



DRONE DELIVERY CANADA CORP.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2022 AND 2021
(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, 2022	December 31, 2021
ASSETS		
Current		
Cash and cash equivalents (Note 1)	\$ 20,918,142	\$ 27,674,955
Trade and other receivables (Note 3)	476,019	421,330
Prepaid expenses (Note 15)	564,714	505,888
	21,958,875	28,602,173
Equipment (Note 5)	2,164,414	2,296,980
Patents (Note 4)	812,051	812,462
Trademarks (Note 6)	107,824	107,383
Leasehold improvements (Note 7)	609,847	781,525
Right-of-use assets (Note 8)	284,150	358,880
TOTAL ASSETS	\$ 25,937,161	\$ 32,959,403
LIABILITIES		
Current		
Trade and other payables (Note 14)	\$ 1,266,161	\$ 1,390,285
Lease obligations - current portion (Note 9)	218,445	183,324
Deferred revenue	394,423	396,651
	1,879,029	1,970,260
Lease obligations - long-term portion (Note 9)	117,243	227,278
TOTAL LIABILITIES	1,996,272	2,197,538
EQUITY		
Share capital	96,311,976	96,311,976
Share-based payments reserve	10,706,672	10,518,174
Deficit	(83,077,759)	(76,068,285)
TOTAL EQUITY	23,940,889	30,761,865
TOTAL LIABILITIES AND EQUITY	\$ 25,937,161	\$ 32,959,403

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	
	2022	2021	2022	2021
REVENUE	\$ 199,478	\$ 18,712	\$ 342,228	213,388
OPERATING EXPENSES				
Service costs and materials	46,131	111,031	102,863	172,706
Advertising and promotion	27,172	282,452	65,339	1,526,703
Depreciation and amortization	252,504	204,993	488,475	413,271
Interest expense on lease obligations	9,676	10,669	19,224	22,403
Consulting (Note 15)	491,133	509,621	1,110,607	990,308
Impairment of equipment (Note 5)	-	-	-	43,847
Interest and bank charges	2,195	2,669	7,629	7,641
Personnel expenses (Note 15)	1,567,851	1,365,525	3,216,726	2,377,989
Office and general	527,163	336,647	978,605	716,067
Professional fees (Note 15)	204,261	115,965	339,009	230,689
Shareholder information	80,246	70,286	214,998	148,761
Research and development	446,288	565,248	746,391	933,871
Share-based compensation (Note 15)	70,325	322,311	188,498	946,344
TOTAL OPERATING EXPENSES	\$ 3,724,944	\$ 3,897,417	\$ 7,478,363	8,530,600
OPERATING LOSS	\$ (3,525,466)	\$ (3,878,705)	\$ (7,136,135)	(8,317,212)
Interest income	(52,441)	(16,605)	(76,410)	(26,821)
Other income	(58,590)	-	(58,590)	-
Foreign exchange losses	5,801	5,165	8,338	12,308
NET LOSS AND COMPREHENSIVE LOSS	\$ (3,420,236)	\$ (3,867,265)	\$ (7,009,474)	(8,302,699)
Basic and diluted loss per share (Note 13)	\$ (0.02)	\$ (0.02)	\$ (0.03)	(0.04)
Weighted average number of shares				
outstanding - basic and diluted	224,199,012	223,549,641	224,199,012	220,311,536

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	Common	Share-based Payments		
	Shares	Shares (\$)	Reserve (\$)	Deficit (\$)	Total (\$)
Balance, December 31, 2020	210,066,589	69,543,950	18,922,208	(61,368,606)	27,097,552
Exercise of broker warrants - cash	845,261	745,424	-	-	745,424
Exercise of broker warrants - valuation	-	179,399	(179,399)	-	-
Exercise of warrants - cash	3,930,500	4,873,219	-	-	4,873,219
Exercise of warrants - valuation	-	990,722	(990,722)	-	-
Exercise of options - cash	8,883,328	11,060,828	-	-	11,060,828
Exercise of options - valuation	-	8,402,121	(8,402,121)	-	-
Stock based compensation	-	-	946,344	-	946,344
Net Loss for the period	-	-	-	(8,302,699)	(8,302,699)
Balance, June 30, 2021	223,725,678	95,795,663	10,296,310	(69,671,305)	36,420,668
Balance, December 31, 2021	224,199,012	96,311,976	10,518,174	(76,068,285)	30,761,865
Stock 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

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, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
CASH (USED IN) PROVIDED BY:				
OPERATING ACTIVITIES				
Net loss for the period	\$ (3,420,236)	\$ (3,867,265)	\$ (7,009,474)	\$ (8,302,699)
Items not affecting cash:				
Depreciation of equipment and right-of-use assets	248,085	201,283	479,638	406,659
Interest expense on lease obligations	9,676	10,669	19,224	22,403
Amortization of patents	4,419	3,710	8,837	6,612
Stock-based compensation	70,325	322,311	188,498	946,344
Impairment of equipment	-	-	-	43,847
Net change in non-cash working capital:				
Trade and other receivables	(281,194)	698,680	(54,689)	471,350
Prepaid expenses	(67,554)	173,397	(58,826)	128,607
Accounts payable and accrued liabilities	151,882	373,891	(126,352)	(392,610)
NET CASH USED IN OPERATING ACTIVITIES	\$ (3,284,597)	\$ (2,083,324)	\$ (6,553,143)	\$ (6,669,487)
INVESTING ACTIVITIES				
Acquisition of equipment	(48,913)	(371,976)	(50,306)	(381,058)
Acquisition of patents and trademarks	-	(22,975)	(8,867)	(37,742)
Acquisition of leasehold improvements	(6,930)	-	(18,130)	-
NET CASH USED IN INVESTING ACTIVITIES	\$ (55,843)	\$ (394,951)	\$ (77,303)	\$ (418,800)
FINANCING ACTIVITIES				
Lease payments	(63,646)	(54,221)	(126,366)	(107,859)
Proceeds from exercise of options	-	216,667	-	11,060,828
Proceeds from exercise of warrants	-	69,000	-	4,873,219
Proceeds from exercise of broker warrants	-	-	-	745,424
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	\$ (63,646)	\$ 231,446	\$ (126,366)	\$ 16,571,612
INCREASE/(DECREASE) IN CASH	(3,404,086)	(2,246,829)	(6,756,813)	9,483,325
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	24,322,228	35,194,409	27,674,955	23,464,255
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 20,918,142	\$ 32,947,580	\$ 20,918,142	\$ 32,947,580

SUPPLEMENTARY CASH FLOW INFORMATION:

During the three and six months ended June 30, 2022 and 2021 non-cash activities were conducted by the Company as follows:

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Investing Activities				
Acquisition of right-of-use assets	\$ (32,228)	\$ (42,429)	\$ (32,228)	\$ (42,429)
Financing Activities				
Increase in lease obligation	\$ 32,228	\$ 42,429	\$ 32,228	\$ 42,429

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, 2022, the Company had cash and cash equivalents of \$20,918,142 (December 31, 2021 - \$27,674,955) and working capital of \$20,079,846 (December 31, 2021 - \$26,631,913). Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and its liabilities for the ensuing twelve months as they normally fall due.

The Company’s Common Shares are listed for trading on the TSXV under the symbol “FLT” and the Frankfurt Stock Exchange under the symbol “A2AMGZ” and are quoted on the OTCQX Venture Market in the United States under the symbol “TAKOF”.

COVID-19

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

2. BASIS OF PREPARATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, and on a basis consistent with the accounting policies disclosed in the Company’s annual audited consolidated financial statements for the year ended December 31, 2021. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC. These condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2021.

These condensed interim consolidated financial statements of the Company were approved by the Board of Directors on August 22, 2022.

Basis of Presentation

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments which are measured at fair value. All financial information is presented in Canadian dollars unless otherwise noted and is the presentation currency of the Company.

Basis of Consolidation

These condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiary Drone Delivery USA Inc. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

Drone Delivery Canada Corp.

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

3. TRADE AND OTHER RECEIVABLES

	June 30, 2022	December 31, 2021
Trade receivables	\$ 244,626	\$ 24,346
Other receivables	65,643	212,054
SR&ED tax credit receivables	165,750	184,930
	\$ 476,019	\$ 421,330

4. PATENTS

Cost

Balance, December 31, 2020	\$ 763,846
Additions	77,680
Balance, December 31, 2021	\$ 841,526
Additions	8,426
Balance, June 30, 2022	\$ 849,952

Accumulated Depreciation

Balance, December 31, 2020	\$ 13,761
Depreciation	15,303
Balance, December 31, 2021	\$ 29,064
Depreciation	8,837
Balance, June 30, 2022	\$ 37,901

Carrying Value

At December 31, 2021	\$ 812,462
At June 30, 2022	\$ 812,051

Drone Delivery Canada Corp.

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

5. EQUIPMENT

Cost	Lab & Other	Office	Flight Equipment	Assets Under Construction	Drone Parts	Total
Balance, December 31, 2020	\$ 423,987	\$ 491,595	\$ 1,117,170	\$ 422,289	\$ 256,348	\$ 2,711,389
Additions	-	-	-	107,456	381,559	489,015
Impairment of equipment	-	-	(120,677)	-	-	(120,677)
Transfers from assets under construction	-	-	378,464	(95,009)	(283,455)	-
Balance, December 31, 2021	\$ 423,987	\$ 491,595	\$ 1,374,957	\$ 434,736	\$ 354,452	\$ 3,079,727
Additions	-	-	-	26,159	24,147	50,306
Transfers from assets under construction	12,000	-	94,917	(63,052)	(43,865)	-
Balance, June 30, 2022	\$ 435,987	\$ 491,595	\$ 1,469,874	\$ 397,843	\$ 334,734	\$ 3,130,033

Accumulated Depreciation

Balance, December 31, 2020	\$ 156,092	\$ 195,737	\$ 155,996	\$ -	\$ -	\$ 507,825
Depreciation	56,357	69,500	197,816	-	-	323,673
Impairment of equipment	-	-	(48,751)	-	-	(48,751)
Balance, December 31, 2021	\$ 212,449	\$ 265,237	\$ 305,061	\$ -	\$ -	\$ 782,747
Depreciation	24,264	28,700	129,909	-	-	182,873
Balance, June 30, 2022	\$ 236,713	\$ 293,937	\$ 434,969	\$ -	\$ -	\$ 965,619

Carrying Value

At December 31, 2021	\$ 211,538	\$ 226,358	\$ 1,069,896	\$ 434,736	\$ 354,452	\$ 2,296,980
At June 30, 2022	\$ 199,274	\$ 197,658	\$ 1,034,905	\$ 397,843	\$ 334,734	\$ 2,164,414

During the year ended December 31, 2021, the Company incurred physical damages to certain Flight equipment. As a result, the Company subsequently disposed of the assets, and recorded an impairment charge of which \$43,847 was incurred during the six months ended June 30, 2021, based on the cost less accumulated amortization of the assets.

6. TRADEMARKS

Balance, December 31, 2020	\$ 94,372
Additions	13,011
Balance, December 31, 2021	\$ 107,383
Additions	441
Balance, June 30, 2022	\$ 107,824

Drone Delivery Canada Corp.

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

7. LEASEHOLD IMPROVEMENTS

Cost

Balance, December 31, 2020	\$ 1,387,641
Additions	107,666
Balance, December 31, 2021	\$ 1,495,307
Additions	18,130
Balance, June 30, 2022	\$ 1,513,437

Accumulated Depreciation

Balance, December 31, 2020	\$ 388,463
Depreciation	325,319
Balance, December 31, 2021	\$ 713,782
Depreciation	189,808
Balance, June 30, 2022	\$ 903,590

Carrying Value

At December 31, 2021	\$ 781,525
At June 30, 2022	\$ 609,847

8. RIGHT-OF-USE ASSETS

Balance, December 31, 2020	\$ 442,274
Additions	108,652
Depreciation	(192,046)
Balance, December 31, 2021	\$ 358,880
Additions	32,228
Depreciation	(106,958)
Balance, June 30, 2022	\$ 284,150

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, 2022:

Less than one year	\$ 241,480
Greater than one year	119,254
Balance, June 30, 2022	\$ 360,734

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 four facilities in Ontario, consisting of a five-year lease extension for the Company's head office, a one-year lease extension for a second office, and two-year lease extensions for its test range and new commercialization centre. The lease extensions are available to the Company should it choose to exercise its option at amount that is prevailing in the market at the time of renewal. During the six months ended June 30, 2022, The Company signed a one-year lease extension for its second facility in Vaughan, resulting in an addition to right-of-use-asset of \$32,228.

9. LEASE OBLIGATIONS

At the commencement date of the leases, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 10%, which is the Company's incremental borrowing rate. The continuity of the lease liabilities are presented in the table below:

Balance, December 31, 2020	\$ 484,137
Additions	108,652
Accretion expense	43,864
Lease payments	\$ (226,050)
Balance, December 31, 2021	\$ 410,603
Additions	32,228
Accretion expense	19,224
Lease payments	\$ (126,366)
Balance, June 30, 2022	\$ 335,688
As at June 30, 2022:	
Less than one year	\$ 218,445
Greater than one year	117,243
Total lease obligation	\$ 335,688

Occupancy Leases

In 2021, The Company entered into a lease for a drone testing facility in Vaughan, Ontario, obliging the Company to make minimum monthly lease payments of \$2,000 until December 31, 2021. On June 1, 2021, the Company extended this lease for an additional two years until December 31, 2023, increasing monthly lease payments to \$2,500.

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

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

Drone Delivery Canada Corp.

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

10. CAPITAL STOCK

(a) AUTHORIZED

The following table reflects issued and outstanding shares by class as at June 30, 2022:

	June 30, 2022	December 31, 2021
Number of variable voting shares	46,562,628	-
Number of common voting shares	177,636,384	-
Number of common shares	-	224,199,012
Total issued and outstanding shares	224,199,012	224,199,012

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, 2022, 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

Drone Delivery Canada Corp.

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

10. CAPITAL STOCK (continued)

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,

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

(b) ISSUED

On August 5, 2020, the Company closed a prospectus offering, pursuant to which it issued an aggregate of 13,225,000 units (the "August 2020 Units") which included the exercise of the full over allotment option, at a price of \$0.70 per August 2020 Unit (the "August 2020 Issue Price"), for aggregate gross proceeds of \$9,257,500.

Each August 2020 Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant a "August 2020 Warrant"). Each August 2020 Warrant, subject to customary adjustments, shall be exercisable into one common share at an exercise price of \$0.95 per common share for a period of two years from the closing of the offering, subject to certain conditions. Total cash costs of issue amounted to \$907,023.

The 6,612,500 warrants issued in conjunction with the offering carried a \$0.95 exercise price and a term of two years. These warrants were assigned a grant date fair value of \$1,529,472 using the Black-Scholes option pricing model, based on a risk-free rate of 0.27%, an expected life of 2 years, an expected volatility of 65.50% and an expected dividend yield of 0%.

The underwriters were issued an aggregate of 793,500 broker warrants and were paid a cash commission equal to 6% of the gross proceeds raised in respect of the August 5, 2020 prospectus offering. Each broker warrant entitles the holder to one August 2020 Unit at the August 2020 Issue Price until August 5, 2022. The 793,500 broker warrants issued in conjunction with the offering carried a \$0.70 exercise price and a term of two years. These broker warrants were assigned a grant date fair value of \$243,605 using the Black-Scholes option pricing model, based on a risk-free rate of 0.27%, an expected life of 2 years, an expected volatility of 65.50% and an expected dividend yield of 0%.

On December 22, 2020, the Company closed a second prospectus offering in the fiscal year, pursuant to which it issued an aggregate of 15,686,000 units (the "December 2020 Units") which included the exercise of the full over allotment option, at a price of \$0.88 per December 2020 Unit (the "December 2020 Issue Price"), for aggregate gross proceeds of \$13,803,680. Each December 2020 Unit consisted of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant a "December 2020 Warrant"). Each December 2020 Warrant, subject to customary adjustments, shall be exercisable into one common share at an exercise price of \$1.20 per common share for a period of two years from the closing of the offering, subject to certain conditions. Total cash costs of issue amounted to \$1,147,861.

The 7,843,000 warrants issued in conjunction with the offering carried a \$1.20 exercise price and a term of two years. These warrants were assigned a grant date fair value of \$1,534,874 using the Black-Scholes option pricing model, based on a risk-free rate of 0.22%, an expected life of 2 years, an expected volatility of 63.70% and an expected dividend yield of 0%.

The underwriters were issued an aggregate of 941,160 broker warrants and were paid a cash commission equal to 6% of the gross proceeds raised in respect of the December 22, 2020 prospectus offering. Each broker warrant entitles the holder to one December 2020 Unit at the December 2020 Issue Price until December 22, 2022. The 941,160 broker warrants issued in conjunction with the offering carried a \$0.88 exercise price and a term of two years. These broker warrants were assigned a grant date fair value of \$257,877 using the Black-Scholes option pricing model, based on a risk-free rate of 0.22%, an expected life of 2 years, an expected volatility of 63.70% and an expected dividend yield of 0%.

Drone Delivery Canada Corp.

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

11. STOCK OPTIONS

The following table reflects the continuity of stock options for the six months ended June 30, 2022 and 2021:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2020	16,975,000 \$	1.12
Exercised	(8,883,328)	1.25
Granted	300,000	1.70
Balance, June 30, 2021	8,391,672 \$	1.02
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

During the three and six months ended June 30, 2022 the Company granted 5,875,000 (six months ended June 31, 2021 - 300,000) options to purchase common shares of the Company to certain directors, officers, employees, and consultants. Each option is exercisable at a price of \$0.56 (March 31, 2021 - \$1.70) for a five-year term. The fair value of \$1,898,800 (June 30, 2021 - \$335,320) was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield \$nil (June 30, 2021 - 0%); expected volatility of 66.3% (June 30, 2021 - 79%); a risk-free rate of return of 3.16% (June 30, 2021 - 0.61%) and expected life of 5 years (June 30, 2021 - 5 years). The options vest at a rate of one-third every six months from the date of the grant. In addition, 40% of the stock options granted to officers, employees and consultants are subject to performance-based criteria that are non-market based and are developmental criteria to further advance the Company's technology.

The following table reflects options outstanding as at June 30, 2022:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Options Outstanding
July 20, 2022	0.50	0.05 years	600,000
January 5, 2023	1.00	0.52 years	420,000
March 2, 2023	1.80	0.67 years	1,575,000
August 30, 2024	1.00	2.17 years	2,041,670
September 24, 2025	0.70	3.24 years	2,120,001
November 9, 2025	0.70	3.36 years	720,000
February 4, 2026	1.70	3.60 years	200,000
March 4, 2026	1.70	3.68 years	100,000
June 23, 2027	0.56	4.98 years	5,875,000
Balance, June 30, 2022	0.59	3.33 years	13,651,671

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, 2020	21,265,261 \$	1.16
Issued	422,631	1.17
Exercised	(4,775,761)	1.18
Expired	(3,380,213)	1.49
Balance, June 30, 2021	13,531,918 \$	1.07
Balance, December 31, 2021	13,531,918 \$	1.07
Balance, June 30, 2022	13,531,918 \$	1.07

During the six months ended June 30, 2021, 4,718,261 warrants were exercised into common shares of the company for proceeds of \$5,549,643. The warrants exercised included 845,262 broker warrants, which yielded an issuance of 422,631 warrants. On March 25, 2021, 3,380,213 warrants expired unexercised.

The following table reflects the warrants outstanding as at June 30, 2022:

Expiry Date	Type	Exercise Price	Weighted Average Life Remaining	Warrants Outstanding	Black - Scholes Value
August 5, 2022	Broker Warrant	0.70	0.10	436,425	170,523
August 5, 2022	Warrant	0.95	0.10	5,506,051	1,269,654
December 22, 2022	Broker Warrant	0.88	0.48	658,812	206,302
December 22, 2022	Warrant	1.20	0.48	6,930,630	1,365,965
		\$ 1.07	0.31	13,531,918	\$ 3,012,444

On August 5, 2020, the underwriters were issued an aggregate of 793,500 broker warrants in respect of the August 5, 2020 prospectus offering. Each broker warrant entitles the holder to one August 2020 Unit at the August 2020 Issue Price until August 5, 2022. The 793,500 broker warrants issued in conjunction with the offering carried a \$0.70 exercise price and a term of two years. These broker warrants were assigned a grant date fair value of \$243,605 using the Black-Scholes option pricing model, based on a risk-free rate of 0.27%, an expected life of 2 years, an expected volatility of 65.50% and an expected dividend yield of 0%.

On December 22, 2020, the underwriters were issued an aggregate of 941,160 broker warrants in respect of the December 22, 2020 prospectus offering. Each broker warrant entitles the holder to one December 2020 Unit at the December 2020 Issue Price until December 22, 2022. The 941,160 broker warrants issued in conjunction with the offering carried a \$0.88 exercise price and a term of two years. These broker warrants were assigned a grant date fair value of \$257,878 using the Black-Scholes option pricing model, based on a risk-free rate of 0.22%, an expected life of 2 years, an expected volatility of 63.70% and an expected dividend yield of 0%.

Drone Delivery Canada Corp.

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

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, 2022 and 2021.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

The Company's financial instruments include cash and cash equivalents, trade receivables, trade and other payables, and lease obligations.

The carrying amounts shown in the statement of financial position are as follows:

	Category		June 30, 2022		December 31, 2021
Cash and cash equivalents	FVTPL	\$	20,918,142	\$	27,674,955
Trade receivables	Amortized Cost	\$	244,626	\$	24,346
Trade and other payables	Amortized Cost	\$	1,266,161	\$	1,390,285
Lease obligation	Amortized Cost	\$	335,688	\$	410,602

Financial Instruments

IFRS 7 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurements as follows:

Level 1 - applied to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 - applies to assets or liabilities for which there are unobservable market data.

The carrying value of trade receivables, trade and other payables approximate their fair value due to the short-term nature of these instruments. Pursuant to IFRS 7, the fair value of cash and cash equivalents is measured on a recurring basis based on Level 1 inputs.

Risk Management Disclosures

The Company is exposed to risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Company is exposed is described below.

Financial Risks

Risk management is carried out by the Company's management team under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Drone Delivery Canada Corp.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

	June 30, 2022	June 30, 2021
Consulting fees and salaries	\$ 1,511,374	\$ 1,341,975
Share based compensation	99,225	626,234
	\$ 1,610,599	\$ 1,968,209

During the six months ended June 30, 2022 and 2021, the Company allocated the \$1,511,374 (2021 - \$ 1,341,975) of consulting fees and salaries based on the nature of services provided: expensed \$660,000 (2021 - \$748,000) to consulting; and expensed \$851,374 (2021 - \$593,975) to personnel expenses, of which \$429,000 relates to the severance payment for the former CEO.

As at June 30, 2022, consulting fees of \$26,555 (December 31, 2021 - \$389,800) remain unpaid are included in trade and other payables. Consulting fees of \$nil (December 31, 2021 - \$23,500) paid in advance are included in prepaid expenses.

The Company has an employment agreement with its CEO which provides that in the event the CEO's employment is terminated by the Company without cause, (i) a lump sum payment equal to 12 months' salary, or (ii) within twenty four months of, or in anticipation within 180 days of, a change in control, a termination payment equal to 18 months' salary, at \$325,000 per annum, is payable. If the termination had occurred on June 30, 2022, the amount payable under this agreement would be \$325,000 per annum.

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, 2022 representing a minimum payment of \$108,000), or (ii) by the Company within twelve months following or within 180 before in anticipation of a change in control, a lump-sum payment equal to twelve months' salary (as at June 30, 2022 representing a payment of \$216,000).

The Company has consulting agreements with a corporation controlled by a former director, a corporation controlled by a former Vice President, a corporation controlled by the former Chief Executive Officer and a corporation controlled by the former Chief Technology Officer, which provide that in the event the consulting agreements are terminated without cause, a termination payment for consulting fees for the remainder of the term, ranging from \$210,000 to \$282,000 per annum depending on the agreement, is payable. If all such terminations had occurred on June 30, 2021, the total amount payable under the agreements would be \$1,102,500.

Drone Delivery Canada Corp.

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

15. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

- b) During the six months ended June 30, 2022, rent of \$25,538 (June 30, 2021 - \$ 16,567) 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, 2022, \$nil was included in prepaid expenses (December 31, 2021 - \$2,767).
- c) During the six months ended June 30, 2022, marketing and advertising expenses of \$10,000 (June 30, 2021 - \$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, 2022, legal fees of \$253,881 (June 30, 2021 - \$158,254) were accrued or paid to a law firm in which a director of the Company is a partner. As at June 30, 2022, \$37,468 was included in accounts payable and accrued liabilities (December 31, 2021 - \$25,216).
- e) During the six months ended June 30, 2022, board of directors fees of \$52,500 (June 30, 2021 - \$22,250) was paid to the members of the board of directors as remuneration for their services. As at June 30, 2022, \$22,250 was included in accounts payable and accrued liabilities (December 31, 2021 - \$22,250).

16. RESEARCH GRANTS

During the three and six months ended June 30, 2022, the Company revised its estimate for the refundable Ontario Innovation Tax Credit ("OITC") for qualifying scientific research and experimental development ("SR&ED") expenses, and recorded an additional amount of \$58,590. OITC refundable tax credits are recognized in the profit and loss as other income. As at June 30, 2022, \$165,750 is recorded in trade and other receivables.