



DRONE DELIVERY CANADA CORP.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021



Independent Auditor's Report

To the Shareholders of Drone Delivery Canada Corp.

Opinion

We have audited the consolidated financial statements of Drone Delivery Canada Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and December 31, 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of Impairment Indicators of Long Lived Assets

Description

Management assesses whether there are indicators of impairment to long lived assets at each reporting period. Management applies judgement in assessing whether impairment indicators are present. Management identified specific assets valued at \$59,289 with physical damage and an impairment charge was recorded. No other impairment indicators were identified by management as at December 31, 2022.

This matter was significant to our audit because the carrying value of the Company's long lived assets at December 31, 2022, was \$ 3,500,581, which represents a significant portion of the Company's total assets and management applies significant judgement in assessing whether impairment indicators are present. See Notes 5, 6, 7, 8, and 9 to the consolidated financial statements.

How the Key Audit Matter Was Addressed in the Audit

We evaluated the Company's assessment as to whether there were any indicators of impairment to require the carrying value of long lived assets to be tested for impairment. Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements.



In performing our audit procedures, we evaluated the reasonableness of management's assessment of impairment indicators related to significant changes in the design, development and implementation of a commercially viable drone-based logistics systems, significant negative technological, market, economic or legal trends including obtaining applicable licenses and permits from various governmental authorities, the amount of revenue generating agreements compared to expectations, the Company's ability to continue to obtain funding to enable further development of its projects and the carrying amount of the net assets of the Company compared to its market capitalisation.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Carly Bergman.

Vancouver, B.C.
March 20, 2023

"D&H Group LLP"

Chartered Professional Accountants

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Drone Delivery Canada Corp. (the "Company") were prepared by management in accordance with International Financial Reporting Standards. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB").

Management has established processes which are in place to provide them with sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated 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 consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the 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 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 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.

Drone Delivery Canada Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Year Ended December 31,	
	2022	2021
ASSETS		
Current		
Cash and cash equivalents (Note 3)	\$ 15,298,794	\$ 27,674,955
Trade and other receivables (Note 4)	486,664	421,330
Inventory	118,624	-
Prepaid expenses (Note 17)	343,590	505,888
	16,247,672	28,602,173
Equipment (Note 6)	2,018,824	2,296,980
Patents (Note 5)	771,078	812,462
Trademarks (Note 7)	107,383	107,383
Leasehold improvements (Note 8)	424,332	781,525
Right-of-use assets (Note 9)	178,964	358,880
TOTAL ASSETS	\$ 19,748,253	\$ 32,959,403
LIABILITIES		
Current		
Trade and other payables (Note 17)	\$ 909,917	\$ 1,390,285
Lease obligations - current portion (Note 10)	200,200	183,324
Deferred revenue	103,205	396,651
	1,213,322	1,970,260
Lease obligations - long-term portion (Note 10)	19,815	227,278
TOTAL LIABILITIES	1,233,137	2,197,538
EQUITY		
Share capital	96,312,330	96,311,976
Share-based payments reserve	11,685,302	10,518,174
Deficit	(89,482,516)	(76,068,285)
TOTAL EQUITY	18,515,116	30,761,865
TOTAL LIABILITIES AND EQUITY	\$ 19,748,253	\$ 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 consolidated financial statements.

Drone Delivery Canada Corp.**Consolidated Statements of Loss and Comprehensive Loss****(Expressed in Canadian dollars)**

		Year Ended December 31,	
		2022	2021
REVENUE	\$	826,446 \$	335,023
OPERATING EXPENSES			
Service costs and materials		225,128	347,241
Advertising and promotion		159,710	1,676,191
Depreciation and amortization		1,006,582	856,341
Interest expense on lease obligations		33,527	43,864
Consulting (Note 17)		1,869,169	2,035,369
Impairment of equipment (Note 6)		59,289	71,926
Interest and bank charges		12,323	11,165
Personnel expenses (Note 17)		5,812,757	4,838,246
Office and general		1,747,278	1,695,426
Professional fees (Note 17)		534,563	435,550
Shareholder information		320,267	271,261
Research and development		1,954,860	1,627,842
Share-based compensation (Note 17)		1,167,197	1,353,187
TOTAL OPERATING EXPENSES	\$	14,902,650 \$	15,263,609
OPERATING LOSS	\$	(14,076,204) \$	(14,928,586)
Interest income		(297,345)	(61,842)
Other income (Note 19)		(386,630)	(184,930)
Foreign exchange losses		22,002	17,865
NET LOSS AND COMPREHENSIVE LOSS	\$	(13,414,231) \$	(14,699,679)
Basic and diluted loss per share (Note 14)	\$	(0.06) \$	(0.07)
Weighted average number of shares			
outstanding - basic and diluted		224,199,176	222,139,166

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

Drone Delivery Canada Corp.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	Number of Shares	Share Capital (\$)	Share-based Payments Reserve (\$)	Deficit (\$)	Total (\$)
Balance, December 31, 2020	210,066,589	69,543,950	18,922,208	(61,368,606)	27,097,552
Exercise of broker warrants - cash	845,261	745,424	-	-	745,424
Exercise of broker warrants - valuation	-	179,399	(179,399)	-	-
Exercise of warrants - cash	3,930,500	4,873,219	-	-	4,873,219
Exercise of warrants - valuation	-	990,722	(990,722)	-	-
Exercise of options - cash	9,356,662	11,392,162	-	-	11,392,162
Exercise of options - valuation	-	8,587,100	(8,587,100)	-	-
Share-based compensation	-	-	1,353,187	-	1,353,187
Net Loss for the year	-	-	-	(14,699,679)	(14,699,679)
Balance, December 31, 2021	224,199,012	96,311,976	10,518,174	(76,068,285)	30,761,865
Exercise of warrants - cash	300	285	-	-	285
Exercise of warrants - valuation	-	69	(69)	-	-
Share-based compensation	-	-	1,167,197	-	1,167,197
Net Loss for the year	-	-	-	(13,414,231)	(13,414,231)
Balance, December 31, 2022	224,199,312	96,312,330	11,685,302	(89,482,516)	18,515,116

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

Drone Delivery Canada Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended December 31,	
	2022	2021
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the year	\$ (13,414,231)	\$ (14,699,679)
Items not affecting cash:		
Depreciation of equipment, leasehold improvements and right-of-use assets	965,198	841,038
Interest expense on lease obligations	33,527	43,864
Amortization of patents	41,384	15,303
Share-based compensation	1,167,197	1,353,187
Impairment of equipment	59,289	71,926
Net change in non-cash working capital:		
Trade and other receivables	(65,334)	101,518
Prepaid expenses	162,297	386,876
Inventory	(118,624)	-
Trade and other payables	(773,814)	(714)
NET CASH USED IN OPERATING ACTIVITIES	\$ (11,943,111)	\$ (11,886,681)
INVESTING ACTIVITIES		
Acquisition of equipment	(149,379)	(489,015)
Acquisition of patents and trademarks	-	(90,691)
Acquisition of leasehold improvements	(27,615)	(107,666)
NET CASH USED IN INVESTING ACTIVITIES	\$ (176,994)	\$ (687,372)
FINANCING ACTIVITIES		
Lease payments	(256,341)	(226,052)
Proceeds from exercise of options	-	11,392,162
Proceeds from exercise of warrants	285	4,873,219
Proceeds from exercise of broker warrants	-	745,424
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	\$ (256,056)	\$ 16,784,753
(DECREASE) INCREASE IN CASH	(12,376,161)	4,210,700
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,674,955	23,464,255
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 15,298,794	\$ 27,674,955

SUPPLEMENTARY CASH FLOW INFORMATION:

During fiscal 2022 and 2021, non-cash activities were conducted by the Company as follows:

	2022	2021
Investing Activities		
Acquisition of right-of-use assets	\$ (32,228)	\$ (108,652)
Financing Activities		
Increase in lease obligation	\$ 32,228	\$ 108,652

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

Drone Delivery Canada Corp.

Notes to Consolidated Financial Statements (Expressed in Canadian dollars)

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 December 31, 2022, the Company had cash and cash equivalents of \$15,298,794 (December 31, 2021 - \$27,674,955) and working capital of \$15,034,350 (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 Voting Shares and Variable Voting Shares are listed for trading on the TSXV under the symbol “FLT” and the Frankfurt Stock Exchange under the symbol “A3DP5Y” and are quoted on the OTCQX Venture Market in the United States under the symbol “TAKOF”.

COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. Federal, provincial, and local authorities in Canada, the United States, and other nations continue to significantly restrict the ability of people to leave their homes and carry out normal day-to-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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Committee (“IFRIC”).

The consolidated financial statements of the Company were approved by the Board of Directors on March 20, 2023.

Basis of Presentation

These 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.

Critical Judgments and Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. BASIS OF PREPARATION (continued)

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- (a) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- (b) The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of the right-of-use assets and lease liabilities, and the resulting interest and depreciation expense. Actual results could differ significantly as a result of these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:
 - Incremental borrowing rate: The rates used to present value of future lease payments are based on judgments about the economic environment in which the Company operates and theoretical analyses about the security provided by the underlying leased asset, the amount of funds required to be borrowed in order to meet the future lease payments associated with the leased asset, and the term for which these funds would be borrowed.
 - Lease term: In determining the period in which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.
- (c) Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Determining the fair value of such share-based awards requires judgment as to the appropriate valuation model and the inputs for the model require assumptions including the rate of forfeiture of options granted, the expected life of the option, the expected volatility of the Company's share price, the risk-free interest rate and expected dividends.
- (d) Amounts recorded for depreciation and amortization expense are based on the Company's componentization of its property and equipment and intangible assets and management's estimates of the useful life, pattern of consumption of future economic benefits of the Company's property and equipment and intangible assets. These estimates affect the carrying amount of property and equipment and intangible assets.
- (e) Depreciation and amortization are calculated to write off the cost, less estimated residual value, of assets on a systematic and rational basis over their expected useful lives. Estimates of residual value and useful lives are based on data and information from various sources including industry practice and management's expectations. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions. Although management believes the estimated useful lives of the Company's property and equipment and intangible assets are reasonable, it is possible that changes in estimates could occur, which may affect the expected useful lives and salvage values of the property and equipment and intangible assets.

2. BASIS OF PREPARATION (continued)

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (a) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- (b) Depreciation and amortization expense is allocated based on assumed useful life of the equipment, leasehold improvements, right-of-use assets and patents. Should the useful life differ from the initial estimate, an adjustment would be made to the statement of comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

These 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.

Cash and Cash Equivalents

Cash includes cash in bank and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. As at December 31, 2022, the Company had cash equivalents of \$13,879,456, consisting of general investment certificates and money market mutual funds (2021 - \$26,099,250).

Equipment

Equipment is recorded at cost less accumulated depreciation. Depreciation is recorded using the following rates and methods so as to recognize the costs of assets over their useful lives:

Automobile	25%	Declining balance
Lab	15% to 25%	Declining balance and straight line
Office equipment	25%	Declining balance
Flight equipment	10% to 33%	Straight-line

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets under construction are measured at cost and consist of drone units and drone support infrastructure under construction. Assets under construction are not amortized until completed, commissioned, and ready for use. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statement of comprehensive income or loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of flight equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

The Company compares the carrying value of equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories include expenditures in acquiring the components for drones.

Leasehold Improvements

Leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the term of the related lease using the straight-line method.

Patents

Patents are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful life of the patents. Amortization shall be recorded when the patent process is complete and the patents have been approved.

Trademarks

Trademarks are recorded at cost. The Company expects to renew the trademarks at each expiry date indefinitely, and expects these assets to generate economic benefit in perpetuity. As such, the Company has assessed these trademarks to have indefinite useful lives.

Internally Generated Intangible Assets - Research and Development Expenditures

Expenditures on research activities are recognized as an expense in the period incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- Understanding of how the intangible asset will generate probable future economic benefits;
- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and,
- The ability to reliably measure the expenditure attributable to the intangible asset during its development.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The amount initially recognized for internally generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above.

Where no internally generated intangible asset can be recognized, development expenditures are recognized in profit or loss in the period incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Revenue Recognition

The Company's commercial operations consist of drone related services to various customers. All revenue relating to drone services is recognized as the Company satisfies its performance obligation over time or a point in time depending on the customer contract in the statement of loss (income). Revenue is recognized over proportionate billing days completed compared to the total contracted billing days for contracts related to drone delivery services. Where payments are received in advance of completing the corresponding performance obligation, the amount is recognized as deferred revenue until such performance obligations are completed. The Company expects to recognize \$178,205 (December 31, 2021 - \$784,551) of revenue related to performance obligations that are unsatisfied as of December 31, 2022.

Income Taxes

Deferred income taxes are provided in full, using the liability method, on temporary differences arising between the income tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using income tax rates and income tax laws that have been enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Trade and other payables

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Financial Instruments

(a) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in profit or loss in the period in which they arise.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise.

(c) Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the consolidated statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(d) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss

Share Capital

Voting shares issued by the Company are classified as equity. Costs directly attributable to the issuance of voting shares are recognized as a deduction from equity. Cash received for voting shares yet to be issued is recorded as share subscriptions received when a legal obligation to issue the shares exists.

Share-based Payments

The fair value, at the grant date, of equity-settled share awards is charged to comprehensive loss over the period for which the benefits of employees and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in the share award reserve. The fair value of awards is calculated using an option pricing model which considers the following factors:

- Exercise price
- Expected volatility
- Risk-free interest rate
- Expected life of the award
- Current market price of the underlying shares
- Expected forfeitures

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity Financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and develop a commercially viable drone delivery system. These equity financing transactions may involve issuance of voting shares or units. Units typically comprise a certain number of voting shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional voting shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying voting shares and share purchase warrants issued as private placement units. The fair value of the share purchase warrants issued in private placements is determined by an option pricing model, calculated on the announcement date. The balance, if any, is allocated to the attached voting shares.

Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

Government grants and investment tax credits

Amounts received or receivable resulting from government assistance programs are recognized when there is reasonable assurance that the amount of government assistance will be received, and all attached conditions will be complied with. When the amount relates to an expense item, it is recognized into income as reduction to the costs that it is intended to compensate. When the amount relates to an asset, it reduces the carrying amount of the asset and is then recognized as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

Investment tax credits ("ITCs") receivable are amounts refundable from the Canadian federal and provincial governments under the Scientific Research & Experimental Development ("SR&ED") incentive program. The amounts claimed under the program represent the amounts submitted by management based on research and development costs paid during the year and included a number of estimates and assumptions made by management in determining the eligible expenditures. ITCs are recorded on the profit and loss as other income, when there is reasonable assurance that the Company will realize the ITCs. Recorded ITCs are subject to review and approval by tax authorities and, therefore, could be different from the amounts recorded.

4. TRADE AND OTHER RECEIVABLES

	December 31, 2022	December 31 2021
Trade receivables	\$ 24,390	\$ 24,346
GST/HST receivable	81,557	212,054
SR&ED tax credit receivable	380,717	184,930
	\$ 486,664	\$ 421,330

The Company's exposures to credit risk related to trade and other receivables are disclosed in Note 15.

Drone Delivery Canada Corp.
Notes to Consolidated Financial Statements
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5. PATENTS

Cost

Balance, December 31, 2020	\$	763,846
Additions		77,680
Balance, December 31, 2021	\$	841,526
Additions		-
Balance, December 31, 2022	\$	841,526

Accumulated Amortization

Balance, December 31, 2020	\$	13,761
Amortization		15,303
Balance, December 31, 2021	\$	29,064
Amortization		41,384
Balance, December 31, 2022	\$	70,448

Carrying Value

At December 31, 2021	\$	812,462
At December 31, 2022	\$	771,078

Drone Delivery Canada Corp.

Notes to Consolidated Financial Statements

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6. 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	-	-	-	42,598	106,781	149,379
Impairment of equipment	-	-	(53,813)	(30,752)	-	(84,565)
Transfers from assets under construction	33,404	-	133,583	(123,121)	(43,866)	-
Balance, December 31, 2022	\$ 457,391	\$ 491,595	\$ 1,454,727	\$ 323,461	\$ 417,367	\$ 3,144,541

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	47,038	53,993	267,215	-	-	368,246
Impairment of equipment	-	-	(25,276)	-	-	(25,276)
Balance, December 31, 2022	\$ 259,487	\$ 319,230	\$ 547,000	\$ -	\$ -	\$ 1,125,717

Carrying Value

At December 31, 2021	\$ 211,538	\$ 226,358	\$ 1,069,896	\$ 434,736	\$ 354,452	\$ 2,296,980
At December 31, 2022	\$ 197,904	\$ 172,365	\$ 907,727	\$ 323,461	\$ 417,367	\$ 2,018,824

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

Drone Delivery Canada Corp.
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7. TRADEMARKS

Balance, December 31, 2020	\$ 94,372
Additions	13,011
Balance, December 31, 2021	\$ 107,383
Additions	-
Balance, December 31, 2022	\$ 107,383

8. LEASEHOLD IMPROVEMENTS

Balance, December 31, 2020	\$ 1,387,641
Additions	107,666
Balance, December 31, 2021	\$ 1,495,307
Additions	27,615
Balance, December 31, 2022	\$ 1,522,922

Accumulated Depreciation

Balance, December 31, 2020	\$ 388,463
Depreciation	325,319
Balance, December 31, 2021	\$ 713,782
Depreciation	384,808
Balance, December 31, 2022	\$ 1,098,590

Carrying Value

At December 31, 2021	\$ 781,525
At December 31, 2022	\$ 424,332

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9. 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		(212,144)
Balance, December 31, 2022	\$	178,964

Right-of-use assets consists of office, vehicles, testing and operational facility leases and are amortized over an average useful life of 46 months.

Maturity Analysis - Contractual Undiscounted Cash Flows

As at December 31, 2022:		
Less than one year	\$	212,560
Greater than one year		19,550
Balance, December 31, 2022	\$	232,110

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 year, the Company signed a one-year lease extension for its second office, resulting in an addition to right-of-use-asset of \$32,228.

10. 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		(226,051)
Balance, December 31, 2021	\$	410,602
Additions		32,228
Accretion expense		33,527
Lease payments	\$	(256,342)
Balance, December 31, 2022	\$	220,015
As at December 31, 2022:		
Less than one year	\$	200,200
Greater than one year		19,815
Total lease obligation	\$	220,015

During the year ended December 31, 2022, the Company incurred \$98,040 for leases with variable lease payments not included in lease liabilities. This amount is reassessed annually based on actual costs incurred. In addition, the Company paid \$ 38,097 and \$17,140 for low-value and short-term leases, respectively.

Occupancy Leases

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

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11. CAPITAL STOCK

The following table reflects issued and outstanding shares by class as at December 31, 2022:

	December 31, 2022	December 31, 2021
Number of variable voting shares	48,516,154	-
Number of common voting shares	175,683,158	-
Number of common shares	-	224,199,012
Total issued and outstanding shares	224,199,312	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 December 31, 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

11. CAPITAL STOCK (continued)

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,

11. 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.

12. STOCK OPTIONS

The following table reflects the continuity of stock options for the year ended December 31, 2022 and 2021:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2020	16,975,000 \$	1.12
Granted	(9,356,662)	1.22
Expired	(13,333)	0.70
Exercised	300,000	1.70
Balance, December 31, 2021	7,905,005 \$	1.04
Forefeited	(131,667)	0.59
Expired	(856,667)	0.57
Granted	7,150,000	0.50
Balance, December 31, 2022	14,066,671 \$	0.80

During the year ended December 31, 2021, the Company granted 300,000 options to purchase common shares of the Company to certain consultants and employees. Each option is exercisable at a price of \$1.70 for a five-year term. The fair value of \$335,320 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%; expected volatility of 79.0%; a risk-free rate of return of 0.61% and expected life of 5 years. The options vest at a rate of one third every six months from the date of the grant.

On June 23, 2022, the Company granted 5,875,000 options to purchase voting shares of the Company to certain directors, officers, employees, and consultants. Each option is exercisable at a price of \$0.56 for a five-year term. The fair value of \$1,898,800 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0% ; expected volatility of 66.3% ; a risk-free rate of return of 3.16% and expected life of 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 related to developmental criteria to further advance the Company's technology.

On December 15, 2022 the Company granted 1,275,000 options to voting common shares of the Company to certain employees, and consultants. Each option is exercisable at a price of \$0.245 for a five-year term. The fair value of \$174,803 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0% ; expected volatility of 64.0% ; a risk-free rate of return of 2.90%; an expected forfeiture rate of 48% and expected life of 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 employees and consultants are subject to performance-based criteria that are non-market based related to developmental criteria to further advance the Company's technology.

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12. STOCK OPTIONS (continued)

Subsequent to December 31, 2022, 420,000 stock options with an exercise price of \$1.00 and 1,575,000 stock options with a price of \$1.80 expired unexercised.

The following table reflects options outstanding as at December 31, 2022:

Expiry Date	Exercise Price	Weighted Average Life Remaining	Options Outstanding
January 5, 2023	1.00	0.01 years	420,000
March 2, 2023	1.80	0.17 years	1,575,000
August 30, 2024	1.00	1.67 years	2,041,670
September 24, 2025	0.70	2.73 years	2,060,001
November 9, 2025	0.70	2.86 years	620,000
February 4, 2026	1.70	3.10 years	200,000
March 4, 2026	1.70	3.18 years	100,000
June 23, 2027	0.56	4.48 years	5,775,000
December 15, 2027	0.25	4.96 years	1,275,000
Balance, December 31, 2022	0.80	3.14 years	14,066,671

13. 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, December 31, 2021	13,531,918 \$	1.07
Exercised	(300)	0.95
Expired	(13,531,618)	1.07
Balance, December 31, 2022	- \$	-

During the year ended December 31, 2022, 300 warrants (2021 - 4,775,761) were exercised into voting shares of the company for proceeds of \$285 (2021 - \$5,618,643). The warrants exercised in 2021 included 845,262 broker warrants, which yielded an issuance of 422,631 warrants. During the year ended December 31, 2022, 13,531,618 (2021- 3,380,213) warrants expired unexercised.

14. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share is computed using the weighted average number of 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 years ended December 31, 2022, and 2021.

Drone Delivery Canada Corp.

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15. 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	December 31, 2022	December 31, 2021
Cash and cash equivalents	FVTPL	\$ 15,298,794	\$ 27,674,955
Trade receivables	Amortized Cost	\$ 24,390	\$ 24,346
Trade and other payables	Amortized Cost	\$ 909,917	\$ 1,390,285
Lease obligation	Amortized Cost	\$ 220,015	\$ 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.

15. 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.

16. CAPITAL RISK 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 shares, borrow or adjust the amount of cash. The Company does not anticipate the payment of dividends in the foreseeable future.

17. 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 fiscal years ended 2022 and 2021 the following compensation amounts were incurred in respect of key management personnel:

	December 31, 2022	December 31, 2021
Consulting fees and salaries	\$ 2,336,621	\$ 2,500,838
Share based compensation	992,212	851,168
	\$ 3,328,833	\$ 3,352,006

During fiscal 2022 and 2021, the Company allocated the \$2,336,621 (2021 - \$2,500,838) of consulting fees and salaries based on the nature of services provided: expensed \$1,088,324 (2021- \$1,445,000) to consulting; and expensed \$1,248,297 (2021 - \$1,055,838) to personnel expenses, of which \$429,000 relates to severance payment for the former CEO.

As at December 31, 2022, consulting fees of \$32,324 (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.

Drone Delivery Canada Corp.

Notes to Consolidated Financial Statements

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17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The Company has an employment agreement with its CEO which provides that in the event the CEO's employment is terminated by the Company without cause, (i) a lump sum payment equal to 12 months' salary (as at December 31, 2022 representing a payment of \$325,000), 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 December 31, 2022 representing a payment of \$487,500).

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 December 31, 2022 representing a minimum payment of \$108,000), or (ii) by the Company within twelve months following or within 180 before in anticipation of a change in control, a lump-sum payment equal to twelve months' salary (as at December 31, 2022 representing a payment of \$216,000).

The Company has consulting agreements with a corporation controlled by a former director, a corporation controlled by a former Vice President, a corporation controlled by the former Chief Executive Officer and a corporation controlled by the former Chief Technology Officer, which provide that in the event the consulting agreements are terminated without cause, a termination payment for consulting fees for the remainder of the term, ranging from \$210,000 to \$282,000 per annum depending on the agreement, is payable. If all such terminations had occurred on December 31, 2022, the total amount payable under the agreements would be \$574,500.

- (b) During the year ended December 31, 2022, rent of \$33,930 (2021 - \$33,166) was paid to a company jointly controlled by the former Chief Technology Officer and the former Chief Executive Officer of the Company. As at December 31, 2022, \$2,767 was included in prepaid expenses (December 31, 2021 - \$2,767).
- (c) During the year ended December 31, 2022, marketing and advertising expenses of \$10,000 (2021 - \$10,000) was paid to a company controlled by the former Chief Executive officer of the Company.
- (d) During the year ended December 31, 2022, legal fees of \$260,813, (2021 - \$223,338) were accrued or paid to a law firm in which a director of the Company is a partner. As at December 31, 2022, \$8,575 was included in trade and other payables (December 31, 2021 - \$25,216).
- (e) During the year ended December 31, 2022, board of directors fees of \$97,000 (2021 - \$66,750) was paid to the members of the board of directors as remuneration for their services. As at December 31, 2022, \$22,250 was included in trade and other payables (December 31, 2021 - \$22,250).
- (f) During the year ended December 31, 2022, capital expenditures of \$26,333 (2021 - \$nil) were purchased from a corporation in which a director of the Company is the CEO.

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18. INCOME TAXES

The significant components of the Company's deferred income taxes are as follows at December 31:

	2022	2021
<u>Deferred income tax asset</u>		
Non-capital losses	\$ 18,889,900	\$ 16,924,700
Deductible SR&ED expenditures	1,567,900	235,100
Non-refundable provincial investment tax credits	229,300	31,300
Non-refundable federal investment tax credits	948,500	129,500
Equipment and leasehold improvements	(123,100)	(139,800)
Patents and trademarks	(72,000)	(57,100)
Right-of-use assets	(47,400)	(95,100)
Lease obligation	58,300	108,800
Share issue costs	277,300	445,700
Valuation allowance	(21,728,700)	(17,583,100)
	\$ -	\$ -

The combined Canadian federal and provincial statutory income tax rate is 26.5%. The reconciliations of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Loss before recovery of income taxes	\$ (13,414,231)	\$ (14,699,679)
Expected income tax recovery	(3,554,800)	(3,895,415)
Permanent differences and other	317,000	364,200
Change in unrecognized deferred tax assets	(1,017,100)	-
Adjustments in respect of prior year taxation years	109,300	-
Change in valuation allowance	4,145,600	3,531,200
Income tax expense reflected in the consolidated statements of loss and comprehensive loss	\$ -	\$ -

As at December 31, 2022, the Company has estimated non-capital losses of \$71,282,000 and estimated deductible SR&ED expenditures of \$5,917,000 for Canadian income tax purposes that may be carried forward to reduce taxable income of future years. The Company has a balance of federal non-refundable investment tax credits of \$948,500 and provincial non-refundable investment tax credits of \$229,300 that may be carried forward to reduce income taxes payable in future years.

The non-capital losses and non-refundable federal and provincial investment tax credits expire in the tax years ending between December 31, 2031 and December 31, 2042. The deductible SR&ED expenditures have an unlimited carry forward period.

19. RESEARCH GRANTS

During the year ended December 31, 2022, the Company recorded refundable Ontario Innovation Tax Credit ("OITC") for qualifying scientific research and experimental development ("SR&ED") expenses, of \$58,590 (2021 - \$77,770) related to its 2020 Canadian income tax return. In addition, a combined estimate of \$328,040 was recorded for its 2021 and 2022 OITC claims. OITC refundable tax credits are recognized in the profit and loss as other income. As at December 31, 2022, \$380,717 (December 31, 2021 - \$184,930) is recorded in trade and other receivables related to SR&ED tax credit receivables.