No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities. This non-offering prospectus does not constitute a public offering of securities.

PROSPECTUS

Non-Offering Prospectus October 23, 2019

DRAGANFLY INC.

No securities are being offered pursuant to this Prospectus.

This non-offering final prospectus (the "**Prospectus**") of Draganfly Inc. (the "**Company**", "**Draganfly**", "**us**" or "**we**"), is being filed with the Financial and Consumer Affairs Authority of Saskatchewan (the "**FCAA**") and British Columbia Securities Commission for the purposes of becoming a reporting issuer pursuant to applicable securities legislation in the Provinces of British Columbia and Saskatchewan. Upon the final receipt of this Prospectus by the FCAA, the Company will become a reporting issuer in British Columbia and Saskatchewan. Since no securities are being offered pursuant to this Prospectus, no proceeds will be raised, and all expenses incurred in connection with the preparation and filing of this Prospectus will be paid by the Company from its general corporate funds.

There is no market through which the securities of the Company may be sold. This may affect the pricing of the Company's securities in the secondary markets; the transparency and availability of trading prices; the liquidity of the Company's securities and and the extent of issuer regulations. See "Risk Factors".

An application has been filed by the Company to have its common shares (the "**Common Shares**" or "**Company Shares**") listed for trading on the Canadian Securities Exchange (the "**CSE**") under the symbol "DFLY" and the CSE has conditionally approved the Company's listing application subject to the Company fulfilling all of the listing requirements of the CSE. Listing on the CSE (the "**Listing**") is subject to the Company fulfilling all of the listing requirements the CSE including meeting all minimum requirements. The CSE has not conditionally approved the Company's listing application and there is no assurance that it will do so. As at the date of this Prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, Aequitas NEO Exchange Inc., a U.S. marketplace, or a marketplace outside Canada and the United States of America.

An investment in the securities of the Company is highly speculative and involves a high degree of risks. Investors should carefully consider the risk factors described under "Risk Factors" before purchasing any securities of the Company.

No underwriter or selling agent has been involved in the preparation of this Prospectus or performed any review or independent due diligence investogation of the contents of this propsectus.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities.

No person has been authorized to provide any information or to make any representation not contained in this Prospectus and, if provided or made, such information or representation should not be relied upon. The information contained in this Prospectus is accurate only as of the date of this Prospectus.

Unless otherwise noted all currency amounts in this Prospectus are stated in Canadian dollars.

Investors are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or that resides outside of Canada, even if the party has appointed an agent for service of process.

TABLE OF CONTENTS

GLOSSARY

"**Administrators**" has the meaning set out under the heading "Executive Compensation – Principal Elements of Compensation".

"**Advance Notice Provisions**" has the meaning set out under the heading "Management – Advance Notice Provisions".

"**Advisory Shares**" has the meaning set out under the heading "Our Business – Description of the Business – The Transaction".

"**Amalgamation**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – The Transaction".

"**Articles**" has the meaning set out under the heading "Corporate Structure – Name, Address and Incorporation".

"**Audit Committee**" means the Audit Committee of the Company constituted in accordance with NI 52-110.

"**BCBCA**" means *Business Corporation Act* (British Columbia).

"**Board of Directors**" or "**Board**" means the board of directors of the Company.

"**Bridge Loan**" has the meaning set out under the heading "Our Business – Description of the Business – The Transaction".

"**CARs**" means Canadian Aviation Regulations.

"**CEO**" means Chief Executive Officer.

"**CFO**" means Chief Financial Officer.

"**Closing**" means the completion of the Transaction in accordance with the Combination Agreement.

"**Combination Agreement**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – The Transaction".

"**Company**" has the meaning set out under the heading "Prospectus Summary – Description of the Business".

"**Common Shares**" or "**Company Shares**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – The Transaction".

"**Continuance**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – The Transaction".

"**CSE**" means the Canadian Securities Exchange.

"**CSE Escrow Agreement**" means the escrow agreement to be entered into prior to Listing, among the Company, the Escrow Agent and certain security holders of the Company pursuant to NP 46-201.

"**CSE Escrow Securities**" means the Company Shares and Options that are held in escrow pursuant to the CSE Escrow Agreement.

"**DAC**" has the meaning set out under the heading "Prospectus Summary – Description of the Business".

"**Debt Settlement**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – The Transaction".

"**Debt Amount**" has the meaning set out under the heading "Description of Material Indebtedness".

"**Directors**" means directors of the Company.

"**DMCL**" means Dale Matheson Carr-Hilton LaBonte LLP, the auditors of the Company.

"**Draganfly Innovations**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – The Transaction".

"**Escrow**" has the meaning set out under the heading "Our Business – Description of the Business – The Transaction".

"**Escrow Agent**" means TSX Trust Company.

"**Escrow Deadline**" means December 31, 2019.

"**Escrow Holder**" has the meaning set out under the heading "Escrowed Securities".

"**Escrow Release Condition**" has the meaning set out under the heading "Prospectus Summary – Private Placement Financing".

"**Event of Termination**" has the meaning set out under the heading "Executive Compensation – Principal Elements of Compensation".

"**FCAA**" means Financial and Consumer Affairs Authority of Saskatchewan.

"**Forbearance Agreements**" has the meaning set out under the heading "Description of Material Indebtedness".

"**Former Draganfly**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – The Transaction".

"**Former Draganfly Shares**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – The Transaction".

"**IFRS**" means International Financial Reporting Standards.

"**IP**" means intellectual property.

"**Listing**" means the proposed listing of the Common Shares of the Company on the CSE.

"**Listing Date**" means the date of Listing.

"**Management**" means the management of the Company.

"**MD&A**" means Management's Discussion and Analysis included in this Prospectus.

"**Name Change**" has the meaning set out under the heading "Prospectus Summary – Description of the Business".

"**Named Executive Officers**" or "**NEOs**" means the Corporation's CEO and CFO and the next two next most highly compensated executive officers of the Corporation who are currently serving as executive officers.

"**NI 41-101**" means National Instrument 41-101 – *General Prospectus Requirements*.

"**NI 45-102**" means National Instrument 45-102 – *Resale of Securities*.

"**NI 52-110**" means National Instrument 52-110 – *Audit Committees*.

"**NI 58-101**" means National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

"**Notice Date**" has the meaning set out under the heading "Management – Advance Notice Provisions".

"**NP 46-201**" means National Policy 46-201 – *Escrow for Initial Public Offerings*.

"**Participant**" has the meaning set out under the heading "Executive Compensation – Principal Elements of Compensation".

"**Preferred Shares**" has the meaning set out under the heading "Corporate Structure – Address, Name and Incorporation".

"**Prospectus**" means this final prospectus of the Company.

"**Private Placement Financing**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – Private Placement Financing".

"**Principal Regulator**" means the FCAA.

"**RPAS**" means Remotely Piloted Aircraft Systems.

"**RSU Agreement**" has the meaning set out under the heading "Executive Compensation – Principal Elements of Compensation".

"**SFOC**" means Special Flight Operations Certificate.

"**Shareholder**" means a holder of Common Shares.

"**Subco**" means 1187607 B.C. Ltd.

"**Subscription Receipts**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – Private Placement Financing".

"**Tax Act**" means Income Tax Act (*Canada*).

"**Transaction**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – The Transaction".

"**US Participant**" has the meaning set out under the heading "Executive Compensation – Principal Elements of Compensation".

"**UVS**" means unmanned vehicle systems.

"**UAV**" means unmanned aerial vehicles.

"**Units**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – Private Placement Financing".

"**Unit Warrants**" has the meaning set out under the heading "Prospectus Summary – Description of the Business – Private Placement Financing".

"**U.S.**" or "**United States**" means United States of America.

"**Voluntary Restricted Shares**" has the meaning set out under the heading "Escrowed Securities".

"**Voluntary Restriction**" has the meaning set out under the heading "Our Business – Description of the Business – The Transaction".

GENERAL MATTERS

Unless otherwise noted or the context indicates otherwise the terms "**we**", "**us**", "**our**", "**Draganfly**" or the "**Corporation**" refer to Draganfly Innovations Inc.

Certain capitalized and other terms and phrases used in this Prospectus are defined in the "Glossary".

An investor should rely only on the information contained in this Prospectus. The Company has not authorized anyone to provide investors with additional or different information. The information contained on our website at *http://www.draganfly.com/* is not intended to be included in or incorporated by reference into this Prospectus and prospective investors should not rely on such information. Any graphs, tables or other information demonstrating the historical performance of the Company or of any other entity contained in this Prospectus are intended only to illustrate past performance and are not necessarily indicative of our future performance or the future performance of such entities. The information contained in this Prospectus is accurate only as of the date of this Prospectus or the date indicated.

This Prospectus includes a summary description of certain material agreements of the Company. See "Material Contracts". The summary description discloses attributes material to an investor but is not complete and is qualified by reference to the terms of the material agreements, which will be filed with the Canadian securities regulatory authorities and available on SEDAR. Investors are encouraged to read the full text of such material agreements.

Financial Statement Presentation in this Prospectus

This Prospectus contains: (i) the audited consolidated financial statements for the Company for the period ended December 31, 2018; (ii) condensed consolidated interim reviewed financial statements of the Company for the six-months period ended June 30, 2019; (iii) the audited financial statements of Former Draganfly for the years ended December 31, 2018 and 2017; (iv) interim reviewed financial statements of Former Draganfly for the six-months period ended June 30, 2019; and (v) *pro-forma* financial statements of the combined business of the Company and Former Draganfly following completion of the Transaction as at June 30, 2019 (collectively, the "**Financial Statements**"), all prepared in accordance with IFRS.

Forward-Looking Information

This Prospectus contains forward looking statements that relate to the Company's current expectations and views of future events. The forward looking statements are contained principally in the sections entitled "Prospectus Summary", "Our Business", "Use of Available Funds", "Financial Information and Management's Discussion and Analysis", and "Risk Factors".

In some cases, these forward looking statements can be identified by words or phrases such as "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "predict", or "likely", or the negative of these terms, or other similar expressions intended to identify forward looking statements. Statements containing forward looking information are not historical facts. The Company has based these forward looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy, and financial needs.

This forward looking information includes, among other things, statements relating to: the completion, expenses and timing of Closing of the Transaction (as defined herein); the Listing of the Company on the CSE and matters related thereto; the intentions, plans and future actions of the Company; statements relating to the business and future activities of the Company; our anticipated developments in operations of the Company; market position, ability to compete and future financial or operating performance of the Company; the timing and amount of funding required to execute the Company's business plans; our capital expenditures; the effect on the Company of any changes to existing or new legislation or policy or government regulation; the length of time required to obtain permits, certifications and approvals; the availability of labour; estimated budgets; currency fluctuations; requirements for additional capital; limitations on insurance coverage; the timing and possible outcome of regulatory and permitting matters; goals; strategies; future growth; the adequacy of financial resources; our proposed use of available funds; our expectations regarding revenues, expenses and anticipated cash needs.

In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward looking information. Forward looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions, and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and we cannot assure that actual results will be consistent with these forward looking statements. Given these risks, uncertainties, and assumptions, prospective investors should not place undue reliance on these forward looking statements. Whether actual results, performance, or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions, and other factors, including those listed under "Risk Factors", which include:

- operational risks;
- market price of the Common Shares may not be high enough to create positive return for current investors;
- no prior market for the Company Shares;
- high level of price and volume volatility in the capital markets;
- no dividends for the foreseeable future;
- reliance on management and key employees;
- risks associated with foreign operations in other countries;
- risk associated with acquisitions;
- exposure to information systems security threats;
- lack of sufficient insurance;
- changes in laws, regulations, and guidelines relating to our business, including tax and accounting requirements;
- conflict of interests of our directors and officers;
- competition in our industry;
- uncertainty an adverse changes in the economy;
- increased expenses as a result of being a public company and having public company disclosure obligations;
- dilution as a result of future sale of Common Shares;
- evolving market and difficulty of evaluation future prospects;
- rapid technological change in our industry;
- having defective products;
- failure to obtain or maintain required regulatory approvals;
- regulatory regime the Company operates in;
- possibility of data breaches and inadequacy of consumer protection and data privacy policies;
- increased research and development costs and reduced profitability as a result;
- lack of outside funding available for research and development;
- shipping products outside of Canada and approvals required for exporting;
- potential litigation;
- reliance on business partners;
- failure to protect and maintain and the consequential loss of intellectual property rights;
- adverse impacts on our reported results of operations as a result of adopting new accounting standards or interpretations; and

- changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward looking statements prove incorrect, actual results might vary materially from those anticipated in the forward looking statements.

Information contained in forward looking statements in this Prospectus is provided as of the date of this Prospectus, and we disclaim any obligation to update any forward looking statements, whether as a result of new information or future events or results, except to the extent required by applicable securities laws. Accordingly, potential investors should not place undue reliance on forward looking statements or the information contained in those statements.

All of the forward-looking information contained in this Prospectus is expressly qualified by the foregoing cautionary statements. Investors should read this entire Prospectus and consult their own professional advisors to ascertain and assess the income tax, legal, risk factors and other aspects of their investment.

Market and Industry Data

Market and industry data presented throughout this Prospectus was obtained from third party sources, industry reports and publications, websites and other publicly available information as well as industry and other data prepared by us or on our behalf on the basis of our knowledge of the markets in which we operate, including information provided by suppliers, customers and other industry participants. We believe that the market and economic data presented throughout this Prospectus is accurate and, with respect to data prepared by us or on our behalf, that our estimates and assumptions are currently appropriate and reasonable, but there can be no assurance as to the accuracy or completeness thereof. The accuracy and completeness of the market and economic data presented throughout this Prospectus are not guaranteed and we make no representation as to the accuracy of such data. Actual outcomes may vary materially from those forecast in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. Although we believe it to be reliable, we have not independently verified any of the data from third party sources referred to in this Prospectus, analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying market, economic and other assumptions relied upon by such sources. Market and economic data is subject to variations and cannot be verified due to limits on the availability and reliability of data inputs, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey.

Trademarks and Trade Names

This Prospectus includes certain trademarks, such as “Draganfly” and “Draganfly Innovations” which are protected under applicable intellectual property laws and are our property. Solely for convenience, our trademarks and trade names referred to in this Prospectus may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names.

Currency Presentation

In this Prospectus, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars.

PROSPECTUS SUMMARY

This summary highlights principal features of the Company and certain information contained elsewhere in this Prospectus. You should read this entire Prospectus carefully, especially the "Risk Factors" section of this Prospectus and our financial statements and related notes appearing elsewhere in this Prospectus. Certain capitalized terms and phrases used in this Prospectus are defined in the "Glossary".

Description of the Business

Draganfly Inc. (the "**Company**") was incorporated as Drone Acquisition Corp. ("**DAC**") under the *Business Corporations Act* (British Columbia) ("**BCBCA**") on June 1, 2018 for the purpose of reorganizing and recapitalizing the business of Former Draganfly. The sole business of DAC from the date of its incorporation until executing the Combination Agreement (hereafter defined) was to identify and evaluate opportunities for the acquisition of an interest in suitable drone businesses and, once identified and evaluated, to negotiate an acquisition subject to applicable corporate and securities laws, so as to complete a transaction. Until the completion of the Transaction, DAC did not have a business, business operations or any material assets other than cash.

Effective July 17, 2019, the Company amended its articles ("**Articles**") to remove various classes of authorized but unissued preferred shares and replace them with only one class of preferred shares (the "**Preferred Shares**"). On August 22, 2019, the Company amended the Articles to re-designate its Class A Common shares as Common shares.

The Company's business is the provision of engineering services and manufacture of commercial unmanned vehicle systems ("**UVS**") and software.

The Transaction

On August 15, 2019, DAC, its wholly-owned subsidiary 1187607 B.C. Ltd. ("**Subco**") and Draganfly Innovations Inc. ("**Former Draganfly**") completed (the "**Closing**") a business combination transaction (the "**Transaction**") pursuant to a business combination agreement dated January 31, 2019 between the Company, Subco and Former Draganfly (the "**Combination Agreement**") whereby: (i) Former Draganfly completed settlement of certain overdue debt in the aggregate of $2,779,726 ("**Debt Settlement**"); (ii) Former Draganfly continued to British Columbia (being the corporate law jurisdiction of the Company and Subco (the "**Continuance**"); (iii) Subco amalgamated (the "**Amalgamation**") with Former Draganfly to form the amalgamated wholly-owned subsidiary of the Company, Draganfly Innovations Inc. ("**Draganfly Innovations**"); and (iv) the Company changed its name to "Draganfly Inc." (the "**Name Change**").

Under the Amalgamation, holders of common shares of Former Draganfly ("**Former Draganfly Shares**") (other than dissenting shareholders) received 1.794 fully paid and non-assessable common shares in the authorized share structure of the Company (the "**Common Shares**" or the "**Company Share**") for each Former Draganfly Share held by such Former Draganfly Shareholder. Consequently, the Company owns 100% of Draganfly Innovations and the Former Draganfly Shareholders became shareholders of the Company. In addition, holders of Former Draganfly warrants and holders of Company warrants prior to the Transaction will be entitled to receive Company Shares in lieu of shares otherwise issuable prior to the effective time of the Amalgamation, adjusted in accordance with the terms of the various agreements, plans, and certificates representing the foregoing warrants.

The Transaction is subject to certain customary conditions precedent as set out in the Combination Agreement, including but not limited to, promptly following the closing of the Transaction, obtaining approval of listing of the Common Shares of the Company on the CSE and filing a final a Prospectus.

Private Placement Financing

The Company completed a non-brokered private placement financing on May 22, 2019 and August 6, 2019 (the "**Private Placement Financing**") of securities (pursuant to prospectus and registration exemptions in Canada, the United States, and in other jurisdictions) raising aggregate gross proceeds of $7,025,749.50 through the issuance of 14,051,499 subscription receipts (the "**Subscription Receipts**") of the Company at a price of $0.50 per Subscription Receipt. The Private Placement Financing is required in order to satisfy closing conditions of the Transaction. Each Subscription Receipt will automatically be converted or exchanged, without payment of additional consideration and without any further action on the part of the holder, into one unit of the Company (a "**Unit**"), subject to adjustment in certain circumstances, being the date the holder receives confirmation from the Company of the completion of the Transaction and the Company obtains a final receipt for a prospectus and becomes a reporting issuer in the Province of Saskatchewan and obtains a conditional approval of a listing of the Common Shares on a recognized stock exchange or quotation system in Canada (the "**Escrow Release Condition**"). Each Unit consists of one (1) Common Share and one transferable Common Share purchase warrant ("**Unit Warrant**"). Each Unit Warrant will entitle the holder to purchase one (1) Common Share at a price of $0.50 for a period of twelve (12) months following the issuance of Unit Warrants. The proceeds of the Private Placement Financing are held in escrow by Gowling WLG (Canada) LLP in escrow subject to completion of Listing. Certain subscribers of the Private Placement Financing agreed to early release of their funds to the Former Draganfly prior to completion of the Listing to allow for the advancement of the Bridge Loan which was used by Former Draganfly for general and administrative costs.

Available Funds and Principal Purposes

This is a non-offering prospectus. The Company is not raising any funds in conjunction with this Prospectus and, accordingly, there are no proceeds to be raised by the Company pursuant to this Prospectus. As at August 31, 2019, the Company has an estimated working capital of $4,006,267 which includes the proceeds of the Private Placement Financing after deducting the $500,000 portion of the proceeds of the Private Placement Financing previously released to the Company**.** The total available funds to the company is approximately $7,912,749.50 and is as follows:

Sources of Available Funds	
Private Placement Financing	$7,025,749.50
Proceeds of Private placement financing previously released to the Company	(500,000.00)[(1)]
Pro Forma trailing 12 month revenues[(2)]	$1,387,000.00
Total (unaudited)..	**$7,912,749.50**

Notes:

(1) $500,000 of the proceeds of the Private Placement Financing was released to the Company for ongoing operations.
(2) As a matter of prudence, the Company is projecting here 12 months revenue equivalent to the trailing 12 months revenues for the year ended December 31, 2018, as derived from management's accounts.

As at August 31, 2019, the principal purposes for the foregoing available funds will be as follows:

Principal Purposes	
General and administrative costs[(1)]	$2,759,788.00
Business Objectives	$300,000.00
Estimated expense for listing on the CSE	$572,642.00
Sales and marketing	$2,000,000.00
Research and Development	$200,000.00
Debt repayment[(2)]	$1,750,000.00
Total	**$7,582,430.00**
Unallocated Funds	**$330,319.50**

Notes:

(1) This figure is for a period of 12 months and is comprised of one time and ongoing monthly expenses, among others, audit, legal, and professional fees (approximately $200,000 for the year), monthly general expenses of $199,200 and bank services/fees of $20,000 for the year.

The Company intends to spend the funds available to it as stated in this Prospectus. Approximately $1,750,000 of the proceeds of the Private Placement Financing will be used to repay certain historical debt, including certain vendor debt, that are mostly older than two years. The majority of the debt is comprised of a combination of past due services rendered from vendors, matured convertible debentures from investors, and amounts owing to the original shareholder of the Former Draganfly. There may be circumstances, however, where for sound business reasons a reallocation of funds may be necessary. Use of funds will be subject to the discretion of management. Until we use the unallocated funds, we will hold them in cash and/or invest them in short-term, interest-bearing, investment-grade securities. See "Available Funds and Principal Purposes" and "Risk Factors" for further detail.

Directors and Officers of the Company

The Board of the Company consists of: Cameron Chell, Olen Aasen and Scott Larson. Management of the Company is Cameron Chell, Chairman and Chief Executive Officer ("**CEO**") and Paul Sun, Chief Financial Officer ("**CFO**") and Corporate Secretary, see "Management".

Risk Factors: An investment in the securities of the Company is subject to a number of risk factors that should be carefully considered by prospective investors. These risks include, but are not limited to:

- operational risks;
- market price of the Common Shares may not be high enough to create positive return for current investors;
- no prior market for the Company Shares;
- high level of price and volume volatility in the capital markets;
- no dividends for the foreseeable future;
- reliance on management and key employees;
- risks associated with foreign operations in other countries;
- risk associated with acquisitions;
- exposure to information systems security threats;
- lack of sufficient insurance;
- changes in laws, regulations, and guidelines relating to our business, including tax and accounting requirements;
- conflict of interests of our directors and officers;
- competition in our industry;
- uncertainty an adverse changes in the economy;
- increased expenses as a result of being a public company and having public company disclosure obligations;
- dilution as a result of future sale of Common Shares;
- evolving market and difficulty of evaluation future prospects;
- rapid technological change in our industry;
- having defective products;
- failure to obtain or maintain required regulatory approvals;
- regulatory regime the Company operates in;
- possibility of data breaches and inadequacy of consumer protection and data privacy policies;
- increased research and development costs and reduced profitability as a result;
- lack of outside funding available for research and development;
- shipping products outside of Canada and approvals required for exporting;
- potential litigation;
- reliance on business partners;
- failure to protect and maintain and the consequential loss of intellectual property rights;
- adverse impacts on our reported results of operations as a result of adopting new accounting standards or interpretations; and

- changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters.

See “Forward-Looking Information” and “Financial Information and Management’s Discussion and Analysis” for additional information concerning our strategies, assumptions and market outlook in relation to these assessments.

See “Risk Factors” and the other information included in this Prospectus for a discussion of the risks that an investor should carefully consider before deciding to invest in Common Shares.

Summary of Financial Information

The following table sets forth selected pro forma financial information for the Company (as at June 30, 2019), after giving effect to the Transaction, and should be read in conjunction with the pro-forma financial statements of the Company attached hereto as Schedule H.

Pro Forma balance Sheet	**Company as at June 30, 2019 (unaudited)**	**Former Draganfly as at June 30, 2019 (unaudited)**	**Company Pro Forma as at June 30, 2019 (unaudited)**
Current Assets	$44,167	$278,807	$5,497,553
Current Liabilities	$883,384	$5,239,739	$1,289,096
Total Liabilities and Shareholders’ Equity	$994,337	$476,696	$5,541,876

See the “Unaudited Pro Forma Statement of Financial Position of the Company as at June 30, 2019” included as Schedule H to this Prospectus.

CORPORATE STRUCTURE

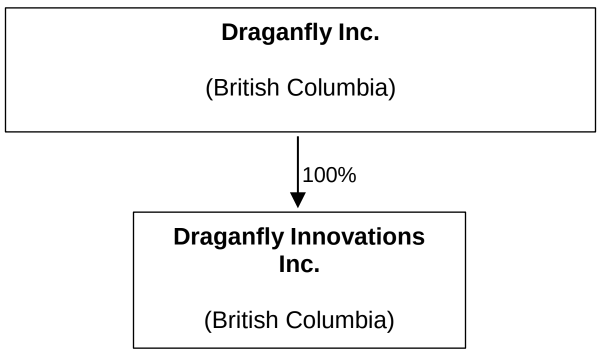
Name, Address and Incorporation

Draganfly Inc. was incorporated as DAC under the BCBCA on June 1, 2018 for the purpose of reorganizing and recapitalizing the business of Former Draganfly. Effective July 17, 2019, the Company amended its articles ("**Articles**") to remove various classes of authorized but unissued preferred shares and replace them with only one class of preferred shares (the "**Preferred Shares**"). See "Description of Share Capital" for more information. Effective August 15, 2019, the Company completed the Transaction whereby: (i) Subco amalgamated with Former Draganfly to form Draganfly Innovations; and (ii) it completed the Name Change. On August 22, 2019, the Company amended the Articles to re-designate its Class A Common shares as Common shares.

The Company's head office is located at 2108 St. George Avenue, Saskatoon, SK, S7M 0K7 and its registered office is located at 2300 – 550 Burrard Street, Vancouver, BC, V6C 2B5.

Inter-corporate Relationships

Following Closing of the Transaction, the following chart identifies the Company's material wholly-owned subsidiaries, their applicable governing jurisdictions and the percentage of their voting securities which are beneficially owned, or controlled or directed, directly or indirectly, by the Company:



OUR BUSINESS

Description of the Business

Business of the Company Prior to Closing of the Transaction

Prior to Closing of the Transaction, the Company had not conducted any material business since incorporation other than pursuing interests under a letter of intent with Former Draganfly and entering into the Combination Agreement. DAC was incorporated under the BCBCA on June 1, 2018 for the purpose of reorganizing and recapitalizing the business of Former Draganfly. The sole business of DAC from the date of its incorporation until executing the Combination Agreement (hereafter defined) was to identify and evaluate opportunities for the acquisition of an interest in suitable drone businesses and, once identified and evaluated, to negotiate an acquisition subject to applicable corporate and securities laws, so as to complete a transaction. Until the completion of the Transaction, DAC did not have a business, business operations or any material assets other than cash.

The Transaction

On August 15, 2019, the Company, Subco and Former Draganfly completed the Transaction pursuant to the Combination Agreement whereby: (i) Former Draganfly completed the Debt Settlement; (ii) Former Draganfly completed the Continuance; (ii) Subco amalgamated with Former Draganfly to form Draganfly Innovations; and (iv) the Company completed the Name Change.

Under the Amalgamation, holders of Former Draganfly Shares (other than dissenting shareholders) received 1.794 fully paid and non-assessable Common Shares for each Former Draganfly Share held by such Former Draganfly Shareholder. Consequently, the Company owns 100% of Draganfly Innovations and the Former Draganfly Shareholders became shareholders of the Company. In addition, holders of Former Draganfly warrants and holders of Company warrants prior to the Transaction will be entitled to receive Company Shares in lieu of shares otherwise issuable prior to the effective time of the Amalgamation, adjusted in accordance with the terms of the various agreements, plans, and certificates representing the foregoing warrants.

In connection with the Transaction, the Company also advanced a loan of $930,000 (the "**Bridge Loan**") bearing an interest of 10% per annum to Former Draganfly to enable it to meet its interim obligations prior to Closing of the Transaction and Listing.

The Transaction is subject to certain customary conditions precedent as set out in the Combination Agreement, including but not limited to, promptly following the closing of the Transaction, obtaining approval of listing of the Common Shares of the Company on the CSE and filing a final a Prospectus.

Certain of the Company Shares held by the new directors and officers of the Company will be subject to escrow (the "**Escrow**") that prohibits transfer for up to a three-year period following the Listing pursuant to the policies of the CSE and Form 46-201 Escrow Agreement. In addition, pursuant to the terms of the Combination Agreement, shareholders of Former Draganfly and former shareholders of the Company have agreed that certificates representing their respective Company Shares held by former shareholder of Former Draganfly will be subject to trading restrictions (the "**Voluntary Restriction**") for up to a three-year period following the Listing. Notwithstanding the Escrow and the Voluntary Restriction, the shareholders holding these Company Shares will otherwise have all of the normal rights associated with Company Shares, such as entitlement to dividends, voting powers and participation in assets upon dissolution or winding up, until they are released from escrow. See "Escrowed Securities".

The board of directors (the "**Board**") of the Company was reconstituted in conjunction with the completion of the Transaction and the anticipated Listing such that it now consists of three directors: Cameron Chell, Scott Larson and Olen Aasen. In addition, following the completion of the Transaction and the constitution of the Company's senior management would include Cameron Chell as Chairman and CEO and Paul Sun as CFO and Corporate Secretary.

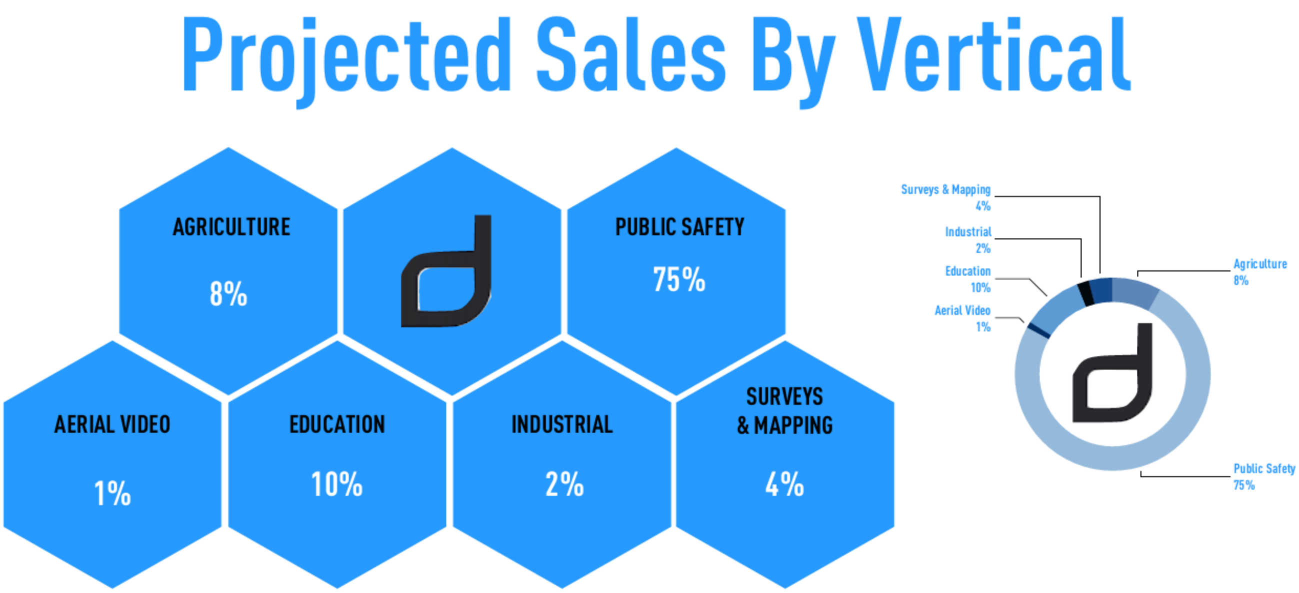
Private Placement Financing

The Company completed the Private Placement Financing on May 22, 2019 and August 6, 2019 (pursuant to prospectus and registration exemptions in Canada, the United States, and in other jurisdictions raising aggregate gross proceeds of $7,025,749.50 through the issuance of 13,051,499 Subscription Receipts at a price of $0.50 per Subscription Receipt. The Private Placement Financing was required in order to satisfy closing conditions of the Transaction. Each Subscription Receipt will automatically be converted or exchanged, without payment of additional consideration and without any further action on the part of the holder, into one Unit, subject to adjustment in certain circumstances, being the date the Escrow Release Condition occurs. Each Unit consists of one (1) Common Share and one Unit Warrant. Each Unit Warrant will entitle the holder to purchase one (1) Common Share at a price of $0.50 for a period of twelve (12) months following the issuance of Unit Warrants. The proceeds of the Private Placement Financing are held in escrow by Gowling WLG (Canada) LLP in escrow subject to completion of Listing. Certain subscribers of the Private Placement Financing agreed to early release of their funds to the Former Draganfly prior to completion of the Listing to allow for the advancement of the Bridge Loan which was used by Former Draganfly for general and administrative costs.

Business of the Company Following the Closing of the Transaction

Following the Closing, the business of the Company is the business of Former Draganfly which is creating quality, cutting-edge UVS and software that revolutionize the way people do business.

Recognized as being at the forefront of technology for two decades, the Company is an award-winning, industry-leading manufacturer, contract engineering, and product development company within the UAV space, serving the public safety, agriculture, industrial inspections, and mapping and surveying markets. The Company is driven by passion, ingenuity, and the need to provide efficient solutions and first-class services to its customers around the world with the goal of saving time, money, and lives.



Founded in 1998, Former Draganfly is recognized as the first commercial multi-rotor manufacturer and has a legacy for its innovation and superior customer service. Former Draganfly has sold products and services to over 50 countries. To date, Former Draganfly, has sold over 9,000 of its drones primarily to police forces around the World. Zenon Dragan is the founder of Former Draganfly, and is a recognized leading expert on UAVs. Former Draganfly is positioning itself as an integrated solutions provider to the UAV industry.

The Company can provide its customers with an entire suite of products and services that include: quad-copters, fixed wing aircrafts, ground based robots, hand held controllers, flight training, and software used for tracking, live streaming, and data collection. The Company's products are manufactured at its machine shop within its head office based in Saskatoon, Saskatchewan. Raw materials for the Company's products consist of a combination of its original equipment manufacturer parts and third-party components.

The integrated UAV system is equipped for automated take-offs and landings with altitude and return to home functions as well as in-house created survey software. The Company's standard features combined with custom fit camera payloads ranging from third-party multi-spectral, hyper-spectral, LIDAR, thermal, and infrared allows the Company to offer a truly unique solution to clients. The Company has also partnered with companies such as Waterloo based, Dejero, who provide a live streaming solution that the Company can offer to its customers and share in monthly usage fees.

The Company's patented high quality folding frame on its quadcopters means customers have a strong aerial platform that can easily pack into the back seat or trunk of an automobile. The easier the aircraft is to transport, the faster users can get from one job to another. When packed in its rugged transport case, the complete quadcopter system meets airline baggage size requirements. Constructed from high quality carbon fiber, the strength-to weight ratio of the aircraft is very high, coupled with a strong folding frame helps reduce damage in the event of a hard landing or hitting an obstruction.

Because the Company's system is designed and manufactured in-house, the Company controls the quality, design, software and systems integration, delivering a helicopter system that is inherently stable. The onboard computer and 11 sensors keep the helicopter level in real-time and pointed in the right direction, so when a user "parks" the helicopter in the air using the GPS position hold function, the user can shift their attention to getting the photos they need. Even in a GPS position hold, one can reposition the aircraft, continue shooting photos and meanwhile, in real-time, the telemetry data system is monitoring aircraft battery health, heading, bearing, altitude, and both audibly and visually alerting the user to any aircraft warnings.

Although the Company has a number of distribution partners, the majority of its product sales are sold directly to the customer. The Company does very little outbound sales and marketing promotional activities with customers around the world reaching out to the Company through its website which is still its primary method of selling.

The global market for commercial applications of drone technology, currently estimated at about $2 billion, is expected to balloon to as much as $127 billion by 2020, according to a report by PricewaterhouseCoopers LLP[1]. Consumer and prosumer drones are ideal for certain aerial filming applications, but enterprises looking to use drones for advanced applications will generally turn to high-end UAV manufactures with longer flight times, better sensor capabilities and analytic functionalities. The high-end commercial UAV market, which is defined as drones >$5,000, is one of the fastest-growing markets within the broader UAV space.

Although the higher end commercial UAV market is growing quickly, the commercial industry is shifting towards using lower cost consumer type drones for their business. As a result, the Company has started offering engineering service and customization work. All engineering, customization, and integration work takes place at its facility within its head office. In some cases, travel to customers' locations is required to understand the scope of a project. In some cases, Draganfly uses lower cost third party off the shelf UAVs and integrates higher end sensors or customizes the UAV to handle niche applications not offered by standard UAVs. The Company takes a small margin on the third party equipment and charges for the engineering service work involved in the integration. In more complex situations, the Company will create an entirely new product for a very specific application. Given Draganfly's core competence is its ability to innovate, engineering services is a natural evolution for the Company.

Product sales accounted for 75% of revenues in the financial year ended December 31, 2017 with the balance made up of engineering services. In the financial year ended December 31, 2018, engineering services revenues represented 70% with the balance being made up of product sales. The bulk of engineering service work is for one large US-based customer that subcontracts to Draganfly. The customer's clients tend to be the U.S. government and military. Although the Company doesn't anticipate a slowdown in government and military spending, the recent U.S. government shutdown did impact the timing of certain projects for Draganfly.

With 18 fundamental UAV patents in the portfolio with 6 more pending in the application stage, the Company will continue to expand and grow its intellectual property docket. By virtue of being the first commercial UAV company in the industry, Draganfly Innovations Inc. holds valuable commercial patents. The Company has a list of ideas that could become products

[1] "Clarity from above," PwC global report on the commercial applications of drone technology, May 2016

but given its current resources, are not actively working on anything. Following Listing, with access to research and development ("**R&D**") funding and more engineering personnel, the Company will work on enlarging its product offering.

Former Draganfly introduced its first systems in 1999 and has evolved and has since shaped the UAV industry. The aircraft are widely used by public safety agencies worldwide and one of the first small Unmanned Aerial Systems ("**sUAS**") to receive a Federal Aviation Administration ("**FAA**") Certificate Of Authorization ("**COA**") in the fall of 2009 with the Mesa County Colorado Sheriff's Office. In 2012, the Royal Canadian Mounted Police ("**RCMP**") flew the X4-ES system to locate and save the life of an accident victim. The RCMP system is on permanent display at the Smithsonian National Air and Space Museum. Their aircrafts have achieved many industry firsts, including:

- The first public safety sUAS to shoot aerial photos documenting a manned aircraft accident in an urban area;
- The first sUAS operated by a public safety organization flown at night to locate and save a life;
- The first sUAS helicopter to be granted a county wide U.S. FAA COA,
- Was recently named as a test platform at one of the U.S. FAA certified test sites.
- Draganfly has the largest Canadian SFOC and USA FAA COA "approved" installed sUAS customer base in North America.

On April 10, 2015, the FAA issued to the Company an FAA Section 333 Exemption and Certificate of Authorization (COA) to operate commercially and conduct research in the U.S.

The exemption covers the Commander, Draganflyer X4-P, Draganflyer X4-ES, Draganflyer X6, and Draganflyer Guardian aircraft for use in aerial data collection such as mapping, agriculture, surveying, aerial photography, and inspections.

The Company had 4 of the first 6 Compliance certifications for their products issued by Transport Canada (TC). At the time, to be deemed a Compliant Drone, a company had to self-declare that their product's capabilities meet Transport Canada's specific safety measures. TC had to review and accept each self-declaration. All four of our then-current systems (Guardian, X4P, X4ES, and Commander) were approved so when TC announced the first 6 compliant certificates, Draganfly products made up four of them.

<u>Awards and Milestones:</u>

1998 – Company started by Zenon and Christine Dragan

1999 – First Draganflyer UAV helicopter introduced to the market

2000 – Draganflyer quadrotor UAV featured on TV show Ripley's Believe it or Not

2000 – Draganflyer II UAV introduced to the market

2001 – Draganflyer III UAV with onboard video camera introduced to the market

2001 – Finalist for Saskatchewan's Achievement in Business Excellence (ABEX) Awards for "Marketing" and "Exports"

2001 – Won Saskatchewan's Achievement in Business Excellence (ABEX) Award for "Best New Venture"

2002 – New York Times featured Draganflyer III in article "HOW IT WORKS: Gyroscopes That Don't Spin Make It Easy to Hover"

2003 – Draganfly's Anti-Gravity Flying Disc appeared in Disney's feature film Inspector Gadget 2

2004 – Finalist for Saskatchewan's Achievement in Business Excellence (ABEX) Awards for "Marketing" and "Trade and Exports"

2004 – Won Saskatoon's Achievement in Business Excellence (SABEX) Awards for "Marketing" and "Exports"

2004 – Draganflyer IV UAV featuring increased flight time introduced to the market

2005 – Draganflyer V Ti (Thermal intelligence) UAV, which allows self-correcting positioning introduced into the market

2006 – DraganBot ROV ground-based robot used for underground monitoring introduced to the market

2006 – Draganflyer SAVS (Stabilized Aerial Video System) UAV featuring stable video introduced to the market

2006 – Tango fixed-wing surveillance aircraft introduced to the market

2007 – International Academy of Science named the Draganfly Tango surveillance aircraft as a Top 10 finalist in 2006 Technology of the Year Awards

2008 – Draganflyer X6 six-rotor UAV introduced to the market and changed the UAV world, becoming the basic design for future UAV's universally

2008 – Won Popular Science's "Best of What's New" Award in the Aviation & Space category for the Draganflyer X6

2008 – Draganflyer X6 named first federally-approved commercially available UAV used for public safety in North America

2009 – Draganflyer X6 featured in the Chicago Museum of Science and Industry

2009 – Ontario Police's Forensic Identification Unit uses the Draganflyer X6 to collect evidence in a homicide investigation, which was the first operational mission of a federally-approved commercially-produced UAV by an emergency service in North America

2009 – Draganflyer X6's used in National Training Course for First Responders through the Canadian Centre for Unmanned Vehicle Systems (CCUVS) in collaboration with the Canadian Police Research Centre (CPRC)

2009 – Won Saskatoon's Achievement in Business Excellence (SABEX) Award for "New Product of the Year" for the Draganflyer X6

2009 – Draganflyer X4-P (professional) UAV featuring self-stabilizing camera mount, reduced size, and increased flight time introduced to the market

2010 – Draganflyer X8 eight-rotor UAV with Active Stabilized Mount (ASM) introduced to the market

2010 – Draganflyer V Ti featured on hit TV show "Community" with well-known actors Chevy Chase and Donald Glover

2010 – Draganflyer X6 featured on History Television's "Modern Marvels" TV show

2011 – Draganfly awarded RCMP Appreciation Award in appreciation of the contribution to the RCMP "F" Division

2011 – Draganfly Ground Control Station (GCS) introduced to the market

2011 – Draganflyer X6 named first sUAS in North America to document manned aircraft accident in urban environment

2012 – Draganflyer X4-ES (Emergency Services) UAV introduced to the market, exclusively sold to Public Safety agencies

2013 – Draganflyer X6 featured in National Geographic magazine article on UAV's used in Emergency Services

2013 – Draganflyer X6 appeared in opening sequence of iconic TV show "The Simpsons" as a pop culture product

2013 – Draganflyer appeared in Time Magazine's "Rise of the Drones" issue

2013 – Draganflyer added to the permanent collection of the Western Development Museum

2013 – Draganflyer X6 featured in US Senate Judiciary Committee hearing "The Future of Drones in America: Law Enforcement and Privacy Considerations"

2013 – Draganflyer credited as the world's first sUAS to save a person's life and gains worldwide news coverage

2014 – Draganfly's founder and president, Zenon Dragan, nominated for the 2014 Ernest C. Manning Award, Canada's most prestigious innovation awards

2014 – Draganflyer X6 inducted into the Canada Aviation and Space Museum in Ottawa, recognized as an historic aviation artifact as the first commercial UAV to enter full-time service in Canadian Civil Airspace

2014 – RCMP Cpl. Doug Green and life-saving Draganflyer X4-ES featured on Katie Couric's daytime talk-show "Katie"

2014 – Life-saving Draganflyer X4-ES joined Vertical Flight Exhibit at the Smithsonian's National Air and Space Museum

2014 – Draganflyer used to capture aerial footage and look for wildlife, including Bigfoot, for A&E's "Bigfoot Captured" TV special, filmed near Monte Creek, BC

2014 – Draganflyer X4-ES located missing hikers lost in heavily wooded area outside Halifax, Nova Scotia

2014 – Draganflyer sUAS operated by ICARS RCMP helped investigate fatal head-on collision near Hope, BC featured on Discovery's reality TV show "Highway Thru Hell" episode 11

2015 – Mesa County Sheriff's Office's Draganflyer X6 added to the National Law Enforcement Museum in Washington D.C.

2015 – Draganflyer Commander sUAS featuring enhanced duration, capability, and safety introduced to the market

2015 – Tech company TRACE Live Networks acquired Draganfly Innovations

2016 – Draganfly named first company to have multiple UAV systems deemed Transport Canada Compliant

2017 – Tango2 long-endurance fixed-wing, DraganScout ground-based robot, and Universal Control System (UCS) announced at AUVSI Xponential 2017

2018 – Won the STIC (Science, Technology, Innovation, Collaboration) Product Award presented by Saskatoon Regional Economic Development Authority (SREDA).

Transport Canada has issued the Company a Special Flight Operations Certificate ("**SFOC**") for most of Canada. Under the terms of the agreement, a flight operations observer must be used at all times to monitor the airspace for other aircraft, help guide the pilot, and keep on-lookers away from the pilot, and flight area. To save money, the role of the observer can be carried out by the customer, or for a cost, the Company can provide an observer as needed.

Although Draganfly is acknowledged as the pioneer that first developed the commercial multi rotor helicopter, there are now many drone hardware companies in the World. Draganfly has sold products and services to over 50 countries but predominantly focuses on the North American market given its geographical location. As technology has improved and costs for hardware and software have come down, the line between consumer and commercial drones has blurred. Historically, Draganfly has serviced early adopters in the public safety industry. At this stage of the commercial drone adoption curve, the average public safety organization (local, regional, and even federal law enforcement, for example), are quite budget conscious. Hence, these organizations tend to use lower cost drones that have become quite sophisticated that can accomplish most of their use cases. The obvious dominant player is DJI, the Chinese drone company that is reputed to own over 70% of the consumer and now commercial drone market. The majority of DJI's drones are geared towards broad applications involving the masses. Draganfly has moved away from competing directly with DJI and has chosen to serve niche markets outside of where DJI tends to be. There are also some organizations that tend to be US based that either prefer or are mandated to not use foreign drones such as those produced by DJI. Some of these organizations are sensitive to their work being exposed to that of overseas governments which has at least for the time being, created a niche market for players such as Draganfly. As Draganfly has evolved to move with the industry trends, the Company now uses DJI drones as part of some of its customization and engineering services work. Draganfly has also moved into innovative engineering procurement which is very specialized and is currently not aware of any Canadian and US companies focusing on this industry or its existing customers. As the drone industry matures, this may bring more players to this space or the Company's customers may choose to develop the in-house expertise to do the work that they currently outsource to Draganfly. However, it is the Company's view that there will be a growing customer base that will require very specialized work that only a handful of companies can do.

It became evident to Management that funds needed to be raised to execute a sales and marketing strategy to capitalize on industry demand for its product and services.

Management determined in mid-2018 the best course of action to secure additional capital, grow its brand and expand its reach was to secure a public listing on a reputable exchange. To that end, the Company entered into the Combination Agreement and completed the Transaction.

The Company currently has 9 full-time employees and engages 2 to 3 contractors on a regular basis. Ideally, the Company would like to add to its engineering bench as well as add sales and marketing people to help build its engineering services offering.

Three Year History

Historically, the main business of Former Draganfly was to operate as a manufacturing company offering commercial UAVs directly to its customer base across various industry verticals such as public safety, agriculture, industrial, etc. The main product offering of the Company now consists of quadcopters such as The Commander, X4, and Guardian. The Commander is the most recent and most advanced of the quadcopter line up. The Commander quadcopter is a professional quality, powerful, easy to fly aerial platform delivering high quality aerial photography and video with one of the World's longest flight time capabilities (with a 400g payload) of 55 minutes on a single battery charge. The Commander can fly 100+ acres on a single charge – this is the coverage of some of the Company's fixed wing competitors. The Company has also developed a fixed wing drone, called The Tango2 which has recently been available to customers. The ideal use of the Tango2 fixed wing is for search and rescue, inspection and any application that requires loitering in the air for extended time periods, covering large surface area. The Company has also designed and produced a ground based robot, The DraganScout ground based robot, which has not been commercialized as of yet but has received expressions of interest for applications within public safety and agricultural inspection. With continued R&D funding, the intention is to fully complete development of the DraganScout and make it available for sale.

Over the last 2 years, the Company has started to do engineering procurement for certain customers in an industry vertical that it does not currently serve, such as military applications (e.g., high value product delivery on the battlefield, surveillance and capture drones). The rationale is three-fold: engage in long term contracts that tend to be recurring in nature, gain exposure to an industry that the Company otherwise did not have access to, and leverage our innovation learnings into other products that can be sold in other industries.

This progression occurred due to shifts in the commercial UAV space, the area the company is known for being an industry pioneer. As businesses and other commercial users became more comfortable using UAVs, most tend to test their use case by buying lower cost consumer drones. Over time, one large company has become the dominant leader in both consumer and commercial drone sales. The phenomenon has moved the Company's focus to niche markets which organically created engineering service work, With the Company's strength in innovation, this shift lends very well to developing custom products for specific clients' needs as well as integration and customization work.

The Company works with its customers to customize a product or platform from idea (R&D) to completion and testing. A work plan is created with timelines and budget which includes materials, travel, testing, and engineering time. This plan is signed off on by the customer before work begins. To date, the majority of this work is considered proprietary and secret in nature. In some cases, Draganfly effectively acts as a subcontractor to a larger military focused drone company, for example, creating new products and applications to their specifications.

The Company is considering getting into providing drone services such as aerial mapping and various types of inspection. Traditionally, Draganfly would sell its products to their customers who would then need to be trained to fly the UAVs so their customers could conduct the commercial work themselves. The Company is having ongoing conversations with various drone service providers to explore whether adding such a business line is a fit for the overall growth of the company. Provided these discussions make strategic and financial sense to Draganfly, there is a possibility that a new business line is added to the company within the current financial year. The Company is aware that the competitive landscape is moving quickly so diversifying into other businesses may safeguard the company against having exposure to only a few markets.

Regulatory Framework

The operation of Remotely Piloted Aircraft Systems ("**RPAS**") or UAVs within Canada for any intended application is governed by regulations developed and managed by Transport Canada. The Canadian Aviation Regulations ("**CARs**") developed by Transport Canada clearly detail the rules and regulations that are directly applicable to all civil aviation operations, both manned and unmanned, within the Canadian Domestic Airspace ("**CDA**"). Civil aviation encompasses all applications and purposes other than those operated by military organizations. Transport Canada currently has provisions that allow exemptions and relief from specific sections of CARs for recreational operators with an additional set of restrictions and limitations. However, no business or corporation is permitted to operate an RPAS under these recreational exemptions and must adhere to the full CARs. Commercial / non-recreational operations of RPAS within CDA can only be safely and legally accomplished through the issuance of a Special Flight Operations Certificate ("**SFOC**") granted by Transport Canada. An SFOC is intended to be a temporary authorization for flight operations that have clear, defined, and specific geographical areas, dates and times, intended applications, and flight profile limitations. SFOC's are granted by Transport Canada inspectors on a case-by-case basis and must be applied for in advance of the intended flight operations. The SFOC application must include details such as the type and purpose of operations, description of the aircraft, dates and times of intended flights, security and emergency plans, and detailed standard operating procedures to explain how the flight operations will be conducted. Currently any flight operations conducted for non-recreational purposes can only be performed under the authority of an SFOC. An SFOC can be granted for operation of any RPAS make and model and can be granted to the business or organization rather than a specific individual or pilot. This allows for a company to self-certify a number of approved pilots rather than requiring individual licensing for each pilot. Transport Canada offers an advanced authorization called a Compliant SFOC, which is available only to operators of RPAS that have been recognized by Transport Canada as meeting the safety standards of a Compliant Design Type. The Compliant SFOC provides the operator with additional allowances including, but not limited to, operations in a wider geographical operating area. Failure to obtain the necessary regulatory approvals such as the granting of an SFOC or limitations put on the use of RPAS' may prevent the company from developing, testing, and demonstrating its products and services and/or expanding its sales and services.

New RPAS rules publicly announced by the Minister of Transport (Canada) on January 9, 2019 will come into force on June 1, 2019. The Company does expect the new regulations to affect its need to employ and retain personnel with valid pilot certificates. The Company takes all necessary action to ensure that it remains compliant with current and upcoming regulations.

FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Financial Statements and MD&A are included as schedules to this Prospectus:

- **Schedule A**: Audited annual Financial Statements of Former Draganfly for the years ended December 31, 2018 and 2017;
- **Schedule B**: MD&A for Former Draganfly for the year ended December 31, 2018;
- **Schedule C**: Interim Financial Statements of Former Draganfly for the period ended June 30, 2019;
- **Schedule D**: Interim MD&A for Former Draganfly for the period ended June 30, 2019;
- **Schedule E**: Audited Consolidated Financial Statements of the Company for the period ended December 31, 2018;
- **Schedule F**: Condensed Consolidated Interim Financial Statements of the Company for the period ended June 30, 2019;
- **Schedule G**: MD&A for the Company for the Six-month period ended June 30, 2019, and the Initial Period from Incorporation on June 1, 2018 to December 31, 2018;
- **Schedule H**: Unaudited Pro Forma Financial Statements for the Company following Closing of the Transaction;
- **Schedule I**: Mandate of the Board of Directors; and
- **Schedule J**: Audit Committee Charter.

The Financial Statements and the financial data derived therefrom and included in this Prospectus have been prepared in accordance with IFRS.

The Company's MD&A included herein should read in conjunction with the Financial Statements and the disclosure contained in this Prospectus. The discussions of results are as of the dates stated in the applicable MD&A.

SUMMARY OF FINANCIAL INFORMATION

The following table sets forth selected pro forma financial information for the Company (as at June 30, 2019), after giving effect to the Transaction, and should be read in conjunction with the pro-forma financial statements of the Company attached hereto as Schedule H.

Pro Forma balance Sheet	**Company as at June 30, 2019 (unaudited)**	**Former Draganfly as at June 30, 2019 (unaudited)**	**Company Pro Forma as at June 30, 2019 (unaudited)**
Current Assets	$44,167	$278,807	$5,497,553
Current Liabilities	$883,384	$5,239,739	$1,289,096
Total Liabilities and Shareholders' Equity	$994,337	$476,696	$5,541,876

USE OF AVAILABLE FUNDS

Available Funds and Principal Purposes

This is a non-offering prospectus. The Company is not raising any funds in conjunction with this Prospectus and, accordingly, there are no proceeds to be raised by the Company pursuant to this Prospectus. As at August 31, 2019, the Company has an estimated working capital of $4,006,267 which includes the proceeds of the Private Placement Financing after deducting the $500,000 portion of the proceeds of the Private Placement Financing previously released to the Company**. T**he total available funds to the company is approximately $7,912,749.50 and is as follows:

Sources of Available Funds	
Private Placement Financing	$7,025,749.50
Proceeds of Private placement financing previously released to the Company	(500,000.00)(1)
Pro Forma trailing 12 month revenues(2)	$1,387,000.00
Total (unaudited)	**$7,912,749.50**

Notes:

(1) $500,000 of the proceeds of the Private Placement Financing was released to the Company for ongoing operations.
(2) As a matter of prudence, the Company is projecting here 12 months revenue equivalent to the trailing 12 months revenues for the year ended December 31, 2018, as derived from management's accounts.

As at August 31, 2019, the principal purposes for the foregoing available funds will be as follows:

Principal Purposes	
General and administrative costs(1)	$2,759,788.00
Business Objectives	$300,000.00
Estimated expense for listing on the CSE	$572,642.00
Sales and marketing	$2,000,000.00
Research and Development	$200,000.00
Debt repayment	$1,750,000.00
Total	**$7,582,430.00**
Unallocated Funds	**$330,319.50**

Notes:

(1) This figure is for a period of 12 months and is comprised of one time and ongoing monthly expenses, among others, audit, legal, and professional fees (approximately $200,000 for the year), monthly general expenses of $199,200 and bank services/fees of $20,000 for the year.

It is anticipated that the available funds will be sufficient to achieve the Company's objectives over the next 12 months. The Company intends to spend the funds available to it as stated in this Prospectus. Approximately $1,750,000 of the proceeds of the Private Placement Financing will be used to repay certain historical debt, including certain vendor debt, that are mostly older than two years. The majority of the debt is comprised of a combination of past due services rendered from vendors, matured convertible debentures from investors, and amounts owing to the original shareholders of the Former Draganfly. There may be circumstances, however, where for sound business reasons a reallocation of funds may be necessary. Use of funds will be subject to the discretion of management. Until we use the unallocated funds, we will hold them in cash and/or invest them in short-term, interest-bearing, investment-grade securities. See "Risk Factors" for further detail.

Business Objectives and Milestones

The primary business objectives for the Company over the next 12 months are:

- Hire engineers to perform more engineering service work, to complete contracts on a more timely basis, and to perform R&D for the company's next generation of productsHire sales/marketing people for our product lines and engineering services work;
- Hire sales/marketing people for potential expansion into services (e.g. drone as a service);
- Diversify and expand business lines organically and by potential acquisitions;
- Update/capex machinery used for manufacturing and production; and
- Strengthen balance sheet by paying down debt.

Significant events that need to occur for the business objectives to be accomplished:

- Successfully find and hire the appropriate engineering staff that can perform very innovative and challenging work specific to the drone industry within the next 6 months with an allocation of approximately $300,000; and
- Successfully source sales and marketing personnel who will grow and generate increased revenues within the next 6 to 12 months with an allocation of approximately $300,000.

The Company believes that completing the Listing will open up further opportunities to access capital as well as allow it to use its Common Shares as a currency for potential acquisitions. Operationally, having access to more capital will help the Company expand and diversify its engineering services business. Doing this requires more human resources both from a sales and engineering perspective. Further, the Company has a number of innovative ideas for new products that it would like to develop and increase its current product offering to various niche industries that aren't being served by the dominant player in the UAV space. Finally, the Company has considered offering various other non-engineering services and it may make more sense to buy an existing industry player than to build out this offering. This isn't something the Company has to do but it will be opportunistic to learn about potential opportunities in the existing fiscal year and the near future.

DESCRIPTION OF SHARE CAPITAL

The following describes material terms of our share capital. The following description may not be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of our Articles.

Common Shares

The Company's authorized share structure consists of (i) an unlimited number of Common Shares; and (ii) an unlimited number of Preferred Shares, issuable in series.

As of the date hereof, 55,619,114 Common Shares are issued and outstanding. Each Common Share entitles the holder to receive notice of and attend all meetings of the Shareholders. Each Common Share carries the right to one vote. The holders of Common Shares are entitled to receive any dividends declared by the Corporation in respect of the Common Shares at such time and in such amount as may be determined by the Board, in its discretion. In the event of the liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, holders of Common Shares are also entitled to participate, rateably, in the distribution of the assets of the Corporation, subject to the rights of the holders of any other class of shares ranking in priority to the Common Shares.

As of the date hereof, nil Preferred Shares are issued and outstanding. The Preferred Shares may be issuable in series and the directors may, from time to time before the issue of any Preferred Shares of any particular series, define and attach special rights, privileges, restrictions, and conditions to the Preferred Shares of any series, including voting rights, entitlement to dividends, and redemption, conversion, and exchange rights. In the event of the liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, holders of Preferred Shares will rank on a parity with holders of the Preferred Shares of every other series and be entitled to preference over the Common Shares and over any other shares of the Corporation ranking junior to the Preferred Shares.

Warrants

As of the date hereof, there are outstanding 4,000,000 Warrants. Table below provides a summary of the outstanding warrants.

Date of Issuance	**Number Warrants Issued**	**Exercise Price**	**Expiry Date**
February 4, 2019	4,000,000	$0.10	February 4, 2021

Subscription Receipts

As of the date hereof, 14,051,499 Subscription Receipts issued and outstanding which were issued pursuant to the Private Placement Financing. Each Subscription Receipt will automatically be converted or exchanged, without payment of additional consideration and without any further action on the part of the holder, into one Unit, subject to adjustment in certain circumstances, being the date the Escrow Release Condition occurs. Each Unit consists of one (1) Common Share and one Unit Warrant. Each Unit Warrant will entitle the holder to purchase one (1) Common Share at a price of $0.50 for a period of twelve (12) months following the issuance of Unit Warrants.

Options

The Board has approved a share compensation plan (the "**Share Compensation Plan**"). For more information, see "Executive Compensation – Corporation Philosophy and Objectives – Principal Elements of Compensation – Share Compensation Plan".

As of the date of this Prospectus, under the Share Compensation Plan, there are no RSUs outstanding and nil stock options ("**Options**") outstanding.

DIVIDEND POLICY

We currently intend to retain any future earnings to fund the development and growth of our business and do not currently anticipate paying dividends on the Common Shares. Any determination to pay dividends in the future will be at the discretion of our Board and will depend on many factors, including, among others, our financial condition, current and anticipated cash requirements, contractual restrictions and financing agreement covenants, solvency tests imposed by applicable corporate law and other factors that our Board may deem relevant.

DESCRIPTION OF MATERIAL INDEBTEDNESS

Other than as disclosed herein, as of the date of the Prospectus, to the knowledge of the directors and officers of the Company there is no material indebtedness of the Company.

Pursuant to the Transaction, Former Draganfly entered into certain forbearance and debt settlement agreements with certain creditors of Former Draganfly (collectively, the "**Debt Settlement Agreements**") with respect to certain overdue and outstanding convertible debentures and other outstanding debt of Former Draganfly in the aggregate amount of $2,779,726 (the "**Debt Amount**"). Pursuant to the Debt Settlement Agreements, Former Draganfly settled $1,408,436 of the Debt Amount by issuing 2,245,252 Common Shares; $996,290 of the Debt Amount by paying $472,094.75 in cash; and the balance of the Debt Amount of approximately $70,070 by paying cash 18 months following the Listing.

CONSOLIDATED CAPITALIZATION

The following table sets forth our consolidated capitalization on a pro forma as adjusted basis to give effect to the completion of the Listing. This table is presented and should be read in conjunction with the Financial Statements included elsewhere in this Prospectus and with the information set forth under “Summary of Financial Information”, “Financial Statements and Management’s Discussion and Analysis”, and “Description of Share Capital”.

The following table sets out the fully-diluted share capital of the Company upon Listing:

Designation of Security	Authorized	Amount Outstanding upon Listing
Company Shares	Unlimited	69,670,613(1)
Warrants	N/A	18,051,499(2)
Options	N/A	N/A
RSUs	N/A	N/A
Total	N/A	87,722,112

Notes:

(1) Includes the Subscription Receipts to be converted upon Listing.
(2) Includes Warrants issued pursuant to the automatic conversion of the Subscription Receipts upon Listing.

PRIOR SALES

The following table summarizes issuances of our Common Shares, or securities convertible into Common Shares, during the 12-month period preceding the date of this Prospectus.

Date of Issuance	Type of Security	Number of Securities Issued	Issuance/Exercise Price per Security
August 23, 2019	Common Shares	316,940(1)	N/A
August 15, 2019	Common Shares	2,163,817(2)	$0.50
August 15, 2019	Common Shares	42,638,356(3)	$0.50
August 6, 2019	Subscription Receipt Units	13,051,499	$0.50
May 22, 2019	Subscription Receipt Units	1,000,000	$0.50
February 4, 2019	Units	8,000,000	$0.05
January 2, 2019	Common Shares	2,500,000	$0.03
June 1, 2018	Common Shares	1	$0.01

Note:

(1) Company Shares issued pursuant to exercise of Former Draganfly Warrants with an exercise price of $0.03 per Former Draganfly Warrants.
(2) Company Shares issued pursuant to the Debt Settlements.
(3) Company Shares issued pursuant to the Amalgamation.

ESCROWED SECURITIES

In the event that the Common Shares become listed on the CSE, the Company anticipates that it will be classified as an “emerging issuer”, as defined under NP 46-201 upon such listing. Each of the persons named below (collectively, the “**Escrow Holders**”) would fall within the definition of “principal” of an emerging issuer under NP 46-201. In accordance with applicable securities rules, the Escrow Holders will execute an escrow agreement with the Company and TSX Trust Company (the “**Escrow Agent**”) substantially in the form attached as an Appendix to NP 46-201 (Form 46-201F1) (the “**CSE Escrow Agreement**”) in respect of an aggregate of 6,708,671 Common Shares prior to the filing of a final prospectus and a listing on the CSE.

10% of such securities held in escrow will be released from escrow on the date the Common Shares are listed on the CSE, and 15% every 6 months thereafter, subject to acceleration provisions provided for in NP 46-201.

Company Shares held by the following persons will be subject to escrow pursuant to the CSE Escrow Agreement:

Name of the Securityholder	Designation of Securities	Number of Securities to be held in escrow	% of class on a non-diluted basis	% of class on a fully diluted basis(2)
Business Instincts Group, Inc.(1)	Common Shares	6,260,171	8.99%	7.14%
Paul Sun	Common Shares	448,500	0.64%	0.51%

Notes:

1) A company controlled by Cameron Chell, CEO and Director of the Company.
2) Including Warrants of the Company outstanding upon listing.

The CSE Escrow Agreement provides that the CSE Escrow Securities are held in escrow pursuant to its terms and the beneficial ownership thereof may not be sold, assigned, hypothecated, transferred within escrow or otherwise dealt with other than in accordance with the terms of the CSE Escrow Agreement. In the event of the bankruptcy of an escrow shareholder, in accordance with the CSE Escrow Agreement, the CSE Escrow Securities held by such escrow shareholder may be transferred to the trustees in the bankruptcy or such person legally entitled to the CSE Escrow Securities, which shares will remain in escrow subject to the CSE Escrow Agreement. In the event of the death of an escrow shareholder, in accordance with the CSE Escrow Agreement, the CSE Escrow Securities held by the escrow shareholder will be released from escrow.

In addition to the CSE Escrow Securities, upon closing of the Transaction, pursuant to the Voluntary Restriction, there will be 43,119,113 Company Shares (the "**Voluntary Restricted Shares**") escrowed for up to 3 years from the Listing Date released as follows: 5% released on the Listing Date, 15% released every 6 months following the Listing Date until month 36 when the remaining 20% of the Voluntary Restricted Shares will be released.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out, for each of our directors and executive officers, the person's name, Province or State and country of residence, position with us, principal occupation, age and, if a director, the date on which the person became a director. Our directors are expected to hold office until our next annual general meeting of shareholders. Our directors are elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of shareholders. As a group, the directors and executive officers beneficially own, or control or direct, directly or indirectly, a total of 6,708,671 Common Shares, representing 9.67% of the Common Shares outstanding:

Name and Province or State and Country of Residence	Age	Position with the Company	Director Since	Principal Occupation
Cameron Chell (California, United States)(3)	51	CEO and Director	August 14	Chairman and CEO of the Company since August 2019; CEO and co founder at Business Instincts Group, Inc.
Paul Sun (Ontario, Canada)	48	CFO and Corporate Secretary	N/A	CFO of the Company since August 2019; CFO of Former Draganfly since July 2015; Managing Director, Institutional Equity Sales at Beacon Securities Limited.
Scott Larson(1)(2)(3) (British Columbia, Canada)	47	Director	August 14	CEO of Kater Technologies since January 2019; CEO of Helios Wire since June 2019; employed with UrtheCast Corp. since December 2010.
Olen Aasen(1)(2) (British Columbia, Canada)	36	Director	August 14	General Counsel at King & Bay West Management Corp. since February 2011; Corporate Secretary of Alderon Iron Ore Corp. since September 2012; VP Legal of Canada Jetlines Ltd. since March 2017.

Notes:

(1) Member of our Audit Committee.
(2) Independent director.
(3) Chair of the Audit Committee.

Biographies of Directors and Executive Officers

The following are brief profiles of our executive officers and directors, including a description of each individual's principal occupation within the past five years:

Cameron Chell, CEO and Director – Mr. Chell is the CEO of the Company and CEO and Co-Founder of Business Instincts Group, Inc. Mr. Chell became an entrepreneur at age 14, and has since spent his career growing a diverse collection of high-potential ideas into revolutionary companies that have changed the way we experience the world. At 14, Cameron launched his first company by building irrigation valves, but as a junior high student, he was consistently turned down by manufacturers and distributors. Undeterred, he bid on irrigation contracts instead, landing deals and building his first business. By 17, Cameron had launched several other companies including a computer assembly and reseller operation. Later in life, while working as a stockbroker tasked with seeding high-tech companies, building Boards and raising capital, Cameron realized he could turn his passion for creating companies into a career. He quickly left to quench his thirst for building businesses himself. Which he did, at 30, when he built FutureLink, an internet software service that pioneered cloud computing and grew into a $3B company with 1,300 employees. He later went on to scale a payment processing company that grew to earn a valuation twice the size of PayPal – or approximately $4B. Now, as the CEO of BIG, Cameron takes a very hands-on leadership position in client projects, infusing his principles of clarity, alignment and measurement into the culture of every BIG partner. That leadership was critical to the success of UrtheCast, which he co-founded, Cold Bore Technologies, Slyce, Raptor Rig, Trace and Trax. Most recently, Cameron has served as an advisor to KodakCoin, one of the first compliant cryptocurrencies developed in partnership between Business Instincts Group, WENN Digital and ICOX Innovations. Cameron is an Olympic decathlete, a cancer survivor, and the author of *Sustainable Startup,* a guide for scaling small businesses and their teams. In addition to his work with BIG, Cameron speaks publicly on topics including technology, culture and overcoming adversity. Mr. Chell devotes 25% of his time to the Company. Mr. Chell has not entered into a non-competition or a non-disclosure agreement with the Company.

Paul Sun, Chief Financial Officer and Corporate Secretary – Mr. Sun has over 20 years of business experience and has held numerous senior roles at investment banks including Scotia Capital, Desjardins, and Beacon Securities. Mr. Sun has provided financial solutions to small start-ups to billion dollar market-cap companies and has been involved in many transactions across the entire capital structure. He has also held project and operations management positions at a number of private and publicly traded companies. He was awarded his Bachelor of Applied Science and Engineering from The University of Toronto and his Master of Business Administration from the Schulich School of Business. He holds the Professional Engineer and Certified Financial Analyst designations. Mr. Sun's business knowledge, experience, and education has provided him with an understanding of financial reporting sufficient to enable him to act as a member of the Audit Committee. Mr. Sun devotes 100% of his time to the Company. Mr. Sun has not entered into a non-competition or a non-disclosure agreement with the Company.

Olen Aasen, Director – Mr. Aasen is a corporate and securities lawyer with more than 13 years of experience in corporate, securities and regulatory matters. He has been the Corporate Secretary, General Counsel or Vice President, Legal at various Canadian and U.S.- listed companies. Mr. Aasen obtained a J.D. from the University of British Columbia in 2006 and was called to the British Columbia Bar in 2007. Mr. Aasen was also appointed to the 2016 Legal 500 GC Powerlist for Canada.

Scott Larson, Director – Mr. Larson brings over 20 years of combined corporate finance, technology development and entrepreneurial experience to the Board. Currently CEO of Kater, a Vancouver-based mobility as a service (MaaS) company building out an integrated intermodal transportation platform incorporating public transportation, buses, taxis and ride haling vehicles into a single service. Previously, Mr. Larson has been CEO and co-founder of Helios Wire, a satellite company building out a space-enabled IoT/M2M network, and was CEO/Co-Founder of UrtheCast. Mr. Larson helped scale the company from its inception, taking it public on the Toronto Stock Exchange, raising $200 million, and leading the company to 250 employees over five years with seven offices around the world.

Corporate Cease Trade Orders

None of our Directors or executive officers has, within the ten years prior to the date of this Prospectus, been a director, chief executive officer, or chief financial officer of any company (including Draganfly) that, while such person was acting in that capacity (or after such person ceased to act in that capacity but resulting from an event that occurred while that person was acting in such capacity) was the subject of a cease-trade order, an order similar to a cease-trade order, or an order that denied the company access to any exemption under securities legislation, in each case for a period of more than 30 consecutive days.

Bankruptcies

Other than as provided below, none of our Directors or executive officers has, within the ten years prior to the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets, been a director or executive officer of any company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets.

On November 6, 2006, Cameron Chell filed a Notice of Intention to Make a Proposal under the Bankruptcy and Insolvency Act (Canada). RSM Richter Inc. was appointed as Mr. Chell's trustee. Mr. Chell was absolutely discharged from bankruptcy on May 18, 2010. Mr. Chell's bankruptcy related to the calling of a $3 million personal guarantee Mr. Chell made to HSBC with respect to an operating line of credit granted by HSBC to Logicorp Data Systems, Ltd. ("**Logicorp**") HSBC had initially granted Logicorp the line of credit without requiring a personal guarantee. However, Logicorp subsequently became subject to a number of reseller rebate claims that adversely affected its financial position and, once this became known to HSBC, HSBC attempted to reduce the operating level amount available upon which Logicorp could draw under the line of credit. At the time, Mr. Chell was a significant shareholder of Logicorp's parent company, Chell Group Corporation, as well as a director and officer of Logicorp. In negotiations with HSBC, it was agreed that Mr. Chell would provide a personal guarantee to HSBC in order to maintain the previous operating level under the line of credit. Ultimately, Logicorp defaulted on the line of credit and HSBC called on Mr. Chell's personal guarantee.

Penalties or Sanctions

Other than as provided herein, no Director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company has been:

- been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

- been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Pursuant to a settlement agreement (the "**Settlement Agreement**") dated November 6, 1998 that Cameron Chell signed with the Alberta Stock Exchange (the "**ASE**"), Mr. Chell agreed to the following sanctions:

- prohibition against ASE Approval (as defined in the General By-law of the ASE) in any capacity for a period of five years commencing November 6, 1998;

- a fine in the sum of $25,000;

- strict supervision for a period of two years following re-registration in any capacity; and

- close supervision for a period of one year following the period of strict supervision described above.

The matters respecting the Settlement Agreement are as set forth in an ASE Notice to Members dated November 12, 1998, which provides that:

- representations were made by the promoter of a company to one of Mr. Chell's clients that he would only be permitted to purchase securities in the initial public offering of that company if he would agree to purchase additional securities in the secondary market following the listing on the Alberta Stock Exchange and, in or around March or April, 1996, Mr. Chell disclosed confidential information to the promoter of that company concerning a client's account with respect to a cheque returned NSF to Mr. Chell's employer;

- the investment objectives for two of Mr. Chell's clients were amended without prior knowledge or consent of such clients and purchases and sales of securities were subsequently executed in the accounts of such clients which were unsuitable for the clients given the stated investment objectives for the accounts prior to the amendment of such investment objectives;

- Mr. Chell executed a total of 21 transactions in the accounts of two of Mr. Chell's clients without prior knowledge or authorization of such clients;

- the signature on the new client account form for one of Mr. Chell's clients, which purported to be that of the client was not in fact the signature of the client nor did such client have any knowledge of any changes made to the investment objectives for his account(s);

- on or about June 10, 1996, the address for the account of one of Mr. Chell's clients was changed to Mr. Chell's local post office box address without such client's knowledge and while the client was resident in Ontario. As a result, during the period of June 10 to and including September, 1996, the client did not receive any trade confirmations or accounts statements with respect to her accounts with Mr. Chell;

- on or about March 19, 1996, Mr. Chell permitted one of his clients to acquire approximately 4% of the total initial public offering by a company, contrary to the rules of the Alberta Stock Exchange;

- on or about October 19, 1996, Mr. Chell purchased securities of a company in the account of one of his clients without disclosing the involvement of his brother as president of that company;

- on or about June 23, 1996, the private placement questionnaire & undertaking completed in connection with the purchase by one of Mr. Chell's clients and filed with the Alberta Stock Exchange disclosed that Mr. Chell's client was a resident of Alberta when in fact such client was a resident of Ontario. Mr. Chell knew or ought to have known that it contained a misstatement of fact in that regard;

- during the period of the summer, 1996 to and including May 1997, Mr. Chell's day to day involvement as the president and chairman of Coffee.Com Interactive Café Corp. ("**Coffee.Com**") as well as being a shareholder was not disclosed to Mr. Chell's employer.

- Further, Mr. Chell purchased securities offerings via private placement by Coffee.Com for certain of his clients without fully disclosing his involvement with that company to such clients;

- on or about March 18 and June 19, 1996, Mr. Chell executed purchase of securities for Ontario residents. At the time of such purchases, Mr. Chell knew or ought to have known that he was not registered in the province of Ontario;

- During the summer of 1996, Mr. Chell represented to the Alberta Stock Exchange that certain purchasers of securities offered via private placement were close friends and business associates when he knew or ought to have known that such representations were untrue; and

- During the period of June 19, 1996 and to and including May 1, 1997, Mr. Chell failed to obtain the prior approval of his employer for advertisements and sales literature distributed by Mr. Chell regarding Coffee.Com.

Conflicts of Interest

To the best of our knowledge, there are no known existing or potential conflicts of interest among us and our Directors, officers, or other members of Management as a result of their outside business interests except that certain of our Directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to us and their duties as a director or officer of such other companies.

Advance Notice Provisions

We have included certain advance notice provisions with respect to the election of our directors in our Articles (the "**Advance Notice Provisions**"). The Advance Notice Provisions are intended to: (i) facilitate orderly and efficient annual general meetings or, where the need arises, special meetings; (ii) ensure that all Shareholders receive adequate notice of Board nominations and sufficient information with respect to all nominees; and (iii) allow Shareholders to register an informed vote. Only persons who are nominated by Shareholders in accordance with the Advance Notice Provisions will be eligible for election as directors at any annual meeting of Shareholders, or at any special meeting of Shareholders if one of the purposes for which the special meeting was called was the election of directors.

Under the Advance Notice Provisions, a Shareholder wishing to nominate a director would be required to provide us notice, in the prescribed form, within the prescribed time periods. These time periods include, (i) in the case of an annual meeting of Shareholders (including annual and special meetings), not less than 30 nor more than 65 days prior to the date of the annual meeting of Shareholders; provided, that if the first public announcement of the date of the annual meeting of Shareholders (the "**Notice Date**") is less than 50 days before the meeting date, notice must be given not later than the close of business on the 10th day following the Notice Date; and (ii) in the case of a special meeting (which is not also an annual meeting) of Shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the 15th day following the Notice Date, provided that, in either instance, if notice and access (as defined in National Instrument 54-101— *Communication with Beneficial Owners of Securities of a Reporting Issuer*) is used for delivery of proxy related materials in respect of a meeting described above, and the Notice Date in respect of the meeting is not less than 50 days prior to the date of the applicable meeting, the notice must be received not later than the close of business on the 40th day before the applicable meeting.

CORPORATE GOVERNANCE

Corporate governance relates to the activities of the Board, the members of which are elected by and are accountable to the shareholders, and takes into account the role of the individual members of management who are appointed by the Board and who are charged with the day to day management of the Company. The Board is committed to sound corporate governance practices, which are both in the interest of its shareholders and contribute to effective and efficient decision-making.

The Company's corporate governance practices are summarized below:

Board of Directors

Under NI 58-101, a director is considered to be independent if he or she is independent within the meaning of National Instrument 52-110 – *Audit Committees* ("**NI 52-110**"). Pursuant to NI 52-110, an independent director is a director who is free from any direct or indirect relationship which could, in the view of our Board, be reasonably expected to interfere with a director's independent judgment. Based on information provided by each director concerning his or her background, employment and affiliations, our Board has determined that of the three directors on our Board at Closing, Mr. Chell will not be considered independent as a result of his relationships with us. Certain members of our Board are also members of the board of directors of other public companies. Our Board has not adopted a director interlock policy, but is keeping informed of other public directorships held by its members.

Directorships

The following table sets out the directors and officers of the Company that are directors, officers or promoters of other reporting issuers:

Name	Name of Reporting Issuer	Position	Date
Cameron Chell	TruTrace Technologies Inc.	Director	May 2018
	Pounce Technologies Inc.	CEO and Director	July 2014
	CurrencyWorks Inc. (formerly, ICOX Innovations Inc.)	Director	January 2012
Olen Aasen	Loopshare Ltd.	Director	November 2018
	Canada Jetlines Ltd.	Officer	March 2017
	Alderon Iron Ore Corp.	Officer	September 2012
Scott Larson	UrtheCast Corp.	Director	June 2013
Paul Sun	Navy Resources Corp.	Director / Officer	September 2018

Orientation and Continuing Education

The CEO and/or the CFO are responsible for providing an orientation for new directors. Director orientation and ongoing training includes presentations by senior management to familiarize directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its principal officers and its internal and independent auditors. On occasions where it is considered advisable, the Board provides individual directors with information regarding topics of general interest, such as fiduciary duties and continuous disclosure obligations. The Board ensures that each director is up to date with current information regarding the business of the Company, the role the director is expected to fulfill and basic procedures and operations of the Board. The Board members are given access to management and other employees and advisors, who can answer any questions that may arise. Regular technical presentations are made to the directors to keep them informed of the Company's operations.

Ethical Business Conduct

We have adopted a written code of ethics (the "**Code of Ethics**") that applies to all of our officers, directors, employees, contractors and agents acting on behalf of the Company. The objective of the Code of Ethics is to provide guidelines for maintaining our and our subsidiaries integrity, trust and respect. The Code of Ethics addresses compliance with laws, rules and regulations, conflicts of interest, confidentiality, commitment, preferential treatment, financial information, internal controls and disclosure, protection and proper use of our assets, communications, fair dealing, fair competition, due diligence, illegal payments, equal employment opportunities and harassment, privacy, use of Company computers and the internet, political and charitable activities and reporting any violations of law, regulation or the Code of Ethics. Any person subject to the Code of Ethics should report all violations of law, regulation or of the Code of Ethics of which they become aware to any one of the Company's senior executives. Our Board has ultimate responsibility for monitoring compliance with the Code of Ethics. The Code of Ethics will be filed with the Canadian securities regulatory authorities on SEDAR at www.sedar.com.

Nomination of Directors

The Board does not have a nominating committee. The Board will consider its size each year when it passes a resolution determining the number of directors to be appointed at each annual general meeting of shareholders. The Board has determined that the configuration of three directors is the appropriate number of directors, taking into account the number required to carry out duties effectively while maintaining a diversity of views and experience. The Board determines new nominees to the Board, although a formal process has not been adopted. The nominees are generally the result of recruitment efforts by the Board members, including both formal and informal discussions among Board members, the Chairman and CEO. The Board monitors but does not formally assess the performance of individual Board members or committee members or their contributions.

Compensation

There are no current plans for the Company to pay any cash compensation to directors for services rendered in their capacity as directors. This matter will be reconsidered by the Board upon completion of Listing.

It is also expected that the Company will grant options and/or restricted share units to directors in recognition of the time and effort that such directors devote to the Company. The timing, amounts, exercise price of these future option based and share based awards are not yet determined.

Other Board Committees

Other than the Audit Committee, the Company will have no other standing committees upon Listing. Following the Listing, the Board will consider addition of other committees as appropriate.

Assessments

The Board does not conduct any formal evaluation of the performance and effectiveness of the members of the Board, the Board as a whole or any committee of the Board, however, the Board considers the effectiveness and contribution of the Board, its members and the Audit Committee on an ongoing basis. The directors and the independent directors are free to discuss specific situations from time to time among themselves and/or with the CEO and, if need be, steps are taken to remedy the situation, which steps may include a request for resignation. Furthermore, management and directors will communicate with shareholders on an ongoing basis, and shareholders will be regularly consulted on the effectiveness of Board members and the Board as a whole. The majority of the Board also serve as directors for other public companies and will utilize that experience when assessing the Board, its members and committees.

AUDIT COMMITTEE

The Audit Committee will meet with the CEO and CFO of the Company and the independent auditors to review and inquire into matters affecting financial reporting matters, the system of internal accounting and financial controls and procedures and the audit procedures and audit plans. The Audit Committee will recommend to the Board the independent registered public accounting firm to be appointed. In addition, the Audit Committee will review and recommend to the Board for approval the annual financial statements, the annual report and certain other documents required by regulatory authorities.

The Board has not developed a written position description for the Chairman of the Audit Committee but considers the Chairman to be responsible for setting the tone for the committee work, ensuring that members have the information needed to do their jobs, overseeing the logistics of the Audit Committee's operations, reporting to the Board on the Audit Committee's decisions and recommendations, setting the agenda and running and maintaining minutes of the meetings of the Audit Committee.

The Audit Committee's Charter

A copy of the Company's Audit Committee Charter is attached here to as Schedule J hereto.

Composition of the Audit Committee

The Audit Committee is composed of the following members:

Name	Independent	Financially Literate
Scott Larson (Chair)	Independent[(1)]	financially literate[(1)]
Cameron Chell	Non-independent[(1)]	financially literate[(1)]
Olen Aasen	Independent[(1)]	financially literate[(1)]

Note:

(1) Within the meaning of NI 52-110.

Relevant Education and Experience

All members of the Audit Committee have the ability to read, analyze and understand the complexities surrounding the issuance of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements, and have an understanding of internal controls. All members of the Audit Committee intend to maintain their currency by periodically taking continuing education courses.

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his/her responsibilities as an Audit Committee member is as follows:

Scott Larson – Mr. Larson brings over 20 years of combined corporate finance, technology development and entrepreneurial experience to the Board. Currently CEO of Kater, a Vancouver-based mobility as a service (MaaS) company building out an integrated intermodal transportation platform incorporating public transportation, buses, taxis and ride haling vehicles into a single service. Previously, Mr. Larson has been CEO and co-founder of Helios Wire, a satellite company building out a space-enabled IoT/M2M network, and was CEO/Co-Founder of UrtheCast. Mr. Larson helped scale the company from its inception, taking it public on the Toronto Stock Exchange, raising $200 million, and leading the company to 250 employees over five years with seven offices around the world. Mr. Larson has an understanding of financial statements and is financially literate as that term is defined in NI 52-110.

Cameron Chell, CEO and Director – Mr. Chell is the CEO of the Company and CEO and Co-Founder of Business Instincts Group, Inc. Mr. Chell became an entrepreneur at age 14, and has since spent his career growing a diverse collection of high-potential ideas into revolutionary companies that have changed the way we experience the world. At 14, Cameron launched his first company by building irrigation valves, but as a junior high student, he was consistently turned down by manufacturers and distributors. Undeterred, he bid on irrigation contracts instead, landing deals and building his first business. By 17, Cameron had launched several other companies including a computer assembly and reseller operation. Later in life, while working as a stockbroker tasked with seeding high-tech companies, building Boards and raising capital, Cameron realized he could turn his passion for creating companies into a career. He quickly left to quench his thirst for building businesses himself. Which he did, at 30, when he built FutureLink, an internet software service that pioneered cloud computing and grew into a $3B company with 1,300 employees. He later went on to scale a payment processing company that grew to earn a valuation twice the size of PayPal – or approximately $4B. Now, as the CEO of BIG, Cameron takes a very hands-on leadership position in client projects, infusing his principles of clarity, alignment and measurement into the culture of every BIG partner. That leadership was critical to the success of UrtheCast, which he co-founded, Cold Bore Technologies, Slyce, Raptor Rig, Trace and Trax. Most recently, Cameron has served as an advisor to KodakCoin, one of the first compliant cryptocurrencies developed in partnership between Business Instincts Group, WENN Digital and ICOX Innovations. Cameron is an Olympic decathlete, a cancer survivor, and the author of Sustainable Startup, a guide for scaling small businesses and their teams. In addition to his work with BIG, Cameron speaks publicly on topics including technology, culture and overcoming adversity. Mr. Chell devotes 25% of his time to the Company. Mr. Chell has not entered into a non-competition or a non-disclosure agreement with the Company. Mr. Chell has an understanding of financial statements and is financially literate as that term is defined in NI 52 110.

Olen Aasen – Mr. Aasen is a corporate and securities lawyer with more than 13 years of experience in corporate, securities and regulatory matters. He has been the Corporate Secretary, General Counsel or Vice President, Legal at various Canadian and U.S.- listed companies. Mr. Aasen obtained a J.D. from the University of British Columbia in 2006 and was called to the British Columbia Bar in 2007. Mr. Aasen was also appointed to the 2016 Legal 500 GC Powerlist for Canada. Mr. Aasen has an understanding of financial statements and is financially literate as that term is defined in NI 52-110.

Reliance on Certain Exemptions

Since the Company is a Venture Issuer pursuant to applicable Canadian securities legislation, it is relying upon the exemption provided for at section 6.1 of NI 52-110 in respect of the composition of the Audit committee.

At no time since the commencement of the Company's most recently completed financial year has the Company relied on the exemptions provided for in subsections 2.4, 6.1.1(4), 6.1.1(5), or 6.1.1(6) of NI 52-110 or an exemption from NI 52-110, in whole or in part, granted pursuant to Part 8 of NI 52-110.

Pre-Approval Policies and Procedures

The Audit Committee Charter sets out responsibilities regarding the provision of non-audit services by the Company's external auditors. The Audit Committee will be responsible for the pre-approval of all audit services and permissible non-audit services to be provided to the Company by the external auditors, subject to any exceptions provided in NI 52-110.

Details of the composition and function of the remaining standing committees to be formed following the Listing will be discussed at the first meeting of the directors following the Listing.

External Auditor Service Fee

For the period ended December 31, 2018 ("**Fiscal 2018**") and the year ended December 31, 2017 ("**Fiscal 2017**"), we incurred the following fees by our external auditor, DMCL:

	Fiscal 2018	Fiscal 2017
Audit fees(1)	$ 30,000	$ 30,000
Audit related fees(2)	N/A	N/A
Tax fees(3)	2,500	2,500
All other fees(4)	N/A	N/A
Total fees paid	$ 32,500	$ 32,500

Notes:

(1) Fees for audit service on an accrued basis.
(2) Fees for assurance and related services not included in audit service above.
(3) Fees for tax compliance, tax advice and tax planning.
(4) All other fees not included above.

EXECUTIVE COMPENSATION

Prior to obtaining a receipt for the Prospectus, the Company is not a reporting issuer in any jurisdiction. As a result, certain information required by Form 51-102F6V – *Statement of Executive Compensation – Venture Issuers* ("**Form 51-102F6V**") has been omitted pursuant to Section 1.3(8) of Form 51-102F6V.

The following discussion describes the significant elements of the compensation of our Named Executive officers, (collectively, the "**named executive officers**" or "**NEOs**").

"**Named executive officers**" or "**NEOs**" means each of the following individuals: (i) each CEO; (ii) each CFO; (iii) the most highly compensated executive officer other than CEO and CFO at the end of the most recently completed financial year whose total compensation was more than $150,000; (iv) each individual who would be a named executive officer under (iii) but for the fact that the individual was not an executive officer of the company, and was not acting in a similar capacity, at the end of that financial year.

The following are our NEOs:

- Cameron Chell, CEO; and
- Paul Sun, CFO and Corporate Secretary.

As of the date of the Prospectus, and other than as disclosed below, the anticipated compensation for each of the Company's two NEOs, for the 12 month period following the Listing is not known.

Incentive Plan Awards

The Company intends to grant restricted share units and Options upon completion of the Listing. See below "Share Compensation Plan" for more detail on the Company's Share Compensation Plan.

The Company will likely grant future option based and share based awards by granting stock options or restricted share units to its directors, officers, employees, consultants pursuant to its Share Compensation Plan. The timing, amounts, exercise price of these future option based and share based awards are not yet determined. See "Forward Looking Statements".

Share Compensation Plan

The Share Compensation Plan is a 20% "rolling" plan pursuant to which the number of Common Shares which may be issued pursuant to RSUs and Options granted under the Share Compensation Plan.

The Share Compensation Plan provides participants (each, a "**Participant**"), who may include participants who are citizens or residents of the United States (each, a "**US Participant**"), with the opportunity, through RSUs and Options, to acquire an ownership interest in the Corporation. The RSUs will rise and fall in value based on the value of the Corporation Shares. Unlike the Options, the RSUs will not require the payment of any monetary consideration to the Corporation. Instead, each RSU represents a right to receive one Common Share following the attainment of vesting criteria determined at the time of the award. See "Restricted Share Units – Vesting Provisions" below. The Options, on the other hand, are rights to acquire Corporation Shares upon payment of monetary consideration (i.e., the exercise price), subject also to vesting criteria determined at the time of the grant. See "Options – Vesting Provisions" below.

Purpose of the Share Compensation Plan

The stated purpose of the Share Compensation Plan is to advance the interests of the Corporation and its subsidiaries, and its shareholders by: (a) ensuring that the interests of Participants are aligned with the success of the Corporation and its subsidiaries; (b) encouraging stock ownership by such persons; and (c) providing compensation opportunities to attract, retain and motivate such persons.

The following people are eligible to participate in the Share Compensation Plan: any officer or employee of the Corporation or any officer or employee of any subsidiary of the Corporation and, solely for purposes of the grant of Options, any director of the Corporation or any director of any subsidiary of the Corporation, and any Consultant (defined under the Share Compensation Plan as an individual (other than an employee or a director of the Corporation) or a corporation that is not a

U.S. Person that: (A) is engaged to provide on an ongoing bona fide basis, consulting, technical, management or other services to the Corporation or to an affiliate of the Corporation, other than services provided in relation to an offer or sale of securities of the Corporation in a capital raising transaction, or services that promote or maintain a market for the Corporation's securities; (B) provides the services under a written contract between the Corporation or the affiliate and the individual or the Corporation, as the case may be; (C) in the reasonable opinion of the Corporation, spends or will spend a significant amount of time and attention on the affairs and business of the Corporation or an affiliate of the Corporation; and (D) has a relationship with the Corporation or an affiliate of the Corporation that enables the individual to be knowledgeable about the business and affairs of the Corporation.

Administration of the Share Compensation Plan

The Share Compensation Plan is administered by the Board or such other persons as may be designated by the Board (the "**Administrators**") based on the recommendation of the Board or the compensation committee of the Board, if applicable. The Administrators determine the eligibility of persons to participate in the Share Compensation Plan, when RSUs and Options will be awarded or granted, the number of RSUs and Options to be awarded or granted, the vesting criteria for each award of RSUs and grant of Options and all other terms and conditions of each award and grant, in each case in accordance with applicable securities laws and the requirements of the CSE.

Restrictions on the Award of RSUs and Grant of Options

The awards of RSUs and grants of Options under the Share Compensation Plan is subject to a number of restrictions:

(a) the total number of Common Shares issuable to insiders under the Share Compensation Plan and any other share compensation arrangements of the Corporation cannot exceed 20% of the Common Shares then outstanding; and

(b) the aggregate sales price (meaning the sum of all cash, property, notes, cancellation of debt, or other consideration received or to be received by the Corporation for the sale of the securities) or amount of Common Shares issued during any consecutive 12-month period will not exceed the greatest of the following: (i) U.S.$1,000,000; (ii) 15% of the total assets of the Corporation, measured at the Corporation's most recent balance sheet date; or (iii) 15% of the outstanding amount of the Common Shares, measured at the Corporation's most recent balance sheet date.

In the event of any declaration by the Corporation of any stock dividend payable in securities (other than a dividend which may be paid in cash or in securities at the option of the holder of Common Shares), or any subdivision or consolidation of the Common Shares, reclassification or conversion of the Common Shares, or any combination or exchange of securities, merger, consolidation, recapitalization, amalgamation, plan of arrangement, reorganization, spin off involving the Corporation, distribution (other than normal course cash dividends) of Corporation assets to holders of Common Shares, or any other corporate transaction or event involving the Corporation or the Common Shares, the Administrators may in their sole discretion make such changes or adjustments, if any, as the Administrators consider fair or equitable to reflect such change or event including, without limitation, adjusting the number of Options and RSUs outstanding under the Share Compensation Plan, the type and number of securities or other property to be received upon exercise or redemption thereof, and the exercise price of Options outstanding under the Share Compensation Plan, provided that the value of any Option or RSU immediately after such an adjustment shall not exceed the value of such Option or RSU prior thereto.

<u>Mechanics for RSUs</u>

RSUs awarded to Participants under the Share Compensation Plan are credited to an account that is established on their behalf and maintained in accordance with the Share Compensation Plan. After the relevant date of vesting of any RSUs awarded under the Share Compensation Plan, a Participant shall be entitled to receive and the Corporation shall issue or pay (at its discretion): (i) a lump sum payment in cash equal to the number of vested RSUs recorded in the Participant's account multiplied by the volume weighted average price of the Common Shares traded on the CSE for the five (5) consecutive trading days prior to the payout date; (ii) the number of Common Shares required to be issued to a Participant upon the vesting of such Participant's RSUs in the Participant's account will be, duly issued as fully paid and non-assessable shares and such Participant shall be registered on the books of the Corporation as the holder of the appropriate number of Common Shares; or (iii) any combination of thereof.

Vesting Provisions

The Share Compensation Plan provides that: (i) at the time of the award of RSUs, the Administrators will determine the vesting criteria applicable to the awarded RSUs; (ii) vesting of RSUs may include criteria such as performance vesting; (iii) each RSU shall be subject to vesting in accordance with the terms set out in an agreement evidencing the award of the RSU attached as Exhibit A to the Share Compensation Plan (or in such form as the Administrators may approve from time to time) (each an "**RSU Agreement**"); and (iv) all vesting and issuances or payments in respect of an RSU shall be completed no later than December 15 of the third calendar year commencing after the award date for such RSU.

It is the current intention that RSUs may be awarded with both time based vesting provisions as a component of the Corporation's annual incentive compensation program, and performance based vesting provisions as a component of the Corporation's long term incentive compensation program.

Under the Share Compensation Plan, should the date of vesting of an RSU fall within a blackout period or within nine business days following the expiration of a blackout period, the date of vesting will be automatically extended to the tenth business day after the end of the blackout period.

Termination, Retirement and Other Cessation of Employment in connection with RSUs

A person participating in the Share Compensation Plan will cease to be eligible to participate in the following circumstances: (i) receipt of any notice of termination of employment or service (whether voluntary or involuntary and whether with or without cause); (ii) retirement; and (iii) any cessation of employment or service for any reason whatsoever, including disability and death (an "**Event of Termination**"). In such circumstances, any vested RSUs will be issued (and with respect to each RSU of a US Participant, such RSU will be settled and shares issued as soon as practicable following the date of vesting of such RSU as set forth in the applicable RSU Agreement, but in all cases within 60 days following such date of vesting; and unless otherwise determined by the Administrators in their discretion, any unvested RSUs will be automatically forfeited and cancelled (and with respect to any RSU of a US Participant, if the Administrators determine, in their discretion, to waive vesting conditions applicable to an RSU that is unvested at the time of an Event of Termination, such RSU shall not be forfeited or cancelled, but instead will be deemed to be vested and settled and shares delivered following the date of vesting date of such Restricted Share Unit as set forth in the applicable RSU Agreement). Notwithstanding the above, if a person retires in accordance with the Corporation's retirement policy at such time, the pro rata portion of any unvested performance based RSUs will not be forfeited or cancelled and instead shall be eligible to become vested in accordance with the vesting conditions set forth in the applicable RSU Agreement after such retirement (as if retirement had not occurred), but only if the performance vesting criteria, if any, have been met on the applicable date. For greater certainty, if a person is terminated for just cause, all unvested RSUs will be forfeited and cancelled.

Options

The total number of Common Shares that may be issued on exercise of Options and RSUs, together with any other share compensation arrangements of the Corporation, shall not exceed 10% of the number of issued and outstanding Common Shares from time to time.

Mechanics for Options

Each Option granted pursuant to the Share Compensation Plan will entitle the holder thereof to the issuance of one Common Share upon achievement of the vesting criteria and payment of the applicable exercise price. Options granted under the Share Compensation Plan will be exercisable for Common Shares issued from treasury once the vesting criteria established by the Administrators at the time of the grant have been satisfied. However, the Corporation will continue to retain the flexibility through the amendment provisions in the Share Compensation Plan to satisfy its obligation to issue Common Shares by making a lump sum cash payment of equivalent value (i.e., pursuant to a cashless exercise), provided there is a full deduction of the number of underlying Common Shares from the Share Compensation Plan's reserve.

Vesting Provisions

The Share Compensation Plan provides that the Administrators may determine when any Option will become exercisable and may determine that Options shall be exercisable in instalments or pursuant to a vesting schedule. The Option agreement will disclose any vesting conditions prescribed by the Administrators.

Termination, Retirement and Other Cessation of Employment in connection with Options

A person participating in the Share Compensation Plan will cease to be eligible to participate where there is an Event of Termination. In such circumstances, unless otherwise determined by the Administrators in their discretion, any unvested Options will be automatically cancelled, terminated and not available for exercise and any vested Options may be exercised only before the earlier of: (i) the termination of the Option; and (ii) six months after the date of the Event of Termination. If a person is terminated for just cause, all Options will be (whether or not then exercisable) automatically cancelled

Other Terms

The Administrators will determine the exercise price and term/expiration date of each Option, provided that the exercise price in respect of that Option shall not be less than the Market Price on the date of grant. "**Market Price**" is defined in the Share Compensation Plan, as of any date, the closing price of the Common Shares on the CSE for the last market trading day prior to the date of grant of the Option or if the Common Shares are not listed on a stock exchange, the Market Price shall be determined in good faith by the Administrators.

No Option shall be exercisable after ten years from the date the Option is granted. Under the Share Compensation Plan, should the term of an Option expire on a date that falls within a blackout period or within nine business days following the expiration of a blackout period, such expiration date will be automatically extended to the tenth business day after the end of the blackout period.

Unless otherwise determined by the Board, in the event of a change of control, any surviving or acquiring corporation shall assume any Option outstanding under the Share Compensation Plan on substantially the same economic terms and conditions or substitute or replace similar options for those Options outstanding under the Share Compensation Plan on substantially the same economic terms and conditions.

Transferability

RSUs awarded and Options granted under the Share Compensation Plan or any rights of a Participant cannot be transferred, assigned, charged, pledged or hypothecated, or otherwise alienated, whether by operation of law or otherwise.

Reorganization and Change of Control Adjustments

In the event of any declaration by the Corporation of any stock dividend payable in securities (other than a dividend which may be paid in cash or in securities at the option of the holder of Common Shares), or any subdivision or consolidation of Common Shares, reclassification or conversion of the Common Shares, or any combination or exchange of securities, merger, consolidation, recapitalization, amalgamation, plan of arrangement, reorganization, spin off involving the Corporation, distribution (other than normal course cash dividends) of Corporation assets to holders of Common Shares, or any other corporate transaction or event involving the Corporation or the Common Shares, the Administrators may make such changes or adjustments, if any, as they consider fair or equitable, to reflect such change or event including adjusting the number of Options and RSUs outstanding under the Share Compensation Plan, the type and number of securities or other property to be received upon exercise or redemption thereof, and the exercise price of Options outstanding under the Share Compensation Plan, provided that the value of any Option or RSU immediately after such an adjustment shall not exceed the value of such Option or RSU prior thereto.

Amendment Provisions in the Share Compensation Plan

The Board may amend the Share Compensation Plan or any RSU or Option at any time without the consent of any Participant provided that such amendment shall:

(a) not adversely alter or impair any RSU previously awarded or any Option previously granted, except as permitted by the adjustment provisions of the Share Compensation Plan and with respect to RSUs and Options of US Participants;

(b) be subject to any regulatory approvals including, where required, the approval of the CSE; and

(c) be subject to shareholder approval, where required, by the requirements of the CSE, provided that shareholder approval shall not be required for the following amendments:

    (i) amendments of a "housekeeping nature", including any amendment to the Share Compensation Plan or an RSU or Option that is necessary to comply with applicable laws, tax or accounting provisions or the requirements of any regulatory authority, stock exchange or quotation system and any amendment to the Share Compensation Plan or an RSU or Option to correct or rectify any ambiguity, defective provision, error or omission therein, including any amendment to any definitions therein;

    (ii) amendments that are necessary or desirable for RSUs or Options to qualify for favourable treatment under any applicable tax law;

    (iii) amendments to the vesting provisions of any RSU or any Option (including any alteration, extension or acceleration thereof), providing such amendments do not adversely alter or impair such RSU or Option;

    (iv) amendments to the termination provisions of any Option (e.g., relating to termination of employment, resignation, retirement or death) that does not entail an extension beyond the original expiration date (as such date may be extended by virtue of a blackout period) providing such amendments do not adversely alter or impair such Option;

    (v) amendments to the Share Compensation Plan that would permit the Corporation to retain a broker and make payments for the benefit of Participants to such broker who would purchase Common Shares for such persons, instead of issuing Common Shares from treasury upon the vesting of the RSUs;

    (vi) amendments to the Share Compensation Plan that would permit the Corporation to make lump sum cash payments to Participants, instead of issuing Common Shares from treasury upon the vesting of the RSUs;

    (vii) the amendment of the cashless exercise feature set out in the Share Compensation Plan; and

    (viii) change the application of the Change of Control provisions in section 6.2 or the Reorganization Adjustments provisions in section 6.3).

For greater certainty, shareholder approval will be required in circumstances where an amendment to the Share Compensation Plan would:

(a) increase the fixed maximum percentage of issued and outstanding Common Shares issuable under the Share Compensation Plan, other than by virtue of the adjustment provisions in the Share Compensation Plan, or change from a fixed maximum percentage of issued and outstanding Common Shares to a fixed maximum number of Common Shares;

(b) increase the limits referred to above under "Restrictions on the Award of RSUs and Grant of Options";

(c) reduce the exercise price of any Option (including any cancellation of an Option for the purpose of reissuance of a new Option at a lower exercise price to the same person);

(d) extend the term of any Option beyond the original term (except if such period is being extend by virtue of a blackout period); or

(e) amend the amendment provisions in Section 6.4 of the Share Compensation Plan.

Pension Plan Benefits

The Company does not have defined benefit or defined contribution plans.

Corporate Bankruptcies

Other than as provided below, none of our directors or executive officers has, within the ten years prior to the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets, been a director or executive officer of any company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets.

Directors' Compensation

There are no current plans for the Company to pay any cash compensation to directors for services rendered in their capacity as directors. This matter will be reconsidered by the Board upon completion of the Listing.

It is also expected that the Company will grant stock options and/or restricted share units to directors in recognition of the time and effort that such directors devote to the Company. The timing, amounts, exercise price of these future option based and share based awards are not yet determined.

Oversight and Description of Director and NEO Compensation

The formal policies or practices of the Company to determine the compensation for the Company directors and executive officers are not known. It is anticipated that following Listing, the Company will establish such formal policies or practices.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

None of our directors, executive officers, employees, former directors, former executive officers or former employees or any of our subsidiaries, and none of their respective associates, is or has within 30 days before the date of this Prospectus or at any time since the beginning of the most recently completed financial year been indebted to us or any of our subsidiaries or another entity whose indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar agreement or understanding provided us or any of our subsidiaries.

RISK FACTORS

Description of Risk Factors

The following are certain risk factors relating to the business carried on by the Company which prospective investors should carefully consider before deciding whether to purchase Company Shares. The Company will face a number of challenges in the development of its technology and in building its user base. Due to the nature of the Company, the Company's business and present stage of the business, the Company may be subject to significant risks. Readers should carefully consider all such risks, including those set out in the discussion below.

General Business Risks

Operational Risks

The Company will be affected by a number of operational risks and the Company may not be adequately insured for certain risks, including: labour disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's technologies, personal injury or death, environmental damage, adverse impacts on the Company's operation, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on the Company's future cash flows, earnings and financial condition. Also, the Company may be subject to or affected by liability or sustain loss for certain risks and hazards against which the

Company cannot insure or which the Company may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Resale of Shares

There can be no assurance that the publicly-traded market price of the Company Shares will be high enough to create a positive return for the existing investors. Further, there can be no assurance that the Company Shares will be sufficiently liquid so as to permit investors to sell their position in the Company without adversely affecting the stock price. In such event, the probability of resale of the Company Shares would be diminished.

As well, the continued operation of the Company will be dependent upon its ability to procure additional financing in the short term and to generate operating revenues in the longer term. There can be no assurance that any such financing can be obtained or that revenues can be generated. If the Company is unable to obtain such additional financing or generate such revenues, investors may be unable to sell their Company Shares and any investment in the Company may be lost.

No prior market for Company Shares

There is currently no public market for the Company Shares and there is no guarantee that Listing will be completed even following the proposed Listing. If Listing is not completed, or if an active public market does not develop or is not maintained, investors might have difficulty selling their Company Shares.

Market for Securities

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the Company Shares will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company Shares will be affected by such volatility. An active public market for the Company Shares might not develop or be sustained after the completion, if obtained, of the Listing. If an active public market for the Company Shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline.

Dividends

To date, the Company has not paid any dividends on its outstanding shares. Any decision to pay dividends on the shares of the Company will be made by its board of directors on the basis of its earnings, financial requirements and other conditions.

History of Losses

The Company incurred net losses from the inception of its business until the date of this Prospectus. The Company cannot assure that it can become profitable or avoid net losses in the future or that there will not be any earnings or revenue declines for any future quarterly or other periods. The Company expects that its operating expenses will increase as it grows its business, including expending substantial resources for research and development and marketing. As a result, any decrease or delay in generating revenues could result in material operating losses.

Reliance on Management and Key Employees

The Company's future success depends substantially on the continued services of its executive officers and its key development personnel. If one or more of its executive officers or key development personnel were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. In addition, if any of its executive officers or key employees joins a competitor or forms a competing company, the Company may lose know-how, key professionals and staff members as well as partners. These executive officers and key employees could develop drone technologies that could compete with and take customers and market share away from the Company.

Management of Growth

The Company may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

Risk Associated with Foreign Operations in Other Countries

The Company's primary revenues are expected to be achieved in Canada and the US. However, the Company may expand to markets outside of North America and become subject to risks normally associated with conducting business in other countries. The Company cannot predict government positions on such things as foreign investment, intellectual property rights or taxation. A change in government positions on these issues could adversely affect the Company's business.

Risks Associated with Acquisitions

As part of the Company's overall business strategy, after the completion of the Listing, the Company may pursue select strategic acquisitions that would provide additional product or service offerings, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. Future acquisitions may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company's existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; or (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. In addition, any proposed acquisitions may be subject to regulatory approval.

Electronic Communication Security Risks

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

Insurance Coverage

The Company after completion of the Transaction will require insurance coverage for a number of risks, including business interruption, environmental matters and contamination, personal injury and property damage. Although the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking into account the risks relevant to its business, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

Tax Risk

The Company will be considered to have been carrying on business in Canada for purposes of the *Income Tax Act* (the "**Tax Act**"). There is risk that foreign governments may look to increase their tax revenues or levy additional taxes to level the playing field for perceived disadvantages to the traditional brick and mortar business. While the Company does not foresee any adverse tax affects, there is no guarantee that governments will not impose such additional adverse taxes in the future.

Conflicts of Interest

Because directors and officers of the Company are or may become directors or officers of other reporting companies or have significant shareholdings in other technology companies, the directors and officers of the Company may have a conflict of interest in conducting their duties. The Company and its directors and officers will attempt to minimize such conflicts. In the event that such a conflict of interest arises at a meeting of the directors of the Company, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In appropriate cases the Company will establish a special committee of independent directors to review a matter in which several directors, or officers, may have a conflict. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time. Other than as indicated, the Company has no other procedures or mechanisms to deal with conflicts of interest.

Executive officers and directors may have rights to indemnification including directors' and officers' liability insurance that will survive consummation of their agreements.

Competitive Markets

The Company faces competition and new competitors will continue to emerge throughout the world. Services offered by the Company's competitors may take a larger share of consumer spending than anticipated, which could cause revenue generated from the Company's products and services to fall below expectations. It is expected that competition in these markets will intensify.

If competitors of the Company develop and market more successful products or services, offer competitive products or services at lower price points, or if the Company does not produce consistently high-quality and well-received products and services, revenues, margins, and profitability of the Company will decline.

The Company's ability to compete effectively will depend on, among other things, the Company's pricing of services and equipment, quality of customer service, development of new and enhanced products and services in response to customer demands and changing technology, reach and quality of sales and distribution channels and capital resources. Competition could lead to a reduction in the rate at which the Company adds new customers, a decrease in the size of the Company's market share and a decline in its customers. Examples include but are not limited to competition from other companies in the UAV industry.

In addition, the Company could face increased competition should there be an award of additional licences in jurisdictions in which the Company operates in.

Uncertainty and adverse changes in the economy

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

We will incur increased expenses as a result of being a public company and our current resources may not be sufficient to fulfill our public company obligations.

We expect to incur significant legal, accounting, insurance and other expenses as a result of being a public company, which may negatively impact our performance and could cause our results of operations and financial condition to suffer. Compliance with applicable securities laws in Canada and the rules of the CSE substantially increases our expenses, including our legal and accounting costs, and makes some activities more time consuming and costly. Reporting obligations as a public company and our anticipated growth may place a strain on our financial and management systems, processes and controls, as well as on our personnel.

We also expect these laws, rules and regulations to make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers. As a result of the foregoing, we expect a substantial increase in legal, accounting, insurance and certain other expenses in the future, which will negatively impact our financial performance and could cause our results of operations and financial condition to suffer.

We are responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of our inherent limitations and the fact that we are a new public company and are implementing new financial control and management systems, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A failure to prevent or detect errors or misstatements may result in a decline in the market price of our Common Shares and harm our ability to raise capital in the future.

If our management is unable to certify the effectiveness of our internal controls or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could harm our business and cause a decline in the price of our Common Shares. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in the market price of our Common Shares and harm our ability to raise capital. Failure to accurately report our financial performance on a timely basis could also jeopardize our listing on the CSE or any other stock exchange on which our Common Shares may be listed. Delisting of our Common Shares on any exchange would reduce the liquidity of the market for our Common Shares, which would reduce the price of and increase the volatility of the market price of our Common Shares.

We do not expect that our disclosure controls and procedures and internal controls over financial reporting will prevent all error or fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results could be materially adversely effected, which could also cause investors to lose confidence in our reported financial information, which in turn could result in a reduction in the trading price of the Common Shares.

Our senior management team has limited experience managing a public company, and regulatory compliance may divert its attention from the day to day management of our business.

The individuals who now constitute our senior management team have relatively limited experience managing a publicly traded company and limited experience complying with the increasingly complex laws pertaining to public companies compared to senior management of other publicly traded companies. Our senior management team may not successfully or efficiently manage our transition to being a public company subject to significant regulatory oversight and reporting obligations under Canadian securities laws. In particular, these new obligations will require substantial attention from our senior management and could divert their attention away from the day to day management of our business.

Dilution and future sale of Common Shares

We may issue additional Common Shares in the future, which may dilute a Shareholder's holding in the Company. Our articles will permit the issuance of an unlimited number of Common Shares, and Shareholders will have no pre-emptive rights in connection with such further issuances. The Directors of the Company have the discretion to determine if an issuance of Common Shares is warranted, the price at which such issuance is effected and the other terms of issue of Common Shares. Also, we may issue additional Common Shares upon the exercise of options to acquire Common Shares under the Option Plan, which will result in further dilution to the Shareholders. Potential future acquisitions may also divert Management's attention and result in further dilution to the Shareholders.

Risks Related to Operations

The Company operates in evolving markets, which makes it difficult to evaluate the Company's business and future prospects.

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

- generate sufficient revenue to maintain profitability;

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

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

The Company's adoption of new business models could fail to produce desired financial returns.

Forecasting the Company's revenues and profitability for these new business models is inherently uncertain and volatile. The Company's actual revenues and profits for these business models may be significantly greater or less than the Company's forecasts. Additionally, these new business models could fail for one or more of the Company's products and/or services, resulting in the loss of Company's investment in the development and infrastructure needed to support these new business models, and the opportunity cost of diverting management and financial resources away from more successful businesses.

If critical components or raw materials used to manufacture the Company's products become scarce or unavailable, then the Company may incur delays in manufacturing and delivery of its products, which could damage its business.

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

In addition, certain raw materials and components used in the manufacture of the Company's products are periodically subject to supply shortages, and its business is subject to the risk of price increases and periodic delays in delivery. Similarly, the market for electronic components is subject to cyclical reductions in supply. If the Company is unable to obtain components from third-party suppliers in the quantities and of the quality that it requires, on a timely basis and at acceptable prices, then it may not be able to deliver its products on a timely or cost-effective basis to its customers, which could cause customers to terminate their contracts with the Company, increase the Company's costs and seriously harm its business, results of operations and financial condition. Moreover, if any of the Company's suppliers become financially unstable, then it may have to find new suppliers. It may take several months to locate alternative suppliers, if required, or to redesign the Company's products to accommodate components from different suppliers. The Company may experience significant delays in manufacturing and shipping its products to customers and incur additional development, manufacturing and other costs to establish alternative sources of supply if the Company loses any of these sources or is required to redesign its products. The Company cannot predict if it will be able to obtain replacement components within the time frames that it requires at an affordable cost, if at all.

The markets in which the Company competes are characterized by rapid technological change, which requires the Company to develop new products and product enhancements, and could render the Company's existing products obsolete.

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

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

If the Company releases defective products or services, its operating results could suffer.

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

The Company's business could be adversely affected if its consumer protection and data privacy practices are not seen as adequate or there are breaches of its security measures or unintended disclosures of its consumer data.

The rate of privacy law-making is accelerating globally and interpretation and application of consumer protection and data privacy laws in Canada, the United States, Europe and elsewhere are often uncertain, contradictory and in flux. As business practices are being challenged by regulators, private litigants, and consumer protection agencies around the world, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with the Company's data and/or consumer protection practices. If so, this could result in increased litigation government or court imposed fines, judgments or orders requiring that the Company change its practices, which could have an adverse effect on its business and reputation. Complying with these various laws could cause the Company to incur substantial costs or require it to change its business practices in a manner adverse to its business.

Failure to obtain necessary regulatory approvals from Transport Canada or other governmental agencies, or limitations put on the use of small UAV in response to public privacy concerns, may prevent the Company from expanding sales of its small UAV to non-military customers in Canada.

The regulation of small UAV for commercial use in Canada is undergoing substantial change and the ultimate treatment is uncertain. Currently, the operation of UAVs with a maximum takeoff weight not exceeding 2kg., operated within visual line-of-sight are exempt from the regulations promulgated under the *Aeronautics Act* (Canada).

Transport Canada is responsible for establishing, managing, and developing safety and security standards and regulations for civil aviation in Canada, and includes unmanned civil aviation. Civil operations include law enforcement, scientific research, or use by private sector companies for commercial purposes.

UAV operations for civil or commercial purposes are only authorized to fly with a Special Flight Operations Certificate ("**SFOC**") issued by Transport Canada. The *Canadian Aviation Regulations* ("**CARs**") govern civil aviation safety and security in Canada, and by extension govern operation of UAVs in Canada to an equivalent level of safety as manned aircraft. According to section 602.41 of the CARs, "no person shall operate an unmanned air vehicle in flight except in accordance with a SFOC, or an air operator certificate."

As the name implies, SFOCs are intended to be an authorization for flight under special cases that are specific to a geographical area and for a specific mission. An SFOC may be issued to authorize a UAV to operate for any civil purpose, including for surveillance. The information that must be contained in an application for an SFOC includes details such as: type and purpose of the operation; description of the aircraft; dates and times of the proposed flight; security plans and emergency contingency plans; and a detailed plan describing how the operation will be carried out including: altitude and routes where the operation will be carried out, the location of any obstacles, and the exact boundaries of the area for the operation.

While Transport Canada has been a world leader in the development of regulations for the commercial use of UAVs, it has acknowledged that the current regulatory regime in Canada has not kept pace with the rapid development in technology and the growing demand for commercial UAV use. In 2010, the Canadian Aviation Regulation Advisory Council ("**CARAC**") established the Unmanned Aircraft System Program Design Working Group to develop new regulations to increase the safety, scope and regulatory efficiency of commercial UAV applications in Canada. In 2012, the working group released its phase 1 report which outlines the overall proposed revisions to the Canadian regulatory regime. The working group is currently in the process of drafting the revised regulations contemplated in the phase 1 report with the objective of introducing the new regulations before 2017. The new regulations are intended to be consistent with the international UAV regulatory model established by the International Commercial Aviation Organization ("**ICAO**"). There will likely be significant advance notice and consultation with the public before the new regulations are implemented.

There are risks associated with the regulatory regime and permitting requirements of our Business.

A significant portion of the Company's business is based on the operation of remotely piloted aircraft systems ("**RPAS**"). The operation of RPAS' poses a risk or hazard to airspace users as well as personnel on the ground. As the RPAS industry is rapidly developing, the regulatory environment for RPAS is constantly evolving to keep pace. As such, whenever a policy change with respect to operating regulations occurs, there is a risk that the Company could find itself to be in non-compliance with these new regulations. While the Company endeavours to take all necessary action to reduce the risks associated with the operations of RPAS' and to remain well-informed and up-to-date on any addendums and changes to the applicable regulations, there is no assurance that an incident involving an RPAS or the Company's non-compliance would not create a significant current or future liability for the company.

The regulation of RPAS operations within the Canadian Domestic Airspace (CDA) is still evolving and is expected to continue to change with the proliferation of RPAS', advancements in technology, and standardization within the industry. Changes to the regulatory regime may be disruptive and result in the Company needing to adopt significant changes in its operations and policies, which may be costly and time-consuming, and may materially adversely affect our ability to manufacture and make delivery of our Company's products and services in a timely fashion.

Our business and research and development activities are subject to oversight by Transport Canada, the federal institution responsible for transportation policies and programs, including the rules in the Canadian Aviation Regulations (CARs). Currently, Transport Canada requires that any non-recreational operators of RPAS' have a Special Flight Operations Certificate (SFOC). Our ability to develop, test, demonstrate, and sell products and services depends on the Company's ability to acquire and maintain a valid SFOC.

In addition, there exists public concern regarding the privacy implications of Canadian commercial and law enforcement use of small UAV. This concern has included calls to develop explicit written policies and procedures establishing usage limitations. There is no assurance that the response from regulatory agencies, customers and privacy advocates to these concerns will not delay or restrict the adoption of small UAV by non-military customers.

This discussion of the risks associated with the regulatory regime and permitting requirements affecting our Company does not take into account the new rules publicly announced by the Minister of Transport (Canada) on January 9, 2019, which will come into force on June 1, 2019 (the "**New Rules**"). The New Rules are intended to simplify the regulatory regime, including in respect of the requirement to obtain an SFOC under common operation conditions. With the new regulations, there appears to be intention to place more emphasis on Compliant Design Type aircraft as well as individual pilot certification, recurrent testing, and a monetized regulatory regime, which will require operators to pay for aircraft registration and pilot certifications. The Company does expect the new regulations to affect its need to employ and retain personnel with valid pilot certificates. The Company takes all necessary action to remain within compliance of the current and upcoming regulations.

The Company expects to incur substantial research and development costs and devote significant resources to identifying and commercializing new products and services, which could significantly reduce its profitability and may never result in revenue to the Company.

The Company's future growth depends on penetrating new markets, adapting existing products to new applications, and introducing new products and services that achieve market acceptance. The Company plans to incur substantial research and development costs as part of its efforts to design, develop and commercialize new products and services and enhance existing products. The Company believes that there are significant investment opportunities in a number of business areas. Because the Company accounts for research and development as an operating expense, these expenditures will adversely affect its earnings in the future. Further, the Company's research and development programs may not produce successful results, and its new products and services may not achieve market acceptance, create additional revenue or become profitable, which could materially harm the Company's business, prospects, financial results and liquidity.

The Company's products and services are complex and could have unknown defects or errors, which may give rise to claims against the Company, diminish its brand or divert its resources from other purposes.

The Company's UAV rely on complex avionics, sensors, user-friendly interfaces and tightly integrated, electromechanical designs to accomplish their missions. Despite testing, the Company's products have contained defects and errors and may in the future contain defects, errors or performance problems when first introduced, when new versions or enhancements are released, or even after these products have been used by the Company's customers for a period of time. These problems could result in expensive and time-consuming design modifications or warranty charges, delays in the introduction of new products or enhancements, significant increases in the Company's service and maintenance costs, exposure to liability for damages, damaged customer relationships and harm to the Company's reputation, any of which could materially harm the Company's results of operations and ability to achieve market acceptance. In addition, increased development and warranty costs could be substantial and could reduce the Company's operating margins.

The existence of any defects, errors, or failures in the Company's products or the misuse of the Company's products could also lead to product liability claims or lawsuits against it. A defect, error or failure in one of the Company's UAV could result in injury, death or property damage and significantly damage the Company's reputation and support for its UAV in general. The Company anticipates this risk will grow as its UAV begins to be used in Canadian domestic airspace and urban areas. The Company's UAV test systems also have the potential to cause injury, death or property damage in the event that they are misused, malfunction or fail to operate properly due to unknown defects or errors.

Although the Company maintains insurance policies, it cannot provide assurance that this insurance will be adequate to protect the Company from all material judgments and expenses related to potential future claims or that these levels of insurance will be available in the future at economical prices or at all. A successful product liability claim could result in substantial cost to us. Even if the Company is fully insured as it relates to a claim, the claim could nevertheless diminish the Company's brand and divert management's attention and resources, which could have a negative impact on the Company's business, financial condition and results of operations.

Shortfalls in available external research and development funding could adversely affect the Company.

The Company depends on its research and development activities to develop the core technologies used in its UAV products and for the development of the Company's future products. A portion of the Company's research and development activities depend on funding by commercial companies and the Canadian government. Canadian government and commercial spending levels can be impacted by a number of variables, including general economic conditions, specific companies' financial performance and competition for Canadian government funding with other Canadian government-sponsored programs in the budget formulation and appropriation processes. Moreover, the Canadian, federal and provincial governments provide energy rebates and incentives to commercial companies, which directly impact the amount of research and development that companies appropriate for energy systems. To the extent that these energy rebates and incentives are reduced or eliminated, company funding for research and development could be reduced. Any reductions in available research and development funding could harm the Company's business, financial condition and operating results.

The Company could be prohibited from shipping its products to certain countries if it is unable to obtain Canadian government authorization regarding the export of its products, or if current or future export laws limit or otherwise restrict the Company's business.

The Company must comply with Canadian federal and provincial laws regulating the export of its products. In some cases, explicit authorization from the Canadian government is needed to export its products. The export regulations and the governing policies applicable to the Company's business are subject to change. The Company cannot provide assurance that such export authorizations will be available for its products in the future. Compliance with these laws has not significantly limited the Company's operations or sales in the recent past, but could significantly limit them in the future. Non-compliance with applicable export regulations could potentially expose the Company to fines, penalties and sanctions. If the Company cannot obtain required government approvals under applicable regulations, the Company may not be able to sell its products in certain international jurisdictions, which could adversely affect the Company's financial condition and results of operations.

From time to time the Company may become involved in legal proceedings, which could adversely affect the Company.

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

Reliance on business partners

The Company relies on various business partners, including third-party service providers, vendors, licensing partners, development partners, and licensees, among others, in some areas of the Company's business. In some cases, these third parties are given access to sensitive and proprietary information in order to provide services and support to the Company's teams. These third parties may misappropriate the Company's information and engage in unauthorized use of it. The failure of these third parties to provide adequate services and technologies, or the failure of the third parties to adequately maintain or update their services and technologies, could result in a disruption to the Company's business operations. Further, disruptions in the financial markets and economic downturns may adversely affect the Company's business partners and they may not be able to continue honoring their obligations to the Company. Alternative arrangements and services may not be available to the Company on commercially reasonable terms or the Company may experience business interruptions upon a transition to an alternative partner or vendor. If the Company loses one or more significant business partners, the Company's business could be harmed.

Risks Related to Intellectual Property

If the Company fails to protect, or incur significant costs in defending, its intellectual property and other proprietary rights, the Company's business, financial condition, and results of operations could be materially harmed.

The Company's success depends, in large part, on its ability to protect its intellectual property and other proprietary rights. The Company relies primarily on patents, trademarks, copyrights, trade secrets and unfair competition laws, as well as license agreements and other contractual provisions, to protect the Company's intellectual property and other proprietary rights. However, a portion of the Company's technology is not patented, and the Company may be unable or may not seek to obtain patent protection for this technology. Moreover, existing Canadian legal standards relating to the validity, enforceability and scope of protection of intellectual property rights offer only limited protection, may not provide the Company with any competitive advantages, and may be challenged by third parties. The laws of countries other than Canada may be even less protective of intellectual property rights. Accordingly, despite its efforts, the Company may be unable to prevent third parties from infringing upon or misappropriating its intellectual property or otherwise gaining access to the Company's technology. Unauthorized third parties may try to copy or reverse engineer the Company's products or portions of its products or otherwise obtain and use the Company's intellectual property. Moreover, many of the Company's employees have access to the Company's trade secrets and other intellectual property. If one or more of these employees leave to work for one of the Company's competitors, then they may disseminate this proprietary information, which may as a result damage the Company's competitive position. If the Company fails to protect its intellectual property and other proprietary rights, then the Company's business, results of operations or financial condition could be materially harmed. From time to time, the Company may have to initiate lawsuits to protect its intellectual property and other proprietary rights. Pursuing these claims is time consuming and expensive and could adversely impact the Company's results of operations.

In addition, affirmatively defending the Company's intellectual property rights and investigating whether the Company is pursuing a product or service development that may violate the rights of others may entail significant expense. Any of the Company's intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. If the Company resorts to legal proceedings to enforce its intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, then the proceedings could result in significant expense to the Company and divert the attention and efforts of the Company's management and technical employees, even if the Company prevails.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements

The Canadian Intellectual Property Office ("**CIPO**") and various foreign national or international patent agencies require compliance with a number of procedural, documentary, fee payment, and other similar provisions during the patent application process. Periodic maintenance fees on any issued patent are due to be paid to CIPO and various foreign national or international patent agencies in several stages over the lifetime of the patent. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of patent rights include, but are not limited to, failure to timely file national and regional stage patent applications based on our international patent application, failure to respond to official actions within prescribed time limits, non-payment of fees, and failure to properly legalize and submit formal documents. If we fail to maintain the patents and patent applications covering our product candidates, our competitors might be able to enter the market, which would have a material adverse effect on our business.

While a patent may be granted by a national patent office, there is no guarantee that the granted patent is valid. Options exist to challenge the validity of the patent which, depending upon the jurisdiction, may include re-examination, opposition proceedings before the patent office, and/or invalidation proceedings before the relevant court. Patent validity may also be the subject of a counterclaim to an allegation of patent infringement.

Pending patent applications may be challenged by third parties in protest or similar proceedings. Third parties can typically submit prior art material to patentability for review by the patent examiner. Regarding Patent Cooperation Treaty applications, a positive opinion regarding patentability issued by the International Searching Authority does not guarantee allowance of a national application derived from the Patent Cooperation Treaty application. The coverage claimed in a patent application can be significantly reduced before the patent is issued, and the patent's scope can be modified after issuance. It is also possible that the scope of claims granted may vary from jurisdiction to jurisdiction.

The grant of a patent does not have any bearing on whether the invention described in the patent application would infringe the rights of earlier filed patents. It is possible to both obtain patent protection for an invention and yet still infringe the rights of an earlier granted patent.

The Company may be sued by third parties for alleged infringement of their proprietary rights, which could be costly, time-consuming and limit the Company's ability to use certain technologies in the future.

The Company may become subject to claims that its technologies infringe upon the intellectual property or other proprietary rights of third parties. Any claims, with or without merit, could be time-consuming and expensive, and could divert the Company's management's attention away from the execution of its business plan. Moreover, any settlement or adverse judgment resulting from these claims could require the Company to pay substantial amounts or obtain a license to continue to use the disputed technology, or otherwise restrict or prohibit the Company's use of the technology. The Company cannot assure that it would be able to obtain a license from the third party asserting the claim on commercially reasonable terms, if at all, that the Company would be able to develop alternative technology on a timely basis, if at all, or that the Company would be able to obtain a license to use a suitable alternative technology to permit the Company to continue offering, and the Company's customers to continue using, the Company's affected product. An adverse determination also could prevent the Company from offering its products to others. Infringement claims asserted against the Company may have a material adverse effect on its business, results of operations or financial condition.

We may not be able to protect our intellectual property rights throughout the world

Filing, prosecuting, and defending patents on all of our product candidates throughout the world would be prohibitively expensive. Therefore, we have filed applications and/or obtained patents only in key markets including the United States and Canada. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and their products may compete with ours.

Risks Related to Financial Reporting

We may experience adverse impacts on our reported results of operations as a result of adopting new accounting standards or interpretations.

Our implementation of and compliance with changes in accounting rules, including new accounting rules and interpretations, could adversely affect our reported financial position or operating results or cause unanticipated fluctuations in our reported operating results in future periods.

Failure to adhere to our financial reporting obligations and other public company requirements could adversely impact the market price of our Common Shares.

Upon receiving a final receipt for this Prospectus, we will become subject to reporting and other obligations under applicable Canadian securities laws and rules of any stock exchange on which the Common Shares are then-listed, including National Instrument 52-109—*Certification of Disclosure in Issuers' Annual and Interim Filings*. These reporting and other obligations will place significant demands on our Management, administrative, operational and accounting resources. If we are unable to accomplish any such necessary objectives in a timely and effective manner, our ability to comply with our financial reporting obligations and other rules applicable to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause us to fail to satisfy our reporting obligations or result in material misstatements in our financial statements. If we cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely affected which could also cause investors to lose confidence in our reported financial information, which could result in a reduction in the trading price of the Common Shares.

We do not expect that our disclosure controls and procedures and internal controls over financial reporting will prevent all error or fraud. A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our reported financial results or financial condition.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including but not limited to revenue recognition, impairment of goodwill and intangible assets, inventory, income taxes and litigation, are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported financial performance or financial condition in accordance with generally accepted accounting principles.

PROMOTERS

Cameron Chell, CEO, Chairman and a director of the Company and Business Instincts Group, Inc. a company controlled by Cameron Chell are considered to be Promoters of the Company. Mr. Chell and Business Instincts Group, Inc. respectively own nil and 6,260,171 Company Shares, representing nil% and 8.99% respectively, of the issued and outstanding Company Shares on an undiluted basis.

Other than as disclosed in this section or elsewhere in this Prospectus, no person who was a promoter of the Company within the last two years:

1. received anything of value directly or indirectly from the Company or a subsidiary;

2. sold or otherwise transferred any asset to the Company or a subsidiary within the last 2 years;

3. has been a director, officer or promoter of any company that during the past 10 years was the subject of a cease trade order or similar order or an order that denied the company access to any exemptions under securities legislation for a period of more than 30 consecutive days or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver or receiver manager or trustee appointed to hold its assets;

4. has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority;

5. has been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision; or

6. has within the past 10 years become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver or receiver manager or trustee appointed to hold its assets.

LEGAL PROCEEDINGS

We are, from time to time, involved in legal proceedings of a nature considered normal to our business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition or results of operations.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as described elsewhere in this Prospectus, there are no material interests, direct or indirect, of any of our directors or executive officers, any Shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10% of any class or series of our outstanding voting securities, or any associate or affiliate of any of the foregoing persons, in any transaction within the three years before the date hereof that has materially affected or is reasonably expected to materially affect us or any of our subsidiaries.

AUDITOR, TRANSFER AGENT AND REGISTRAR

Dale Matheson Carr-Hilton LaBonte, LLP, Chartered Professional Accountants, located at 1500 - 1140 West Pender Street, Vancouver, British Columbia V6E 4G1, is our auditor and has confirmed that it is independent of the Company within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia.

The transfer agent and registrar for the Common Shares will be TSX Trust Company at its principal office in Vancouver, British Columbia.

INTEREST OF EXPERTS

No person or company whose profession or business who is named as having prepared or certified a report, valuation, statement, or opinion described or included in the Prospectus, or whose profession or business gives authority to a report, valuation, statement, or opinion described or included in the Prospectus, holds any registered or beneficial interest, direct or indirect, in any of our securities or other property of the Company or one of our associates or affiliates and no such person or company, or a director, officer or employee of such person or company, is expected to be elected, appointed, or employed as one of our Directors, officers, or employees or as a director, officer, or employee of any of our associates or affiliates and no such person is one of our promoters or the promoter of one of our associates or affiliates.

Dale Matheson Carr-Hilton LaBonte, LLP is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

Certain of our operations and assets are located outside of Canada, and certain of our directors, including, Cameron Chell reside outside of Canada. Although our current directors and officers who reside outside of Canada either have an office in Canada or have appointed Gowling WLG (Canada) LLP at 2300 – 550 Burrard Street, Vancouver, BC, V6C 2B5, as their agent for service of process in Canada, it may not be possible for purchasers to enforce against such persons judgments obtained in Canadian courts predicated on the civil liability provisions of applicable securities laws in Canada. Purchasers are advised that it may not be possible for them to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

MATERIAL CONTRACTS

This Prospectus includes a summary description of certain of our material agreements. The summary description discloses all attributes material to an investor in the Offered Shares but is not complete and is qualified by reference to the terms of the material agreements, which will be filed with the Canadian securities regulatory authorities and available on the system for electronic document analysis and retrieval ("**SEDAR**"), at www.sedar.com, under our profile. Investors are encouraged to read the full text of such material agreements.

The following are our only material contracts that will be in effect on Closing (other than certain agreements entered into in the ordinary course of business):

- The Combination Agreement.
- The Transfer Agent and Registrar Agreement entered into between the Company and the Transfer Agent.
- The CSE Escrow Agreement to be entered into between the Company and the Escrow Agent.
- The Debt Settlement Agreements.

Copies of the foregoing documents will be available following Closing on SEDAR at www.sedar.com.

SCHEDULE A

AUDITED ANNUAL FINANCIAL STATEMENTS OF FORMER DRAGANFLY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Draganfly Innovations Inc. (formerly Trace Live Network Inc.)

Financial Statements

Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Directors and Shareholders of Draganfly Innovation Inc.

Opinion

We have audited the financial statements of Draganfly Innovations Inc. (formerly Trace Live Network Inc.) (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events and conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

July 12, 2019

Draganfly Innovations Inc. (formerly Trace Live Network Inc.)
Statements of Financial Position
Expressed in Canadian Dollars

	Notes		December 31, 2018		December 31, 2017
ASSETS					
Current assets					
Cash		$	101,787	$	130,216
Accounts receivable	3		97,896		62,746
Inventory	4		61,185		155,946
Prepaid			23,305		20,472
			284,173		369,380
Non-current assets					
Subscription receivable	3		153,566		153,566
Equipment	5		55,178		75,919
Intellectual property	6		11,908		27,442
TOTAL ASSETS		**$**	**504,825**	**$**	**626,307**
LIABILITIES AND SHAREHOLDERS' DEFICIENCY					
LIABILITIES					
Current liabilities					
Trade payables and accrued liabilities	7	$	2,586,087	$	2,469,690
Notes payable	8		844,304		571,675
Convertible debentures	9		1,207,043		1,116,222
TOTAL LIABILITIES			**4,637,434**		**4,157,587**
SHAREHOLDERS' DEFICIENCY					
Share capital	10		12,561,342		12,550,942
Equity reserve	10		882,180		1,215,206
Deficit			(17,576,131)		(17,297,428)
TOTAL SHAREHOLDERS' DEFICIENCY			**(4,132,609)**		**(3,531,280)**
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		**$**	**504,825**	**$**	**626,307**

Nature of continuance and operations (Note 1)
Contingencies (Note 13)
Subsequent events (Notes 9, 10 and 18)

Approved and authorized for issuance by the Board of Directors on July 12, 2019.

"Glen Hawker"	*"Cameron Chell"*
Director	*Director*

Draganfly Innovations Inc. (formerly Trace Live Network Inc.)
Statements of Comprehensive Loss
Expressed in Canadian Dollars

		For the years ended	
	Notes	**December 31, 2018**	**December 31, 2017**
REVENUE	11	$ 1,387,013	$ 829,394
COST OF SALES	4	(452,399)	(431,855)
GROSS PROFIT		934,614	397,539
OPERATING EXPENSES			
Amortization of intangibles	6	15,534	17,278
Depreciation of equipment	5	22,521	17,461
Office and miscellaneous		328,292	623,006
Professional fees		131,028	58,337
Research and development		16,158	59,506
Share based payments	10	-	64,558
Travel		17,817	24,863
Wages and salaries	15	984,179	1,073,162
		(1,515,529)	(1,938,171)
OTHER INCOME (EXPENSE)			
Finance and other costs	15, 17	(145,271)	(322,832)
Foreign exchange gain (loss)		2,971	(71,081)
Gain on disposal of assets	6	-	949,584
Government grants	12	-	64,000
Other income (loss)		8,130	(11,058)
Scientific research and development tax credit	12	113,356	-
		(20,814)	608,613
NET AND COMPREHENSIVE LOSS		**$ (601,729)**	**$ (932,019)**
LOSS PER SHARE – BASIC AND DILUTED		**$ (0.03)**	**$ (0.04)**
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED		**21,931,380**	**21,528,161**

Draganfly Innovations Inc. (formerly Trace Live Network Inc.)
Statements of Changes in Shareholders' Deficiency
Expressed in Canadian Dollars

	Number of Shares	Share Capital	Equity reserve	Deficit	Total Shareholders' Deficiency
Balance at December 31, 2016	21,459,896	$ 12,090,142	$ 2,206,076	$ (17,476,237)	$ (3,180,019)
Shares issued for exercise of warrants	16,000	20,800	(20,000)	-	800
Issuance of warrants with notes payable	-	-	20,000	-	20,000
Share based payments – options granted	-	-	151,403	-	151,403
Units issued for cash	232,558	200,000	-	-	200,000
Issuance of convertible debentures	-	-	95,400	-	95,400
Shares issued for convertible debenture	216,000	240,000	(40,000)	-	200,000
Expired options	-	-	(308,400)	308,400	-
Forfeited options – vested	-	-	(802,428)	802,428	-
Forfeited options – unvested	-	-	(86,845)	-	(86,845)
Net loss	-	-	-	(932,019)	(932,019)
Balance at December 31, 2017	21,924,454	12,550,942	1,215,206	(17,297,428)	(3,531,280)
Shares issued for exercise of warrants	8,000	10,400	(10,000)	-	400
Expired options	-	-	(323,026)	323,026	-
Net loss	-	-	-	(601,729)	(601,729)
Balance at December 31, 2018	**21,932,454**	**$ 12,561,342**	**$ 882,180**	**$ (17,576,131)**	**$ (4,132,609)**

The accompanying notes are an integral part of these financial statements.

Draganfly Innovations Inc. (formerly Trace Live Network Inc.)
Statements of Changes in Cash Flows
Expressed in Canadian Dollars

	For the years ended	
	December 31, 2018	**December 31, 2017**
OPERATING ACTIVIITES		
Net loss	$ (601,729)	$ (932,019)
Items not involving cash:		
Amortization of intangibles	15,534	17,278
Depreciation of equipment	22,521	17,461
Gain on disposal of assets	-	(949,584)
Share based payments	-	64,558
Accretion and interest expense	145,271	322,832
Issuance of warrants for loans payable	-	20,000
Changes in non-cash working capital items		
Accounts receivable	(35,150)	434,045
Inventory	94,761	64,743
Prepaid expense	(2,833)	(8,202)
Trade payables and accrued liabilities	100,069	119,586
Net cash used in operating activities	(261,556)	(829,302)
INVESTING ACTIVITIES		
Additions	(12,535)	(1,188)
Equipment	10,755	148
Intangible assets	-	953,850
Net cash provided by (used in) investing activities	(1,780)	952,810
FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	373,243	204,114
Repayment of notes payable	(137,854)	(544,888)
Proceeds from issuance of convertible debentures	-	265,000
Repayment of convertible debentures	-	(450,000)
Proceeds from issuance of common shares	400	800
Proceeds from issuance of units	-	200,000
Subscription received	-	130,000
Net cash provided by (used in) financing activities	235,789	(194,974)
Effects of exchange rate changes on cash	(882)	(5,906)
Change in cash	(27,547)	(71,466)
Cash, beginning	130,216	207,588
Cash, end	**$ 101,787**	**$ 130,216**
Supplementary cash flow disclosures:		
Equity portion of convertible debentures	$ -	$ 95,400
Reclassification of reserve for expired options	$ 323,026	$ 308,400
Reclassification of reserve for forfeited options – vested	$ -	$ 802,428
Note payable offset against subscription receivable	$ -	$ 160,000

The accompanying notes are an integral part of these financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Draganfly Innovations Inc. (formerly Trace Live Network Inc.) (the "Company") was incorporated by articles of incorporation dated January 1, 2017 under the Business Corporations Act (Alberta). On January 1, 2017, the Company completed a vertical amalgamation of its wholly-owned subsidiary Draganfly Innovations Inc. ("Draganfly") which was incorporated on February 24, 1998. Concurrent with the vertical amalgamation, the name of the Company was changed from Trace Live Network Inc. to Draganfly Innovations Inc. The Company's principal business activity is developing and manufacturing multi-rotor helicopters, industrial aerial video systems, civilian small unmanned aerial systems or vehicles, wireless video systems and custom engineering. The Company's products are available to consumers through its distributors in Canada and United States.

The head office, principal address and the registered and records office of the Company are located at 2108 St., George Avenue, Saskatoon, Saskatchewan S7M 0K7.

The Company has incurred losses and negative cash flows from operations from inception that has primarily been funded through financing activities. The Company will need to raise additional capital during the next twelve months and beyond to support current operations and planned development. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand, convertible debentures and through private placement of common shares. These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reporting revenues and expenses, and the statements of financial position classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretation Committee ("IFRIC"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These financial statements were authorized for issue by the Board of Directors on July 12, 2019.

Basis of preparation

The financial statements of the Company have been prepared on a historical costs basis, modified where applicable. In addition, the financial statements have been prepared using the accrual basis of accounting except for cash flow information.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to use judgment in applying its accounting policies and make estimates and assumptions about reported amounts at the date of the financial statements and in the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Share-based payments
The cost of share-based payment transactions with directors, officers and employees are measured by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, risk-free interest rate, expected forfeiture rate and dividend yield of the stock option.

Income taxes
Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these income tax provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. Deferred tax assets are recognized when it is determined that the company is likely to recognize their recovery from the generation of taxable income.

Inventories
Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined with reference to the estimated selling price. The Company estimates selling price based upon assumptions about future demand and current and anticipated retail market conditions.

Contingencies
The assessment of contingencies involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company and that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the annual financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Useful lives of equipment and intangible assets
Estimates of the useful lives of equipment and intangible assets are based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of the relevant assets may be based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the equipment would increase the recorded expenses and decrease the non-current assets.

Other Significant judgments
The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification of financial instruments;
- the classification of leases as either operating or finance type leases; and
- the determination of the functional currency of the company.

Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency.

Transactions and balances:
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Share-based payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry. Amounts recorded for forfeited unvested options are reversed in the period the forfeiture occurs.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Financial instruments

Effective January 1, 2018, the Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") on a retroactive basis in accordance with the transitional provisions. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The standard promulgates a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. The adoption of IFRS 9 did not result in any change in the carrying values of any of the Company's financial assets on the transition date; therefore, comparative figures have not been restated.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial asset/ liability	Original classification IAS 39	New classification IFRS 9
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Amortized cost	Amortized cost
Accounts payable	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

Expected Credit Loss Impairment Model

IFRS 9 introduces a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial assets and financial liabilities are initially recognized at fair value; subsequent measurement is dependent on the applicable classification. The Company has classified loans when a floating rate does not apply and receivables at amortized cost, which approximates fair value. The Company has classified accounts payable and accrued liabilities as other financial liabilities. The carrying amounts of accounts payable approximates the fair values of those financial instruments, due to the short-term maturity of such instruments.

Impairment of assets

The carrying amount of the Company's non-financial assets (which include equipment and intangible assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Income taxes

Current income tax:
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:
Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and li abilities and their carrying amounts for financial reporting. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Leases

Leases of property, plant and equipment where substantially all the risks and benefits incidental to the ownership of the asset are transferred the Company are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the leased property, plant and equipment or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognized as a liability and amortized on a straight-line basis over the life of the lease term.

Inventory

Inventory consists of raw materials for manufacturing of multi-rotor helicopters, industrial areal video systems, civilian small unmanned aerial systems or vehicles, and wireless video systems. Inventory is initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value.

Convertible debentures

The components of the compound financial instrument (convertible debenture) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The conversion option that will be settled by the exchange of a fixed amount in cash for a fixed number of equity instruments of the Company is classified as an equity instrument. At the issue date, the liability component is recognized at fair value, which is estimated using the effective interest rate on the market for similar nonconvertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest rate until it is extinguished on conversion or maturity. Upon maturity, the equity portion of the expired unexercised conversion option is reclassified to reserves.

The value of the conversion option classified as equity is determined at the issue date, by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of tax effects, and is not revised subsequently. When the conversion option is exercised, the equity component of the convertible debentures will be transferred to share capital. No profit or gain is recognized to the conversion or expiration of the conversion option.

Transaction costs related to the issuance of the convertible debentures are allocated to the liability and equity components in proportion to the initial carrying amounts. Transaction costs related to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying value of the liability component and amortized over the estimated useful life of the debentures using the effective interest rate method.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Revenue recognition

The Company adopted IFRS 15 – Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective approach where the cumulative impact of adoption is recognized in retained earnings as of January 1, 2018. The new standard provides for a single model that applies to all contracts with customers with two types of recognition: at a point in time or over time. Under IFRS 15 the Company's accounting policy for revenue recognition is as follows: i) identify the contract with the customer; ii) identify the performance obligation(s) in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligation(s); and (v) recognize revenue when (or as) performance obligation(s) are satisfied.

Revenue comprises the fair value of consideration received or receivable for the sale of goods and consulting services in the ordinary course of the Company's business. Revenue is shown net of return allowances and discounts.

Sales of goods
The Company manufactures and sells a range of multi-rotor helicopters, industrial aerial video systems, and civilian small unmanned aerial systems or vehicles. Sales are recognized when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location or picked up by the customer, the risks of obsolescence and loss have been transferred to the customer.

Revenue from these sales is recognized based on the price specified in the contract, net of the estimated discounts and returns. Accumulated experience is used to estimate and provide for the discounts and returns, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. To date, returns have not been significant. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

Some contracts include multiple deliverables, such as the manufacturing of hardware and support. Support is performed by another party and does not include an integration service. It is therefore accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expect cost plus margin.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Consulting services
The Company provides consulting, custom engineering and investigating and solving on a project by project basis under fixed-price and variable price contracts. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual labour hours spend relative to the total expected labour hours. If contracts include the manufacturing of hardware, revenue for the hardware is recognized at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized. If the contract includes an hourly fee, revenue is recognized in the amount to which the Company has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

Cost of Goods Sold

Cost of sales includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight costs, as well as provisions for reserves related to product shrinkage, excess or obsolete inventory, or lower of cost and net realizable value adjustments as required.

Intangible Assets

An intangible asset is an identifiable asset without physical substance. An asset is identifiable if it is separable, or arises from contractual or legal rights, regardless of whether those rights are transferrable or separable from the Company or from other rights and obligations. Intangible assets includes intellectual property, which consists of patent and trademark applications.

Intangible assets acquired externally are measured at cost less accumulated amortization and impairment losses. The cost of a group of intangible assets acquired is allocated to the individual intangible assets based on their relative fair values. The cost of intangible assets acquired externally comprises its purchase price and any directly attributable cost of preparing the asset for its intended use. Research and development costs incurred subsequent to the acquisition of externally acquired intangible assets and on internally generated intangible assets are accounted for as research and development costs.

Intangible assets with finite useful lives are amortized straight-line over their estimated useful lives from the date they are available for use. The amortization period of the Company's intellectual property is 5 years.

Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Depreciation is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The depreciation rates applicable to each category of equipment are as follows:

Class of equipment	**Depreciation rate**
Computer equipment	30%
Furniture and equipment	20%
Software	30%

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Research and development expenditures

Expenditures on research are expensed as incurred. Research activities include formulation, design, evaluation and final selection of possible alternatives, products, processes, systems or services. Development expenditures are expensed as incurred unless the Company can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) its intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Government Assistance

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the period that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, the cost of the asset is reduced by the amount of the grant and the grant is recognized as income in equal amounts over the expected useful life of the asset.

SR&ED Investment tax credits

The Company claims federal investment tax credits as a result of incurring scientific research and experimental development (“SR&ED”) expenditures. Federal investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Federal investment tax credits are accounted for as a reduction of research and development expense for items of a period expense nature or as a reduction of property and equipment for items of a capital nature. Management has made a number of estimates and assumptions in determining the expenditures eligible for the federal investment tax credit claim. It is possible that the allowed amount of the federal investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency.

The Company claims provincial (Alberta) investment tax credits as a result of incurring SR&ED expenditures. Provincial investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the provincial investment tax credit claim. The provincial investment tax credits are refundable and have been recorded as Alberta SR&ED tax credit receivable, and as a reduction in research and development expenses on the statement of comprehensive loss. It is possible that the allowed amount of the provincial investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency and the Alberta Tax and Revenue Administration.

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Standards and interpretations not yet adopted
The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

New standard IFRS 16 "Leases"
This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting has not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact this new guidance will have on its financial statements.

3. ACCOUNTS RECEIVABLE

		December 31, 2018		December 31, 2017
Trade accounts receivable	$	66,295	$	61,069
GST input tax credits		7,985		1,677
SR&ED receivable		23,616		-
	$	97,896	$	62,746

Subscriptions receivable
During the year ended December 31, 2017, the Company agreed to settle subscriptions receivable of $160,000 by way of offsetting the amounts against amounts owing on certain notes payable (Note 8). As at December 31, 2018, the outstanding balance is $153,566 (2017 - $153,566) in subscription receivables relating to shares issued in a prior year.

4. INVENTORY

Inventory consisted primarily of raw materials.

		December 31, 2018		December 31, 2017
Raw materials	$	61,185	$	155,946

During the year ended December 31, 2018, the Company recorded a provision to value its inventory for obsolete and slow-moving inventory, recognizing an expense in cost of sales of $80,135 (2017: $25,800).

During the year ended December 31, 2018, $271,511 (2017: $306,166) of inventory was sold and recognized in cost of sales.

Expressed in Canadian Dollars

5. EQUIPMENT

	Computer Equipment	Furniture and Equipment	Software	Total
Cost:				
At January 1, 2017	$ 164,940	$ 202,556	$ 71,876	$ 439,372
Additions	565	-	623	1,188
Disposals	(2,250)	-	-	(2,250)
At December 31, 2017	$ 163,255	$ 202,556	$ 72,499	$ 438,310
Additions	440	140	11,955	12,535
Disposals	(420)	(21,334)	(115)	(21,869)
At December 31, 2018	$ 163,275	$ 181,362	$ 84,339	$ 428,976
Depreciation:				
At January 1, 2017	$ 144,199	$ 139,761	$ 63,072	$ 347,032
Charge for the year	4,977	10,079	2,405	17,461
Eliminated on Disposal	(2,102)	-	-	(2,102)
At December 31, 2017	$ 147,074	$ 149,840	$ 65,477	$ 362,391
Charge for the year	3,341	14,854	4,326	22,521
Eliminated on Disposal	(389)	(10,695)	(29)	(11,113)
At December 31, 2018	$ 150,026	$ 153,999	$ 69,774	$ 373,799
Net Book Value:				
At December 31, 2017	$ 16,181	$ 52,716	$ 7,022	$ 75,919
At December 31, 2018	$ 13,249	$ 27,363	$ 14,566	$ 55,178

6. INTELLECTUAL PROPERTY

Cost:	
At January 1, 2017	$ 80,625
Disposal	(8,820)
At December 31, 2017 and 2018	$ 71,805
Amortization:	
At January 1, 2017	$ 31,639
Charge for the year	17,278
Impairment	(4,554)
At December 31, 2017	44,363
Charge for the year	15,534
At December 31, 2018	$ 59,897
Net book value:	
At December 31, 2017	$ 27,442
At December 31, 2018	$ 11,908

On November 14, 2017, the Company sold two of its patents and all related rights for USD$750,000 ($953,850) resulting in a gain of $949,584.

Expressed in Canadian Dollars

7. TRADES PAYABLE AND ACCRUED LIABILITIES

		December 31, 2018		December 31, 2017
Trades payable	$	1,593,377	$	1,449,111
Accrued liabilities		106,220		70,826
Contingent liabilities (Note 13)		15,000		75,000
Due to related parties (Note 15)		837,781		827,280
Government grant payable (Note 12)		33,709		47,473
	$	2,586,087	$	2,469,690

8. NOTES PAYABLE

A continuity of notes payable is as follows:

		December 31, 2018		December 31, 2017
Opening balance	$	571,675	$	1,039,523
Issuance of notes payable		373,243		204,114
Repayment of notes payable		(137,854)		(544,888)
Foreign exchange		(882)		(5,906)
Applied against subscription receivable		-		(160,000)
Interest accrued		38,122		38,832
Ending balance	$	844,304	$	571,675

i. On March 26, 2015, the Company issued a note payable to a shareholder of the Company for proceeds of $125,000. The note payable is non-interest bearing, unsecured and was due on July 17, 2015.

   During the year ended December 31, 2018, the Company repaid $nil (2017 - $1,000). As at December 31, 2018, $124,000 (2017 - $124,000) in notes payable is outstanding and the Company is in default for the payment.

ii. On July 17, 2015, the Company issued a note payable to the former owner of the Company for proceeds of $600,000. The note payable bears interest at 5% per annum, was due on December 1, 2015 and is secured against the intellectual property as at the effective date.

   During the year ended December 31, 2018, the Company repaid $nil (2017 - $221,430). As at December 31, 2018, $364,655 (2017 - $346,907) in notes payable plus accrued interest is outstanding and in default. For the year ended December 31, 2018, the Company recognized interest expense of $17,748 (December 31, 2017 - $25,658).

iii. On July 17, 2015, the Company issued a note payable to the former owner of the Company for the proceeds of $100,745. The note payable bears interest at 5% per annum, and was due on July 17, 2015.

   During the year ended December 31, 2017, the Company repaid the outstanding balance of $113,356 in full. For the year ended December 31, 2017, the Company recognized interest expense of $5,037.

iv. On December 17, 2015, the Company issued a note payable to a company controlled by a director of the Company for proceeds of $160,000. During the year ended December 31, 2017, the balance outstanding of $160,000 was applied against a subscription receivable (note 3).

8. NOTES PAYABLE (continued)

v. On December 12, 2016, the Company issued a note payable, whereby the Company agreed to pay USD$75,000 ($102,397) by April 12, 2017. The note payable is unsecured and bears interest at 10%. In addition, the Company issued 8,000 warrants to the lender, with each warrant exercisable at $0.05 per share for a period until December 22, 2019. The fair value of the warrants of $10,000 was recognized in equity reserve. During the year ended December 31, 2017, the Company repaid the note payable in full.

vi. On April 25, 2017, the Company entered into a promissory note agreement, whereby the Company agreed to pay USD$75,000 ($105,187) by August 23, 2017. The note payable is unsecured and bears interest at 10%. In addition, the Company issued 8,000 warrants to the lender, with each warrant exercisable at $0.05 per share for a period until December 22, 2019. The fair value of the warrants of $10,000 was recognized in equity reserve. During the year ended December 31, 2017, the Company repaid the note payable in full and recognized interest expense of $3,348.

vii. On November 1, 2017, the Company entered into a promissory note agreement, whereby the Company agreed to pay USD$75,000 ($98,927) by March 1, 2018. The note payable is unsecured and bears interest at 10%. In addition, the Company issued 8,000 warrants to the lender, with each warrant exercisable at $0.05 per share for a period until December 22, 2019. The fair value of the warrants of $10,000 was recognized in equity reserve.

During the year ended December 31, 2018, the Company repaid the note payable and accrued interest in full. As at December 31, 2018, $nil (2017 - $100,768) in notes payable and accrued interest was outstanding. For the year ended December 31, 2018, the Company recognized interest expense of $nil (December 31, 2017: $4,789).

viii. On December 7, 2018, the company entered into a promissory note agreement, whereby the Company agreed to pay USD$75,000 ($99,743) by March 5, 2019. The note payable is unsecured and bears interest at 18%.

As at December 31, 2018, $101,654 in notes payable plus accrued interest is outstanding. For the year ended December 31, 2018, the Company recognized interest expense of $2,793.

ix. During the year ended December 31, 2018, the Company issued various promissory notes for proceeds of $273,500 with a company controlled by a director of the Company. The promissory notes are interest bearing at 12% per annum, unsecured and due within 60 days from the date of advance.

During the year ended December 31, 2018, the company repaid $37,086. As at December 31, 2018, $253,995 in promissory notes plus accrued interest is outstanding and is in default. For the year ended December 31, 2018, the Company recorded interest expense of $17,581.

Expressed in Canadian Dollars

9. CONVERTIBLE DEBENTURES

	September 2015 (a)	August 2016 (b)	December 2016 (c)	January 2017 (d)	March 2017 (e)	Total
	$	$	$	$	$	$
Balance, December 31, 2016	856,683	347,533	128,632	-	-	1,332,848
Issued	-	-	-	65,000	200,000	265,000
Equity portion	-	-	-	(23,400)	(72,000)	(95,400)
Settlement in shares	-	(200,000)	-	-	-	(200,000)
Repayment	(450,000)	-	-	-	-	(450,000)
Accretion	143,317	52,467	32,152	9,602	26,236	263,774
Balance, December 31, 2017	550,000	200,000	160,784	51,202	154,236	1,116,222
Accretion	-	-	39,216	13,047	38,558	90,821
Balance, December 31, 2018	550,000	200,000	200,000	64,249	192,794	1,207,043

a) In September 2015, the Company issued a $1,000,000 convertible debenture. The debenture was unsecured, interest bearing at 10% per annum and matured on September 10, 2017. The debenture was convertible at the option of the holder into common shares at a conversion rate of $1.25 per share. The interest shall accrue on the outstanding principal balance and shall be payable on a monthly basis in the form of common shares at a price of $1.25 per share. This convertible debenture is accounted for according to the substance and include both a liability component and an equity component. The initial liability component of $639,609 was calculated at the present value of interest payments and discounted at a rate of 25% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $360,391, which comprises the conversion right and the interest to be settled in shares, was measured based on the residual value of the instrument taken as a whole after deducting the amount determined separately for the liability component.

During the year ended December 31, 2018, the Company recognized accretion expense of $nil (2017 - $143,317). On November 14, 2017, the Company repaid $450,000 in the convertible debenture. As at December 31, 2018, $550,000 (2017 - $550,000) of the convertible debenture is outstanding.

b) In August 2016, the Company issued 3 unsecured convertible debentures for $400,000. The debentures bear interest at 10% per annum, matured on August 18, 2017 and are in default. The debentures were convertible at the option of the holder into common shares at a conversion rate of $1 per share. The interest is payable on a semi-annual basis in the form of common shares at a price of $1.25 per share. These convertible debentures are accounted for according to the substance and include both a liability component and an equity component. The initial liability component of $320,000 was calculated at the present value of interest payments and discounted at a rate of 25% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $80,000 was measured based on the residual value of the instrument taken as a whole after deducting the amount determined separately for the liability component.

During the year ended December 31, 2018, the Company recognized accretion expense of $nil (2017 - $52,467). On December 31, 2017, the Company issued 216,000 common shares as a repayment for the convertible debenture and the interest outstanding. As a result, the Company reclassified $40,000 of the equity component to share capital. As at December 31, 2018, there remains $200,000 (2017 - $200,000) of the convertible debenture outstanding.

9. CONVERTIBLE DEBENTURES (continued)

c) In December 2016, the Company issued an unsecured convertible debenture for $200,000. The debenture bears interest at 10% per annum and matured on December 23, 2018 and are in default. The debenture holder is entitled to convert the unpaid principal balance into common shares at a conversion rate of $1 per share. The interest shall accrue on the outstanding principal balance and shall be payable on a semi-annual basis in the form of common shares at a price of $1.25 per share. These convertible debentures are accounted for according to the substance and include both a liability component and an equity component. The initial liability component of $128,000 was calculated at the present value of interest payments and expected return of capital at a rate of 25% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $72,000, which comprises the conversion right and the interest to be settled in shares, was measured based on the residual value of the instrument taken as a whole after deducting the amount determined separately for the liability component.

During the year ended December 31, 2018, the Company recognized accretion expense of $39,216 (2017 - $32,152). As at December 31, 2018, there remains $200,000 (2017 - $160,784) of the convertible debenture outstanding.

In January 2017, the Company issued 2 unsecured convertible debentures for $65,000. The debentures bear interest at 10% per annum and matured on January 31, 2019 and are in default. The debenture holder is entitled at their sole discretion to convert the unpaid principal balance into common shares at a conversion rate of $1 per share. The interest shall accrue on the outstanding principal balance and shall be payable on a semi-annual basis in the form of common shares at a price of $1.25 per share. These convertible debentures are accounted for according to the substance and include both a liability component and an equity component. The initial liability component of $41,600 was calculated at the present value of interest payments and expected return of capital at a rate of 25% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $23,400, which comprises the conversion right and the interest to be settled in shares, was measured based on the residual value of the instrument taken as a whole after deducting the amount determined separately for the liability component.

During the year ended December 31, 2018, the Company recognized accretion expense of $13,047 (2017 - $9,602). As at December 31, 2018, there remains $64,249 (2017 - $51,202) of the convertible debenture outstanding. Subsequent to December 31, 2018, the convertible debentures were not repaid by the maturity date and are now in default.

d) In March 2017, the Company issued an unsecured convertible debenture for $200,000. The debenture bears interest at 10% per annum, unsecured and matured on January 31, 2019. The debenture holder is entitled at their sole discretion to convert the unpaid principal balance into common shares at a conversion rate of $1 per share. The interest shall accrue on the outstanding principal balance and shall be payable on a semi-annual basis in the form of common shares at a price of $1.25 per share. These convertible debentures are accounted for according to the substance and include both a liability component and an equity component. The initial liability component of $128,000 was calculated at the present value of interest payments and expected return of capital at a rate of 25% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $72,000, which comprises the conversion right and the interest to be settled in shares, was measured based on the residual value of the instrument taken as a whole after deducting the amount determined separately for the liability component.

9. CONVERTIBLE DEBENTURES (continued)

During the year ended December 31, 2018, the Company recognized accretion expense of $38,558 (2017 - $26,236). As at December 31, 2018, there remains $192,794 (2017 - $154,236) of the convertible debenture outstanding.

Subsequent to December 31, 2018, the convertible debenture was not repaid by the maturity date and is now in default.

10. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

For the year ended December 31, 2018,

- The Company issued 8,000 shares for proceeds of $400 for exercise of warrants. In relation, $10,000 in equity reserve was reclassified to share capital.

For the year ended December 31, 2017,

- The Company issued 16,000 shares for proceeds of $800 for exercise of warrants. In relation, $20,000 in equity reserve was reclassified to share capital.
- On December 13, 2017, the Company issued 216,000 shares for settlement of convertible debentures and accrued interest.
- On October 12, 2017, the Company issued 232,558 units for proceeds of $200,000. Each unit consists of one common share and one warrant. Each warrant is exercisable at a price of $0.86 per share for a period of 24 months.

Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 15% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

Expressed in Canadian Dollars

10. SHARE CAPITAL (continued)

The following is a summary of the Company's stock option activity:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2015 and 2016	3,068,000	$ 0.73
Expired	(1,668,000)	0.30
Forfeited options – vested	(933,333)	1.25
Forfeited options – unvested	(166,667)	1.25
Outstanding, December 31, 2017	300,000	1.25
Expired	(300,000)	1.25
Outstanding, December 31, 2018	-	$ -

During the year December 31, 2018

- The fair value of 300,000 expired options of $323,026 was reclassified from reserves to deficit.

During the year ended December 31, 2017

- The fair value of the 1,668,000 expired options of $308,400 was reclassified from reserves to deficit.
- The fair value of the 933,333 forfeited unexercised options $802,428 was reclassified from reserves to deficit.
- The fair value of the 166,667 forfeited unvested options $86,845 was reversed from share-based payments.

During the year ended December 31, 2017, the Company recognized $64,558 in share-base payments for options granted in the year ended December 31, 2015, net of a reversal of forfeitures in the amount of $86,845.

Warrants

The following is the summary of the Company's warrant activity:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2016	339,647	$ 0.60
Issued	268,558	$ 0.77
Exercised	(16,000)	$ 0.05
Expired	(154,980)	$ 1.25
Outstanding, December 31, 2017	437,225	$ 0.49
Exercised	(8,000)	$ 0.05
Outstanding, December 31, 2017	429,225	$ 0.49

Warrants outstanding at December 31, 2018 were as follows:

Exercise Price	Number of Warrants Outstanding	Expiration Date
0.05	20,000	April 1, 2019
0.86	232,558	October 1, 2019
0.05	176,667	December 22, 2019
	429,225	

The weighted average remaining contractual life of warrants outstanding as of December 31, 2018 was 0.84 years (December 31, 2018 - 1.84 years).

Expressed in Canadian Dollars

10. SHARE CAPITAL (continued)

Subsequent to the year ended December 31, 2018, the 20,000 warrants with an expiration date of April 1, 2019 expired unexercised.

11. REVENUE

The Company sub-classifies revenue within the following components: product revenue and consulting revenue. Product revenue comprises of sales of internally assembled multi-rotor helicopters, industrial aerial video systems, civilian small unmanned aerial systems or vehicles, and wireless video systems. Consulting revenue consists of fees charged for custom engineering and training and simulation consulting.

	December 31, 2018	December 31, 2017
Product sales	$ 423,705	$ 610,947
Consulting	963,308	218,447
	$ 1,387,013	$ 829,394

Consulting revenue:
On May 22, 2017, the Company executed a standard consulting agreement, whereby the Company would provide consulting, custom engineering and investigating and solving on a project by project basis. The Company shall be responsible for the development, design, procurement, fabrication, assembly, integration, checkout, integration and test of hardware, software, and firmware necessary to produce a complete system per each project. The consideration for the services performed are based on the labor cost incurred on an hourly basis and minimal preapproved expenditures.

The Company operates in an international market within one reportable industry segment. Geographic revenue segmentation is as follows:

	December 31, 2018	December 31, 2017
Canada	$ 249,595	$ 484,431
United States	1,131,940	289,876
International	5,478	55,087
	$ 1,387,013	$ 829,394

The Company derives significant revenues from one customer, which exceeds 10% of total revenues for either the year ended December 31, 2018 at 63% (2017 – 26%).

12. GOVERNMENT ASSISTANCE

During the year ended December 31, 2018, the Company received $nil (December 31, 2017 - $64,000) related to government grants for research that were recognized as income on a systematic basis over the period that the related costs, for which it is intended to compensate, were expensed.

During the year ended December 31, 2018, the Company received $89,740 (December 31, 2017 – $nil) in government assistance for the purchase of research related to scientific research and experimental development tax credit, the entire amount is included in other income. In addition, the Company recorded $23,816 (December 31, 2017 - $nil) in SR&ED receivable for current year SR&ED claim.

12. GOVERNMENT ASSISTANCE (continued)

In February 2016, the Company and an Alberta based government funded not-for-profit organization (the "Organization") entered into a funding agreement, where by the Organization would fund 50% of the total costs, up to $375,000 to the Company for the development of a new product. During the year ended December 31, 2016, the Company received $75,000 in funding. On February 28, 2017, the Company and the Organization entered into a repayment agreement, where the Company would refund and repay a portion of the Organization's initial funding. The repayment agreement set out the terms and conditions upon which the Company was to pay $41,292 over a 12 month repayment plan. In addition, the Company will pay the Organization $33,709 if the Company ever sells a product that the Organization's funding contributed to.

As at December 31, 2017, $13,764 of the repayment is still outstanding and is included in trade payables (Note 7). During the year ended December 31, 2018, the Company made its final repayment of $13,764.

13. CONTINGENCIES

On January 15, 2018, the Company entered into a settlement agreement with a vendor pursuant to an action filed under the Ontario Court. Per the agreement, the Company is to pay the settlement amount of $75,000 in 15 equal installments on a monthly basis. During the year ended December 31, 2018, the Company repaid $60,000 of the settlement amount. As at December 31, 2018, the balance of $15,000 is included in trades payable (Note 7).

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts and trade receivables. The majority of cash is deposited in bank accounts held with major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

The Company does not have any past due outstanding receivables and the expected loss rate for undue balance is estimated to be nominal.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents as these instruments have original maturities of three months or less and are therefore exposed to interest rate fluctuations on renewal.

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity comprised of issued share capital, and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its board of directors, will balance its overall capital structure through new equity issuances or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2017.

15. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. During the years ended December 31, 2018 and 2017, there was no remuneration paid to key management personnel.

***Loans*:**

i. On July 17, 2015, the Company issued a note payable for $600,000 with the former owner of the Company. The note payable bears interest at 5% per annum, was due on December 1, 2015 and is secured against the intellectual property as at the effective date.

   During the year ended December 31, 2017, the Company repaid $nil (2017 - $221,430). As at December 31, 2018, $364,655 (2017 - $345,907) in notes payable plus accrued interest is outstanding and in default. For the year ended December 31, 2018, the Company recognized interest expense of $17,748 (December 31, 2017 - $25,658).

ii. On July 17, 2015, the Company issued a note payable of $100,745 with the former owner of the Company. The note payable bears interest at 5% per annum, and was due on July 17, 2015. During the year ended December 31, 2017, the Company repaid the outstanding balance of $113,356 in full. For the year ended December 31, 2017, the Company recognized interest expense of $5,037.

Expressed in Canadian Dollars

15. RELATED PARTY TRANSACTIONS

iii. On December 17, 2015, the Company issued a $160,000 note payable to a company controlled by a director of the Company. During the year ended December 31, 2017, the balance outstanding of $160,000 was applied against a subscription receivable (note 3).

iv. During the year ended December 31, 2018, the Company issued into various promissory notes of $273,500 with a company controlled by a director of the Company. The promissory notes are interest bearing at 12% per annum, unsecured and due within 60 days from the date of advance.

During the year ended December 31, 2018, the company repaid $37,086. As at December 31, 2018, $253,995 in promissory notes plus accrued interest is outstanding and is in default. For the year ended December 31, 2018, the Company recorded interest expense of $17,581.

Trade payables and accrued liabilities:

During the year ended December 31, 2018, the Company had $837,781 (2017 - $827,280) payable to related parties outstanding that were included in accounts payable. The balances outstanding are unsecured, non-interest bearing and due on demand.

Key management compensation

Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management for the year ended December 31, 2018 and 2017 included:

For the year ended December 31,		**2018**		2017
Salaries	**$**	**280,000**	$	280,000
Total	**$**	**280,000**	$	280,000

16. INCOME TAXES

The following table reconciles the expected income taxes at the Canadian statutory income tax rates to the amounts recognized in the statements of comprehensive loss for the years ended December 31, 2018 and 2017:

		December 31, 2018		**December 31, 2017**
Loss before income taxes	$	601,729	$	932,019
Canadian statutory rates		27%		26%
Expected income tax		162,000		242,000
Non-deductible items		-		(17,000)
Differences between prior year provision and final tax return		(20,000)		(318,000)
Change in deferred tax asset not recognized		(142,000)		93,000
Income tax	$	-	**$**	**-**

The Company has non-capital loss carry forward of approximately $6,847,000 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the years 2033 to 2039.

Expressed in Canadian Dollars

17. FINANCE AND OTHER COSTS

	December 31, 2018	December 31, 2017
Accretion expense (note 9)	$ 90,821	$ 263,774
Interest expense for notes payable (note 8)	38,122	38,832
Interest on outstanding trade payables and bank charges	16,328	20,226
	$ 145,271	$ 322,832

18. SUBSEQUENT EVENTS

The following reportable events occurred subsequent to the year ended December 31, 2018:

- On January 31, 2019, the Company and Drone Acquisition Corp. ("Drone") entered into a business combination agreement (the "Business Combination Agreement") providing for a three-cornered amalgamation (the "Amalgamation") among the Company, Drone and a wholly-owned subsidiary of Drone (the "Subco") pursuant to which Drone will acquire all of the issued and outstanding common shares of the Company (the "Draganfly Shares") through the Company and the Subco amalgamating and becoming a wholly-owned subsidiary Drone. It is a condition of closing that Drone complete a private placement of 10,000,000 units (a "Unit") at a price of $0.50 per Unit (the "Financing Price"), with each Unit consisting of one common share and one common share purchase warrant (a "Unit Warrant"). Each Unit Warrant will be exercisable by the holder into one common share of the resulting issuer at a price of $0.50 per share for a period of 4 months. It is a post-closing covenant of the Business Combination Agreement that the resulting issuer from the Amalgamation obtains a listing for its common shares (the "Listing") on the Canadian Securities Exchange (the "CSE").

  Under the Amalgamation, Draganfly Shares will be exchanged for ordinary shares of Drone ("Drone Shares") on the basis of 1.794 Drone Shares for each Draganfly Shares held resulting in 40,000,000 Draganfly Shares to be issued. Upon completion of the Amalgamation, holders of Draganfly share purchase warrants ("Draganfly Warrants") will be entitled to receive Drone Shares in lieu of shares otherwise issuable prior to the effective date of the Amalgamation (the "Effective Date"), adjusted in accordance with the terms of the various agreements and certificates representing the said warrants.

  As at the date of approval of these financial statements, Drone has loaned the Company a total of $850,000 in the form of a bridge loan. The bridge loan is interest bearing at 10% per annum and will be payable both before and after default under the loan Agreement, dated February 4, 2019 and the corresponding amendments on April 25, 2019 and May 22, 2019. The loan payable matures on the earlier of: (i) 30 calendar days from the date of the Business Combination Agreement is terminated, and (ii) 1 year from the date of the advance of the loan.

- On February 4, 2019 the Company entered a promissory note agreement, whereby the Company agreed to pay the note of $44,000 by June 6, 2019. The note is unsecured and bears interest at 12%.

- On February 8, 2019, the Company repaid $50,000 in convertible debentures and recognized interest expense of $3,333.

- On February 11, 2019 the company repaid $40,951 in loans payable and recognized interest expense of $3,049.

18. SUBSEQUENT EVENTS (continued)

- On February 28, 2019, the Company repaid $51,250 in Convertible debentures and recognized interest expense of $1,250.

- On March 5, 2019 the Company extended the promissory note agreement, whereby the Company agreed to pay the note of US$75,000 and is now due June 3, 2019. On March 5, 2019 the Company repaid the accumulated interest of $4,439.

SCHEDULE B

MD&A FOR FORMER DRAGANFLY FOR THE YEAR ENDED DECEMBER 31, 2018

Draganfly Innovations Inc.

Management Discussion and Analysis
For The Year Ended December 31, 2018

draganfly INNOVATIONS INC

Special Note Regarding Forward Looking Information

The following Management Discussion and Analysis ("MD&A") is presented and dated as of July 12, 2019 and should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2018. The Company's audited financial statements have been prepared on the going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

This MD&A is intended to provide readers with the information that management believes is required to gain an understanding of the current results of Draganfly Innovations Inc. (the "Company" or "Draganfly") and to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document and that could have a material impact on future prospects. Readers are cautioned that actual events and results will vary.

In this MD&A we describe certain income and expense items that are unusual or non-recurring. There are terms not defined by International Financial Reporting Standards (IFRS). Our usage of these terms may vary from the usage adopted by other companies. Specifically, *Gross profit, Gross margin* and *Cash flow from operations* are undefined terms by IFRS. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results.

Certain statements in the MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. These include, without limitation, the Company's current and planned operations in the technology sector and the expected results of new operations and new clients. These statements are based on current expectations involving a number of risks and uncertainties related to all aspects of the technology sector. These risks and uncertainties include, but are not restricted to, continued increased demand for the Company's products, the Company's ability to maintain its technological and competitive advantages, the Company's ability to attract and retain key employees, the ability of the Company to take advantage of its intellectual property, the Company's ability to raise capital on acceptable terms when needed and the availability of key suppliers and contractors. These uncertainties may cause actual results to differ from information contained herein. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. These forward-looking statements are based on the estimates and opinions of Management on the dates they are made and are expressly qualified in their entirety by this notice. The reader is cautioned not to rely on these forward-looking statements. The Company assumes no obligation to update forward-looking statements should circumstances or Management's estimates or opinions change except as required by securities laws.

The operations of the Company have been primarily funded through internally generated cashflow and private placements of equity and convertible debentures. The continued operations of the Company are dependent on the Company's ability to generate profitable operations in the future, develop and execute a sufficient financing plan for future operations and receive continued financial support from shareholders and other providers of finance.

The financial statements do not reflect the adjustments, if any, or changes in presentation that may be necessary should the Company not be able to continue on a going concern basis.

All currency amounts in the accompanying financial statements and this management discussion and analysis are in Canadian dollars unless otherwise noted.

Non-GAAP Measures and Additional GAAP Measures

Throughout this document, reference is made to "gross margin" and "working capital", which are non-IFRS measures. Management believes that gross margin, defined as revenue less operating expenses, is a useful supplemental measure of operations. Management believes that working capital, defined as current assets less current liabilities, is an indicator of the Corporation's liquidity and its ability to meet its current obligations. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance with International Financial Reporting Standards ("IFRS").

Core Business and Strategy

Draganfly creates quality, cutting-edge unmanned vehicle systems and software that revolutionize the way people do business. The Company is incorporated under *The Business Corporations Act* (SK), continued under the *Business Corporations Act* (AB), continued again under the *Business Corporations Act* (BC), and has its head office at 2108 St. George Avenue, Saskatchewan, SK, S7M 0K7.

Recognized as being at the forefront of technology for two decades, Draganfly is an award-winning, industry-leading manufacturer, contract engineering, and product development company within the commercial UAV (unmanned aerial vehicles) space, serving the public safety, agriculture, industrial inspections, and mapping and surveying markets. Draganfly is a company driven by passion, ingenuity, and the need to provide efficient solutions and first-class services to its customers around the world with the goal of saving time, money, and lives.

Founded in 1998, Draganfly is recognized as the first commercial multi-rotor manufacturer and has a legacy for its innovation and superior customer service. The company has sold products and services to over 50 countries.

Draganfly can provide its customers with an entire suite of products and services that include: quad-copters, fixed-wing aircrafts, ground based robots, hand held controllers, flight training, and software used for tracking, live streaming, and data collection. The integrated UAV system is equipped for automated take-offs and landings with altitude and return to home functions as well as in-house created survey software. Draganfly's standard features combined with custom fit camera payloads ranging from multi-spectral, hyper-spectral, LIDAR, thermal, and infrared allows Draganfly to offer a truly unique solution to clients. Draganfly has also partnered with companies such as Waterloo based, Dejero, who provide a live streaming solution that the Company can offer to its customers and share in monthly usage fees.

With 19 fundamental UAV patents in the portfolio, Draganfly will continue to expand and grow their intellectual property docket.

Historically, the main business of the Company was to operate as a manufacturing company offering commercial UAVs directly to its customer base across various industry verticals. The Company is now doing more engineering procurement for certain customers in an industry vertical that it does not currently serve, such as military applications (e.g., high value product delivery on the battlefield, surveillance and capture drones). The rationale is three-fold: engage in long term contracts that tend to be recurring in nature, gain exposure to an industry that the Company otherwise does not have access to, and leverage our innovation into products that can be targeted to multiple industries.

Draganfly works with its customers to customize a product or platform from idea (R&D) to completion and testing. A work plan is created with timelines and budget which includes materials, travel, testing, and engineering time. This plan is signed approved by the customer before work begins. To date, the majority of this work is considered proprietary and secret in nature.

The Company has done very little outbound sales and marketing promotional activities and yet it is able to attract customers from around the world through its website, which is still the Company's primary method of selling. It became evident to Management that resources needed to be raised to execute a carefully designed sales and marketing strategy to capitalize on industry demand for the Company's products and services.

Management determined in mid-2018 the best course of action to secure additional capital, grow the Company's brand and expand its reach was to secure a public listing on a reputable exchange. To that end, a transaction was entered into in May of 2018. Following completion of the transaction, and pursuant to completion of certain conditions precedent, including receipt of all necessary director, shareholder, regulatory and Canadian Stock Exchange (CSE) approvals, the Company will be listed on the CSE in fall 2019. The Company will incur significant listing expenses to complete the process but will be well positioned to execute on its business plan and reduce its outstanding debt, thereby putting the company in a much better situation.

Additional information relating to the Company may be found at the Company's website, www.draganfly.com.

Overall Performance – 2018 Highlights

- **2018 Total Revenues at $1,387,013 with contract engineering revenue of $963,308**

2018 was a milestone year for Draganfly. The company solidified its engineering services business to not only offset a reduction in manufactured goods due to industry pricing shifts created by Chinese competition but to make this its primary business. Although, the Company's products are still well regarded in the industry, the commercial UAV space as a whole has been impacted by lower priced consumer drones that can now offer similar functionality. The Company recognized their opportunity of engineering procurement for those customers that either choose not to buy Chinese UAVs or are restricted from doing so due to information sensitivity concerns. 2018 revenues increased by $557,619 from $829,394 in 2017 to $1,387,013. $963,308 represents engineering services work while the balance of revenue is from hardware sales.

- **Gross Margins Improve Due to Shift In Business Mix**

Not only did revenues increase year over year, as the Company transitioned from being a pure play manufacturer to offering services, the gross margins improved 40.5%. The Company's total gross margin for 2018 was 67.4% compared to 47.9% in 2017. Engineering services tends to have a much higher gross margin over manufacturing given lower material costs.

- **Company Focus Shifted from Pure Play Manufacturer To Offering Customized Solutions**

Given the Company's impressive history and deep engineering talent, a natural evolution was to outsource in-house capabilities to customers. Doing this leverages the Company's core skill set of innovation that tends to lead to future projects, bringing in more consistent revenue.

- **Company secures Engineering Procurement from new clients in Canada and US**

Securing clients in this relatively new business line was an important milestone achieved by the Company in 2018. These clients were important for revenue and continued validation of the technology, but more importantly they demonstrate that the Company's customized product designs have global applicability.

- **Risks related to operations**

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

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

Outlook and Guidance

This Outlook and Guidance contains forward-looking statements that the Corporation does not intend, and does not assume any obligation, to update, except as required by law. The forward-looking information and statements include:

- The current economic climate and its effect on the Company's client base business;
- The Company's ability to successfully acquire new customers;
- The Company's ability to successfully implement its technology;
- Management's assumptions regarding the sustainability of recurring revenue streams and the Company's expected profitability; and
- Management's outlook and guidance contains forward looking statements of the Company's ability to penetrate the US and international client base with its products and services and continue its penetration in the Canadian market.

The Company believes that being listed on the CSE will open up further opportunities to access capital as well as allow it to use its Common Shares as a currency for potential acquisitions. Operationally, having access to more capital will help the Company expand and diversify its engineering services business. Doing this requires more human resources both from a sales and engineering perspective. Further, the Company has a number of innovative ideas for new products that it would like to develop and increase its current product offering to various niche industries that aren't being served by the dominant player in the UAV space. Finally, the Company has considered offering various other non-engineering services and it may make more sense to buy an existing industry player than to build out this offering. This isn't something the Company has to do but it will be opportunistic to learn about potential opportunities in the existing fiscal year and the near future.

Selected Annual Financial Information

The following selected financial data has been extracted from the audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards, for the fiscal years indicated and should be read in conjunction with those audited financial statements.

		December 31, 2018		December 31, 2017
Total revenues	**$**	**1,387,013**	$	829,394
Gross Profit (as a % of revenues)		**67.4%**		47.9%
Net loss and comprehensive loss		**(601,729)**		(932,019)
Net loss per share ($)				
- Basic		**(0.03)**		(0.04)
- Diluted		**(0.03)**		(0.04)
Change in cash and cash equivalents		**(27,547)**		(71,466)
Total assets		**504,825**		626,307
Working capital		**(4,353,261)**		(3,788,207)
Total non-current liabilities		**-**		-
Shareholder's equity (deficiency)	**$**	**(4,132,609)**	$	(3,531,280)
Number of shares outstanding		**21,932,454**		21,924,454

Results of Operations

Revenue

For the year ended December 31,		**2018**		2017
Product sales	**$**	**423,705**	$	610,947
Engineering services		**963,308**		218,447
Total revenue	**$**	**1,387,013**	$	829,394

Total revenue for the year ended December 31, 2018 increased by $557,619 or 67.2% as compared to the same period in 2017. The increase in revenue is due to the Company's growing engineering services business. Engineering service work consists of the design and customization of various UAV type products for the Company's clients. The intention of providing services work is to secure long-term contracts that will be ongoing and/or continue onto different projects for the Company's customers. The goal is to bring in recurring revenues from the Company's client base. Further, this service work tends to have higher gross margins than straight product sales. The Company has also introduced customization work as part of their product sales offering.

Cost of Goods Sold / Gross Margin

For the year ended December 31,		2018		2017
Cost of goods sold	$	(452,399)	$	(431,855)
Gross profit	$	934,614	$	397,539
Gross margin (%)		67.4%		47.9%

Gross profit is the difference between the revenue received and the direct cost of that revenue. Gross margin is gross profit divided by revenue and is often presented as a percent. As a result of reduced product sales, the Company's Gross Profit increased by $537,075 or 135.1%. As a percentage of sales, gross margin increased from 47.9% in 2017 to 67.4% in 2018. Again, the higher gross margins realized in 2018 was the result of a major shift to engineering service work which has a higher gross margin than the legacy manufacturing gross margin.

Selling, General, and Administrative (SG&A)

For the year ended December 31,		2018		2017
Office and Miscellaneous	$	328,292	$	623,006
Professional Fees		131,028		58,337
Travel		17,817		24,863
Wages and salaries		984,179		1,073,162
Research and Development		16,158		59,506
Total	$	1,477,474	$	1,838,874

Selling, General and Administrative expenses in 2018 decreased by 19.7%, from $1,838,874 in 2017 to $1,477,474 in 2018. The largest contributor to the decrease is human resource related costs. The main reason for the decrease was to transition to be more streamlined in its personnel. As a result, certain functions were either consolidated or no longer required. R&D was also temporarily reduced as engineering time was put towards engineering service work. Some of the other SG&A expenses such as professional fees increased due to increased accounting and legal work in preparation for going public.

Share-Based Compensation

For the year ended December 31,		2018		2017
Share-based compensation	$	-	$	64,558

Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 15% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

For the year ended December 31, 2018,

- During the year ended December 31, 2018, the Company issued 8,000 shares for $400 for exercise of warrants. In relation, $10,000 in equity reserve was reclassified to share capital.

For the year ended December 31, 2017,

- During the year ended December 31, 2017, the Company issued 16,000 shares for $800 for exercise of warrants. In relation, $20,000 in equity reserve was reclassified to share capital.
- On December 13, 2017, the Company issued 216,000 shares for settlement of convertible debentures and accrued interest.
- On October 12, 2017, the Company issued 232,558 units for proceeds of $200,000. Each unit consists of one common share and one warrant. Each warrant is exercisable at a price of $0.86 per share for a period of 24 months.

Net and Comprehensive Loss

For the year ended December 31,		**2018**		2017
(Loss) income from operations	**$**	**(580,915)**	$	(1,540,632)
Gain on disposal of assets		**-**		949,584
Finance and other costs		**(145,271)**		(322,832)
Government grants		**-**		64,000
Scientific Research and Experimental Development tax credit		**113,356**		-
Other income (loss)		**8,130**		(11,058)
Foreign exchange loss		**2,971**		(71,081)
Net and comprehensive (loss) income	**$**	**(601,729)**	$	(932,019)

For the year ended December 31, 2018, the Company recorded a comprehensive loss of $601,729 compared to a comprehensive loss of $932,019 in 2017. The decreased loss was the result of lower operating expenses (discussed above) and a higher gross profit. The Company received Scientific Research and Experimental Development tax credit in 2018.

Summary of Quarterly Results

The following selected quarterly financial data has been extracted from the financial statements, prepared in accordance with International Financial Reporting Standards.

In Q4, 2018, the Company recorded revenues of $274,162, an increase of $140,880 or 105.7% as compared to the equivalent quarter in 2017. Most of the increase can be attributed to higher billings on the contract engineering business which also greatly improved the gross margin at 53.7% vs 26.3% in Q4, 2017. Although operating expenses increased slightly during Q4 2018 ($477,889 compared to $466,672 or the same period last year), operating costs for the previous other three 2018 quarters came in lower compared to the corresponding three quarters in 2017. The decrease in operating costs were primarily due to lower wages paid, reduced R&D, and lower office expenses.

	2018 Q4	2018 Q3	2018 Q2	2018 Q1

Revenue	**$**	**274,162**	$	270,127	$	440,346	$	402,378
Cost of goods sold	**$**	**(127,014)**	$	(77,535)	$	(92,586)	$	(155,264)
Gross profit	**$**	**147,148**	$	192,592	$	347,760	$	247,114
Gross margin – percentage		**53.7%**		71.3%		79.0%		61.4%
Operating expenses	**$**	**(477,889)**	$	(329,744)	$	(374,274)	$	(333,625)
Operating loss	**$**	**(330,738)**	$	(137,152)	$	(26,514)	$	(86,511)
Operating loss per share (basic and diluted)	**$**	**(0.02)**	$	(0.01)	$	(0.00)	$	(0.00)
Other expense	**$**	**(39,197)**	$	58,467	$	(47,521)	$	7,437
Comprehensive loss	**$**	**(369,935)**	$	(78,685)	$	(74,035)	$	(79,074)
Comprehensive income (loss) per share (basic and diluted)	**$**	**(0.03)**	$	(0.00)	$	(0.00)	$	(0.00)

		2017 Q4		2017 Q3		2017 Q2		2017 Q1
Revenue	$	133,282	$	222,371	$	203,682	$	270,059
Cost of goods sold	$	(98,269)	$	(62,552)	$	(192,929)	$	(78,105)
Gross profit	$	35,013	$	159,819	$	10,753	$	191,954
Gross margin – percentage		26.3%		71.9%		5.3%		71.1%
Operating expenses	$	(466,672)	$	(426,892)	$	(540,691)	$	(503,916)
Operating loss	$	(431,659)	$	(267,073)	$	(529,938)	$	(311,962)
Operating loss per share (basic and diluted)	$	(0.02)	$	(0.01)	$	(0.02)	$	(0.01)
Other income (expense)	$	807,323	$	(108,157)	$	(19,867)	$	(70,686)
Comprehensive income (loss)	$	375,664	$	(375,230)	$	(549,805)	$	(382,648)
Comprehensive income (loss) per share (basic and diluted)	$	0.02	$	(0.02)	$	(0.02)	$	(0.02)

Liquidity and Capital Resources

The Company's liquidity risk is on its loans, accounts payable and accrued liabilities, as it may encounter difficulty discharging its obligations. The Company attempts to mitigate this risk by managing its debt holders as well as ensuring there is capital coming into the company for its operations. As at December 31, 2018, the Company has a working capital deficit of $4,353,261 (December 31, 2017 had a deficit of $3,788,207).

The Company considers the items included in capital to include shareholders' equity. The Company manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, financing environment and the risk characteristics of the underlying assets. The Company may issue new shares, new debt, or scale back the size and nature of its operations. As per its plans to go public, the company will restructure and repay the majority of its outstanding debt. The Company is not subject to externally imposed capital requirements. As at December 31, 2018, shareholders' equity was ($4,132,609) and at December 31, 2017, shareholder's equity was ($3,531,280).

Subsequent Events

The following reportable events occurred subsequent to the year ended December 31, 2018:

- On January 31, 2019, the Company and Drone Acquisition Corp. ("Drone") entered into a business combination agreement (the "Business Combination Agreement") providing for a three-cornered amalgamation (the "Amalgamation") among the Company, Drone and a wholly-owned subsidiary of Drone (the "Subco") pursuant to which Drone will acquire all of the issued and outstanding common shares of the Company (the "Draganfly Shares") through the Company and the Subco amalgamating and becoming a wholly-owned subsidiary Drone. It is a condition of closing that Drone complete a private placement of 10,000,000 units (a "Unit") at a price of $0.50 per Unit (the "Financing Price"), with each Unit consisting of one common share and one common share purchase warrant (a "Unit Warrant"). Each Unit Warrant will be exercisable by the holder into one common share of the resulting issuer at a price of $0.50 per share for a period of 4 months. It is a post-closing covenant of the Business Combination Agreement that the resulting issuer from the Amalgamation obtains a listing for its common shares (the "Listing") on the Canadian Securities Exchange (the "CSE").

Under the Amalgamation, Draganfly Shares will be exchanged for ordinary shares of Drone ("Drone Shares") on the basis of 1.794 Drone Shares for each Draganfly Shares held resulting in 40,000,000 Draganfly Shares to be issued. Upon completion of the Amalgamation, holders of Draganfly share purchase warrants ("Draganfly Warrants") will be entitled to receive Drone Shares in lieu of shares otherwise issuable prior to the effective date of the Amalgamation (the "Effective Date"), adjusted in accordance with the terms of the various agreements and certificates representing the said warrants.

As at the date of approval of the financial statements, Drone has loaned the Company a total of $930,000 in the form of a bridge loan. The bridge loan is interest bearing at 10% per annum and will be payable both before and after default under the loan Agreement, dated February 4, 2019 and the corresponding amendments on April 25, 2019, May 22, 2019, and June 27, 2019. The loan payable matures on the earlier of: (i) 30 calendar days from the date of the Business Combination Agreement is terminated, and (ii) 1 year from the date of the advance of the loan.

- On February 4, 2019 the Company entered a promissory note agreement, whereby the Company agreed to pay the note of $44,000 by June 6, 2019. The note is unsecured and bears interest at 12%.

- On February 8, 2019, the Company repaid $50,000 in convertible debentures and recognized interest expense of $3,333.

- On February 11, 2019 the company repaid $40,951 in loans payable and recognized interest expense of $3,049.

- On February 28, 2019, the Company repaid $51,250 in Convertible debentures and recognized interest expense of $1,250.

- On March 5, 2019 the Company extended the promissory note agreement, whereby the Company agreed to pay the note of US$75,000 and is now due June 3, 2019. On March 5, 2019 the Company repaid the accumulated interest of $4,439.

Off-Balance Sheet Arrangements

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources.

Contractual Obligations

As of December 31, 2018, and as of the date of this MD&A, and in the normal course of business, the following is a summary of the Company's material obligations to make future payments, representing contracts, and other commitments that are known and committed.

Notes Payable

The Company's notes payables outstanding as at December 31, 2018 are as follows:

	Start Date	Maturity Date	Rate		Principal		Interest		Total
Note 1(1)	2015-03-26	2015-07-17	0%	$	124,000	$	-	$	124,000
Note 2(1)	2015-07-17	2015-12-01	5%		278,570		87,249		365,819
Note 3(1)	2018-02-05	2018-04-30	12%		25,000		2,704		27,704
Note 4(1)	2018-05-28	2018-07-31	12%		60,000		4,281		64,281
Note 5(1)	2018-06-25	2018-07-31	12%		40,000		2,486		42,486
Note 6(1)	2018-07-09	2018-08-06	12%		12,000		690		12,690
Note 7(1)	2018-07-23	2018-08-23	12%		23,000		1,217		24,217
Note 8(1)	2018-09-17	2018-10-31	12%		40,000		1,381		41,381
Note 9(1)	2018-10-15	2018-11-30	12%		32,000		810		32,810
Note 10(1)	2018-11-26	2018-12-31	12%		2,000		23		2,023
Note 11(1)	2018-12-04	2018-12-31	12%		2,500		21		2,521
Note 12	2018-12-07	2019-03-05	18%		99,743		4,629		104,372
Total				$	738,813	$	105,491	$	844,304

(1) As at December 31, 2018, these notes payable were in default.

Convertible Debentures

The Company's convertible debentures outstanding as at December 31, 2018 are as follows:

	Start Date	Maturity Date	Rate		Initial Liability Component		Accretion of Equity Component		Total
Debenture 1(1)	2015-09-15	2017-09-15	10%	$	351,785	$	198,215	$	550,000
Debenture 2(1)	2016-08-18	2017-08-18	10%		80,000		20,000		100,000
Debenture 3(1)	2016-08-18	2017-08-18	10%		80,000		20,000		100,000
Debenture 4(1)	2016-12-23	2018-12-23	10%		128,000		72,000		200,000
Debenture 5	2017-01-31	2019-01-31	10%		16,000		8,711		24,711
Debenture 6	2017-01-31	2019-01-31	10%		25,600		13,938		39,538
Debenture 7	2017-03-01	2019-03-01	10%		128,000		64,794		192,794
Total				$	809,385	$	397,658	$	1,207,043

(1) As at December 31, 2018, these convertible debentures were in default.

Related Party Transactions

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers. During the years ended December 31, 2018 and 2017, there was no remuneration paid to key management personnel.

***Loans*:**

a) On July 17, 2015, the Company entered into a note payable for $600,000 with the former owner of the Company. The note payable bears interest at 5% per annum, was due on December 1, 2015 and is secured against the intellectual property as at the effective date.

   During the year ended December 31, 2017, the Company repaid $nil (2017 - $221,430). As at December 31, 2018, $364,655 (2017 - $345,907) in notes payable plus accrued interest is outstanding and in default. For the year ended December 31, 2018, the Company recognized interest expense of $17,748 (December 31, 2017 - $25,658).

b) On July 17, 2015, the Company entered into a note payable of $100,745 with the former owner of the Company. The note payable bears interest at 5% per annum and was due on July 17, 2015. During the year ended December 31, 2017, the Company repaid the outstanding balance of $113,356 in full. For the year ended December 31, 2017, the Company recognized interest expense of $5,037.

c) On December 17, 2015, the Company issued a $160,000 note payable to a company controlled by a director of the Company. During the year ended December 31, 2017, the balance outstanding of $160,000 was applied against subscription receivable.

d) During the year ended December 31, 2018, the Company entered into various promissory notes of $273,500 with a company controlled by a director of the Company. The promissory notes are interest bearing at 12% per annum, unsecured and due within 60 days from the date of advance.

During the year ended December 31, 2018, the company repaid $37,086. As at December 31, 2018, $253,995 in promissory notes plus accrued interest is outstanding and is in default. For the year ended December 31, 2018, the Company recorded interest expense of $17,581.

Key management compensation

Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management for the year ended December 31, 2018 and 2017 included:

For the year ended December 31,		**2018**		2017
Salaries	**$**	**280,000**	$	280,000
Total	**$**	**280,000**	$	280,000

Share Capital

Shares outstanding and dilutive instruments as at the date hereof are as follows:

	Number of Options		**Weighted Average Exercise Price**
Outstanding, December 31, 2015 and 2016	3,068,000	$	0.73
Expired	(1,668,000)		0.30
Forfeited options – vested	(933,333)		1.25
Forfeited options – unvested	(166,667)		1.25
Outstanding, December 31, 2017	300,000		1.25
Expired	(300,000)		1.25
Outstanding, December 31, 2018	**-**	**$**	**-**

During the year December 31, 2018:

- The fair value of 300,000 expired options of $323,026 was reclassified from reserves to deficit.

During the year ended December 31, 2017:

- The fair value of the 1,668,000 expired options of $308,400 was reclassified from reserves to deficit.
- The fair value of the 933,333 forfeited unexercised options $802,428 was reclassified from reserves to deficit.
- The fair value of the 166,667 forfeited unvested options $86,845 was reversed from share-based payments.

During the year ended December 31, 2017, the Company recognized $64,558 in share-base payments for options granted in the year ended December 31, 2015, net of a reversal of forfeitures in the amount of $86,845.

Warrants

The following is the summary of the Company's warrant activity:

	Number of Warrants		**Weighted Average Exercise Price**
Outstanding, December 31, 2016	339,647	$	0.60
Issued	268,558	$	0.77
Exercised	(16,000)	$	0.05
Expired	(154,980)	$	1.25
Outstanding, December 31, 2017	437,225	$	0.49
Exercised	(8,000)	$	0.05
Outstanding, December 31, 2018	**429,225**	**$**	**0.49**

Warrants outstanding at December 31, 2018 were as follows:

Warrant Date	Expiration Date	Number of Warrants Outstanding		Exercise Price
April 1, 2017	April 1, 2019	20,000	$	0.05
October 1, 2017	October 1, 2019	232,558	$	0.86
December 23, 2016	December 22, 2019	176,667	$	0.05
		429,225		

The weighted average remaining contractual life of warrants outstanding as of December 31, 2018 was 0.84 years (December 31, 2018 - 1.84 years).

Subsequent to the year ended December 31, 2018, the 20,000 warrants with an expiration date of April 1, 2019 expired unexercised.

Critical Accounting Policies and Estimates

Measurement Uncertainty (Use of Estimates)

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

a. SR&ED tax credits

The determination of the amount of the Alberta SR&ED tax credit receivable requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near-term dependent on the review and audit by the government agency.

b. Allowance for uncollectible trade and other receivables

The Company makes use of estimates when making allowances for uncollectible trade and other receivables. The Company evaluates each receivable at year end using factors such as age of receivable, payment history, and credit risk to estimate when determining if an allowance is required, and the amount of the allowance.

c. Share-based payment transactions

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected lives and forfeiture rates of the share options and volatility of the market value of the underlying shares.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to use judgment in applying its accounting policies and make estimates and assumptions about reported amounts at the date of the financial statements and in the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Share-based payments

The cost of share-based payment transactions with directors, officers and employees are measured by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, risk-free interest rate, expected forfeiture rate and dividend yield of the stock option.

Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these income tax provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. Deferred tax assets are recognized when it is determined that the company is likely to recognize their recovery from the generation of taxable income.

Inventories

Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined with reference to the estimated selling price. The Company estimates selling price based upon assumptions about future demand and current and anticipated retail market conditions.

Contingencies

The assessment of contingencies involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company and that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the annual financial statements.

Useful lives of equipment and intangible assets

Estimates of the useful lives of equipment and intangible assets are based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of the relevant assets may be based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the equipment would increase the recorded expenses and decrease the non-current assets.

Other Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification of financial instruments;
- the classification of leases as either operating or finance type leases; and
- the determination of the functional currency of the company.

Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency.

Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Share-based payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry. Amounts recorded for forfeited unvested options are reversed in the period the forfeiture occurs.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Financial instruments

Effective January 1, 2018, the Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) on a retroactive basis in accordance with the transitional provisions. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). The standard promulgates a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. The adoption of IFRS 9 did not result in any change in the carrying values of any of the Company’s financial assets on the transition date; therefore, comparative figures have not been restated.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial asset/ liability	Original classification IAS 39	New classification IFRS 9
Cash	Fair value through profit and loss	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Accounts payable	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

Expected Credit Loss Impairment Model

IFRS 9 introduces a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company’s financial statements.

Financial assets and financial liabilities are initially recognized at fair value; subsequent measurement is dependent on the applicable classification. The Company has classified loans when a floating rate does not apply and receivables at amortized cost, which approximates fair value. The Company has classified accounts payable and accrued liabilities as other financial liabilities. The carrying amounts of accounts payable approximates the fair values of those financial instruments, due to the short-term maturity of such instruments.

Impairment of assets

The carrying amount of the Company's non-financial assets (which include equipment and intangible assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Income Taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Leases

Leases of property, plant and equipment where substantially all the risks and benefits incidental to the ownership of the asset are transferred the Company are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the leased property, plant and equipment or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognized as a liability and amortized on a straight-line basis over the life of the lease term.

Inventory

Inventory consists of raw materials for manufacturing of multi-rotor helicopters, industrial areal video systems, civilian small unmanned aerial systems or vehicles, and wireless video systems. Inventory is initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value.

Convertible debentures

The components of the compound financial instrument (convertible debenture) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The conversion option that will be settled by the exchange of a fixed amount in cash for a fixed number of equity instruments of the Company is classified as an equity instrument. At the issue date, the liability component is recognized at fair value, which is estimated using the effective interest rate on the market for similar nonconvertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest rate until it is extinguished on conversion or maturity. Upon maturity, the equity portion of the expired unexercised conversion option is reclassified to reserves.

The value of the conversion option classified as equity is determined at the issue date, by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of tax effects, and is not revised subsequently. When the conversion option is exercised, the equity component of the convertible debentures will be transferred to share capital. No profit or gain is recognized to the conversion or expiration of the conversion option.

Transaction costs related to the issuance of the convertible debentures are allocated to the liability and equity components in proportion to the initial carrying amounts. Transaction costs related to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying value of the liability component and amortized over the estimated useful life of the debentures using the effective interest rate method.

Revenue recognition

The Company adopted IFRS 15 – Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective approach where the cumulative impact of adoption is recognized in retained earnings as of January 1, 2018. The new standard provides for a single model that applies to all contracts with customers with two types of recognition: at a point in time or over time. Under IFRS 15 the Company's accounting policy for revenue recognition is as follows: i) identify the contract with the customer; ii) identify the performance obligation(s) in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligation(s); and (v) recognize revenue when (or as) performance obligation(s) are satisfied.

Revenue comprises the fair value of consideration received or receivable for the sale of goods and consulting services in the ordinary course of the Company's business. Revenue is shown net of return allowances and discounts.

Sales of goods

The Company manufactures and sells a range of multi-rotor helicopters, industrial aerial video systems, and civilian small unmanned aerial systems or vehicles. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location or picked up by the customer, the risks of obsolescence and loss have been transferred to the customer.

Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

Some contracts include multiple deliverables, such as the manufacturing of hardware and support. Support is performed by another party and does not include an integration service. It is therefore accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expect cost plus margin.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Consulting services

The Company provides consulting, custom engineering and investigating and solving on a project by project basis under fixed-price and variable price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual labour hours spend relative to the total expected labour hours. If contracts include the manufacturing of hardware, revenue for the hardware is recognised at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised. If the contract includes an hourly fee, revenue is recognised in the amount to which the Company has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

Cost of Goods Sold

Cost of sales includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight costs, as well as provisions for reserves related to product shrinkage, excess or obsolete inventory, or lower of cost and net realizable value adjustments as required.

Intangible Assets

An intangible asset is an identifiable asset without physical substance. An asset is identifiable if it is separable, or arises from contractual or legal rights, regardless of whether those rights are transferrable or separable from the Company or from other rights and obligations. Intangible assets includes intellectual property, which consists of patent and trademark applications.

Intangible assets acquired externally are measured at cost less accumulated amortization and impairment losses. The cost of a group of intangible assets acquired is allocated to the individual intangible assets based on their relative fair values. The cost of intangible assets acquired externally comprises its purchase price and any directly attributable cost of preparing the asset for its intended use. Research and development costs incurred subsequent to the acquisition of externally acquired intangible assets and on internally generated intangible assets are accounted for as research and development costs.

Intangible assets with finite useful lives are amortized straight-line over their estimated useful lives from the date they are available for use. The amortization period of the Company’s intellectual property is 5 years.

Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Depreciation is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The depreciation rates applicable to each category of equipment are as follows:

Class of equipment	Depreciation rate
Computer equipment	30%
Furniture and equipment	20%
Software	30%

Research and development expenditures

Expenditures on research are expensed as incurred. Research activities include formulation, design, evaluation and final selection of possible alternatives, products, processes, systems or services. Development expenditures are expensed as incurred unless the Company can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) its intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Government Assistance

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the period that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, the cost of the asset is reduced by the amount of the grant and the grant is recognized as income in equal amounts over the expected useful life of the asset.

SR&ED Investment tax credits

The Company claims federal investment tax credits as a result of incurring scientific research and experimental development ("SR&ED") expenditures. Federal investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Federal investment tax credits are accounted for as a reduction of research and development expense for items of a period expense nature or as a reduction of property and equipment for items of a capital nature. Management has made a number of estimates and assumptions in determining the expenditures eligible for the federal investment tax credit claim. It is possible that the allowed amount of the federal investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency.

The Company claims provincial (Alberta) investment tax credits as a result of incurring SR&ED expenditures. Provincial investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the provincial investment tax credit claim. The provincial investment tax credits are refundable and have been recorded as Alberta SR&ED tax credit receivable, and as a reduction in research and development expenses on the statement of comprehensive loss. It is possible that the allowed amount of the provincial investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency and the Alberta Tax and Revenue Administration.

Standards and interpretations not yet adopted

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

New standard IFRS 16 "Leases"

This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting has not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. The Company is currently evaluating the impact this new guidance will have on its financial statements.

Business Risks

In the normal course of business the Company's operations are influenced by a number of internal and external factors and are exposed to risks and uncertainties that can affect its business, financial condition and operating results. The activities of the Company are subject to ongoing operational risks including the performance of key suppliers, product performance, and government and other industry regulations and reliance on information systems, all of which may affect the ability of the Company to meet its obligations. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the market place, are not approved by regulatory authorities, or if products are not brought to market in a timely manner.

Ability to Manage Future Growth

Future growth, if any, may cause a significant strain on the Company's management and its operational, financial, human and other resources. The Company's ability to manage growth effectively will require it to implement and improve operational, financial, software development and management information systems and to expand, train, manage and motivate employees.

These demands may require the addition of management and other personnel and the development of additional expertise. Any increase in resources devoted to research, product development and marketing and sales efforts without a corresponding increase in operational, financial, product development and management information systems could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. The Company is exposed to a variety of financial risks by virtue of its activities, including currency risk, credit risk, and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Credit risk

Credit and liquidity risk associated with cash and the marketable security is managed by ensuring assets are placed with major financial institutions with strong investment grade ratings.

Credit risk on trade and other receivables reflects the risk that the Company may be unable to recover them. The Company manages its credit risk by closely monitoring the granting of credit. Trade and other receivables that are greater than 30 days are considered past due. Based on the status of trade and other receivables, no allowance for doubtful accounts has been recorded as at December 31, 2018 (December 31, 2017 - $nil).

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to minimal interest rate risk on its cash balances as they carry a floating rate of interest.

Foreign currency risk

The Company does engage in significant transactions and activities in currencies other than its functional currency. Depending on the timing of the transactions and the applicable currency exchange rates such conversions may positively or negatively impact the Company.

Other Information

Additional information about the Company is available at www.draganfly.com

Approval

This MD&A is authorized for issue by the Board on July 12, 2019.

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SCHEDULE C

INTERIM FINANCIAL STATEMENTS OF FORMER DRAGANFLY FOR THE PERIOD ENDED JUNE 30, 2019

Draganfly Innovations Inc.

Condensed Interim Financial Statements - Unaudited

For the three and six months ended June 30, 2019

(Expressed in Canadian Dollars)

Draganfly Innovations Inc.
Condensed Interim Statements of Financial Position
Expressed in Canadian Dollars

As at	Notes		June 30, 2019		December 31, 2018
			(unaudited)		
ASSETS					
Current Assets					
Cash		$	89,563	$	101,787
Accounts receivable	3		112,301		97,896
Inventory	4		48,723		61,185
Prepaids			28,220		23,305
			278,807		284,173
Non-current Assets					
Subscriptions receivable	3		153,566		153,566
Equipment	5		38,739		55,178
Intellectual property	6		5,584		11,908
TOTAL ASSETS		$	476,696	$	504,825
LIABILITIES					
Current Liabilities					
Trade payables and accrued liabilities	7	$	2,676,900	$	2,586,087
Notes payable	8		1,447,839		844,304
Convertible debentures	9		1,114,167		1,207,043
TOTAL LIABILITIES			5,238,906		4,637,434
SHAREHOLDERS' DEFICIENCY					
Share capital	10		12,561,342		12,561,342
Equity reserve	10		882,180		882,180
Accumulated deficit			(18,205,732)		(17,576,131)
TOTAL SHAREHOLDERS' DEFICIENCY			(4,762,210)		(4,132,609)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		$	476,696	$	504,825

Nature and Continuance of Operations (Note 1)
Contingency (Note 13)
Subsequent Events (Notes 1, 8)

Approved and authorized for issuance by the Board of Directors on August 20, 2019

"Glen Hawker"	*"Cameron Chell"*
Director	*Director*

Draganfly Innovations Inc.
Condensed Interim Statements of Comprehensive Loss - Unaudited
Expressed in Canadian Dollars

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	**2019**	2018	**2019**	2018
Revenue from sales of goods	11	**$ 41,829**	$ 103,954	**$ 93,604**	$ 271,999
Revenue from provision of services	11	**247,906**	336,392	**344,360**	570,725
TOTAL REVENUE		**289,735**	440,346	**437,964**	842,724
COST OF SALES		**(49,147)**	(92,586)	**(105,356)**	(247,850)
GROSS PROFIT		**240,588**	347,760	**332,608**	594,874
OPERATING EXPENSES					
Amortization	6	**$ 310**	$ 3,884	**$ 4,193**	$ 7,767
Depreciation	5	**832**	4,776	**5,170**	12,755
Office and miscellaneous		**146,526**	87,493	**209,383**	174,599
Professional fees		**69,988**	9,810	**102,811**	17,345
Research and development		**4,201**	105	**9,827**	131
Travel		**4,393**	3,998	**5,686**	5,629
Wages and salaries		**257,905**	264,208	**495,828**	489,673
		(484,155)	(374,274)	**(832,898)**	(707,899)
OTHER INCOME (EXPENSE)					
Finance and other costs	15	**(50,549)**	(28,270)	**(91,808)**	(55,573)
Foreign exchange gain (loss)		**13,803**	(1,537)	**(29,989)**	(354)
Other income (expense)		**(9,474)**	(17,714)	**(7,514)**	15,843
NET AND COMPREHENSIVE LOSS		**$ (289,787)**	$ (74,035)	**$ (629,601)**	$ (153,109)
Loss per share					
Basic/Diluted		**$ (0.01)**	$ (0.00)	**$ (0.03)**	$ (0.01)
Weighted average number of common shares outstanding		**21,932,454**	21,932,454	**21,932,454**	21,929,846

Draganfly Innovations Inc.
Condensed Interim Statements of Changes in Shareholders' Deficiency - Unaudited
Expressed in Canadian Dollars

	Number of Shares	Share Capital	Equity Reserve	Deficit	Total Shareholders' Deficiency
Balance at December 31, 2017	21,924,454	$ 12,550,942	$ 1,215,206	$ (17,297,428)	$ (3,531,280)
Shares issued for exercise of warrants	8,000	10,400	(10,000)	-	400
Net loss	-	-	-	(153,109)	(153,109)
Balance at June 30, 2018	21,932,454	12,561,342	1,205,206	(17,450,537)	(3,683,989)
Expired options	-	-	(323,026)	323,026	-
Net loss	-	-	-	(448,620)	(448,620)
Balance at December 31, 2018	21,932,454	$ 12,561,342	$ 882,180	$ (17,576,131)	$ (4,132,609)
Net loss	**-**	**-**	**-**	**(629,601)**	**(629,601)**
Balance at June 30, 2019	**21,932,454**	**$ 12,561,342**	**$ 882,180**	**$ (18,205,732)**	**$ (4,762,210)**

Draganfly Innovations Inc.
Condensed Interim Statements of Cash Flows - Unaudited
Expressed in Canadian Dollars

	Six Months Ended June 30,	
	2019	2018
OPERATING ACTIVITIES		
Net loss	**$ (629,601)**	$ (153,109)
Adjustments for:		
Amortization	**4,193**	7,767
Depreciation	**5,170**	12,755
Finance and other costs	**91,808**	55,573
Impairment	**13,967**	-
	(514,463)	(77,014)
Net changes in non-cash working capital items:		
Accounts receivable	**(14,405)**	(82,860)
Inventory	**12,462**	39,471
Prepaid expenses	**(4,915)**	(1,858)
Trade payables and accrued liabilities	**46,998**	56,977
Funds used in operations activities	**(474,323)**	(65,284)
INVESTING ACTIVITIES		
Purchase of equipment	**-**	(140)
Disposal of equipment	**(583)**	(11,303)
Purchase of intellectual property	**16**	(15)
Funds used in investing activities	**(567)**	(11,458)
FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	**974,000**	162,000
Repayment of notes payable	**(404,621)**	(136,584)
Repayment of convertible debentures	**(100,833)**	-
Proceeds from issuance of common shares	**-**	400
Funds provided by financing activities	**468,546**	25,816
Effects of exchange rate changes on cash	**(5,880)**	(2,925)
Change in cash	**(6,344)**	(50,926)
Cash, beginning of period	**101,787**	130,216
Cash, end of period	**$ 89,563**	$ 76,365

1. NATURE AND CONTINUANCE OF OPERATIONS

Draganfly Innovations Inc. (the "Company") was incorporated by articles of incorporation dated January 1, 2017 under the Business Corporations Act (Alberta). The Company develops and manufactures multi-rotor helicopters, industrial aerial video systems, civilian small unmanned aerial systems or vehicles, wireless video systems and custom engineering.

The head office, principal address and the registered records office of the Company is located at 2108 St., George Avenue, Saskatoon, Saskatchewan S7M 0K7.

On January 31, 2019, the Company and Drone Acquisition Corp. ("Drone") entered into a Business Combination Agreement (the "BCA") providing for a three-cornered amalgamation (the "Amalgamation") among the Company, Drone and a wholly-owned subsidiary of Drone (the "Subco"). As of August 15, 2019, the Amalgamation closed and Drone acquired all of the issued and outstanding common shares of the Company (the "Draganfly Shares"). It was a condition of closing that Drone complete a private placement of 10,000,000 units (a "Unit") at a price of $0.50 per Unit, with each Unit consisting of one common share and one warrant. Each warrant will be exercisable into one common share of the resulting issuer at a price of $0.50 for 12 months. Drone completed a private placement of 14,051,499 units raising $7,025,749.50. It is a post-closing covenant of the BCA that the resulting issuer from the Amalgamation obtains a listing for its common shares (the "Listing") on the Canadian Securities Exchange (the "CSE"). Drone has changed its name to Draganfly Inc. and is the parent company of the wholly owned subsidiary, Draganfly Innovations Inc, which is the amalgamated Company with Subco.

Under the Amalgamation, Draganfly Shares were exchanged for ordinary shares of Drone ("Drone Shares") on the basis of 1.794 Drone Shares for each Draganfly Share held resulting in approximately 42,000,000 Draganfly Shares to be issued. Upon completion of the Amalgamation, holders of Draganfly warrants ("Draganfly Warrants") will be entitled to receive Drone Shares in lieu of shares otherwise issuable prior to the effective date of the Amalgamation (the "Effective Date"), adjusted in accordance with the terms of the various agreements and certificates representing the said warrants.

The Company has incurred losses and negative cash flows from operations from inception that has primarily been funded through financing activities. The Company will need to raise additional capital during the next twelve months and beyond to support current operations and planned development. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand, convertible debentures and through private placement of common shares. These condensed interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reporting revenues and expenses, and the statements of financial position classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretation Committee ("IFRIC"). The principal accounting policies applied in the preparation of these interim financial statements, including International Accounting Standards ("IAS") 34 Interim Financial Reporting, are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Expressed in Canadian Dollars

2. BASIS OF PREPARATION (CONT'D)

The notes presented in these condensed interim financial statements include only significant events and transactions occurring since the Company's last fiscal year end and they do not include all of the information required in the Company's most recent annual financial statements. Except as noted below, these condensed interim financial statements follow the same accounting policies and methods of application as the Company's annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2018, which were prepared in accordance with IFRS as issued by IASB. There have been no significant changes in judgement or estimates from those disclosed in the financial statements for the year ended December 31, 2018.

These condensed interim financial statements were authorized for issue by the Board of Directors on August 20, 2019.

The financial statements of the Company have been prepared on a historical costs basis, modified where applicable. In addition, the financial statements have been prepared using the accrual basis of accounting except for cash flow information.

New accounting standard adopted

The Company has adopted the new IFRS pronouncement as at February 1, 2019 in accordance with the transitional provisions of the standard and as described below. The adoption of this new IFRS pronouncement has not resulted in any adjustments to previously reported figures.

IFRS 16 - Leases ("IFRS 16")

On January 13, 2016, the IASB issued IFRS 16. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 - Leases ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. At February 1, 2019, the Company adopted this standard and there was no material impact on the Company's condensed interim financial statements as the Company has no material lease contracts that fall under IFRS 16.

3. ACCOUNTS RECEIVABLE

		June 30, 2019		December 31, 2018
Trade accounts receivable	**$**	**83,889**	$	66,295
GST input tax credits		**4,796**		7,985
SR&ED receivable		**23,616**		23,616
	$	**112,301**	$	97,896

Subscriptions receivable

As at June 30, 2019, the outstanding balance is $153,566 (December 31, 2018 - $153,566) in subscriptions receivable relating to shares issued during the year ended December 31, 2016.

Expressed in Canadian Dollars

4. INVENTORY

	June 30, 2019	December 31, 2018
Raw materials	**$ 48,723**	$ 61,185

5. EQUIPMENT

	Computer Equipment	**Furniture and Equipment**	**Software**	**Total**
Cost				
Balance at January 1, 2018	$ 163,255	$ 202,556	$ 72,499	$ 438,310
Additions	440	140	11,955	12,535
Disposals	(420)	(21,334)	(116)	(21,868)
Balance at December 31, 2018	163,275	181,362	84,340	428,977
Disposals	**(1,056)**	**(124)**	**-**	**(1,180)**
Impairment	**(155,219)**	**(95,350)**	**(54,374)**	**(304,943)**
Balance at June 30, 2019	**7,000**	**85,888**	**29,966**	**122,854**
Accumulated depreciation				
Balance at January 1, 2018	147,074	149,840	65,477	362,391
Charge for the period	3,341	14,854	4,326	22,521
Eliminated on disposal	(389)	(10,695)	(29)	(11,113)
Balance at December 31, 2018	150,026	153,999	69,774	373,799
Charge for the period	**51**	**2,832**	**2,287**	**5,170**
Eliminated on disposal	**(1,654)**	**(109)**	**-**	**(1,763)**
Impairment	**(141,714)**	**(96,323)**	**(55,054)**	**(293,091)**
Balance at June 30, 2019	**6,709**	**60,399**	**17,007**	**84,115**
Net book value:				
December 31, 2018	13,249	27,363	14,566	55,178
June 30, 2019	**$ 291**	**$ 25,489**	**$ 12,959**	**$ 38,739**

Expressed in Canadian Dollars

6. INTELLECTUAL PROPERTY

		Total
Cost		
Balance at January 1, 2018	$	71,805
Balance at December 31, 2018		71,805
Eliminated on disposal		**(16)**
Impairment		**(29,858)**
Balance at June 30, 2019		**41,931**
Accumulated depreciation		
Balance at January 1, 2018		44,363
Charge for the period		15,533
Balance at December 31, 2018		59,896
Charge for the period		**4,193**
Impairment		**(27,742)**
Balance at June 30, 2019		**36,347**
Net book value:		
December 31, 2018		11,908
June 30, 2019	**$**	**5,584**

7. TRADE PAYABLES AND ACCRUED LIABILITIES

		June 30, 2019		December 31, 2018
Trade accounts payable	**$**	**1,655,703**	$	1,593,380
Accrued liabilities		**120,336**		106,220
Contingent liabilities (Note 13)		**-**		15,000
Due to related parties (Note 14)		**867,152**		837,781
Government grant payable (Note 12)		**33,709**		33,709
	$	**2,676,900**	$	2,586,090

8. NOTES PAYABLE

		June 30, 2019		December 31, 2018
Opening balance	**$**	**844,304**	$	571,675
Issuance of notes payable		**974,000**		373,243
Repayment of notes payable		**(404,621)**		(137,854)
Foreign exchange		**(5,880)**		(882)
Interest accrued		**40,036**		38,122
Ending balance	**$**	**1,447,839**	$	844,304

Expressed in Canadian Dollars

8. NOTES PAYABLE (CONT'D)

The Company's notes payable outstanding as at June 30, 2019 are as follows:

	Start Date	Maturity Date	Rate	Principal	Interest	Total
Note 1[(1)]	2015-03-26	2015-07-17	0%	$ 124,000	$ -	$ 124,000
Note 2[(1)]	2015-07-17	2015-12-01	5%	278,570	94,252	372,822
Note 13	2019-02-04	2019-06-30	12%	-	1,253	1,253
Note 14	2019-02-08	2020-02-08	10%	350,000	13,616	363,616
Note 15	2019-04-25	2020-04-25	10%	100,000	1,808	101,808
Note 16	2019-05-22	2020-05-22	10%	400,000	4,274	404,274
Note 17	2019-06-27	2020-06-27	10%	80,000	66	80,066
Total				$ 1,332,570	$ 115,269	$ 1,447,839

(1) As at June 30, 2019, these notes payable are in default.

During the six months ended June 30, 2019, the Company repaid Note 3 and interest totaling $28,049.

During the six months ended June 30, 2019, the Company repaid Note 4 and interest totaling $66,688.

During the six months ended June 30, 2019, the Company repaid Notes 5, 6, 7, 8, 9, 10, 11, and 12 and interest.

During the six months ended June 30, 2019, the Company repaid a portion of Note 13 and partial interest totaling $45,368. Subsequent to June 30, 2019, the balance was repaid.

Note 1 was entered into with a shareholder of the Company, is non-interest bearing and is unsecured.

Note 2 was entered into with the former owner of the Company, bears interest at 5% per annum, compounded monthly, and is secured against the intellectual property as at the start date.

Note 13 was entered into with a company controlled by a director of the Company, bear interest at 12% per annum and are unsecured.

Notes 14 through 17, the Loan Agreement, was entered into with Drone, bears interest at 10% per annum, calculated annually, and is due at the earlier of 30 days from the date the BCA is cancelled, and one year from the date of the advance.

Expressed in Canadian Dollars

8. NOTES PAYABLE (CONT'D)

The Company's notes payable outstanding as at December 31, 2018 were as follows:

	Start Date	Maturity Date	Rate	Principal	Interest	Total
Note 1[(1)]	2015-03-26	2015-07-17	0%	$ 124,000	$ -	$ 124,000
Note 2[(1)]	2015-07-17	2015-12-01	5%	278,570	87,249	365,819
Note 3[(1)]	2018-02-05	2018-04-30	12%	25,000	2,704	27,704
Note 4[(1)]	2018-05-28	2018-07-31	12%	60,000	4,281	64,281
Note 5[(1)]	2018-06-25	2018-07-31	12%	40,000	2,486	42,486
Note 6[(1)]	2018-07-09	2018-08-06	12%	12,000	690	12,690
Note 7[(1)]	2018-07-23	2018-08-23	12%	23,000	1,217	24,217
Note 8[(1)]	2018-09-17	2018-10-31	12%	40,000	1,381	41,381
Note 9[(1)]	2018-10-15	2018-11-30	12%	32,000	810	32,810
Note 10[(1)]	2018-11-26	2018-12-31	12%	2,000	23	2,023
Note 11[(1)]	2018-12-04	2018-12-31	12%	2,500	21	2,521
Note 12	2018-12-07	2019-03-05	18%	99,743	4,629	104,372
Total				$ 738,813	$ 105,491	$ 844,304

(1) As at December 31, 2018, these notes payable were in default.

9. CONVERTIBLE DEBENTURES

	September 2015 (a)	August 2016 (b)	December 2016 (c)	January 2017 (d)	March 2017 (e)	Total
Cost						
Balance at January 1, 2018	$ 550,000	$ 200,000	$ 160,784	$ 51,202	$ 154,236	$ 1,116,222
Accretion	-	-	39,216	13,047	38,558	90,821
Balance at December 31, 2018	$ 550,000	$ 200,000	$ 200,000	$ 64,249	$ 192,794	$ 1,207,043
Repayments	**-**	**(100,833)**	**-**	**-**	**-**	**(100,833)**
Accretion	**-**	**-**	**-**	**751**	**7,206**	**7,957**
Balance at June 30, 2019	**$ 550,000**	**$ 99,167**	**$ 200,000**	**$ 65,000**	**$ 200,000**	**$ 1,114,167**

The Company's convertible debentures outstanding as at June 30, 2019 are as follows:

	Start Date	Maturity Date	Rate	Initial Liability Component	Accretion of Equity Component	Total
Debenture 1[(1)]	2015-09-15	2017-09-15	10%	$ 351,785	$ 198,215	$ 550,000
Debenture 2[(1)]	2016-08-18	2017-08-18	10%	39,667	9,917	49,584
Debenture 3[(1)]	2016-08-18	2017-08-18	10%	39,667	9,916	49,583
Debenture 4[(1)]	2016-12-23	2018-12-23	10%	128,000	72,000	200,000
Debenture 5[(1)]	2017-01-31	2019-01-31	10%	16,000	9,000	25,000
Debenture 6[(1)]	2017-01-31	2019-01-31	10%	25,600	14,400	40,000
Debenture 7[(1)]	2017-03-01	2019-03-01	10%	128,000	72,000	200,000
Total				$ 728,719	$ 385,448	$ 1,114,167

(1) As at June 30, 2019, these convertible debentures are in default.

Expressed in Canadian Dollars

9. CONVERTIBLE DEBENTURES (CONT'D)

During the six months ended June 30, 2019, the Company repaid a portion of Debenture 2 totaling $50,416.

During the six months ended June 30, 2019, the Company repaid a portion of Debenture 3 totaling $50,417.

The initial liability component of the convertible debentures were calculated at the present value of interest payments and expected return of capital at a rate of 25% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component was measured based on the residual value of the instrument taken as a whole after deducting the amount determined separately for the liability component.

The holder of Debenture 1 is entitled, at their sole discretion, to convert the unpaid principal balance into common shares at a conversion price of $1.25 per share. The interest is convertible at a conversion price of $1.25 per share.

The holders of Debentures 2 through 7 are entitled, at their sole discretion, to convert the unpaid principal balance into common shares at a conversion price of $1 per share. The interest is convertible at a conversion price of $1.25 per share.

10. SHARE CAPITAL

Warrants

The following is the summary of the Company's warrant activity:

	Number of Warrants		Weighted Average Exercise Price
Outstanding, December 31, 2017	437,225	$	0.49
Exercised	(8,000)		0.05
Outstanding, December 31, 2018	429,225	$	0.49
Expired	**(20,000)**		**0.05**
Outstanding, June 30, 2019	**409,225**	**$**	**0.51**

During the six months ended June 30, 2019, the 20,000 warrants with an expiration date of April 1, 2019 expired unexercised.

The weighted average remaining contractual life of warrants outstanding as of June 30, 2019 was 0.37 years (December 31, 2018 - 0.84 years).

11. REVENUE

The Company sub-classifies revenue within the following components: product revenue and consulting revenue. Product revenue comprises of sales of internally assembled multi-rotor helicopters, industrial aerial video systems, civilian small unmanned aerial systems or vehicles, and wireless video systems. Consulting revenue consists of fees charged for custom engineering and training and simulation consulting.

		Three Months Ended June 30,				Six Months Ended June 30,		
		2019		2018		**2019**		2018
Product sales	**$**	**41,829**	$	103,954	**$**	**93,604**	$	271,999
Consulting		**247,906**		336,392		**344,360**		570,275
	$	**289,735**	$	440,346	**$**	**437,964**	$	842,724

Expressed in Canadian Dollars

11. REVENUE (CONT'D)

Consulting revenue:

On May 22, 2017, the Company executed a standard consulting agreement, whereby the Company would provide consulting, custom engineering and investigating and solving on a project by project basis. The Company shall be responsible for the development, design, procurement, fabrication, assembly, integration, checkout, integration and test of hardware, software, and firmware necessary to produce a complete system per each project. The consideration for the services performed are based on the labor cost incurred on an hourly basis and minimal preapproved expenditures.

The Company operates in an international market within one reportable industry segment. Geographic revenue segmentation is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
Canada	**$ 53,565**	$ 110,775	**$ 89,194**	$ 243,352
United States	**235,792**	329,291	**348,392**	599,092
International	**378**	280	**378**	280
	$ 289,735	$ 440,346	**$ 437,964**	$ 842,724

The Company derives significant revenues from three customers, each of whom exceed 10% of total revenues for either the six months ended June 30, 2019 at 89% and the six months ended June 30, 2018 at 88%.

12. GOVERNMENT ASSISTANCE

During the six months ended June 30, 2019, the Company received $nil (December 31, 2018 – $89,740) in government assistance for the purchase of research related to scientific research and experimental development tax credit, the entire amount is included in other income.

In February 2016, the Company and an Alberta-based government funded not-for-profit organization (the "Organization") entered into a funding agreement, whereby the Organization would fund 50% of the total costs, up to $375,000 to the Company for the development of a new product. During the year ended December 31, 2016, the Company received $75,000 in funding. On February 28, 2017, the Company and the Organization entered into a repayment agreement, where the Company would refund and repay a portion of the Organization's initial funding. The repayment agreement set out the terms and conditions upon which the Company was to pay $41,292 over a 12-month repayment plan. In addition, the Company will pay the Organization $33,709 if the Company ever sells a product that the Organization's funding contributed to. During the year ended December 31, 2018, the final repayment of $13,764 was made and the contingent balance of $33,709 remains in government grants payable (Note 7).

13. CONTINGENCY

On January 15, 2018, the Company entered into a settlement agreement with a vendor pursuant to an action filed under the Ontario Court. Per the agreement, the Company is to pay the settlement amount of $75,000 in 15 equal installments on a monthly basis. During the six months ended June 30, 2019, the Company repaid $15,000 of the settlement amount. As at June 30, 2019, $nil (December 31, 2018 - $15,000) is recognized as contingent liability and included in trade payables (Note 7).

Expressed in Canadian Dollars

14. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

***Loans*:**

i. On July 17, 2015, the Company entered into a note payable for $600,000 with the former owner of the Company. The note payable bears interest at 5% per annum, was due on December 1, 2015 and is secured against intellectual property.

   As at June 30, 2019, $372,822 (December 31, 2018 - $365,819) in notes payable is outstanding and in default. For the six months ended June 30, 2019, the Company recognized interest expense of $9,204.

ii. During the six months ended June 30, 2019, the Company entered into a promissory note of $44,000 and multiple promissory notes during the year ended December 31, 2018 totaling $273,500 with a company controlled by a director of the Company. The promissory notes are interest bearing at 12% per annum, unsecured and due within 60 days from the date of advance.

   During the six months ended June 30, 2019, the company repaid $304,620. As at June 30, 2019, $1,253 (December 31, 2018 - $253,995) in promissory notes plus accrued interest is outstanding and is in default. For the six months ended June 30, 2019, the Company recorded interest expense of $25,373. Subsequent to quarter end, the remaining $1,253 was repaid.

Trade payables and accrued liabilities:

As at June 30, 2019, the Company had $867,152 (December 31, 2018 - $837,781) payable to related parties outstanding that were included in accounts payable. The balances outstanding are unsecured, non-interest bearing, and due on demand.

15. FINANCE AND OTHER COSTS

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2019	2018	**2019**	2018
Accretion expense (note 9)	**$ -**	$ 22,194	**$ 7,957**	$ 42,961
Interest expense for notes payable (note 8)	**28,238**	5,923	**40,036**	12,265
Interest on outstanding trade payables and bank charges	**22,311**	153	**43,815**	347
	$ 50,549	$ 28,270	**$ 91,808**	$ 55,573

SCHEDULE D

INTERIM MD&A FOR FORMER DRAGANFLY FOR THE PERIOD ENDED JUNE 30, 2019

Draganfly Innovations Inc.

Management Discussion and Analysis
For the three and six months ended June 30, 2019

Special Note Regarding Forward Looking Information

This Management Discussion & Analysis ("MD&A") is intended to provide readers with the information that management believes is required to gain an understanding of the current results of Draganfly Innovations Inc. (the "Company" or "Draganfly") and to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document and that could have a material impact on future prospects. Readers are cautioned that actual events and results will vary.

In this MD&A we describe certain income and expense items that are unusual or non-recurring. There are terms not defined by International Financial Reporting Standards (IFRS). Our usage of these terms may vary from the usage adopted by other companies. Specifically, *Gross profit, Gross margin* and *Cash flow from operations* are undefined terms by IFRS. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results.

Certain statements in the MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. These include, without limitation, the Company's current and planned operations in the technology sector and the expected results of new operations and new clients. These statements are based on current expectations involving a number of risks and uncertainties related to all aspects of the technology sector. These risks and uncertainties include, but are not restricted to, continued increased demand for the Company's products, the Company's ability to maintain its technological and competitive advantages, the Company's ability to attract and retain key employees, the ability of the Company to take advantage of its intellectual property, the Company's ability to raise capital on acceptable terms when needed and the availability of key suppliers and contractors. These uncertainties may cause actual results to differ from information contained herein. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. These forward-looking statements are based on the estimates and opinions of Management on the dates they are made and are expressly qualified in their entirety by this notice. The reader is cautioned not to rely on these forward-looking statements. The Company assumes no obligation to update forward-looking statements should circumstances or Management's estimates or opinions change except as required by securities laws.

The following MD&A is presented and dated as of August 20, 2019 and should be read in conjunction with the unaudited consolidated financial statements and related notes for the three months and six months ended June 30, 2019 and the annual consolidated financial statements an related notes for the year ended December 31, 2018. The Company's audited consolidated financial statements have been prepared on the "going concern" basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The operations of the Company have been primarily funded through internally generated cashflow and private placements of equity and convertible debentures. The continued operations of the Company are dependent on the Company's ability to generate profitable operations in the future, develop and execute a sufficient financing plan for future operations and receive continued financial support from shareholders and other providers of finance.

The consolidated financial statements do not reflect the adjustments, if any, or changes in presentation that may be necessary should the Company not be able to continue on a going concern basis.

All currency amounts in the accompanying financial statements and this management discussion and analysis are in Canadian dollars unless otherwise noted.

Non-GAAP Measures and Additional GAAP Measures

Throughout this document, reference is made to "gross margin" and "working capital", which are non-IFRS measures. Management believes that gross margin, defined as revenue less operating expenses, is a useful supplemental measure of operations. Management believes that working capital, defined as current assets less current liabilities, is an indicator of the Corporation's liquidity and its ability to meet its current obligations. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance with International Financial Reporting Standards ("IFRS").

Core Business and Strategy

Draganfly Innovations creates quality, cutting-edge unmanned vehicle systems and software that revolutionize the way people do business. The Company is incorporated under the Alberta Business Corporations Act and has its head office at 2108 St. George Avenue, Saskatchewan, SK, S7M 0K7.

Recognized as being at the forefront of technology for two decades, Draganfly is an award-winning, industry-leading manufacturer, contract engineering, and product development company within the commercial UAV (unmanned aerial vehicles) space, serving the public safety, agriculture, industrial inspections, and mapping and surveying markets. Draganfly is a company driven by passion, ingenuity, and the need to provide efficient solutions and first-class services to its customers around the world with the goal of saving time, money, and lives.

Founded in 1998, Draganfly is recognized as the first commercial multi-rotor manufacturer and has a legacy for its innovation and superior customer service. The company has sold products and services to over 50 countries.

Draganfly can provide its customers with an entire suite of products and services that include: quad-copters, fixed-wing aircrafts, ground based robots, hand held controllers, flight training, and software used for tracking, live streaming, and data collection. The integrated UAV system is equipped for automated take-offs and landings with altitude and return to home functions as well as in-house created survey software. Draganfly's standard features combined with custom fit camera payloads ranging from multi-spectral, hyper-spectral, LIDAR, thermal, and infrared allows Draganfly to offer a truly unique solution to clients. Draganfly has also partnered with companies such as Waterloo based, Dejero, who provide a live streaming solution that the Company can offer to its customers and share in monthly usage fees.

With 19 fundamental UAV patents in the portfolio, Draganfly will continue to expand and grow their intellectual property docket.

Historically, the main business of the Company was to operate as a manufacturing company offering commercial UAVs directly to its customer base across various industry verticals. The Company is now doing more engineering procurement for certain customers in a vertical that is not currently served, such as military applications. The rationale is three-fold: engage in long term contracts that tend to be recurring in nature, gain exposure to an industry that the Company otherwise did not have access to, and leverage our innovation learnings into other products that can be sold in other industries.

Draganfly works with its customers to customize a product or platform from idea research and development (R&D) to completion and testing. A work plan is created with timelines and budget which includes materials, travel, testing, and engineering time. This plan is signed off on by the customer before work begins. To date, the majority of this work is considered proprietary and secret in nature.

The Company had done very little outbound sales and marketing promotional activities and yet customers around the world were reaching out to the Company through its website which is still is primary method of selling. It became evident to Management that resources needed to be raised to execute a carefully designed sales and marketing strategy to capitalize on industry demand for its product and services.

Management determined in mid-2018 the best course of action to secure additional capital, grow its brand and expand its reach was to secure a public listing on a reputable exchange. On January 31, 2019, the Company and Drone Acquisition Corp. ("Drone") entered into a Business Combination Agreement (the "BCA") providing for a three-cornered amalgamation (the "Amalgamation") among the Company, Drone and a wholly-owned subsidiary of Drone (the "Subco"). As of August 15, 2019, the amalgamation closed and Drone acquired all of the issued and outstanding common shares of the Company (the "Draganfly Shares"). It was a condition of closing that Drone complete a private placement of 10,000,000 units (a "Unit") at a price of $0.50 per Unit (the "Financing Price"), with each Unit consisting of one common share and one warrant. Each warrant will be exercisable into one common share of the resulting issuer at a price of $0.50 for 12 months. Drone completed a private placement of 14,051,499 units raising $7,025,749.50. It is a post-closing covenant of the BCA that the resulting issuer from the Amalgamation obtains a listing for its common shares (the "Listing") on the Canadian Securities Exchange (the "CSE"). Drone has changed its name to Draganfly Inc. and is the parent company of the wholly owned subsidiary, Draganfly Innovations Inc, which is the amalgamated Company with Subco.

Under the Amalgamation, Draganfly Shares were exchanged for ordinary shares of Drone ("Drone Shares") on the basis of 1.794 Drone Shares for each Draganfly Shares held resulting in approximately 42,000,000 Draganfly Shares to be issued. Upon completion of the Amalgamation, holders of Draganfly share purchase warrants ("Draganfly Warrants") will be entitled to receive Drone Shares in lieu of shares otherwise issuable prior to the effective date of the Amalgamation (the "Effective Date"), adjusted in accordance with the terms of the various agreements and certificates representing the said warrants.

Following the amalgamation and pursuant to completion of certain conditions precedent, including receipt of all necessary director, shareholder, regulatory and Canadian Stock Exchange (CSE) approvals, the Company will be listed on the CSE in fall 2019. The Company will incur significant listing expenses to complete the process but will be well positioned to execute on its business plan.

Additional information relating to the Company may be found at the Company's website, www.draganfly.com.

2019 Q2 Highlights

- **2019 Q2 Total Revenues of $289,735 with contract engineering revenue of $247,906**

2018 was a milestone year for Draganfly. The company solidified its engineering services business to not only offset a reduction in manufactured goods due to industry pricing shifts created by Chinese competition but to make this its primary business. Although, the Company's products are still well regarded in the industry, the commercial UAV space as a whole has been impacted by lower priced consumer drones that can now offer similar functionality. The Company recognized their opportunity of engineering procurement for those customers that either choose not to buy Chinese UAVs or are restricted from doing so due to information sensitivity concerns. The second quarter of 2019 revenues decreased by $150,611 from $440,346 in the second quarter of 2018 to $289,735. Engineering services revenue of $247,906 continued to be the bulk of the revenues in the second quarter of 2019 but this quarter represented a transition from an existing engineering contract that was concluding to a new one. Hardware sales of $41,829 made up the balance of the revenues.

- **Gross Margins remain flat year over year for Q2**

Engineering services tend to have higher gross margins than hardware sales given lower material costs. In the second quarter of 2019, the Company's total gross margin for the second quarter of 2019 was 83.0% vs 79.0% in the same period in 2018.

- **Company Focus Shifted from Pure Play Manufacturer to Offering Customized Solutions**

Given the Company's impressive history and deep engineering talent, a natural evolution was to outsource in-house capabilities to customers. Doing this leverages the Company's core skill set of innovation that tends to lead to future projects, bringing in more consistent revenue.

- **Company secures Engineering Procurement from new clients in Canada and US**

Securing clients in this relatively new business line was an important milestone achieved by the Company in 2018. These clients were important for revenue and continued validation of the technology, but, more importantly, they demonstrate that the Company's customized product designs have global applicability.

- **Risks related to operations**

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

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

Outlook and Guidance

This Outlook and Guidance contains forward-looking statements that the Company does not intend, and does not assume any obligation, to update, except as required by law. The forward-looking information and statements include:

- The current economic climate and its effect on the Company's client base business;
- The Company's ability to successfully acquire new customers;
- The Company's ability to successfully implement its technology;
- Management's assumptions regarding the sustainability of recurring revenue streams and the Company's expected profitability; and
- Management's outlook and guidance contains forward looking statements of the Company's ability to penetrate the US and international client base with its products and services and continue its penetration in the Canadian market.

The Company believes that being listed on the CSE will open up further opportunities to access capital as well as allow it to use its Common Shares as a currency for potential acquisitions. Operationally, having access to more capital will help the Company expand and diversify its engineering services business. Doing this requires more human resources both from a sales and engineering perspective. Further, the Company has a number of innovative ideas for new products that it would like to develop and increase its current product offering to various niche industries that aren't being served by the dominant player in the UAV space. Finally, the Company has considered offering various other non-engineering services and it may make more sense to buy an existing industry player than to build out this offering. This isn't something the Company has to do but it will be opportunistic to learn about potential opportunities in the existing fiscal year and the near future.

Selected Financial Information

The following selected financial data has been extracted from the audited consolidated financial statements, prepared in accordance with International Financial Reporting Standards, for the fiscal years indicated and should be read in conjunction with the unaudited interim financial statements.

	Three Months Ended		Six Months Ended	
For the periods ended June 30,	**2019**	2018	**2019**	2018
Total revenues	**$ 289,735**	$ 440,346	**$ 437,964**	$ 842,724
Gross Profit (as a % of revenues)	**83.0%**	79.0%	**75.9%**	70.6%
Net loss and comprehensive loss	**(289,787)**	(74,035)	**(629,601)**	(153,109)
Net loss per share ($)				
- Basic	**(0.01)**	(0.00)	**(0.03)**	(0.01)
- Diluted	**(0.01)**	(0.00)	**(0.03)**	(0.01)
Change in cash and cash equivalents	**$ (658)**	$ 54,428	**$ (6,344)**	$ (50,926)

As at	**June 30, 2019**	December 31, 2018
Total assets	**$ 476,696**	$ 562,295
Working capital (deficit)	**(4,960,099)**	(4,353,261)
Total non-current liabilities	**-**	-
Shareholders' equity (deficiency)	**$ (4,762,210)**	$ (4,132,609)
Number of shares outstanding	**21,932,454**	21,932,454

Results of Operations

Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
Product sales	**$ 41,829**	$ 103,954	**$ 93,604**	$ 271,999
Engineering services	**247,906**	336,392	**344,360**	570,725
Total revenue	**$ 289,735**	$ 440,346	**$ 437,964**	$ 842,724

Total revenue for the three months ended June 30, 2019 decreased by $150,611 or 34.2% as compared to the same period in 2018. The decrease in revenue is due to the continued competitive challenges in the industry as it relates to product hardware sales and the transition / completion of an existing engineering service contract. Product hardware sales decreased 59.8% or $62,125 in the second quarter of 2019 as compared to the same period in 2018 primarily due to pricing pressures from the global drone incumbent. Although the second quarter of 2019 was a transition period from the end of one contract to the delayed start of another contract by the same customer, the Company has achieved its goal of earning recurring revenues from its engineering clients. Engineering service work consists of the design and customization of various UAV type products for the Company's clients. Further, this service work tends to have higher gross margins than straight product sales. The Company has also introduced customization work as part of their product sales offering.

Total revenue for the six months ended June 30, 2019 decreased by $404,760 or 48.0% as compared to the same period in 2018. The decrease in revenue is due to the continued competitive challenges in the industry as it relates to product hardware sales and the transition / completion of an existing engineering service contract. Product hardware sales decreased 65.6% or $178,395 in the six months ended June 30, 2019 as compared to the same period in 2018 primarily due to pricing pressures from the global drone incumbent. Although the first half of 2019 was a transition period from the end of one contract to the delayed start of another contract by the same customer, the Company has achieved its goal of earning recurring revenues from its engineering clients. Engineering service work consists of the design and customization of various UAV type products for the Company's clients. Further, this service work tends to have higher gross margins than straight product sales. The Company has also introduced customization work as part of their product sales offering.

Cost of Goods Sold / Gross Margin

		Three Months Ended June 30,			Six Months Ended June 30,		
		2019		2018		**2019**		2018
Cost of goods sold	**$**	**(49,147)**	$	(92,586)	**$**	**(105,356)**	$	(247,850)
Gross profit	**$**	**240,588**	$	347,760	**$**	**332,608**	$	594,874
Gross margin (%)		**83.0%**		79.0%		**75.9%**		70.6%

Gross profit is the difference between the revenue received and the direct cost of that revenue. Gross margin is gross profit divided by revenue and is often presented as a percent. For the three months ended June 30, 2019, the Company's Gross Profit decreased by $107,172 or 30.8%. As a percentage of sales, gross margin increased from 79.0% in 2018 to 83.0% in 2019.

For the six months ended June 30, 2019, the Company's Gross Profit decreased by $262,266 or 44.1%. As a percentage of sales, gross margin increased from 70.6% in 2018 to 75.9% in 2019.

Selling, General, and Administrative (SG&A)

		Three Months Ended June 30,				Six Months Ended June 30,		
		2019		2018		**2019**		2018
Office and Miscellaneous	**$**	**146,526**	$	87,493	**$**	**209,383**	$	174,599
Professional Fees		**69,988**		9,810		**102,811**		17,345
Research and development		**4,201**		105		**9,827**		131
Travel		**4,393**		3,998		**5,686**		5,629
Wages and salaries		**257,905**		264,208		**495,828**		489,673
Total	**$**	**483,013**	$	365,614	**$**	**823,535**	$	687,377

For the three months ended June 30, 2019, Selling, General, and Administrative expenses in 2019 increased by 32.1%, from $365,614 in 2018 to $483,013 in 2019. The largest contributor to the increase is office related costs. Some of the other SG&A expenses such as professional fees increased due to increased accounting and legal work in preparation for going public.

For the six months ended June 30, 2019, Selling, General, and Administrative expenses in 2019 increased by 19.8%, from $687,377 in 2018 to $823,535 in 2019. The largest contributor to the increase is office related costs. Some of the other SG&A expenses such as professional fees increased due to increased accounting and legal work in preparation for going public.

Net and Comprehensive Loss

		Three Months Ended June 30,				Six Months Ended June 30,		
		2019		2018		**2019**		2018
Loss from operations	**$**	**(243,567)**	$	(26,514)	**$**	**(500,290)**	$	(113,025)
Finance and other costs		**(50,549)**		(28,270)		**(91,808)**		(55,573)
Foreign exchange gain (loss)		**13,803**		(1,537)		**(29,989)**		(354)
Other income (expense)		**(9,474)**		(17,714)		**(7,514)**		15,843
Net and comprehensive loss	**$**	**(289,787)**	$	(74,035)	**$**	**(629,601)**	$	(153,109)

For the three months ended June 30, 2019, the Company recorded a comprehensive loss of $289,787 compared to $74,035 in 2018. The increased loss was the result of lower revenues while operating expenses remained very similar year over year for the same period.

For the six months ended June 30, 2019, the Company recorded a comprehensive loss of $629,601 compared to a comprehensive loss of $153,109 in 2018. The increased loss was the result of lower revenues while operating expenses remained very similar year over year for the same period.

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the year ended December 31, 2018, the Company issued 8,000 shares for $400 for exercise of warrants. In relation, $10,000 in equity reserve was reclassified to share capital.

Summary of Quarterly Results

The following selected quarterly financial data has been extracted from the financial statements, prepared in accordance with International Financial Reporting Standards.

In the second quarter of 2019, the Company recorded revenues of $289,735, a decrease of $150,611 or 34.2% compared to the same quarter in 2018. Most of the decrease can be attributed to lower billings from the contract engineering business as a contract winded down coupled with lower hardware product sales. Operating expenses increased quarter over quarter from the second quarter of 2019 from the first quarter of 2019 but remained in a similar range over the last four quarters. The increase in operating costs in the second quarter of 2019 compared to the first quarter of 2019, were primarily due to higher professional fees and office expenses.

		2019 Q2		2019 Q1		2018 Q4		2018 Q3
Revenue	**$**	**289,735**	$	148,229	$	274,162	$	270,127
Cost of goods sold	**$**	**(49,147)**	$	(56,209)	$	(127,014)	$	(77,535)
Gross profit	**$**	**240,588**	$	92,020	$	147,148	$	192,592
Gross margin – percentage		**83.0%**		62.1%		53.7%		71.3%
Operating expenses	**$**	**(484,155)**	$	(348,743)	$	(477,889)	$	(329,744)
Operating loss	**$**	**(243,567)**	$	(256,723)	$	(330,738)	$	(137,152)
Operating loss per share (basic and diluted)	**$**	**(0.01)**	$	(0.01)	$	(0.02)	$	(0.01)
Other income (expense)	**$**	**(46,220)**	$	(83,091)	$	(39,197)	$	58,467
Comprehensive loss	**$**	**(289,787)**	$	(339,814)	$	(369,935)	$	(78,685)
Comprehensive loss per share (basic and diluted)	**$**	**(0.01)**	$	(0.02)	$	(0.03)	$	(0.00)

		2018 Q2		2018 Q1		2017 Q4		2017 Q3
Revenue	$	440,346	$	402,378	$	133,282	$	222,371
Cost of goods sold	$	(92,586)	$	(155,264)	$	(98,269)	$	(62,552)
Gross profit	$	347,760	$	247,114	$	35,013	$	159,819

Gross margin – percentage		79.0%		61.4%		26.3%		71.9%
Operating expenses	$	(374,274)	$	(333,625)	$	(466,672)	$	(426,892)
Operating loss	$	(26,514)	$	(86,511)	$	(431,659)	$	(267,073)
Operating loss per share (basic and diluted)	$	(0.00)	$	(0.00)	$	(0.02)	$	(0.01)
Other income (expense)	$	(47,521)	$	7,437	$	807,323	$	(108,157)
Comprehensive income (loss)	$	(74,035)	$	(79,074)	$	375,664	$	(375,230)
Comprehensive income (loss) per share (basic and diluted)	$	(0.00)	$	(0.00)	$	0.02	$	(0.02)

Liquidity and Capital Resources

The Company's liquidity risk is on its loans, accounts payable and accrued liabilities, as it may encounter difficulty discharging its obligations. The Company attempts to mitigate this risk by managing its debt holders as well as ensuring there is capital coming into the Company for its operations. As at June 30, 2019, the Company has a working capital deficit of $4,960,099 (December 31, 2018 had a deficit of $4,353,261).

The Company considers the items included in capital to include shareholders' equity. The Company manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, financing environment, and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, new debt, or scale back the size and nature of its operations. The Company is not subject to externally imposed capital requirements. As at June 30, 2019, shareholders' equity was ($4,762,210) and at December 31, 2018, shareholder's equity was ($4,132,609).

Off-Balance Sheet Arrangements

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources.

Contractual Obligations

As of June 30, 2019, and as of the date of this MD&A, and in the normal course of business, the following is a summary of the Company's material obligations to make future payments, representing contracts, and other commitments that are known and committed.

Notes Payable

The Company's notes payable outstanding as at June 30, 2019 are as follows:

	Start Date	Maturity Date	Rate		Principal		Interest		Total
Note 1[(1)]	2015-03-26	2015-07-17	0%	$	124,000	$	-	$	124,000
Note 2[(1)]	2015-07-17	2015-12-01	5%		278,570		94,252		372,822
Note 13	2019-02-04	2019-06-30	12%		-		1,253		1,253
Note 14	2019-02-08	2020-02-08	10%		350,000		13,616		363,616
Note 15	2019-04-25	2020-04-25	10%		100,000		1,808		101,808
Note 16	2019-05-22	2020-05-22	10%		400,000		4,274		404,274
Note 17	2019-06-27	2020-06-27	10%		80,000		66		80,066
Total				$	1,332,570	$	115,269	$	1,447,839

(1) As at June 30, 2019, these notes payable are in default.

During the six months ended June 30, 2019, the Company repaid Note 3 and interest totaling $28,049.

During the six months ended June 30, 2019, the Company repaid Note 4 and interest totaling $66,688.

During the six months ended June 30, 2019, the Company repaid Notes 5, 6, 7, 8, 9, 10, 11, and 12 and interest.

During the quarter ended June 30, 2019, the Company repaid a portion of Note 13 and partial interest totaling $45,368. Subsequent to June 30, 2019, the balance was repaid.

Note 1 was entered into with a shareholder of the Company, is non-interest bearing and is unsecured.

Note 2 was entered into with the former owner of the Company, bears interest at 5% per annum, compounded monthly, and is secured against the intellectual property as at the start date.

Note 13 was entered into with a company controlled by a director of the Company, bear interest at 12% per annum and are unsecured.

Notes 14 through 17, the Loan Agreement, was entered into with Drone, bears interest at 10% per annum, calculated annually, and is due at the earlier of 30 days from the date the BCA is cancelled, and one year from the date of the advance.

Convertible Debentures

The Company's convertible debentures outstanding as at June 30, 2019 are as follows:

	Start Date	Maturity Date	Rate		Initial Liability Component		Accretion of Equity Component		Total
Debenture 1[(1)]	2015-09-15	2017-09-15	10%	$	351,785	$	198,215	$	550,000
Debenture 2[(1)]	2016-08-18	2017-08-18	10%		39,667		9,917		49,584
Debenture 3[(1)]	2016-08-18	2017-08-18	10%		39,667		9,916		49,583
Debenture 4[(1)]	2016-12-23	2018-12-23	10%		128,000		72,000		200,000
Debenture 5[(1)]	2017-01-31	2019-01-31	10%		16,000		9,000		25,000
Debenture 6[(1)]	2017-01-31	2019-01-31	10%		25,600		14,400		40,000
Debenture 7[(1)]	2017-03-01	2019-03-01	10%		128,000		72,000		200,000
Total				$	728,719	$	385,448	$	1,114,167

(1) As at June 30, 2019, these convertible debentures are in default.

During the six months ended June 30, 2019, the Company repaid a portion of Debenture 2 totaling $50,416.

During the six months ended June 30, 2019, the Company repaid a portion of Debenture 3 totaling $50,417.

The initial liability component of the convertible debentures were calculated at the present value of interest payments and expected return of capital at a rate of 25% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component was measured based on the residual value of the instrument taken as a whole after deducting the amount determined separately for the liability component.

The holder of Debenture 1 is entitled, at their sole discretion, to convert the unpaid principal balance into common shares at a conversion price of $1.25 per share. The interest is convertible at a conversion price of $1.25 per share.

The holders of Debentures 2 through 7 are entitled, at their sole discretion, to convert the unpaid principal balance into common shares at a conversion price of $1.00 per share. The interest is convertible at a conversion price of $1.25 per share.

Related Party Transactions

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

***Loans*:**

a) On July 17, 2015, the Company entered into a note payable for $600,000 with the former owner of the Company. The note payable bears interest at 5% per annum, was due on December 1, 2015 and is secured against the intellectual property as at the effective date.

   As at June 30, 2019, $372,822 (December 31, 2018 - $365,819) in notes payable is outstanding and in default. For the six months ended June 30, 2019, the Company recognized interest expense of $9,204.

b) During the six months ended June 30, 2019, the Company entered into a promissory note of $44,000 and multiple promissory notes during the year ended December 31, 2018 totaling $273,500 with a company controlled by a director of the Company. The promissory notes are interest bearing at 12% per annum, unsecured and due within 60 days from the date of advance.

   During the six months ended June 30, 2019, the company repaid $304,620. As at June 30, 2019, $1,253 (December 31, 2018 - $253,995) in promissory notes plus accrued interest is outstanding and is in default. For the six months ended June 30, 2019, the Company recorded interest expense of $25,373. Subsequent to quarter end, the remaining $1,253 was repaid.

Key management compensation

Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management for the three and six months ended June 30, 2019 and 2018 included:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
Salaries	**$ 70,000**	$ 70,000	**$ 140,000**	$ 140,000
Total	**$ 70,000**	$ 70,000	**$ 140,000**	$ 140,000

Share Capital

Shares outstanding and dilutive instruments as at the date hereof are as follows:

	Number of Options		Weighted Average Exercise Price
Outstanding, December 31, 2017	300,000	$	1.25
Expired	(300,000)	$	1.25
Outstanding, December 31, 2018	-	$	-
Outstanding, June 30, 2019	**-**	**$**	**-**

During the year December 31, 2018, the fair value of 300,000 expired options of $323,026 was reclassified from reserves to deficit.

Warrants

The following is the summary of the Company's warrant activity:

	Number of Warrants		Weighted Average Exercise Price
Outstanding, December 31, 2017	437,225	$	0.49
Exercised	(8,000)		0.05
Outstanding, December 31, 2018	429,225	$	0.49
Expired	**(20,000)**		**0.05**
Outstanding, June 30, 2019	**409,225**	**$**	**0.51**

Warrants outstanding at June 30, 2019 were as follows:

Warrant Date	Expiration Date	Number of Warrants Outstanding		Exercise Price
October 1, 2017	October 1, 2019	232,558	$	0.86
December 23, 2016	December 22, 2019	176,667	$	0.05
		409,225		

During the quarter ended June 30, 2019, the 20,000 warrants with an expiration date of April 1, 2019 expired unexercised.

The weighted average remaining contractual life of warrants outstanding as of June 30, 2019 was 0.37 years (December 31, 2018 - 0.84 years).

Critical Accounting Policies and Estimates

Note 2 of the audited consolidated financial statements for the year ended December 31, 2018 describe fully the significant accounting policies used in preparing the financial statements.

Measurement Uncertainty (Use of Estimates)

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

a. **SR&ED tax credits**

The determination of the amount of the Alberta SR&ED tax credit receivable requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near-term dependent on the review and audit by the government agency.

b. Allowance for uncollectible trade and other receivables

The Company makes use of estimates when making allowances for uncollectible trade and other receivables. The Company evaluates each receivable at year end using factors such as age of receivable, payment history, and credit risk to estimate when determining if an allowance is required, and the amount of the allowance.

c. Share-based payment transactions

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected lives and forfeiture rates of the share options and volatility of the market value of the underlying shares.

New Policies Adopted

New standards issued and now effective at the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company has now implemented.

1. IFRS 9, Financial Instruments

In July 2014, the IASB completed the final elements of IFRS 9. The standard supersedes earlier version of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, as single 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The impact of the standard has been determined to not be material.

2. IFRS 15, Revenue from Contract with Customers

The IASB issued the standard to replace IAS 18 which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for the annual periods beginning on January 1, 2018, with the required retrospective application and earlier adoption permitted. The impact of the standard has been determined to not be material.

3. IFRS 16, Leases

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments. IFRS 16 is effective for fiscal periods beginning on or after January 1, 2019. The impact of the standard has been determined to not be material.

Business Risks

In the normal course of business the Company's operations are influenced by a number of internal and external factors and are exposed to risks and uncertainties that can affect its business, financial condition and operating results. The activities of the Company are subject to ongoing operational risks including the performance of key suppliers, product performance, and government and other industry regulations and reliance on information systems, all of which may affect the ability of the Company to meet its obligations. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the market place, are not approved by regulatory authorities, or if products are not brought to market in a timely manner.

Ability to Manage Future Growth

Future growth, if any, may cause a significant strain on the Company's management and its operational, financial, human and other resources. The Company's ability to manage growth effectively will require it to implement and improve operational, financial, software development and management information systems and to expand, train, manage and motivate employees. These demands may require the addition of management and other personnel and the development of additional expertise. Any increase in resources devoted to research, product development and marketing and sales efforts without a corresponding increase in operational, financial, product development and management information systems could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. The Company is exposed to a variety of financial risks by virtue of its activities, including currency risk, credit risk, and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Credit risk

Credit and liquidity risk associated with cash and the marketable security is managed by ensuring assets are placed with major financial institutions with strong investment grade ratings.

Credit risk on trade and other receivables reflects the risk that the Company may be unable to recover them. The Company manages its credit risk by closely monitoring the granting of credit. Trade and other receivables that are greater than 30 days are considered past due. Based on the status of trade and other receivables, no allowance for doubtful accounts has been recorded as at December 31, 2018 (December 31, 2017 - $nil).

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to minimal interest rate risk on its cash balances as they carry a floating rate of interest.

Foreign currency risk

The Company does engage in significant transactions and activities in currencies other than its functional currency. Depending on the timing of the transactions and the applicable currency exchange rates such conversions may positively or negatively impact the Company.

Other Information

Additional information about the Company is available at www.draganfly.com

Approval

This MD&A is authorized for issue by the Board on August 20, 2019.

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SCHEDULE E

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR THE PERIOD ENDED DECEMBER 31, 2018

DRAGANFLY INC.

(formerly Drone Acquisition Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Director and Shareholder of Draganfly Inc. (formerly Drone Acquisition Corp.)

Opinion

We have audited the consolidated financial statements of Draganfly Inc. (formerly Drone Acquisition Corp.) (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholder's equity and cash flows for the period from incorporation on June 1, 2018 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the period from incorporation on June 1, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Draganfly Inc. (formerly Drone Acquisition Corp.)'s ability to continue as a going concern.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

October 22, 2019

Draganfly Inc. (formerly Drone Acquisition Corp.)
Consolidated Statement of Financial Position
(Expressed in Canadian Dollars)

		December 31, 2018
Assets		
Current assets		
Cash	$	1
Total assets	**$**	**1**
Liabilities and Shareholder's Equity		
Current liabilities		
Accrued liabilities	$	234,361
		234,361
Shareholder's Equity		
Share capital (Note 3)		1
Accumulated deficit		(234,361)
Total shareholder's equity		**(234,360)**
Total liabilities and shareholder's equity	**$**	**1**

Nature of operations and going concern (Note 1)
Subsequent events (Notes 1 and 8)

These consolidated financial statements were approved for issue by the Board of Director and signed on its behalf by:

/s/ Oggy Talic

Director

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

Draganfly Inc. (formerly Drone Acquisition Corp.)
Consolidated Statement of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

		For the period from date of incorporation on June 1, 2018 to December 31, 2018
Expenses		
Professional fees	$	234,361
Total expenses		**234,361**
Loss and comprehensive loss	**$**	**(234,361)**
Basic and diluted loss per common share	**$**	**(234,361)**
Weighted average number of common shares outstanding		**1**

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

Draganfly Inc. (formerly Drone Acquisition Corp.)
Consolidated Statement of Changes in Shareholder's Equity
(Expressed in Canadian Dollars)

	Common Stock						
	Shares		**Amount**		**Accumulated Deficit**		**Total**
Incorporator shares, June 1, 2018	1	$	1	$	-	$	1
Net loss	-		-		(234,361)		(234,361)
Balance, December 31, 2018	**1**	**$**	**1**	**$**	**(234,361)**	**$**	**234,360**

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

Draganfly Inc. (formerly Drone Acquisition Corp.)
Consolidated Statement of Cash Flows
(Expressed in Canadian Dollars)

		For the period from date of incorporation on June 1, 2018 to December 31, 2018
Cash flows from operating activities		
Loss for the period	$	(234,361)
Net changes in non-cash working capital items:		
Accrued liabilities		234,361
Net cash used by operating activities		**-**
Cash flows from financing activities		
Proceeds on issuance of shares		1
Net cash provided by financing activities		**1**
Increase in cash		**1**
Cash, beginning		**-**
Cash, ending	**$**	**1**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Draganfly Inc. (formerly Drone Acquisition Corp.) (formerly 1174237 B.C. Ltd.) (the "Company") was incorporated under the Business Corporations Act (British Columbia) on June 1, 2018.

On November 22, 2018, 1187607 B.C. Ltd. ("Merger Co."), a wholly-owned subsidiary of the Company, was incorporated in British Columbia, Canada.

On August 15, 2019, the Company and Merger Co. completed a business combination agreement (the "Agreement") with Draganfly Innovations Inc. ("Former Draganfly") (the "Transaction"). Under the Transaction, shareholders of Former Draganfly received 1.794 fully paid and non-assessable common shares in the authorized share structure of the Company for each Former Draganfly share. Consequently, the Company owns 100% of Draganfly Innovations and the Former Draganfly shareholders became shareholders of the Company. Draganfly is an operational business of developing and manufacturing multi-rotor helicopters, industrial aerial video systems and civilian small unmanned aerial systems or vehicles.

Pursuant to the Transaction: (i) Former Draganfly completed settlement of certain overdue debt in the aggregate of $2,779,726; (ii) Former Draganfly continued to British Columbia (being the corporate law jurisdiction of the Company and Merger Co. (the "Continuance"); (iii) Merger Co. amalgamated (the "Amalgamation") with Former Draganfly to form the amalgamated wholly-owned subsidiary of the Company, Draganfly Innovations Inc. ("Draganfly Innovations"); and (iv) the Company changed its name to "Draganfly Inc.".

The Transaction is subject to certain customary conditions precedent as set out in the Agreement, including but not limited to, promptly following the closing of the Transaction, obtaining approval of listing of the common shares of the Company on the Canadian Securities Exchange and filing a final prospectus (the "Listing").

The Company's head office, principal address and registered address and records office is 1240 – 1140 West Pender Street, Vancouver BC Canada V6E 4G1.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has never generated revenue or positive cash flows from operations. For the initial period from incorporation on June 1, 2018 to December 31, 2018, the Company reported a net loss of $234,361, cash flow from operating activities of $nil. The Company has no sources of income and the continuing operations of the Company are dependent upon its ability to raise adequate financing to acquire and develop its business interests in the future. These items may cast a significant doubt on the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Statement of compliance

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The audited consolidated financial statements were authorized for issue by the sole director on October 22, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Basis of preparation

These audited consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these audited consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out below have been applied consistently to the period presented in these audited consolidated financial statements.

Basis of consolidation

These consolidated financial statements comprise the accounts of the Company and Merger Co., the wholly-owned subsidiary, of the Company.

Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options and share purchase warrants are classified as equity instruments. The Company has no stock options or warrants outstanding.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is recorded by providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Currency translation

Functional currency

In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", management determined the functional currency of the Company and its subsidiaries based on the currency of the primary economic environment in which the Company operates. Following is the summary of the functional currency of the Company and its subsidiary:

	Functional Currency
Draganfly Inc. (formerly Drone Acquisition Corp.)	CAD
Draganfly Innovations Inc.	CAD

The consolidated financial statements are presented in Canadian dollars, which is the presentation currency of the Company.

Translation of foreign transactions and balances into the functional currency

Foreign currency transactions are translated into the functional currency of the underlying entity using appropriate average rates of exchange. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of each reporting period. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

Translation of the functional currency into the presentation currency

The results of foreign operations which have a different functional currency of the Company are translated to Canadian dollars at appropriate average rates of exchange during the year and are included in other comprehensive income (loss). The assets and liabilities of foreign operations are translated to Canadian dollars at rates of exchange in effect at the end of the period. Gains or losses arising on translation of foreign operation's assets and liabilities to Canadian dollars at period end are recognized in accumulated other comprehensive income (loss) as a foreign currency translation adjustment. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

Loss per share

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. For the period presented, the calculation proved to be anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Financial instruments

All financial assets are initially recorded at fair value and classified into one of four categories: fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") and at amortized costs. All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Financial instruments comprise cash and accounts payable and accrued liabilities.

a) Financial assets

Classification and measurement

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The classification of debt instruments is driven by the business model for managing the financial assets and their contractual cash flow characteristics. Debt instruments are measured at amortized cost if the business model is to hold the instrument for collection of contractual cash flows and those cash flows are solely principal and interest. If the business model is not to hold the debt instrument, it is classified as FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL, for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument by-instrument basis) to designate them as at FVTOCI.

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the income statement in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Financial assets at FVTOCI

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Financial instruments (continued)

a) Financial assets (continued)

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

Derecognition of financial assets

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the income statement. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

b) Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss (FVTPL) - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method. Accounts payable and accrued liabilities, and convertible debentures, are included in this category. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Refer to Note 6 for the required disclosures.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Estimates
The most significant accounts that require estimates as the basis for determining the stated amounts are as follows:

Deferred income tax
The Company recognizes the deferred tax benefit of deferred tax assets to the extent their recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred tax assets.

Judgement
Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Income taxes
In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

Going Concern
The assumption that the Company is a going concern and will continue in operation for the foreseeable future and at least one year.

New standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have been adopted by the Company.

- IFRS 16 – Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

The Company does not expect a significant impact from adopting all the above new standards.

3. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued share capital

At December 31, 2018, the Company had 1common share issued and outstanding.

During the period ended December 31, 2018

- The Company issued 1 share at nominal value to the incorporator.

4. TRANSACTIONS WITH RELATED PARTIES

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined its key management personnel to be executive and non-executive officers and directors of the Company.

During the year ended December 31, 2018, the Company had no transactions with related parties.

5. CAPITAL MANAGEMENT

The Company defines its components of equity as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue business opportunities and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may consider issuing new shares, and/or issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

The Company's investment policy is to keep its cash on deposit in an interest-bearing Canadian chartered bank account. There have been no changes to the Company's approach to capital management at any time from the date of incorporation to December 31, 2018. The Company is not subject to externally imposed capital requirements.

6. FINANCIAL INSTRUMENTS

a) Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's accrued liabilities approximates their carrying value, which is the amount recorded on the statement of financial position.

The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets or liabilities.

Set out below are the Company's financial assets and financial liabilities as at December 31, 2018 by category:

	FVTPL	Amortized cost	FVTOCI
Financial assets			
Cash	1	-	-
Financial liabilities			
Accrued liabilities	-	234,361	-

b) Financial risk management

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk is its cash balance. The Company's cash is held at a large Canadian financial institution in interest bearing accounts. The Company has no investments in asset-backed commercial paper. The Company's maximum exposure to credit risk is the carrying value of its financial assets. Management believes that the credit risk related to its cash, is negligible. The Company has not entered into any financial instruments to mitigate this risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

At December 31, 2018, the Company had cash of $1 and accounts payable and accrued liabilities of $234,361. All accounts payable and accrued liabilities are current. The Company will need to obtain additional financing through the issuance of equity or other means to meet current liabilities as they come due.

6. FINANCIAL INSTRUMENTS (CONTINUED)

b) Financial risk management (continued)

Market Risk

The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and price risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash are held mainly in high yield saving accounts and therefore there is currently minimal interest rate risk. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of December 31, 2018.

The Company's interest rate risk principally arises from the interest rate impact of interest earned on cash. A 1% change in interest rates on cash outstanding at December 31, 2018 would result in no change to the Company's net loss for period ended December 31, 2018.

Foreign Currency risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as its loan receivable is denominated in US dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

Price risk

Price risk relates to fluctuations in equity prices. The Company is not exposed to price risk as its common shares are not publicly traded at this time.

7. INCOME TAXES

A reconciliation of the Company's expected income tax recovery to actual income tax recovery is as follows:

		December 31, 2018
Net loss for the period	$	(234,361)
Statutory income tax rate		27%
Expected income tax recovery		(63,277)
Unrecognized deductible temporary differences and other		63,277
Income tax recovery	$	-

As at December 31, 2018, the Company has approximately $234,000 in non-capital losses. These losses expire in 2038.

8. SUBSEQUENT EVENTS

- On January 2, 2019, the Company issued 2,500,000 common shares for proceeds of $75,000.

- On February 4, 2019, the Company issued 8,000,000 units for proceeds of $400,000. Each unit is comprised of one common share and one-half warrant. Each warrant entitles the holder to acquire one additional common share at $0.10 and expires 24 months from the closing date of the private placement.

- On May 22, 2019 and August 6, 2019, the Company completed a private placement of $7,025,749.50 through the issuance of 14,051,499 subscription receipts (the "Subscription Receipts") at a price of $0.50 per Subscription Receipt. Each Subscription Receipt will automatically be converted or exchanged, without payment of additional consideration and without any further action on the part of the holder, into one unit of the Company (a "Unit"), subject to adjustment in certain circumstances, being the date the holder receives confirmation from the Company of the completion of the Transaction and the Company obtains a final receipt for a prospectus and becomes a reporting issuer in the Province of Saskatchewan and obtains a conditional approval of a listing of the common shares on a recognized stock exchange or quotation system in Canada. Each Unit consists of one common share and one warrant. Each warrant will entitle the holder to purchase one common share at a price of $0.50 for a period of 12 months following the issuance of warrants. The proceeds of the private placement are held in escrow subject to completion of Listing.

SCHEDULE F

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF THE COMPANY FOR THE PERIOD ENDED JUNE 30, 2019

DRAGANFLY INC.

(formerly Drone Acquisition Corp.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2019

(Expressed in Canadian Dollars)

Draganfly Inc. (formerly Drone Acquisition Corp.)
Condensed Consolidated Interim Statements of Financial Position - Unaudited
(Expressed in Canadian Dollars)

	June 30, 2019	December 31, 2018 (audited)
Assets		
Current assets		
Cash	$ 33,579	$ 1
GST receivable	10,588	-
	44,167	**1**
Non-current assets		
Loan receivable (Note 3)	950,170	-
Total assets	**$ 994,337**	**$ 1**
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	$ 383,384	$ 234,361
Subscriptions received (Note 5(c))	500,000	-
	883,384	**234,361**
Shareholders' Equity		
Share capital (Note 5)	475,001	1
Accumulated deficit	(364,048)	(234,361)
Total shareholders' equity	**110,953**	**(234,360)**
Total liabilities and shareholders' equity	**$ 994,337**	**$ 1**

Nature of operations and going concern (Note 1)
Commitments (Note 5(c))
Subsequent events (Note 1 and 9)

These condensed consolidated interim financial statements were approved for issue by the Board of Director and signed on its behalf by:

/s/ Oggy Talic

Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Draganfly Inc. (formerly Drone Acquisition Corp.)

Condensed Consolidated Interim Statement of Loss and Comprehensive Loss - Unaudited

(Expressed in Canadian Dollars)

	For the six-month period ended June 30, 2019	For the three-month period ended June 30, 2019	For the period from date of incorporation on June 1, 2018 to June 30, 2018
Expenses			
Professional fees	$ 128,610	$ 64,975	$ -
Consulting fees	17,500	17,500	-
Filing fees	3,500	-	-
Office and miscellaneous	247	107	-
Total expenses	**149,857**	**82,582**	**-**
Other comprehensive income			
Accrued interest (Note 3)	20,170	15,581	-
Loss and comprehensive loss	**$ (129,687)**	**$ (67,001)**	**$ -**
Basic loss per common share	**$ (0.01)**	**$ (0.01)**	**$ -**
Diluted loss per common share	**$ (0.01)**	**$ (0.01)**	**$ -**
Weighted average number of common shares outstanding	**8,925,416**	**10,500,001**	**1**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Draganfly Inc. (formerly Drone Acquisition Corp.)
Condensed Consolidated Interim Statement of Changes in Shareholders' Equity - Unaudited
(Expressed in Canadian Dollars)

	Common Stock					
	Shares		**Amount**		**Accumulated Deficit**		**Total**
Balance, December 31, 2018	**1**	**$**	**1**	**$**	**(234,361)**	**$**	**(234,360)**
Shares issued for cash (Note 5)	10,500,000		475,000		-		475,000
Net loss	-		-		(129,687)		(129,687)
Balance, June 30, 2019	**10,500,001**	**$**	**475,001**	**$**	**(364,048)**	**$**	**110,953**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Draganfly Inc. (formerly Drone Acquisition Corp.)
Condensed Consolidated Interim Statement of Cash Flows - Unaudited
(Expressed in Canadian Dollars)

	For the six-month period ended June 30, 2019	For the period from date of incorporation on June 1, 2018 to June 30, 2018
Cash flows from operating activities		
Loss for the period	$ (129,687)	$ -
Adjustments to reconcile net loss to net cash		
Accrued interest	(20,170)	-
Net changes in non-cash working capital items:		
GST receivable	(10,588)	-
Accounts payable and accrued liabilities	149,023	-
Net cash used by operating activities	**(11,422)**	**-**
Cash flows from financing activities		
Proceeds on issuance of shares	475,000	1
Subscriptions received	500,000	-
Net cash provided by financing activities	**975,000**	**1**
Cash flows from investing activities		
Loan receivable	(930,000)	-
Net cash used by investing activities	**(930,000)**	**-**
Increase in cash	**33,578**	**1**
Cash, beginning	**1**	**-**
Cash, ending	**$ 33,579**	**$ 1**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Draganfly Inc. (formerly Drone Acquisition Corp.) (the "Company") was incorporated under the Business Corporations Act (British Columbia) on June 1, 2018.

On November 22, 2018, 1187607 B.C. Ltd. ("Merger Co."), a wholly-owned subsidiary of the Company, was incorporated in British Columbia, Canada.

On August 15, 2019, the Company and Merger Co. completed a business combination agreement (the "Agreement") with Draganfly Innovations Inc. ("Former Draganfly") (the "Transaction"). Under the Transaction, shareholders of Former Draganfly received 1.794 fully paid and non-assessable common shares in the authorized share structure of the Company for each Former Draganfly share. Consequently, the Company owns 100% of Draganfly Innovations and the Former Draganfly shareholders became shareholders of the Company. Draganfly is an operational business of developing and manufacturing multi-rotor helicopters, industrial aerial video systems and civilian small unmanned aerial systems or vehicles.

Pursuant to the Transaction: (i) Former Draganfly completed settlement of certain overdue debt in the aggregate of $2,779,726; (ii) Former Draganfly continued to British Columbia (being the corporate law jurisdiction of the Company and Merger Co. (the "Continuance"); (iii) Merger Co. amalgamated (the "Amalgamation") with Former Draganfly to form the amalgamated wholly-owned subsidiary of the Company, Draganfly Innovations Inc. ("Draganfly Innovations"); and (iv) the Company changed its name to "Draganfly Inc.".

The Transaction is subject to certain customary conditions precedent as set out in the Agreement, including but not limited to, promptly following the closing of the Transaction, obtaining approval of listing of the common shares of the Company on the Canadian Securities Exchange and filing a final prospectus (the "Listing").

The Company's head office, principal address and registered address and records office is 1240 – 1140 West Pender Street, Vancouver BC Canada V6E 4G1.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has never generated revenue or positive cash flows from operations. For the six-month period ended June 30, 2019, the Company reported a net loss of $129,687 (June 30, 2018 – $nil), negative cash flow from operating activities of $11,422 (June 30, 2018 – $nil). The Company has no sources of income and the continuing operations of the Company are dependent upon its ability to raise adequate financing to acquire and develop its business interests in the future. These items may cast a significant doubt on the Company's ability to continue as a going concern. The condensed consolidated interim financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and have been prepared using the same accounting policies and methods as were used for the Company's consolidated financial statements for the incorporation period ended December 31, 2018. There have been no significant changes in judgement or estimates from those disclosed in the consolidated financial statements for the incorporation period ended December 31, 2018.

The notes presented in these condensed consolidated interim financial statements include only significant events and transactions occurring since the Company's last fiscal period end and they do not include all of the information required in the Company's most recent consolidated annual financial statements. These interim financial statements should be read in conjunction with the Company's annual statements dated December 31, 2018.

The consolidated interim financial statements were authorized for issue by the sole director on October 22, 2019.

Basis of preparation

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Basis of consolidation

These condensed consolidated interim financial statements comprise the accounts of the Company and Merger Co., the wholly owned subsidiary, of the Company.

New standards

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. The following have been adopted by the Company.

- IFRS 16 – Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

The Company does not expect a significant impact from adopting all the above new standards.

(Expressed in Canadian Dollars)

3. LOANS RECEIVABLE

Balance as at December 31, 2018	**$**	**-**
Advances		930,000
Accrued interest		20,170
Balance as at June 30, 2019	**$**	**950,170**

On February 4, 2019, April 25, 2019, May 22, 2019 and June 26, 2019, the Company advanced $350,000, $100,000, $400,000 and $80,000, respectively, to Former Draganfly Inc. pursuant to a promissory note. The loan bears interest at a rate of 10% per annum. The loan will mature on the earlier of the date that is 30 days after the completion of the Transaction or 12 months from the date of the loan or on demand, in the event of default by Draganfly.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2019		December 31, 2018
Accounts payable	$	234,361	$	-
Accrued liabilities		149,023		234,361
	$	**383,384**	$	**234,361**

5. SHARE CAPITAL

a) Authorized share capital
Unlimited number of common shares without par value.

b) Issued share capital
At June 30, 2019, the Company had 10,500,001 common shares issued and outstanding.

During the period ended June 30, 2019

- On January 2, 2019, the Company issued 2,500,000 common shares for proceeds of $75,000.
- On February 4, 2019, the Company issued 8,000,000 units for proceeds of $400,000. Each unit is comprised of one common share and one-half warrant. Each warrant entitles the holder to acquire one additional common share at $0.10 and expires 24 months from the closing date of the private placement

During the period ended December 31, 2018

- The Company issued 1 share at nominal value to the incorporator.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL (CONTINUED)

c) Subscription receipts

- As at June 30, 2019, the Company had received $500,000 in proceeds to issue 1,000,000 subscription receipts (the “Subscription Receipts”) at a price of $0.50 per Subscription Receipt. Each Subscription Receipt will automatically be converted or exchanged, without payment of additional consideration and without any further action on the part of the holder, into one unit of the Company (a “Unit”), subject to adjustment in certain circumstances, being the date the holder receives confirmation from the Company of the completion of the Transaction and the Company obtains a final receipt for a prospectus and becomes a reporting issuer in the Province of Saskatchewan and obtains a conditional approval of a listing of the common shares on a recognized stock exchange or quotation system in Canada. Each Unit consists of one common share and one warrant. Each warrant will entitle the holder to purchase one common share at a price of $0.50 for a period of 12 months following the issuance of warrants. The proceeds of the private placement are held in escrow subject to completion of Listing.

d) Warrants

Each warrant is exercisable for a period of two years at a price of $0.10 per common share. As at June 30, 2019, there were 4,000,000 warrants outstanding with a weighted average remaining contractual life of 1.60 years.

Warrants outstanding and exercisable	Number of Warrants	Exercise Price	Expiry Date
Balance, December 31, 2018	-	-	-
Issued February 4, 2019	4,000,000	$0.10	February 4, 2021
Balance as at June 30, 2019	**4,000,000**	**$0.10**	

6. TRANSACTIONS WITH RELATED PARTIES

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined its key management personnel to be executive and non-executive officers and directors of the Company.

During the six-month period ended June 30, 2019, 2,291,667 common shares and 250,000 common share purchase warrants were issued to the director of the Company for gross proceeds of $231,250. The Company also received $125,000 from the director for 250,000 share receipts to be issued (Note 4(c)).

7. CAPITAL MANAGEMENT

The Company defines its components of equity as capital. The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to pursue business opportunities and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk.

7. CAPITAL MANAGEMENT (CONTINUED)

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust capital structure, the Company may consider issuing new shares, and/or issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

The Company's investment policy is to keep its cash on deposit in an interest-bearing Canadian chartered bank account. There have been no changes to the Company's approach to capital management at any time from the date of incorporation to June 30, 2019. The Company is not subject to externally imposed capital requirements.

8. FINANCIAL INSTRUMENTS

a) Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

a) Fair value (continued)

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's loan receivable, accounts payable and subscriptions received approximates their carrying value, which is the amount recorded on the statement of financial position.

The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets or liabilities.

Set out below are the Company's financial assets and financial liabilities as at June 30, 2019 by category:

	FVTPL	Amortized cost	FVTOCI
Financial assets			
Cash	33,579	-	-
GST receivable	-	10,588	-
Loan receivable	-	950,170	-
Financial liabilities			
Accounts payable and accrued liabilities	-	383,384	-

b) Financial risk management

Credit risk
Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk includes cash and loan receivable. The Company's cash is held at a large Canadian financial institution in interest bearing accounts. The Company has no investments in asset-backed commercial paper.

8. FINANCIAL INSTRUMENTS (CONTINUED)

b) *Financial risk management (continued)*

The Company is also exposed to credit risk relating to the loan receivable from Draganfly. The Company anticipates it will realize this financial asset through the proposed acquisition of Draganfly. The Company's maximum exposure to credit risk is the carrying value of its financial assets. The Company has not entered into any financial instruments to mitigate its credit risk.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

At June 30, 2019, the Company had cash of $33,579 and accounts payable and accrued liabilities of $383,384. All accounts payable and accrued liabilities are current. The Company will need to obtain additional financing through the issuance of equity or other means to pay its current liabilities.

Market Risk
The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and price risk.

Interest Rate Risk
Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash is held mainly in high yield saving accounts and therefore there is currently minimal interest rate risk. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of June 30, 2019.

Foreign Currency risk
Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to currency risk.

9. SUBSEQUENT EVENT

- On August 6, 2019, the Company completed a private placement of $7,025,749.50, of which $500,000 were received during the six months ended June 30, 2019, through the issuance of 14,051,499 subscription receipts at a price of $0.50 per Subscription Receipt. Each Subscription Receipt will automatically be converted or exchanged, without payment of additional consideration and without any further action on the part of the holder, into a Unit of the Company, subject to adjustment in certain circumstances, being the date the holder receives confirmation from the Company of the completion of the Transaction and the Company obtains a final receipt for a prospectus and becomes a reporting issuer in the Province of Saskatchewan and obtains a conditional approval of a listing of the common shares on a recognized stock exchange or quotation system in Canada. Each Unit consists of one common share and one warrant. Each warrant will entitle the holder to purchase one common share at a price of $0.50 for a period of 12 months following the issuance of warrants. The proceeds of the private placement are held in escrow subject to completion of Listing.

SCHEDULE G

MD&A FOR THE COMPANY FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019, AND THE INITIAL PERIOD FROM INCORPORATION ON JUNE 1, 2018 TO DECEMBER 31, 2018

DRAGANFLY INC.
(formerly Drone Acquisition Corp.)
(also referred to as the "Company")

MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2019 AND THE INITIAL PERIOD RFOM INCORPORATION ON JUNE 1, 2018 TO DECEMBER 31, 2018

The following discussion and analysis should be read in conjunction with the December 31, 2018 audited financial statements and the June 30, 2019 unaudited interim financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

All dollar figures included therein and in the following discussion analysis are quoted in Canadian dollars.

DATE

This MD&A is dated October 22, 2019 and is in respect of the initial period from incorporation on June 1, 2018 to December 31, 2018 and the six-month period ended June 30, 2019. The discussion in this management's discussion and analysis focuses on these periods.

FORWARD LOOKING INFORMATION

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", used by any of the Company's management, are intended to identify forward-looking statements. Such statements reflect the Company's forecasts, estimates and expectations, as they relate to the Company's current views based on their experience and expertise with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments unless required by law.

DESCRIPTION OF THE COMPANY'S BUSINESS AND OVERALL PERFORMANCE

The Company was incorporated under the British Columbia Business Corporations Act on June 1, 2018 and is based in Vancouver, British Columbia. The address of the registered office is Suite 2300, Bentall 5 550 Burrard Street, Vancouver, British Columbia V6C 2B5. The Company is a holding company. Its purpose is to acquire a drone technology company.

On January 31, 2019, amended on April 25, 2019 and May 22, 2019, the Company entered into a Business Combination Agreement ("BCA") with Draganfly Innovations Inc. ("Former Draganfly") and 1187606 B.C. Ltd. (Merger Co").

On August 15, 2019, the Company and Merger Co. completed the BCA with Former Draganfly (the "Transaction"). Under the Transaction, shareholders of Former Draganfly received 1.794 fully paid and non-assessable common shares in the authorized share structure of the Company for each Former Draganfly share. Consequently, the Company owns 100% of Former Draganfly and the Former Draganfly shareholders became shareholders of the Company. Former Draganfly is an operational business of developing and manufacturing multi-rotor helicopters, industrial aerial video systems and civilian small unmanned aerial systems or vehicles.

DESCRIPTION OF THE COMPANY’S BUSINESS AND OVERALL PERFORMANCE (continued)

Pursuant to the Transaction: (i) Former Draganfly completed settlement of certain overdue debt in the aggregate of $2,779,726; (ii) Former Draganfly continued to British Columbia (being the corporate law jurisdiction of the Company and Merger Co. (the “Continuance”)); (iii) Merger Co. amalgamated (the “Amalgamation”) with Former Draganfly to form the amalgamated wholly-owned subsidiary of the Company, Draganfly Innovations Inc. (“Draganfly Innovations”); and (iv) the Company changed its name to “Draganfly Inc.”.

The Transaction is subject to certain customary conditions precedent as set out in the Agreement, including but not limited to, promptly following the closing of the Transaction, obtaining approval of listing of the common shares of the Company on the Canadian Securities Exchange and filing a final prospectus (the “Listing”).

OUTSTANDING SHARE DATA

Common Shares

The Company's authorized share capital consists of an unlimited number of Common Shares, voting, participating and without par value.

The Company issued 1 share at nominal value to the incorporator.

As at December 31, 2018, the Company had 1 Common Shares issued and outstanding as detailed above in Capital Structure.

On January 2, 2019, the Company issued 2,500,000 common shares for proceeds of $75,000.

On February 4, 2019, the Company issued 8,000,000 units for proceeds of $400,000. Each unit is comprised of one common share and one-half warrant. Each warrant entitles the holder to acquire one additional common share at $0.10 and expires 24 months from the closing date of the private placement

As at June 30, 2019 the Company had 10,500,001 Common Shares issued and outstanding as detailed above in Capital Structure.

Subscription Receipts

In May 2019 the Company issued 1,000,000 subscription receipts at a price of $0.50 per receipt. Each such subscription receipt would be automatically convertible into one Common Share of the Company: (i) either by the Company completing a liquidity event on or before 4 months and one day from the date of the closing the private placements; (ii) or on the date that is 4 months and one day from the date of the issuance of such subscription receipts. The subscription receipts issued pursuant to the private placement will be exchanged, for no additional consideration, into Common Shares upon listing of the Company on the Canadian Securities Exchange.

As at June 30, 2019 the Company had 1,000,000 subscription receipts issued and outstanding. Following the June 30, 2019 period, the 1,000,000 subscription receipts are expected to be converted into Common Shares pursuant to their terms, on a one-for-one basis.

On August 6, 2019, Company raised aggregate gross proceeds of $7,025,749 through the issuance of 14,051,499 subscription receipts of the Company at a price of $0.50 per Subscription Receipt.

Warrants

As at June 30, 2019 and the date of this MD&A, the Company had 4,000,000 warrants outstanding with an exercise price of $0.10 per share.

SELECTED FINANCIAL INFORMATION

The Company was incorporated on June 1, 2018.

The following table is a summary of selected financial information (in Canadian dollars) derived from the Company's audited financial statements prepared in accordance with International Financial Reporting Standards for the initial 365-day period:

	June 30, 2019	December 31, 2018
	$	$
Total Assets	994,337	1
Total Liabilities	883,384	234,361
Revenues	--	--
Net loss and comprehensive loss for the period	129,687	234,361

For the initial period from incorporation on June 1, 2018 to December 31, 2018 and the six-month period ended June 30, 2019, the Company reported no discontinued operations and declared no cash dividends.

RESULTS OF OPERATIONS

During the period from date of incorporation on June 1, 2018 to December 31, 2018, the Company incurred a loss of $234,361. During the six-month period ended June 30, 2019, the Company incurred a loss of $129,687. The loss resulted primarily from professional fees related to the Business Combination Agreement with Former Draganfly.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2019, the Company had net working capital deficit of $839,217 (December 31, 2018 - $234,360) comprised of cash and GST receivable less trade payables and subscriptions received. Subsequent to June 30, 2019, the Company completed the transaction disclosed above, which management considers to be sufficient for the Company to meet its ongoing obligations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Key management of the Company includes the sole member of senior management who is also the sole director.

During the initial period from incorporation on June 1, 2018 to December 31, 2018 and the six-month period ended June 30, 2019, 2,291,667 common shares and 250,000 common share purchase warrants were issued to the director of the Company for gross proceeds of $231,250. The Company also received $125,000 from the director for 250,000 share receipts to be issued.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on the financial statements which have been prepared in accordance with IFRS. The preparation of the financial statements requires that certain estimates and judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances.

Deferred tax assets are recognized in respect of tax losses and other temporary differences to the extent it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies.

APPLICATION OF NEW AND REVISED IFRS STANDARDS

Several new, but not yet effective standards, amendments to existing standards and interpretations have been published by the International Accounting Standards Board (hereafter "the IASB"). None of these standards, amendments or interpretations have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations have not been disclosed as they are not expected to have a material impact on the Company’s financial statements.

CAPITAL RISK MANAGEMENT

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders.

The capital structure of the Company as at June 30, 2019 consists of cash ($33,579), GST receivable ($10,588), loan receivable ($950,170) and equity ($110,953).

The Company manages its capital structure in accordance with its expected business growth, operational objectives and underlying industry, market and economic conditions, and may include issuance of equity or debt.

FINANCIAL INSTRUMENTS

The Company's financial assets include cash and interest receivable and they are classified at amortized cost since they are held within a business model whose objective is to "hold and collect" and the contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial liabilities include trade payables and accrued liabilities. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

The Company does not actively engage in the trading of financial assets for speculative purposes.

The Company is exposed to various risks in relation to financial instruments. The most significant financial risks to which the Company is exposed are described below.

Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized as at June 30, 2019 is $994,337 (Cash - $33,579, GST receivable - $10,588, Loan receivable of $930,000 and Interest Receivable $20,170).

The credit risk for the above financial assets is considered negligible since the counterparty is a reputable financial institution with high quality external credit rating.

Liquidity risk

Liquidity risk is the risk that the Company might be unable to meet its obligations. The Company manages its liquidity needs by forecasting cash inflows and outflows due in day-to-day business.

The Company's objective is to maintain cash to meet its liquidity requirements.

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources. The Company's existing cash resources significantly exceed the current cash outflow requirements.

The Company's financial liabilities are trade payables and accrued liabilities of $383,384 (December 31, 2018 - $234,361) and subscriptions received of $500,000.

RISK FACTORS AND UNCERTAINTIES

Investing in the common shares of the Company involves risk. Prospective investors should carefully consider the risks described below, together with all the other information included in this MD&A before making an investment decision. If any of the following risks occurs, the business, financial condition or results of operations of the Company could be harmed.

No Operating History

The Company was incorporated on June 1, 2018, has not commenced commercial operations. The Company has signed a Business Combination Agreement with Former Draganfly , as detailed above. The Company has no assets other than cash and loans receivable. The Company has neither a history of earnings nor has it paid any dividends and it is unlikely to produce earnings or pay dividends in the immediate or foreseeable future.

Dilution

If the Company issues treasury shares to finance acquisition or participation opportunities, control of the Company may change, and subscribers may suffer dilution of their investment.

SCHEDULE H

UNAUDITED PRO FORMA FINANCIAL STATEMENTS FOR THE COMPANY FOLLOWING CLOSING OF THE TRANSACTION

Draganfly Inc. (formerly, Drone Acquisition Corp.)

PRO FORMA STATEMENT OF FINANCIAL POSITION
As at June 30, 2019

(UNAUDITED – PREPARED BY MANAGEMENT)

(Expressed in Canadian Dollars)

DRAGANFLY INC. (FORMERLY, DRONE ACQUISITION CORP.)
PRO FORMA STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2019 (UNAUDITED)

(expressed in Canadian Dollars)

		Draganfly Inc. June 30, 2019		Draganfly Innovations Inc. June 30, 2019		Pro Forma Adjustments	Notes		Pro Forma Consolidated
ASSETS									
Current Assets									
Cash	$	33,579	$	89,563	$	6,525,750	3(a)	$	5,297,721
						(80,000)	3(b)		
						(523,349)	3(c)		
						(375,000)	3(d)		
						(372,822)	3(d)		
Accounts receivable		10,588		112,301		-			122,889
Inventory		-		48,723		-			48,723
Prepaids		-		28,220		-			28,220
		44,167		278,807		5,174,579			5,497,553
Non-Current Assets									
Subscription receivable		-		153,566		(153,566)	3(e)		-
Property and equipment		-		38,739		-			38,739
Intangible assets		-		5,584		-			5,584
Loan receivable		950,170		-		(950,170)	3(g)		-
Total Assets	$	994,337	$	476,696	$	4,070,843		$	5,541,876
LIABILITIES AND SHAREHOLDERS' EQUITY									
Current Liabilities									
Accounts payable and accrued liabilities	$	383,384	$	2,676,900	$	(977,475)	3(c)	$	1,244,249
						(815,898)	3€		
						(22,662)	3(h)		
Notes payable		-		1,447,839		(372,822)	3(d)		44,847
						(80,000)	3(b)		
						(950,170)	3(g)		
Convertible debentures		-		1,115,000		(740,000)	3(f)		-
						(375,000)	3(d)		
Subscriptions received		500,000		-		(500,000)	3(a)		-
Total Liabilities	$	883,384	$	5,239,739	$	(4,834,027)			1,289,096
Shareholders' Equity									
Common shares		475,001		12,561,342		7,025,750	3(a)		26,836,379
						359,964	3(e)		
						740,000	3(i)		
						319,246	3(j)		
						(475,001)	3(h)		
						557,414	3(f)		
						5,250,001	3(g)		
						22,662	3(h)		
Equity reserve		-		882,180		1,605,219	3(g)		2,487,399
Deficit		(364,048)		(18,206,565)		454,126	3(c)		(25,070,998)
						302,368	3(e)		
						324,376	3(g)		
						950,170	3(g)		
						(319,246)	3(j)		
						(557,414)	3(f)		
						(7,694,437)	3(g)		
	$	110,953	$	(4,763,043)	$	8,904,870		$	4,252,780
Total Liabilities and Shareholders' Equity	$	994,337	$	476,696	$	4,070,843		$	5,541,876

The accompanying notes are an integral part of these pro forma financial statements

1. Basis of Presentation

The accompanying unaudited pro forma statement of financial position of Draganfly Inc. (formerly, Drone Acquisition Corp.) ("Drone" or the "Company"), as at June 30, 2019, has been prepared by management to give effect to the Business Combination Agreement ("BCA") between the Company, Draganfly Innovations Inc. ("Draganfly") and 1187607 B.C. Ltd. ("Merger Co.") (the "Amalgamation"). Pursuant to the BCA, Draganfly will amalgamate with Merger Co. to form an amalgamated entity ("AmalCo"). AmalCo will continue as a wholly-owned subsidiary of the Company (the "Resulting Issuer"). Draganfly develops and manufactures multi-rotor helicopters, industrial aerial video systems and civilian small unmanned aerial systems or vehicles.

This unaudited pro forma statement of financial position has been prepared using the same accounting policies described in Note 2 to the annual financial statements of Draganfly for the years ended December 31, 2018 and 2017 and has been compiled from the:

- the consolidated statement of financial position included in the condensed interim consolidated financial statements of Drone as at June 30, 2019; and
- the statement of financial position included in the unaudited condensed interim financial statements of Draganfly as at June 30, 2019.

In preparing the pro forma statement of financial position, a review was undertaken to identify differences between Drone's accounting policies and those of Draganfly that could have a material impact of the pro forma statement of financial position. No material differences were noted. On closing of the Amalgamation, Drone will adopt the accounting policies set out in Draganfly' financial statements.

The unaudited pro forma statement of financial position has been prepared for illustration purposes only and may not be indicative of the financial position that would have occurred if the proposed transactions had been in effect at the date indicated and is not necessarily indicative of the financial position in the future.

Management believes that the assumptions used provide a reasonable basis for presenting all of the significant effects of the Amalgamation, including transactions completed in connection with completing the Amalgamation, and that the pro forma adjustments give appropriate effect to those assumptions and are appropriately applied.

Completion of the Amalgamation is subject to a number of conditions, including the completion of a financing, approval by the shareholders of the Company and Draganfly, and receipt of all required regulatory approvals. The Amalgamation cannot close until these conditions are satisfied and the required approvals are obtained. There can be no assurance that the Amalgamation will be completed.

2. Proposed Amalgamation

Merger Co. is a wholly-owned subsidiary of Drone that was incorporated under the Business Corporations Act (British Columbia) on November 22, 2018. Pursuant to the BCA, the Amalgamation will result in the following:

- Draganfly and Merger Co. will amalgamate to form AmalCo and continue as one corporation under the Business Corporations Act of British Columbia as a subsidiary of Drone; and
- the issued and outstanding common shares of Draganfly will be exchanged for common shares of Drone on the basis of one common share of Draganfly for approximately 1.794 common shares of Drone resulting in the issuance of approximately 42,000,000 common shares of Drone.

Legally, the Amalgamation will result in AmalCo becoming a subsidiary of Drone. However, the result of the Amalgamation is that the former shareholders of Draganfly will own approximately 80% of the common shares of the Resulting Issuer. Therefore, the Amalgamation will be a reverse take-over ("RTO") of Drone and Draganfly will be deemed to be the acquirer for accounting purposes.

(expressed in Canadian dollars, unless otherwise noted)

3. Pro Forma Adjustments and Assumptions

The pro forma statement of financial position incorporates the following pro forma assumptions:

(a) Subsequent to June 30, 2019, Drone issued 14,051,499 units for proceeds of $7,025,749.50, of which $500,000 were received during the year ended June 30, 2019. Each unit consists of one common share and one warrant. Each warrant will entitle the holder thereof to purchase one common share at $0.50. The warrants expire 12 months from the date of issuance. The units become issuable upon completion of a liquidity event which consists of a transaction resulting in the listing of the Company's shares or a resulting issuer's shares on a Canadian stock exchange (the "Transaction"). If the liquidity event is not completed within six months of closing of the subscription agreements, the funds received will be refunded to the subscribers.

(b) Subsequent to June 30, 2019, Draganfly received the following loans from Drone, pursuant to the loan agreement dated February 4, 2019:
   i. On June 27, 2019, the Company loaned $80,000. The loan bears interest at a rate of 10% per annum and is unsecured. The loan payable matures on the earlier of: 30 calendar days from the date of the BCA is terminated, and 1 year from the date of the advance of the loan.

(c) Upon closing of the Transaction, Draganfly settled $977,475 in accounts payable and recognized a gain in settlement of debt of $454,126.

(d) Upon closing of the Transaction, Draganfly repaid $375,000 in convertible debentures and $372,822 in notes payable.

(e) Upon closing of the Amalgamation, Draganfly issued 719,927 shares for settlement of $815,898 in accounts payable, offset by $153,566 in subscriptions receivable. Draganfly recognized a gain in settlement of debt of $302,368.

(f) Upon closing of the Amalgamation, Draganfly issued 1,114,827 shares with a fair value of $557,414 for advisory fees performed by Drone.

(g) The Amalgamation is to be accounted for as an RTO. Management has determined that Drone does not have inputs and processes capable of producing outputs that are necessary to meet the definition of a business as defined by IFRS 3. Therefore, the Amalgamation has been recorded as a share-based payment whereby Draganfly has acquired the net assets of Drone. The cost of the acquisition was determined based on the fair value of the consideration paid plus transaction costs that are directly attributable to the Amalgamation as follows:

Fair value of share of the Resulting Issuer held by the shareholders of Drone[1]	$	5,250,001
Fair value of the Drone options outstanding		1,605,219
	$	6,855,220

[1]Excluding the issuance of 14,051,499 units pursuant to the subscription receipts financing, the issued share capital of Drone consisted of 10,500,001 common shares. The fair value of these common shares was determined by reference to the price per common share of the Drone Financing which was $0.50 per common share.

[2]At June 30, 2019, Drone had 4,000,000 warrants outstanding with an exercise price of $0.50 and a remaining contractual life of 1.68 years. The fair value of the warrants was $1,605,219, which was determined using the Black-Scholes option pricing model with the following weighted average assumptions: exercise price of $0.10; expected remaining life of 0.50 years; expected future volatility of 100%; risk-free discount rate of 1.64% and a dividend yield of Nil.

The cost of the Amalgamation was first allocated to the net assets of Drone with the excess attributed to obtaining a listing on a Canadian exchange:

(expressed in Canadian dollars, unless otherwise noted)

Net assets of Drone at June 30, 2019		
Cash	$	33,579
Accounts receivable		10,588
Accounts payable and accrued liabilities		(383,384)
Subscription receipts		(500,000)
Pro Forma net assets acquired		(839,271)
Excess attributed to listing expense		7,694,437
	$	6,855,220

(h) Upon closing of the Amalgamation, the Resulting Issuer issued 45,325 shares for settlement of $22,662 in accounts payable.

(i) Upon closing of the Amalgamation, the Resulting Issuer issued 1,480,000 shares for settlement of $740,000 in convertible debentures.

(j) Upon closing of the Amalgamation, the Resulting Issuer issued 638,492 share for settlement of interest accrued for convertible debentures.

The pro-forma adjustments and allocations of the estimated consideration transferred are based in part on estimates of the fair value of assets to be acquired and liabilities to be assumed. The final determination of the consideration transferred and the related allocation of the fair value of the Drone net assets to be acquired pursuant to the Amalgamation will ultimately be determined after the closing of the Amalgamation. It is likely that the final determination of the consideration transferred and the related allocation of the fair value of the assets acquired and liabilities assumed will vary from the amounts present in the pro forma statement of financial position and that those differences may be material.

(expressed in Canadian dollars, unless otherwise noted)

4. Pro Forma Share Capital

As a result of the Amalgamation, the share capital as at June 30, 2019 in the pro forma statement of financial position is comprised of the following:

Authorized
Unlimited common shares, without par value

	Note	Number of Shares		Share Capital		Reserves
Outstanding common shares of Draganfly as at June 30, 2019		21,932,454	$	12,561,342	$	882,180
Issuance of shares for settlement of accounts payable	3(e)	719,927		359,964		-
Common shares issued as Amalgamation fees	3(f)	1,114,827		557,414		-
Common shares of Draganfly reversed on RTO	3(g)	(23,767,208)		-		-
Common shares issued of Drone to replace Draganfly common shares based on exchange rate of 1.794	3(g)	42,638,356		-		-
Common shares of Drone prior to Amalgamation	3(g)	10,500,001		5,250,001		1,605,219
Issuance of shares for settlement of convertible debt	3(i)	1,480,000		740,000		-
Issuance of shares for settlement of interest on convertible debt	3(j)	638,492		319,246		-
Issuance of shares for settlement of accounts payable	3(h)	45,325		22,662		-
Common shares issuable on conversion of Subscription Receipts	3(a)	14,051,499		7,025,750		-
Pro-Forma Share Capital		69,353,673	$	26,836,379	$	2,487,399

SCHEDULE I

MANDATE OF THE BOARD OF DIRECTORS

Subject to the constating documents of Draganfly Inc. (the "**Company**") and applicable law, the Board of Directors of the Company (the "**Board**") has a responsibility for the stewardship of the Company, including the responsibility to supervise the management of and oversee the conduct of the business of the Company; provide leadership and direction to management and consider management's performance in conjunction with the Company's compensation plans; set policies appropriate for the business of the Company; and approve corporate strategies and goals.

The Board's fundamental objective is to protect and preserve shareholder value by fostering strong corporate governance practices through its leadership and direction of management and guidance of the Company's strategic direction.

COMPOSITION

A majority of the Board shall be independent from the Company. For the purposes of this Mandate, the definition of "**independent**" shall be the definition set out in National Instrument 52-110 *Audit Committees*, namely that a director is independent if they have no direct or indirect relationship with the Company that could, in the view of the other members of the Board, be reasonably expected to interfere with the exercise of a director's independent judgment. In addition, pursuant to United States securities laws, an independent member of the Board may not accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any of its subsidiaries (other than compensation earned as a result of the services as a Board member); nor be an affiliated person, as such term is defined in Rule 10A-3 of the *Securities and Exchange Act of 1934*, of the Company or any of its subsidiaries.

The directors will be elected each year by the shareholders of the Company at the annual general meeting of shareholders. The Nominating and Governance Committee will recommend to the full Board nominees for election to the Board and the Board will propose nominees to the shareholders for election as directors for the ensuing year.

DUTIES AND RESPONSIBILITIES

a. A principal responsibility of the Chairman of the Board (the "**Chairman**") will be to manage and act as the chief administrative officer of the Board with such duties and responsibilities as the Board may establish from time to time. The Chairman need not be independent of management;

b. The Board will ensure that proper limits are placed on management's authority;

c. In conjunction with each annual general meeting, the Board shall:

    i. appoint a Chairman;

    ii. appoint the senior officers of the Company and approve the senior management structure of the Company; and

    iii. appoint committees of the board, including a Nominating and Governance Committee, and an Audit Committee. In due course and when considered appropriate, the Board may establish additional committees, including a Human Resources and Compensation Committee, and a Finance Committee, however as of the date this mandate was approved it is the Board's intention that the duties of these committees will be administered by the Board as a whole;

d. The Board will ensure that it adopts and maintains appropriate mandates, charters and position descriptions for: the Board, the Chairman, the CEO, the committee chairs, as well as for the committees themselves;

e. The Board shall be responsible for monitoring the performance of the CEO and determining the compensation of the CEO. The Board will receive reports and recommendations from the Chairman on both CEO performance and compensation in connection therewith;

f. From time to time, the Board may appoint special committees to assist the Board in connection with specific matters; and

g. The Board shall meet not less than four times during each fiscal year. The Board will also meet at any other time at the call of the Chairman or any director, subject to the constating documents of the Company.

Management Oversight

The Board will ensure the Company has management with the appropriate skillset and experience. This responsibility is carried out primarily by:

a. appointing the CEO as the Company's business leader and developing criteria and objectives against which the Board will assess, on an ongoing basis, the CEO's individual performance;

b. developing and approving corporate objectives which the CEO is responsible for meeting, and assessing the CEO against these objectives; and

c. developing a position description for the CEO and reviewing performance against such description.

Strategic Planning Process and Risk Management

a. The Board is responsible for adopting, supervising and providing guidance on the strategic planning process and approving a strategic plan which takes into account, among other things, the opportunities and risks of the Company's business.

b. The CEO and senior management team will have direct responsibility for the ongoing strategic planning process and the establishment of annual corporate objectives for the Company, which are to be reviewed and approved not less than annually, by the Board.

c. The Board will have a continuing understanding of the principal risks associated with the business, largely through continuous communication with management. The Board will ensure the implementation of appropriate systems to manage any such risks.

d. The Board will provide guidance to the CEO and senior management team with respect to the Company's ongoing strategic plan. The Board is responsible for monitoring the success of management in implementing the approved strategies and goals.

Internal Controls and Management Information Systems

Through the CEO, management will establish systems to ensure that appropriate and responsible levels of internal controls are in place for the Company. The confidence of the Board in the ability and integrity of management is the paramount control mechanism.

COMMUNICATIONS

a. The Board will monitor and periodically review the policies and procedures that are in place to provide for effective communication by the Company with its shareholders and with the public generally, including:

    i. effective means to enable shareholders to communicate with senior management and the Board; and

    ii. effective channels by which the Company may interact with analysts and the public.

b. The Board will review and if necessary, approve the content of the Company's major communications to shareholders and the investing public, including interim and annual reports, the Management Information Circular, the Annual Information Form and any Prospectuses that may be issued.

c. The Board will establish and maintain a disclosure policy which summarizes its policies and practices regarding disclosure of material information to investors, analysts and the media.

d. All directors will have open access to the Company's senior management.

e. The Board encourages individual directors to make themselves available for consultation with management outside Board meetings in order to provide specific advice and counsel on subjects where such directors have special knowledge and experience.

SUCCESSION PLANNING

The Board will regularly consider and develop succession plans for the Chairman, CEO and senior management personnel.

BOARD INDEPENDENCE

The Board will, where deemed desirable or necessary, implement appropriate structures and procedures to ensure that the Board can function independently of management which may include:

a. the institution of regular meetings of independent directors at every quarterly Board meeting, without the presence of management.

NEW DIRECTOR ORIENTATION AND CONTINUING EDUCATION

The Nominating and Governance Committee, in conjunction with the Chairman and the CEO, is responsible for ensuring that new directors are provided with an orientation and education program.

The Board will assist the Nominating and Governance Committee in establishing and maintaining an ongoing director education program.

GENERAL OBLIGATIONS

a. Approve all significant acquisition plans and oversee the establishment of priorities for the allocation of funds and financing to various acquisitions.

b. Approve all single expenditure items proposed by the Company as required in the Company's Spending Policy.

c. Approve any policy for hedging.

d. Approve any policy for management of foreign currency risk.

e. Approve the annual budget.

f. Attend, prepare for and be actively involved in regular Board meetings and, if applicable, Board committee meetings.

g. With the assistance of the Nominating and Governance Committee, develop the Company's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the Company.

h. Adopt and monitor, through the Nominating and Governance Committee, a formal "Code of Ethical Conduct" that will govern the behaviour of directors, officers and employees of the Company, and, in appropriate circumstances, grant waivers from such code of business conduct.

INDEPENDENT ADVISORS

The Board and any committees may at any time retain outside financial, legal or other advisors at the expense of the Company. Any director may, subject to the approval of the Chairman, retain an outside advisor at the expense of the Company.

SCHEDULE J

AUDIT COMMITTEE CHARTER

PURPOSE

Senior management of Draganfly Inc. (the "**Company**"), as overseen by its Board of Directors (the "**Board**"), has primary responsibility for the Company's financial reporting, accounting systems and internal controls. The Audit Committee (the "**Committee**") is a standing committee of the Board established for the purposes of overseeing:

a. the quality and integrity of the Company's financial and accounting reporting processes and internal accounting and financial control systems of the Company;

b. the external auditor's qualifications and independence;

c. management's responsibility for assessing the effectiveness of internal controls; and

d. the Company's compliance with legal and regulatory requirements in connection with financial and accounting matters.

COMPOSITION AND OPERATION

a. The Committee shall be composed of at least three independent directors[1] and all members of the Committee shall, to the satisfaction of the Board, be Financially Literate and at least one member will be a Committee Financial Expert ("**Financially Literate**" and "**Committee Financial Expert**" are defined in the Definitions section of this Charter).

b. The members of the Committee shall be appointed by the Board, based on the recommendation of the Nominating and Governance Committee, to serve one-year terms and are permitted to serve an unlimited number of consecutive terms.

c. The Committee shall appoint a chair (the "**Chair**") from among its members who shall be an independent director. If the Chair is not present at any meeting of the Committee, one of the other Committee members present at the meeting shall be chosen to preside at the meeting.

d. The Committee will make every effort to meet at least four times per year and each member is entitled to request that an additional meeting be called, which will be held within two weeks of the request for such meeting. A quorum at meetings of the Committee shall be two members present in person or by telephone. The Committee may also act by unanimous written consent of its members as described under the heading "**Authority**" in this Charter.

e. The external auditor may request the Chair to call a meeting of the Committee to consider any matter that the auditor believes should be brought to the attention of the directors or the shareholders of the Company. In addition to the external auditor, each committee chair, members of board, as well as the CEO or the CFO shall be entitled to request the Chair to call a meeting, which meeting shall be held within two weeks of the request.

f. Notice of the time and place of every meeting shall be given in writing or by email communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting.

g. The Committee shall fix its own procedure at meetings, keep records of its proceedings and provide a verbal report to the Board routinely at the next regularly scheduled Board meeting and shall provide copies of finalized minutes of meetings to the Corporate Secretary to be kept with the official minute books of the Company.

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[1] In order to be considered "**independent**", the following applies:

Pursuant to the Canadian Securities Administrators' Multilateral Instrument 52-110 "**Audit Committees**", a member of the Committee must not have a direct or indirect material relationship with the Company. A "**material relationship**" is a relationship which could, in the view of the Company's Board, be reasonably expected to interfere with the exercise of a member's independent judgment.

Pursuant to United States securities laws, a member of the Committee may not accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any of its subsidiaries; nor be an affiliated person, as such term is defined in Rule 10A-3 of the *Securities and Exchange Act of 1934*, of the Company or any of its subsidiaries.

h. The Committee will review and approve its minutes of meetings and copies will be made available to the external auditor or its members as requested.

i. In camera sessions will be scheduled for each regularly scheduled quarterly Committee meeting, and as needed from time to time.

j. On an ad-hoc basis, the Committee may also meet separately with the Chief Executive Officer ("**CEO**") and the Chief Financial Officer and such other members of management as they may deem necessary.

RESPONSIBILITIES AND DUTIES

Overall Committee:

To fulfill its responsibilities and duties the Committee will:

a. review this Charter periodically, but at least once per annum, and recommend to the Board any necessary amendments;

b. review and, where necessary, recommend revisions to the Company's disclosure in the Management Information Circular regarding Committee's composition and responsibilities and how they are discharged;

c. assist the Board in the discharge of its responsibilities relating to the quality, acceptability and integrity of the Company's accounting policies and principles, reporting practices and internal controls;

d. review and recommend approval by the Board of all significant and material financial disclosure documents to be released by the Company, including but not limited to, quarterly and annual financial statements and management discussion and analysis, annual reports, Form 40-F, annual information forms, and Prospectuses containing material information of a financial nature; and

e. oversee the relationship and maintain a direct line of communication with the Company's internal and external auditors and assess their respective performance.

Public Filings, Policies and Procedures:

The Committee is responsible for:

a. ensuring adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the Company's disclosure controls and procedures, and management's evaluation thereof, to ensure that financial information is recorded, processed, summarized and reported within the time periods required by law;

b. reviewing disclosures made to the Committee by the CEO and the CFO during their certification process for any significant deficiencies in the design or operation of internal controls or material weakness therein and any fraud involving management or other employees who have a significant role in internal controls; and

c. reviewing with management and the external auditor any correspondence with securities regulators or other regulatory or government agencies which raise material issues regarding the Company's financial reporting or accounting policies.

External Auditors

The responsibilities and duties of the Committee as they relate to the external auditor are to:

a. consider and make recommendations to the Board with respect to the external auditor to be nominated for appointment by shareholders at each annual general meeting of the Company;

b. review the performance of the external auditor and, where appropriate, recommend to the Board the removal of the external auditor;

c. confirm the independence and effectiveness of the external auditor, which will require receipt from the external auditor of a formal written statement delineating all relationships between the auditor and the Company and any other factors that might affect the independence of the auditor;

d. oversee the work of the external auditor generally, and review and report to the Board on the planning and results of external audit work, including:

   i. the external auditor's engagement letter or other reports of the auditor;

   ii. the reasonableness of the estimated fees and other compensation to be paid to the external auditor;

   iii. the form and content of the quarterly and annual audit report, which should include, *inter alia*:

      - a summary of the Company's internal controls and procedures;
      - any material issues raised in the most recent meeting of the Committee; and
      - any other related audit, review or attestation services performed for the Company by the external auditors;

e. actively engage in dialogue with the external auditor with respect to any disclosed relationships or services that may affect the independence and objectivity of the external auditor and take, or recommend the Board take, appropriate actions to oversee the independence of the external auditor;

f. monitor the relationship between management and the external auditor and resolve any disagreements between them regarding financial reporting; and

g. engage the external auditor in discussions regarding any amendments to critical accounting policies and practices; alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, including any potential ramifications and the preferred treatment by the independent auditor; and lastly, written communication between management and the independent auditor, including but not limited to, the management letter and schedule of adjusted differences.

Internal Controls and Financial Reporting

The Committee will:

a. obtain reasonable assurance from discussions with (and/or reports from) management, and reports from the external auditors that the Company's financial and accounting systems are reliable and that the prescribed internal controls are operating effectively;

b. in consultation with the external auditor, the CEO, the CFO, and where necessary, other members of management, review the integrity of the Company's financial reporting process and the internal control structure;

c. review the acceptability of the Company's accounting principles and direct the auditors' examinations to particular areas of question or concern, as required;

d. request the auditors to undertake special examinations (e.g., review compliance with conflict of interest policies) when it deems necessary;

e. together with management, review control weaknesses identified by the external and internal auditors;

f. review the appointments of the CFO and other key financial executives; and

g. during the annual audit process, consider if any significant matters regarding the Company's internal controls and procedures over financial reporting, including any significant deficiencies or material weaknesses in their design or operation, need to be discussed with the external auditor, and review whether internal control recommendations made by the auditor have been implemented by management.

Ethical and Legal Compliance

The responsibilities and duties of the Committee as they relate to compliance and risk management are to:

a. obtain reasonable assurances as to the integrity of the CEO and other senior management and that the CEO and other senior management strive to create a culture of integrity throughout the Company;

b. review the adequacy, appropriateness and effectiveness of the Company's policies and business practices which impact on the integrity, financial and otherwise, of the Company, including those relating to hedging, insurance, accounting, information services and systems and financial controls, and management reporting;

c. receive a report from management on tax issues and planning, including compliance with the Company's source deduction obligations and other remittances under applicable tax or other legislation;

d. review annually the adequacy and quality of the Company's financial and accounting staffing, including the need for and scope of internal audit reviews (if any);

e. establish procedures for a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls, or auditing matters; and b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;

f. review any complaints and concerns received regarding accounting, internal controls, or auditing matters or with respect to the Company's Code of Ethical Conduct, and the investigation and resolution thereof, and provide all relevant information relating to such complaints and concerns to the Nominating and Governance Committee;

g. review and monitor the Company's compliance with applicable legal and regulatory requirements related to financial reporting and disclosure;

h. review all related-party transactions; and

i. carry the responsibility for reviewing reports from management, external auditors with respect to the Company's compliance with the laws and regulations having a material impact on financial reporting and disclosure, including: tax and financial reporting laws and regulations; legal withholding requirements; environmental; and any other laws and regulations which expose directors to liability.

AUTHORITY

a. The Committee shall have the authority to:

    i. incur reasonable expenses to engage independent counsel and other advisors as it determines necessary to carry out its duties;

    ii. set and pay the compensation (after consultation with the CEO) for any advisors employed by the Committee; and

    iii. communicate directly with the external auditors.

b. The Committee shall have the power, authority and discretion delegated to it by the Board which shall not include the power to change the membership of or fill vacancies in the Committee.

c. A resolution approved in writing by the members of the Committee shall be valid and effective as if it had been passed at a duly called meeting. Such resolution shall be filed with the minutes of the proceedings of the Committee and shall be effective on the date stated thereon or on the latest date stated in any counterpart.

d. The Board shall have the power at any time to revoke or override the authority given to or acts done by the Committee except as to acts done before such revocation or act of overriding and to terminate the appointment or change the membership of the Committee or fill vacancies in it as it shall see fit.

e. The Committee shall have unrestricted and unfettered access to all Company personnel and documents and shall be provided with the resources necessary to carry out its responsibilities.

f. At the invitation of the Chair, one or more officers or employees of the Company may, and if required by the Committee, shall attend a meeting of the Committee.

g. The Committee shall have the authority to obtain advice and assistance from outside legal, accounting or financials advisors in its sole discretion.

DEFINITIONS

Capitalized terms used in this Charter and not otherwise defined have the meaning attributed to them below:

"**Financially Literate**" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised in the Company's financial statements.

"**Committee Financial Expert**" means a person who has the following attributes:

a. an understanding of generally accepted accounting principles and financial statements;

b. the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

c. experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level of complexity of issues that can reasonably be expected to be raised in the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;

d. an understanding of internal controls and procedures for financial reporting; and

e. an understanding of audit committee functions;

acquired through any one or more of the following:

a. education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;

b. experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions; or

c. experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or other relevant experience.

CERTIFICATE OF THE COMPANY

Dated: October 23, 2019

This final prospectus constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the issuer as required by securities legislation of the Provinces of Saskatchewan and British Columbia.

(Signed) Cameron Chell	*(Signed) Paul Sun*
Chairman and Chief Executive Officer	Chief Financial Officer and Corporate Secretary

On behalf of the Board of Directors

(Signed) Olen Aasen	*(Signed) Scott Larson*
Director	Director

CERTIFICATE OF THE PROMOTER

Dated: October 23, 2019

This final prospectus constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the issuer as required by securities legislation of the Provinces Saskatchewan and British Columbia.

(*Signed) Cameron Chell*	*(Signed) Cameron Chell*
Business Instincts Group, Inc.	Cameron Chell