its business models may be significantly less than the Company's forecasts. Additionally, these new business models could fail for one or more of the Company's products and/or services, resulting in the loss of the Company's investment in the development and infrastructure needed to support the new business models.

Speed of Introduction of Products and Services to the Marketplace

The Company's business is dependent on the speed with which it introduces its products and services to the market. The introduction of the Company's products and services to the market is inherently difficult to manage and keep on schedule, and there can be no assurance that the Company will be able to meet its development objectives or to meet market expectations. The Company may experience substantial delays in completing the development of its products and services which could negatively impact the Company's competitiveness in the market.

Undetected Flaws

There can be no assurance that, despite testing by the Company, flaws will not be found in the Company's products and services, resulting in loss of or delay in market acceptance. The Company may be unable, for technological or other reasons, to introduce products and services in a timely manner or at all in response to changing customer requirements. In addition, there can be no assurance that while the Company is attempting to finish the development of its technologies, products and services, a competitor will not introduce similar or superior technologies, products and services, thus diminishing the Company's advantage, rendering its technologies, products and services partially or wholly obsolete, or at least requiring substantial re-engineering in order to become commercially acceptable. Failure by the Company to maintain technology, product and service introduction schedules, avoid cost overruns and undetected errors, or introduce technologies, products and services that are superior to competing technologies, products and services would have a materially adverse effect on the Company's business, prospects, financial condition, and results of operations.

Risks of Operation in Urban Areas

Although the Company currently operates in remote, rural and suburban areas, it may in the future expand operation to urban centres. Urban environments may present increased complexity and certain challenges to the operators of RPAS. Although the regulators' primary aim when issuing flight approvals is to ensure the operation is conducted safely, there remains a remote chance that RPAS may accidentally collide with other aircrafts, persons or property, which could result in injury, death or property damage and create potential liability for the Company. There can be no assurance that the Company's design of its drone delivery system or the manner in which it is used, will not result in the Company being held liable should its products and services cause any such injury, death or property damage.

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Marketing Risks

The Company believes that brand recognition is an important factor to its success. If the Company fails to promote its brand successfully, or if the expenses of doing so are disproportionate to any increased net sales it achieves, it would have a material adverse effect on the Company's business, prospects, financial condition and results of operations. This will depend largely on the Company's ability to maintain trust, be a technology leader, and continue to provide high-quality and secure technologies, products and services. Any negative publicity about the Company or its industry, the quality and reliability of the Company's technologies, products and services, the Company's risk management processes, changes to the Company's technologies, products and services, its ability to effectively manage and resolve customer complaints, its privacy and security practices, litigation, regulatory activity, and the experience of sellers and buyers with the Company's products or services, could adversely affect the Company's reputation and the confidence in and use of the Company's technologies, products and services. Harm to the Company's brand can arise from many sources, including; failure by the Company or its partners to satisfy expectations of service and quality; inadequate protection of sensitive information; compliance failures and claims; litigation and other claims; employee misconduct; and misconduct by the Company's partners, service providers, or other counterparties. If the Company does not successfully maintain a strong and trusted brand, its business could be materially and adversely affected.

Geographical Expansion

The Company faces challenges in expanding into new geographic regions. The Company currently operates in Canada, and it plans to commence operations in the United States, but may in the future seek to expand its presence in new geographic regions. Any international expansion of the Company's technologies, products and services will expose the Company to risks relating to staffing and managing cross-border operations; increased costs and difficulty protecting intellectual property and sensitive data; tariffs and other trade barriers; differing and potentially adverse tax consequences; increased and conflicting regulatory compliance requirements, including with respect to data privacy and security; lack of acceptance of the Company's technologies, products and services; challenges caused by distance, language, and cultural differences; exchange rate risk; and political instability. Accordingly, any efforts by the Company to expand its operations may not be successful, which could limit the Company's ability to grow its business.

Limited Operating History

The Company has a limited operating history on which to base an evaluation of its business, financial performance and prospects. As such, the Company's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in a relatively early stage of operation and development. As the Company is introducing new products, its revenues may be materially affected by the decisions, including timing decisions, of a relatively consolidated customer base. In addition, it is also difficult to evaluate the viability of drone technology because the Company has had limited experience to address the risks, expenses and difficulties frequently encountered by companies operating in their early stage of operation and development, particularly companies in new and rapidly evolving markets such as the Company's target markets. There can be no assurance that the Company will be successful in addressing these risks, and the failure to do so in any one area could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

Substantial Capital Requirements

Management of the Company anticipates that it may make substantial capital expenditures for the acquisition, exploration, development and production of its drone logistics technology in the future and the cash generated from its operating activity is not currently sufficient to cover such expenses. In addition, there can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or for other corporate

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purposes or, if available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on its business, prospects, financial condition, results of operations or prospects. In particular, failure to obtain financing on a timely basis could cause the Company to forfeit its interest in certain business opportunities, miss certain acquisition opportunities and reduce or terminate operations.

History of Losses

The Company has incurred net losses from the inception of its business until the date of this MD&A. The Company provides no assurance that it can become profitable or avoid net losses in the future or that there will be any earnings or revenue for any future quarterly or other periods. The Company expects that its operating expenses will increase as it grows its business, including expending substantial resources for research and development and marketing. As a result, any decrease or delay in generating revenues could result in material operating losses.

Negative Operating Cash Flow

During the financial year ended December 31, 2022, the Company had negative operating cash flow because its revenues did not exceed its operating expenses. In addition, as a result of the Company's business plans for the development of its services, the Company expects cash flow from operations to be negative until revenues improve to offset its operating expenditures. The Company's cash flow from operations may be affected in the future by expenditures incurred by the Company to continue to develop its products and services.

Risks Associated with Operations in Other Countries

The Company's primary revenues are currently achieved in Canada. However, the Company may expand to markets outside of Canada and become subject to risks normally associated with conducting business in other countries. As a result of such expansion, the Company may be subject to the legal, political, social and regulatory requirements and economic conditions of foreign jurisdictions.

The Company's business in foreign markets will require it to respond to rapid changes in market conditions in these countries. The Company's overall success as an international business depends, in part, on the Company's ability to succeed in differing legal, regulatory, economic, social and political conditions. If the Company is not able to develop and implement policies and strategies that are effective in each location in which it does business, then the Company's business, prospects, results of operations and financial condition could be materially and adversely affected.

Risks Associated with Operations in the United States

On February 14, 2012, the FAA Modernization and Reform Act of 2012 was enacted, establishing various deadlines for the Federal Aviation Administration ("FAA") to allow expanded use of small unmanned aircraft systems ("UAS") for both public and commercial applications. On June 21, 2016, the FAA released its final rules regarding the routine use of certain small UAS (under 55 pounds) in US airspace. The rules, which became effective in August 2016, provided safety regulations for UAS conducting non recreational operations and contain various limitations and restrictions for such operations, including a requirement that operators keep UAS within visual-line-of-sight and prohibiting flights over unprotected people on the ground who are not directly participating in the operation of the UAS. Furthermore, UAS operations at night are not generally permitted. Operation of UAS outside of these regulatory parameters may be permissible with a waiver issued by the FAA. As of April 21, 2021 the FAA has expanded the UAS regulations to permit flight over people and at night. The new flight over people rules require a parachute or an airworthiness certificate.

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However, waivers for beyond visual line of sight of the pilot for the purpose of for hire cargo delivery are not permitted under the 14 CFR Part 107 regulations. Cargo delivery requires compliance with the 14 CFR Part 135 air carrier rules if the delivery is carrying the cargo belonging to a third party (i.e., "for hire"). Cargo transportation of company owned material by the company can be performed under the 14 CFR Part 107 Regulations. The 14 CFR Part 135 and the new flight over people Part 107 rules require an aircraft with an airworthiness certificate that necessitates the Company's aircraft obtain a Type Certificate and Production Certificate issued by the FAA. The FAA is permitting small UAS to obtain a Type Certificate using a streamlined process that allows demonstration of reliability instead of a comprehensive traditional design approval. However, Production Certification will follow the traditional manned aircraft regulations that include the requirement for final assembly in the US. The current FAA air carrier regulations also prohibit foreign ownership so the Company will be required to partner with a US owned Part 135 operators.

As in Canada, potential limitations put on the use of small UAS in response to safety and/or public privacy concerns or failure to obtain necessary regulatory approvals from the FAA or other governmental agencies may limit the attractiveness of, or prevent the Company from, expanding operations into the United States. This could have a material adverse effect on the Company's business prospects, financial condition, and operating results.

Electronic Communication Security Risks

A significant potential vulnerability of electronic communications is the security of transmission of confidential information over public networks. Anyone who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in its operations. The Company may be required to expend capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

Uncertainty and Adverse Changes in the Economy

Adverse changes in the economy could negatively impact the Company's business. Future economic distress may result in a decrease in demand for the Company's technologies, products and services, which could have a material adverse impact on the Company's operating results and financial condition. Uncertainty and adverse changes in the economy could also increase costs associated with developing and publishing products, increase the cost and decrease the availability of sources of financing, and increase the Company's exposure to material losses from bad debts, any of which could have a material adverse impact on the financial condition and operating results of the Company.

Reliance on Components and Raw Materials

The Company obtains hardware components, various subsystems and systems, and raw materials from a limited group of suppliers. The Company does not have long-term agreements with any of these suppliers that obligate such suppliers to continue to sell components, subsystems, systems or products to the Company. The Company's reliance on these suppliers involves significant risks and uncertainties, including whether suppliers will provide an adequate supply of required raw materials, components, subsystems, or systems of sufficient quality, will increase prices for the raw materials, components, subsystems or systems and will perform their obligations on a timely basis.

In addition, certain raw materials and components used in the manufacture of the Company's products are periodically subject to supply shortages, and the Company's business is subject to the risk of price increases and periodic delays in delivery. Similarly, the market for electronic components is subject to cyclical reductions in supply. If the Company is unable to obtain components from third-party suppliers in the quantities and of the

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quality that it requires, on a timely basis and at acceptable prices, then it may not be able to deliver its products on a timely or cost-effective basis to its customers, which could cause customers to terminate their contracts with the Company, increase the Company's costs and seriously harm its business, results of operations and financial condition. Moreover, if any of the Company's suppliers become financially unstable, then it may have to find new suppliers. It may take several months to locate alternative suppliers, if required, or to redesign the Company's products to accommodate components from different suppliers. The Company may experience significant delays in manufacturing and shipping its products to customers and incur additional development, manufacturing and other costs to establish alternative sources of supply if the Company loses any of these sources or is required to redesign its products. The Company cannot predict if it will be able to obtain replacement components within the time frames that it requires at an affordable cost, if at all.

Change in Technology

Continuing technological changes related the Company's products and services could make its products and services less competitive or obsolete, either generally or for particular applications. The Company's future success will depend upon its ability to develop and introduce a variety of new capabilities and enhancements to its existing product offerings, as well as introduce a variety of new product offerings, to address the changing needs of the markets in which it offers products. Delays in introducing new products and enhancements, the failure to choose correctly among technical alternatives or the failure to offer innovative products or enhancements at competitive prices may cause existing and potential customers to purchase the products and services from the Company's competitors.

If the Company is unable to devote adequate resources to develop new products or cannot otherwise successfully develop new products and services or enhancements that meet customer requirements on a timely basis, its products and services could lose market share, its revenue and profits could decline, and the Company could experience operating losses.

Quality of Products and Services

Products and services designed and published by the Company involve extremely complex software programs, and are difficult to develop and distribute. While the Company has quality controls in place to detect defects in its products and services before they are released, these quality controls are subject to human error, overriding, and reasonable resource constraints. Therefore, these quality controls and preventative measures may not be effective in detecting defects in the Company's products and services before they have been released into the marketplace. In such an event, the Company could be required to or may find it necessary to voluntarily suspend the availability of the product or service, which could significantly harm its business and operating results.

Legal Proceedings

The Company may, from time to time in the future, become subject to legal proceedings, claims, litigation and government investigations or inquiries, which could be expensive, lengthy and disruptive to normal business operations. In addition, the outcome of any legal proceedings, claims, litigation, investigations or inquiries may be difficult to predict and could have a material adverse effect on the Company's business, prospects, operating results or financial condition.

Management's Responsibility for Financial Information

The Company's financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The financial statements were prepared by the Company's management in accordance with International Financial Reporting Standards. The financial statements include certain amounts

based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

Forward Looking Statements

This MD&A contains “forward-looking information” within the meaning of applicable Canadian securities laws (forward-looking information being collectively hereinafter referred to as “forward-looking statements”). Such forward-looking statements are based on expectations, estimates and projections as at the date of this MD&A. Any statements that involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often but not always using phrases such as “expects”, “is expected”, “anticipates”, “plans”, “budget”, “scheduled”, “forecasts”, “estimates”, “believes” or “intends”, or variations of such words and phrases (including negative and grammatical variations), or stating that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements and are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements and information concerning: the intentions, plans and future actions of the Company; statements relating to the business and future activities of the Company after the date of this MD&A; market position, ability to compete and future financial or operating performance of the Company after the date of this MD&A; anticipated developments in operations of the Company; the timing and amount of funding required to execute the Company’s business plans; capital expenditures; the effect on the Company of any changes to existing or new legislation or policy or government regulation; the length of time required to obtain permits, certifications and approvals; the availability of labour; estimated budgets; currency fluctuations; requirements for additional capital; limitations on insurance coverage; the timing and possible outcome of litigation in future periods; the timing and possible outcome of regulatory and permitting matters; goals; strategies; future growth; the adequacy of financial resources; and other events or conditions that may occur in the future.

Forward-looking statements are based on the beliefs of the Company’s management, as well as on assumptions, which such management believes to be reasonable based on information available at the time such statements were made. However, by their nature, forward-looking statements are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements are subject to a variety of risks, uncertainties and other factors which could cause actual results, performance or achievements to differ from those expressed or implied by the forward-looking statements, including, without limitation, related to the following: operational risks; regulation and permitting; evolving markets; industry growth; uncertainty of new business models; speed of introduction of products and services to the marketplace; undetected flaws; risks of operation in urban areas; marketing risks; geographical expansion; limited operating history; substantial capital requirements; history of losses; reliance on management and key employees; management of growth; risk associated with foreign operations in other countries; risks associated with acquisitions; electronic communication security risks; insurance coverage; tax risk; currency fluctuations; conflicts of interest; competitive markets; uncertainty and adverse changes in the economy; reliance on components and raw materials; change in technology; quality of products and services; maintenance of technology infrastructure; privacy protection; development costs; product defects; insufficient research and development funding; uncertainty related to exportation; legal proceedings; reliance on business partners; protection of intellectual property rights; infringement by the Company of intellectual property rights; resale of shares; market for securities; dividends; and global financial conditions.

The lists of risk factors set out in this MD&A or in the Company’s other public disclosure documents are not exhaustive of the factors that may affect any forward-looking statements of the Company. Forward-looking statements are statements about the future and are inherently uncertain. Actual results could differ materially

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from those projected in the forward-looking statements as a result of the matters set out in this MD&A generally and certain economic and business factors, some of which may be beyond the control of the Company. In addition, the global financial and credit markets have experienced significant debt and equity market and commodity price volatility which could have a particularly significant, detrimental and unpredictable effect on forward-looking statements. The Company does not intend, and does not assume any obligation, to update any forward-looking statements, other than as required by applicable law. For all of these reasons, the Company's securityholders should not place undue reliance on forward-looking statements.

Additional Information

Additional information relating to the Company, including the Company's annual information form, is available on the SEDAR website www.sedar.com.