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

FORM 10-Q

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

For The Quarterly Period Ended March 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 issuer as specified in its charter)

Nevada	**88-0422242**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

117 S. 4th Street
Neodesha, Kansas 66757
(Address of principal executive offices, including zip code)

620-325-6363
Registrant's phone number, including area code

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	UAVS	NYSE American

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 X NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding twelve months (or shorter period that the registrant was required to submit and post such files).

YES X 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," "smaller reporting company" or an "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	X	Smaller reporting company	X
		Emerging growth company	☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding at May 14, 2020**
Common stock, $.001 par value	33,305,742

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

AGEAGLE AERIAL SYSTEMS INC.
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2020 AND DECEMBER 31, 2019
(Unaudited)

	As of	
ASSETS	**March 31, 2020**	**December 31, 2019**
CURRENT ASSETS:		
Cash	$ 356,084	$ 717,997
Accounts receivable	50,038	65,833
Inventories, net	116,053	221,167
Prepaid and other current assets	107,013	124,163
Total current assets	629,188	1,129,160
Property and equipment, net	36,121	37,776
Intangible assets, net	482,337	520,573
Goodwill	3,108,000	3,108,000
Total assets	$ 4,255,646	$ 4,795,509
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 85,154	$ 57,432
Accrued expenses	34,086	36,416
Accrued dividends	204,000	163,555
Contract liabilities	40,978	264,472
Payroll liabilities	6,877	—
Total current liabilities	371,095	521,875
Total liabilities	371,095	521,875
COMMITMENTS AND CONTINGENCIES (SEE NOTE 9)		
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, 3,312 shares issued and outstanding at March 31, 2020 and 3,501 at December 31, 2019	3	4
Preferred stock, Series D, $0.001 par value, 2,000 shares authorized, 2,000 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	2	2
Common stock, $0.001 par value, 250,000,000 shares authorized, 15,610,019 and 15,424,394 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	15,610	15,424
Additional paid-in capital	12,470,994	12,456,989
Accumulated deficit	(8,602,058)	(8,198,785)
Total stockholders' equity	$ 3,884,551	$ 4,273,634
Total liabilities and stockholders' equity	$ 4,255,646	$ 4,795,509

See accompanying notes to these condensed interim financial statements.

AGEAGLE AERIAL SYSTEMS, INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

	For the Three Months Ended March 31,	
	2020	**2019**
Revenues	$ 391,280	$ 45,993
Cost of sales	174,483	33,948
Gross Profit	216,797	12,045
Operating Expenses:		
Selling expenses	3,041	12,127
General and administrative	445,531	474,902
Professional fees	171,498	90,019
Total Operating Expenses	620,070	577,048
Loss from Operations	(403,273)	(565,003)
Other Expenses:		
Interest expense	—	(462)
Total Other Expenses	—	(462)
Loss Before Income Taxes	(403,273)	(565,465)
Provision for income taxes	—	—
Net Loss	$ (403,273)	$ (565,465)
Net Loss Per Share - Basic and Diluted	$ (0.03)	$ (0.04)
Weighted Average Number of Shares Outstanding During the Period – Basic and Diluted	15,599,109	13,254,949

See accompanying notes to these condensed interim financial statements.

AGEAGLE AERIAL SYSTEMS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

	Par $ .0001 Preferred Stock Series B Shares	Preferred Stock Series B Amount	Par $ .0001 Preferred Stock Series C Shares	Preferred Stock Series C Amount	Par $ .0001 Preferred Stock Series D Shares	Preferred Stock Series D Amount	Par $ .0001 Common Shares	Common stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance as of December 31, 2019	—	$ —	3,501	$ 4	2,000	$ 2	15,424,394	$ 15,424	$ 12,456,989	$ (8,198,785)	$ 4,273,634
Conversion of Series C	—	—	(189)	(1)	—	—	350,000	350	(349)	—	—
Purchase of Acquisition	—	—	—	—	—	—	(164,375)	(164)	164	—	—
Dividend on Series D Preferred Stock	—	—	—	—	—	—	—	—	(40,445)	—	(40,445)
Stock compensation period costs	—	—	—	—	—	—	—	—	54,635	—	54,635
Net loss	—	—	—	—	—	—	—	—	—	(403,273)	(403,273)
Balance as of March 31, 2020	—	$ —	3,312	$ 3	2,000	$ 2	15,610,019	$ 15,610	$ 12,470,994	$ (8,602,058)	$ 3,884,551

AGEAGLE AERIAL SYSTEMS INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(Unaudited)

	Par $ .0001 Preferred Stock Series B Shares	Preferred Stock Series B Amount	Par $ .0001 Preferred Stock Series C Shares	Preferred Stock Series C Amount	Par $ .0001 Preferred Stock Series D Shares	Preferred Stock Series D Amount	Par $ .0001 Common 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	—	—	(1,026)	(1)	—	—	1,900,000	1,900	(1,899)	—	—
Dividend on Series D Preferred Stock	—	—	—	—	—	—	—	—	(40,000)	—	(40,000)
Stock compensation period costs	—	—	—	—	—	—	—	—	60,920	—	60,920
Net loss	—	—	—	—	—	—	—	—	—	(565,465)	(565,465)
Balance as of March 31, 2019	—	$ —	3,636	$ 4	2,000	$ 2	14,449,394	$ 14,449	$ 12,190,295	$ (6,241,556)	$ 5,963,194

See accompanying notes to these condensed interim financial statements.

AGEAGLE AERIAL SYSTEMS, INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Unaudited)

	For the Three Months Ended March 31,	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (403,273)	$ (565,465)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	42,175	45,068
Stock-based compensation	54,635	60,920
Changes in assets and liabilities:		
Accounts receivable	15,795	(11,400)
Inventories	105,114	15, 345
Prepaid expenses and other assets	417,150	13,498
Contract liabilities	(223,494)	(2,368)
Accounts payable	27,722	30,131
Accrued liabilities	(2,330)	(20,016)
Payroll liabilities	6,877	15,651
Net cash used in operating activities	(359,629)	(418,636)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,284)	—
Net cash used in investing activities	(2,284)	—
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on promissory note	—	(31,970)
Net cash used in financing activities	—	(31,970)
Net decrease in cash	(361,913)	(450,606)
Cash at beginning of period	717,997	2,601,730
Cash at end of period	$ 356,084	$ 2,151,124
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest cash paid	$ —	$ 462
Income taxes paid	$ —	$ —
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Conversion of Series B and C preferred stock into common stock	$ 189	$ 1,026
Accrued dividends on Series D Preferred Stock	$ 40,445	$ 40,000

See accompanying notes to these condensed interim financial statements.

AGEAGLE AERIAL SYSTEMS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

Note 1 – Description of Business

AgEagle Aerial Systems Inc. ("AgEagle" or "the Company") designs, produces and supports technologically-advanced small, unmanned aerial vehicles ("UAVs" or "drones"). In addition, to providing new utility to UAVs, the Company pioneers and innovates advanced aerial imaging data collection and analytics technologies capable of addressing the impending food and environmental sustainability crises that threaten our planet. Historically, the Company's daily efforts have focused on delivering the tools and strategies necessary to define and implement commercial drone construction and delivery, along with sustainability and precision farming solutions that solve important problems confronting the global agricultural industry. In fact, AgEagle through its recent acquisition, has spent eight years serving customers, covering more than two million acres in 50 countries and monitoring 53 different crops. AgEagle remains intent on earning distinction as a trusted partner to clients seeking to adopt and support productive agricultural approaches to better farming practices which limit the impact on our natural resources, reduce reliance on inputs and materially increase crop yields and profits.

In early 2019, AgEagle further expanded its marketing efforts to provide for the introduction of *ParkView*, its proprietary aerial imagery and data analytics platform, designed to support municipal, state and federal agencies charged with assessing and supporting sustainability initiatives involving public parks and recreation areas, also referred to as urban green spaces.

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, growers and processors – 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.

The Company also designs, produces, distributes and supports technologically advanced small UAVs or drones that AgEagle offers for commercial sale to the precision agriculture industry. In addition to UAV sales, in late 2018, the Company introduced a new 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 new 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 its customers.

In the third quarter of 2019, AgEagle announced that it had begun to actively pursue expansion opportunities within the emerging Drone Logistics and Transportation market and revealed that it had received its first purchase orders from a major ecommerce company to manufacture and assemble UAVs designed to meet the critical specifications for drones that are meant to carry packaged goods in urban and suburban areas.

Central to the Company's long-term growth strategy, AgEagle will continue to identify opportunities to leverage its proprietary technological platform and industry expertise to penetrate new, high growth market sectors that may benefit from the Company's advanced aerial imagery-based data collection and analytics solutions.

AGEAGLE AERIAL SYSTEMS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

Note 1 – Description of Business – Continued

Corporate History; Recent Business Combination

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.

On August 28, 2018, we closed the transaction contemplated by the Asset Purchase Agreement (the "Purchase Agreement") dated July 25, 2018 with AgEagle Aerial, Inc., a wholly-owned subsidiary of the Company; Agribotix, LLC, a Colorado limited liability company ("Agribotix" or the "Seller"); and the other parties named therein. Pursuant to the Purchase Agreement, we acquired all right, title and interest in and to all assets owned by Agribotix, which included Agribotix's primary product, FarmLens™, utilized in their business for providing integrated agricultural drone solutions and drone-enabled software technologies and services for precision agriculture.

The Company believes that purchasing FarmLens benefitted us and our shareholders by developing important vertically integrated products and services. *FarmLens* is 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. *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.

To date, *FarmLens,* has processed agricultural imagery for approximately two million acres of crops and analyzed data for over 53 different crop types from over 50 countries around the world.

The Company is currently headquartered in Neodesha, Kansas, but plans to relocate its headquarters and manufacturing operations to Wichita, Kansas during the second quarter of this year.

AGEAGLE AERIAL SYSTEMS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

Note 2 – Summary of Significant Accounting Policies

The accompanying interim unaudited condensed consolidated financial statements have been prepared under the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information, which included condensed consolidated financial statements of the Company and its wholly owned subsidiaries as of March 31, 2020. Accordingly, the condensed consolidated financial statements do not include all the information and notes necessary for a comprehensive presentation of the financial position and results of operations and should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2019 and included in the Form 10-K filed with the SEC on April 13, 2020. It is management's opinion that all material adjustments (consisting of normal recurring adjustments) have been made, which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year ending December 31, 2020.

Basis of Presentation and Consolidation - These interim condensed 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 has elected a December 31 fiscal year end.

The interim condensed consolidated financial statements include the accounts of AgEagle Aerial Systems Inc. and its wholly-owned subsidiaries AgEagle Aerial, Inc., EnerJex Kansas, Inc., Black Sable Energy, LLC, and Black Raven Energy, Inc., was dissolved effective November 2019. 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 interim condensed consolidated financial statements. Such interim condensed 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 interim condensed consolidated financial statements.

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, useful life of intangible assets and property and equipment, and the valuation of deferred tax assets.

Fair Value of Financial Instruments – Unless otherwise disclosed, the fair value of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued expenses, approximates their recorded values due to their short-term maturities.

Cash and Cash Equivalents – Cash and cash equivalents includes any highly liquid investments with an original maturity of three months or less. The Company held no cash equivalents as of March 31, 2020 or December 31, 2019. 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.

AGEAGLE AERIAL SYSTEMS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

Note 2 – Summary of Significant Accounting Policies – Continued

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.

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 March 31, 2020 and December 31, 2019.

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 March 31, 2020 and December 31, 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 the 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.

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 at 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.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

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.

Subscription services for use of the Company's proprietary *FarmLens*™ and *HempOverview* platforms are recognized ratably over the 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:

	Percent of total sales for three months ended March 31,	
Customers	**2020**	**2019**
Customer A	95.6%	68.0%
Customer B	—	29.1%

Accounts receivables due from Customer A and C comprised all of the accounts receivable as of March 31, 2019.

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

	For the three months ended March 31,	
Type	**2020**	**2019**
Drone Assembly and Product Sales	$ 374,278	$ 38,083
Software Platform Sales	17,002	7,910
Total	$ 391,280	$ 45,993

Vendor Concentration – As of March 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.

Shipping Costs – Shipping costs for the three months ended March 31, 2020 and 2019 totaled $301 and $758, 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 condensed statements of operations.

AGEAGLE AERIAL SYSTEMS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

Note 2 – Summary of Significant Accounting Policies – Continued

Earnings Per Share - Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. 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 antidilutive for the periods presented. For the three-month period ended March 31, 2020, the Company had 4,531,924 warrants and 2,569,970 options to purchase common stock; and 3,312 shares of Series C Preferred Stock which may be converted into 6,133,333 shares of common stock. For the three-month period ended March 31, 2019, the Company had 4,531,924 warrants and 1,963,720 options to purchase common stock, and 3,636 shares of Series C Preferred Stock which were convertible into 6,733,333 shares of common stock.

Income Taxes - The Company accounts for income taxes in accordance with FASB (Financial Accounting Standards Board) 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 consolidated statements of operations. 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.

AGEAGLE AERIAL SYSTEMS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

Note 2 – Summary of Significant Accounting Policies – Continued

Recently Issued Accounting Pronouncements

Adopted

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial statements. The Company's adoption of ASU No. 2016-01 effective January 1, 2019 did not have a material impact on the condensed interim consolidated financial statements.

In February 2016, FASB issued Account Standards Update 2016-02 – *Leases* (Topic 842) intended to improve financial reporting of leasing transactions whereby lessees will need to recognize a right-of-use asset and a lease liability for virtually all their leases. Under the new guidance, a lessee will be required to recognize 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. However, unlike current GAAP — which requires only capital leases to be recognized on the balance sheet — the new ASU will require both types of leases to be recognized on the balance sheet. The Company adopted this ASU on January 1, 2019 and it did not have a material impact on the Company's condensed interim consolidated financial statements as the Company currently has no leases with a term of more than twelve months.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other* (Topic 350). The update simplifies the process for assessing goodwill for 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 us for the fiscal year ending September 30, 2021, with early adoption permitted for periods beginning after January 1, 2017. The Company adopted ASU 2017-04 on January 1, 2019 and applied the guidance to the annual impairment test (see Note 5).

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 adopted this ASU on January 1, 2020 and it did not have a material impact on the Company's condensed interim consolidated financial statements.

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Note 2 – Summary of Significant Accounting Policies – Continued

Pending Adoption

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:

	March 31, 2020	December 31, 2019
Raw materials	$ 75,432	$ 193,022
Work-in-process	40,113	26,456
Finished goods	10,508	11,689
Gross inventory	$ 126,053	$ 231,167
Less obsolete reserve	(10,000)	(10,000)
Total	$ 116,053	$ 221,167

Note 4 — Property and Equipment

Property and equipment consist of the following at:

	March 31, 2020	December 31, 2019
Property and equipment	$ 143,042	$ 140,758
Less accumulated depreciation	(106,921)	(102,982)
	$ 36,121	$ 37,776

Depreciation expense for the three months ended March 31, 2020 and 2019 was $3,939 and $3,232, respectively.

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Note 5 – Intangible Assets

Intangible assets are recorded at cost and consist of assets acquired in 2018 as a result of a business acquisition in 2018. Amortization is computed using the straight-line method over the estimate useful life of the asset. Intangible assets were comprised of the following at March 31, 2020:

Intangible Assets	Estimated Life	Gross Cost	Accumulated Amortization	Net Book Value
Intellectual Property/Technology	5 yrs.	$ 433,400	$ (137,243)	$ 296,157
Customer Base	5 yrs.	72,000	(22,800)	49,200
Tradenames - Trademarks	5 yrs.	58,200	(18,430)	39,770
Non-compete agreement	4 yrs.	160,900	(63,690)	97,210
Carrying value as of March 31, 2020		$ 724,500	$ (242,163)	$ 482,337

The weighted average remaining amortization period in years is 3.5 years. Amortization expense for the three months ended March 31, 2020 and 2019 was $38,236 and $41,836, respectively.

Future amortization is as follows for fiscal years ending:

	2020 (months remaining)	2021	2022	2023
Intellectual Property/Technology	$ 65,010	$ 86,680	$ 86,680	$ 57,786
Customer Base	10,800	14,400	14,400	9,600
Tradenames and Trademarks	8,730	11,640	11,640	7,760
Non-compete Agreement	30,169	40,225	26,817	—
Total	$ 114,709	$ 152,945	$ 139,537	$ 75,146

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Note 6 – Promissory Note

As part of the liabilities assumed from the Merger, the Company recorded a promissory note for a principal amount of $125,556 and accrued interest of $4,171 payable over twelve months and maturing on March 27, 2019. The total amount outstanding as March 31, 2019 was $9,028, resulting in principal payments of $31,970 made in the first three months of 2019. The Company recorded interest of $462 for the three months ended March 31, 2019. The note was paid in full in April 2019.

Note 7 – Stockholders' Equity

Capital Stock Issuances as of the date of Merger

As a result of the Merger all the holders of the Company's 10% Series A Cumulative Redeemable Perpetual Preferred Stock (the "Series A Preferred Stock") had their shares automatically converted into 902,186 shares of the Company's common stock. The Company's Series B Convertible Preferred Stock of 8.25 shares (the "Series B Preferred Stock") remained outstanding and were convertible into 5,388 shares of the Company's common stock. The Company's Series C Convertible Preferred Stock (the "Series C Preferred Stock") included 2,879 of remaining shares after the conversion and retirement of all the Company's promissory notes due. These shares are convertible into 1,471,425 shares of the Company's common stock. Furthermore, an additional 4,000 shares of Series C Preferred Stock were issued and are convertible into 3,020,797 shares of the Company's common stock, as they were issued to the current holder of Series C Preferred Stock in connection with a $4 million financing of Series C Preferred Stock (the "Financing").

On May 11, 2018, we issued an additional 250 shares of our Series C Preferred Stock, convertible into 163,265 shares of our common stock and received a cash payment of $250,000 for the issuance of the Series C Preferred Stock. The Series C Preferred Stock includes a beneficial ownership limitation preventing conversion of shares of Series C Preferred Stock into more than 9.99% of the number of shares of our common stock outstanding immediately after giving effect to the issuance of shares of common stock upon conversion of the Series C Preferred Stock.

On November 21, 2017, Alpha Capital Anstalt ("Alpha") signed a binding commitment letter EnerJex to provide prior to or at the closing of the Merger a minimum of $4 million in new equity capital (the "Private Placement"). The Private Placement was consummated on March 26, 2018. In connection with the Private Placement, Alpha purchased an additional 4,000 shares of Series C Preferred Stock at a purchase price of $1,000 per share for total aggregate consideration of $4 million. At the time of private placement, the Series C Preferred Stock was convertible into 2,612,245 shares of our common stock. In addition, as consideration for their funding commitment, Alpha received a fee equal to 408,552 shares of our common 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 $1.53. 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, we issue 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.

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Note 7 – Equity – Continued

Series C Preferred Stock

During the three-month period ended March 31, 2020, Alpha Capital Anstalt converted 189 shares of Series C Preferred Stock into 350,000 shares of common stock at a conversion price of $0.54. During the three-month period ended March 31, 2019, Alpha Capital Anstalt converted a total of 1,026 shares of Series C Preferred Stock into 1,900,000 shares of common stock at a conversion price of $0.54.

Series D Preferred Stock

On December 27, 2018, AgEagle Aerial Systems Inc. (the "Company") entered into a Securities Purchase Agreement (the "Agreement") with Alpha Capital Anstalt (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 to purchase 3,703,703 shares of common stock, par value $0.001 per share (the "Warrant," and the shares of common stock underling the warrants, the "Warrant Shares") for $2,000,000 in gross proceeds. The Company also entered into a Registration Rights Agreement, granting registration rights to the Purchaser with respect to the Warrant Shares.

The 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 (as more fully described below in Item 5.03) and apply any and all net proceeds from such financing(s) to the redemption in full of the Preferred Stock.

The Preferred Stock is non-convertible, 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. During the three months ended March 31, 2020 and 2019, the Company recorded $40,444 and $40,000 of accrued dividends, respectively. As of March 31, 2020 and December, 31, 2019, accumulated accrued dividends totaled $204,000 and $163,555, respectively, as presented on the condensed interim consolidated balance sheets.

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.

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Note 7 – Stockholders' Equity – Continued

Options Issued

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. There are 3,000,000 shares of common stock reserved for the Plan.

On March 31, 2020, the Company issued options to purchase 87,000 shares of common stock to directors and employees of the Company at the fair value exercise price of $0.41 per share expiring on March 30, 2025. The Company determined the fair-market value of the options to be $21,492. In connection with the issuance of these options, the Company recognized no stock compensation expense for the three months ended March 31, 2020.

During the periods March 31, 2020 and 2019, the company recognized stock compensation expense of $54,635 and $60,920, respectively on options previously issued under the Plan that vested.

The fair value of options granted during the three-month periods ending March 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.

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Note 7 – Equity – Continued

The significant weighted average assumptions relating to the valuation of the Company's stock options granted during the three months ended March 31, 2020 were as follows:

	March 31, 2020
Dividend yield	0.00%
Expected life	3.5 Years
Expected volatility	90.07%
Risk-free interest rate	0.29%

A summary of the options activity for the three months ended March 31, 2020 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2020	2,480,470	$ 0.39	6.28	$ 378,111
Granted	87,000	0.41	5	—
Outstanding at March 31, 2020	2,567,470	0.39	6	$ 381,158
Exercisable at period end	1,668,517	$ 0.38	5.64	$ 342,608

For options granted during the three months ended March 31, 2020, the fair value of the Company's stock was based upon the close of market price on the date of grant. As of March 31, 2020, the future expected stock-based compensation expense e to be recognized in future years is $226,051, through March 31, 2022.

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

A summary of the options activity for the three months ended March 31, 2019 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2019	1,494,158	$ 0.46	6.93	$ 409,678
Granted	540,000	0.42	8.68	—
Exercised/Forfeited	(70,438)	0.49	—	—
Outstanding at March 31, 2019	1,963,720	0.45	7.19	256,049
Exercisable at period end	1,101,835	$ 0.26	6.75	$ 256,049

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Note 8 – Warrants to Purchase Common Stock

All warrants outstanding as of March 31, 2020 are scheduled to expire between December 26, 2023 and October 21, 2024.

A summary of activity related to warrants for the three months ended March 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
Outstanding at March 31, 2020	4,531,924	0.72	3.80
Exercisable at March 31, 2020	4,531,924	0.72	3.80

A summary of activity related to warrants for the three months ended March 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 March 31, 2019	4,531,924	0.72	5.05
Exercisable at March 31, 2019	4,531,924	0.72	5.05

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Note 9 – Commitments and Contingencies

Operating Leases

The Company leases office space located at 117 South 4th Street, Neodesha, Kansas 66757. This serves as the corporate headquarters and manufacturing facility. The facility is 4,000 square feet at a cost of $500 per month. This lease terminated on September 30, 2019 but has a year-to-year option to renew upon approval by the city commission of Neodesha. The Company has exercised its option and has approved to renew the lease through September 30, 2020 at a monthly cost of $600 per month.

As a result of the Agribotix acquisition, the Company assumed a lease for offices in Boulder, Colorado for $2,000 a month. The lease ended on May 31, 2019 and the Company renewed the lease for another year with an option to terminate at any time with a 30-day prior notice period.

Total rent expense was $7,500 and $13,600 for the three months ended March 31, 2020 and 2019, respectively, which is included in general and administrative expenses on the statements of operations.

GreenBlock Capital LLC Consulting Agreement

On May 3, 2019, the Company entered into a consulting agreement with GreenBlock Capital LLC ("Consultant") to serve as strategic advisor and consultant to the Company with respect to the development of business opportunities and the implementation of business strategies to be agreed to by both parties. 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, Consultant shall 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.

The Consultant was also previously engaged by the Company between March 2015 and August 2016 to provide consulting services. The Consultant beneficially owns approximately 5.86% of the shares of the Company's common stock issued and outstanding; and holds options to purchase 207,055 shares of the Company's common stock, exercisable until January 14, 2021 at an exercise price of $0.06 per share.

On October 31, 2019, the consulting agreement with the Consultant was terminated as a result of the Company no longer needing these services to be provided by an outside consultant. During the term of the agreement, the Company paid to the Consultant (i) $25,000 per month and issued (ii) 500,000 restricted shares of common stock at the execution of the agreement. The agreement also provided for the issuance of up to an additional 2,500,000 shares of restricted common stock upon the achievement of milestones that were to be determined by the Company and the Consultant during the term of the agreement. 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 the Shares after termination of the Agreement, if the achievement of milestones that commenced during the term of the Agreement are completed after termination.

Note 10 — Related Party Transactions

The following reflects the related party transactions during the three months ended March 31, 2020 and 2019.

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 three months ended March 31, 2020 and 2019, Premier Financial Filings provided services to the Company resulting in fees of $2,605 and $2,674, respectively recorded in general and administrative costs. There are no payables due to Premier Financials Filings as of March 31, 2020 and December 31, 2019.

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Note 11 – Subsequent Events

Preferred C Share Conversions

The Series C Preferred Stock has anti-dilution protection in the event there is a subsequent equity offering at a price that is less than $0.54. The Series E Convertible Preferred Stock (the "Preferred Stock") issued in the offering described below has a $0.25 conversion price that triggered the Series C anti-dilution protection.

As a result, on April 7, 2020, upon the consummation of the Preferred Stock offering, the initial conversion price of the Series C Preferred Stock was adjusted from $0.54 per share to $0.25 per share, which resulted in a total of 14,747,984 shares of common stock being issuable upon conversion of the remaining Series C Preferred Stock. During the months of April and May 2020, Alpha Capital Anstalt converted 3,312 shares of Series C Preferred Stock into 14,747,984 shares of common stock at a conversion price of $0.25.

Warrant Conversions

During the month of April 2020, Alpha Capital Anstalt converted 3,703,703 warrants into 2,497,739 shares of common stock at a conversion price of $0.25.

Securities Purchase Agreement Entered in April

On April 7, 2020, the Company entered into a Securities Purchase Agreement (the "Agreement") with Alpha Capital Anstalt ("Alpha"). Pursuant to the terms of the Agreement, the Board of Directors of the Company (the "Board") authorized 1,050 shares of a newly designated series of preferred stock, the Series E Convertible Preferred Stock (the "Preferred Stock"). The Preferred Stock is 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 "Conversion Shares"). The purchase price for the Preferred Stock was $1,050,000 (the "Purchase Price"). The Company also entered into a Registration Rights Agreement, granting registration rights to the Purchaser with respect to the Conversion Shares and common stock underlying warrants currently owned by the Purchaser (the "Warrant Shares").

Registration Rights

Pursuant to the terms of the Registration Rights Agreement, the Company was obligated to file an initial registration statement registering the Conversion Shares and the Warrant Shares (the "Registrable Securities"), no later than the 15th calendar day following the date the Company files its Annual Report on Form 10-K for the year ending December 31, 2019 (the "Filing Date") and, with respect to any additional registration statements the earliest practical date on which the Company is permitted by SEC Guidance to file such additional registration statement related to the Registrable Securities. The Company was obligated to have the registration statement declared effective with the Securities and Exchange Commission (the "Commission"), no later than the 90th calendar day following the Filing Date, or, in the event of a "full review" by the Commission, the 120th calendar day following the Filing Date.

The Company would be required to pay to Alpha an amount in cash, as partial liquidated damages and not as a penalty, equal to the product of 1.0% multiplied by the Purchase Price for failure to file the registration statement or have the registration statement declared effective by the dates set forth above. The parties agree that the maximum aggregate liquidated damages payable to Alpha shall be 6.0% of the Purchase Price paid by the Alpha pursuant to the Agreement. If the Company failed to pay any partial liquidated damages in full within seven days after the date payable, the Company will pay interest thereon at a rate of 18% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to Alpha, accruing daily from the date such partial liquidated damages are due until such amounts, plus all such interest thereon, are paid in full.

Leak-Out Agreement

On April 7, 2020, as a condition to the consummation of the Agreement, the Company entered into a Leak-Out Agreement with Mr. Bret Chilcott, a director and the 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.

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Note 11 – Subsequent Events – Continued

Amendment to the Articles of Incorporation

On April 2, 2020, the Company's Board authorized 1,050 shares of the Preferred Stock. The Preferred Stock is convertible at $0.25 per share into an aggregate of 4,200,000 shares of the common stock. 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.

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 Warrant Shares on April 27, 2020. The Company's registration statement was declared effective May 6, 2020.

Approval of Compensation by Compensation Committee

As announced on March 12, 2020, Mr. Barrett Mooney and Mr. Brett Chilcott resigned from their current roles, effective on May 5, 2020. Mr. Mooney now serves as Chairman of the Board, and Mr. Chilcott no longer serves in management of the Company.

At the time of the announcement, the Compensation Committee of the Board of Directors and each of Messrs. Mooney and Chilcott were in discussions about compensation prior to the effective date of their resignation and thereafter.

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

Mr. Barrett Mooney:

- March 6, 2020 through April 4, 2020 current salary and benefits;
- $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;
- Will remain eligible for bonuses of up to $15,000 as approved by the Board based upon certain revenue and operational targets;
- Commencing May 5, 2020 in his role as Chairman, will 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; and
- Will provide consulting services, as needed, at a fixed fee of $4,500 per month on a month-to-month basis plus reimbursement for travel expenses.

Mr. Bret Chilcott:

- From May 5, 2020 through May 4, 2021, salary of $140,000 and benefits; and
- After May 4, 2021, for a period of 12 months, will provide consulting services, as needed, at a fixed fee of $4,500 per month on a month-to-month basis plus reimbursement for travel expenses.

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Note 11 – Subsequent Events – Continued

2020 Executive Compensation Plan

The Compensation Committee also approved a 2020 Executive Compensation Plan for Nicole Fernandez-McGovern, the Chief Financial Officer and EVP of Operations, and the Chief Executive Officer to be hired. The Plan is as follows, with the Cash Bonus, Option and Restricted Stock Units (RSUs) components to be dependent upon achieving certain to-be-determined financial and operational milestones:

	Chief Executive Officer	Chief Financial Officer/ EVP of Operations
Annual Salary	$ 250,000	$ 200,000
Cash Bonus	$ 50,000	$ 30,000
Stock Options (Quarterly Grants)	15,000	15,000
RSUs	150,000	125,000

Appointment of Chief Executive Officer and 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 will join the Company on or before June 1, 2020. The Company previously announced that Mr. Barrett Mooney would resign from his role as Chief Executive Officer effective as of May 5, 2020, but would remain with the Company as Chairman of the Board thereafter. In the event Mr. Drozd joins after May 5, 2020, Ms. Nicole Fernandez-McGovern, the Company's Chief Financial Officer will act as Interim Chief Executive Officer until Mr. Drozd officially commences his new role on May 18, 2020. Ms. Fernandez-McGovern will not receive any additional compensation for serving as Interim Chief Executive Officer.

From 2015 through 2019, Mr. Drozd served as President of Eurofins AgBio Division, a global business focused primarily on testing for the agriculture sector (seed, plant and animals) with an emphasis on using genetic analysis. From 2014 until 2015, he was Chief Operating Officer of Arbiom, a French biotechnology company where he restructured the organization, materially increasing overall efficiency and improving resource allocations through numerous measured steps and initiatives. Mr. Drozd served as President and CEO of Aseptia/Wright Foods from 2011 through 2014, a leading technology company in shelf-stable food processing and co-packaging.

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 will receive 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.

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Note 11 – Subsequent Events – Continued

On May 5, 2020, the Company announced that Mr. Michael Drozd who has been appointed to replace Mr. Mooney as Chief Executive Officer and will commence in that role on May 18, 2020. Until such time as Mr. Drozd assumes his role as Chief Executive Officer, Ms. Nicole Fernandez-McGovern, the Company's current Chief Financial Officer, will also serve as Interim Chief Executive Officer, and thereafter, will continue in her role as Chief Financial Officer. Ms. Fernandez-McGovern will not receive any additional compensation for serving as Interim Chief Executive Officer.

Securities Purchase Agreement Entered in May

On May 11, 2020, the Company and Alpha Captial Anstalt entered into a securities purchase agreement (the "Purchase Agreement") pursuant to which the Company agreed to sell to Alpha Captial Anstalt in a registered direct offering 2,400,000 shares of common stock, par value $0.001, and pre-funded warrants (the "Warrants") to purchase up to 3,260,377 shares of common stock, for gross proceeds of approximately $6 million. The purchase price for each share of common stock is $1.06 and the purchase price for each Warrant is $1.059. The exercise price for each Warrant is $0.001. Net proceeds from the sale will be used to repurchase 262 shares of the Company's Series E Preferred Stock, convertible into 1,046,699 shares of common stock, currently held by Alpha Captial Anstalt at a repurchase price of $1.06 per share of common stock. The Company expects to use the balance for working capital and general corporate purposes. The Shares and the Warrants are being offered by the Company pursuant to an effective shelf registration statement on Form S-3 (File No. 333-237860), which was declared effective on May 6, 2020.

Pursuant to the terms of the Purchase Agreement, the Company has agreed to certain restrictions on future stock offerings, including that during the 60-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. The exercise price of the Warrants and the shares of the common stock 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 in certain circumstances.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in this Form 10-Q is intended to update the information contained in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission on April 13, 2020 (the "Form 10-K") and presumes that readers have access to, and will have read, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other information contained in such Form 10-K. The following discussion and analysis also should be read together with our financial statements and the notes to the financial statements included elsewhere in this Form 10-Q.

The following discussion contains certain statements that may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements appear in a number of places in this Report, including, without limitation, "Management's Discussion and Analysis of Financial Condition and Results of Operations." These statements are not guarantees of future performance and involve risks, uncertainties and requirements that are difficult to predict or are beyond our control. Forward-looking statements speak only as of the date of this quarterly report. You should not put undue reliance on any forward-looking statements. We strongly encourage investors to carefully read the factors described in our Form 10-K in the section entitled "Risk Factors" for a description of certain risks that could, among other things, cause actual results to differ from these forward-looking statements. We assume no responsibility to update the forward-looking statements contained in this quarterly report on Form 10-Q. The following should also be read in conjunction with the unaudited Financial Statements and notes thereto that appear elsewhere in this report.

Except as otherwise indicated herein or as the context otherwise requires, references in this offering circular to "we," "us," "our," "Company," and "AgEagle" refer to AgEagle Aerial Systems, Inc., a Nevada corporation.

Company Overview

AgEagle Aerial Systems Inc. ("AgEagle" or "the Company") designs, produces and supports technologically-advanced small, unmanned aerial vehicles ("UAVs" or "drones"). In addition, providing new utility to UAVs, the Company pioneers and innovates advanced aerial imaging data collection and analytics technologies capable of addressing the impending food and environmental sustainability crises that threaten our planet. Historically, the Company's daily efforts have focused on delivering the tools and strategies necessary to define and implement commercial drone construction and delivery, along with sustainability and precision farming solutions that solve important problems confronting the global agricultural industry. In fact, through its recent acquisition, the Company has spent eight years serving customers, covering more than two million acres in 50 countries monitoring 53 different crops. AgEagle remains intent on earning distinction as a trusted partner to clients seeking to adopt and support productive agricultural approaches to better farming practices which limit the impact on our natural resources, reduce reliance on inputs and materially increase crop yields and profits.

In early 2019, AgEagle further expanded its marketing efforts to provide for the introduction of *ParkView*, its proprietary aerial imagery and data analytics platform, designed to support municipal, state and federal agencies charged with assessing and supporting sustainability initiatives involving public parks and recreation areas, also referred to as urban green spaces.

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, growers and processors – 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.

The Company also designs, produces, distributes and supports technologically advanced small UAVs or drones that AgEagle offers for commercial sale to the precision agriculture industry. In addition to UAV sales, in late 2018, the Company introduced a new 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 new 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 its customers.

In the third quarter of 2019, AgEagle announced that it had begun to actively pursue expansion opportunities within the emerging Drone Logistics and Transportation market and revealed that it had received its first purchase orders from a major ecommerce company to manufacture and assemble UAVs designed to meet the critical specifications for drones that are meant to carry packaged goods in urban and suburban areas.

Central to the Company's long-term growth strategy, AgEagle will continue to identify opportunities to leverage its proprietary technological platform and industry expertise to penetrate new, high growth market sectors that may benefit from the Company's advanced aerial imagery-based data collection and analytics solutions.

Research and development activities are integral to our business and we follow a disciplined approach to investing our resources to create new technologies and solutions.

Our business is seasonal in nature and, as a result, our revenue and expenses and associated revenue trends fluctuate from quarter to quarter.

Our Unmanned Aerial Vehicles Business

Our first commercially available product was the *AgEagle Classic,* which was followed shortly thereafter by the *RAPID System.* As we improved and matured 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. All of AgEagle's proprietary UAVs are electrically powered, weigh approximately six pounds fully loaded, are capable of flying over approximately 400 acres (roughly 60 minutes of airtime) per flight from their launch location, and are configured to carry a camera with an NIR filter that uses near infrared images to capture crop data. The Company's leadership 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.

The Company's UAVs were initially specifically designed to help farmers increase profits by pinpointing areas where nutrients or chemicals need to be applied, as opposed to traditional widespread land application processes, thus decreasing input costs, reducing the amount of chemicals applied and potentially increasing yields. 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.

In addition to UAV sales, in late 2018, AgEagle introduced a new 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 new 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.

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.

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 the fast growing package delivery market – a market forecasted by ResearchandMarkets will climb to $11.2 billion by 2022 and subsequently rise to $29.06 billion by 2027. The anticipated growth of the industry is expected to be largely fueled by the high usage of drones in the ecommerce industry for delivery of products in rural areas, where automotive transport vehicles cannot readily reach or where deliveries take longer time to arrive.

In September 2019, the Company announced that it was actively pursuing expansion opportunities within the Drone Logistics and Transportation market, and reported that it had received its first purchase order from a major unnamed ecommerce 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. AgEagle is currently working in close collaboration with this new customer on its tethered test flight operations and ongoing development. In association with the initial purchase order, AgEagle recorded its first revenues in the second half of 2019 and had recognized additional revenues from the project in the first quarter of 2020.

Subsequent to the end of the first quarter 2020, the Company announced that it had received follow-on purchase orders from the ecommerce company client relating to the continued manufacture and assembly of drones used for the testing and refining of client's commercial drone small delivery vehicles, systems and operations currently in development.

HempOverview Platform

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.

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*, AgEagle represents the first agriculture technology company to its knowledge 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 processer 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 ("FDACS") has chosen 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. In addition, the Company has entered discussions with several other states across the nation, as well as with certain growers and processors, and expects to announce additional new *HempOverview* clients in 2020.

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.

FarmLens Platform

Our *FarmLens*™ platform has benefitted us and our shareholders by developing important vertically integrated products and services with our drone-enabled software technologies. *FarmLens* is 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. *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 partnerships.

ParkView Platform

Leveraging the underlying imaging technology and robust analytics capabilities of AgEagle's *FarmLens* platform, AgEagle announced the formal market introduction of its *ParkView* solution in March 2019. *ParkView* is a proprietary aerial imagery and data analytics platform designed specifically for assessing and supporting sustainability initiatives involving municipal, state and federal public parks and recreation areas. The Company further announced that it won its first *ParkView* customer with the signing of Denver Parks and Recreation ("DPR") in Denver, Colorado. DPR will utilize *ParkView* to better inform vegetative maintenance and natural resource preservation for its green infrastructure, comprising more than 6,000 acres of public green space within the city limits. AgEagle's staff was also contracted to provide DPR with in-depth training on best management practices for UAV operations in a municipal setting.

Research has shown that urban green infrastructure can materially improve water quality and conservation, attract investment, revive distressed neighborhoods, encourage redevelopment and provide outdoor recreational opportunities for cities of all scope and sizes worldwide, thus effectively helping to align social, economic, public health and environmental goals.

Growth Strategy

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 2020 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.

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 capitalize on in the coming year.

- **Pursue the expansion of the AgEagle platform of products and solutions into other complementary industries besides agriculture, including the Drone Logistics and Transportation market.** We have begun actively exploring opportunities outside of traditional agriculture as we continue to expand and grow the AgEagle platform. We are confident in the UAV products and solutions we offer today and believe that these products and solutions could provide other industries the same kind of optimization we are currently providing the agriculture industry. In addition to drone package deliveries, we believe that our solutions and services may also be well suited for the aerial imaging and data collection and analytics needs involved in land surveying and scanning, insurance, inspections and search and rescue operations, among other industrial applications. As of today, we manufacture all of our proprietary and contracted products at our secure manufacturing facility in Neodesha, Kansas, which allows us to avoid many of the potential difficulties that may arise if our manufacturing facilities were otherwise located outside the U.S., which is of particular importance to those AgEagle customers who rely on confidentiality and protection of trade secrets in the development of their drone package delivery initiatives.

- **Deliver new and innovative solutions in the precision agriculture space.** Our research and development efforts are the foundation of our Company, and we intend to continue investing in our own innovations, pioneering new and enhanced products and solutions that enable us to satisfy our customers – both in response to and in anticipation of their needs. We believe that by investing in research and development, we can be a leader in delivering innovative products that address market needs within our current target markets, enabling us to create new opportunities for growth.

- **Work with municipal, state and federal public parks and recreations agencies to adopt *ParkView* as a preferred solution for assessing and supporting sustainability initiatives for 'urban green' spaces.** With the signing of Denver Parks and Recreation in Denver, Colorado, AgEagle now has a client who is benefitting from the utilization of *ParkView* to better inform vegetative maintenance and natural resource preservation of its green infrastructure, comprising more than 6,000 acres of public green space within the city limits. We intend to market our *ParkView* platform to other prospective U.S. city, state and federal agencies.

- **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 products that address market needs within our current target markets, enabling us to create new opportunities for growth.

- **Pursue the expansion of the AgEagle platform of products and solutions into other industries besides agriculture.** The Company may investigate and pursue opportunities outside of agriculture as we continue to expand and grow the AgEagle platform. We are confident in the UAV products and solutions we offer today and believe that these products and solutions could provide other industries the same kind of optimization we are currently providing the agriculture industry. These industries have yet to be identified by the AgEagle team but may include verticals such as land surveying and scanning, insurance, inspections and search and rescue.

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 three months ended March 31, 2020, aside from complying with 'shelter at home' mandates in those states affecting our employees, most of whom worked virtually from their homes, it is our belief that our financial performance and business operations were not materially impacted by the virus.

Critical Accounting Policies

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 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 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.

See Note 2 in the accompanying unaudited condense interim consolidated financial statements for a listing of our critical accounting policies.

Results of Operations

For the Three Months Ended March 31, 2020 and 2019

For the three months ended March 31, 2020, we recorded revenues of $391,280 compared to revenues of $45,993 for the same period in 2019, a 751% increase. The increase was largely 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 continued focus on expansion of our platform, providing for aerial imaging and analytics solutions which serve new and emerging markets including registration, oversight and compliance of hemp fields by state departments of agriculture.

For the three months ended March 31, 2020, cost of sales totaled $174,483 a 414% increase as compared to $33,948 for the three months ended March 31, 2019. We also had gross profit of $216,797, or 55%, during the three months ended March 31, 2020 compared to $12,045, or 26%, for the comparable period in 2019, resulting in an increase in our profit margin in the current period. 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.

We recorded total operating expenses of $620,070 during the three months ended March 31, 2020, a 7.5% increase as compared to operating expenses of $577,048 in the same period of 2019. Our operating expenses are comprised of general and administrative costs, professional fee and selling costs. General and administrative expenses totaled $445,531 in the three months ended March 31, 2020 compared to $474,902 in 2019, a decrease of 6.2%. The decrease was due primarily to an increase in salary expense for new and existing employees, insurance expense and public relations costs offset by a decrease in stock compensation costs for employees and directors due to the issuance of options, investor relations expenses and financial services costs. Also, part of the decrease was attributable to less amortization expense related to the intangibles. Professional fees totaling $171,498 for the three months ended March 31, 2020 increased due to additional legal, accounting and business development costs required to expand our growth opportunities compared to $90,019 in 2019.

Interest expense for the three months ended March 31, 2020 was $0 as compared to $462 in the three months ended March 31, 2019. The decrease was due to the conversion of all debt as a result of the merger in 2018, except for a promissory note assumed which was repaid in full in March 2019.

Our net loss was $403,273 for the three months ended March 31, 2020. This represents a 28.7% decrease from our net loss of $565,465 in the three months ended March 31, 2019. Overall, the decrease in net loss is due to an increase in our revenue and gross margins offset by greater operating costs greater operating costs as a result of the shifts in our sales and long-term growth strategies. 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.

Cash Flows

March 31, 2020 Compared to December 31, 2019

Cash on hand was $356,084 at March 31, 2020 compared to the $717,997 at December 31, 2019, a decrease of $361,913. Cash used in operations for the three months ended March 31, 2020 was $(359,629) compared to $(418,636) of cash used in operations for the three months ended March 31, 2019. The decrease in cash was driven largely by payments of accounts payable for increased payroll expenses, consulting expenses, higher business development expenses and costs associated with being a publicly-traded company.

There was $2,284 cash used in our investing activities during the three months ended March 31, 2020 as compared to no cash provided by or used in investing activities during the three months ended March 31, 2019. The increase in cash used in our investing activities resulted from the purchase of property and equipment for our platform development team.

Cash used in financing activities during the three months ended March 31, 2020 was $0 compared to cash used in financing activities of $31,970 as of March 31, 2019. The decrease in cash used by our financing activities was due to payments on promissory notes no longer required due to full repayment being made in 2019.

Liquidity and Capital Resources

As of March 31, 2020, we had working capital of $258,093 and a loss from operations of $403,273 for the period then ended. While there can be no guarantees, we believe cash on hand, in connection with cash from operations, will be sufficient to fund operations for the next year of operations. In addition, we intend to pursue other opportunities of financing with outside investors.

On November 21, 2017, Alpha Capital Anstalt ("Alpha") signed a binding commitment letter with our predecessor company EnerJex to provide prior to or at the closing of the merger a minimum of $4 million in new equity capital (the "Private Placement"). The Private Placement was consummated on March 26, 2018. In connection with the Private Placement, Alpha purchased an additional 4,000 shares of Series C Preferred Stock at a purchase price of $1,000 per share for total aggregate consideration of $4 million. The Series C Preferred Stock is convertible into 2,612,245 shares of our common stock. In addition, as consideration for their funding commitment, Alpha received a fee equal to 408,552 shares of our common 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, we issue 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.

On December 27, 2018, we entered into Securities Purchase Agreement (the "Agreement") with Alpha. Pursuant to the terms of the Agreement, our Board of Directors 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 us (the "Series D Preferred Stock"). We issued 2,000 shares of Series D Preferred Stock and a warrant (the "Warrant") to purchase 3,703,703 shares of our common stock for $2,000,000 in gross proceeds. The shares of common stock underlying the Warrant are referred to as the "Warrant Shares". We also entered into a registration rights agreement (the "Registration Rights Agreement") granting registration rights to Alpha with respect to the Warrant Shares.

The Agreement provides that upon a subsequent financing or financings with net proceeds of at least $500,000, we must exercise our optional redemption of the Series D Preferred Stock and apply any and all net proceeds from such financing(s) to the redemption in full of the Series D Preferred Stock.

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 that we undertake 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.

Our primary need for liquidity is to fund working capital requirements of our business, capital expenditures, acquisitions, debt service, and for general corporate purposes. To date, 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.

Off-Balance Sheet Arrangements

At March 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

We have no material contractual obligations.

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 a have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

Item 4. 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 March 31, 2020 and had 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 recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures 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 is accumulated 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.

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 three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. 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.

Item 1A. Risk Factors.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 2. Recent Sales of Unregistered Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit No.	Description
31	Rule 13(a)-14(a)/15(d)-14(a) Certification of principal executive officer, financial and accounting officer
32	Section 1350 Certification of principal executive officer, financial and 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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

AgEagle Aerial Systems, Inc.

By: /s/ Nicole Fernandez-McGovern
Nicole Fernandez-McGovern
Interim Chief Executive Officer and Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)

Date: May 14, 2020

EXHIBIT 31

CERTIFICATION

I, NICOLE FERNANDEZ-MCGOVERN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AgEagle Aerial Systems Inc. (the "Company") for the quarter ended March 31, 2020;

2. Based on my knowledge, this quarterly 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 officer 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 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

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: May 14, 2020

By: /s/ Nicole Fernandez-McGovern
Name: Nicole Fernandez-McGovern
Title: Interim Chief Executive Officer and Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)

EXHIBIT 32

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 Quarterly Report of AgEagle Aerial Systems Inc. (the "Company") on Form 10-Q for the period ending March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), The undersigned hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(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 result of operations of the Company.

Date: May 14, 2020

By: /s/ Nicole Fernandez-McGovern
Name: Nicole Fernandez-McGovern
Title: Interim Chief Executive Officer and Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.