

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-36492

AGEAGLE AERIAL SYSTEMS INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

88-0422242
(I.R.S. Employer Identification No.)

8863 E. 34th Street North, Wichita, Kansas
(Address of principal executive offices)

67226
(Zip Code)

Registrant's telephone number, including area code: **(620) 325-6363**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Trading Symbol(s)

Name of Each Exchange on Which Registered

Common Stock, par value \$0.001 per share

UAVS

NYSE American LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” “emerging growth company” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the registrant’s most recently completed second fiscal quarter was \$61,203,282.

As of March 31, 2021, there were 62,485,815 shares of Common Stock, par value \$0.001 per share, issued and outstanding.

AGEAGLE AERIAL SYSTEMS INC.

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PART I

This report may contain forward-looking statements within the meaning of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management and involve risks and uncertainties. Forward-looking statements include statements regarding our plans, strategies, objectives, expectations and intentions, which are subject to change at any time at our discretion. Forward-looking statements include our assessment, from time to time of our competitive position, the industry environment, potential growth opportunities, the effects of regulation and events outside of our control, such as natural disasters, wars or health epidemics. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "estimates," "expects," "hopes," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in greater detail in "Risk Factors." Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this report. You should read this report and the documents that we reference in this report and have filed as exhibits to the report completely and with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

ITEM 1. BUSINESS

Overview

AgEagleTM Aerial Systems Inc. ("AgEagle," "the Company," "us," "we," "our") produces, supports and operates technologically advanced drone systems and solutions for the fast-emerging unmanned aerial vehicle (UAV) industry. We are engaged in delivering the metrics, tools and strategies necessary to invent and implement drone-enabled solutions that solve important problems for our valued customers. With our founding premise rooted in high performance, next-level thinking, and technological innovation, AgEagle is intent on ensuring that standards for quality U.S. manufacturing and the provision of precision-crafted, purpose-built drone systems and solutions are delivered to empower our customers to thrive and prosper in The Drone AgeTM.

Founded in 2010, AgEagle was originally formed to pioneer proprietary, professional-grade, fixed-wing drones and aerial imagery-based data collection and analytics solutions for the agriculture industry. In addition to selling our innovative drones to the precision and sustainable farming markets, AgEagle's innovative data collection and analytics solutions have processed more than two million acres of crops, analyzing data from over 50 countries and 53 different crop types, and creating more than 11,000 crop reports for its users. AgEagle remains intent on earning distinction as a trusted partner to clients seeking to adopt and support productive agricultural approaches to improve farming practices which currently limit the impact on our natural resources, reduce reliance on inputs and materially increase crop yields and profits.

In the first half of 2019, the Company introduced *HempOverview*, a scalable, responsive and cost-effective Software-as-a-Solution ("SaaS") web- and map-based technology platform to support the operations of domestic industrial hemp programs for state and tribal nation departments of agriculture – a solution that provides users with what the Company believes is the gold standard for regulatory oversight, operational assistance and reporting capabilities for the fast emerging industrial hemp industry.

Over the past decade, the broader drone market has continued to evolve and expand. As a result, economic and productivity benefits made possible by drones is fueling global demand for high quality, safe and reliable drone systems and solutions for commercial applications well beyond agriculture. In response, AgEagle is now leveraging our technological expertise and drone engineering and manufacturing experience to penetrate new, high growth market sectors; namely, drone package delivery, public safety/security, large venue decontamination and infrastructure/inspection, among other high growth market opportunities.

AgEagle's key growth objectives are centered on three primary areas of focus:

- 1) **Ag Solutions:** Leveraging our reputation as one of the leading technology solutions providers to the agriculture industry to increase market share through delivery of best-in-class drones, sensors and data analytics for hemp and other commercial crops;
- 2) **Drone Manufacturing:** Establishing AgEagle as the dominant commercial drone design, engineering, manufacturing, assembly and testing company in the United States; and
- 3) **Drone Solutions:** Establishing the Company as one of the industry's leading American-made trusted source for turnkey, end-to-end, tailored drone solutions to the world.

We intend to grow our business by preserving a leadership position in our core Ag Solutions business; providing quality contract manufacturing, assembly and testing services; and innovating new customer-focused drone systems and solutions to capture significant share of the broader commercial drone market. In addition, we expect to accelerate our growth and expansion through strategic acquisitions of drone-related companies offering distinct technological and competitive advantages and have defensible IP protection in place, if applicable.

Ag Solutions

According to a report published in August 2020 by industry research firm Markets and Markets (*Agriculture Drones Market with COVID-19 Impact Analysis, by Application (Precision Farming, Livestock Monitoring), Offering, Farming Environment, Farm Produce, Component and Geography – Global Forecast to 2025*), the agriculture drones market is expected to grow from \$1.2 billion in 2020 to \$5.7 billion by 2025 at a CAGR of 35.9% over the forecasted period. The report covered drone hardware, software and services and included AgEagle as one of the key market players.

Drone Leasing

In addition to UAV sales, AgEagle also offers a drone leasing program, alleviating farmers and agribusinesses from significant upfront costs associated with purchasing a drone, while also relieving them from ongoing drone maintenance and support requirements. Additionally, the program provides the option of engaging a trained AgEagle pilot to operate the drone and manage the entire image collection process, creating a truly turnkey aerial imagery capture solution for the Company's customers.

FarmLens™ Platform

In 2018, we acquired *FarmLens*, a subscription cloud analytics service that processes data, primarily collected with a drone, such as those produced by AgEagle, and makes such data actionable by farmers and agronomists. Our user-friendly *FarmLens* solution can easily and quickly stitch virtually thousands of high-resolution, multispectral images together to produce detailed prescription maps for everything from disease and pest infestations to weather impact and improper irrigation – all before these issues can be detected by the naked eye and at materially lower costs than satellite imagery or manned aircraft flyovers.

Used as a PC-based system or on any mobile device, *FarmLens* helps users save time and eliminates technological hassles and costly computing requirements. The *FarmLens* platform has benefitted us and our shareholders by allowing us to develop important vertically integrated products and services with our drone-enabled software technologies. *FarmLens* is currently sold by AgEagle as a subscription service and offered either standalone or in a bundle with drone platforms manufactured by leading drone providers like AgEagle, DJI and senseFly. The *FarmLens* platform extends AgEagle's reach as a business through key industry partnerships.

HempOverview Platform

Domestic Hemp Production and Prevailing Regulatory Changes

With the passing of the 2018 Farm Bill in December 2018, industrial hemp is now recognized as an agricultural commodity, such as corn, wheat, or soybeans.

More specifically, the 2018 Farm Bill authorizes state departments of agriculture, including agencies representing the District of Columbia, the Commonwealth of Puerto Rico and any other territory or possession of the United States, and Indian tribal governments, to submit plans to the USDA applying for primary regulatory authority over the production of hemp in their respective state or tribal territory. For more information on state and tribal nation plan submission, please visit <https://www.ams.usda.gov/rules-regulations/hemp/state-and-tribal-plan-review>.

As of February 12, 2021, 23 states and 40 tribal nations have had their hemp production plans approved by the USDA, and 20 states will continue to operate their hemp production plans in accordance with the 2014 pilot guidelines issued by the National Institute of Food and Agriculture, which handles the extramural research aspects of industrial hemp cultivation.

Market Opportunity in U.S. Industrial Hemp and Hemp-Derived CBD

After a tumultuous first two years of legal hemp farming in the United States, many market participants are anticipating that the 2021 planting season will take on a more settled character, bringing some routine and less confusion to growing, harvesting and marketing efforts. In its January 2021 report titled *Hemp 2021: Industry Insiders Offer Projections for the Year*, Hemp Benchmark noted that some industry leaders believe this year could be a strong one for hemp as the crop becomes more integrated into the workings of America's agriculture sector.

In its February 2020 market forecast report (<https://www.grandviewresearch.com/press-release/global-industrial-hemp-market>), Grand View Research stated that the global industrial hemp market will reach \$15.26 billion by 2027, up from \$5.33 billion in 2020. According to the report, an increased focus on selecting low-THC hemp varieties, using developed cultivation and processing equipment, providing technical support for growers, and establishing contracts with farmers, all play significant roles in achieving major market share. Grand View expects that increased awareness of the dietary advantages of hemp oil and growing demand for hemp-derived CBD from the cosmetics and personal care industries will help fuel market growth, along with the introduction of conducive regulations for the cultivation and use of hemp-based CBD products in the United States over the forecast period.

HempOverview

As one of the agriculture industry's leading pioneers of advanced aerial-image-based data collection and analytics solutions, AgEagle is intent on leveraging our expertise to champion the use of proven, advanced web- and map-based technologies as a means to streamline and ultimately standardize hemp cultivation in the United States. Growers need to be registered/permitted; crops need to be monitored and inspected; and enforcement operations must be established to ensure compliance with state and federal mandates. Through the introduction of *HempOverview*, we believe that AgEagle represents the first agriculture technology company to bring to market an advanced agtech solution that is designed to meet the unique complexities and vigorous oversight, compliance and enforcement demands of the emerging American hemp industry and the unique needs and demands of its key stakeholders.

HempOverview is comprised of four modules:

- 1) **Registration:** secure, scalable software to handle all farmer and processor application and licensing matters.
- 2) **Best Management Practices:** iterative, intelligent data collection and analysis utilizing satellite imagery and advanced, proprietary algorithms to help farmers reduce input costs, avoid missteps, detect pest impacts and monitor water usage.
- 3) **Oversight and Enforcement:** integration of data management and satellite imagery to provide continuous monitoring of all hemp fields in the state, predict and respond to issues and assist in proper crop testing.
- 4) **Reporting:** generation of actionable reports for USDA requirements, legislative oversight and support of research institutions.

In November 2019, AgEagle announced that the Florida Department of Agriculture and Consumer Services chose the *HempOverview* solution to manage its online application submission and registration process for hemp growers and their farms and hemp fields in the State of Florida for the years 2020, 2021 and 2022. Subsequent to the end of 2020, the Company announced that the Iowa Department of Agriculture and Land Stewardship also licensed the *HempOverview* platform to manage the state's online registration, payment processing, comprehensive data collection and compliance oversight for the 2021, 2022 and 2023 planting seasons.

HempOverview has also been created to support hemp processors who contract with growers, helping to ensure profitable production on existing contracted acres while maintaining governmental compliance in a changing regulatory landscape. More specifically, *HempOverview* supports full, cloud-based mobile- and desktop-based software application and enables users to:

- Maintain oversight of the supply chain for a processor's contracted acres in order to avoid costly errors resulting in lost crop(s) and/or inefficient production downtime;
- Create metrics and regularly evaluate contracted acres, in near real-time, using a variety of data structures, including remote sensing, in-field monitoring, harvest estimation and comprehensive reporting functions;
- Advise contract farmers on planting, fertilization, irrigation and harvest schedules with the goal of producing a "gold standard" hemp crop; and
- Establish best practices, maintain compliance and properly file all registration documents and amendments with respective state regulatory bodies.

HempOverview focuses on simultaneously collecting data, analyzing field-related problems, and providing readily accessible analysis and reporting for achieving and sustaining end-to-end visibility and best management practices for the growing industrial and CBD hemp supply chain.

Drone Manufacturing

Our Proprietary Fixed-Wing Drones

The Company's first commercially available product was the *AgEagle Classic*, which was followed shortly thereafter by the *RAPID System*. As we improved and evolved our product, we launched the *RX-60* and subsequently our current UAV product, the *RX-48*. The success AgEagle has achieved with its legacy products, which the Company believes has carried over into the continued improvement of the *RX-60* and *RX-48*, stems from AgEagle's ability to invent and deliver advanced solutions utilizing its proprietary technologies and trade secrets that help farmers, agronomists and other precision agricultural professionals operate more effectively and efficiently.

The Company's core technological capabilities, developed over five years of research and innovation, include a lightweight laminated shell that allows the UAV platform to perform under challenging flying conditions, a camera with a Near Infrared (NIR) filter, a rugged foot launcher (*RX-60*), and high-end software that automates drone flights and provides geo-referenced data. AgEagle's products were designed for busy agriculture professionals who do not have the time to process images on their computers, which some of its competitors require. The software can automatically take pictures from the camera, stitch the photos together through the cloud, and deliver a geo-referenced, high quality aerial map to the user's desktop or tablet device using specialty precision agriculture software such as SST Software, SMS Software or most other agricultural software solutions. The result is a prescription or zone map that can then be used in a field computer that is typically found in a sprayer or applicator designed to drive through fields to precisely apply the amount of nutrients or chemicals required to continue or restore the production of healthy crops. The Company's management believes that these characteristics make its UAVs well suited for providing a complete aerial view of a farmer's field to help precisely identify crop health and field conditions faster than any other method available.

Relocation to Wichita

In November 2020, AgEagle relocated its headquarters and drone manufacturing and assembly operations from Neodesha, Kansas to Wichita, Kansas, widely known as the “Air Capital of the World.” Home to several of the world’s great aviation brands, Wichita was ranked by Brookings Institution (source: <https://www.brookings.edu/wp-content/uploads/2016/07/Wichita-2.pdf>) as having the #1 skilled workforce in the nation, providing us with direct access to world class engineering and aeronautical talent. In addition, the decision to move to Wichita was further buoyed by the region’s low-cost real estate advantages and high quality of life for our workforce.

Our newly leased 12,000 square foot facility provides AgEagle with ample capacity to materially scale our contract manufacturing business, while also providing the space necessary to house our administrative offices, design and engineering teams and testing operations.

Demand for Drones “Made in America”

For the past several years, security experts have expressed concerns that UAVs made in China or other adversarial countries could be used to spy on U.S. interest by exfiltration of data back to the country of origin. In fact, in May 2019, the U.S. Department of Homeland Security warned in an alert that drones are a potential risk to an organization’s information.

Data released by Drone Industry Insights in late 2019 revealed that China-based Da Jiang Innovations (DJI) accounted for about 70% of all drone sales worldwide – and up to 80% of the U.S. market (Source: <https://droneii.com/product/chinese-drone-market-report>). Citing the threat of Chinese manufacturers, the U.S. General Services Administration (GSA) announced in January 2021 that it will no longer include drones in its suite of offerings as of February 1, 2021 (Source: <https://interact.gsa.gov/blog/removal-drones-gsa-multiple-award-schedule-contracts>). The Department of Justice also recently banned the use of agency grants to purchase drones and other unmanned aerial systems from foreign groups; and the federal government is not likely to stop these limited policy bans. Congress has already taken steps to check DJI’s ability to operate in the U.S. and it is considering more. It effectively cemented the Defense Department’s ban into law in the National Defense Authorization Act for 2020. Congress has also considered broader bans, such as the draft American Security Drone Act, which would bar any federal agency from acquiring Chinese drones or drones made with Chinese components; and would also codify the different policy prohibitions on using federal grant money to buy Chinese drones and components – an aspect of the law clearly aimed at curbing use of the technology at the state and local levels.

AgEagle believes that these measures to ban China-manufactured drones and components has and will continue to fuel demand for “Made in America” drones and components, creating a significant opportunity for U.S.-based drone manufacturers, like AgEagle. Consequently, it is our intention to establish best industry practices and define quality standards for manufacturing, assembly, design/engineering and testing of drones, drone subcomponents and related drone equipment in our Wichita facility.

We will pursue a lean and efficient production strategy across our business, focusing on rapid prototyping, supply chain management, integration, quality and final acceptance testing. We will work to optimize our own proprietary and customers’ designs to meet scalable manufacturing requirements, mission capabilities and equipment specifications. Within this framework, we expect to develop products with feedback and input from manufacturing, quality, supply chain managers, key suppliers, logistics personnel and our customers. We will incorporate this input into product designs in an effort to maximize efficiencies and quality of our products, while minimizing time to market. As a result, we believe that we will achieve a reduction in time required to move a product from its design phase to full scale production deliveries while achieving high reliability, quality, and safety yields.

It is noteworthy to add that we have forged strong relationships with key suppliers in the U.S. and in U.S.-allied countries based on their ability to meet our needs and delivery timelines. We will continue to expand upon our suppliers’ expertise to improve our existing products and develop new solutions. In 2020, we experienced some supply chain delays due primarily to logistical issues relating to COVID-19 shutdown mandates. Unfortunately, we do anticipate encountering potential delays in 2021.

Contract Manufacturing for Commercial Drone Package Delivery

Over the past year, there has been a surge of prominent companies, including Alphabet (Google), FedEx, Intel, Qualcomm, Amazon, Target, Walmart, Alibaba, UPS, 7-Eleven, Uber and many others, actively developing commercial drone delivery service initiatives as part of their long-term strategic plans. These companies intend to leverage the latest in UAV technologies to deliver food, consumer products, medicines, and other types of lightweight freight direct to consumers and businesses in the fastest, most cost efficient and environmentally responsible manner possible – a practical alternative to costly auto transport. It is believed that AgEagle’s proven expertise in manufacturing rugged, reliable and professional grade UAVs makes the Company a logical partner for designing, manufacturing and testing drone platforms in this fast growing package delivery market.

In 2020, AgEagle’s annual revenue was mostly derived from contracted manufacturing work completed for a major ecommerce company, which engaged the Company to manufacture and assemble UAVs designed to meet the critical specifications for drones that are meant to carry goods in urban and suburban areas along with ground support equipment used for the testing and refining of client’s commercial drone small delivery vehicles, systems and operations currently in development. This customer chose to team with AgEagle due in large measure to our proven expertise in drone design and innovation.

In October 2020, we expanded our contract manufacturing customer base to include Valqari, with which we entered into a two-year agreement, exclusive in North America, to produce Valqari’s patented Drone Delivery Station. This station is the only solution that has solved the “last inch” logistic problems associated with drone deliveries and allows for an entirely automated and safe drone package delivery. We believe that effective solutions for ground support, like Valqari’s Drone Delivery Station, will prove to be a vital, fundamental component of the new drone delivery ecosystem, helping to ensure the promising potential of mainstream drone package delivery is fully realized.

With plans to expand our in-house business development team in 2021, we are actively engaged in identifying and pursuing additional opportunities for AgEagle to develop and strengthen our customer base and/or strategic business partnerships and materially ramp annual revenue generation from our design and engineering, contract manufacturing, assembly and testing services.

Drone Solutions

Market Opportunities

In October 2020, Gartner projected that worldwide shipments of enterprise drones will total 526,000 units, an increase of 50% from 2019. Moreover, the world’s leading research and advisory company also forecasts that global shipments will reach 1.3 million units by 2023. The report, titled Forecast Analysis: IoT Enterprise Drone Shipments, Worldwide,” states, “In the short term, most use cases will be based around surveillance and monitoring due to the technical complexity of other applications. In 2020, the second and third use cases by drone shipments will be fire services monitoring and insurance investigation.” Gartner further believes that adoption of drones in the retail sector for package delivery will rise rapidly after 2023. “The regulatory restrictions and logistical challenges coordinating flight paths, managing airspace over densely populated areas and managing various payloads means that retail, overall, is a longer-term opportunity for drones.” (Source: <https://www.gartner.com/en/newsroom/press-releases/2019-12-04-gartner-forecasts-global-iot-enterprise-drone-shipmen>).

Emerging commercial drone markets covered in the Gartner report include:

- Insurance Investigation
- Fire Services Monitoring
- Road Toll and Traffic Management
- Construction Monitoring
- Oil and Gas Extraction
- Retail Fulfillment (Drone Package Delivery)
- Precision Crop Farming
- Airport Drone Management
- Pipeline Monitoring
- Electricity (Smart Grid)
- Water (Smart Grid)
- Film, TV and Journalism Drone Filming
- Police Evidence Gathering
- Rail Infrastructure management
- Gas (Smart Grid)
- Building Structure Monitoring
- Outdoor Surveillance
- Smart Roads
- Livestock Management
- Agricultural Equipment Tracking
- Mine Operation
- Security Guard Equipment
- Connected Ship Management
- Port Management
- Electricity Grid-Scale Generation

Drone Industry Insights noted in its June 2020 report, “*The Drone Market Size 2020-2025: 5 Key Takeaways*,” that the energy sector is the largest industry on the commercial drone market in 2020 and will continue to be so in 2025. However, the transportation and warehousing industry (transportation of packages and passengers, warehousing and storage of goods and support activities related to modes of transportation for inspection and maintenance of infrastructure) will continue to be the fastest growing. While agriculture and construction currently follow energy as the top industries in the drone market, the growth of the transport sector will mean that by 2025, it will be the second largest industry in the market. Looking at the dollars, Drone Industry Insights predicts that the commercial drone solutions market will grow from \$22.5 billion in 2020 to \$42.8 billion by 2025.

Proprietary, Turnkey, End-to-End Drone Solutions

The use of commercial drones has seen its utility amplified worldwide with the spread of the global COVID-19 pandemic. Emerging applications in drone package delivery, decontamination, infrastructure inspection, security and public safety, insurance and telecommunications have given rise to demand from commercial and industrial enterprises and government agencies for quality, turnkey solutions that tackle and solve specific mission critical challenges. AgEagle believes that we have the necessary industry experience, engineering and manufacturing resources, expertise and skilled workforce to deliver these solutions in a cost-efficient, highly scalable manner. Through purpose-built pilot projects that we are currently leading or may elect to lead or partner on in the near future, we intend to perpetuate our legacy as an industry pioneer; inventing, producing, supporting and commercializing turnkey drone solutions platforms.

BEYOND Program- Integrating UAVs into National Airspace

In November 2020, AgEagle was selected as an industry partner in the next phase of the U.S. Department of Transportation’s (US DOT) Unmanned Aircraft System Integration Pilot Program (IPP), known as the BEYOND program. The original IPP was launched through a Presidential Memorandum in October 2017 with nine regional participants. The IPP participants and their industry partners used innovative strategies to craft successful safety cases to operate drones under the Federal Aviation Administration’s (FAA) existing regulations. On October 30, 2020, the US DOT announced that the three-year IPP successfully concluded on October 25, 2020. In the release, U.S. Chief Technology Officer Michael Kratsios noted, “The IPP propelled the American drone industry forward, allowing for unprecedented expansions in testing and operations through innovative private-public partnerships across the country. Now, the BEYOND program will build upon this success, tackling the next big challenges facing drone integration.”

Eight of the nine state, local and tribal governments that participated in the original program signed new agreements with the FAA to participate in the BEYOND program, including the Kansas Department of Transportation (KDOT). AgEagle was selected by KDOT to serve as an industry partner in the BEYOND program to help solve key challenges including:

- Beyond Visual Line of Sight (BVLOS) operations that are repeatable, scalable and economically viable with specific emphasis on infrastructure inspection, public operations and small package delivery;
- Leveraging industry operations to better analyze and quantify the societal and economic benefits of unmanned aerial systems (UAS) operations; and
- Focusing on community engagement efforts to collect, analyze and address community concerns.

We believe that once the FAA ultimately determines and approves final regulations allowing for integration of commercial UAVs flown beyond visual line of sight (BVLOS) into the U.S. airspace, the promising growth of drone delivery solutions is sure to take flight; and there has been positive developments in this regard.

While it is our intention to continue identifying, pursuing and winning contract design, manufacturing, assembly and testing of drone delivery platforms with key industry partners, it is also our intention to design, develop and bring to market our own proprietary, end-to-end drone solutions. Participating in the BEYOND program will empower AgEagle to lead select pilot projects in key areas of interest to us – particularly in drone delivery.

Key Growth Strategies

We intend to grow our business by achieving greater market penetration of the growing precision agriculture marketplace; by promoting our new service targeting the sustainable agriculture marketplace for the 2021 growing season; and by creating new, easier to use and higher value products that position AgEagle as a leading innovator and trusted solutions provider in high growth markets where advanced aerial imaging and data capture and analytics technologies can be used to achieve specific business and sustainability objectives. Currently, our management is actively exploring new vertical expansion opportunities in other industries outside of agriculture and its related areas, including drone-enabled package delivery. In addition to drone package deliveries, we believe that our solutions and services may also be well suited for use in decontamination, mapping and surveying, mining/resource exploration, insurance, inspection and infrastructure/asset inspection, among other industrial applications.

Key components of our growth strategy include the following:

- **Achieving greater market penetration of the U.S. industrial hemp industry by working to establish *HempOverview* and other related products and services as the gold industry standard for hemp cultivation oversight, compliance, enforcement and commerce.** AgEagle is – and intends to remain – at the leading edge of leveraging best-in-class technology to provide turnkey solutions for state and tribal regulatory departments of agriculture, industrial hemp and hemp-derived CBD growers and processors. Currently, AgEagle believes that it is the only company in the nation with extensive experience in agriculture that is effectively addressing the emerging needs and challenges of the domestic hemp cultivation industry through the application of advanced technology – a key competitive differential that the Company hopes to continue capitalizing on in the coming year.
- **Deliver new and innovative solutions.** AgEagle’s research and development efforts are the foundation of the Company, and we intend to continue investing in our own innovations, pioneering new and enhanced products and solutions that enable us to satisfy the Company’s customers – both in response to and in anticipation of their needs. AgEagle believes that by investing in research and development, the Company can be a leader in delivering innovative drone systems and solutions that address market needs within our current target markets, enabling us to create new opportunities for growth.
- **Continue to expand the AgEagle platform of drone systems and solutions into other industries beyond agriculture and commercial package delivery.** The Company is actively pursuing opportunities outside of agriculture as we continue to expand and grow the AgEagle platform. We are confident in the UAV systems, services and solutions we offer today and believe that these systems, services and solutions could provide other drone industry sectors the same kind of optimization we are currently providing the agriculture industry. Expansion initiatives include the provision of quality contract manufacturing, design and engineering, assembly and testing of advanced drones and drone-related equipment, as well as turnkey drone solutions for the broader drone market.
- **Growth through acquisition.** Through successful execution of our growth-through-acquisition strategies, we intend to acquire technologically advanced drone-related companies and intellectual property that complement and strengthen our value proposition to the market. We believe that by investing in complementary acquisitions, we can accelerate our revenue growth and deliver a broader array of innovative drone systems and solutions that address specialized market needs within our current target markets and in emerging drone industry sectors.

Competitive Strengths

AgEagle believes the following attributes and capabilities provide us with long-term competitive advantages:

- **Proprietary technologies, in-house capabilities and industry experience** - We believe our decade of experience in commercial drone design and engineering; in-house manufacturing, assembly and testing capabilities; and advanced technology development skillset serve to differentiate AgEagle in the marketplace. As of today, we develop and manufacture all the drone systems and solutions we produce in the United States, which allows us to avoid many of the potential difficulties that could arise if our engineering and manufacturing operations were otherwise located outside of the country. In addition, AgEagle is committed to meeting and exceeding quality and safety standards for manufacturing, assembly, design and engineering and testing of drones, drone subcomponents and related drone equipment in our Wichita-based manufacturing operations.
- **Advanced technology solutions allow users to remove the guesswork in effectively managing hemp cultivation oversight, compliance, enforcement, reporting and commerce** - To our knowledge, there is no other SaaS solution available on the market today – particularly one that has been developed by a proven Agtech company with the level of experience and expertise of AgEagle – that provides the multi-faceted level of support and services that *Hemp Overview* offers to all stakeholders in the industry.
- **Increased margins for farmers** - We believe our drones and drone solutions directly enhance margins for commercial farmers by reducing the amount of nutrients and chemicals needed to manage their farms. The software equipped on our UAVs deliver a high-quality aerial map upon completion of the flight, allowing the user to accurately identify the specific areas that are malnourished. This software is compatible with precision applicator tractors, which assist users in applying a precise amount of nutrients in only the areas it is needed. In addition, Our UAVs are specially designed to provide users with a portable and easy to operate device, which can be controlled with a hand-held unit or tablet. Through our *FarmLens* platform, users are able to plan and track an efficient flight path for their UAV. The UAVs are equipped with a camera and NIR filter whose images provide a holistic aerial view of the fields, along with meaningful data that is uploaded and delivered to the user within a very short time frame. As a result, this platform allows users to quickly detect any issues in their crops, which enables them to address such issues in a timely manner before any damage, or further damage, may affect their crops.
- **Expertise in drone delivery** – Since 2019, AgEagle has been actively engaged in the custom manufacturing and assembly of drones and drone equipment used for the testing and refining of a world leading ecommerce company's commercial drone small package delivery vehicles, systems and operations. As a result, we are uniquely positioned to collaborate with other organizations seeking to activate and accelerate adoption of end-to-end drone delivery solutions to drive new and differentiated value creation in their business-to-business or business-to-consumer operations.
- **Leading-edge research and delivery** – In order to propel functional commercial applications of drone solutions in real world, real-time environments, and to best aid in the determination and ultimate adoption of a regulatory framework to guide and direct mainstream commercial use of drones beyond visual line of sight, AgEagle is a lead participant in the FAA's BEYOND program in Kansas and is actively engaged in partnering with other leading drone solutions companies on pilot projects with long-term commercial potential.

Government Regulation

UAV Regulation

AgEagle's proprietary drones are subject to regulations of the FAA. On June 21, 2016, the FAA announced it had finalized the first operational rules for routine commercial use of small UAS, which for purposes of the regulations are unmanned aircraft weighing less than 55 pounds that are conducting non-hobbyist operations. UAS operators-for-hire will have to pass a written test and be vetted by the TSA, but no longer need to be airplane pilots as current law requires. The rules went into effect on August 20, 2016. For additional insight into these initial regulations created for commercial UAS operations, please see https://www.faa.gov/news/press_releases/news_story.cfm?newsId=20515.

Recent Regulatory Updates

In September 2020, the FAA announced its policy for the type certification of certain UAS as a special class of aircraft. The 14 CFR part 21 rule contains the FAA's procedural requirements for airworthiness and type certification for small drones. The new policy is directed towards UAS operations currently not covered by the existing Part 107 rule, for example beyond visual line of sight (BVLOS) and flights over people. For details regarding the new policy, please go to <https://www.federalregister.gov/documents/2020/09/18/2020-17882/type-certification-of-certain-unmanned-aircraft-systems>.

On December 28, 2020, the FAA announced final rules for drones that will require Remote Identification (Remote ID) of drones and allow operators of small drones to fly over people and at night under certain conditions. In the related press release (https://www.faa.gov/news/press_releases/news_story.cfm?newsId=25541), U.S. Secretary of Transportation Elaine Chao stated, "These final rules carefully address safety, security and privacy concerns while advancing opportunities for innovation and utilization of drone technology."

The Remote ID rule applies to all operators of drones that require FAA registration. There are three ways to comply with the operational requirements:

1. Operate a standard Remote ID drone that broadcasts identification and location information of the drone and control station;
2. Operate a drone with a Remote ID broadcast module (may be a separate device attached to the drone), which broadcasts identification, location, and take-off information; or
3. Operate a drone without Remote ID but at specific FAA-recognized identification areas.

The Operations Over People and at Night rule applies to Part 107 operators. The ability to fly over people and moving vehicles varies depending on the level of risk a small drone operation presents to people on the ground. Operations are permitted based on four categories, which can be found in the executive summary accompanying the rule. Additionally, this rule allows for operations at night under certain conditions. For additional information regarding these and other FAA rules relating to UAS operations, please visit www.faa.gov.

Domestic Hemp Cultivation Regulation

The 2018 Farm Bill directed the United States Department of Agriculture ("USDA") to establish a national regulatory framework for hemp production in the United States. The USDA established the U.S. Domestic Hemp Production Program through an interim final rule outlining provisions for the USDA to approve plans submitted by States and Indian Tribes for the domestic production of hemp. It also established a Federal plan for producers in States or territories of Indian tribes that do not have their own USDA-approved plan. The program includes provisions for maintaining information on the land where hemp is produced, testing the levels of delta-9 tetrahydrocannabinol, disposing of plants not meeting necessary requirements, licensing requirements and ensuring compliance with the requirements of the Rule. For more information on state and tribal nation plan submission, please visit <https://www.ams.usda.gov/rules-regulations/hemp/state-and-tribal-plan-review>.

As of February 12, 2021, 23 states and 40 tribal nations have had their hemp production plans approved by the USDA, and 20 states will continue to operate their hemp production plans in accordance with the 2014 pilot guidelines issued by the National Institute of Food and Agriculture, which handles the extramural research aspects of industrial hemp cultivation.

AgEagle has developed *Hemp Overview* to provide users with a gold industry standard for fully complying with federal, state and tribal regulations associated with hemp cultivation.

Manufacturing

As of today, we manufacture and assemble all our proprietary and customers' drone systems and solutions at our manufacturing facility in Wichita, Kansas.

Suppliers

In 2020, we maintained strong relationships established with companies that provide many of the parts and services necessary to construct our advanced fixed wing drones, such as Botlink and MicaSense. On January 26, 2021, the Company and AgEagle Sensor Systems, Inc., a wholly-owned subsidiary of the Company (the "Buyer"), entered into a stock purchase agreement (the "MicaSense Purchase Agreement") with Parrot Drones S.A.S. and Justin B. McAllister (the "Sellers") pursuant to which the Buyer agreed to acquire 100% of the issued and outstanding capital stock of MicaSense, Inc. ("MicaSense") from the Sellers. The transaction closed on January 27, 2021. MicaSense manufactures and sells drone sensors for vegetation mapping and other drone applications. As our Company grows, we expect to pursue additional supplier relationships from which we can source less costly and better supplies to stay ahead of the needs of the market.

Our flight planning and photo stitching software is provided by Pix4D and flight planning is QGroundControl, an open-source application. We have worked closely with software partners to optimize their software to work with our platform. We consider our relationships with Pix4D to be good; however, a loss of this relationship would have a short-term adverse effect on our product offerings and results of operations, as we look to an alternative provider for our photo stitching software.

Revenue Mix

The table below reflects our revenue for the years indicated by product mix:

| Type | For the Year Ended December 31, | |
|--------------------------------------|--|-------------------|
| | 2020 | 2019 |
| Drone and Custom Manufacturing Sales | \$ 1,218,735 | \$ 267,622 |
| Software Subscription Sales | 66,648 | 29,055 |
| Total | \$ 1,285,383 | \$ 296,677 |

Research and Development

Research and development activities are part of our business and we follow a disciplined approach to investing our resources to create new drone technologies and solutions. A fundamental part of this approach is a well-defined screening process that helps us identify commercial opportunities that support current desired technological capabilities in the markets we serve. Our research includes the expansion of our wing products, providing for developing a portfolio of UAVs, ongoing software development, as well as other technological solutions to problems to which our existing and prospective customers must confront.

Risks Relating to Our Business

Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled “Risk Factors” found in Item 1A within this Annual Report on Form 10-K. Some of these risks include, but are not limited to, risks associated with:

- our need for additional funding;
- our ability to protect our intellectual property rights;
- rapid technological changes in the industry;
- governmental policies and regulations regarding the industries in which we operate;
- our ability to maintain strong relationships with our customers, suppliers and distributors; and
- worldwide and domestic economic trends and financial market conditions, including an economic decline in the agricultural industry.

Recent Developments

MicaSense Acquisition

On January 26, 2021, the Company entered into the MicaSense Purchase Agreement, whereby the Buyer agreed to acquire 100% of the issued and outstanding capital stock of MicaSense from the Sellers. The transaction closed on January 27, 2021. MicaSense manufactures and sells drone sensors for vegetation mapping and other drone applications. The aggregate purchase price for the shares of MicaSense is \$23,000,000, less the amount of MicaSense’s debt and subject to a customary working capital adjustment. The consideration is also subject to a \$4,750,000 holdback to cover any post-closing indemnification claims and to satisfy any purchase price adjustments. The holdback is scheduled to be released in two equal installments, less any amounts paid or reserved for outstanding indemnity claims, on March 31, 2022 and March 31, 2023 in accordance with the terms of the MicaSense Purchase Agreement.

A portion of the consideration is comprised of shares of Common Stock of the Company, par value \$0.001 Common Stock, having an aggregate value of \$3,000,000 based on a volume weighted average trading price of the Common Stock over a ten consecutive trading day period prior to the date of issuance of the shares of Common Stock to the Sellers (the “Shares”). The Shares are issuable 90 days after the closing date of the transaction. Pursuant to the terms of the MicaSense Purchase Agreement, dated as of January 26, 2021, and a Registration Rights Agreement, dated as of January 27, 2021, the Company has agreed to file a Form S-3 Registration Statement (the “Registration Statement”) covering the resale of the Shares with the Securities and Exchange Commission (the “SEC”) no later than ten days following the date the Shares are issued to the Sellers. The Company shall use its best efforts to cause the Registration Statement to be declared effective as soon as possible after the filing date, but in any event no later than 90 days after the filing date, and shall use its best efforts to keep the Registration Statement effective and in compliance with the provisions of the Securities Act (including by preparing and filing with the SEC such amendments, including post-effective amendments, and supplements to the Registration Statement and the prospectus used in connection therewith as may be necessary) until all Shares and other securities covered by such Registration Statement have been disposed of. The Sellers are required to reimburse the Company up to \$50,000 for reasonable legal fees and expenses incurred by the Company in connection with such registration.

The MicaSense Purchase Agreement contains certain customary representations, warranties and covenants, including representations and warranties by the Sellers with respect to MicaSense’s business, operations and financial condition. The MicaSense Purchase Agreement also includes post-closing covenants relating to the confidentiality and employee non-solicitation obligations of the Sellers, and the agreement of the Sellers not to compete with certain aspects of the business of MicaSense following the closing of the transaction. The completion of the transactions contemplated by the MicaSense Purchase Agreement is subject to customary closing conditions, including, among others: (i) the absence of a material adverse effect on MicaSense, (ii) the delivery by the parties of certain ancillary documents, including the Registration Rights Agreement, and (iii) the execution by a key employee of MicaSense of an employment agreement. Subject to certain limitations, each of the parties will be indemnified for damages resulting from third party claims and breaches of the parties’ respective representations, warranties, and covenants in the MicaSense Purchase Agreement.

Organizational History

On March 26, 2018, our predecessor company, EnerJex Resources, Inc. (“EnerJex”), a Nevada company, consummated the transactions contemplated by the Agreement and Plan of Merger (the “Merger Agreement”), dated October 19, 2017, pursuant to which AgEagle Merger Sub, Inc., a Nevada corporation and a wholly-owned subsidiary of EnerJex, merged with and into AgEagle Aerial Systems Inc., a privately held company organized under the laws of the state of Nevada (“AgEagle Sub”), with AgEagle Sub surviving as a wholly-owned subsidiary of EnerJex (the “Merger”). In connection with the Merger, EnerJex changed its name to AgEagle Aerial Systems Inc. (the “Company,” “we,” “our,” or “us”) and AgEagle Sub changed its name initially to “Eagle Aerial, Inc. and then to” AgEagle Aerial, Inc. Prior to this merger all of the EnerJex operations were conducted through EnerJex Kansas, Inc., Black Sable Energy, LLC, a Texas limited liability company (“Black Sable”) and Black Raven Energy, Inc. a Nevada corporation (“Black Raven”). Its leasehold interests were held in its wholly-owned subsidiaries Black Sable, Working Interest, LLC, EnerJex Kansas and Black Raven. As of December 31, 2020, the Company continues with the wholly-owned subsidiaries AgEagle Aerial, Inc. and EnerJex Kansas, Inc.

Our Headquarters

Our principal executive offices are located at 8863 E. 34th Street North, Wichita, Kansas 67226 and our telephone number is 620-325-6363. Our website address is www.ageagle.com. The information contained on, or that can be accessed through, our website is not a part of this Annual Report. We have included our website address in this Annual Report solely as an inactive textual reference.

Employees

As of December 31, 2020, we employed 10 full-time and 1 part-time employees.

Intellectual Property

We currently have registered trademarks on the *AgEagle*, *FarmLens* and *The Drone Age* names. In 2021, we plan to apply for registered trademark protection on the *AgEagle* revised logo and to file provisional patents on certain aspects of our current and future technology. We consider our UAV manufacturing process to be a trade secret and have non-disclosure agreements with current employees to protect those and other trade secrets held by the Company.

Where You Can Find Additional Information

The Company is subject to the reporting requirements under the Exchange Act. The Company files with, or furnishes to, the SEC quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports and will furnish its proxy statement. These filings are available free of charge on the Company's website, www.ageagle.com, shortly after they are filed with, or furnished to, the SEC. The SEC maintains an Internet website, www.sec.gov, which contains reports and information statements and other information regarding issuers.

ITEM 1A. RISK FACTORS

The risk factors discussed below could cause our actual results to differ materially from those expressed in any forward-looking statements. Although we have attempted to list comprehensively these important factors, we caution you that other factors may in the future prove to be important in affecting our results of operations. New factors emerge from time to time and it is not possible for us to predict all of these factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

The risks described below set forth what we believe to be the most material risks associated with the purchase of our Common Stock. Before you invest in our Common Stock, you should carefully consider these risk factors, as well as the other information contained in this prospectus.

Risks Related to Our Business and the Industries We Serve

We operate in evolving markets, which makes it difficult to evaluate our business and future prospects.

AgEagle's drone systems and solutions are and will be sold in new and rapidly evolving markets. The commercial UAV industry is in the early stages of customer adoption and the FAA's definition of regulations relating to the integration of commercial drones into the U.S. airspace is still ill-defined but advancing. Accordingly, our business and future prospects may be difficult to evaluate. We cannot accurately predict the extent to which demand for our drone systems and solutions will increase, if at all. The challenges, risks and uncertainties frequently encountered by companies in rapidly evolving markets could impact our ability to do the following:

- Generate sufficient revenue to achieve sustainable profitability;
- Acquire and maintain market share;
- Achieve or manage growth in our business operations;
- Renew contracts;
- Attract and retain software and system engineers and other highly qualified personnel;
- Successfully develop and commercial market new products and end-to-end solutions;
- Adapt to new or changing policies and spending priorities of prospective clients; and
- Access additional capital when required and on reasonable terms.

If we fail to address these and other challenges, risks and uncertainties successfully, our business, results of operations and financial condition would be materially harmed.

We have a history of operating losses and expect to incur significant additional operating expenses.

Through our wholly-owned subsidiary, AgEagle Aerial, Inc., we have been operating for approximately ten years. However, AgEagle Aerial, Inc. has only been in the UAV business for half of that time and just begun to operate in the hemp industry. We are currently in the business development stage and have limited commercial sales of our products and, accordingly, we cannot guarantee that we will become profitable. Moreover, even if we achieve profitability, given the competitive and evolving nature of the industries in which we operate, we may be unable to sustain or increase profitability and failure to do so would adversely affect its business, including our ability to raise additional funds.

We will need additional funding and may be unable to raise capital when needed, which would force us to delay, curtail or eliminate one or more of our research and development programs or commercialization efforts.

Our operations have consumed substantial amounts of cash since inception. We expect to continue to spend substantial amounts on product and software development. We will require additional funds to support our continued research and development activities, as well as the costs of commercializing, marketing and selling any new products and/or services resulting from those activities.

Until such time, if ever, that we can generate sufficient revenue and achieve profitability, we expect to seek to finance future cash needs through equity or debt financings or corporate collaborations and/or strategic arrangements. We currently have no other commitments or agreements relating to any of these types of transactions and cannot be certain that additional funding will be available on acceptable terms, or at all. If we are unable to raise additional capital, we may have to delay, curtail or eliminate commercializing, marketing and selling one or more of our solutions.

Product development is a long, expensive and uncertain process.

The development of both UAV software and hardware is a costly, complex and time-consuming process, and investments in product development often involve a long wait until a return, if any, can be achieved on such investment. We might face difficulties or delays in the development process that will result in our inability to timely offer products that satisfy the market, which might allow competing products to emerge during the development and certification process. We anticipate making significant investments in research and development relating to our products and services, but such investments are inherently speculative and require substantial capital expenditures. Any unforeseen technical obstacles and challenges that we encounter in the research and development process could result in delays in or the abandonment of product commercialization, may substantially increase development costs, and may negatively affect our results of operations.

Successful technical development of our products does not guarantee successful commercialization.

Although we have successfully completed the technical development of our two original UAV systems, as well as the *RX-60* and *RX-48* systems, and have developed or acquired several software platforms which we offer for sale or subscription, we may still fail to achieve commercial success for several reasons, including, among others, the following:

- failure to obtain the required regulatory approvals for their use;
- rapid obsolescence of a product due to new, more advanced technologies;
- prohibitive production costs;
- competing products;
- lack of product innovation;
- unsuccessful distribution and marketing through our sales channels;
- insufficient cooperation from our supply and distribution partners; and
- product development that does not align with or meet customer needs.

Our success in the market for the products and services we develop will depend largely on our ability to properly demonstrate their capabilities. Upon demonstration, our solutions may not have the capabilities they were designed to have or that we believed they would have. Furthermore, even if we do successfully demonstrate our products' capabilities, potential customers may be more comfortable doing business with a competitor; or may not feel there is a significant need for the products we develop. As a result, significant revenue from our current and new product investments may not be achieved for several years, if at all.

We face competition from other companies, many of which have substantially greater resources.

Our competitors may be able to provide customers with different or greater capabilities or benefits than we can provide in areas such as technical qualifications, past contract performance, geographic presence, price and the availability of key professional personnel. Furthermore, many of our competitors may be able to utilize their substantially greater resources and economies of scale to develop competing products and technologies, manufacture in high volumes more efficiently, divert sales away from us by winning broader contracts or hire away our employees by offering more lucrative compensation packages. Small business competitors may be able to offer more cost competitive solutions, due to their lower overhead costs. The markets for commercial drones and services are quickly expanding, and competition is intensifying as additional competitors enter the market and current competitors expand their product offerings. In order to secure contracts successfully when competing with larger, better financed companies, we may be forced to agree to contractual terms that provide for lower aggregate payments to us over the life of the contract, which could adversely affect our margins. Our failure to compete effectively with respect to any of these or other factors could have a material adverse effect on our business, prospects, financial condition or future operating results.

If we fail to protect our intellectual property rights, we could lose our ability to compete in the marketplace.

Our intellectual property and proprietary rights are important to our ability to remain competitive and successful in the development of our products and to our future growth potential. Patent protection can be limited and not all intellectual property can be patented. We expect to rely on a combination of patent, trademark, copyright and trade secret laws, as well as confidentiality and non-disclosure agreements and procedures, non-competition agreements and other contractual provisions to protect our intellectual property, other proprietary rights and our brand. As we currently do not have any granted patent or copyright protections, we must rely on trade secrets and nondisclosure agreements, which provide limited protections. Our intellectual property rights may be challenged, invalidated or circumvented by third parties. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by employees or competitors.

Furthermore, our competitors may independently develop technologies and products that are substantially equivalent or superior to our technologies and products, which could result in decreased revenues. Litigation may be necessary to enforce our intellectual property rights, which could result in substantial costs to us and substantial diversion of management's attention. If we do not adequately protect our intellectual property, our competitors could use it to enhance their products. Our inability to adequately protect our intellectual property rights could adversely affect our business and financial condition, and the value of our brand and other intangible assets.

Other companies may claim that we infringe their intellectual property, which could materially increase our costs and harm our ability to generate future revenue and profit.

We do not believe that our technologies infringe on the proprietary rights of any third party; however claims of infringement are becoming increasingly common and third parties may assert infringement claims against us. It may be difficult or impossible to identify, prior to receipt of notice from a third party, the trade secrets, patent position or other intellectual property rights of a third party, either in the United States or in foreign jurisdictions. Any such assertion may result in litigation or may require us to obtain a license for the intellectual property rights of third parties. If we are required to obtain licenses to use any third-party technology, we would have to pay royalties, which may significantly reduce any profit on our products. In addition, any such litigation could be expensive and disruptive to its ability to generate revenue or enter into new market opportunities. If any of our products were found to infringe other parties' proprietary rights and we are unable to come to terms regarding a license with such parties, we may be forced to modify our products to make them non-infringing or to cease production of such products altogether.

The nature of our business involves significant risks and uncertainties that may not be covered by insurance or indemnification.

We have developed and sold products and services in circumstances where insurance or indemnification may not be available, for example, in connection with the collection and analysis of various types of information. In addition, our products and services raise questions with respect to issues of civil liberties, intellectual property, trespass, conversion and similar concepts, which may create legal issues. Indemnification to cover potential claims or liabilities resulting from the failure of any technologies that we develop or deploy may be available in certain circumstances but not in others. Currently, the unmanned aerial systems industry lacks a formative insurance market. We may not be able to maintain insurance to protect against all operational risks and uncertainties that our customers confront. Substantial claims resulting from an accident, product failure, or personal injury or property liability arising from our products and services in excess of any indemnity or insurance coverage (or for which indemnity or insurance coverage is not available or is not obtained) could harm our financial condition, cash flows and operating results. Any accident, even if fully covered or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively.

We may incur substantial product liability claims relating to our products.

As a manufacturer of UAV products, and with aircraft and aviation sector companies under increased scrutiny, claims could be brought against us if use or misuse of one of our UAV products causes, or merely appears to have caused, personal injury or death. In addition, defects in our products may lead to other potential life, health and property risks. Any claims against us, regardless of their merit, could severely harm our financial condition, strain our management and other resources. We are unable to predict if we will be able to obtain or maintain product liability insurance for any products that may be approved for marketing.

One of our contracts related to manufacturing and assembly of drones for the purpose of package delivery contains performance obligations that require innovative design capabilities, are technologically complex, require state-of-the-art manufacturing and assembly expertise, or are dependent upon factors not wholly within our control. Failure to meet these obligations could adversely affect our growth and future prospects. Early termination of client contracts or contract penalties could adversely affect our revenues.

We design, develop, manufacture and assemble technologically advanced and innovative UAVs, which are expected to be applied by our first customer for drone-enabled package delivery in a variety of environments. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and intellectual property rights, labor, inability to achieve learning curve assumptions, manufacturing materials or components could prevent us from meeting contract requirements. Either we or the customer may generally terminate a contract as a result of a material uncured breach by the other. If we breach a contract or fail to perform in accordance with contractual service levels, delivery schedules, performance specifications, or other contractual requirements set forth in our contracted scope of services, the other party thereto may terminate such contract for default, and we may be required to refund money previously paid to us by the customer or to pay penalties or other damages. Even if we have not breached, we may deal with various situations from time to time that may result in the amendment or termination of a contract. These steps can result in significant current period charges and/or reductions in current or future revenue. Other factors that may affect revenue and future profitability include inaccurate cost estimates, design issues, unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management's focus in responding to unforeseen problems, and loss of follow-on work.

If our subcontractors or suppliers fail to perform their contractual obligations, our performance and reputation as a contractor and our ability to obtain future business could suffer.

As a prime contractor, we often rely upon other companies to perform work we are obligated to perform for our customers. As we secure more work under certain of our contracts, we expect to require an increasing level of support from subcontractors that provide complementary or supplementary services to our offers. We are responsible for the work performed by our subcontractors, even though in some cases we have limited involvement in that work. If one or more of our subcontractors fails to satisfactorily perform the agreed-upon services on a timely basis or violates contracting policies, laws or regulations, our ability to perform our obligations as a prime contractor or meet our customers' requirements may be compromised. In extreme cases, performance or other deficiencies on the part of our subcontractors could result in a customer terminating our contract for default. A termination for default could expose us to liability, including liability for the costs of re-procurement, could damage our reputation and could hurt our ability to compete for future contracts.

For certain of the components included in our products, there are a limited number of suppliers we can rely upon. If we are unable to obtain these components when needed, we could experience delays in the manufacturing of our products and our financial results could be adversely affected.

We acquire most of the components for the manufacture of our products from suppliers and subcontractors. We have not entered into any agreements or arrangements with any potential suppliers or subcontractors. Suppliers of some of the components may require us to place orders with significant lead-times to assure supply in accordance with its manufacturing requirements. Our present lack of working capital may cause us to delay the placement of such orders and may result in delays in supply. Delays in supply may significantly hurt our ability to fulfill our contractual obligations and may significantly hurt our business and result of operations. In addition, we may not be able to continue to obtain such components from these suppliers on satisfactory commercial terms. Disruptions of its manufacturing operations would ensue if we were required to obtain components from alternative sources, which would have an adverse effect on our business, results of operations and financial condition.

If we are unable to recruit and retain key management, technical and sales personnel, our business would be negatively affected.

For our business to be successful, we need to attract and retain highly qualified executive, technical and sales personnel. The failure to recruit additional key personnel when needed, with specific qualifications, on acceptable terms and with an ability to maintain positive relationships with our partners, might impede our ability to continue to develop, commercialize and sell our products and services. To the extent the demand for skilled personnel exceeds supply, we could experience higher labor, recruiting and training costs in order to attract and retain such employees. The loss of any members of our management team may also delay or impair achievement of our business objectives and result in business disruptions due to the time needed for their replacements to be recruited and become familiar with our business. We face competition for qualified personnel from other companies with significantly more resources available to them and thus may not be able to attract the level of personnel needed for our business to succeed.

If our proposed marketing efforts are unsuccessful, we may not earn enough revenue to become profitable.

Our future growth depends on our gaining market acceptance and regular production orders for our products and services. Our marketing plan includes attendance at trade shows, making private demonstrations, advertising, public relations, promotional materials and advertising campaigns in print and/or broadcast media. In the event we are not successful in obtaining a significant volume of orders for our products and services, we will face significant obstacles in expanding our business. We cannot give any assurance that our marketing efforts will be successful. If they are not, revenue may not be sufficient to cover our fixed costs and we may not become profitable.

Our operating margins may be negatively impacted by reduction in sales or products sold.

Expectations regarding future sales and expenses are largely fixed in the short term. We maintain raw materials and finished goods at a volume we feel is necessary for anticipated distribution and sales. Therefore, we may not be able to reduce costs in a timely manner to compensate for any unexpected shortfalls between forecasted and actual sales.

We face a significant risk of failure because we cannot accurately forecast our future revenues and operating results.

The rapidly changing nature of the markets in which we compete makes it difficult to accurately forecast our revenues and operating results. Furthermore, we expect our revenues and operating results to fluctuate in the future due to a number of factors, including the following:

- the timing of sales or subscription of our products;
- unexpected delays in introducing new products and services;
- increased expenses, whether related to sales and marketing or administration; and
- costs related to possible acquisitions of businesses.

Rapid technological changes may adversely affect the market acceptance of our products and could adversely affect our business, financial condition and results of operations.

The markets in which we compete are subject to technological changes, introduction of new products, change in customer demands and evolving industry standards. Our future success will depend upon our ability to keep pace with technological developments and to timely address the increasingly sophisticated needs of our customers by supporting existing and new technologies and by developing and introducing enhancements to our current products and services and new products and services. We may not be successful in developing and marketing enhancements to our products that will respond to technological change, evolving industry standards or customer requirements. In addition, we may experience difficulties internally or in conjunction with key vendors and partners that could delay or prevent the successful development, introduction and sale of such enhancements and such enhancements may not adequately meet the requirements of the market and may not achieve any significant degree of market acceptance. If release dates of our new products or enhancements are delayed or, if when released, they fail to achieve market acceptance, our business, operating results and financial condition may be adversely affected.

Failure to obtain necessary regulatory approvals from the FAA or other governmental agencies, or limitations put on the use of small UAS in response to public privacy concerns, may prevent us from expanding the sales of our drone solutions to commercial and industrial customers in the United States.

The regulation of small UAS for commercial use in the United States is undergoing substantial change and the ultimate treatment is uncertain. In 2006, the FAA issued a clarification of its existing policies stating that in order to engage in commercial use of small UAS in the U.S. National Airspace System, a public operator must obtain a COA from the FAA or fly in restricted airspace. The FAA's COA approval process requires that the public operator certify the airworthiness of the aircraft for its intended purpose, that a collision with another aircraft or other airspace user is extremely improbable, that the small unmanned aircraft system complies with appropriate cloud and terrain clearances and that the operator or spotter of the small unmanned aircraft system is generally within one half-mile laterally and 400 feet vertically of the small unmanned aircraft system while in operation. Furthermore, the FAA's clarification of existing policy stated that the rules for radio-controlled hobby aircraft do not apply to public or commercial use of small UAS.

On February 14, 2012, the FAA Modernization and Reform Act of 2012 was enacted, establishing various deadlines for the FAA to allow expanded use of small UAS for both public and commercial applications. On June 21, 2016, the FAA released its final rules regarding the routine use of certain small UAS (under 55 pounds) in the U.S. National Airspace System pursuant to the act (the "Part 107 Rules"). The Part 107 Rules, which became effective in August 2016, provided safety regulations for small UAS conducting non-recreational operations and contain various limitations and restrictions for such operations, including a requirement that operators keep UAS within visual-line-of-sight and prohibiting flights over unprotected people on the ground who are not directly participating in the operation of the UAS. On December 28, 2020, the FAA announced final rules requiring remote identification of drones and allowing operators of small drones to fly over people and at night under certain conditions. We cannot assure you that any final rules enacted in furtherance of the FAA's announced proposals will result in the expanded use of our drones and drone solutions by commercial and industrial entities. In addition, there exists public concern regarding the privacy implications of U.S. commercial use of small UAS. This concern has included calls to develop explicit written policies and procedures establishing usage limitations. We cannot assure you that the response from regulatory agencies, customers and privacy advocates to these concerns will not delay or restrict the adoption of small UAS by the commercial use markets.

Federal, state and tribal government regulation of domestic hemp cultivation is new and subject to constant change and evolution, and unfavorable developments could have an adverse effect on our operating results.

Any changes in laws or regulations relating to domestic hemp cultivation could adversely affect our business, results of operations and our business prospects for our *Hemp Overview* SaaS platform.

Our future results may be affected by various legal and regulatory proceedings and legal compliance risks, including those involving product liability, antitrust, intellectual property, environmental, regulations of the FAA, regulations of the USDA and state or tribal departments of agriculture, the U.S. Foreign Corrupt Practices Act and other anti-bribery, anti-corruption or other matters.

The outcome of any future legal proceedings may differ from our expectations because the outcomes of litigation, including regulatory matters, are often difficult to reliably predict. Various factors or developments can lead us to change current estimates of liabilities and related insurance receivables where applicable; or make such estimates for matters previously not susceptible of reasonable estimates, such as a significant judicial ruling or judgment, a significant settlement, significant regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in future charges that could have a material adverse effect on our results of operations or cash flows in any particular period. We are not currently involved in or subject to any such legal or regulatory proceedings, but we cannot guarantee that such proceedings may not occur in the future.

We may pursue additional strategic transactions in the future, which could be difficult to implement, disrupt our business or change our business profile significantly.

We intend to consider additional potential strategic transactions, which could involve acquisitions of businesses or assets, joint ventures or investments in businesses, products or technologies that expand, complement or otherwise relate to our current or future business. We may also consider, from time to time, opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. Should our relationships fail to materialize into significant agreements, or should we fail to work efficiently with these companies, we may lose sales and marketing opportunities and our business, results of operations and financial condition could be adversely affected.

These activities, if successful, create risks such as, among others: (i) the need to integrate and manage the businesses and products acquired with our own business and products; (ii) additional demands on our resources, systems, procedures and controls; (iii) disruption of our ongoing business; (iv) potential unknown or unquantifiable liabilities associated with the target company; and (v) diversion of management's attention from other business concerns. Moreover, these transactions could involve: (a) substantial investment of funds or financings by issuance of debt or equity securities; (b) substantial investment with respect to technology transfers and operational integration; and (c) the acquisition or disposition of product lines or businesses. Also, such activities could result in one-time charges and expenses and have the potential to either dilute the interests of our existing shareholders or result in the issuance of, or assumption of debt. Such acquisitions, investments, joint ventures or other business collaborations may involve significant commitments of financial and other resources. Any such activities may not be successful in generating revenue, income or other returns, and any resources we committed to such activities will not be available to us for other purposes. Moreover, if we are unable to access the capital markets on acceptable terms or at all, we may not be able to consummate acquisitions, or may have to do so on the basis of a less than optimal capital structure. Our inability to take advantage of growth opportunities or address risks associated with acquisitions or investments in businesses may negatively affect our operating results.

Additionally, any impairment of goodwill or other intangible assets acquired in an acquisition or in an investment, or charges to earnings associated with any acquisition or investment activity, may materially reduce our earnings. Future acquisitions or joint ventures may not result in their anticipated benefits and we may not be able to properly integrate acquired products, technologies or businesses with our existing products and operations or successfully combine personnel and cultures. Failure to do so could deprive us of the intended benefits of those acquisitions.

Breaches of network or information technology security could have an adverse effect on our business.

Cyber-attacks or other breaches of network or IT security may cause equipment failures or disrupt our systems and operations. We may be subject to attempts to breach the security of our networks and IT infrastructure through cyber-attack, malware, computer viruses and other means of unauthorized access. The potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our facilities as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share to other competitors in the defense electronics market. In addition, a failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. To date, we have not been subject to cyber-attacks or other cyber incidents which, individually or in the aggregate, resulted in a material adverse effect on our business, operating results and financial condition.

The preparation of our financial statements involves use of estimates, judgments and assumptions, and our financial statements may be materially affected if our estimates prove to be inaccurate.

Financial statements prepared in accordance with generally accepted accounting principles in the United States require the use of estimates, judgments, and assumptions that affect the reported amounts. Different estimates, judgments, and assumptions reasonably could be used that would have a material effect on the financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. These estimates, judgments, and assumptions are inherently uncertain, and, if they prove to be wrong, then we face the risk that charges to income will be required.

Our results could be adversely affected by natural disasters, public health crises, political crises or other catastrophic events.

Natural disasters, such as hurricanes, tornadoes, floods, earthquakes and other adverse weather and climate conditions; unforeseen public health crises, such as pandemics and epidemics; political crises, such as terrorist attacks, war, labor unrest, and other political instability; or other catastrophic events, such as disasters occurring at our manufacturing facilities, could disrupt our operations or the operations of one or more of our vendors. In particular, these types of events could impact our product supply chain from or to the impacted region and could impact our ability to operate. In addition, these types of events could negatively impact consumer spending in the impacted regions. Disasters occurring at our manufacturing facilities could impact our reputation and our customers' perception of our brands. To the extent any of these events occur, our operations and financial results could be adversely affected.

Our business may be adversely affected by the ongoing coronavirus pandemic.

The outbreak of the novel coronavirus (COVID-19) has evolved into a global pandemic. The coronavirus has spread to many regions of the world, including the United States. The extent to which COVID-19 impacts our business and operating results will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19 and the actions to contain the coronavirus or treat its impact, among others.

Should the coronavirus continue to spread, our business operations could be delayed or interrupted. For instance, we currently utilize third parties to, among other things, manufacture components and parts for the proprietary and contracted drones we produce, and to perform quality testing. We also manufacture and assemble products and perform various services at our manufacturing facility. If either we or any third-parties in the supply chain for materials used in our manufacturing and assembly processes are adversely impacted by restrictions resulting from the coronavirus pandemic, our supply chain may be disrupted, limiting our ability to manufacture and assemble products.

The spread of the coronavirus, which has caused a broad impact globally, including restrictions on travel and quarantine policies put into place by businesses and governments, may have a material economic effect on our business. While the potential economic impact brought on by and the duration of the pandemic may be difficult to assess or predict, it has already caused, and is likely to result in further, significant disruptions of global financial markets, which may reduce our ability to access capital either at all or on favorable terms. In addition, a recession, depression or other sustained adverse market event resulting from the spread of the coronavirus could materially and adversely affect our business and the value of our Common Stock.

The ultimate impact of the current pandemic, or any other health epidemic, is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business or the global economy as a whole. However, these effects could have a material impact on our operations. We will continue to monitor the situation closely.

Worldwide and domestic economic trends and financial market conditions, including an economic decline in the agricultural industry, may adversely affect our operating performance.

We intend to distribute our products and services in a number of countries and derive revenues from both inside and outside the United States. We expect our business will be subject to global competition and may be adversely affected by factors in the United States and other countries that are beyond our control, such as disruptions in financial markets, economic downturns in the form of either contained or widespread recessionary conditions, elevated unemployment levels, sluggish or uneven recovery, in specific countries or regions, or in the agricultural industry; social, political or labor conditions in specific countries or regions; natural and other disasters affecting our operations or our customers and suppliers; or adverse changes in the availability and cost of capital, interest rates, tax rates, or regulations in the jurisdictions in which we operate. Unfavorable global or regional economic conditions, including an economic decline in the agricultural industry, could adversely impact our business, liquidity, financial condition and results of operations.

Our senior management and key employees are important to our customer relationships and overall business.

We believe that our success depends in part on the continued contributions of our senior management and key employees. We rely heavily on our executive officers, senior management and key employees to generate business and execute programs successfully. In addition, the relationships and reputation that members of our management team and key employees have established and maintain with certain key customers continue to our ability to maintain good customer relations and to identify new business opportunities. The loss of any of our executive officers, members of our senior management team or key employees could significantly delay or prevent the achievement of our business objectives and could materially harm our business and customer relationships and impair our ability to identify and secure new contracts and otherwise manage our business.

We indemnify our officers and directors against liability to us and our security holders, and such indemnification could increase our operating costs.

Our bylaws allow us to indemnify our officers and directors against claims associated with carrying out the duties of their offices. Our bylaws also allow us to reimburse them for the costs of certain legal defenses. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our officers, directors or control persons, the SEC has advised that such indemnification is against public policy and is therefore unenforceable.

Risks Associated with Our Capital Stock

The market price of our securities may be volatile and may fluctuate in a way that is disproportionate to our operating performance.

Our securities may experience substantial volatility as a result of a number of factors, including, among others:

- sales or potential sales of substantial amounts of our Common Stock;
- announcements about us or about our competitors or new product introductions;
- developments concerning our product manufacturers;
- the loss or unanticipated underperformance of our global distribution channel;
- litigation and other developments relating to our patents or other proprietary rights or those of our competitors;
- conditions in the UAV, domestic hemp cultivation and drone-enabled package delivery industries;
- governmental regulation and legislation;
- variations in our anticipated or actual operating results;
- changes in securities analysts' estimates of our performance, or our failure to meet analysts' expectations;
- foreign currency values and fluctuations; and
- overall political and economic conditions.

Many of these factors are beyond our control. The stock markets have historically experienced substantial price and volume fluctuations. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. These broad market and industry factors could reduce the market price of our securities, regardless of our actual operating performance.

We do not intend to pay cash dividends. As a result, capital appreciation, if any, will be your sole source of gain.

We intend to retain future earnings, if any, to fund the development and growth of our business. In addition, the terms of existing and future debt agreements may preclude us from paying dividends. As a result, capital appreciation, if any, from the sale of our Common Stock will be your sole source of gain for the foreseeable future.

Provisions in our articles of incorporation, our by-laws and Nevada law might discourage, delay or prevent a change in control of our company or changes in our management and, therefore, depress the trading price of our Common Stock.

Provisions of our Articles of Incorporation, our By-Laws and Nevada law may have the effect of deterring unsolicited takeovers or delaying or preventing a change in control of our Company or changes in our management, including transactions in which our stockholders might otherwise receive a premium for their shares over then current market prices. In addition, these provisions may limit the ability of stockholders to approve transactions that they may deem to be in their best interests. These provisions include:

- the inability of stockholders to call special meetings; and
- the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval, which could include the right to approve an acquisition or other change in our control or could be used to institute a rights plan, also known as a poison pill, that would work to dilute the stock ownership of a potential hostile acquirer, likely preventing acquisitions that have not been approved by our board of directors.

The existence of the forgoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our Common Stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your Common Stock in an acquisition.

We will incur increased costs as a result of operating as a public reporting company, and our management will be required to devote substantial time to new compliance initiatives.

As a public reporting company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002 and rules subsequently implemented by the SEC, have imposed various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time consuming and costly. For example, we expect that these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance.

We currently have outstanding, and we may in the future issue, instruments which are convertible into shares of Common Stock, which will result in additional dilution to our shareholders.

We currently have an outstanding instrument which is convertible into shares of Common Stock, and we may need to issue similar instruments in the future. In the event that these convertible instruments are converted into shares of outstanding Common Stock, or that we make additional issuances of other convertible or exchangeable securities, you could experience additional dilution. Furthermore, we cannot assure you that we will be able to issue shares or other securities in any other offering at a price per share that is equal to or greater than the price per share paid by investors or the then current market price.

FINRA sales practice requirements may limit a stockholder's ability to buy and sell our securities.

The Financial Industry Regulatory Authority, Inc. ("FINRA") has adopted rules that a broker-dealer must have reasonable grounds for believing that an investment recommended to a customer is suitable for that customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives, and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low-priced securities will not be suitable for certain customers. FINRA requirements will likely make it more difficult for broker-dealers to recommend that their customers buy our Common Stock, which may have the effect of reducing the level of trading activity in the shares, resulting in fewer broker-dealers may be willing to make a market in our shares, potentially reducing a stockholder's ability to resell our securities.

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our shares or if our results of operations do not meet their expectations, the price of our securities and trading volume could decline.

The trading market for our securities will be influenced by the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If one or more of these analyst's cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock, or if our results of operations do not meet their expectations, the price of our securities could decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company leases a building located at 8863 E. 34th Street North, Wichita, Kansas 67226, which serves as our corporate headquarters and manufacturing facility. The commencement date of the lease was November 1, 2020 and will expire on October 31, 2023, unless sooner terminated or extended. The aggregate estimated rent payments due over the initial three-year term is \$297,000. The landlord may grant the Company the option to extend the term for an additional 36 months. The aggregate estimated rent payments due over the option term would be \$314,640.

Previously the Company leased manufacturing space located at 117 South 4th Street, Neodesha, Kansas 66757. This served as our corporate headquarters and manufacturing facility. The facility was a lease of 4,000 square feet at a cost of \$600 per month. This lease was officially terminated on November 30, 2020.

As a result of the Agribotix acquisition, the Company assumed a lease for offices in Boulder, Colorado for \$2,000 a month. The lease was officially terminated on November 30, 2020. Due to the COVID-19 pandemic and our intention to protect the health and safety of our employees, our workforce in Colorado has been working from their respective home offices. Once the nation's vaccination program gains greater momentum or herd immunity is achieved, we expect to lease new commercial office space in or around Denver, Colorado, which may occur later this year.

ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings

From time to time, we may become involved in lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Although we currently maintain liability insurance coverage intended to cover professional liability and certain other claims, we cannot assure that our insurance coverage will be adequate to cover liabilities arising out of claims asserted against us in the future where the outcomes of such claims are unfavorable to us. Liabilities in excess of our insurance coverage, including coverage for professional liability and certain other claims, could have a material adverse effect on our business, financial condition and results of operations.

Lopez v. AgEagle Aerial Systems, Inc., et al., Case No. 2:21-cv-01810 (C.D. Cal.)

On February 26, 2021, Shawn Lopez filed a shareholder class action complaint in the U.S. District Court for the Central District of California seeking unspecified monetary damages for alleged violations of the United States Securities Exchange Act of 1934 during the period from September 2, 2019 to February 18, 2021 against AgEagle Aerial Systems, Inc. (“AgEagle” or the “Company”), J. Michael Drozd, Nicole Fernandez-McGovern, Bret Chilcott, and Barrett Mooney (the “Defendants”). The case is captioned Lopez v. AgEagle Aerial Systems, Inc., et al., Case No. 2:21-cv-01810 (C.D. Cal.) and was assigned to District Judge Christina A. Snyder and Magistrate Judge Charles F. Eick. Plaintiff’s initial complaint alleges, among other things, that Defendants purportedly violated the securities laws by making or approving statements that contained allegedly false representations concerning the Company’s business relationship with an e-commerce company.

Madrid v. AgEagle Aerial Systems, Inc., et al., Case No. 2:21-cv-01991 (C.D. Cal.)

On March 4, 2021, Cristian Jesus Merino Madrid filed a shareholder class action complaint in the U.S. District Court for the Central District of California seeking unspecified monetary damages for alleged violations of the United States Securities Exchange Act of 1934 during the period from September 2, 2019 to February 18, 2021 against AgEagle Aerial Systems, Inc. (“AgEagle” or the “Company”), J. Michael Drozd, Nicole Fernandez-McGovern, Bret Chilcott, and Barrett Mooney (captioned Madrid v. AgEagle Aerial Systems, Inc., et al., Case No. 2:21-cv-01991 (C.D. Cal.)) (the “Defendants”). Plaintiff’s initial complaint alleges, similar to the Lopez case described above, that Defendants, among other things, purportedly violated the securities laws by making or approving statements that contained allegedly false representations concerning the Company’s business relationship with an e-commerce company.

On March 9, 2021, this case was transferred to District Judge Christina A. Snyder and Magistrate Judge Charles F. Eick as a related case to Lopez v. AgEagle Aerial Systems, Inc., et al., Case No. 2:21-cv-01810.

Nostrand and Rickerson v. Mooney et al. (Defendants) and AgEagle Aerial Systems, Inc. (Nominal Defendant), Case No. 3:21-cv-00130 (D. Nev.)

On March 17, 2021, John Nostrand and Drew Rickerson filed a shareholder derivative complaint on behalf of nominal defendant AgEagle Aerial Systems, Inc. (“AgEagle” or the “Company”) against Barrett Mooney, Grant Begley, Luisa Ingarolia, Thomas Gardner, Bret Chilcott, J. Michael Drozd, and Nicole Fernandez-McGovern, seeking unspecified monetary damages and other relief for the benefit of the Company for alleged breaches of fiduciary duties and violations of the United States Securities Exchange Act of 1934 for the period September 3, 2019 to the present. Plaintiffs’ complaint alleges, among other things, that Defendants purportedly breached their fiduciary duties and violated the securities laws by making or approving statements that contained allegedly false representations concerning the Company’s business relationship with an e-commerce company.

The Company believes that each of the foregoing complaints are without merit and intends to vigorously defend itself against each of these claims.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is currently quoted on the NYSE American under the symbol “UAVS.”

The following table sets forth, for the period indicated, the quarterly high and low closing sales prices per share of our Common Stock for each quarter during our last two fiscal years, as well as a large portion of our first quarter in 2021, of as reported by the New York Stock Exchange.

| 2021 | High | Low |
|--|-------------|------------|
| First Quarter (through March 15, 2021) | \$ 15.69 | \$ 5.47 |
| 2020 | | |
| | High | Low |
| First Quarter | \$ 0.72 | \$ 0.30 |
| Second Quarter | \$ 2.30 | \$ 0.34 |
| Third Quarter | \$ 3.42 | \$ 1.15 |
| Fourth Quarter | \$ 7.93 | \$ 1.98 |
| 2019 | | |
| | High | Low |
| First Quarter | \$ 0.58 | \$ 0.41 |
| Second Quarter | \$ 0.42 | \$ 0.23 |
| Third Quarter | \$ 0.33 | \$ 0.23 |
| Fourth Quarter | \$ 0.65 | \$ 0.31 |

As of March 15, 2021, we had approximately 338 individual shareholders of record of our Common Stock. We believe that the number of beneficial owners of our Common Stock is greater than the number of record holders, because a number of shares of our Common Stock is held through brokerage firms in “street name.”

Dividend Policy

We do not intend to pay cash dividends to our stockholders in the foreseeable future. We currently intend to retain all of our available funds and future earnings, if any, to finance the growth and development of our business. Any future determination related to our dividend policy will be made at the discretion of our Board of Directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, contractual restrictions, business prospects and other factors our Board of Directors may deem relevant.

Equity Compensation Plan

The following table provides information as of December 31, 2020 about our equity compensation plan and arrangements:

| Plan category | Number of securities to be issued upon exercise of outstanding options and restricted stock units | Weighted-average exercise price of outstanding options, and restricted stock units | Number of securities remaining available for future issuance under equity compensation plans |
|--|--|---|---|
| Equity compensation plans approved by security holders | 2,525,267 | \$ 1.38 | 732,035 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 2,525,267 | \$ 1.38 | 732,035 |

Recent Sales of Unregistered Securities

None

Purchases of Equity Securities by Issuer and Its Affiliates

None.

ITEM 6. SELECTED FINANCIAL DATA

This item is not required for Smaller Reporting Companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described. This discussion should be read in conjunction with our Consolidated Financial Statements and the related notes included in Item 8 of this Form 10-K. This discussion contains forward-looking statements. Please see the explanatory note concerning "Forward-Looking Statements" in Part I of this Annual Report on Form 10-K and Item 1A. Risk Factors for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. The operating results for the periods presented were not significantly affected by inflation.

Company Overview

AgEagle™ Aerial Systems Inc. ("AgEagle," "the Company," "us," "we," "our") produces, supports and operates technologically advanced drone systems and solutions for the fast-emerging unmanned aerial vehicle ("UAV") industry. We are engaged in delivering the metrics, tools and strategies necessary to invent and implement drone-enabled solutions that solve important problems for our valued customers. With our founding premise rooted in high performance, next-level thinking, and technological innovation, AgEagle is intent on ensuring that new standards for quality U.S. manufacturing and the provision of precision-crafted, purpose-built drone systems and solutions are delivered to empower our customers to thrive and prosper in The Drone Age.™

Founded in 2010, AgEagle was originally formed to pioneer proprietary, professional-grade, fixed-wing drones and aerial imagery-based data collection and analytics solutions for the agriculture industry. In addition to selling our innovative drones to the precision and sustainable farming markets, AgEagle's innovative data collection and analytics solutions have processed more than two million acres of crops, analyzing data from over 50 countries and 53 different crop types, and creating more than 11,000 crop reports for its users. AgEagle remains intent on earning distinction as a trusted partner to clients seeking to adopt and support productive agricultural approaches to improve farming practices which currently limit the impact on our natural resources, reduce reliance on inputs and materially increase crop yields and profits.

In the first half of 2019, the Company introduced *HempOverview*, a scalable, responsive and cost-effective SaaS web- and map-based technology platform to support the operations of domestic industrial hemp programs for state and tribal nation departments of agriculture – a solution that provides users with what the Company believes is the gold standard for regulatory oversight, operational assistance and reporting capabilities for the fast emerging industrial hemp industry.

Over the past decade, the broader drone market has continued to evolve and expand. As a result, economic and productivity benefits made possible by drones is fueling global demand for high quality, safe and reliable drone systems and solutions for commercial applications well beyond agriculture. In response, AgEagle is now leveraging our technological expertise and drone engineering and manufacturing experience to penetrate new, high growth market sectors; namely, drone package delivery, public safety/security, large venue decontamination and infrastructure/ inspection, among other high growth market opportunities.

AgEagle's key growth objectives are centered on three primary areas of focus:

- 1) **Ag Solutions:** Leveraging our reputation as one of the leading technology solutions providers to the agriculture industry to increase market share through delivery of best-in-class drones, sensors and data analytics for hemp and other commercial crops;
- 2) **Drone Manufacturing:** Establishing AgEagle as the dominant commercial drone design, engineering, manufacturing, assembly and testing company in the United States; and
- 3) **Drone Solutions:** Establishing the Company as one of the industry's leading American-made trusted source for turnkey, end-to-end, tailored drone solutions to the world.

We intend to grow our business by preserving a leadership position in our core Ag Solutions business; providing quality contract manufacturing, assembly and testing services; and innovating new customer-focused drone systems and solutions to capture significant share of the broader commercial drone market. In addition, we expect to accelerate our growth and expansion through strategic acquisitions of drone-related companies offering distinct technological and competitive advantages and have defensible IP protection in place, if applicable.

Key Growth Strategies

We intend to grow our business by achieving greater market penetration of the growing precision agriculture marketplace; by promoting our new service targeting the sustainable agriculture marketplace for the 2021 growing season; and by creating new, easier to use and higher value products that position AgEagle as a leading innovator and trusted solutions provider in high growth markets where advanced aerial imaging and data capture and analytics technologies can be used to achieve specific business and sustainability objectives. Currently, our management is actively exploring new vertical expansion opportunities in other industries outside of agriculture and its related areas, including drone-enabled package delivery. In addition to drone package deliveries, we believe that our solutions and services may also be well suited for use in decontamination, mapping and surveying, mining/resource exploration, insurance inspection and infrastructure/asset inspection, among other industrial applications.

Key components of our growth strategy include the following:

- **Achieving greater market penetration of the U.S. industrial hemp industry by working to establish *HempOverview* and other related products and services as the gold industry standard for hemp cultivation oversight, compliance, enforcement and commerce.** AgEagle is – and intends to remain – at the leading edge of leveraging best-in-class technology to provide turnkey solutions for state and tribal regulatory departments of agriculture, industrial hemp and hemp-derived CBD growers and processors. At this time, AgEagle believes that it is the only company in the nation with extensive experience in agriculture that is effectively addressing the emerging needs and challenges of the domestic hemp cultivation industry through the application of advanced technology – a key competitive differential that the Company hopes to continue capitalizing on in the coming year.
- **Deliver new and innovative solutions.** AgEagle's research and development efforts are the foundation of the Company, and we intend to continue investing in our own innovations, pioneering new and enhanced products and solutions that enable us to satisfy the Company's customers – both in response to and in anticipation of their needs. AgEagle believes that by investing in research and development, the Company can be a leader in delivering innovative drone systems and solutions that address market needs within our current target markets, enabling us to create new opportunities for growth.
- **Continue to expand the AgEagle platform of drone systems and solutions into other industries beyond agriculture and commercial package delivery.** The Company is actively pursuing opportunities outside of agriculture as we continue to expand and grow the AgEagle platform. We are confident in the UAV systems, services and solutions we offer today and believe that these systems, services and solutions could provide other drone industry sectors the same kind of optimization we are currently providing the agriculture industry. Expansion initiatives include the provision of quality contract manufacturing, design and engineering, assembly and testing of advanced drones and drone-related equipment, as well as turnkey drone solutions for the broader drone market.

- **Growth through acquisition.** Through successful execution of our growth-through-acquisition strategies, we intend to acquire technologically-advanced drone-related companies and intellectual property that complement and strengthen our value proposition to the market. We believe that by investing in complementary acquisitions, we can accelerate our revenue growth and deliver a broader array of innovative drone systems and solutions that address specialized market needs within our current target markets and in emerging drone industry sectors.

Competitive Strengths

AgEagle believes the following attributes and capabilities provide us with long-term competitive advantages:

- **Proprietary technologies, in-house capabilities and industry experience** - We believe our decade of experience in commercial drone design and engineering; in-house manufacturing, assembly and testing capabilities; and advanced technology development skillset serve to differentiate AgEagle in the marketplace. As of today, we develop and manufacture all the drone systems and solutions we produce in the United States, which allows us to avoid many of the potential difficulties that could arise if our engineering and manufacturing operations were otherwise located outside of the country. In addition, AgEagle is committed to meeting and exceeding quality and safety standards for manufacturing, assembly, design and engineering and testing of drones, drone subcomponents and related drone equipment in our Wichita-based manufacturing operations.
- **Advanced technology solutions allow users to remove the guesswork in effectively managing hemp cultivation oversight, compliance, enforcement, reporting and commerce** - To our knowledge, there is no other SaaS solution available on the market today – particularly one that has been developed by a proven Agtech company with the level of experience and expertise of AgEagle – that provides the multi-faceted level of support and services that *HempOverview* offers to all stakeholders in the industry.
- **Increased margins for farmers** - We believe our drones and drone solutions directly enhance margins for commercial farmers by reducing the amount of nutrients and chemicals needed to manage their farms. The software equipped on our UAVs deliver a high-quality aerial map upon completion of the flight, allowing the user to accurately identify the specific areas that are malnourished. This software is compatible with precision applicator tractors, which assist users in applying a precise amount of nutrients in only the areas it is needed. In addition, Our UAVs are specially designed to provide users with a portable and easy to operate device, which can be controlled with a hand-held unit or tablet. Through our *FarmLens* platform, users are able to plan and track an efficient flight path for their UAV. The UAVs are equipped with a camera and NIR filter whose images provide a holistic aerial view of the fields, along with meaningful data that is uploaded and delivered to the user within a very short time frame. As a result, this platform allows users to quickly detect any issues in their crops, which enables them to address such issues in a timely manner before any damage, or further damage, may affect their crops.
- **Expertise in drone delivery** – Since 2019, AgEagle has been actively engaged in the custom manufacturing and assembly of drones and drone equipment used for the testing and refining of a world leading ecommerce company’s commercial drone small package delivery vehicles, systems and operations. As a result, we are uniquely positioned to collaborate with other organizations seeking to activate and accelerate adoption of end-to-end drone delivery solutions to drive new and differentiated value creation in their business-to-business or business-to-consumer operations.
- **Leading-edge research and delivery** – In order to propel functional commercial applications of drone solutions in real world, real-time environments, and to best aid in the determination and ultimate adoption of a regulatory framework to guide and direct mainstream commercial use of drones beyond visual line of sight, AgEagle is a lead participant in the FAA’s BEYOND program in Kansas and is actively engaged in partnering with other leading drone solutions companies on pilot projects with long-term commercial potential.

Impact of COVID-19 On Our Business Operations

The outbreak of the novel coronavirus (COVID-19) has evolved into a global pandemic. The coronavirus has spread to many regions of the world, including the United States. The extent to which COVID-19 impacts our business and operating results will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning COVID-19 and the actions to contain the coronavirus or treat its impact, among others.

Should the coronavirus continue to spread, our business operations could be delayed or interrupted. For instance, we currently utilize third parties to, among other things, manufacture components and parts for the proprietary and contracted drones we produce, and to perform quality testing. We also manufacture and assemble products and perform various services at our manufacturing facility. If either we or any third-parties in the supply chain for materials used in our manufacturing and assembly processes are adversely impacted by restrictions resulting from the coronavirus pandemic, our supply chain may be disrupted, limiting our ability to manufacture and assemble products.

The spread of the coronavirus, which has caused a broad impact globally, including restrictions on travel and quarantine policies put into place by businesses and governments, may have a material economic effect on our business. While the potential economic impact brought on by and the duration of the pandemic may be difficult to assess or predict, it has already caused, and is likely to result in further, significant disruptions of global financial markets, which may reduce our future ability to access capital either at all or on favorable terms. In addition, a recession, depression or other sustained adverse market event resulting from the spread of the coronavirus could materially and adversely affect our business and the value of our Common Stock.

The ultimate impact of the current pandemic, or any other health epidemic, is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business or the global economy as a whole. However, these effects could have a material impact on our operations in the future. We will continue to monitor the situation closely.

During the year ended December 31, 2020, in addition to complying with 'shelter at home' mandates in those states affecting our employees, most of whom worked virtually from their homes, our supply chain was adversely impacted by the pandemic, causing material delays in the delivery of critical supply orders associated with timely fulfilling our obligations to our large ecommerce client. As a consequence, revenues originally expected to be reported in the second quarter 2020 were reported in the third quarter 2020 results.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Our most critical estimates include those related to revenue recognition, inventories and reserves for excess and obsolescence, accounting for stock-based awards, and income taxes. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting estimates affect the more significant judgments and estimates used in preparing our consolidated financial statements. Please see Note 2 to our consolidated financial statements, which are included in Item 8 "Financial Statements and Supplementary Data" of this Annual Report, for our Summary of Significant Accounting Policies. There have been no material changes made to the critical accounting estimates during the periods presented in the consolidated financial statements.

Revenue Recognition

The majority of our revenue is generated pursuant to written contractual arrangements to develop, manufacture and/or modify complex drone related products, and to provide associated engineering, technical and other services according to customer specifications. These contracts are a fixed price and we account for all revenue contracts in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). Under fixed-price contracts, we agree to perform the specified work for a pre-determined price. To the extent our actual costs vary from the estimates upon which the price was negotiated, we will generate more or less profit or could incur a loss. We account for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

Topic 606 requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services and recognize revenue under the new standard as costs are incurred. Under previous U.S. generally accepted accounting principles (GAAP), revenue was generally recognized when deliveries were made, performance milestones were attained, or as costs were incurred. The new standard accelerates the timing of when the revenue is recognized, however, it does not change the total amount of revenue recognized on our UAVS contracts. The new standard does not affect revenue recognition for purposes of our UAVS or software subscription sales as each of the Company's revenue transactions represent a single performance obligation that is satisfied at a point in time or monthly subscription fees which are recognized ratably over the subscription period, as defined in the new ASU. Accordingly, the Company recognizes revenue for small UAS product contracts with customers at the point in time when the transfer of control passes to the customer, which is generally upon delivery.

Inventories and Reserve for Obsolescence

Our policy for valuation of inventory, including the determination of obsolete inventory, requires us to perform a detailed assessment of inventory at each balance sheet date, which includes a review of, among other factors, an estimate of future demand for products within specific time horizons, valuation of existing inventory, as well as product lifecycle and product development plans. Inventory reserves are also provided to cover risks arising from slow-moving items. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated net realizable value based on assumptions about future demand and market conditions. We may be required to record additional inventory write-downs if actual market conditions are less favorable than those projected by our management.

Goodwill and Intangible Assets

The assets and liabilities of acquired businesses are recorded under the acquisition method of accounting at their estimated fair values at the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying identifiable net assets of acquired businesses. Intangible assets from acquired businesses are recognized at fair value on the acquisition date and consist of customer programs, trademarks, customer relationships, technology and other intangible assets. Customer programs include values assigned to major programs of acquired businesses and represent the aggregate value associated with the customer relationships, contracts, technology and trademarks underlying the associated program and are amortized on a straight-line basis over a period of expected cash flows used to measure fair value, which ranges from four to five years.

Our goodwill balance was \$3.1 million at December 31, 2020 and \$3.1 million at December 31, 2019. We perform an annual impairment test of our goodwill at least annually in the fourth quarter or more frequently whenever events or changes in circumstances indicate the carrying value of goodwill may be impaired. Such events or changes in circumstances may include a significant deterioration in overall economic conditions, changes in the business climate of our industry, a decline in our market capitalization, operating performance indicators, competition, reorganizations of our business. Our goodwill has been allocated to and is tested for impairment at a level referred to as the business segment. The level at which we test goodwill for impairment requires us to determine whether the operations below the business segment constitute a self-sustaining business for which discrete financial information is available and segment management regularly reviews the operating results.

We use a quantitative approach when testing goodwill. To perform the quantitative impairment test, we compare the fair value of a reporting unit to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is not impaired. If the carrying value of the reporting unit, including goodwill, exceeds its fair value, a goodwill impairment loss is recognized in an amount equal to that excess. We generally estimate the fair value of each reporting unit using a combination of a discounted cash flow (DCF) analysis and market-based valuation methodologies such as comparable public company trading values and values observed in recent business acquisitions. Determining fair value requires the exercise of significant judgments, including the amount and timing of expected future cash flows, long-term growth rates, discount rates and relevant comparable public company earnings multiples and relevant transaction multiples. The cash flows employed in the DCF analysis are based on our best estimate of future sales, earnings and cash flows after considering factors such as general market conditions, existing firm orders, expected future orders, changes in working capital, long term business plans and recent operating performance.

Finite-lived intangibles are amortized to expense over the applicable useful lives, ranging from four to five years, based on the nature of the asset and the underlying pattern of economic benefit as reflected by future net cash inflows. We perform an impairment test of finite-lived intangibles whenever events or changes in circumstances indicate their carrying value may be impaired. If events or changes in circumstances indicate the carrying value of a finite-lived intangible may be impaired, the sum of the undiscounted future cash flows expected to result from the use of the asset group would be compared to the asset group's carrying value. If the asset group's carrying amount exceed the sum of the undiscounted future cash flows, we would determine the fair value of the asset group and record an impairment loss in net earnings.

As of December 31, 2020, and 2019, we performed our annual goodwill and finite-lived intangible assets impairment tests for our SaaS reporting unit. The results of that test indicated that for our SaaS reporting unit no impairment charges existed for the recorded goodwill of \$3.1M or the related finite-intangibles assets of approximately \$521K as of December 31, 2020. As of December 31, 2019, the results of the impairment test indicated that for our SaaS reporting unit an impairment existed for the recorded goodwill of \$3.3M but not for related finite-intangibles assets of approximately \$521K, resulting in a partial impairment charge on our goodwill of approximately \$163,000.

Share-Based Compensation Awards

The value we assign to the options that we issue is based on the fair market value as calculated by the Black-Scholes pricing model. To perform a calculation of the value of our options, we determine an estimate of the volatility of our stock. We need to estimate volatility because there has not been enough trading of our stock to determine an appropriate measure of volatility. We believe our estimate of volatility is reasonable, and we review the assumptions used to determine this whenever we issue new equity instruments. If we have a material error in our estimate of the volatility of our stock, our expenses could be understated or overstated. All share-based awards are expensed on a straight-line basis over the vesting period of the options.

Income Taxes

We are required to estimate our income taxes, which includes estimating our current income taxes as well as measuring the temporary differences resulting from different treatment of items for tax and accounting purposes. We currently have significant deferred assets, which are subject to periodic recoverability assessments. Realizing our deferred tax assets principally depends on our achieving projected future taxable income. We may change our judgments regarding future profitability due to future market conditions and other factors, which may result in recording a valuation allowance against those deferred tax assets.

Results of Operations

Year Ended December 31, 2020 as Compared to Year Ended December 31, 2019

During the year ended December 31, 2020, we recorded revenues of \$1,285,383 compared to revenues of \$296,677 for the same period in 2019, a 333% increase. The increase was mainly due to new revenues derived from purchase orders to manufacture and assemble drones and related delivery products designed to meet specific criteria for package delivery in urban and suburban area. Revenue growth was also positively impacted by the continued focus on expansion of our platform, providing aerial imaging and analytics solutions which serve new and emerging markets including registration, oversight, and compliance of hemp fields by state departments of agriculture.

During the year ended December 31, 2020, cost of sales totaled \$711,650, a \$509,601, or 252%, increase when compared to \$202,049 in the year ended December 31, 2019. We had a gross profit of \$573,733, or 45% gross profit margin, during the year ended December 31, 2020 compared to \$94,628, or 32% gross profit margin, for the year ended December 31, 2019. The primary factors contributing to the increase in our cost of sales and gross profit margin was due to the continued shift in mix of products and services we now offer customers in the new markets we serve that have resulted in higher margin for our sales.

We recorded total operating expenses of \$5,505,040 during 2020, a 110% increase as compared to operating expenses of \$2,616,821 in the same period of 2019. Our operating expenses are comprised of general and administrative expenses, professional fees, and selling expenses. General and administrative expenses totaled \$2,732,274 in 2020 compared to \$1,850,225 in 2019, an increase of 48%. The increase was primarily due to recruiting fees associated with the search for new CEO, costs for public relations services, payments to directors as compensation fees, additional payroll and bonus payments associated with new hires and existing employees, stock compensation expenses, and added annual shareholder meeting costs. Professional fees also increased 308% as we had \$2,703,371 of expenses for the current period versus \$662,633 in the comparable prior period. The increase was mainly due to additional consulting service fees related to additional operational and business development consultants required to expand our growth opportunities, fractional CTO services, along with incremental legal expenses mainly associated with our capital raising activities and an estimated contingent liability accrual associated with a consultant agreement. Also included in operating expenses was selling costs that decreased 38% to \$40,003 versus \$65,015 in the prior year's comparable period due to less travel and conference expenses for the purposes of new business development as a result of COVID-19. Lastly, we recorded \$29,392 and \$38,498 related to research and development expenses during the years ended December 31, 2020 and 2019, respectively.

Other income (expenses) for the year ended December 31, 2020 was (\$594) as we recorded a loss on disposal of fixed assets due to our moving to Wichita. There was no other income (expenses) recorded for the comparable period during 2019.

Interest expense for the year ended December 31, 2020 was \$549 related to the Paycheck Protection Plan (PPP) loan as compared to \$501 in the prior year related to a promissory note that was repaid in March 2019.

Our net loss was \$4,932,450 in 2020. This represents a \$2,409,756 increase over our net loss of \$2,522,694 in 2019. Overall, the increase in net loss is due to greater operating costs which includes additional general and administrative costs along with added professional expenses as a result of the shift in our sales and long-term growth strategies that required increase business development resources, offset by approximately \$163,000 charge of a goodwill impairment that occurred in 2019. We are in the process of continuing to address these shifts by developing new platforms, products and services that support prevailing growth opportunities in domestic industrial hemp and sustainable agriculture and growing our drone-enabled package delivery business.

For the year ended December 31, 2020 and 2019, our net loss available to Common Stockholders was \$14,043,777 and \$2,684,916, respectively an increase of \$11,358,861. The increase is due to non-cash charges stemming from required deemed dividend accounting for modifications to certain preferred stock, redemption of preferred stock and the trigger of Down Round provisions on certain preferred stock and warrants.

Cash Flows

December 31, 2020 As Compared to December 31, 2019

Cash on hand was \$23,940,333 on December 31, 2020, an increase of \$23,222,336 compared to the \$717,997 on hand at December 31, 2019. Cash used in operations for 2020 was \$2,256,571 compared to \$1,818,290 of cash used by operations for 2019. The increase in cash used in operating activities was driven largely decrease in deferred revenue offset by an increase mainly in accounts payables and accrued expenses related to purchases of inventories and payments for professional services and other costs associated the growth of the business.

Cash used by investing activities during 2020 was \$779,023 compared to \$24,445 in 2019. The increase in cash used in our investing activities resulted from the addition of note receivable agreements executed for the purposes of a strategic partnership and a letter of intent associated with an acquisition. In addition, we made purchases of property and equipment and building improvements related to the new leased warehouse and corporate offices along with recording capitalized costs associated with the development of the *Hemp Overview* platform.

Cash provided in financing activities during the 12 months ended December 31, 2020 was \$26,257,930 compared to cash used in financing activities of \$40,998 as of December 31, 2019. The increase in cash provided by our financing activities was due to sales of our Preferred Stock, Common Stock, warrants, and promissory note proceeds as part of Coronavirus Aid, Relief and Economic Security Act's Paycheck Protection Plan (PPP).

Liquidity and Capital Resources

As of December 31, 2020, we had working capital of \$22,615,624 and a loss from operations of \$4,932,450 for the period then ended. While there can be no guarantees, we believe cash on hand, in connection with cash generated from revenue, will be sufficient to fund the next year of operations. In addition, we intend to pursue other opportunities of raising capital with outside investors.

On April 7, 2020, we entered into a securities purchase agreement with an existing institutional investor and shareholder of the Company (the "Investor"), pursuant to which the Board of Directors of the Company authorized 1,050 shares of a newly designated series of preferred stock, the Series E Convertible Preferred Stock. The Preferred Stock was convertible at \$0.25 per share into an aggregate of 4,200,000 shares of the Common Stock, par value \$0.001 per share. The purchase price for the Preferred Stock was \$1,050,000 of which we received net proceeds of \$1,010,000.

On May 11, 2020, we entered into a securities purchase agreement with an Investor pursuant to which we agreed to sell to the Investor (in a registered direct offering) 2,400,000 shares of Common Stock, par value \$0.001, and pre-funded warrants (the "Pre-Funded Warrants") to purchase up to 3,260,377 shares of Common Stock, for gross proceeds of approximately \$6 million and net proceeds of \$5,950,010 after issuance costs. The purchase price for each share of Common Stock was \$1.06 and the purchase price for each Pre-Funded Warrant was \$1.05999. The exercise price for each Warrant was \$0.001. Net proceeds from the sale were used to repurchase 262 shares of our Series E Preferred Stock, convertible into 1,048,000 shares of Common Stock currently held by the Investor at a repurchase price of \$1.06 per share of Common Stock.

On June 24, 2020, we entered into a securities purchase agreement with an Investor pursuant to which we agreed to sell to the Investor in a registered direct offering 4,407,400 shares of Common Stock, par value \$0.001, pre-funded warrants to purchase up to 1,956,236 shares of Common Stock, and warrants to purchase up to 2,455,476 shares of Common Stock at an exercise price of \$1.35 per share (the "Warrants"), for gross proceeds of \$7 million (which included subsequent payment of the exercise price of the Pre-Funded Warrants in the amount of \$1,956,240). Upon exercise of the Warrants in full by the Investor, we received additional gross proceeds of \$3,314,892. The shares of Common Stock underlying the Pre-Funded Warrants and the Warrants are referred to as "Warrant Shares." The purchase price for each share of Common Stock is \$1.10 and the purchase price for each Pre-Funded Warrant is \$1.099. The exercise price for each Pre-Funded Warrant is \$0.001. As of December 31, 2020, all the Warrant Shares were fully exercised.

On August 4, 2020, we entered into a securities purchase agreement with an Investor, pursuant to which we agreed to sell to the Investor in a registered direct offering 3,335,705 shares of Common Stock, par value \$0.001, and warrants to purchase up to 2,516,778 shares of Common Stock at an exercise price of \$3.30 per share, for gross proceeds of approximately \$10 million. Upon exercise of the Warrants in full by the Investor, we would receive additional gross proceeds of approximately \$8,305,367. The purchase price for each share of Common Stock was \$2.98. Common Stock

On December 31, 2020, we entered into a securities purchase agreement with an Investor, pursuant to which the Company agreed to sell to the Investor in a registered direct offering Pre-Funded Warrants to purchase up to 1,057,214 shares of Common Stock, par value \$0.001 ("Common Stock"), for gross proceeds of approximately \$6.375 million (which includes subsequent payment of the exercise price of the Pre-Funded Warrants in the amount of \$1,057,214). The shares of Common Stock underlying the Pre-Funded Warrants are referred to as the "Warrant Shares." The purchase price for each Pre-Funded Warrant is \$6.029. The exercise price for each Pre-Funded Warrant is \$0.001.

The Company has continued to realize losses from operations. However, as a result of our capital raise efforts, we believe we will have sufficient cash to meet our anticipated operating costs and capital expenditure requirements through December 2022. Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures, acquisitions, debt service, and for general corporate purposes. Our primary source of liquidity is funds generated by financing activities and from private placements. Our ability to fund our operations, to make planned capital expenditures, to make planned acquisitions, to make scheduled debt payments, and to repay or refinance indebtedness depends on our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond our control.

If the Company is unable to generate significant sales growth in the near term and raise additional capital, there is a risk that the Company could default on additional obligations; and could be required to discontinue or significantly reduce the scope of its operations if no other means of financing operations are available. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustment that might be necessary should the Company be unable to continue as a going concern.

Off-Balance Sheet Arrangements

On December 31, 2020, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources. Since our inception, except for standard operating leases, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities. We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Contractual Obligations

Operating Leases

The Company leases office space located at 8863 E. 34th Street North, Wichita, Kansas 67226. The Company leases a building located at 8863 E. 34th Street North, Wichita, Kansas 67226, which serves as our corporate headquarters and manufacturing facility. The commencement date of the lease was November 1, 2020 and will expire on October 31, 2023, unless sooner terminated or extended. The aggregate estimated rent payments due over the initial three-year term is \$297,000. The landlord may grant the Company the option to extend the term for an additional thirty-six months. The aggregate estimated rent payments due over the option term would be \$314,640 and the right of use asset is \$257,363 as of December 31, 2020.

GreenBlock Capital LLC Consulting Agreement

On May 3, 2019, we entered into a consulting agreement with GreenBlock Capital LLC ("Consultant") to serve as strategic advisor and consultant with respect to the development of new business opportunities and the implementation of business strategies related to expansion into the emerging domestic hemp cultivation market. The extent of the services will be set forth in separate scopes of work, from time to time, to be prepared and mutually agreed to by the parties. As compensation for the services under the terms of the agreement, the Consultant can receive (i) \$25,000 per month during the term of the agreement, (ii) 500,000 shares of restricted Common Stock upon execution of the agreement and up to (iii) up to 2,500,000 shares of restricted Common Stock upon the achievement of predetermined milestones.

On October 31, 2019, the consulting agreement was terminated as a result of the Company no longer needing these services to be provided by an outside consultant. There are no early termination penalties incurred as a result of the termination of the consulting agreement. The Consultant may still be entitled to receive up to 2,500,000 shares of restricted Common Stock after termination of the Agreement, if the achievement of milestones that commenced during the term of the Agreement are completed after termination.

On November 12, 2019, we announced that the Florida Department of Agriculture and Consumer Services (FDACS) had chosen our *HempOverview* software-as-a-solution (SaaS) platform to manage the online application submission and registration process for hemp growers and their farms and hemp fields for the 2020, 2021 and 2022 planting seasons (the “Florida Contract”). Prior to the termination of the Agreement with the Consultant, as part of the Consultant’s services, Consultant introduced us to the FDACS, which introduction resulted in us signing the Florida Contract. Since the Consultant was instrumental in identifying and introducing us to FDACS prior to termination of the Agreement, the execution of the Florida Contract is a milestone achieved by the Consultant under the terms of the Agreement. Upon the receipt of our executed purchase from FDACS, the Company will issue 250,000 of the shares of Common Stock to the Consultant. The Consultant may be entitled to receive up to another 750,000 shares of Common Stock, which will be contingent upon further milestones to be achieved under the Florida Contract.

On June 30, 2020, the Company issued an additional 250,000 shares of its Common Stock to the Consultant as part of its compensation for services. The Company recognized a total of \$297,500 of expense at a fair value of \$1.19 per share within professional fees related to these issuances.

Inflation

Our opinion is that inflation has not had, and is not expected to have, a material effect on our operations.

Climate Change

Our opinion is that neither climate change, nor governmental regulations related to climate change, have had, or are expected to have, any material effect on our operations.

New Accounting Pronouncements

There were various updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide information required by this Item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements are contained in pages F-1 through F-33, which appear at the end of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On December 11, 2020, we dismissed D. Brooks & Associates CPAs (“D.Brooks”) as our independent registered public accountants and engaged WithumSmith+Brown, PC (“Withum”) as its independent registered public accountants. The engagement of Withum has been approved by the Audit Committee of our Board of Directors. D. Brooks’s reports on our consolidated financial statements as of and for the fiscal years ended December 31, 2019 and 2018 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal years ended December 31, 2019 and 2018 and through December 11, 2020, there were no disagreements with D.Brooks on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which if not resolved to D. Brooks satisfaction would have caused it to make reference thereto in connection with its reports on the consolidated financial statements for such years. During the fiscal years ended December 31, 2019 and 2018 and through December 11, 2020, there were no “reportable events” of the type described in Item 304(a)(1)(v) of Regulation S-K.

We engaged Withum as our new independent registered public accounting firm effective upon the termination of D. Brooks. The retention of Withum was approved by the Audit Committee. During the fiscal years ended December 31, 2019 and 2018 and through December 11, 2020, we did not consult with Withum with respect to any matter whatsoever including without limitation with respect to any of (i) the application of accounting principles to a specified transaction, either completed or proposed; (ii) the type of audit opinion that might be rendered on our financial statements; or (iii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K) or an event of the type described in Item 304(a)(1)(v) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure and Control Procedures

The Company's Chief Executive Officer and the Company's Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2020 and concluded that the Company's disclosure controls and procedures are effective. The term *disclosure controls and procedures* means controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated, recorded, processed, summarized and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure to be reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Generally Accepted Accounting Principles ("GAAP").

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance of such reliability and may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our Chief Executive Officer and our Chief Financial Officer, an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2020. Management's assessment of internal control over financial reporting used the criteria set forth in SEC Release 33-8810 based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control over Financial Reporting — Guidance for Smaller Public Companies*. Based on this evaluation, Management concluded that our system of internal control over financial reporting was effective as of December 31, 2020, based on these criteria.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. As a smaller reporting company, our management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only the management's report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(t) and 15d-15(f) under the Exchange Act, during the year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table and biographical summaries set forth information, including principal occupation and business experience about our directors and executive officers:

| Name | Age | Other positions with the Company; other directorships held in last five years | Has served as a part of the Company since |
|--|-----|---|---|
| Barrett Mooney | 36 | Chairman of the Board & Former Chief Executive Officer | July 2018 |
| J. Michael Drozd | 54 | Chief Executive Officer | May 2020 |
| Nicole Fernandez-McGovern | 48 | Chief Financial Officer, EVP of Operations & Secretary | April 2016 |
| Grant Begley ⁽¹⁾⁽²⁾⁽³⁾ | 67 | Director | June 2016 |
| Louisa Ingargiola ⁽¹⁾⁽²⁾⁽³⁾ | 53 | Director | November 2018 |
| Thomas Gardner ⁽¹⁾⁽²⁾⁽³⁾ | 45 | Director | June 2016 |

- (1) Member of the audit committee.
- (2) Member of the compensation committee.
- (3) Member of the nominating and corporate governance committee.

Barrett Mooney. Mr. Mooney was appointed to the Board as its Chairman in May 2020. Previously, Mr. Mooney served as Chief Executive Officer from July 2018 through May 2020. Mr. Mooney brings an extensive track record of growing agriculture and sustainability businesses. From May 2017 to July 2018, he served as Group Product Lead for The Climate Corporation, a subsidiary of Monsanto (recently acquired by Bayer), where he led the satellite imagery team, managed a team focused on using artificial intelligence to enhance crop yield production, and introduced a new organizational structure to improve sales efficiency. Prior to The Climate Corporation, from July 1, 2012 to May 1, 2017, Mr. Mooney co-founded and was CEO and president of HydroBio, a software company that used satellite-driven image analytics to conserve water and maximize crop yields. In May 2017, he sold HydroBio to The Climate Corporation. Mr. Mooney holds a Doctor of Philosophy in Agricultural and Biological Engineering from the University of Florida. He is also a member of the American Society of Agricultural and Biological Engineers.

J. Michael Drozd. Mr. Drozd was appointed as AgEagle’s new Chief Executive Officer in May 2020. Prior to joining AgEagle, he was recruited by a Denver-based private equity group to serve as the CEO of Hemp Companies (renamed RYTE). From 2015 through 2019, Mr. Drozd served as President of Eurofins AgBio Division, a global business focused primarily on testing for the agriculture sector (seeds, plants and animals) with an emphasis on genetic analyses. From 2014 until his recruitment to Eurofins, he was Chief Operating Officer at Arbiom, a French biotechnology company where he restructured the organization, materially increased overall efficiency and improved resource allocations through numerous initiatives. As President and CEO of Aseptia/Wright Foods from 2011 through 2014, Mr. Drozd was credited for growing revenues from \$210,000 to over \$20 million in just over three years. The company achieved the distinction of being named the fastest growing food company in the U.S. on Inc. 500. In addition, he closed \$500 million in customer contracts, including Fortune 500 companies; and negotiated over \$81 million in financing transactions.

Earlier in his career, Mr. Drozd served as Executive Vice President of CoalTek, a clean tech energy company that he scaled into the largest clean coal processing enterprise in the nation. He also served as President and CEO of Industrial Microwave Systems. Prior to Industrial Microwave Systems, Mr. Drozd was an Associate at Decision Focus Inc., a management consulting firm which focused on logistics and yield management systems. In this role, he designed, implemented and managed the forecasting and yield management system for a major logistics company.

Mr. Drozd received dual Bachelor of Science degrees in Electrical Engineering and Economics from Duke University in 1989 as an AB Duke and General Motors Scholar. He earned his Master’s in Optical Engineering from Cambridge University (England) attending as a Churchill Scholar. He also received a Masters’ degree in Engineering-Economic Systems (Business / Engineering Management) from Stanford University and was a National Science Fellow. He received his Ph.D. from Duke University in Electrical and Computer Engineering in 1997.

Nicole Fernandez-McGovern, CPA. Since August 2016, Ms. Fernandez-McGovern has served as AgEagle's Chief Financial Officer, charged with overseeing the Company's global financial operations to include managing financial planning, general tax and accounting activities, capital formation, SEC reporting and other key financial duties. Prior to joining AgEagle, she served as Chief Executive Officer and Chief Financial Officer of Trunity Holdings, Inc., a publicly traded education technology company. While at Trunity, Ms. Fernandez-McGovern led the successful restructuring of the Company by acquiring a new compounding pharmacy business and finalizing the spin-out of the legacy education business into a newly formed private company. In 2011, she began RCM Financial Consulting, where she serves as President. The firm is specialized consulting firm focused on providing interim accounting and financial services to small and medium sized businesses along with financial advisory services. During the preceding ten years, Ms. Fernandez-McGovern was a financial manager at Elizabeth Arden where she was involved with all aspects of the Nasdaq-listed company's SEC and financial reporting processes. She launched her professional career at KPMG, LLP in its audit and assurance practice, where she managed various large -scale engagements for both public and privately held companies.

Ms. Fernandez-McGovern earned a Master of Business Administration degree with concentration in Accounting and International Business and a Bachelor of Business Administration degree with concentration in Accounting, both from the University of Miami. In addition to being fluent in Spanish, she is also a Certified Public Accountant in the State of Florida and serves on the boards of the South Florida Chapter of Financial Executives International and Pembroke Pines Charter Schools.

Grant Begley. Mr. Begley has served as a member of the Board of Directors of the Company since June 2016. Since July 2011, Mr. Begley has served as President of Concepts to Capabilities Consulting LLC, which advises global executive clients on competitive positioning and performance in aerospace. From August 2010 to September 2011, Mr. Begley was Corporate Senior Vice President for Alion Science and Technology. Prior to Alion, Mr. Begley served as Pentagon Senior Advisor to the Office of the Under Secretary of Defense, for Unmanned Systems, advising on critical issues and leading development of DoD's 2011 Unmanned Systems Roadmap. Mr. Begley's career includes defense industry leadership positions for the development of advanced capabilities with Raytheon and Lockheed Martin where he initiated and led cross-corporation unmanned systems and robotics successes. Mr. Begley served in the United States Navy for 26 years, where his duties included operational assignments flying fighter aircraft, designated Top Gun, followed by acquisition assignments for the development and management of next generation manned and unmanned aircraft systems, weapon systems and joint executive acquisition assignments.

Mr. Begley holds Masters' degrees in Aerospace and Aeronautic Engineering from the Naval Post-Graduate School and a Bachelor's degree in General Engineering from the U.S. Naval Academy. The Company believes that Mr. Begley's 20 plus years of experience as a UAV industry expert, focused on UAV technologies, regulations and commercial applications, will be an invaluable resource to the Board of Directors.

Louisa Ingargiola. Ms. Ingargiola has served as a member of the Board of Directors of the Company since November 2018. In 1990, Ms. Ingargiola joined Boston Capital Partners as an Investment Advisor in their Limited Partnership Division. In this capacity, she worked with investors and partners to report investment results, file tax forms, and recommend investments. In 1992, Ms. Ingargiola joined MetLife Insurance Company as a Budget and Expense Manager. In this capacity she managed a \$30 million annual budget. Her responsibilities included budget implementation, expense and variance analysis and financial reporting. From 2007 through 2016, Ms. Ingargiola served as the Chief Financial Officer at MagneGas Corporation (NASDAQ: MNGA) and continues to serve as a director. Ms. Ingargiola currently serves as Chief Financial Officer of Avalon-Globocare (NASDAQ:AVCO) and as the Audit Committee Chair of FTE Networks, Inc. (NYSE:FTNW) and Electra Meccanica (NASDAQ:SOLO) where she has helped manage over \$200 Million in equity and debt financing. Ms. Ingargiola also serves as a Director of The JBF Foundation Worldwide, a 501(c)(3) non-profit. Ms. Ingargiola graduated in 1989 from Boston University with a Bachelor's degree in Business Administration and a concentration in Finance. In 1996, she received her MBA in Health Administration from the University of South Florida.

Thomas Gardner. Mr. Gardner has served as a member of the Board of Directors since June 2016 and he and his firm has been engaged as a consultant to the Company. Since May 2010, Mr. Gardner has served as COO and Director at NeuEon, Inc., a technology advisory consulting firm, where he oversees operations and provides strategic technology and business guidance to select clients. Mr. Gardner has extensive experience in the areas of business and technology leadership across many industries, including financial services, manufacturing, telecommunications and consumer goods. Within these sectors, Mr. Gardner has specific expertise in the areas of process improvement, digitization and standardization, mergers and acquisitions, system implementations, enterprise resource planning and work-force optimization. Mr. Gardner holds a dual Bachelor of Science in Accounting and Management from Bryant University. The Company believes that Mr. Gardner's experience as a data analytics expert, along with his strategic technology and business expertise, brings a unique perspective to the Board of Directors.

Board of Directors' Term of Office

Directors are elected at our annual meeting of shareholders and serve for one year until the next annual meeting of shareholders or until their successors are elected and qualified.

Family Relationships

There are no family relationships among the officers and directors, nor are there any arrangements or understanding between any of the Directors or Officers of our Company or any other person pursuant to which any Officer or Director was or is to be selected as an officer or director.

Involvement in Certain Legal Proceedings

During the last ten years, none of our officers, directors, promoters or control persons have been involved in any legal proceedings as described in Item 401(f) of Regulation S-K.

Board Meetings; Committee Meetings; and Annual Meeting Attendance

In 2020, the Board of Directors held 18 meetings and acted by unanimous written consent on various matters. We encourage each director to attend our annual meeting of shareholders in person or by telephone conference call. All of the board members attended the 2020 Annual Meeting of Shareholders via teleconference.

Committees of the Board of Directors

Our Board of Directors has standing audit, compensation and nominating committees, comprised solely of independent directors. Each committee has a charter, which is available at the Company's website, www.ageagle.com. Each committee member is independent under NYSE American committee independence requirements applicable to the committee on which such member serves.

Audit Committee

We have a separately-designated standing Audit Committee, established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 that is responsible for assisting the Board of Directors in its oversight of the integrity of the Company's financial statements, the qualifications and independence of the Company's independent auditors, and the Company's internal financial and accounting controls. The Audit Committee has direct responsibility for the appointment, compensation, retention (including termination) and oversight of the Company's independent auditors, and the Company's independent auditors report directly to the Audit Committee. During 2020, the Audit Committee had a total of four meetings.

The members of the Audit Committee are Louisa Ingargiola, Chair, Grant Begley, and Thomas Gardner. Each member of the Audit Committee qualifies as an independent director under the corporate governance standards of the NYSE American and the independence requirements of Rule 10A-3 of the Exchange Act. The Board of Directors has determined that Louisa Ingargiola qualifies as an "audit committee financial expert" as such term is currently defined in Item 407(d)(5) of Regulation S-K and meets the financial sophistication requirements of the NYSE American. For information about Ms. Ingargiola's relevant experience that qualifies her to be an audit committee financial expert, please see her biography above.

Compensation Committee

The Compensation Committee approves the compensation objectives for the Company, approves the compensation of the chief executive officer and approves or recommends to the Board of Directors for approval the compensation of other executives. The Compensation Committee reviews all compensation components, including base salary, bonus, benefits and other perquisites.

The members of the Compensation Committee are Grant Begley, Chairman, Louisa Ingargiola, and Thomas Gardner. Each member of the compensation committee is a non-employee director within the meaning of Rule 16b-3 of the rules promulgated under the Exchange Act, each is an outside director as defined by Section 162(m) of the United States Internal Revenue Code of 1986, as amended, or the Code, and each is an independent director as defined by the NYSE American. The compensation committee has adopted a written charter that satisfies the applicable standards of the SEC and the NYSE American, which is available on our website. During 2020, the Compensation Committee had a total of four meetings.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee is responsible for making recommendations to our board of directors regarding candidates for directorships and the structure and composition of our board and the board committees. In addition, the nominating and corporate governance committee will be responsible for developing and recommending to our board corporate governance guidelines applicable to the company and advising our board on corporate governance matters. During 2020, the Nominating and Corporate Governance Committee had no meetings and acted by unanimous written consent on one occasion.

The members of the Nominating and Corporate Governance Committee are Thomas Gardner, Chairman, Louisa Ingargiola, and Grant Begley. Each member of the nominating and corporate governance committee will be an independent director as defined by the NYSE American. The nominating and corporate governance committee has adopted a written charter that satisfies the applicable standards of the NYSE American, which is available on our website.

The Nominating and Corporate Governance Committee will consider director candidates recommended by security holders. Potential nominees to the Board of Directors are required to have such experience in business or financial matters as would make such nominee an asset to the Board of Directors and may, under certain circumstances, be required to be "independent", as such term is defined under Section 121(a) of the listing standards of NYSE American and applicable SEC regulations. Security holders wishing to submit the name of a person as a potential nominee to the Board of Directors must send the name, address, and a brief (no more than 500 words) biographical description of such potential nominee to the Nominating and Corporate Governance Committee at the following address: Nominating and Corporate Governance Committee of the Board of Directors, c/o AgEagle Aerial Systems Inc., 8863 E. 34th Street North, Wichita, Kansas 67226. Potential director nominees will be evaluated by personal interview, such interview to be conducted by one or more members of the Nominating and Corporate Governance Committee, and/or any other method the Nominating and Corporate Governance Committee deems appropriate, which may, but need not, include a questionnaire. The Nominating and Corporate Governance Committee may solicit or receive information concerning potential nominees from any source it deems appropriate. The Nominating and Corporate Governance Committee need not engage in an evaluation process unless (i) there is a vacancy on the Board of Directors, (ii) a director is not standing for re-election, or (iii) the Nominating and Corporate Governance Committee does not intend to recommend the nomination of a sitting director for re-election. A potential director nominee recommended by a security holder will not be evaluated differently from any other potential nominee. Although it has not done so in the past, the Nominating and Corporate Governance Committee may retain search firms to assist in identifying suitable director candidates.

The Board does not have a formal policy on Board candidate qualifications. The Board may consider those factors it deems appropriate in evaluating director nominees made either by the Board or stockholders, including judgment, skill, strength of character, experience with businesses and organizations comparable in size or scope to the Company, experience and skill relative to other Board members, and specialized knowledge or experience. Depending upon the current needs of the Board, certain factors may be weighed more or less heavily. In considering candidates for the Board, the directors evaluate the entirety of each candidate's credentials and do not have any specific minimum qualifications that must be met. The directors will consider candidates from any reasonable source, including current Board members, stockholders, professional search firms or other persons. The directors will not evaluate candidates differently based on who has made the recommendation.

Changes in Nominating Process

In 2020, there were no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires the Company's directors, officers and stockholders who beneficially own more than 10% of any class of equity securities of the Company registered pursuant to Section 12 of the Exchange Act, collectively referred to herein as the "Reporting Persons," to file initial statements of beneficial ownership of securities and statements of changes in beneficial ownership of securities with respect to the Company's equity securities with the SEC. All Reporting Persons are required by SEC regulation to furnish us with copies of all reports that such Reporting Persons file with the SEC pursuant to Section 16(a). Based solely on our review of the copies of such reports and upon written representations of the Reporting Persons received by us, we believe that the following Reporting Persons have not timely complied with the Section 16(a) filing requirements:

| Name | Late Reports | Transactions Covered | Number of Shares |
|---------------------------|---------------------|------------------------------|-------------------------|
| Barrett Mooney | Form 4 | Acquisition of Stock Options | 25,000 |
| Michael Drozd | Form 4 | Acquisition of Stock Options | 140,000 |
| Thomas Gardner | Form 4 | Acquisition of Stock Options | 25,000 |
| Louisa Ingargiola | Form 4 | Acquisition of Stock Options | 25,000 |
| Nicole Fernandez-McGovern | Form 4 | Acquisition of Stock Options | 140,000 |

Code of Ethics

The Company has adopted a Code of Ethics for adherence by its Chief Executive Officer and Chief Financial Officer to ensure honest and ethical conduct; full, fair and proper disclosure of financial information in the Company's periodic reports filed pursuant to the Securities Exchange Act of 1934; and compliance with applicable laws, rules, and regulations. Any person may obtain a copy of our Code of Ethics, without charge, by mailing a request to the Company at the address appearing on the front page of this Annual Report on Form 10-K or by viewing it on our website found at www.ageagle.com.

ITEM 11. EXECUTIVE COMPENSATION

Executive Compensation

The following table sets forth compensation information for services rendered by certain of our executive officers in all capacities during the last two completed fiscal years. The following information includes the dollar value of base salaries and certain other compensation, if any, whether paid or deferred.

Summary Compensation Table

| Name & Principal Position | Year | Salary | Bonus | Stock Awards ⁽²⁾ | Option Awards ⁽³⁾ | All Other Compensation ⁽⁵⁾ | Total |
|--|------|------------|-----------|-----------------------------|------------------------------|---------------------------------------|------------|
| Barrett Mooney ⁽¹⁾ | 2020 | \$ 57,539 | \$ — | \$ 35,000 | \$ 128,338 | \$ 66,500 | \$ 287,377 |
| <i>Chairman of the Board & Former Chief Executive Officer</i> | 2019 | \$ 220,000 | \$ 12,000 | \$ — | \$ 99,547 | \$ — | \$ 331,547 |
| Nicole Fernandez-McGovern | 2020 | \$ 206,692 | \$ 75,000 | \$ 24,500 | \$ 522,928 | \$ — | \$ 829,120 |
| <i>Chief Financial Officer & EVP of Operations</i> | 2019 | \$ 180,000 | \$ 7,000 | \$ — | \$ 84,640 | \$ — | \$ 271,640 |
| J. Michael Drozd ⁽⁴⁾ | 2020 | \$ 148,231 | \$ 12,000 | \$ 134,000 | \$ 420,465 | \$ — | \$ 714,696 |
| <i>Chief Executive Officer</i> | 2019 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Bret Chilcott ⁽⁶⁾ | 2020 | \$ 141,077 | \$ — | \$ — | \$ — | \$ — | \$ 141,077 |
| <i>Former Chairman of the Board, Former President and Former Secretary</i> | 2019 | \$ 140,000 | \$ — | \$ — | \$ — | \$ — | \$ 140,000 |

(1) Barrett Mooney was appointed as Chief Executive Officer of the Company effective July 18, 2018; and resigned from the position in May 2020. Simultaneous with his stepping down as CEO, Mr. Mooney was appointed as the new Chairman of the Board, replacing Mr. Chilcott.

(2) Represents restricted stock units granted to Mr. Drozd, Mr. Mooney, and Ms. Fernandez-McGovern.

(3) The aggregate grant date fair value of the options awarded to each executive officer is computed in accordance with FASB ASC Topic 718 and excludes the effect of forfeiture assumptions. Also, these awards generally vest over a one period from the date of grant. The assumptions used to calculate the fair value of stock option awards are Black-Scholes option valuation model.

(4) J. Michael Drozd joined AgEagle in May 2020 upon his appointment as the Company's new Chief Executive Officer, replacing Mr. Mooney.

(5) Represents consulting fees paid to Mr. Mooney following his resignation as Chief Executive Officer effective May 2020. Mr. Mooney agreed to provide consulting services to the Company, as needed, at a fixed fee of \$4,500 per month on a month-to-month basis, plus reimbursement for travel expenses. On July 20, 2020, the Board of Directors, upon recommendation of the Compensation Committee, increased Mr. Mooney's monthly fee for consulting services to \$10,000 from \$4,500 per month, which commenced on August 1, 2020 and ending on November 30, 2020.

(6) Bret Chilcott served as our Chairman of the Board and President in 2019 but resigned as an officer and director in May 2020.

Employment Agreements

Barrett Mooney

Pursuant to an employment offer letter dated July 9, 2018, Mr. Mooney received compensation for his services as Chief Executive Officer a base salary of \$220,000 per year, which was subject to annual performance review by the Compensation Committee of the Board and could be revised by the Board, in its sole discretion. Mr. Mooney received an initial grant of 75,000 shares of restricted Common Stock of the Company which is fully vested. Mr. Mooney was also eligible to receive an award of 75,000 shares of restricted Common Stock of the Company which was eligible for full vesting on January 1, 2019 if, and only if, the stock price of the Company reached \$3.55 per share and the closing price per share was at or above such price at the end of the day on January 1, 2019. In addition, Mr. Mooney was eligible to receive an award of 20,000 nonqualified stock options under the Company's 2017 Omnibus Equity Incentive Plan (the "Equity Plan") upon securing one sustainability pilot program on or before October 31, 2018, and an additional award of 30,000 nonqualified stock options under the Equity Plan upon securing a second sustainability pilot program on or before January 31, 2019. Both awards provided for immediate vesting and exercisability at an exercise price equal to the fair market value of the Company's shares of Common Stock underlying the options as of the date of grant. Mr. Mooney was also eligible to receive an award of up to 55,000 Non-qualified Stock Options under the Equity Plan based upon the results of his annual performance review in the first quarter of 2019.

Effective December 18, 2018, an amendment was signed for the original employment offer letter dated July 9, 2018, thereby providing an amendment to provide that in lieu of the issuance of 75,000 shares of restricted Common Stock of the Company (the "Shares"), the Company awarded Mr. Mooney 125,000 Non-qualified Stock Options (the "Stock Options") under the Company's 2017 Omnibus Equity Incentive Plan (the "Equity Plan"). The Stock Options are subject to the terms of the Equity Plan and standard option award agreement which shall have a term of 10 years and provide for vesting over a one-year period and exercisability at an exercise price equal to the fair market value of the Company's Common Stock as of the date of the grant. The award of 75,000 shares were returned to the Company and immediately cancelled.

On September 30, 2019, the Board of Directors and the Compensation Committee approved a new compensatory arrangement for Mr. Mooney. Commencing on September 30, 2019, Mr. Mooney received quarterly awards of stock options to purchase 15,000 shares of the Company's Common Stock under the Company's current shareholder approved equity incentive plan. The exercise price at the time of the awards were based on the fair market value of the Company's Common Stock on the NYSE American on the date of grant. The options were issued quarterly for a period of two years, vested in equal amounts over a two-year term from the date of grant, and are exercisable for a period of five years from date of grant. Mr. Mooney was also entitled to receive bonuses up to \$48,000 in cash, 250,000 shares of restricted stock and 225,000 stock options upon the achievement of certain Company operational milestones. The foregoing compensation arrangements were in addition to the compensation received by Mr. Mooney under his employment agreement.

On March 6, 2020, Mr. Mooney resigned as Chief Executive of the Company. The Board of Directors and Mr. Mooney reached a mutual agreement that he would continue in his role as Chief Executive Officer for an additional sixty (60) days through May 5, 2020 during which time the Company initiated and completed an executive search for his replacement. It was also agreed that Mr. Mooney would continue with the Company in the role as Chairman of the Board to replace Mr. Chilcott for a period of 12 months.

For the period March 6, 2020 through April 4, 2020, the Compensation Committee agreed to pay Mr. Mooney his then current salary and benefits and \$50,000 in cash, \$25,000 of which was paid in a lump sum in April 2020, and the balance paid in equal installments over a six-month period beginning on May 5, 2020. In addition, Mr. Mooney will remain eligible for bonuses of up to \$15,000 as approved by the Board based upon certain revenue and operational targets being achieved. Commencing May 5, 2020 in his role as Chairman, he will receive a quarterly grant of 16,500 stock options at the fair market value of the stock on the issuance date, vesting over two years and exercisable for a period of five years, and reimbursement for travel expenses. Mr. Mooney also agreed to provide consulting services to the Company, as needed, at a fixed fee of \$4,500 per month on a month-to-month basis, plus reimbursement for travel expenses.

On July 20, 2020, the Board of Directors, upon recommendation of the Compensation Committee, increased Mr. Mooney's monthly fee for consulting services to \$10,000 from \$4,500 per month, commencing on August 1, 2020 and ending on November 30, 2020.

Nicole Fernandez-McGovern

Based on her agreement commencing with the date of appointment as CFO in August 2016, Ms. Fernandez-McGovern earned a salary of \$66,000 per year, payable in monthly installments of \$5,500 for 2017. In 2018, her monthly installment payment increased to \$8,000 and effective upon the closing of the Merger, Ms. Fernandez-McGovern's salary increased to \$150,000. As part of her compensation upon the closing of the Merger, Ms. Fernandez-McGovern also received 10-year stock options to purchase 265,033 shares of Common Stock at an exercise price of \$0.06 per share, of which half of the options vested upon issuance and the remainder vested equally over two years. Additionally, on a quarterly basis, Ms. Fernandez-McGovern was awarded 12,500 shares of stock options to purchase Common Stock at an exercise price per share equal to the market price of our Common Stock at the time of issuance during the term of her employment.

Effective January 1, 2019, Ms. Fernandez-McGovern signed a new employment agreement with the Company, whereby her annual base salary increased to \$180,000; and a ten-year grant of 50,000 stock options to purchase shares of Common Stock at an exercise price of \$0.54 was awarded. In addition, Ms. Fernandez-McGovern continued to receive quarterly grants of 12,000 stock options to purchase Common Stock at an exercise price equal to the market price of our Common Stock at the time of issue during the term of her employment. All of the awards vested equally over two years.

On September 30, 2019, the Board of Directors and the Compensation Committee approved a new compensatory arrangement for Ms. Fernandez-McGovern. On September 30, 2019, Ms. Fernandez-McGovern was awarded a stock option to purchase 25,000 shares of the Company's Common Stock under the Company's current shareholder approved equity incentive plan. The option will vest in equal amounts over a two-year term from the date of grant and will be exercisable for a period of five years from date of grant. The exercise price of the stock option is \$0.31 per share, which was the fair market value of the Company's Common Stock on the NYSE American on September 30, 2019. Ms. Fernandez-McGovern is also entitled to receive bonuses up to \$39,000 in cash, 170,000 shares of restricted stock and 175,000 stock options upon the achievement of certain Company operational milestones. The foregoing compensation arrangements are in addition to the current compensation received by Ms. Fernandez-McGovern under her employment agreement.

On April 20, 2020, the Compensation Committee approved a 2020 Executive Compensation Plan for Ms. Fernandez-McGovern as CFO and EVP of Operations, providing for an annual salary of \$200,000, cash bonus of \$30,000, quarterly stock option grants of 15,000 and restricted stock units (RSUs) of 125,000, with the cash bonus, option and RSUs dependent upon her achieving certain financial and operational milestones.

On July 20, 2020, the Board of Directors, upon recommendation of the Compensation Committee, approved a change in the compensation of Ms. Fernandez-McGovern. The Compensation Committee engaged an independent third party to conduct a compensation study to assess if the Company's compensation of its Board and its executive officers is in line with the industry average. As a result of the study, and upon the recommendation of the Compensation Committee, the Board approved an increase in Ms. Fernandez-McGovern's annual salary from \$200,000 to \$220,000 and an increase in quarterly stock options from 12,500 to 15,000. In addition to the previously approved 2020 bonus structure, Mr. Fernandez-McGovern was awarded an additional performance-based bonus of \$40,000, equal to 20% of her then current salary. The approved compensation was retroactive to July 1, 2020.

J. Michael Drozd

Mr. Drozd receives a base salary of \$235,000 per year, in his role as Chief Executive Officer which is subject to an annual performance review by the Compensation Committee of the Board and may be revised by the Committee, in its sole discretion. Mr. Drozd is entitled to receive an annual 20% bonus, which may be a mix of cash and stock options, based upon his performance as determined by certain metrics to be established by the Board and Mr. Drozd. He received an initial grant of 100,000 restricted stock units under the Company's 2017 Omnibus Equity Incentive Plan (the "Equity Plan"), which will fully vest after one year of continued employment. Mr. Drozd is eligible to receive a quarterly award of 15,000 non-qualified stock options under the Equity Plan. At the time of issuance, the stock option award agreements will set forth the vesting, exercisability, and exercise price of the stock options as of the date of the grants.

We have no other formal employment agreements with our executive officers, nor any compensatory plans or arrangements resulting from the resignation, retirement, or any other termination of our named executive officers, from a change-in-control, or from a change in any executive officer's responsibilities following a change-in-control. However, it is possible we will enter into formal employment agreements with our executive officers in the future.

Bret Chilcott

Mr. Chilcott served as a member of the Board of Directors of the Company and as President since the inception of the Company in 2010 and had served as Chief Executive Officer from February 2016 to July 18, 2018. As of July 18, 2018, Mr. Chilcott stepped down as Chief Executive Officer and served as President, Secretary and Chairman of the Board of the Directors until his resignation as an officer and director on March 6, 2020. Up until May 2020, Mr. Chilcott had no formal agreement with the Company but did hold the position of Chief Executive of the Company for an annual salary of \$175,000. Upon his resignation as Chief Executive Officer of the Company in 2018 his salary was reduced to \$140,000, annually. Following his resignation in May 2020, Mr. Chilcott agreed to remain an employee of AgEagle and trust advisor to the Company's leadership team for a period of twelve months to help ensure a seamless management transition.

Changes in Management

On March 6, 2020, Mr. Mooney resigned as Chief Executive Officer of the Company. The Board and Mr. Mooney reached a mutual agreement that he would continue in his role as Chief Executive Officer until May 5, 2020 (the "Transition Period") during which time the Company had commenced its executive search for his replacement.

On March 6, 2020, Mr. Bret Chilcott resigned as President of the Company and as Chairman of the Board. The Board and Mr. Chilcott reached a mutual agreement that he would continue in his roles as President and Chairman during the Transition Period. Thereafter, Mr. Chilcott would no longer continue as an officer or director of the Company but remain an employee of the Company and advise the Company for a period of 12 months after the Transition Period to help ensure a seamless leadership transition. At the end of the 12-month period, it is Mr. Chilcott's intention to retire.

It was also agreed that after the Transition Period, Mr. Mooney would continue with the Company in the role as Chairman of the Board to replace Mr. Chilcott.

In May 2020 following its formal executive search, the Company appointed J. Michael Drozd as AgEagle's new Chief Executive Officer, replacing Mr. Mooney in the role.

Outstanding Equity Awards

The following table lists the outstanding equity incentive awards held by Named Executive Officers (NEO) as of the fiscal year ended December 31, 2020:

| Name & Principal Position | Year | Option Awards | | | | Stock Awards | |
|---|---------|---|---|-----------------------------|-----------------|---|--|
| | | Number of securities underlying unexercised options (#) Exercisable | Number of securities underlying unexercised options (#) Unexercisable | Options Exercise price (\$) | Expiration Date | Number of shares or units of stock that have not Vested (#) | Market value of shares or units of stock that have not Vested (\$) |
| Barrett Mooney <i>Chairman of the Board & Former Chief Executive Officer</i> | 2020 | — | 25,000 | \$ 6.00 | 12/30/2025 | — | \$ — |
| | 2020 | 3,125 | 21,875 | \$ 2.28 | 9/29/2025 | — | \$ — |
| | 2020 | 3,750 | 11,250 | \$ 1.19 | 6/29/2025 | — | \$ — |
| | 2020 | 5,625 | 9,375 | \$ 0.41 | 3/30/2025 | — | \$ — |
| | 2019 | 7,500 | 7,500 | \$ 0.45 | 12/29/2024 | — | \$ — |
| | 2019 | 9,375 | 5,625 | \$ 0.31 | 9/28/2024 | — | \$ — |
| | 2019 | 62,500 | 37,500 | \$ 0.31 | 9/28/2024 | — | \$ — |
| 2019 | 145,833 | 104,167 | \$ 0.41 | 3/28/2029 | — | \$ — | |
| Michael Drozd <i>Chief Executive Officer</i> | 2020 | — | 15,000 | \$ 6.00 | 12/30/2025 | 100,000 | \$ 600,000 |
| | 2020 | — | 125,000 | \$ 5.20 | 12/20/2025 | — | \$ — |
| | 2020 | 1,875 | 13,125 | \$ 2.28 | 9/29/2025 | — | \$ — |
| | 2020 | 1,791 | 5,376 | \$ 1.19 | 6/29/2025 | — | \$ — |
| Nicole Fernandez-McGovern <i>Chief Financial Officer & EVP of Operations</i> | 2020 | — | 15,000 | \$ 6.00 | 12/30/2025 | — | \$ — |
| | 2020 | — | 125,000 | \$ 5.20 | 12/20/2025 | — | \$ — |
| | 2020 | 1,875 | 13,125 | \$ 2.28 | 9/29/2025 | — | \$ — |
| | 2020 | 3,124 | 9,376 | \$ 1.19 | 6/29/2025 | — | \$ — |
| | 2020 | 36,458 | 88,542 | \$ 1.27 | 5/13/2025 | — | \$ — |
| | 2020 | 4,687 | 7,813 | \$ 0.41 | 3/30/2025 | — | \$ — |
| | 2019 | 6,249 | 6,251 | \$ 0.45 | 12/29/2024 | — | \$ — |
| | 2019 | 31,249 | 18,751 | \$ 0.31 | 9/28/2024 | — | \$ — |
| | 2019 | 15,625 | 9,375 | \$ 0.31 | 9/28/2024 | — | \$ — |
| | 2019 | 7,812 | 4,688 | \$ 0.31 | 9/28/2024 | — | \$ — |
| | 2019 | 9,374 | 3,126 | \$ 0.29 | 6/28/2024 | — | \$ — |
| | 2019 | 87,500 | 62,500 | \$ 0.41 | 3/28/2029 | — | \$ — |
| | 2019 | 10,937 | 1,563 | \$ 0.41 | 3/29/2024 | — | \$ — |
| 2019 | 47,916 | 2,084 | \$ 0.54 | 12/31/2023 | — | \$ — | |
| 2018 | 12,500 | — | \$ 0.56 | 12/30/2023 | — | \$ — | |
| 2017 | 115,533 | — | \$ 0.06 | 10/2/2027 | — | \$ — | |

Potential Payments upon Termination or Change in Control

On March 6, 2020, Mr. Mooney resigned as Chief Executive Officer of the Company. The Board and Mr. Mooney reached a mutual agreement that he would continue in his role as Chief Executive Officer until May 5, 2020 during which time the Company has commenced an executive search for his replacement.

For the period March 6, 2020 through April 4, 2020, the Compensation Committee agreed to pay Mr. Mooney his then current salary and benefits and \$50,000 in cash, \$25,000 of which was paid in a lump sum in April 2020, and the balance paid in equal installments over a six-month period beginning on May 5, 2020. In addition, Mr. Mooney will remain eligible for bonuses of up to \$15,000 as approved by the Board based upon certain revenue and operational targets being achieved. Commencing May 5, 2020 in his role as Chairman, he will receive a quarterly grant of 16,500 stock options at the fair market value of the stock on the issuance date, vesting over two years and exercisable for a period of five years; and reimbursement for travel expenses. Mr. Mooney also agreed to provide consulting services to the Company, as needed, at a fixed fee of \$4,500 per month on a month-to-month basis, plus reimbursement for travel expenses. On July 20, 2020, the Board of Directors, upon recommendation of the Compensation Committee, increased Mr. Mooney's monthly fee for consulting services to \$10,000 from \$4,500 per month, commencing on August 1, 2020 and ending on November 30, 2020.

On March 6, 2020, Mr. Bret Chilcott resigned as President of the Company and as Chairman of the Board. The Board and Mr. Chilcott reached a mutual agreement that he would continue in his roles as President and Chairman during the Transition Period. Thereafter, Mr. Chilcott will no longer continue as an officer or director of the Company; but would be an employee of the Company and advise the Company for a period of 12 months after the Transition Period to help ensure a seamless leadership transition.

DIRECTOR COMPENSATION

For the year ended December 31, 2020 and 2019, the members of our Board of Directors received the following cash compensation and stock awards:

| Name | Year | Fees Earned or Paid in Cash ⁽²⁾ | Stock Awards \$ ⁽¹⁾ (2)(3) | Total \$ |
|---|------|---|--|------------|
| Barrett Mooney | 2020 | \$ 30,000 | \$ 163,338 | \$ 193,338 |
| <i>Chairman of the Board and Former Chief Executive Officer</i> | 2019 | \$ — | \$ 99,540 | \$ 99,540 |
| Tom Gardner | 2020 | \$ 30,000 | \$ 129,784 | \$ 159,784 |
| <i>Director</i> | 2019 | \$ — | \$ 23,273 | \$ 23,273 |
| Grant Begley | 2020 | \$ 30,000 | \$ 129,784 | \$ 159,784 |
| <i>Director</i> | 2019 | \$ — | \$ 23,273 | \$ 23,273 |
| Luis Ingargiola | 2020 | \$ 30,000 | \$ 129,784 | \$ 159,784 |
| <i>Director</i> | 2019 | \$ — | \$ 32,343 | \$ 32,343 |
| Bret Chilcott | 2020 | \$ — | \$ — | \$ — |
| <i>Former Chairman of the Board and Chief Executive Officer</i> | 2019 | \$ — | \$ — | \$ — |

(1) Pursuant to their respective offer letters in 2018, Messrs. Grant Begley and Thomas Gardner were entitled to receive for their service on the Board: (1) an initial grant of five-year options to purchase 77,356 shares of Common Stock as accrued for time served as a Board member at an exercise price of \$0.06 per share that vested half upon issuance and the remainder is vesting equally over two years; and (2) additional five-year options to purchase 16,500 shares of Common Stock issuable per calendar quarter of service at an exercise price per share equal to the market price of our Common Stock at the time of issuance that will vest equally over two years.

(2) On July 20, 2020, the Board of Directors, upon recommendation of the Compensation Committee, approved a change in the compensation of the directors. The Compensation Committee engaged an independent third party to perform a compensation study to assess if the Company's compensation to its Board members is in line with the industry averages. As a result of the study, and upon the recommendation of the Compensation Committee, the Board approved a cash component for director compensation in the amount of \$60,000 per year, payable quarterly, and an increase in quarterly stock options from 16,500 shares to 25,000. The approved compensation was retroactive to July 1, 2020.

(3) Pursuant to Ms. Louisa Ingargiola's offer letter dated November 27, 2018, she was entitled to receive for her service on the board: (1) an initial grant of five-year options to purchase 41,250 shares of Common Stock upon appointment, which was at an exercise price of \$0.77 (equal to the market price of our Common Stock on the date of grant) that will vest in equal installments every calendar quarter over a one year period; and (2) five-year options to purchase 16,500 shares of Common Stock per calendar quarter of service at an exercise price per share equal to the market price of our Common Stock at the time of issuance that will vest in equal installments every calendar quarter for the two year period after date the grant. On September 30, 2019, the board granted Ms. Ingargiola an additional 100,000 options to purchased shares of Common Stock for her services as audit chair.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of our Common Stock as of March 15, 2021 by:

- each person, or group of affiliated persons, known to us to own beneficially more than 5% of our Common Stock;
- each of our current directors;
- each of our named executive officers; and
- all of our current directors and executive officers as a group.

The information in the following table has been presented in accordance with the rules of the SEC. Under such rules, beneficial ownership of a class of capital stock includes any shares of such class as to which a person, directly or indirectly, has or shares voting power or investment power and also any shares as to which a person has the right to acquire such voting or investment power within 60 days through the exercise of any stock option, warrant or other right. If two or more persons share voting power or investment power with respect to specific securities, each such person is deemed to be the beneficial owner of such securities. Except as we otherwise indicate below and under applicable community property laws, we believe that the beneficial owners of the Common Stock listed below, based on information they have furnished to us, have sole voting and investment power with respect to the shares shown. Except as otherwise indicated, each stockholder named in the table is assumed to have sole voting and investment power with respect to the number of shares listed opposite the stockholder's name.

| Name and Address of Beneficial Owner ⁽¹⁾ | Number of Shares ⁽²⁾ | Percent of Class |
|--|---------------------------------|------------------|
| Barrett Mooney <i>Chairman of the Board & Former Chief Executive Officer</i> ⁽³⁾ | 280,484 | *0% |
| Michael Drozd <i>Chief Executive Officer</i> ⁽³⁾ | 30,694 | *0% |
| Nicole Fernandez-McGovern <i>Chief Financial Officer & EVP of Operations</i> ⁽³⁾ | 406,444 | *0% |
| Grant Begley <i>Director</i> ⁽³⁾ | 195,769 | *0% |
| Thomas Gardner <i>Director</i> ⁽³⁾ | 83,143 | *0% |
| Louisa Ingargiola <i>Director</i> ⁽³⁾ | 95,208 | *0% |
| All Directors and Executive Officers as a Group (6 persons) | 1,091,742 | *0% |

* Represents less than one percent

- (1) Unless otherwise indicated, such individual's address is c/o AgEagle Aerial Systems, Inc., 8863 E. 34th Street North, Wichita, Kansas 67226.
- (2) The persons named in this table have sole voting and investment power with respect to all shares of Common Stock reflected as beneficially owned by them. A person is deemed to be the beneficial owner of securities that can be acquired by such person within sixty (60) days from March 15, 2021 and the total outstanding shares used to calculate each beneficial owner's percentage includes such shares, although such shares are not taken into account in the calculations of the total number of shares or percentage of outstanding shares. Beneficial ownership as reported does not include shares subject to option or conversion that are not exercisable within 60 days of March 15, 2021.
- (3) All shares reflected are those shares of Common Stock which underlie options issued and fully vested, as of March 15, 2021.

Equity Compensation Plans

Company 2017 Omnibus Equity Incentive Plan

The Amended and Restated 2017 Omnibus Equity Plan is a comprehensive incentive compensation plan under which the Company can grant equity-based and other incentive awards to officers, employees and directors of, and consultants and advisers to, the Company. The purpose of the Plan is to help the Company attract, motivate and retain such persons and thereby enhance shareholder value. The Plan provides for the grant of awards which are incentive stock options ("ISOs"), non-qualified stock options ("NQSOs"), unrestricted shares, restricted shares, restricted stock units, performance stock, performance units, SARs, tandem stock appreciation rights, distribution equivalent rights, or any combination of the foregoing, to key management employees, non-employee directors, and non-employee consultants of the Company or any of its subsidiaries (each a "participant") (however, solely Company employees or employees of the Company's subsidiaries are eligible for incentive stock option awards). The Company has reserved a total of 4,000,000 shares of Common Stock for issuance as or under awards to be made under the Plan.

Types of Stock Awards

The Plan provides for the grant of incentive stock options and non-qualified stock options. Stock options may be granted to employees, including officers, non-employee directors and consultants of the Company or its affiliates, except that incentive stock options may be granted only to employees.

Share Reserve

The aggregate number of shares of Common Stock that have been reserved for issuance under the Plan is 4,000,000. As of December 31, 2020, there are 3,267,965 shares underlying options granted under the Plan and 732,035 shares of Common Stock available for future issuance under the Plan. If a stock option award expires, terminates, is canceled, or is forfeited for any reason, the number of shares subject to the stock option award will again be available for issuance. In addition, if stock awards are settled in cash, the share reserve will be reduced by the number of shares of Common Stock with a value equal to the amount of the cash distributions as of the time that such amount was determined and if stock options are exercised using net exercise, the share reserve will be reduced by the gross number of shares of Common Stock subject to the exercised portion of the option. We also had 207,055 shares underlying options that have been granted outside of the Plan which were exercised on July 20, 2020.

Administration

Our Board of Directors, or a duly authorized committee thereof, has the authority to administer the Plan. Subject to the terms of the Plan, our board of directors or the authorized committee, referred to herein as the committee, determines recipients, dates of grant, the numbers and types of stock awards to be granted and the terms and conditions of the stock option awards, including the period of exercisability and vesting schedule applicable to a stock option award. Subject to the limitations set forth below, the committee will also determine the exercise price and the types of consideration to be paid for the award. The committee has the authority to modify outstanding awards under the Plan. The committee has the authority to adopt, alter and repeal administrative rules, guidelines and practices governing the Plan and to perform all other acts, including delegating administrative responsibilities, as it deems advisable to construe and interpret the terms and provisions of the Plan and any stock option award granted under the Plan. Decisions and interpretations or other actions by the committee are in the discretion of the committee and are final binding and conclusive on the Company and all participants in the Plan.

Stock Options

Incentive stock options and non-qualified stock options are granted pursuant to stock option award agreements adopted by the committee. The committee determines the exercise price for a stock option, within the terms and conditions of the Plan, provided that the exercise price shall not be less than (i) in the case of a grant of any NQSO or an ISO to a key employee who at the time of the grant does not own stock representing more than ten percent (10%) of the total combined voting power of all classes of our stock or of any subsidiary, one hundred percent (100%) of the fair market value of a share of Common Stock as determined on the date the stock option award is granted; (ii) in the case of a grant of an ISO to a key employee who, at the time of grant, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of our stock or of any subsidiary, one hundred ten percent (110%) of the fair market value of a share of Common Stock, as determined on the date the stock option award is granted. The fair market value of the Common Stock for purposes of determining the exercise price shall be determined by the Committee in accordance with any reasonable method of valuation consistent with applicable requirements of Federal tax law, including, as applicable, the provisions of Code Section 422(c)(8) and 409A as applicable. Stock options granted under the Plan will become exercisable at the rate specified by the committee and may be exercisable for restricted stock, if determined by the committee.

The committee determines the term of stock options granted under the Plan, up to a maximum of ten years. The option holder's stock option agreement shall provide the rights, if any, that such holder has to exercise the stock option at such time that such holder's service relationship with us, or any of our affiliates, ceases for any reason, including disability, death, with or without cause, or voluntary resignation. All unvested stock option awards are forfeited if the participant's employment or service is terminated for any reason, unless our compensation committee determines otherwise.

Acceptable consideration for the purchase of Common Stock issued upon the exercise of a stock option will be determined by the committee and may include (i) check, bank draft or money order or wire transfer, (ii) if the Company's Common Stock is publicly traded, a broker-assisted cashless exercise, or (iii) such other methods as may be approved by the committee, including without limitation, the tender of shares of our Common Stock previously owned by the option holder or a net exercise of the option.

Unless the committee provides otherwise, options generally are not transferable except by will, the laws of descent and distribution. The committee may provide that a non-qualified stock option may be transferred to a family member, as such term is defined under the applicable securities laws.

Tax Limitations on Incentive Stock Options

The aggregate fair market value, determined at the time of grant, of our Common Stock with respect to incentive stock options that are exercisable for the first time by an option holder during any calendar year may not exceed \$100,000. Options or portions thereof that exceed such limit will generally be treated as non-qualified stock options. No incentive stock option may be granted to any person who, at the time of the grant, owns or is deemed to own stock possessing more than 10% of our total combined voting power or that of any of our affiliates unless (i) the option exercise price is at least 110% of the fair market value of the stock subject to the option on the date of grant, and (ii) the term of the incentive stock option does not exceed five years from the date of grant.

Adjustments for Changes in Capital Structure and other Special Transactions

In the event of a stock dividend, stock split, or recapitalization, or a corporate reorganization in which we are a surviving corporation (and our shareholders prior to such transaction continue to own at least 50% of our capital stock after such transaction), including without limitation a merger, consolidation, split-up or spin-off, or a liquidation, or distribution of securities or assets other than cash dividends, the number or kinds of shares subject to the Plan or to any stock option award previously granted, and the exercise price, shall be adjusted proportionately by the committee to reflect such event.

In the event of a merger, consolidation or other form of reorganization with or into another corporation (other than a merger, consolidation, or other form of reorganization in which we are the surviving corporation and our shareholders prior to such transaction continue to own at least 50% of the capital stock after such transaction), a sale or transfer of all or substantially all of the assets of the Company or a tender or exchange offer made by any corporation, person or entity (other than an offer made by us), all stock options held by any option holder shall be fully vested and exercisable by the option holder.

Furthermore, the committee, either before or after the merger, consolidation or other form of reorganization, may take such action as it determines in its sole discretion with respect to the number or kinds of shares subject to the Plan or any option under the Plan.

Amendment, Suspension or Termination

The committee may at any time amend, suspend or terminate any and all parts of the Plan, any stock option award granted under the Plan, or both in such respects as the committee shall deem necessary or desirable, except that no such action may be taken which would impair the rights of any option holder with respect to any stock option award previously granted under the Plan without the option holder's consent.

Description of Securities

Our authorized capital stock consists of 275,000,000 shares, of which 250,000,000 shares are designated as Common Stock par value \$.001 per share, and 25,000,000 shares are designated as preferred stock, par value \$.001 per share of which (i) no shares have been designated as Series A Preferred Stock, (ii) 1,764 shares have been designated as Series B Preferred Stock, (ii) 10,000 shares have been designated as Series C Preferred Stock and (iii) 2,000 shares have been designated as Series D Preferred Stock and 1,050 shares have been designated as Series E. As of December 31, 2020, we had 58,636,365 shares of Common Stock issued and outstanding. No shares of Preferred Stock are outstanding.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Director Independence

The Board of Directors has reviewed the independence of our directors based on the listing standards of the NYSE American. Based on this review, the Board of Directors determined that each of Messrs. Begley and Gardner and Ms. Ingargiola are independent within the meaning of the NYSE American. In making this determination, our Board of Directors considered the relationships that each of these non-employee directors has with us and all other facts and circumstances our board of directors deemed relevant in determining their independence. As required under applicable NYSE American rules, we anticipate that our independent directors will meet in regularly scheduled executive sessions at which only independent directors are present.

Related Party Transactions

The Company's Chief Financial Officer, Nicole Fernandez-McGovern, is one of the principals of Premier Financial Filings, a full-service financial printer. Premier Financial Filings provided contracted financial services to the Company and their related expenses have been included within general and administrative expenses. For the years ended December 31, 2020 and 2019, Premier Financial Filings provided services to the Company resulting in fees of \$23,524 and \$7,753, respectively.

One of our directors, Thomas Gardner, is one of the principals of NeuEon, Inc, which provide services to the company as CTO. For the year ended December 31, 2020, the company recognized \$118,500 of expenses which is included in the general and administrative expense related to those services.

Following Barrett Mooney's resignation as Chief Executive Officer effective May 2020 he agreed to provide consulting services to the Company, as needed, at a fixed fee of \$4,500 per month on a month-to-month basis, plus reimbursement for travel expenses. On July 20, 2020, the Board of Directors, upon recommendation of the Compensation Committee, increased Mr. Mooney's monthly fee for consulting services to \$10,000 from \$4,500 per month, which commenced on August 1, 2020 and ending on November 30, 2020. For the year ended December 31, 2020, the company recognized \$66,500 of expenses which is included in the general and administrative expense related to those services.

ITEM 14.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit and Tax Fees

Our current independent registered public accounting firm WithumSmith+Brown, PC, billed an aggregate of \$5,150 related to audit services for the year ended December 31, 2020. Our former independent auditor, D. Brooks and Associates CPAs, billed an aggregate of \$47,161 related to audit and the quarterly reviews for the year ended December 31, 2020. In addition, D. Brooks and Associates CPAs, billed an aggregate of \$45,000 related to audit and the quarterly reviews for the year ended December 31, 2019. The Company was also billed by an outside firm to perform an independent inventory observation \$1,000 for the year ended December 31, 2020 and 2019, respectively. In addition, \$8,540 and \$10,550 was billed for tax services in 2020 and 2019, respectively. Audit Fees and Audit Related Fees consist of fees billed for professional services rendered for auditing our Financial Statements, reviews of interim Financial Statements included in quarterly reports, services performed in connection with other filings with the Securities & Exchange Commission and related comfort letters and other services that are normally provided by our independent auditors in connection with statutory and regulatory filings or engagements. Tax Fees consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and local tax compliance and consultation in connection with various transactions and acquisitions.

| | 2020 | 2019 |
|--------------------|------------------|------------------|
| Audit Fees | \$ 52,311 | \$ 45,000 |
| Audit-Related Fees | 1,000 | 1,000 |
| Tax Fees | 8,540 | 10,550 |
| Total | <u>\$ 61,851</u> | <u>\$ 56,550</u> |

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES

| <u>Exhibit No.</u> | <u>Description</u> |
|----------------------|--|
| 3.1 | Amended and Restated Articles of Incorporation, as currently in effect (incorporated by reference to Exhibit 3.1 to the Form 10-Q filed on August 14, 2008) |
| 3.2 | Certificate of Amendment of Articles of Incorporation as filed with the Nevada Secretary of State on May 29, 2014 (incorporated herein by reference as Exhibit 3.1 on Current Report Form 8-K filed on May 29, 2014) |
| 3.3 | Certificate of Amendment of Articles of Incorporation (incorporated by reference as Exhibit 3.1 on Current Report Form 8-K filed on May 29, 2014) |
| 3.4 | Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock (incorporated herein by reference as Exhibit 4.1 on Current Report Form 8-K filed on March 11, 2015) |
| 3.5 | Certificate of Designation of Series C Preferred Stock filed with the Nevada Secretary of State on April 27, 2017 (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on April 28, 2017) |
| 3.6 | Amendment to Certificate of Designation of Series C Preferred Stock (incorporated by reference to Exhibit 3.3 to the Form 8-K filed on March 29, 2018) |
| 3.7 | Certificate of Designation for Series A Preferred Stock (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on January 6, 2011). |
| 3.8 | Amended and Restated Certificate of Designation of Preferences, Rights and Limitations of the 10% Series A Redeemable Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on March 29, 2018) |
| 3.9 | Certificate of Amendment to Amended and Restated Certificate of Designation of Preferences, Rights and Limitations of the 10% Series A Redeemable Perpetual Preferred Stock (incorporated by reference to Exhibit 3.2 to the Form 8-K filed on March 29, 2018) |
| 3.10 | Certificate of Amendment to the Articles of Incorporation of EnerJex Resources, Inc. to change the company's name (incorporated by reference to Exhibit 3.4 to the Form 8-K filed on March 29, 2018) |
| 3.11 | Certificate of Amendment to the Articles of Incorporation of EnerJex Resources, Inc. to effect a 1-for-25 reverse stock split (incorporated by reference to Exhibit 3.5 to the Form 8-K filed on March 29, 2018) |
| 3.12 | Articles of Merger, dated March 26, 2018, by and between AgEagle Aerial Systems, Inc. and AgEagle Merger Sub, Inc.(incorporated by reference from Exhibit 3.6 on Form 8-K filed on March 29, 2018) |
| 3.13 | Amended and Restated Bylaws, as currently in effect (incorporated by reference to Appendix C to Schedule 14A filed on May 22, 2013) |
| 3.14 | Certificate of Designation of Series D 8% Preferred Stock filed with the Nevada Secretary of State on December 26, 2018 (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on December 28, 2018) |

- [3.15](#) [Certificate of Designation for the Series E Convertible Preferred Stock filed with the Nevada Secretary of State on April 2, 2020 \(incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K filed on April 8, 2020\)](#)
- [4.1*](#) [Description of Registrant's Securities](#)
- [4.2](#) [Pre-Funded Common Stock Purchase Warrant \(Incorporated by reference to Exhibit 4.1 on Form 8-K filed on January 5, 2021\)](#)
- [4.3](#) [Common Stock Purchase Warrant \(incorporated by reference to Exhibit 4.1 on Form 8-K filed on June August 6, 2020\)](#)
- [10.1](#) [2017 Equity Incentive Plan of the Registrant \(Incorporated by reference to the Registration Statement on Form S-1 \(Reg. No. 333-226324\) originally filed on July 24, 2018\)](#)
- [10.2](#) [ASSET PURCHASE AGREEMENT, dated as of July 25, 2018, into by and among the \(i\) Registrant, \(ii\) EAGLE AERIAL SYSTEMS, INC., a Nevada corporation and wholly-owned subsidiary of Registrant, \(iii\) AGRIBOTIX, LLC, a Colorado limited liability company, \(iv\) the individuals listed on the signature page thereof, and \(v\) Paul Hoff, in his capacity as the representative of the Seller Investor. \(Incorporated by reference to Exhibit 10.1 on Form 8-K filed on July 31, 2018\).](#)

| | |
|-----------------------|---|
| 10.3 | Employment Agreement for Nicole Fernandez-McGovern dated January 1, 2019 |
| 10.4 | AgEagle Employee Confidentiality and Proprietary Rights Agreement between AgEagle Aerial Systems Inc and Nicole Fernandez-McGovern dated January 1, 2019 |
| 10.5 | Employment Agreement for Michael Drozd, dated April 28, 2020 (Incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 1, 2020) |
| 10.6* | AgEagle Employee Confidentiality and Proprietary Rights Agreement between AgEagle Aerial Systems Inc. and J. Michael Drozd dated as of May 18, 2020 |
| 10.7 | Securities Purchase Agreement by and between AgEagle Aerial Systems Inc. and Alpha Anstalt Capital, dated December 31, 2020 (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on January 5, 2020) |
| 10.8 | Lease Agreement, dated August 3, 2020, by and among AgEagle Aerial Systems Inc. and U.S. Business Centers, L.L.C. (Incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on August 7, 2020) |
| 10.9 | Convertible Promissory Note, dated October 14, 2020 (Incorporated herein by reference to Exhibit 10.1 of the Current Report on form 8-K filed on October 16, 2020) |
| 14.1 | Code of Ethics of the Registrant Applicable To Directors, Officers And Employees (Incorporated by reference to the Registration Statement on Form S-1 (Reg. No. 333-226324) originally filed on July 24, 2018) |
| 21.1* | List of Subsidiaries |
| 23.1* | Consent of WithumSmith+Brown, PC., an independent registered public accounting firm |
| 23.2* | Consent of D. Brooks and Associates CPAs, P.A., an independent registered public accounting firm |
| 31.1* | Rule 13(a)-14(a)/15(d)-14(a) Certification of principal executive officer |
| 31.2* | Rule 13(a)-14(a)/15(d)-14(a) Certification of principal financial officer |
| 32.1* | Section 1350 Certification of principal executive officer |
| 32.2* | Section 1350 Certification of principal financial officer and principal accounting officer |
| 101.INS | XBRL INSTANCE DOCUMENT |
| 101.SCH | XBRL TAXONOMY EXTENSION SCHEMA |
| 101.CAL | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE |
| 101.DEF | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE |
| 101.LAB | XBRL TAXONOMY EXTENSION LABEL LINKBASE |
| 101.PRE | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE |

* Filed herewith

Item 16. Form 10-K Summary

None.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AGEAGLE AERIAL SYSTEMS INC.

Dated: March 31, 2021

By: /s/ J. Michael Drozd
 J. Michael Drozd
 Chief Executive Officer

Dated: March 31, 2021

By: /s/ Nicole Fernandez-McGovern
 Nicole Fernandez-McGovern
 Chief Financial Officer, EVP of Operations and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signatures | Title | Date |
|---|--|----------------|
| <u>/s/ J. Michael Drozd</u> J. Michael Drozd | Chief Executive Officer (Principal Executive Officer) | March 31, 2021 |
| <u>/s/ Nicole Fernandez-McGovern</u> Nicole Fernandez-McGovern | Chief Financial Officer, EVP of Operations and Secretary (Principal Financial and Accounting Officer) | March 31, 2021 |
| <u>/s/ Barrett Mooney</u> Barrett Mooney | Chairman of the Board | March 31, 2021 |
| <u>/s/ Grant Begley</u> Grant Begley | Director | March 31, 2021 |
| <u>/s/ Luisa Ingargiola</u> Luisa Ingargiola | Director | March 31, 2021 |
| <u>/s/ Thomas Gardner</u> Thomas Gardner | Director | March 31, 2021 |

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
AgEagle Aerial Systems, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of AgEagle Aerial Systems, Inc. and subsidiaries, (the "Company") as of December 31, 2020, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to consolidated financial statements (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

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Critical Audit Matters

The critical audit matter communicated below is arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Equity Transactions

Description of the Matter:

As described in note 8 of the consolidated financial statements, the Company raised capital using convertible instruments which are inherently complex in nature. During the year ended December 31, 2020, these convertible instruments were converted into shares of common stock. These transactions converted into common shares in addition to triggering downround provisions and deemed dividends. The transactions required complex auditor judgment due to the number and the variety of the types of instruments and the subjectivity of assumptions used to value the transactions.

How We Addressed the Matter in Our Audit

Addressing the matter involved obtaining an understanding of the controls over the Company's process for issuing and recording equity. We assessed the appropriateness of judgments made by management in determining key assumptions used in the valuation of each equity transaction. We obtained and reviewed all material equity agreements and considered whether the recording was appropriate given the nature of the transaction. We recalculated the value of the amounts recorded based on management's key assumptions and on the related stock value at the time of the transaction. We agreed all material cash consideration received in equity raises to the Company's bank statements. We also tested the accuracy and the completeness of the disclosure of the transactions.

/s/ WithumSmith+Brown, PC

We have served as the Company's auditor since 2020.

Orlando, Florida
March 31, 2021

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of AgEagle Aerial Systems, Inc. (the Company) as of December 31, 2019, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AgEagle Aerial Systems, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

D. Brooks and Associates CPAs, P.A.

We have served as the Company's auditor since 2015.

Palm Beach Gardens, Florida

April 10, 2020

4440 PGA Blvd, Suite 104 ■ Palm Beach Gardens, Florida 33410 ■ Main Office: 561.429.6225 ■ Fax: 561.282.3444

dbrookscpa.com

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

| | As of | |
|--|----------------------|----------------------|
| | December 31, 2020 | December 31, 2019 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 23,940,333 | \$ 717,997 |
| Accounts receivable | — | 65,833 |
| Inventories, net | 135,647 | 221,167 |
| Prepaid and other current assets | 122,011 | 124,163 |
| Notes receivable | 600,000 | — |
| Total current assets | 24,797,991 | 1,129,160 |
| Property and equipment, net | 122,589 | 37,776 |
| Right of use asset | 257,363 | — |
| Intangible assets, net | 440,527 | 520,573 |
| Goodwill | 3,108,000 | 3,108,000 |
| Total assets | \$ 28,726,470 | \$ 4,795,509 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable | \$ 159,812 | \$ 57,432 |
| Accrued expenses | 1,844,825 | 36,416 |
| Accrued dividends | — | 163,555 |
| Contract liabilities | 2,302 | 264,472 |
| Current portion of lease liability | 85,895 | — |
| Current portion of promissory note | 89,533 | — |
| Total current liabilities | 2,182,367 | 521,875 |
| Long term portion of lease liability | 171,468 | — |
| Long term portion of promissory note | 17,906 | — |
| Total liabilities | 2,371,741 | 521,875 |
| COMMITMENTS AND CONTINGENCIES (SEE NOTE 10) | | |

STOCKHOLDERS' EQUITY:

Preferred Stock, \$0.001 par value, 25,000,000 shares authorized:

| | | |
|---|----------------------|---------------------|
| Preferred Stock, Series C Convertible, \$0.001 par value, 10,000 shares authorized, 0 and 3,501 shares issued and outstanding at December 31, 2020 and 2019, respectively | — | 4 |
| Preferred Stock, Series D, \$0.001 par value, 2,000 shares authorized, 0 and 2,000 shares issued and outstanding at December 31, 2020 and December 31, 2019, respectively | — | 2 |
| Common Stock, \$0.001 par value, 250,000,000 shares authorized, 58,636,365 and 15,424,394 shares issued and outstanding at December 31, 2020 and 2019, respectively | 58,636 | 15,424 |
| Additional paid-in capital | 47,241,757 | 12,456,989 |
| Accumulated deficit | (20,945,664) | (8,198,785) |
| Total stockholders' equity | <u>26,354,729</u> | <u>4,273,634</u> |
| Total liabilities and stockholders' equity | <u>\$ 28,726,470</u> | <u>\$ 4,795,509</u> |

See Accompanying Notes to Consolidated Financial Statements.

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Years Ended December 31, | |
|--|---|-----------------------|
| | 2020 | 2019 |
| Revenues | \$ 1,285,383 | \$ 296,677 |
| Cost of sales | 711,650 | 202,049 |
| Gross Profit | <u>573,733</u> | <u>94,628</u> |
| Operating Expenses: | | |
| Selling expenses | 40,003 | 65,015 |
| General and administrative | 2,732,274 | 1,850,225 |
| Professional fees | 2,703,371 | 662,633 |
| Research and development | 29,392 | 38,948 |
| Total Operating Expenses | <u>5,505,040</u> | <u>2,616,821</u> |
| Loss from Operations | <u>(4,931,307)</u> | <u>(2,522,193)</u> |
| Other Expenses: | | |
| Loss on disposal of fixed assets | (594) | — |
| Interest expense | (549) | (501) |
| Total Other Expenses | <u>(1,143)</u> | <u>(501)</u> |
| Loss Before Income Taxes | <u>(4,932,450)</u> | <u>(2,522,694)</u> |
| Provision for income taxes | — | — |
| Net Loss | <u>\$ (4,932,450)</u> | <u>\$ (2,522,694)</u> |
| Deemed dividends on redemption of Series D Preferred Stock | (3,763,591) | — |
| Deemed dividends on Series C Preferred Stock and Series D warrants | (4,050,838) | — |
| Deemed dividends on issuance and repurchase of Series E Preferred Stock | (1,227,120) | — |
| Series D Preferred stock dividends | (69,778) | (162,222) |
| Net Loss Available to Common Stockholders | <u>(14,043,777)</u> | <u>(2,684,916)</u> |
| Net Loss Per Common Share - Basic and Diluted | <u>\$ (0.35)</u> | <u>\$ (0.18)</u> |
| Weighted Average Number of Shares Outstanding During the Period – Basic and Diluted | <u>40,688,019</u> | <u>14,714,533</u> |

See Accompanying Notes to Consolidated Financial Statements.

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019

| | Par \$.0001 Preferred Stock Series C Shares | Par \$.0001 Preferred Stock Series C Amount | Par \$.0001 Preferred Stock Series D Shares | Par \$.0001 Preferred Stock Series D Amount | Par \$.0001 Preferred Stock Series E Shares | Par \$.0001 Preferred Stock Series E Amount | Par \$.0001 Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity |
|--|---|---|---|---|---|---|---|---------------------------|-------------------------------|------------------------|----------------------------------|
| Balance as of December 31, 2018 | 4,662 | \$ 5 | 2,000 | \$ 2 | — | \$ — | 12,549,394 | \$ 12,549 | \$ 12,171,274 | \$ (5,676,091) | \$ 6,507,739 |
| Conversion of Series C Preferred Stock | (1,161) | (1) | — | — | — | — | 2,150,000 | 2,150 | (2,149) | — | — |
| Additional shares issued for Agribotix acquisition | — | — | — | — | — | — | 175,000 | 175 | (175) | — | — |
| Issuance of Common Stock for consulting services | — | — | — | — | — | — | 550,000 | 550 | 189,950 | — | 190,500 |
| Dividend on Series D Preferred Stock | — | — | — | — | — | — | — | — | (162,222) | — | (162,222) |
| Stock-based compensation expense | — | — | — | — | — | — | — | 260,311 | — | — | 260,311 |
| Net Loss | — | — | — | — | — | — | — | — | — | (2,522,694) | (2,522,694) |
| Balance as of December 31, 2019 | <u>3,501</u> | <u>\$ 4</u> | <u>2,000</u> | <u>\$ 2</u> | <u>—</u> | <u>\$ —</u> | <u>15,424,394</u> | <u>\$ 15,424</u> | <u>\$ 12,456,989</u> | <u>\$ (8,198,785)</u> | <u>\$ 4,273,634</u> |
| Reversal of escrow shares related to Agribotix acquisition | — | — | — | — | — | — | (164,375) | (164) | 164 | — | — |
| Issuance of Common Stock for consulting services | — | — | — | — | — | — | 250,000 | 250 | 297,250 | — | 297,500 |
| Conversion of Series C Preferred Stock | (3,501) | (4) | — | — | — | — | 13,597,984 | 13,598 | (13,594) | — | — |

| | | | | | | | | | | | |
|---|---|----|---------|-----|-------|-----|------------|--------|-------------|--------------|-------------|
| Conversion of Series D Preferred stock and accrued dividends | — | — | (2,000) | (2) | — | — | 4,135,815 | 4,136 | 159,421 | — | 163,555 |
| Issuance of Series E Preferred Stock, net of issuance costs | — | — | — | — | 1,050 | 1 | — | — | 1,009,999 | — | 1,010,000 |
| Repurchase of Series E Preferred Stock | — | — | — | — | (262) | — | — | — | (1,110,880) | — | (1,110,880) |
| Conversion of Series E Preferred Stock | — | — | — | — | (788) | (1) | 3,152,000 | 3,152 | (3,151) | — | — |
| Sale of Common Stock, net of issuance costs | — | — | — | — | — | — | 10,163,105 | 10,163 | 22,786,579 | — | 22,796,742 |
| Sale of Common Stock from exercise of warrants | — | — | — | — | — | — | 11,025,544 | 11,025 | 3,309,091 | — | 3,320,116 |
| Exercise of options | — | — | — | — | — | — | 881,898 | 882 | 133,631 | — | 134,513 |
| Deemed dividend on Series C Preferred Stock and Series D warrants | — | — | — | — | — | — | — | — | 4,050,838 | (4,050,838) | — |
| Deemed dividend on redemption of Series D Preferred Stock | — | — | — | — | — | — | — | — | 3,763,591 | (3,763,591) | — |
| Stock-based compensation expense | — | — | — | — | — | — | 170,000 | 170 | 401,829 | — | 401,999 |
| Net Loss | — | — | — | — | — | — | — | — | — | (4,932,450) | (4,932,450) |
| Balance at December 31, 2020 | — | \$ | — | \$ | — | \$ | — | \$ | — | \$ | — |
| | | | | | | | 58,636,365 | 58,636 | 47,241,757 | (20,945,664) | 26,354,729 |

See Accompanying Notes to Consolidated Financial Statements.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the Years Ended December 31, | |
|---|----------------------------------|----------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (4,932,450) | \$ (2,522,694) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss on disposal of fixed assets | 594 | — |
| Depreciation and amortization | 173,661 | 171,588 |
| Stock-based compensation | 401,999 | 260,311 |
| Shares issued for professional services | 297,500 | 190,500 |
| Loss on impairment | — | 162,984 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 65,833 | (65,740) |
| Inventories | 85,520 | (71,685) |
| Prepaid expenses and other assets | 2,152 | (43,793) |
| Accounts payable | 102,380 | (140,395) |
| Accrued expenses | 1,808,411 | (18,946) |
| Contract liabilities | (262,171) | 259,580 |
| Net cash used in operating activities | (2,256,571) | (1,818,290) |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Issuance of notes receivable | (600,000) | — |
| Purchases of fixed assets | (106,124) | (24,445) |
| Platform development costs | (72,899) | — |
| Net cash used in investing activities | (779,023) | (24,445) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from (payments on) promissory note | 107,439 | (40,998) |
| Issuance of Series E Preferred stock | 1,010,000 | — |
| Repurchase of Series E Preferred stock | (1,110,880) | — |
| Sales of Common Stock, net of issuance cost | 22,796,742 | — |
| Sale of Common Stock from exercise of warrants | 3,320,116 | — |
| Exercise of stock options | 134,513 | — |
| Net cash provided by (used in) financing activities | 26,257,930 | (40,998) |
| Net increase (decrease) in cash | 23,222,336 | (1,883,733) |
| Cash at beginning of year | 717,997 | 2,601,730 |
| Cash at end of year | \$ 23,940,333 | \$ 717,997 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Interest cash paid | \$ — | \$ 501 |
| Income taxes paid | \$ — | \$ — |
| Accrued dividends | \$ — | \$ 163,555 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Conversion of Series C, D and E Preferred Stock into Common Stock | \$ 6,551 | \$ 2,150 |
| Issuance of Series E Preferred Stock | \$ 1,050 | \$ — |
| Deemed dividends | \$ 9,111,327 | \$ 162,222 |

See Accompanying Notes to Consolidated Financial Statements

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Note 1 – Description of Business

AgEagle Aerial Systems Inc. (“AgEagle,” “the Company,” “us,” “we,” “our”) produces, supports and operates technologically advanced drone systems and solutions for the fast-emerging unmanned aerial vehicle (UAV) industry. We are engaged in delivering the metrics, tools and strategies necessary to invent and implement drone-enabled solutions that solve important problems for our valued customers. With our founding premise rooted in high performance, next-level thinking, and technological innovation, AgEagle is intent on ensuring that new standards for quality U.S. manufacturing and the provision of precision-crafted, purpose-built drone systems and solutions are delivered to empower our customers to thrive and prosper in The Drone Age.™

Founded in 2010, AgEagle was originally formed to pioneer proprietary, professional-grade, fixed-wing drones and aerial imagery-based data collection and analytics solutions for the agriculture industry. In addition to selling our innovative drones to the precision and sustainable farming markets, AgEagle’s innovative data collection and analytics solutions have processed more than two million acres of crops, analyzing data that seeks to adopt and support productive agricultural approaches to improve farming practices which currently limit the impact on our natural resources, reduce reliance on inputs and materially increase crop yields and profits.

In the first half of 2019, the Company introduced *HempOverview*, a scalable, responsive and cost-effective Software-as-a-Solution (“SaaS”) web- and map-based technology platform to support the operations of domestic industrial hemp programs for state and tribal nation departments of agriculture – a solution that provides users with what the Company believes is the gold standard for regulatory oversight, operational assistance and reporting capabilities for the fast emerging industrial hemp industry.

Over the past decade, the broader drone market has continued to evolve and expand. As a result, economic and productivity benefits made possible by drones is fueling global demand for high quality, safe and reliable drone systems and solutions for commercial applications well beyond agriculture. In response, AgEagle is now leveraging our technological expertise and drone engineering and manufacturing experience to penetrate new, high growth market sectors; namely, drone package delivery, public safety/security, large venue decontamination and infrastructure/inspection, among other high growth market opportunities.

AgEagle’s key growth objectives are centered on three primary areas of focus:

- 1) **Ag Solutions:** Leveraging our reputation as one of the leading technology solutions providers to the agriculture industry to increase market share through delivery of best-in-class drones, sensors and data analytics for hemp and other commercial crops;
- 2) **Drone Manufacturing:** Establishing AgEagle as the dominant commercial drone design, engineering, manufacturing, assembly and testing company in the United States; and
- 3) **Drone Solutions:** Establishing the Company as one of the industry’s leading American-made trusted source for turnkey, end-to-end, tailored drone solutions to the world.

We intend to grow our business by preserving a leadership position in our core Ag Solutions business; providing quality contract manufacturing, assembly, and testing services; and innovating new customer-focused drone systems and solutions to capture significant share of the broader commercial drone market. In addition, we expect to accelerate our growth and expansion through strategic acquisitions of drone-related companies offering distinct technological and competitive advantages and have defensible IP protection in place, if applicable.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 1 – Description of Business – Continued

The Company is headquartered in Wichita, Kansas.

Corporate History; Recent Business Combinations

On March 26, 2018, our predecessor company, EnerJex Resources, Inc. (“EnerJex”), a Nevada company, consummated the transactions contemplated by the Agreement and Plan of Merger (the “Merger Agreement”), dated October 19, 2017, pursuant to which AgEagle Merger Sub, Inc., a Nevada corporation and a wholly-owned subsidiary of EnerJex, merged with and into AgEagle Aerial Systems Inc., a privately held company organized under the laws of the state of Nevada (“AgEagle Sub”), with AgEagle Sub surviving as a wholly-owned subsidiary of EnerJex (the “Merger”). In connection with the Merger, EnerJex changed its name to AgEagle Aerial Systems Inc. (the “Company,” “we,” “our,” or “us”) and AgEagle Sub changed its name initially to “Eagle Aerial, Inc. and then to” AgEagle Aerial, Inc. Prior to this merger all of the EnerJex operations were conducted through EnerJex Kansas, Inc., Black Sable Energy, LLC, a Texas limited liability company (“Black Sable”) and Black Raven Energy, Inc. a Nevada corporation (“Black Raven”). Its leasehold interests were held in its wholly-owned subsidiaries Black Sable, Working Interest, LLC, EnerJex Kansas and Black Raven. Black Sable, Black Raven and Working Interest, LLC were all dissolved as of the end of 2020. As of December 31, 2020, the Company continues with the wholly-owned subsidiaries AgEagle Aerial, Inc. and EnerJex Kansas, Inc.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation - These financial consolidated statements are presented in United States dollars and have been prepared in accordance with accounting principles generally accepted in the United States. The Company’s consolidated financial statements are prepared using the accrual method of accounting. The Company has elected a December 31 fiscal year end.

The consolidated financial statements include the accounts of AgEagle Aerial Systems Inc. and its wholly-owned subsidiaries AgEagle Aerial, Inc. and EnerJex Kansas, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The summary of significant accounting policies presented below is designed to assist in understanding the Company’s consolidated financial statements. Such consolidated financial statements and accompanying notes are the representations of the Company’s management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (“US GAAP”) in all material respects and have been consistently applied in preparing the accompanying consolidated financial statements.

During the year ended December 31, 2020 the Company discovered errors in the income tax provision as of and for the year ended December 31, 2019. These errors relate to computing the deferred tax assets using a blended state and federal tax rate and also computing a deferred tax asset using the incorrect amount of net operating loss for the year ended December 31, 2019. The total of these errors were offset by incorrectly increasing the valuation allowance by the same amount. The adjustment was to decrease the deferred tax asset by \$1,130,297 and to decrease the valuation allowance by the same amount. Since there was no impact to the Company’s net loss or the Company’s equity for the years ended December 31, 2020 and 2019 the Company has determined that these errors were not material to the consolidated financial statements. The deferred tax asset and

valuation allowance has been cumulatively adjusted as of and for the year ended December 31, 2020 to correct these errors and the impact of these changes are included in the reconciliation of income tax disclosure for the year ended December 31, 2020.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the reserve for obsolete inventory, valuation of stock issued for services and stock options, valuation of intangible assets and the valuation of deferred tax assets.

Fair Value Measurements and Disclosures – The Fair Value Measurements and Disclosures topic of the Accounting Standards Codification (“ASC”) requires companies to determine fair value based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. The Fair Value Measurements and Disclosures topic emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 2 – Summary of Significant Accounting Policies – Continued

The guidance requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

We have no assets or liabilities that are required to have their fair value measured on a recurring basis at December 31, 2020 or 2019. Long-lived assets are measured at fair value on a non-recurring basis and are subject to fair value adjustments when there is evidence of impairment.

For short-term classes of our financial instruments, which include cash and cash equivalents, accounts receivable, notes receivable and accounts payable, and which are not reported at fair value, the carrying amounts approximate fair value due to their short-term nature. Additionally, the Note payable is carried at face value, which approximates fair value, due to the government backed security which requires payments however management is expecting to apply for and receive full forgiveness during 2021 (See Note 7).

Concentrations – The Company maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. The Company’s bank balances at times may exceed the FDIC limit. To date, the Company has not experienced any losses on its invested cash.

As of December 31, 2020, there was one significant vendor that the Company relies upon to perform stitching its *FarmLens* platform. This vendor provides services to the Company which can be replaced by alternative vendors should the need arise.

Receivables and Credit Policy – Trade receivables due from customers are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Terms with our distributor allow for payment terms of 45 days from the invoice date. Trade receivables are stated at the amount billed to the customer. The Company generally does not charge interest on overdue customer account balances. Payments of trade receivables are allocated to the specific invoices identified on the customer’s remittance advice or, if unspecified, are applied to the earliest unpaid invoices. Accounts receivable at January 1, 2019 was \$93.

The Company estimates an allowance for doubtful accounts based upon an evaluation of the current status of receivables, historical experience, and other factors as necessary. It is reasonably possible that the Company’s estimate of the allowance for doubtful accounts will change. The Company determined that no allowance was necessary as of December 31, 2020 and December 31, 2019.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 2 – Summary of Significant Accounting Policies – Continued

Inventories – Inventories, which consist of raw materials, finished goods and work-in-process, are stated at the lower of cost or net realizable value, with cost being determined by the average-cost method, which approximates the first-in, first-out method. Cost components include direct materials and direct labor, as well as in-bound freight. At each balance sheet date, the Company evaluates its ending inventories for excess quantities and obsolescence. This evaluation primarily includes an analysis of forecasted demand in relation to the inventory on hand, among consideration of other factors. The physical condition (e.g., age and quality) of the inventories is also considered in establishing its valuation. Based upon the evaluation, provisions are made to reduce excess or obsolete inventories to their estimated net realizable values. Once established, write-downs are considered permanent adjustments to the cost basis of the respective inventories. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from the amounts that the Company may ultimately realize upon the disposition of inventories if future economic conditions, customer inventory levels, product discontinuances, sales return levels or competitive conditions differ from the Company’s estimates and expectations. As of December 31, 2020, and 2019, the Company had recorded a provision for obsolescence of \$10,000.

Goodwill and Intangible Assets – The assets and liabilities of acquired businesses are recorded under the acquisition method of accounting at their estimated fair values at the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying identifiable net assets of acquired businesses. Goodwill is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value of the goodwill may not be recoverable.

Intangible assets from acquired businesses are recognized at fair value on the acquisition date and consist of customer programs, trademarks, customer relationships, technology and other intangible assets. Customer programs include values assigned to major programs of acquired businesses and represent the aggregate value associated with the customer relationships, contracts, technology and trademarks underlying the associated program and are amortized on a straight-line basis over a period of expected cash flows used to measure fair value, which ranges from four to five years.

Business Combinations – The Company recognizes, with certain exceptions, 100% of the fair value of assets acquired, liabilities assumed, and non-controlling interests when the acquisition constitutes a change in control of the acquired entity. Shares issued in consideration for a business combination, contingent consideration arrangements and

pre-acquisition loss and gain contingencies are all measured and recorded at their acquisition-date fair value. Subsequent changes to fair value of contingent consideration arrangements are generally reflected in earnings. Any in-process research and development assets acquired are capitalized as of the acquisition date. Acquisition-related transaction costs are expensed as incurred. The operating results of entities acquired are included in the accompanying consolidated statements of operations from the date of acquisition.

Revenue Recognition and Concentration – The majority of the Company’s revenue is generated pursuant to written contractual arrangements to develop, manufacture and/or modify complex drone related products, and to provide associated engineering, technical and other services according to customer specifications. These contracts are a fixed price and are accounted for in accordance with ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). Under fixed-price contracts, the Company agrees to perform the specified work for a pre-determined price. To the extent the Company’s actual costs vary from the estimates upon which the price was negotiated, it will generate more or less profit or could incur a loss. The Company accounts for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 2 – Summary of Significant Accounting Policies – Continued

The Company generally recognizes revenue on sales to customers, dealers and distributors upon satisfaction of performance obligations which generally occurs once controls transfer to customers, which is when product is shipped or delivered depending on specific shipping terms. Additionally, customers are required to place a deposit or pay upon shipping for each UAV or drone delivery assembly part ordered. Customer payments received in advance of the Company completing performance obligations are recorded as contract liabilities.

The Company’s FamLens platform is offered on subscription basis for processing aerial imaging. These subscription fees are recognized ratably over each monthly membership period as the services are provided.

Sales concentration information for customers comprising more than 10% of the Company’s total net sales such customers is summarized below:

| Customers | Percent of total revenues for year ended December 31, | |
|------------|---|-------|
| | 2020 | 2019 |
| Customer A | 93.7% | 90.8% |

There were no accounts receivable from Customer A due as of December 31, 2020. Accounts receivable due from Customer A comprised all of the accounts receivable as of December 31, 2019.

The table below reflects our revenue for the years indicated by product mix.

| Type | For the Year Ended December 31, | |
|--------------------------------------|---------------------------------|-------------------|
| | 2020 | 2019 |
| Drone and Custom Manufacturing Sales | \$ 1,218,735 | \$ 267,622 |
| Software Subscription Sales | 66,648 | 29,055 |
| Total | <u>\$ 1,285,383</u> | <u>\$ 296,677</u> |

Shipping Costs – Shipping costs for the years ended December 31, 2020 and 2019 totaled \$6,122, and \$5,493, respectively. All shipping costs billed directly to the customer are directly offset to shipping costs resulting in a net expense to the Company which is included in cost of goods sold on the accompanying statements of operations.

Research and Development Expenses – Research and development costs are expensed as incurred and are included as part of the accompanying consolidated statements of operations. Research and development costs totaled \$29,392 and \$38,948 for the years ended December 31, 2020 and 2019, respectively.

Loss Per Common Share – Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the year. Diluted loss per share is computed by dividing net loss by the weighted average number of common shares outstanding plus Common Stock equivalents (if dilutive) related to warrants, options and convertible instruments.

Potentially Dilutive Securities – The Company has excluded all common equivalent shares outstanding for warrants, options and convertible instruments to purchase Common Stock from the calculation of diluted net loss per share, because all such securities are anti-dilutive for the periods presented. For the year ended December 31, 2020, the Company had 2,516,778 warrants and 2,255,267 options to purchase Common Stock. For the year ended December 31, 2019, the Company had 4,531,924 warrants, 2,480,470 options to purchase Common Stock, and 3,501 shares of Series C Preferred Stock which may be converted into 6,483,333 shares of Common Stock.

**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 2 – Summary of Significant Accounting Policies – Continued

Leases – The Company accounts for its operating leases in accordance with FASB Account Standards Update 2016-02 – *Leases* (Topic 842) Lessees recognize a right-of-use asset and a lease liability for virtually all their leases. The Company recognizes assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease.

Income Taxes – The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Accounting for Income Taxes*. This topic requires an asset and liability approach for accounting for income taxes. The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. All income tax returns not filed more than three years ago are subject to federal and state tax examinations by tax authorities.

Stock-Based Compensation Awards – The Company accounts for its stock-based awards in accordance with ASC Subtopic 718-10, “*Compensation – Stock Compensation*”, which requires fair value measurement on the grant date and recognition of compensation expense for all stock-based payment awards made to employees and directors. For stock options, the Company estimates the fair value using a closed option valuation (Black-Scholes) model. The estimated fair value is then expensed over the requisite service period of the award which is generally the vesting period and the related amount is recognized in the accompanying consolidated statements of operations within general and administrative expenses. The Company recognizes forfeitures at the time they occur.

The Black-Scholes option-pricing model requires the input of certain assumptions that require the Company’s judgment, including the expected term and the expected stock price volatility of the underlying stock. The assumptions used in calculating the fair value of stock-based compensation represent management’s best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change resulting in the use of different assumptions, stock-based compensation expense could be materially different in the future.

Uncertainty—The recent outbreak of the COVID-19 coronavirus is impacting worldwide economic activity. COVID-19 poses the risk that we or our employees, CROs, suppliers, manufacturers and other partners may be prevented from conducting business activities for an indefinite period of time, including due to the spread of the disease or shutdowns that may be requested or mandated by governmental authorities. While it is not possible at this time to estimate the full impact that COVID-19 could have on our business, the continued spread of COVID-19 could disrupt our clinical trials, supply chain and the manufacture or shipment of our cyclodextrin products, and other related activities, which could have a material adverse effect on our business, financial condition and results of operations. While we have not yet experienced any material disruptions in our business or other negative consequences relating to COVID-19, the extent to which the COVID-19 pandemic impacts our results will depend on future developments that are highly uncertain and cannot be predicted. See Note 7.

Recently Issued Accounting Pronouncements

Adopted

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350)*. The updated simplifies the process for assessing goodwill impairment. The amended guidance removes the second step that was previously required. Under this ASU, impairment charges to goodwill are based on the excess of a reporting unit’s carrying value to its fair value. ASU 2017-04 is effective for the Company in its fiscal year beginning after December 15, 2019 with early adoption permitted. In 2019, the Company adopted ASU 2017-04 and applied the guidance to its annual impairment test (see Note 6).

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*. This ASU removes or modifies current disclosures while adding certain new disclosure requirements. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods therein, with early adoption permitted for the removed or modified disclosures. The removed and modified disclosures can be adopted retrospectively, and the added disclosures should be adopted prospectively. The Company’s adoption of ASU No. 2018-13 effective December 15, 2019 did not have a material impact on the consolidated financial statements.

**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 2 – Summary of Significant Accounting Policies – Continued

In August 2018, the FASB issued ASU 2018-15, *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Topic 350-40)*. This ASU allows for capitalization of implementation costs associated with certain cloud computing arrangements. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods therein, with early adoption permitted. The Company’s adoption of ASU No. 2018-15 effective December 15, 2019 did not have a material impact on the consolidated financial statements.

Pending Adoption

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which provides guidance on how an entity should measure credit losses on financial instruments. The ASU is effective for smaller reporting company’s for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. The amendments in ASU 2019-12 simplify the accounting for income taxes by removing certain exceptions to the general principles and clarifying a handful of narrow issues within the broad topic of income tax accounting. The amendments in ASU 2019-12 are effective for years beginning after December 15, 2020. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

Other recent accounting pronouncements issued by FASB did not or are not believed by management to have a material impact on the Company’s present or future consolidated financial statements.

Note 3 — Inventories

Inventories consist of the following at:

| | December 31, | |
|---------------------------|-------------------|-------------------|
| | 2020 | 2019 |
| Raw materials | \$ 88,091 | \$ 193,022 |
| Work-in process | 50,447 | 26,456 |
| Finished goods | 7,109 | 11,689 |
| Gross inventory | 145,647 | 231,167 |
| Less obsolescence reserve | (10,000) | (10,000) |
| Total | <u>\$ 135,647</u> | <u>\$ 221,167</u> |

Note 4 – Notes Receivable

On October 14, 2020, in connection with, and as an incentive to the entry into a two-year exclusive manufacturing agreement to produce a patented Drone Delivery Station for Valqari LLC (“Valqari”), AgEagle Aerial Systems, Inc. (the “Company”) entered into a Convertible Promissory Note pursuant to which the Company has made a loan to Valqari, in the principal aggregate amount of \$500,000 (the “Note”), which amount accrues interest at a rate of three percent per annum.

AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 4 – Notes Receivable – Continued

The loan matures on April 15, 2021 (the “Maturity Date”), at which time all outstanding principal and interest that has accrued, but remains, unpaid shall be due. The Note provides for an automatic six month extension of the Maturity Date under the following circumstances (i) Valqari has received in writing, (x) a good faith acquisition offer at a consideration value greater than \$15,000,000, (y) such offer, upon consummation, would result in a change in control (as defined in the note) of Valqari, and (z) at such time Valqari, is actively engaged in the negotiation or finalization of such acquisition transaction; or (ii) Valqari has initiated, or is in the process of initiating, a conversion to a “C-Corporation” under the Internal Revenue Code, whereas such conversion will be completed no later than one day prior to the extended Maturity Date. Valqari may not prepay the Note prior to the Maturity Date.

In the event of a change in control or conversion of Valqari to a “C-Corporation” under the Internal Revenue Code on or before the Maturity Date, the Company may convert the outstanding principal amount of the Note and any unpaid accrued interest into (i) Class B Common Units of Valqari: immediately prior to the closing of a Change in Control or (ii) upon Valqari’s conversion to a C-corporation, shares of Valqari Common Stock, in both cases at a conversion price no higher than a pre-money valuation of \$15,000,000.

The Note is subject to customary representations and warranties by Valqari, as well as events of default, which may lead to acceleration of the payment of the Note such as (i) failure to pay all of the outstanding principal, plus accrued interest on the Maturity Date, (ii) Valqari filing a petition or action under any bankruptcy, or other law, or (iii) an involuntary petition is filed against Valqari under any bankruptcy statute (that is not dismissed or discharged within 60 days). The indebtedness evidenced by the Note is subordinated in right of payment to the prior payment in full of any senior indebtedness (as defined in the Note) in existence on the date of the Note or incurred thereafter.

On November 16, 2020, the Company (Payee) executed a promissory note in connection with a proposed acquisition (the “Proposed Acquisition”) by the Payee or its affiliate, for 100% of the capital stock of MicaSense Inc., (“MicaSense”). Parrot Drones S.A.S. promises to pay to the Company the principal amount of \$100,000 provided such principal amount shall be off-set and reduced by all amounts paid or due in connection with the audit of the financial statements for the fiscal years ended December 31, 2018 and 2019 of MicaSense evidenced by invoices from MicaSense’s auditors, copies of which shall be provided to Payee (the “Audit Costs”), together with any accrued and unpaid interest on the maturity date of March 15, 2021 unless the note is credited towards the purchase price upon closing of the proposed acquisition or otherwise accelerated in accordance with the terms and conditions of the remedies section within the noted.

Note 5 — Property and Equipment

Property and equipment consist of the following at:

| Type | Estimated Life | December 31, | |
|-----------------------------------|----------------|--------------|-----------|
| | | 2020 | 2019 |
| Leasehold improvements | 3 Years | \$ 22,265 | \$ 12,170 |
| Equipment and vehicles | 5 Years | 100,532 | 101,652 |
| Computer and office equipment | 5 Years | 23,369 | 7,262 |
| Furniture | 5 Years | 54,798 | — |
| Drone equipment | 3 Years | 32,138 | 19,674 |
| Total | | 233,102 | 140,758 |
| Less accumulated depreciation | | (110,513) | (102,982) |
| Total Property and equipment, net | | \$ 122,589 | \$ 37,776 |

Depreciation expense for the years ended December 31, 2020 and 2019 was \$20,716 and \$15,043, respectively. During the year ended December 31, 2020 the company recorded \$13,185 on disposal, resulting on a loss of \$594 which is included in other expenses on the consolidated statements of operations.

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 6 – Goodwill and Intangible Assets

Intangible assets are recorded at cost and consist of the assets acquired for the acquisition of SaaS completed in 2018 (see Note 3) and our *HempOverview* platform development costs. Goodwill and intangible assets were comprised of the following as of December 31, 2020:

| Name | Estimated Life | Balance at January 1, 2020 | Additions | Amortization | Impairment | Balance at December 31, 2020 |
|----------------------------------|----------------|----------------------------|-----------|--------------|------------|------------------------------|
| Intellectual property/technology | 5 Years | \$ 317,826 | \$ — | \$ (86,680) | \$ — | \$ 231,146 |
| Customer base | 5 Years | 52,800 | — | (14,400) | — | 38,400 |
| Tradenames and trademarks | 5 Years | 42,680 | — | (11,640) | — | 31,040 |
| Non-compete agreement | 4 Years | 107,267 | — | (40,225) | — | 67,042 |
| Platform development costs | | — | 72,899 | — | — | 72,899 |
| Total Intangible Assets | | \$ 520,573 | 72,899 | (152,945) | — | \$ 440,527 |
| Goodwill | | 3,108,000 | — | — | — | 3,108,000 |
| Total | | \$ 3,628,573 | \$ 72,899 | \$ (152,945) | \$ — | \$ 3,548,527 |

Goodwill and intangible assets were comprised of the following as of December 31, 2019:

Balance at January 1,

Balance at

| Name | Estimated Life | 2019 | Additions | Amortization | Impairment | December 31, 2019 |
|----------------------------------|----------------|--------------|-----------|--------------|--------------|-------------------|
| Intellectual property/technology | 5 Years | \$ 404,506 | \$ — | \$ (86,680) | \$ — | \$ 317,826 |
| Customer base | 5 Years | 70,800 | — | (18,800) | — | 52,800 |
| Tradenames and trademarks | 5 Years | 54,320 | — | (11,640) | — | 42,680 |
| Non-compete agreement | 4 Years | 147,492 | — | (40,225) | — | 107,267 |
| Total Intangible Assets | | \$ 677,118 | — | (156,545) | — | \$ 520,573 |
| Goodwill | | 3,270,984 | — | — | (162,984) | 3,108,000 |
| Total | | \$ 3,948,102 | \$ — | \$ (156,545) | \$ (162,984) | \$ 3,628,573 |

The weighted average remaining amortization period in years is 2.46 years. Amortization expense for the years ended December 31, 2020 and 2019 was \$152,945 and \$156,545, respectively.

Future amortization is as follows for fiscal years ending:

| | 2021 | 2022 | 2023 | 2024 | 2025 |
|----------------------------------|------------|------------|-----------|-----------|-----------|
| Intellectual property/technology | \$ 86,680 | \$ 86,680 | \$ 57,786 | \$ — | \$ — |
| Customer base | 14,400 | 14,400 | 9,600 | — | — |
| Tradenames and trademarks | 11,640 | 11,640 | 7,760 | — | — |
| Non-compete agreement | 40,225 | 26,817 | — | — | — |
| Platform development costs | 14,580 | 14,580 | 14,580 | 14,580 | 14,579 |
| Total | \$ 167,525 | \$ 154,117 | \$ 89,726 | \$ 14,580 | \$ 14,579 |

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 6 — Goodwill and Intangible Assets – Continued

In the fourth quarter of 2020 and 2019, the Company performed its annual goodwill impairment test using a quantitative approach by comparing the carrying value of the reporting unit, including goodwill, to its fair value. If the carrying value of the reporting unit, including goodwill, exceeds its fair value, a goodwill impairment loss is recognized in an amount equal to that excess. The Company estimates the fair value of each reporting unit using a combination of a discounted cash flow (DCF) (Level 3 input) analysis and market-based valuation methodology such as comparable public company trading values. Determining fair value requires the exercise of significant judgments, including the amount and timing of expected future cash flows, long-term growth rates, discount rates and relevant comparable public company earnings multiples and relevant trading multiples. The cash flows employed in the DCF analysis are based on estimates of future sales, earnings and cash flows after considering factors such as general market conditions, existing firm orders, expected future orders, changes in working capital, long term business plans and recent operating performance. The DCF analysis used a discount rate of 13%.

During the year ended December 31, 2019, the fair value of the reporting unit was found to be less than its carrying value and the Company recorded a goodwill impairment charge of \$162,984 which is included in general and administrative expense on the statements of operations.

For purposes of testing the finite-lived intangible assets the sum of the undiscounted future cash flows expected to result from the use of the asset group was compared to the asset group's carrying value. Based on the impairment test for the goodwill and finite-lived intangibles assets related to the SaaS reporting unit no impairment exists for those assets as of December 31, 2020 and 2019. The Company will continue to amortize the related finite-intangible asset over their estimated useful lives.

Note 7 – Promissory Note

On May 6, 2020, the Company received a loan in the amount of \$107,439 from the Small Business Administration (SBA) as part of Coronavirus Aid, Relief and Economic Security Act's Paycheck Protection Plan (PPP). The loan is unsecured, nonrecourse, accrues interest at one percent per annum, with a due date of May 6, 2022. Under the terms of the loan, a portion or all of the loan is forgivable to the extent that the loan proceeds are used to fund qualifying payroll, rent and utilities during a designated twenty-four-week period through October 21, 2020.

The unforgiven portion of the PPP loan is payable over two years and can be extended to five years if agreed upon by both parties and bears interest at a rate of 1%, with a deferral of payments for the first six months. The Company intends to use the proceeds for purposes consistent with the PPP. While the Company currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, there can be no assurance that the Company will not take actions that could cause the Company to be ineligible for forgiveness of the loan, in whole or in part. The maturities of the loan for the:

| Year Ending December 31, | Amount |
|--------------------------|-------------------|
| 2021 | \$ 89,533 |
| 2022 | 17,906 |
| | <u>\$ 107,439</u> |

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 8 – Equity

Series C Preferred Stock

Each share of Series C Preferred Stock is convertible into a number of shares of our Common Stock equal to the quotient determined by dividing (x) the stated value of

\$1,000 per share, by (y) a conversion price of \$0.54. Until the volume weighted average price of our Common Stock on NYSE exceeds \$107.50 with average trading volume of 200,000 shares per day for ten consecutive trading days, the conversion price of our Series C Preferred Stock is subject to full-ratchet, anti-dilution price protection. Under that provision, if, while that full-ratchet, anti-dilution price protection is in effect, the Company issues shares of our Common Stock at a price per share (the "Dilutive Price") that is less than the conversion price, then the conversion price of our Series C Preferred Stock is automatically reduced to be equal to the Dilutive Price. The effect of that reduction is that, upon the issuance of shares of Common Stock at a Dilutive Price, the Series C Preferred Stock would be convertible into a greater number of shares of our Common Stock.

The Series C preferred stock anti-dilution protection was initially triggered on December 27, 2018 as a result of the Company issuing the Series D Preferred Stock, (the "Series D Preferred Stock") as described below. The Series D Preferred Stock had a \$0.54 conversion price thereby qualifying as a subsequent equity offering at a price less than \$1.53.

During the year ended December 31, 2019, Alpha Capital Anstalt ("Alpha") converted a total of 1,161 shares of Series C Preferred Stock into 2,150,000 shares of Common Stock at a conversion price of \$0.54.

During the month of January 2020, Alpha converted 189 shares of Series C Preferred Stock into 350,000 shares of Common Stock at a conversion price of \$0.54.

On April 7, 2020, upon the issuance of the Series E Preferred Stock, (the "Series E Preferred Stock") offering (see below), a subsequent anti-dilution provision was triggered for the Series C Preferred Stock whereby the conversion price was further adjusted from \$0.54 per share to \$0.25 per share (a "Down Round"), which resulted in approximately 13,248,000 shares of common stock being issuable upon conversion of the remaining Series C Preferred Stock. As a result of this Down Round being triggered, the Company recorded a deemed dividend in the amount of \$3,841,920 representing the intrinsic spread between the previous conversion price of \$0.54 and the adjusted conversion price of \$0.25 multiplied by 13,248,000 common stock shares issuable upon conversion. The deemed dividend was recorded as a reduction of retained earnings and increase in additional paid-in-capital and increased the net loss to common stockholders by the same amount in computing earnings per share.

During the month of April 2020, Alpha converted 3,312 shares of Series C Preferred Stock into 13,247,984 shares of Common Stock at a conversion price of \$0.25. As of December 31, 2020, no Series C Preferred Stock remain issued and outstanding.

Series D Preferred Stock

On December 27, 2018, the Company entered into Securities Purchase Agreement (the "Series D Purchase Agreement") with an Investor (the "Purchaser"). Pursuant to the terms of the Agreement, the Board of Directors of the Company (the "Board") designated a new series of preferred stock, the Series D Preferred Stock, which is non-convertible and provides for an 8% annual dividend and is subject to optional redemption by the Company (the "Preferred Stock"). The Company issued 2,000 shares of Preferred Stock and a warrant (the "Warrant") to purchase 3,703,703 shares of the Company's Common Stock, par value \$0.001 per share of Common Stock, for \$2,000,000 in gross proceeds. The shares of Common Stock underlying the Warrant are referred to as the "Warrant Shares". The Company also entered into a registration rights agreement (the "Registration Rights Agreement") granting registration rights to the Purchaser with respect to the Series D Warrant Shares.

The Series D Purchase Agreement provides that upon a subsequent financing or financings with net proceeds of at least \$500,000, the Company must exercise its optional redemption of the Preferred Stock and apply any and all net proceeds from such financing(s) to the redemption in full of the Preferred Stock. The Preferred Stock is nonconvertible, provides for an 8% annual dividend payable semi-annually, and has liquidation rights senior to the Common Stock, but pari passu with the Company's Series C Preferred Stock. The Preferred Stock has no voting rights, except that the Company shall not undertake certain corporate actions as set forth in the Certificate of Designation that would materially impact the holders of Preferred Stock without their consent.

The Preferred Stock is subject to optional redemption by the Company at 115% of the stated value of the Preferred Stock outstanding at the time of such redemption, plus any accrued but unpaid dividends and all liquidated damages or other amounts due. Any such optional redemption may only be exercised after giving notice and upon satisfaction of certain equity conditions set forth in the Certificate of Designation, including (i) all dividends, liquidated damages and other amounts have been paid; (ii) there is an effective registration statement covering the Warrant Shares, or the Warrant Shares can be exercised through a cashless exercise without restriction under Rule 144, (iii) the Warrant Shares are listed on an exchange, (iv) the holder is not in possession of material, non-public information, (v) there is a sufficient number of authorized shares for issuance of all Warrant Shares, and (vi) for each trading day in a period of 20 consecutive trading days prior to the redemption date, the daily trading volume for the Common Stock on the principal trading market exceeds \$200,000 per trading day.

AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 8 – Equity – Continued

On April 7, 2020, upon the issuance of the Series E Preferred Stock, (the "Series E Preferred Stock") offering (see below), a subsequent anti-dilution provision was triggered for the Series D Warrants whereby the exercise price of the Warrant Shares was adjusted from \$0.54 to \$0.25 per share (a "Warrant Down Round"). Upon the Warrant Down Round being triggered, the Company recognized \$208,918 of a deemed dividend for the difference between the fair value of the original warrants right before modification and the fair value of the modified warrants. The fair value of the warrants was determined using the Black-Scholes option-pricing model based on the following assumptions: expected life of 3.5 years, expected dividend rate of 0%, volatility of 90.0%, and an interest rate of 0.29%. The deemed dividend to the preferred stockholders was a recorded as additional paid in capital and a reduction of retained earnings and as an increase to net loss attributable to Common Stockholders in computing earnings per share on the consolidated statements of operations.

On June 5, 2020, the Company and Alpha entered into a letter agreement whereby they agreed to amend the Original Series D Preferred Stock and terminate the Series D Purchase Agreement. Alpha is a current holder of less than 10% of the Company's issued and outstanding Common Stock and has no material relationship with the Company.

On June 5, 2020, the Board of Directors of the Company approved an amendment to the Original Series D Preferred Stock Certificate of Designation for Nevada Profit Corporations with the Secretary of State of the State of Nevada (the "Original Series D Preferred Stock Certificate of Designation"). The amendment among other things, (i) provided for the ability of the Holder to convert the Original Series D, including all accrued, but unpaid dividends on the Original Series D, into shares of Common Stock, par value \$0.001 per share of the Company, (ii) set a conversion price at \$0.54 per share (subject to customary adjustments), and (iii) increased the stated value of the Original Series D from \$1,000 to \$1,116.67. The Amended and Restated Certificate of Designation of the Series D Preferred Stock was filed with the Secretary of the State of Nevada effective as of June 8, 2020.

The holder of the Original Series D approved the amendment to the Original Series D. There is no class or series of stock which is senior to the Original Series D as to the payment of distributions upon dissolution of the Company, and therefore the approval of any other class or series of stock of the Company to the amendments to the Original Series D Preferred Stock Certificate of Designation is not required pursuant to Nevada law.

On the date of the above amendment to the Original Series D Preferred Stock the fair value of the Company's Common Stock price was \$1.45 which is higher than the effective conversion price of \$0.54 that was agreed to on June 5, 2020. Due to the modification of the Series D Preferred Stock, the Company recorded a deemed dividend of \$3,763,591 representing the intrinsic value of \$0.91 multiplied by the number of Common Stock shares to be issued upon conversion. The deemed dividend to the preferred

stockholders was recorded as additional paid in capital and a reduction of retained earnings and has an increase to net loss attributable to Common Stockholders in computing earnings per share.

During the month of June 2020, the Series D Preferred Stockholder converted 1,890 shares of Series D Preferred Stock and all outstanding accrued dividends totaling \$233,333 into 3,500,000 shares of Common Stock at a conversion price of \$0.54.

During the three months ended September 30, 2020, the Series D Preferred Stockholders converted the remaining 110 shares of the Series D Preferred Stock into 635,815 shares of Common Stock at a conversion price of \$0.54 which includes an additional 421,308 of Common Stock shares to correct conversions that occurred in June 2020 computed using the stated value of \$1,000 rather than \$1,116.67.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 8 – Equity – Continued

Series E Preferred Stock

On April 7, 2020, the Company entered into a Securities Purchase Agreement (the “Series E Purchase Agreement”) with Alpha, pursuant to the terms of the agreement, the Board of Directors of the Company authorized 1,050 shares of a newly designated series of preferred stock, the Series E Convertible Preferred Stock. The Preferred Stock was convertible at \$0.25 per share into an aggregate of 4,200,000 shares of the Common Stock, par value \$0.001 per share. The purchase price for the Preferred Stock was \$1,050,000 of which the Company received net proceeds of \$1,010,000. The Preferred Stock has liquidation rights senior to the Common Stock, but pari passu with the Series C Preferred Stock and the Series D Preferred Stock. The Preferred Stock has no voting rights. The conversion price adjusts for stock splits and combinations and is subject to anti-dilution protection for subsequent equity issuances until such time as no shares of Series E Preferred Stock are outstanding. The Certificate of Designation of the Series E Convertible Preferred Stock was filed with the State of Nevada on April 2, 2020. The Company also entered into a Registration Rights Agreement, granting registration rights to Alpha with respect to the Conversion Shares and Common Stock underlying warrants currently owned by Alpha.

On the date that the Series E Preferred Stock was consummated the fair value of the Company’s Common Stock price was \$0.37 which is higher than the effective conversion price of \$0.25 that was agreed to on April 7, 2020. As a result, the Company recognized a beneficial conversion feature (“BCF”) of \$378,240 on 788 of Preferred Shares representing the intrinsic value of \$.12 multiplied by the number of Common Stock shares to be issued upon conversion. The remaining amount of 262 shares was repurchased as described below. The discount to the Series E Preferred Stock resulting from the BCF has been presented as an increase to net loss attributable to Common Stockholders in computing earnings per share on the consolidated statements of operations.

On May 11, 2020, the Company entered into a Series E Purchase Agreement for the sale of Common Stock as described above with Alpha whereby we agreed to repurchase 262 shares of Series E Preferred Stock with the proceeds from the new issuance. The repurchase of the Preferred Series E Stock was convertible into 1,048,000 shares of Common Stock at a repurchase price of \$1.06 per share. The Company increased its net loss available to Common Stockholders in computing earnings per share for the excess of the consideration paid for the Series E Preferred Stock over its carrying value totaling \$848,880. As of December 31, 2020, no Series E Preferred Stock remain issued and outstanding.

Capital Stock Issuances

On May 3, 2019, the Company entered into a consulting agreement with GreenBlock Capital LLC (“Consultant”) (see Note 10). As compensation for the services under the terms of the agreement, Consultant can receive (i) \$25,000 per month during the term of the agreement, (ii) 500,000 shares of restricted Common Stock upon execution of the agreement, and (iii) up to 2,500,000 shares of restricted Common Stock upon the achievement of predetermined milestones.

On June 18, 2019, the Company issued 500,000 shares of its Common Stock to the Consultant. The Company recognized a total of \$170,000 of consulting expense at a fair value of \$0.34 per share within general and administrative costs related to these issuances.

On June 30, 2020, the Company issued an additional 250,000 shares of its Common Stock to the Consultant. The Company recognized a total of \$297,500 of expense at a fair value of \$1.19 per share within professional fees related to these issuances.

On June 18, 2019, the Company issued in connection with an investor relations agreement, dated April 4, 2018, 50,000 shares of its Common Stock to the investor relations firm. The Company recognized a total of \$20,500 of investor relations expense at a fair value of \$0.41 per share within general and administrative costs related to these issuances. This agreement was terminated in March 2019.

In June 2019, as part of the Agribotix acquisition, the Company issued 175,000 common stock shares to be placed in escrow; on February 14, 2020, the Company received 164,374 of those shares in exchange for a release of the terms outlined per the agreement.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 8 – Equity – Continued

Securities Purchase Agreement Dated May 11, 2020

On May 11, 2020, the Company and an Investor entered into a securities purchase agreement (the “May Purchase Agreement”) pursuant to which the Company agreed to sell to the Investor in a registered direct offering 2,400,000 shares of Common Stock, par value \$0.001, and pre-funded warrants (the “Pre-Funded Warrants”) to purchase up to 3,260,377 shares of Common Stock, for gross proceeds of approximately \$6 million (which includes subsequent payment of the exercise price of the Pre-Funded Warrants in the amount of \$3,267). The purchase price for each share of Common Stock was \$1.06 and the purchase price for each Pre-Funded Warrant was \$1.05999. The exercise price for each Warrant was \$0.001. Net proceeds from the sale were used to repurchase 262 shares of the Company’s Series E Preferred Stock, convertible into 1,048,000 shares of Common Stock currently held by the Investor at a repurchase price of \$1.06 per share of Common Stock (see below). The Company expects to use the balance for working capital and general corporate purposes. The Company increased net loss available to Common Stockholders in computing earnings per share for the excess of the consideration paid for the Series E Preferred Stock over its carrying value totaling \$848,880 as presented on the consolidated statements of operations.

Pursuant to the terms of the May Purchase Agreement, the Company had agreed to certain restrictions on future stock offerings, including that during the 60-day period following the closing, the Company did not issue (or enter into any agreement to issue) any shares of Common Stock or Common Stock equivalents, subject to certain exceptions. The exercise price of the Warrants and the shares of the Common Stock issuable upon the exercise thereof were subject to adjustment in the event of any stock dividends and splits, reverse stock split, recapitalization, reorganization or similar transaction, as described in the Warrants, and were exercisable on a “cashless” basis in certain circumstances.

Securities Purchase Agreement Dated June 24, 2020

On June 24, 2020, the Company and the Investor entered into a securities purchase agreement (the “June Purchase Agreement”) pursuant to which the Company agreed to sell to the Investor in a registered direct offering 4,407,400 shares of Common Stock, par value \$0.001, pre-funded warrants to purchase up to 1,956,236 shares of Common Stock, and warrants (the “Warrants”) to purchase up to 2,455,476 shares of Common Stock at an exercise price of \$1.35 per share, for gross proceeds of \$7 million (which includes subsequent payment of the exercise price of the Pre-Funded Warrants in the amount of \$1,956) and net proceeds of \$6,950,000 after issuance costs. Upon exercise of the Warrants in full by the Investor, the Company will receive additional gross proceeds of \$3,314,892. The shares of Common Stock underlying the Pre-Funded Warrants and the Warrants are referred to as “June Warrant Shares.”

The purchase price for each share of Common Stock is \$1.10 and the purchase price for each Pre-Funded Warrant is \$1.099. The exercise price for each Pre-Funded Warrant is \$0.001. Net proceeds from the sale will be used for working capital, capital expenditures and general corporate purposes. The Shares, Pre-funded Warrants, Warrants and June Warrant Shares are being offered by the Company pursuant to an effective shelf registration statement on Form S-3 (File No. 333-239157), which was declared effective on June 19, 2020.

Pursuant to the terms of the June Purchase Agreement, the Company agreed to certain restrictions on future stock offerings, including that during the 75-day period following the closing, the Company will not issue (or enter into any agreement to issue) any shares of Common Stock or Common Stock equivalents, subject to certain exceptions, including if the consolidated closing price on the trading market on which the Company’s Common Stock is traded at the time is greater than \$1.90 (adjusted for any subsequent stock splits or similar capital adjustments) for five consecutive trading days, the Company may issue such securities at not less than \$1.90 per Common Stock Equivalent. The Investor has a right from the date of the June Purchase Agreement until December 31, 2020 to participate in a subsequent financing by the Company or any of its Subsidiaries of Common Stock or Common Stock Equivalents for cash consideration, indebtedness or a combination of units thereof (a “Subsequent Financing”), in an amount equal to 50% of the Subsequent Financing on the same terms, conditions and price provided for in the Subsequent Financing.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 8 – Equity – Continued

The exercise price of the Prefunded Warrants and the Warrants and the number of June Warrant Shares issuable upon the exercise thereof will be subject to adjustment in the event of any stock dividends and splits, reverse stock split, recapitalization, reorganization or similar transaction, as described in the Prefunded Warrants and the Warrants. The Warrants will be exercisable on a “cashless” basis only in the event there is no effective registration statement registering, or the prospectus contained therein is not available for the sale of the shares underlying the Warrants. The Pre-Funded Warrants allow for cashless exercise at any time. The Pre-Funded Warrants and the Warrants each contain a beneficial ownership limitation, such that none of such Pre-Funded Warrants nor the Warrants may be exercised, if, at the time of such exercise, the holder would become the beneficial owner of more than 9.99% of our outstanding shares of Common Stock following the exercise of such Pre-Funded Warrant or Warrant. During the year ended December 31, 2020 the Company received \$3,314,893 in additional gross proceeds associated with exercise of 2,455,476 of the June Warrant Shares into Common Stock.

Securities Purchase Agreement Dated August 4, 2020

On August 4, 2020, the Company and an Investor entered into a securities purchase agreement (the “August Purchase Agreement”) pursuant to which the Company agreed to sell to the Investor in a registered direct offering 3,355,705 shares of Common Stock and warrants to purchase up to 2,516,778 shares of Common Stock at an exercise price of \$3.30 per share (the “August Warrants”), for proceeds of \$9,900,000 net of issuance costs of \$100,000. Upon exercise of the Warrants in full by the Investor, the Company will receive additional gross proceeds of \$8,305,367. The shares of Common Stock underlying the Warrants are referred to as “August Warrant Shares.”

The purchase price for each share of Common Stock is \$2.98. Net proceeds from the sale will be used for working capital, capital expenditures and general corporate purposes. The shares, the August Warrants and the August Warrant Shares are being offered by the Company pursuant to an effective shelf registration statement on Form S-3 (File No. 333-239157), which was declared effective on June 19, 2020.

Pursuant to the terms of the August Purchase Agreement, the Company has agreed to certain restrictions on future stock offerings, including that during the 75-day period following the closing, the Company will not issue (or enter into any agreement to issue) any shares of Common Stock or Common Stock equivalents, subject to certain exceptions, including if the consolidated closing price on the trading market on which the Company’s Common Stock is traded at the time is greater than \$5.00 (adjusted for any subsequent stock splits or similar capital adjustments) for ten consecutive trading days, the Company may issue such securities at not less than \$5.00 per Common Stock Equivalent. In addition, the Company’s executive officers and directors agreed that they shall not sell (or hedge in any manner) any of their shares of the Common Stock for a period ending September 7, 2020. The Investor has a right from the date of the August Purchase Agreement until December 31, 2020, to participate in a subsequent financing by the Company or any of its Subsidiaries of Common Stock or Common Stock Equivalents for cash consideration, indebtedness or a combination of units thereof (a “Subsequent Financing”), in an amount equal to 50% of the Subsequent Financing on the same terms, conditions and price provided for in the Subsequent Financing.

The exercise price of the August Warrants and the number of August Warrant Shares issuable upon the exercise thereof will be subject to adjustment in the event of any stock dividends and splits, reverse stock split, recapitalization, reorganization or similar transaction, as described in the Warrants. The Warrants will be exercisable on a “cashless” basis only in the event there is no effective registration statement registering, or the prospectus contained therein is not available for the sale of the shares underlying the August Warrants. The August Warrants contain a beneficial ownership limitation, such that none of such August Warrants may be exercised, if, at the time of such exercise, the holder would become the beneficial owner of more than 9.99% of our outstanding shares of Common Stock following the exercise of such August Warrant. The August Warrant is for a ten-month term and is not exercisable for the first six months.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 8 – Equity – Continued

On December 31, 2020, the Company, and an Investor entered into a securities purchase agreement (the “December Purchase Agreement”) pursuant to which the Company agreed to sell to the Investor in a registered direct offering pre-funded warrants (the “December Pre-Funded Warrants”) to purchase up to 1,057,214 shares of Common Stock, par value \$0.001 Common Stock, for gross proceeds of approximately \$6.375 million (which includes subsequent payment of the exercise price of the December Pre-Funded Warrants in the amount of \$1,057. The shares of Common Stock underlying the December Pre-Funded Warrants are referred to as the “December Warrant Shares.”

The purchase price for each December Pre-Funded Warrant is \$6.029, the exercise price for each December Pre-Funded Warrant is \$0.001. Net proceeds from the sale will be used for working capital. The December Pre-Funded Warrants and the December Warrant Shares are being offered by the Company pursuant to an effective shelf registration statement on Form S-3 (File No. 333-239157), which was declared effective on June 19, 2020.

Pursuant to the terms of the December Purchase Agreement, the Company has agreed to certain restrictions on future stock offerings, including that during the 45-trading day period following the closing, the Company will not issue (or enter into any agreement to issue) any shares of Common Stock or Common Stock equivalents, subject to certain limited exceptions. The Investor has a right from the date of the December Purchase Agreement until April 30, 2021 to participate in a subsequent financing by the Company or any of its Subsidiaries of Common Stock or Common Stock equivalents for cash consideration, indebtedness or a combination of units thereof (a “Subsequent Financing”), in an amount equal to 50% of the Subsequent Financing on the same terms, conditions and price provided for in the Subsequent Financing.

The exercise price of the December Prefunded Warrants and the number of December Warrant Shares issuable upon the exercise thereof will be subject to adjustment in the event of any stock dividends and splits, reverse stock split, recapitalization, reorganization or similar transaction, as described in the December Prefunded Warrants. The December Pre-Funded Warrants allow for cashless exercise at any time. The December Pre-Funded Warrants contain a beneficial ownership limitation such that none of the December Pre-Funded Warrants may be exercised, if, at the time of such exercise, the holder would become the beneficial owner of more than 9.99% of our outstanding shares of Common Stock following the exercise of such December Pre-Funded Warrants.

Filing of Registration Statement

Pursuant to the terms of the Registration Rights Agreement executed on April 7, 2020, the Company filed an initial registration statement registering the Conversion Shares and the April Warrant Shares on April 27, 2020. The Company’s registration statement was declared effective May 6, 2020.

Issuances of Restricted Stock Units

On April 13, 2020, the Company issued in connection with the 2019 Executive Compensation Plan, 100,000 restricted shares to Mr. Barrett Mooney and 70,000 restricted shares to Ms. Nicole Fernandez-McGovern. The Company recognized a total of \$59,500 of expense at a fair value of \$0.35 per share within stock compensation expense related to these issuances for the year ended December 31, 2020 which is included in general and administrative expenses on the consolidated statements of operations.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 8 – Equity – Continued

On May 18, 2020, the company issued in connection with the commencement of the Chief Executive officer, 100,000 shares of restricted stock units under the Company’s 2017 Omnibus Equity Incentive Plan (the “Equity Plan”), which will fully vest after one year of continued employment. The Company determined the fair-market value of the restricted stock units to be \$134,000. In connection with the issuance of these restricted stock units, the Company recognized \$82,786 in stock compensation expense for the year ended December 31, 2020 which is included in general and administrative expenses on the consolidated statements of operations.

The remaining unrecognized stock compensation expense of \$51,214 will be recognized through May 2021.

Options

On March 26, 2018, the EnerJex 2017 Omnibus Equity Incentive Plan (the “Plan”) became effective. Under the Plan, the Company can grant equity-based and other incentive awards to officers, employees, and directors of, and consultants and advisers to, the Company. The purpose of the Plan is to help the Company attract, motivate, and retain such persons and thereby enhance shareholder value. The Plan shall continue in effect, unless sooner terminated, until the tenth (10th) anniversary of the date on which it is adopted by the Board of Directors (except as to awards outstanding on that date). The Board of Directors in its discretion may terminate the Plan at any time with respect to any shares for which awards have not theretofore been granted; provided, however, that the Plan’s termination shall not materially and adversely impair the rights of a holder, without the consent of the holder, with respect to any award previously granted. On June 18, 2019, at the Annual Meeting of Shareholders of the Company, the shareholders approved a proposal to increase the number of shares of Common Stock reserved for issuance under the Plan from 2,000,000 to 3,000,000.

On July 15, 2020, the Company held its 2020 annual meeting of stockholders and approved a proposal to increase the number of shares of Common Stock reserved for issuance under the Plan from 3,000,000 to 4,000,000. To the extent that an award lapses, expires, is canceled, is terminated unexercised or ceases to be exercisable for any reason, or the rights of its holder terminate, any shares subject to such award shall again be available for the grant of a new award. The number of shares for which awards which are options or SARs may be granted to a participant under the Plan during any calendar year is limited to 500,000. For purposes of qualifying awards as “performance-based” compensation under Code Section 162(m), the maximum amount of cash compensation that may be paid to any person under the Plan in any single calendar year shall be \$500,000.

During the year ended December 31, 2020, the Company issued options to purchase 876,167 shares of Common Stock to directors and employees of the Company at exercise prices ranging from \$0.41 to \$6.00 per share expiring on dates between February 23, 2025 and December 30, 2025. The Company determined the fair-market value of the options to be \$1,577,099. In connection with the issuance of these options to employees and directors, the Company recognized \$102,771 in stock compensation expense for the year ended December 31, 2020.

During the year ended December 31, 2019, the Company issued options to purchase 1,131,000 shares of Common Stock to directors and employees of the Company at exercise prices ranging from \$0.29 to \$0.54 per share expiring on dates between December 31, 2023 and March 28, 2029. The Company determined the fair-market value of the options to be \$269,700. In connection with the issuance of these options to employees and directors, the Company recognized 126,319 and \$58,491 in stock compensation expense for the year ended December 31, 2020 and 2019.

During the year ended December 31, 2018, the Company issued options to purchase 534,598 shares of Common Stock to directors and employees of the Company at exercise prices ranging from \$0.51 to \$4.33 per share expiring on dates between March 30, 2023 and December 15, 2028. The Company determined the fair-market value of the options to be \$387,052. In connection with the issuance of these options to employees and directors, the Company recognized \$31,548 and \$196,485 in stock compensation expense for the years ended December 31, 2020 and 2019.

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 8 – Equity – Continued

On October 4, 2017, AgEagle Sub issued options to purchase 927,775 shares of Common Stock to employees and directors, that were approved by the Board at an exercise price of \$0.06 per share. These options were assumed by the Company in the Merger. In connection with the issuance of these options to employees and directors, the Company recognized \$(1,622) and \$5,335 in stock compensation expense for the years ended December 31, 2020 and 2019.

In addition to the share issues to the Consultant as a part the May 2019 contract, the Consultant also held options to purchase 207,055 shares of the Company's common stock per the previously engaged agreement executed by the Company between March 2015 and August 2016 to provide consulting services. The options were cashless exercised at a price of \$0.06 per share on July 20, 2020 into 201,791 shares of common stock.

The fair value of options granted during the year ended December 31, 2020 and 2019 were determined using the Black-Scholes option valuation model. The expected term of options granted is based on the simplified method in accordance with Securities and Exchange Commission Staff Accounting Bulletin 107 and represents the period of time that options granted are expected to be outstanding. The Company makes assumptions with respect to expected stock price volatility based on the average historical volatility of peers with similar attributes. In addition, the Company determines the risk-free rate by selecting the U.S. Treasury with maturities similar to the expected terms of grants, quoted on an investment basis in effect at the time of grant for that business day.

The significant assumptions relating to the valuation of the Company's stock options granted during the year ended December 31, 2020 were as follows:

| | December 31, 2020 |
|-------------------------|--------------------------|
| Dividend yield | 0.00% |
| Expected life | 3.8 Years |
| Expected volatility | 87.11% |
| Risk-free interest rate | 0.19% |

A summary of the options activity for the year ended December 31, 2020 is as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|------------------|--|--|--------------------------------------|
| Outstanding at January 1, 2020 | 2,480,470 | \$ 0.39 | 6.28 years | \$ 378,111 |
| Granted | 876,167 | 3.27 | 4.71 years | 2,392,368 |
| Exercised | (881,898) | 0.19 | — | 4,141,581 |
| Expired/Forfeited | (219,472) | 1.63 | — | 927,616 |
| Outstanding at December 31, 2020 | <u>2,255,267</u> | <u>1.46</u> | <u>5.31 years</u> | <u>10,247,548</u> |
| Exercisable at period end | <u>1,097,268</u> | <u>\$ 0.38</u> | <u>5.58 years</u> | <u>\$ 6,164,209</u> |

For options granted during the year ended December 31, 2020, the fair value of the Company's stock was based upon the close of market price on the date of grant. The future expected stock-based compensation expense expected to be recognized in future years is \$1,474,328 through December 31, 2022.

Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at December 31, 2020 (for outstanding options), less the applicable exercise price.

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 8 – Equity – Continued

A summary of the options activity for the years ended December 31, 2019 is as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|------------------|--|--|--|
| Outstanding at January 1, 2019 | 1,494,158 | \$ 0.46 | 6.93 years | \$ 417,504 |
| Granted | 1,131,000 | 0.37 | 6.27 years | — |
| Exercised/Forfeited | (144,688) | 0.99 | — | — |
| Outstanding at December 31, 2019 | <u>2,480,470</u> | <u>0.39</u> | <u>6.28 years</u> | <u>378,111</u> |
| Exercisable at end of the year | <u>1,521,859</u> | <u>\$ 0.36</u> | <u>6.10 years</u> | <u>\$ 301,051</u> |

On March 1, 2015, AgEagle Sub entered into a strategic consulting agreement with a related party and granted 207,055 stock options exercisable over five years from the grant date at an exercise price per share of \$2.60. On October 4, 2017, AgEagle Sub held a board meeting to approve the modification of the existing 207,055 options to purchase Common Stock from an exercise price of \$2.60 to \$0.06 per share. These options were assumed by the Company in the Merger and not part of the compensation plan. In connection with these options, the Company recognized no stock compensation expense for the year ended December 31, 2020 and they were fully exercised on July 2020.

Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at December 31, 2019 (for outstanding options), less the applicable exercise price.

The significant assumptions relating to the valuation of the Company's stock options granted during the year ended December 31, 2019 were as follows:

| | |
|-------------------------|---------------|
| Dividend yield | 1.62% |
| Expected life | 3.0-6.1 Years |
| Expected volatility | 82.38-88.62% |
| Risk-free interest rate | 1.56-2.23% |

For options granted in 2019, the fair value of the Company's stock was obtained based upon the close of market price on date of grant.

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 9 – Warrants to Purchase Common Stock

Warrants Issued

On June 24, 2020, the Company entered into a purchase agreement, described above in Note 7, pursuant to which the Company agreed to sell to the Investor in a registered direct offering June Warrant Shares to purchase up to 2,455,476 shares of Common Stock at an exercise price of \$1.35 per share.

On August 4, 2020, the Company entered into a purchase agreement, described above in Note 7, pursuant to which the Company agreed to sell to the Investor in a registered direct offering Warrants to purchase up to 2,516,778 shares of Common Stock at an exercise price of \$3.30 per share. Upon exercise of the Warrants in full by the Investor, the Company will receive additional gross proceeds of approximately \$8,305,367. As of December 31, 2020, all of these Warrants remain outstanding.

As of December 31, 2020, the Company had outstanding warrants, in connection with the issuance of securities purchase agreement dated August 4, 2020, to purchase 2,516,778 shares of the Company's Common Stock at an exercise price of \$3.30 with an expiration date on June 6, 2021.

Warrant Conversions

On December 27, 2018, the Company issued 2,000 shares of Preferred Stock and a warrant (the "Warrant") to purchase 3,703,703 shares of the Company's Common Stock for \$2,000,000 in gross proceeds. The shares of Common Stock underlying the Warrant are referred to as the "Warrant Shares." The Company also entered into a registration rights agreement granting registration rights to the Purchaser with respect to the Warrant Shares.

The Warrant is exercisable for a period of five years through December 26, 2023 at an exercise price equal to \$0.54 per share; and is subject to customary adjustments for stock splits dividend, rights offerings, pro rata distributions and fundamental transactions. In addition, in the event the Company undertakes a subsequent equity financing or financings at an effective price per share that is less than \$0.54, the exercise price of the Warrant shall be reduced to the lower price.

On April 7, 2020, upon the issuance of the Series E Preferred Stock, offering, a subsequent anti-dilution provision was triggered for the Series D Warrants whereby the exercise price of the Warrant Shares was adjusted from \$0.54 to \$0.25 per share a Warrant Down Round (See Note 8).

In connection with an issuance of debentures in 2017, the Company issued a warrant to purchase 828,221 shares of the Company's Common Stock at an exercise price of \$1.51 with an expiration date on August 2, 2024. These warrants were exercised at a cashless price of \$1.51 per share on September 22, 2020 into 405,716 shares of common stock.

In July 2020, the Company received \$2,632,500 in additional gross proceeds associated with exercise of 1,950,000 of the June Warrant Shares into Common Stock. During December 2020, the Company received \$682,393 in additional gross proceeds associated with exercise of 505,476 shares of the June Warrant.

During the year ended December 31, 2020, 6,987,400 warrants were converted into 5,808,931 shares of Common Stock at a weighted average conversion price of \$0.79. The Company received cash proceeds of \$3,314,893 associated with exercise of the warrants.

All warrants outstanding as of December 31, 2020 are scheduled to expire between June 6, 2021.

A summary of activity related to warrants for the year ended December 31, 2020 follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|----------------------------------|-------------|---------------------------------|---|
| Outstanding at January 1, 2020 | 4,531,924 | \$ 0.72 | 4.05 |
| Issued | 4,972,254 | 2.34 | 0.92 |
| Exercised | (6,987,400) | 0.79 | — |
| Outstanding at December 31, 2020 | 2,516,778 | \$ 3.30 | 0.83 |
| Exercisable at December 31, 2020 | 2,516,778 | \$ 3.30 | 0.83 |

A summary of activity related to warrants for the twelve months ended December 31, 2019 follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|----------------------------------|-----------|---------------------------------|---|
| Outstanding at January 1, 2019 | 4,531,924 | \$ 0.72 | 5.05 |
| Outstanding at December 31, 2019 | 4,531,924 | \$ 0.72 | 5.05 |
| Exercisable at December 31, 2019 | 4,531,924 | \$ 0.72 | 4.05 |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 10 – Commitments and Contingencies

Operating Leases

The Company adopted ASU 2016-02 “Leases (Topic 842)” along with related clarifications and improvements effective at the beginning of fiscal 2019, using the modified retrospective transition method.

Right-of-use assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease terms at the commencement dates. The Company uses its incremental borrowing rates as the discount rate for its leases, which is equal to the rate of interest the Company would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. The incremental borrowing rate for all existing leases as of the opening balance sheet date was based upon the remaining terms of the leases; the incremental borrowing rate for all new or amended leases is based upon the lease terms. The lease terms for all the Company’s leases include the contractually obligated period of the leases, plus any additional periods covered by a Company options to extend the leases that the Company is reasonably certain to exercise.

Adoption of Topic 842 did not have a material impact on our annual operating results or cash flows. Operating lease expense is recognized on a straight-line basis over the lease term and is included in operating costs or General and administrative expense. Variable lease payments are expensed as incurred.

The Company determines if an arrangement is or contains a lease at contract inception and recognizes a right-of-use asset and a lease liability at the lease commencement date. Leases with an initial term of 12 months or less but greater than one month are not recorded on the balance sheet for select asset classes. The lease liability is measured at the present value of future lease payments as of the lease commencement date, or the opening balance sheet date for leases existing at adoption of Topic 842. The right-of-use asset recognized is based on the lease liability adjusted for prepaid and deferred rent and unamortized lease incentives.

The Company has one operating lease located at 8863 E. 34th Street North, Wichita, Kansas 67226 which serves as our corporate headquarters and manufacturing facility. The commencement date of the lease was November 1, 2020 and will expire on October 31, 2023, unless sooner terminated or extended. The lease which is an operating lease and included in the right-of-use asset, current portion of lease liability, and long-term lease liability captions on the Company’s consolidated balance sheet.

The aggregate estimated rent payments due over the initial three-year term is \$297,000. Operating lease assets are recorded net of accumulated amortization of \$257,363 as of December 31, 2020. Lease expense for lease payments are recognized on a straight-line basis over the lease terms. The aggregate estimated rent payments due over the option term would be \$314,640. Lease expense payment was \$48,840 and \$30,000 for the years ended December 31, 2020 and 2019, respectively, which is included in general and administrative expenses on the consolidated statements of operations.

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of December 31, 2020:

| Year Ending December 31, | Amount |
|--------------------------|------------|
| 2021 | \$ 85,895 |
| 2022 | 91,193 |
| 2023 | 80,275 |
| | \$ 257,363 |

Previously the Company leased manufacturing space located at 117 South 4th Street, Neodesha, Kansas 66757. This served as our corporate headquarters and manufacturing facility. The facility was a lease of 4,000 square feet at a cost of \$600 per month. This lease was officially terminated on November 30, 2020.

As a result of an asset acquisition, the Company assumed a lease for offices in Boulder, Colorado for \$2,000 a month. The lease was officially terminated on November 30, 2020. Due to the COVID-19 pandemic and our intention to protect the health and safety of our employees, our workforce in Colorado has been working from their respective home offices. Once the nation’s vaccination program gains greater momentum or herd immunity is achieved, we do expect to lease new commercial office space in or around Denver, Colorado, which may occur later this year.

GreenBlock Capital LLC Consulting Agreement

On May 3, 2019, we entered into a consulting agreement with GreenBlock Capital LLC (“Consultant”) to serve as strategic advisor and consultant with respect to the development of new business opportunities and the implementation of business strategies related to expansion into the emerging domestic hemp cultivation market. The extent of the services will be set forth in separate scopes of work, from time to time, to be prepared and mutually agreed to by the parties. As compensation for the services under the terms of the agreement, the Consultant can receive (i) \$25,000 per month during the term of the agreement, (ii) 500,000 shares of restricted Common Stock upon execution of the agreement and up to (iii) up to 2,500,000 shares of restricted Common Stock upon the achievement of predetermined milestones.

**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 10 – Commitments and Contingencies – Continued

On October 31, 2019, the consulting agreement was terminated as a result of the Company no longer needing these services to be provided by an outside consultant. There are no early termination penalties incurred as a result of the termination of the consulting agreement. The Consultant may still be entitled to receive up to 2,500,000 shares of restricted Common Stock after termination of the Agreement, if the achievement of milestones that commenced during the term of the Agreement are completed after termination.

In February 2021, the Consultant sent a demand letter to the Company alleging a breach of the consulting agreement due to the Company not issuing additional shares of common stock in connection with the Consultant’s alleged achievement of the milestones. At this time the Consultant made a demand for an additional 750,000 shares of common stock to be issued. Although the Company disputes that the milestones were successfully achieved by the Consultant and believes that no additional shares of common stock are owed, the Company has offered to the Consultant, in the form of a settlement, 250,000 additional shares of common stock. As result the Company has recorded a contingent loss within general & administrative expenses in the aggregate amount of \$1,500,000 based upon the fair market value of \$6.00 per share of the Company’s common stock as of December 31, 2020. If the offer is not accepted, and a complaint is filed, the Company intends to vigorously defend the matter to the fullest extent.

Founder Leak-Out Agreement

On April 7, 2020, as a condition to the consummation of the Series E Preferred Agreement, the Company entered into a Leak-Out Agreement with Mr. Bret Chilcott, founder and former director and President of the Company, and Alpha with respect to the shares Mr. Chilcott beneficially owns. The restriction on the disposition of the shares is for a period of seven months from the date of the closing of the agreement. Thereafter, for a period of an additional six months, Mr. Chilcott may sell no more than \$25,000 per calendar month of shares of Company Common Stock.

On August 26, 2020, the Company, together with Mr. Chilcott and Alpha Capital Anstalt, who was a party to the Leak Out Agreement, agreed to amend the Leak Out Agreement to change the restrictions on the disposition of Mr. Chilcott's shares that are subject to the Leak Out Agreement (the "Amended Leak Out Agreement"). The Amended Leak Out Agreement provides that Mr. Chilcott (together with his affiliates) may sell or otherwise dispose of his shares for a period of twelve (12) months commencing on September 7, 2020 (the "Restricted Period") in an amount representing no more than 50,000 shares per calendar month during the Restricted Period. After the Restricted Period, the restrictions set forth in the Amended Leak Out Agreement cease.

Approval of Compensation-by-Compensation Committee

Mr. Barrett Mooney and Mr. Brett Chilcott resigned from their roles with the Company, effective May 5, 2020. Mr. Mooney now serves as Chairman of the Board, and Mr. Chilcott no longer serves as management of the Company.

On April 16, 2020, the Compensation Committee agreed to the following terms:

Mr. Barrett Mooney:

Mr. Mooney was entitled to receive his current salary and benefits between the dates of March 6, 2020 and April 4, 2020. In addition, Mr. Mooney will be paid \$50,000 in cash, \$25,000 of which was paid in a lump sum in April 2020 and the balance will be paid in equal installments over a six-month period beginning on May 5, 2020. Mr. Mooney will remain eligible to receive bonuses of up to \$15,000, as approved by the Board of Directors based on certain revenue and operational targets being achieved. Commencing May 5, 2020 when he accepted the appointment as Chairman of the Board, Mr. Mooney is entitled to receive (i) a quarterly grant of 16,500 stock options at the fair market value of the stock on the issuance date, vesting over two years and exercisable for a period of five years; and (ii) reimbursement for travel expenses. Mr. Mooney has agreed to also provide the Company with consulting services, as needed, at a fixed price of \$4,500 per month on a month-to-month basis, plus reimbursement for travel expenses.

Mr. Barrett Mooney, who is currently the Chairman of the Board, received a monthly fee for consulting services he provided to the Company in 2020, which was outside of his role as Chairman of the Board. Mr. Mooney's consulting fee increased to \$10,000 per month from August 1, 2020 ending on November 30, 2020.

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 10 – Commitments and Contingencies – Continued

Mr. Bret Chilcott:

Mr. Chilcott is entitled to receive a base annual salary of \$140,000, plus benefits, for the twelve-month period commencing May 5, 2020 and ending May 4, 2021. Subsequent to May 4, 2021, Mr. Chilcott can provide the Company with consulting services, as needed, at a fixed fee of \$4,500 per month on a month-to-month basis plus reimbursement of travel expenses.

Appointment of Chief Executive Officer and Changes to Compensatory Arrangements

On April 28, 2020, the Company extended an offer of employment that was accepted by Mr. Michael Drozd to serve as the Company's new Chief Executive Officer. Mr. Drozd officially joined the Company on May 18, 2020. Mr. Drozd will receive a base salary of \$235,000 per year, which shall be subject to annual performance review by the Compensation Committee of the Board and may be revised by the Committee, in its sole discretion. Mr. Drozd is entitled to receive an annual 20% bonus, which may be a mix of cash and stock options, based upon his performance as determined by certain metrics to be established by the Board and Mr. Drozd. He received an initial grant of 100,000 restricted stock units under the Company's 2017 Omnibus Equity Incentive Plan (the "Equity Plan"), which will fully vest after one year of continued employment. Mr. Drozd is eligible to receive a quarterly award of 15,000 non-qualified stock options under the Equity Plan. At the time of issuance, the stock option award agreements will set forth the vesting, exercisability, and exercise price of the stock options as of the date of the grants.

On April 20, 2020, the Compensation Committee approved a 2020 Executive Compensation Plan for Ms. Fernandez-McGovern providing for an annual salary of \$200,000, cash bonus of \$30,000, quarterly stock option grants of 15,000 and restricted stock units (RSUs) of 125,000, with the cash bonus, option and RSUs dependent upon her achieving certain financial and operational milestones.

On July 20, 2020, the Board of Directors of the Company, upon recommendation of the Compensation Committee, approved a change in the compensation of the directors and of Ms. Nicole Fernandez-McGovern, the Company's Chief Financial Officer and EVP of Operations. The Compensation Committee engaged Albeck to perform an independent third-party study of compensation to assess the Company's compensation of its Board and its executive officers in comparison to industry averages.

As a result of the study, and upon the recommendation of the Compensation Committee, the Board approved an increase in Ms. Fernandez-McGovern's annual salary from \$200,000 to \$220,000 and quarterly stock options from 12,500 to 15,000. In addition to the previously approved 2020 bonus structure, Ms. Fernandez-McGovern was awarded an additional performance-based bonus of \$40,000, equal to 20% of her current salary. Also approved was a cash component for director compensation in the amount of \$60,000 per year, payable quarterly, and an increase in quarterly stock options from 16,500 to 25,000 per director. The approved compensation is retroactive for all to July 1, 2020.

Existing Employment and Board Agreements

The Company has various employment agreements with various executive officers and directors of the Company that serve as board members.

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 10 – Commitments and Contingencies – Continued

We have no other formal employment agreements with our executive officers, nor any compensatory plans or arrangements resulting from the resignation, retirement, or any other termination of our named executive officers, from a change-in-control, or from a change in any executive officer's responsibilities following a change-in-control. However, it is possible we will enter into formal employment agreements with our executive officers in the future.

Valqari Agreement

On October 14, 2020, in connection with, and as an incentive to the entry into a two-year exclusive manufacturing agreement to produce a patented Drone Delivery Station for Valqari, the Company entered into a Convertible Promissory Note (see Note 4).

Also, on October 14, 2020, AgEagle entered into a manufacturing agreement with Valqari for the manufacture and assembly of Valqari's patented Drone Delivery Station, in accordance with the specification provided by, and the components designated by Valqari, for sale and delivery to its customers. AgEagle has been appointed as Valqari's exclusive manufacturer of its products in the United States of America for a term of two-years, unless terminated earlier. Valqari, based in Chicago, Illinois, is engaged in the development, manufacture and sale of a patented Drone Delivery Station, including related software.

Note 11 – Related Party Transactions

The following reflects the related party transactions during the years ended December 31, 2020 and 2019.

Transactions with Officers

The Company's Chief Financial Officer, Nicole Fernandez-McGovern, is one of the principals of Premier Financial Filings, a full-service financial printer. Premier Financial Filings provided contracted financial services to the Company and their related expenses have been included within general and administrative expenses. For the years ended December 31, 2020 and 2019, Premier Financial Filings provided services to the Company resulting in fees of \$23,524 and \$7,753, respectively.

One of our directors, Thomas Gardner, is one of the principals of NeuEon, Inc, which provide services to the company as CTO. For the years ended December 31, 2020 and 2019, the company recognized \$118,500 and \$0, respectively, of expenses which is included in the general and administrative expense.

Following Barrett Mooney's resignation as Chief Executive Officer effective May 2020 he agreed to provide consulting services to the Company, as needed, at a fixed fee of \$4,500 per month on a month-to-month basis, plus reimbursement for travel expenses. On July 20, 2020, the Board of Directors, upon recommendation of the Compensation Committee, increased Mr. Mooney's monthly fee for consulting services to \$10,000 from \$4,500 per month, which commenced on August 1, 2020 and ending on November 30, 2020. For the year ended December 31, 2020, the company recognized \$66,500 of expenses which is included in the general and administrative expense related to those services.

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**AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

Note 12 – Income Taxes

Prior to April 15, 2015, AgEagle Aerial Inc. was treated as a disregarded entity for income tax purposes. Income taxes, if any, were the responsibility of the sole member. In April 2015, the Company elected to be classified as a corporation for income tax purposes, effective on April 22, 2015. Following the merger in 2018, AgEagle Aerial Inc. became a wholly owned subsidiary of AgEagle Aerial Systems, Inc. and the group files a consolidated U.S. federal income tax return as well as income tax returns in various states.

The Company accounts for income taxes in accordance with FASBASC Topic 740, Accounting for Income Taxes which requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting and any available operating loss or tax credit carryforwards. As of December 31, 2020, and 2019, the total of all net deferred tax assets was \$3,277,467 and \$2,779,100, respectively. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the deferred tax assets the Company has established a valuation allowance of \$3,277,467 and \$2,779,100 for the years ended December 31, 2020 and 2019, respectively. The change in the valuation allowance for the years ended December 31, 2020 and 2019 was \$498,368 and \$1,378,480, respectively.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, provides for an acceleration of alternative minimum tax credit refunds, the deferral of certain employer payroll taxes, the availability of an employee retention credit, and expands the availability of net operating loss usage. In addition, other governments in state and local in which we operate have also enacted certain relief measures.

On December 27, 2020, the Consolidations Appropriations Act, 2021 ("CAA") was signed into law and included in the government appropriations and additional economic stimulus. The CAA enhances and expands certain provisions of the CARES Act. The CAA modifies the tax deductibility of expenses relating to the Paycheck Protection Program ("PPP") loan forgiveness, Employee Retention Credit eligibility and extends other CARES Act provisions. We continue to monitor new and updated legislation, however the provisions enacted have not had a material impact on our consolidated financial statements.

As of December 31, 2020, the Company has a federal and state net operating loss carry forward of approximately \$11,982,988 and \$10,193,848 respectively. Of those balances, the Company has \$2,043,672 of federal net operating losses expiring in 2035-2037 and the remaining amounts have no expiration. The Company has state net operating loss carry forwards of \$7,263,378 expiring in 2025-2030 and the remaining amounts have no expiration. As of December 31, 2019, the Company had a federal and state net operating loss carryforward of \$6,606,771 and \$6,397,792, respectively. The Act changed the rules on net operating loss carry forwards. The 20-year limitation was eliminated for losses incurred after January 1, 2018, giving the taxpayer the ability to carry forward losses indefinitely. However, net operating loss carry forward arising after January 1, 2018, will now be limited to 80 percent of taxable income.

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The timing and manner in which we can utilize our net operating loss carry forward and future income tax deductions in any year may be limited by provisions of the Internal Revenue Code regarding the change in ownership of corporations. Such limitation may have an impact on the ultimate realization of our carry forwards and future tax deductions. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize net operating losses if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the built-in gains in assets held by us at the time of the change that are recognized in the five-year period after the change. The Company has not conducted a formal ownership change analysis as required under Section 382; however, we intend to do so if we anticipate recognizing tax benefits associated with the net

operating loss carryforwards.

As of December 31, 2020, we have determined it is more likely than not that we will not realize our temporary deductible differences and net operating loss carryforwards and have provided a full valuation allowance on our net deferred tax asset.

The Company accounts for uncertain income tax positions in accordance with ASC 740, Income Taxes. For 2020 and 2019, we did not recognize any uncertain tax positions, interest or penalty expense related to income taxes. We file U.S. federal and state income tax returns as necessary. The federal return generally has a three-year statute of limitations and most states have a four-year statute of limitations; however, the taxing authorities can review the tax year in which the net operating loss was generated when the loss is utilized on a tax return. We currently do not have any open income tax audits. The Company is open to federal and state examination on the 2017 through 2019 income tax returns filed.

A reconciliation of income tax expense at the federal statutory rate to income tax expense at the Company's effective rate for the years ended December 31, 2020 and 2019 is as follows:

| | 2020 | | 2019 | |
|--|----------------|----------|----------------|----------|
| | Amount | Rate | Amount | Rate |
| Computed tax at the expected statutory rate | \$ (1,035,815) | 21.00% | \$ (1,182,446) | 21.00% |
| State and local income taxes, net of federal | (162,671) | 3.30% | (177,832) | 3.16% |
| Permanent differences | (430,179) | 8.70% | 653 | (0.01)% |
| Other adjustments | 405,195 | (8.20)% | (18,856) | 0.33% |
| Return to accrual adjustment | 725,102 | (14.70)% | — | — |
| Change in valuation allowance | 498,368 | (10.10)% | 1,378,480 | (24.48)% |
| Income tax benefit | \$ — | — | \$ — | — |

The temporary differences, tax credits and carryforwards that gave rise to the following deferred tax assets (liabilities) at December 31, 2020 and 2019 is as follows:

| Deferred tax assets (liabilities): | 2020 | 2019 |
|------------------------------------|-------------|-------------|
| Property and equipment | \$ 4,825 | \$ 7,452 |
| Other current liabilities | (4,601) | 116,477 |
| Intangible assets | (31,678) | 31,106 |
| Equity compensation | 106,360 | 438,897 |
| Other accrued expenses | 352,072 | (61,877) |
| Net operating loss carryforward | 2,850,489 | 2,247,045 |
| Total deferred tax assets | 3,277,467 | 2,779,100 |
| Valuation allowance | (3,277,467) | (2,779,100) |
| Net deferred tax assets | \$ — | \$ — |

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AGEAGLE AERIAL SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Note 13 – Subsequent Events

MicaSense Acquisition

On January 26, 2021, the Company and AgEagle Sensor Systems, Inc., a wholly-owned subsidiary of the Company (the "Buyer"), entered into a stock purchase agreement (the "MicaSense Purchase Agreement") with Parrot Drones S.A.S. and Justin B. McAllister (the "Sellers") pursuant to which the Buyer agreed to acquire 100% of the issued and outstanding capital stock of MicaSense, Inc. ("MicaSense") from the Sellers. MicaSense manufactures and sells drone sensors for vegetation mapping. The aggregate purchase price for the shares of MicaSense is \$23,000,000, less the amount of MicaSense's debt and subject to a customary working capital adjustment. The consideration is also subject to a \$4,750,000 holdback to cover any post-closing indemnification claims and to satisfy any purchase price adjustments. The holdback is scheduled to be released in two equal installments, less any amounts paid or reserved for outstanding indemnity claims, on March 31, 2022 and March 31, 2023 in accordance with the terms of the Purchase Agreement.

A portion of the consideration is comprised of shares of Common Stock of the Company, par value \$0.001 Common Stock, having an aggregate value of \$3,000,000 based on a volume weighted average trading price of the Common Stock over a ten consecutive trading day period prior to the date of issuance of the shares of Common Stock to the Sellers (the "Shares"). The Shares are issuable 90 days after the closing date of the transaction. Pursuant to the terms of the Purchase Agreement, dated as of January 26, 2021, and a Registration Rights Agreement, dated as of January 27, 2021, the Company has agreed to file a Form S-3 Registration Statement (the "Registration Statement") covering the resale of the Shares with the Securities and Exchange Commission (the "SEC") no later than ten days following the date the Shares are issued to the Sellers. The Company shall use its best efforts to cause the Registration Statement to be declared effective as soon as possible after the filing date, but in any event no later than 90 days after the filing date, and shall use its best efforts to keep the Registration Statement effective and in compliance with the provisions of the Securities Act (including by preparing and filing with the SEC such amendments, including post-effective amendments, and supplements to the Registration Statement and the prospectus used in connection therewith as may be necessary) until all Shares and other securities covered by such Registration Statement have been disposed of. The Sellers are required to reimburse the Company up to \$50,000 for reasonable legal fees and expenses incurred by the Company in connection with such registration.

The Purchase Agreement contains certain customary representations, warranties and covenants, including representations and warranties by the Sellers with respect to MicaSense's business, operations and financial condition. The Purchase Agreement also includes post-closing covenants relating to the confidentiality and employee non-solicitation obligations of the Sellers, and the agreement of the Sellers not to compete with certain aspects of the business of MicaSense following the closing of the transaction. The completion of the transactions contemplated by the Purchase Agreement is subject to customary closing conditions, including, among others: (i) the absence of a material adverse effect on MicaSense, (ii) the delivery by the parties of certain ancillary documents, including the Registration Rights Agreement, and (iii) the execution by a key employee of MicaSense of an employment agreement. Subject to certain limitations, each of the parties will be indemnified for damages resulting from third party claims and breaches of the parties' respective representations, warranties and covenants in the Purchase Agreement.

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DESCRIPTION OF SECURITIES

The following summary description is based on the provisions of our Amended and Restated Certificate of Incorporation, as amended (the “Certificate of Incorporation”), our Amended and Restated Bylaws, (the “Bylaws”), and the applicable provisions of the Nevada Revised Statutes (the “NRS”). This information may not be complete in all respects and is qualified entirely by reference to the provisions of our Certificate of Incorporation, our Bylaws and the NRS. Our Certificate of Incorporation and our Bylaws are filed as exhibits to our Annual Report on Form 10-K to which this description is filed as Exhibit 4.1.

General

Our authorized capital stock consists of 275,000,000 shares, consisting of 250,000,000 shares of common stock par value \$.001 per share, and 25,000,000 shares of preferred stock, par value \$.001 per share, of which none are currently outstanding. Only our shares of common stock are registered under Section 12 of the Securities Exchange Act of 1934, as amended.

Common Stock

Voting Rights

Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. Any action other than the election of directors shall be authorized by a majority of the votes cast, except where the NRS prescribes a different percentage of votes and/or exercise of voting power.

Dividend Rights

Subject to the rights of the holders of preferred stock, the holders of outstanding common stock are entitled to receive dividends out of funds legally available at the times and in the amounts that the Board of Directors may determine.

No Preemptive or Similar Rights

Holders of our common stock do not have preemptive rights, and shares of our common stock are not convertible or redeemable.

Right to Receive Liquidation Distributions

Subject to the rights of the holders of preferred stock, as discussed below, upon our dissolution, liquidation or winding-up, our assets legally available for distribution to our stockholders are distributable ratably among the holders of common stock.

Preferred Stock

Our board of directors has the authority, without further action by our stockholders, to issue up to 25,000,000 shares of preferred stock in one or more series and to fix the number, rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and sinking fund terms, and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of our preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control or other corporate action. Our Board of Directors has previously designated (i) no shares have been designated as Series A Preferred Stock, (ii) 1,764 shares have been designated as Series B Preferred Stock, (iii) 10,000 shares have been designated as Series C Preferred Stock and (iv) 2,000 shares have been designated as Series D Preferred Stock and 1,050 shares have been designated as Series E. As of December 31, 2020, we did not have any shares of preferred stock issued and outstanding.

Listing

Our common stock is listed on The NYSE American LLC under the symbol “UAVS.”

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is EQ Shareowner Services. Its address is 3200 Cherry Creek South Drive, Suite 430. Denver, Colorado 80209.

EMPLOYEE CONFIDENTIALITY AND PROPRIETARY RIGHTS AGREEMENT

This Confidentiality and Proprietary Rights Agreement (“**Agreement**”) is entered into by and between AGEAGLE AERIAL SYSTEMS, INC., a Nevada corporation, on behalf of itself, its subsidiaries and other corporate affiliates (collectively referred to herein as the “**Company**”), and J. Michael Drozd (“**Employee**”) (the Company and Employee are collectively referred to herein as the “**Parties**”) as of May 18, 2020 (the “**Effective Date**”).

In consideration of Employee’s employment with the Company (hereafter, “employment”), which Employee acknowledges to be good and valuable consideration for Employee’s obligations hereunder, the Company and Employee hereby agree as follows:

1. Confidentiality and Disclosure of Information. In the course of Employee’s employment hereunder, Employee will receive, contribute to the production of, become privy to confidential, secret and proprietary documents, materials, data and other information, in tangible and intangible form, of and relating to the Company and its businesses and existing and prospective customers, suppliers, investors and other associated third parties to the Company’s “**Confidential Information**” (as hereinafter defined). Employee further understands and acknowledges that this Confidential Information and the Company’s ability to reserve it for the exclusive knowledge and use of the Company is of great competitive importance and commercial value to the Company, and that improper use or disclosure of the Confidential Information by Employee will cause irreparable harm to the Company, for which remedies at law will not be adequate.

1.1 Employee agrees that during Employee’s employment by Company and for a period of three (3) years thereafter, Employee shall hold in confidence and shall not directly to treat all Confidential Information as strictly confidential; (ii) not to directly or indirectly disclose, publish, communicate or make available Confidential Information, or allow it to be disclosed, published, communicated or made available, in whole or part, to any entity or person whatsoever not having a need to know and authority to know and use the Confidential Information in connection with the business of the Company except as required in the performance of Employee’s duties to the Company and only with the prior consent of an authorized officer acting on behalf of the Company in each instance (and then, such disclosure shall be made only within the limits and to the extent of such duties or consent); and (iii) not to access or use any Confidential Information, and not to copy any documents, records, files, media or other resources containing any Confidential Information, or remove any such documents, records, files, media or other resources from the premises or control of the Company, except as required in the performance of Employee’s duties to the Company or with the prior consent of an authorized officer acting on behalf of the Company in each instance (and then, such disclosure shall be made only within the limits and to the extent of such duties or consent). Nothing herein shall be construed to prevent disclosure of Confidential Information as may be required by applicable law or regulation, or pursuant to the valid order of a court of competent jurisdiction or an authorized government agency, provided that the disclosure does not exceed the extent of disclosure required by such law, regulation or order. Employee shall promptly provide written notice of any such order to an authorized officer of the Company after receiving such order, but in any event sufficiently in advance of making any disclosure to permit the Company to contest the order or seek confidentiality protections, as determined in the Company’s sole discretion. Employee agrees that during Employee’s employment by Company and in perpetuity thereafter, Employee shall hold in confidence and shall not directly or indirectly reveal report, publish, copy, duplicate, disclose, transfer or otherwise misappropriate any Confidential Information to any person or entity, or utilize such Confidential Information for any purpose, except within the course of Employee’s employment with Company.

1.2 All notes, data, reference materials, sketches, drawings, memoranda, documentation and records in any form or media in any way incorporating or reflecting any Confidential Information of Company shall belong exclusively to Company. Upon termination of his employment for any reason, or at any time Company may request prior thereto, Employee shall immediately surrender and turn over to Company any of Company's property whatsoever and all Confidential Information of Company, whether the same be in writing, print, copy, audio or video tape, computer program or disc, picture, or any other medium whatsoever, and whether appearing in original documents, summaries, excerpts, abstracts or other formats, and shall provide Company with all information necessary to access and use said Confidential Information. Employee shall have no right to retain any originals or copies of the foregoing for any reason whatsoever after termination of his employment hereunder without the express prior written consent of Company and, upon termination, Employee shall certify in writing that he no longer possesses and has not distributed or retained any Confidential Information of Company or any of Company's property whatsoever.

1.3 Notwithstanding the terms of this Agreement, the obligation of Employee to protect the confidentiality of any Confidential Information shall terminate as to any information or materials which: (i) are, or become, public knowledge through no act or failure to act of Employee; (ii) are publicly disclosed by the proprietor thereof; (iii) are lawfully obtained without obligations of confidentiality by Employee from a third party after reasonable inquiry regarding the authority of such third party to possess and divulge the same; (iv) are independently developed by Employee from sources or through persons that Employee can demonstrate had no access to Confidential Information; or (v) are lawfully known by Employee at the time of disclosure other than by reason of discussions with or disclosures by Company.

1.4 As used in this Agreement, "**Confidential Information**" means information or material, whether oral or written, that is proprietary to Company or designated (either expressly or by virtue of the manner in which such information or material is traditionally treated in business settings) as Confidential Information by Company and not generally known by non-Company personnel, which Employee may develop or which Employee may receive, obtain knowledge of or become privy to through or as a result of Employee's relationship with Company (including information conceived, originated, discovered or developed in whole or in part by Employee). "Confidential Information" includes, but is not limited to, the following types of information and other information of a similar nature (whether or not reduced to writing): trade secrets, discoveries, ideas, concepts, software in various stages of development, designs, drawings, specifications, techniques, models, data, source code, object code, documentation, diagrams, flow charts, research, development, processes, procedures, "know-how", marketing techniques and materials, marketing and development plans, names of employees and information related to them, customer names, contacts, and other information related to customers, price lists, pricing policies, and financial data, information and projections. "Confidential Information" also includes any information described above which Company obtains from another party and which Company treats as proprietary or designates as "Confidential Information", whether or not owned or developed by Company. Information that is publicly known and that is generally employed by the trade or generic information or knowledge which Employee would have learned in the course of similar work elsewhere in the trade is not intended to and shall be deemed not to be a part of the "Confidential Information".

1.5 Employee understands that the above list is not exhaustive, and that Confidential Information also includes other information that is marked or otherwise identified as confidential or proprietary, or that would otherwise appear to a reasonable person to be confidential or proprietary in the context and circumstances in which the information is known or used.

2 . **Agreement Not to Solicit Customers.** Employee agrees that during his employment by Company and for a period of one (1) year following termination of such employment for any reason whatsoever, Employee shall not, either directly or indirectly, on his own behalf or in the service of or on behalf of others actively solicit, or attempt to solicit, initiate contact with, or call upon any clients or actively sought prospective clients of Company with whom Employee had material contact during his employment with Company, for the purpose of soliciting, selling, diverting to or otherwise providing services on behalf of any business entity which engages in the business of unmanned aerial aircraft, unless agreed to in writing by both parties.

2.1 **Material Contact.** For purposes of this Agreement, “material contact” exists between Employee and each client or actively sought prospective client of Company with whom Employee personally interacts on behalf of Company, whether such interaction is conducted in person, in writing, by telephone or by other form of communication.

3 . **Agreement Not to Solicit Employees.** Employee agrees that during his employment by Company and for a period of two (2) years following termination of such employment for any reason, he will not, either directly or indirectly, on her own behalf or in the service of, or on behalf of others, actively encourage or induce the voluntary termination of, or recruit or hire, or attempt to recruit or hire, any person(s) then employed by or associated with Company as an employee, independent contractor or consultant, whether or not such recruit or hire is a full-time, part-time or temporary employee, independent contractor or consultant of said entities, and whether or not such employment is for a determined period or is at-will, for the purpose of employment, consultancy, or serving as an independent contractor for, directly or indirectly, any business entity which engages in the business of design, manufacture and sale of unmanned aerial aircraft technologies.

4. Proprietary Rights.

4.1 Work Product. Employee agrees that any inventions, ideas, in whole or in part conceived or made by employee during or after the term of his employment with Company which are made through the use of any of Company's Confidential Information or any of Company's equipment, facilities or time, or which result from any work performed by Employee for Company (collectively, "**Work Product**"), acknowledges and agrees that all writings, works of authorship, technology, inventions, discoveries, ideas and other work product of any nature whatsoever, that are created, prepared, produced, authored, edited, amended, Confidential Information, or copyrightable or patentable subject matter conceived or reduced to practice by Employee individually or jointly with others during the period of Employee's employment by the Company and relating in any way to the business or contemplated business, research or development of the Company (regardless of when or where the Work Product is prepared or whose equipment or other resources is used in preparing the same) and all printed, physical and electronic copies, all improvements, rights and claims related to the foregoing, and other tangible embodiments thereof (collectively, "Work Product"), as well as any and all rights in and to copyrights, trade secrets, trademarks (and related goodwill), mask works, patents and other intellectual property rights therein arising in any jurisdiction throughout the world and all related rights of priority under international conventions with respect thereto, including all pending and future applications and registrations therefor, and continuations, divisions, continuations-in-part, reissues, extensions and renewals thereof (collectively, "Intellectual Property Rights"), shall belong exclusively to Company and shall be considered part of the Confidential Information (as the case may be) for purposes of this Agreement.

For purposes of this Agreement, Work Product includes, but is not limited to, Company information, including plans, publications, research, strategies, techniques, agreements, documents, negotiations, know-how, computer programs, computer applications, software design, web design, work in process, databases, manuals, developments, reports, graphics, drawings, sketches, market studies, formulae, notes, communications, algorithms, product plans, product designs, styles, models, inventions, unpublished patent applications, original works of authorship, discoveries, experimental processes, specifications, customer information, customer lists, manufacturing information, marketing and advertising information, and sales information.

4.2 Company, its designees, and its assigns shall have the right to use and/or to apply for patents, copyrights or other statutory or common law protections for such Work Product in any and all countries. Employee shall provide reasonable assistance to Company (at Company's expense) to obtain and from time to time enforce patents, copyrights, and other statutory or common law protections for such Work Product in any and all countries. To that end, Employee shall execute, during and after his employment with Company, all documents reasonably related to the application, procurement, and enforcement of patents, copyrights, and other statutory or common law protections, as Company or its counsel may request, together with any assignments thereof to Company or its designee.

4.3 Work Made for Hire; Assignment. Employee acknowledges that, by reason of being engaged by the Company at the relevant times, to the extent permitted by law, all of the Work Product consisting of copyrightable subject matter is “work made for hire” as defined in the Copyright Act of 1976 (17 U.S.C. § 101), and such copyrights are therefore owned by the Company. To the extent that the foregoing does not apply, Employee hereby irrevocably assigns to the Company, for no additional consideration, Employee’s entire right, title and interest in and to all Work Product and Intellectual Property Rights therein, including the right to sue, counterclaim and recover for all past, present and future infringement, misappropriation or dilution thereof, and all rights corresponding thereto throughout the world. Nothing contained in this Agreement shall be construed to reduce or limit the Company’s rights, title or interest in any Work Product or Intellectual Property Rights so as to be less in any respect than that the Company would have had in the absence of this Agreement.

4.4 Further Assurances; Power of Attorney. During and after Employee’s employment by the Company, Employee agrees to reasonably cooperate with the Company to (i) apply for, obtain, perfect and transfer to the Company the Work Product and Intellectual Property Rights in the Work Product in any jurisdiction in the world; and (ii) maintain, protect and enforce the same, including, without limitation, executing and delivering to the Company any and all applications, oaths, declarations, affidavits, waivers, assignments and other documents and instruments as shall be requested by the Company. Employee hereby irrevocably grants the Company power of attorney to execute and deliver any such documents on Employee’s behalf in Employee’s name and to do all other lawfully permitted acts to transfer the Work Product to the Company and further the transfer, issuance, prosecution and maintenance of all Intellectual Property Rights therein, to the full extent permitted by law, if Employee does not promptly cooperate with the Company’s request (without limiting the rights the Company shall have in such circumstances by operation of law). The power of attorney is coupled with an interest and shall not be affected by Employee’s subsequent incapacity.

4.5 Moral Rights. To the extent any copyrights are assigned under this Agreement, Employee hereby irrevocably waives, to the extent permitted by applicable law, any and all claims Employee may now or hereafter have in any jurisdiction to all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as “moral rights” with respect to all Work Product and all Intellectual Property Rights therein.

4.6 No License. Employee understands that this Agreement does not, and shall not be construed to, grant Employee any license or right of any nature with respect to any Work Product or Intellectual Property Rights or any Confidential Information, materials, software or other tools made available to Employee by the Company.

5. Conflicts of Interest. During the term of his employment Employee shall not engage in activities or practices involving any possible conflict of interest. These activities or practices may subject Employee to disciplinary action, up to and including termination of employment. Employee should avoid at all times the appearance of, as well as an actual, conflict of interest.

5.1 Conflicts of interest activities or practices include, but are not limited to: engaging in business conduct that is damaging to the reputation of the Company, accepting outside employment in any organization that does business with the Company or is a competitor of the Company, investing or having a financial interest in a private company which does business with the Company or having stock ownership in a publicly traded company which does business with the Company if the relationship(s) may influence Employee's business decisions (this applies to Employee and to close relatives and is applicable at the time of hire and at any time during the course of employment). If an individual does own stock in a company that does business with the Company, the relationship should be disclosed upon employment and all significant business dealings with that company will be reviewed.

5.2 Employee may not accept gifts from any person or company doing or seeking to do business with the Company. Employees are allowed to accept advertising novelties and other gifts of nominal value.

5.3 Employee may not give, offer, or promise, directly or indirectly, anything of value to any representative of any company doing business with the Company.

5.4 Employee may not select vendors on the basis of anything other than the merit of their products or services or prices for such products or services.

5.5 Discussing company information with the press without prior authorization from management is also a conflict of interest.

6 . **Security and Access.** Employee agrees and covenants (i) to comply with all Company security policies and procedures as in force from time to time including without limitation those regarding computer equipment, telephone systems, voicemail systems, facilities access, monitoring, key cards, access codes, Company intranet, internet, social media and instant messaging systems, computer systems, e-mail systems, computer networks, document storage systems, software, data security, encryption, firewalls, passwords and any and all other Company facilities, IT resources and communication technologies ("Facilities Information Technology and Access Resources"); (ii) not to access or use any Facilities and Information Technology Resources except as authorized by Company; and (iii) not to access or use any Facilities and Information Technology Resources in any manner after the termination of Employee's employment by the Company, whether termination is voluntary or involuntary. Employee agrees to notify the Company promptly in the event Employee learns of any violation of the foregoing by others, or of any other misappropriation or unauthorized access, use, reproduction or reverse engineering of, or tampering with any Facilities and Information Technology Access Resources or other Company property or materials by others.

6.1 Exit Obligations. Upon (i) voluntary or involuntary termination of Employee's employment or (ii) the Company's request at any time during Employee's employment, Employee shall (a) provide or return to the Company any and all Company property, including keys, key cards, access cards, identification cards, security devices, Company credit cards, network access devices, computers, cell phones, smartphones, equipment, manuals, reports, files, books, compilations, work product, e-mail messages, recordings, tapes, disks, thumb drives or other removable information storage devices, hard drives and data and all Company documents and materials belonging to the Company and stored in any fashion, including but not limited to those that constitute or contain any Confidential Information or Work Product, that are in the possession or control of Employee, whether they were provided to Employee by the Company or any of its business associates or created by Employee in connection with Employee's employment by the Company; and (b) delete or destroy all copies of any such documents and materials not returned to the Company that remain in Employee's possession or control, including those stored on any non-Company devices, networks, storage locations and media in Employee's possession or control.

7. Non-disparagement. Employee agrees and covenants that Employee will not at any time make, publish or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments or statements concerning the Company's products or services, and existing and prospective customers, suppliers, investors and other associated third parties, or make any maliciously false statements about the Company's employees and officers.

8. Remedies. Employee acknowledges that the Company's Confidential Information and the Company's ability to reserve it for the exclusive knowledge and use of the Company is of great competitive importance and commercial value to the Company, and that improper use or disclosure of the Confidential Information by Employee will cause irreparable harm to the Company, for which remedies at law will not be adequate. In the event of a breach or threatened breach by Employee of any of the provisions of this Agreement, Employee hereby consents and agrees that the Company shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that monetary damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

9. Successors and Assigns.

9.1 Assignment by the Company. The Company may assign this Agreement to any subsidiary or corporate affiliate, or to any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company. This Agreement shall inure to the benefit of the Company and permitted successors and assigns.

9.2 No Assignment by Employee. Employee may not assign this Agreement or any part hereof. Any purported assignment by Employee shall be null and void from the initial date of purported assignment.

10. **Governing Law, Jurisdiction and Venue.** This Agreement, for all purposes, shall be construed in accordance with the laws of the State of Nevada without regard to conflicts-of-law principles. Any action or proceeding by either Party to enforce this Agreement shall be brought only in any state or federal court located in the State of Georgia, County of Fulton. The Parties hereby irrevocably submit to the exclusive jurisdiction of such courts and waive the defense of inconvenient forum to the maintenance of any such action or proceeding in such venue. Notwithstanding the foregoing, any action for injunctive relief may be brought in any court of competent jurisdiction.

11. **Entire Agreement.** Unless specifically provided herein, this Agreement contains all the understandings and representations between Employee and the Company pertaining to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter.

12. **Modification and Waiver.** No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing and signed by Employee and by a duly authorized officer of the Company (other than Employee). No waiver by either of the Parties of any breach by the other party hereto of any condition or provision of this Agreement to be performed by the other party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the Parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

13. **Severability.** Should any provision of this Agreement be held by a court of competent jurisdiction to be enforceable only if modified, or if any portion of this Agreement shall be held as unenforceable and thus stricken, such holding shall not affect the validity of the remainder of this Agreement, the balance of which shall continue to be binding upon the Parties with any such modification to become a part hereof and treated as though originally set forth in this Agreement. The Parties further agree that any such court is expressly authorized to modify any such unenforceable provision of this Agreement in lieu of severing such unenforceable provision from this Agreement in its entirety, whether by rewriting the offending provision, deleting any or all of the offending provision, adding additional language to this Agreement or by making such other modifications as it deems warranted to carry out the intent and agreement of the Parties as embodied herein to the maximum extent permitted by law. The Parties expressly agree that this Agreement as so modified by the court shall be binding upon and enforceable against each of them. In any event, should one or more of the provisions of this Agreement be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, and if such provision or provisions are not modified as provided above, this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had not been set forth herein.

14. **Captions.** Captions and headings of the sections and paragraphs of this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the caption or heading of any section or paragraph.

15. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

EMPLOYEE ACKNOWLEDGES THAT HE HAS READ AND UNDERSTANDS THESE TERMS AND CONDITIONS OF EMPLOYMENT AND AGREES THAT THESE TERMS AND CONDITIONS ARE NECESSARY FOR THE REASONABLE AND PROPER PROTECTION OF THE COMPANY'S BUSINESS. EMPLOYEE FURTHER ACKNOWLEDGES THAT THE COMPANY HAS ADVISED HIM THAT HE IS ENTITLED TO HAVE THIS AGREEMENT REVIEWED BY AN ATTORNEY OF HIS SELECTION PRIOR TO SIGNING, AND HE HAS EITHER DONE SO OR ELECTED TO FOREGO THAT RIGHT.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date above.

AGEAGLE AERIAL SYSTEMS, INC.

By:



Name: Nicole Fernandez-McGovern

Title: CFO

EMPLOYEE:

Signature:

Print Name: Michael Drozd

1. AgEagle Aerial, Inc., a Nevada corporation
 2. EnerJex Kansas, Inc., a Nevada corporation
-

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 No. (File No. 333-252801) of AgEagle Aerial Systems Inc., of our report dated March 31, 2021, relating to the consolidated financial statements for the year ended December 31, 2020, which appear in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ WithumSmith+Brown, PC

Orlando, Florida

March 31, 2021



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

AgEagle Aerial Systems Inc.

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (File No. 333-252801) of AgEagle Aerial Systems Inc., of our report dated April 10, 2020, relating to the consolidated financial statements of AgEagle Aerial Systems Inc. for the fiscal year ended December 31, 2019, appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

A handwritten signature in blue ink that reads 'D. Brooks and Associates CPAs, P.A.' The signature is written in a cursive style.

D. Brooks and Associates CPAs, P.A.
Palm Beach Gardens, FL
March 31, 2021

CERTIFICATION

I, J. Michael Drozd, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 of AgEagle Aerial Systems Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 31, 2021

/s/ J. Michael Drozd

J. Michael Drozd

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION

I, Nicole Fernandez-McGovern, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2020 of AgEagle Aerial Systems Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 31, 2021

/s/ Nicole Fernandez-McGovern

Nicole Fernandez-McGovern
Chief Financial Officer (Principal Financial Officer),
EVP of Operations and Secretary

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of AgEagle Aerial Systems, Inc. (the "Company") on Form 10-K pursuant for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Michael Drozd, Chief Executive Officer (Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2021

/s J. Michael Drozd

J. Michael Drozd

Chief Executive Officer (Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of AgEagle Aerial Systems, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicole Fernandez-McGovern, Chief Financial Officer (Principal Financial Officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2021

/s/ Nicole Fernandez-McGovern

Nicole Fernandez-McGovern

Chief Financial Officer (Principal Financial Officer), EVP of Operations and
Secretary