Execution Version

BUSINESS COMBINATION AGREEMENT

BETWEEN

DRONE ACQUISITION CORP.

and

DRAGANFLY INNOVATIONS INC.

and

1187607 B.C. Ltd.

January 31, 2019

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BUSINESS COMBINATION AGREEMENT

This Agreement is dated for reference January 31, 2019.

BETWEEN:

DRAGANFLY INNOVATIONS INC., 2108 St. George Avenue, Saskatoon, SK, S7M 0K7

("**Draganfly**")

AND:

DRONE ACQUISITION CORP., 2300 – 550 Burrard Street, Vancouver, BC, V6C 2B5

("**DroneCorp**")

AND:

1187607 B.C. Ltd., 2300 – 550 Burrard Street, Vancouver, BC, V6C 2B5

("**Subco**").

WHEREAS DroneCorp intends to acquire all of the issued and outstanding common shares of Draganfly in exchange for common shares of DroneCorp, which purchase will be effected pursuant to the Amalgamation (hereinafter defined) as set forth herein and on the terms and subject to the conditions set forth in the Amalgamation Agreement (hereinafter defined);

AND WHEREAS DroneCorp has entered into the Voting Agreements (hereinafter defined) with the Locked-Up Shareholders (hereinafter defined), pursuant to which, among other things, such Locked-Up Shareholders have agreed, subject to the terms and conditions thereof, to vote the Draganfly Shares held by them in favour of the Amalgamation Approval.

NOW THEREFORE in consideration of the foregoing, and the respective covenants, agreements, representations and warranties of the Parties contained herein, and for other good and valuable consideration (the receipt and adequacy of which are acknowledged), the Parties agree as follows:

ARTICLE 1
INTERPRETATION

1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

"**ABCA**" means the *Business Corporations Act* (Alberta), and all regulations thereunder, as amended from time to time.

"**Agreement**" means this Business Combination Agreement, as such agreement may be amended, varied, modified or restated from time to time, together with all Schedules appended to the Agreement.

"**Amalco**" means the corporation resulting from the Amalgamation of the Amalgamating Parties.

"**Amalco Shares**" means the common shares of Amalco.

"**Amalgamating Parties**" means, collectively, Draganfly and Subco.

"**Amalgamation**" means the amalgamation of Draganfly and Subco pursuant to the BCBCA on the terms set forth in this Agreement and the Amalgamation Agreement.

"**Amalgamation Agreement**" means the agreement to be entered into among Draganfly, DroneCorp and Subco in respect of the Amalgamation, in substantially the form attached hereto as Schedule A.

"**Amalgamation Application**" means the amalgamation application in respect of the Amalgamation required by the BCBCA to be filed with the Registrar.

"**Amalgamation Approval**" means approval of Draganfly Shareholders of the Amalgamation.

"**Ancillary Agreements**" means all agreements, certificates and other instruments delivered or given pursuant to this Agreement, including without limitation, the Amalgamation Agreement.

"**Authorization**" means, with respect to any Person, any order, permit, approval, consent, waiver, license or similar authorization of any Governmental Entity having jurisdiction over the Person.

"**BCBCA**" means the *Business Corporations Act* (British Columbia) and all regulations thereunder, as amended from time to time.

"**Books and Records**" means books, ledgers, files, lists, reports, plans, logs, deeds, surveys, correspondence, operating records, Tax Returns and other documents, data and information, including drawings, engineering information, manuals, sales and advertising materials, sales and purchase correspondence, trade association files, research and development records, lists of present and future customers and suppliers, personnel, employment and other records, and all data and information stored on computer-related or other electronic media, maintained with respect to the Business and Draganfly.

"**Bridge Loan**" means the loan in the principal amount of $350,000, to be made by DroneCorp in favor of Draganfly, in the form attached hereto as Schedule B.

"**Business**" means, with respect to Draganfly, the business of providing engineering services and manufacturing commercial UVS systems and software.

"**Business Combination**" means the business combination among DroneCorp, Subco and Draganfly pursuant to which DroneCorp will acquire all of the issued and outstanding Draganfly Shares and by which Draganfly will become a wholly-owned Subsidiary of DroneCorp, and includes the Amalgamation.

"**Business Day**" means any day of the year, other than a Saturday, Sunday or any day on which major banks are closed for business in Vancouver, British Columbia.

"**Business Instincts**" means Business Instincts Group, a related party of Draganfly controlled by Cameron Chell, a director of Draganfly.

"**Business Instincts' Debt**" means amount of $645,774.68 to be repaid, and satisfied in full prior to Closing by issuing to Business Instincts 719,927 of Draganfly Shares.

"**Certificate of Amalgamation**" means the certificate of amalgamation to be issued by the Registrar.

"**Closing**" means the completion of the Amalgamation on the terms and subject to the conditions set forth herein and in the Amalgamation Agreement.

"**Competing Proposal**" means, inquiry, expression of interest or offer (written or oral) made by any Person (other than DroneCorp) which constitutes, or may reasonably be expected to result in (in each case whether in one transaction or a series of transactions, and whether directly or indirectly):

(a) an issuance or acquisition of 20% or more of any class of voting or equity securities of Draganfly (or rights to those securities);

(b) a take-over bid or tender offer involving Draganfly (or other transaction which, if consummated, would result in that Person (and any Persons acting jointly or in concert) beneficially owning, or exercising control or direction over, 20% or more of any class of voting or equity securities of Draganfly);

(c) an acquisition (or a lease, license or other arrangement having a similar economic effect as an acquisition) of assets which represent 20% or more of the assets of Draganfly or which contribute 20% or more of the revenue of Draganfly;

(d) an amalgamation, arrangement, merger, business combination or consolidation involving Draganfly;

(e) a recapitalization, issuer bid, liquidation, dissolution, reorganization or similar transaction involving Target; or

(f) any other transaction involving Draganfly, the consummation of which would or could reasonably be expected to impede, interfere with, prevent or delay the transactions contemplated by this Agreement or the Amalgamation or which would or could reasonably be expected to materially reduce the benefits to DroneCorp under this Agreement or the Amalgamation.

"**Confidential Information**" means information, whether in written or electronic form, or committed to memory, relating to Draganfly, DroneCorp or Subco, as the case may be.

"**Consideration Shares**" has the meaning specified in Section 2.1(b)(v)(C).

"**Constating Documents**" means, in respect of Draganfly, DroneCorp or Subco, as the case may be, the articles of incorporation, amalgamation, or continuation arrangement, articles, notices of articles, by-laws and all amendments to such articles, notices of articles or by-laws.

"**Continuance**" means the continuance of Draganfly from the Province of Alberta under the *Business Corporations Act* (Alberta) to the Province of British Columbia under the *Business Corporations Act* (British Columbia).

"**Continuance Approval**" means approval of Draganfly Shareholders of the Continuance.

"**Contract**" means any agreement, understanding, undertaking, commitment, licence, or lease, whether written or oral, and includes any agreement, understanding, undertaking, commitment license or lease which has not been executed by the parties thereto but has been substantially agreed by the parties thereto.

"**Corporate Branding Budget**" means an amount equal to 10% of the aggregate proceeds raised under the Financing (and any proceeds from the valid exercise of Subscription Receipt Warrants) allocated to corporate branding and investor marketing, subject to completion of the Financing.

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

"**Debt Settlement Amount**" has the meaning specified in Section 7.2(h).

"**Disclosure Schedule**" means the disclosure schedule of Draganfly delivered to DroneCorp and attached hereto as Schedule C.

"**Dissenting Shares**" means the Draganfly Shares and DroneCorp Shares held by Dissenting Shareholders.

"**Dissenting Shareholder**" has the meaning specified in Section 7.2(l).

"**Draganfly**" means Draganfly Innovations Inc., a company existing under the laws of the Province of Alberta.

"**Draganfly Amalgamation Meeting**" means meeting of shareholders of Draganfly to approve the Amalgamation;

"**Draganfly Continuance Meeting**" means meeting of shareholders of Draganfly to approve the Continuance;

"**Draganfly Financial Statements**" means draft financial statements of Draganfly, in substantially final form, for the years ended December 31, 2017 and 2016, attached hereto as Schedule D.

"**Draganfly Overdue Debt**" means Draganfly's debt that is currently matured in the amount of $3,265,536.71.

"**Draganfly Shareholders**" means the holders of Draganfly Shares from time to time.

"**Draganfly Shares**" means common shares in the capital of Draganfly.

"**Draganfly Warrants**" means common share purchase warrants entitling the holder thereof to purchase Draganfly Shares.

"**DroneCorp**" means Drone Acquisition Corp., a corporation existing under the laws of the Province of British Columbia.

"**DroneCorp Shareholders**" means the holders of DroneCorp Shares from time to time.

"**DroneCorp Shares**" means the common shares in the capital of DroneCorp.

"**DroneCorp Warrants**" means common share purchase warrants each entitling the holder thereof to purchase one DroneCorp Share at an exercise price of $0.10 per share for a period of two years from issuance.

"**Effective Date**" means the date shown on the Certificate of Amalgamation issued by the Registrar giving effect to the Amalgamation, or such earlier or later date as the Parties may mutually agree in writing.

"**Encumbrance**" means any security interest, mortgage, charge, pledge, hypothec, lien, encumbrance, restriction, option, adverse claim, right of others or other encumbrance of any kind.

"**ETA**" means the *Excise Tax Act* (Canada).

"**FCAAS**" means the Financial and Consumer Affairs Authority of Saskatchewan being the principal regulator of the Amalco for filing the Final Prospectus.

"**Financing**" means the issuance of 10,000,000 Subscription Receipts, to be completed on or before Closing, by way of a non-brokered private placement by DroneCorp at a price of $0.50 per Subscription Receipt for a minimum aggregate gross proceeds of $5,000,000.

"**Final Prospectus**" means the final non-offering prospectus of DroneCorp filed with the Principal Regulator to enable it to become a reporting issuer in the province of Saskatchewan and such other provinces of Canada as may be agreed by the Parties.

"**GAAP**" means generally accepted accounting principles as set out in *the Canadian Institute of Chartered Accountants Handbook – Accounting* for an entity that prepares its financial statements in accordance with International Financial Reporting Standards, at the relevant time, applied on a consistent basis.

"**Governmental Entity**" means (i) any international, multinational, national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau, ministry, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the above, (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing or (iv) any stock exchange.

"**Governmental Licences**" has the meaning specified in Section 3.1(cc)(i).

"**Intellectual Property**" means:

(a) trade-marks, design marks, logos, service marks, certification marks, official marks, trade names, business names, corporate names, trade dress, distinguishing guises, slogans, meta tags, keywords, adwords and other characters, brand elements or other distinguishing features used in association with wares or services, whether or not registered or the subject of an application for registration and whether or not registrable, and associated goodwill ("**Trade-marks**");

(b) inventions, arts, processes, machines, articles of manufacture, compositions of matter, business methods, formulae, developments and improvements, whether or not patented or the subject of an application for patent and whether or not patentable, methods and processes for making any of them, and related documentation (whether in written or electronic form) and know-how ("**Inventions**");

(c) software in source code or object code form, documentation, literary works, artistic works, pictorial works, graphic works, musical works, dramatic works, audio visual works, performances, sound recordings and signals, including their content, and any compilations of any of them, whether or not registered or the subject of an application for registration, or capable of being registered ("Works");

(d) domain names, whether registered primary domain names or secondary or other higher level domain names ("**Domain Names**");

(e) industrial designs and all variants of industrial designs, whether or not registered or the subject of an application for registration and whether or not registrable ("**Designs**"); and

(f) trade secrets, technical expertise, and research data and other confidential information relating to goods and services.

"**Intellectual Property Rights**" means:

(a) any common law principle or statutory provision which may provide a right in Intellectual Property, including all:

  (i) common law rights and registrations, pending applications for registration and rights to file applications for the Trade-marks, including all rights of priority;

  (ii) patents, pending patent applications and rights to file applications for the Inventions, including all rights of priority and rights in continuations, continuations-in-part, divisions, reissues, renewals, re-examinations, exclusions and other derivative applications and patents;

(iii) copyrights in Works and all registrations, pending applications for registration and rights to file applications for Works and all moral rights and benefits of waivers of moral rights in Works;

(iv) registrations, pending applications for registration and rights to file applications for registration of Domain Names and all other common law and statutory rights in Domain Names; and

(v) industrial design rights, design patents, design registrations, pending patent and design applications and rights to file applications for Designs, including all rights of priority and rights in continuations, continuations-in-part, divisions, re-examinations, reissues and other derivative applications;

(b) all rights in licences, sub-licences, franchise agreements, waivers and other contractual rights in any of the items listed in Subsection (a) of this definition; and

(c) all rights to enforce the rights and obtain remedies for a violation of any of the rights listed in Subsections (a) and (b) of this definition.

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

"**Knowledge of Draganfly**" means the knowledge that senior officers of Draganfly either has, or would have obtained, after having made or caused to be made all reasonable inquiries necessary to obtain informed knowledge, including inquiries of the records and its management employees who are reasonably likely to have knowledge of the relevant matter.

"**Knowledge of DroneCorp**" means the knowledge that senior officers of DroneCorp either has, or would have obtained, after having made or caused to be made all reasonable inquiries necessary to obtain informed knowledge, including inquiries of the records and its management employees who are reasonably likely to have knowledge of the relevant matter.

"**Laws**" means all laws, statutes, codes, ordinances, decrees, rules, regulations, by laws, statutory rules, principles of law, published policies, forms and guidelines, fee schedules, tariffs, judicial or arbitral or administrative or ministerial or departmental or regulatory judgments, orders, directives, decisions, rulings or awards, including general principles of common and civil law, and terms and conditions of any grant of approval, permission, authority or license of any Governmental Entity, statutory body or self-regulatory authority, and the term "applicable" with respect to such Laws and in the context that refers to one or more Persons, means that such Laws apply to such Person or Persons or its or their business, undertaking, property or securities and emanate from a Governmental Entity (or any other Person) having jurisdiction over the aforesaid Person or Persons or its or their business, undertaking, property or securities.

"**Letter of Transmittal**" means the letter of transmittal to be provided by Draganfly to the Draganfly Shareholders which provides a means for the delivery of any certificates representing Draganfly Shares and for instructions to be given by such Draganfly Shareholder for the delivery of the Consideration Shares, which Letter of Transmittal

shall provide for acceptance of the trading restrictions to be applied to the Consideration Shares in accordance with Section 2.1(b)(vii) of this Agreement.

"**Locked-up Shareholders**" means each of the directors and senior officers of Draganfly and certain Draganfly Shareholders as agreed to by the Parties;

"**Licence Agreements**" has the meaning specified in Section 3.1(x)(xiii).

"**Licenced IP**" means the Intellectual Property and Intellectual Property Rights owned by Persons other than Draganfly or any Subsidiary and which Draganfly or any Subsidiary uses or intends to use, including Intellectual Property owned by those Persons relating to Technology and the Technical Information.

"**Listing**" means the contemplated listing of the DroneCorp Shares on the CSE following the Closing.

"**Loss**" means in respect of a person and in relation to a matter, any loss, damage, cost, expense and charges (including any fine, penalty or assessment) which such person suffers, sustains, pays or incurs in connection with such matter and includes the costs and expenses of any action, suit, proceeding, demand, assessment, judgment, settlement or compromise and all interest, fines, penalties and reasonable costs of legal counsel (on a solicitor and client basis) and disbursements, excluding special, indirect, consequential, exemplary, punitive and incidental damages.

"**Material Adverse Effect**" means any event or change that, individually or in the aggregate with other events or changes, is or would reasonably be expected to be, materially adverse to the business, operations, assets, condition (financial or otherwise) or liabilities, whether contractual or otherwise, of any Party, as the case may be; provided that a Material Adverse Effect shall not include an adverse effect resulting from a change: (i) that arises out of a matter that has been publicly disclosed prior to the date of this Agreement or otherwise disclosed in writing by a Party to the other Party prior to the date of this Agreement; (ii) that results from general economic, financial, currency exchange, interest rate or securities market conditions in Canada; (iii) any changes in applicable law or GAAP; or (iv) that is a direct result of any matter permitted by this Agreement or consented to in writing by the applicable Party, provided however that with respect to clause (iii), such change does not relate primarily to the Party to which such Material Adverse Effect relates, or do not have a disproportionate effect on such Party compared to other companies of similar size, operating in the UVS industry.

"**Material Contracts**" means any contract, agreement, license, franchise, lease, arrangement, commitment, understanding, joint venture, partnership or other right or obligation (written or oral) to which a Party is a party or by which such a Person is bound or under which such a Person has, or will have, any liability or contingent liability (in each case, whether written or oral, express or implied): (a) involving payments to or by such Person in excess of $100,000 annually or $100,000 in aggregate over the term of the contract; (b) involving rights or obligations that may reasonably extend beyond three years and which does not terminate or cannot be terminated without penalty on less than three months' notice; (c) which is outside the ordinary course of business; (d) which contain covenants that: (i) in any way purport to restrict the business activity of a Party or any of its affiliates; or (ii) limit the freedom of Party or any of its affiliates to engage in any line of business or to compete with any Person; (e) which, if terminated without the

consent of the Person would result in a Material Adverse Effect; or (f) is a contract pursuant to which a Party provides any indemnification for a material liability to any other Person other than in the ordinary course of business.

"**Meetings**" has the meaning specified in Section 2.1(b)(i).

"**Misrepresentation**" means an untrue statement of a material fact or an omission to state a material fact required or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made.

"**Non-U.S. Holder**" means a holder located outside the United States, who is not a U.S. Person, is not acting for the account or benefit of a person in the United States or a U.S. Person and otherwise would be deemed to receive the DroneCorp securities under this Agreement in an "offshore transaction" as such term is defined in Regulation S under the U.S. Securities Act.

"**Notice**" has the meaning specified in Article 9.

"**Ordinary Course**" means, with respect to an action taken by a Person, that such action is consistent with the past practices of the Person and is taken in the ordinary course of the normal day-to-day operations of the Person.

"**Originating Persons**" means all current and former employees, officers, directors and consultants of Draganfly or any Subsidiary, including, in the case of a consultant that is not an individual, all employees, officers, directors, shareholders and partners of the consultant.

"**OTC**" means the OTC QX or OTC QB quotation system of the OTC Markets Group.

"**Outside Date**" means June 30, 2019 or such later date as may be agreed to in writing by the Parties.

"**Owned IP**" means all Intellectual Property that is owned by Draganfly or any Subsidiary, including Intellectual Property relating to Technology and the Technical Information, as well as all Intellectual Property Rights that are owned or enforceable by Draganfly or any Subsidiary;

"**Parties**" means, collectively, Draganfly, DroneCorp and Subco and any other Person who may become a party to this Agreement; and "**Party**" means any one of them.

"**Permits**" means the authorizations, registrations, permits, certificates of approval, approvals, grants, licences, quotas, consents, commitments, rights or privileges (other than those relating to the intellectual property) issued or granted by any Governmental Entity to Draganfly.

"**Person**" means a natural person, partnership, limited partnership, limited liability partnership, corporation, limited liability corporation, unlimited liability company, joint stock company, trust, unincorporated association, joint venture or other entity or Governmental Entity, and pronouns having a similarly extended meaning.

"**Personal Information**" means information about an individual who can be identified by the Person who holds that information.

"**Personal Property**" means all machinery, equipment, furniture, motor vehicles and other chattels owned or leased (including those in the possession of suppliers, customers and other third parties).

"**Post-Closing Financing**" has the meaning specified in Section 6.10.

"**Principal Regulator**" means the FCAAS or such other securities regulator as is determined by Multilateral System – 11-102 *Passport System.*

"**Public Statement**" has the meaning ascribed thereto in Section 9.4 hereof.

"**Registrar**" means the Registrar of Companies appointed under the BCBCA.

"**Regulatory Approval**" means any consent, waiver, permit, exemption, review, order, decision or approval of, or any registration and filing with, any Governmental Entity, or the expiry, waiver or termination of any waiting period imposed by Law or a Governmental Entity.

"**Related Party**" has the meaning ascribed thereto in Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions*.

"**Related Party Debt**" means the Business Instincts' Debt and any other debt or liabilities owed to any Related Party of Draganfly to Draganfly.

"**Securities**" has the meaning given to that term in the *Securities Act* (British Columbia).

"**Share Compensation Plan**" means the share compensation plan of DroneCorp to be adopted following the completion of the Amalgamation in the form attached hereto as Schedule E.

"**SR&ED**" has the meaning specified in Section 3.1(q).

"**Subco**" means 1187607 B.C. Ltd., a company incorporated under the laws of the Province of British Columbia and a wholly-owned Subsidiary of DroneCorp.

"**Subco Shares**" means the common shares in the capital of Subco as constituted on the date hereof.

"**Subscription Receipt**" means the subscription receipts of DroneCorp to be issued under the Financing, with each subscription receipt being automatically convertible into one (1) DroneCorp Share and one (1) Subscription Receipt Warrant for no additional consideration in accordance with their terms upon Listing.

"**Subscription Receipt Warrants**" means the issued and outstanding DroneCorp warrants to purchase an aggregate of 10,000,000 DroneCorp Shares issuable on conversion of the Subscription Receipts, each entitling the holder thereof to purchase one DroneCorp Shares at an exercise price of $0.50 per share for a period of 4 months from issuance.

"**Subsidiary**" has the meaning specified in National Instrument 45-106 - *Prospectus Exemptions* as in effect on the date of this Agreement.

"**Tax**" or "**Taxes**" means all taxes, duties, fees, premiums, assessments, imposts, levies, rates, withholdings, dues, government contributions and other charges of any kind whatsoever imposed by any Governmental Entity, whether direct or indirect, together with all interest, penalties, fines, additions to tax or other additional amounts imposed in respect thereof, including those levied on, or measured by, or referred to as income, gross income, gross receipts, net proceeds, profits, capital gains, alternative or add-on, or minimum, capital, transfer, land transfer, sales, retail sales, consumption, use, goods and services, harmonized sales, value-added, ad valorem, turnover, excise, stamp, non-resident withholding, business, franchising, business licenses, real and personal property (tangible and intangible), environmental, transfer, payroll, employee withholding, employment, health, employer health, social services, development, occupation, education or social security, and all contributions, premiums, surtaxes, all customs duties, countervail, anti-dumping, special import measures and import and export taxes, all licence, franchise and registration fees, all provincial workers' compensation payments, and all employment insurance, health insurance and other government pension plan contributions.

"**Tax Law**" means any Law that imposes Taxes or that deals with the administration or enforcement of liabilities for Taxes.

"**Tax Return**" means any return, report, declaration, designation, election, undertaking, waiver, notice, filing, information return, statement, form, certificate or any other document filed or to be filed with any Governmental Entity in connection with the determination, assessment, collection or administration of Taxes.

"**Technical Information**" means all technical information owned by or licensed (expressly or impliedly) to Draganfly or any Subsidiary relating to its Business or the Technology, including all:

(a) information of a scientific or business nature, regardless of its form;

(b) documentation with respect to research, development, demonstration or engineering work;

(c) information that can be or is used to define a design or process, or to procure, produce, support or operate materials or equipment;

(d) information regarding methods of production;

(e) other drawings, blueprints, patterns, plans, flow charts, equipment parts lists, computer software and procedures, specifications, protocols, data structures, formulae, designs, technical data, descriptions, related instruction manuals, records, passwords, and procedures; and

(f) data and databases, whether registered or unregistered.

"**Technology**" means all technology owned by or licensed (expressly or impliedly) to Draganfly or any Subsidiary.

"**Transaction**" means collectively, the Amalgamation, the Financing, obtaining receipt of the Final Prospectus and the Listing.

"**United States**" means the United States of America, its territories and possessions, and State of the United States and the District of Columbia.

"**U.S. Person**" means a "U.S. person" as such term is defined in Regulation S under the U.S. Securities Act.

"**U.S. Securities Act**" means the United States Securities Act of 1933, as amended.

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

"**Voting Agreements**" means the voting agreements (including all amendments thereto) between DroneCorp and the Locked-up Shareholders setting forth the terms and conditions upon which they have agreed, among other things, to vote their Draganfly Shares as applicable, in favour of the Amalgamation Approval;

"**Zenon Assignment Agreement**" means the assignment agreements held in escrow by Stevenson Hood Thornton Beaubier LLP between Zenon Dragan and Draganfly pursuant to which the entire interest in Zenon Patents held by Zenon Dragan will be assigned to Draganfly if the payments contemplated in the Zenon Forbearance Agreement are made in full as contemplated therein.

"**Zenon Forbearance Agreement**" means the forbearance agreement dated November 5, 2018 between Draganfly, Zenon S. Dragan Jr. Family Trust, Draganfly Holdings Inc., Christine Dragan and Zenon Dragan providing for the forbearance of the indebtedness owed by Draganfly to Zenon S. Dragan Jr. Family Trust, Draganfly Holdings Inc., Christine Dragan and Zenon Dragan until Closing.

"**Zenon Patents**" means all of the patents, patent applications and industrial design registrations that are listed in the Zenon Assignment Agreement.

1.2 Gender and Number.

Any reference in this Agreement or any Ancillary Agreement to gender includes all genders. Words importing the singular number only shall include the plural and vice versa.

1.3 Headings, etc.

The provision of a Table of Contents, the division of this Agreement into Articles, Sections and Schedules and the insertion of headings are for convenient reference only and are not to affect its interpretation.

1.4 Currency.

All references in this Agreement or any Ancillary Agreement to dollars, or to $ are expressed in Canadian currency unless otherwise specifically indicated.

1.5 Certain Phrases, etc.

In this Agreement and any Ancillary Agreement (i) the words "including", "includes" and "include" mean "including (or includes or include) without limitation", and (ii) the phrase "the aggregate of", "the total of", "the sum of", or a phrase of similar meaning means "the aggregate (or total or sum), without duplication, of". In the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

1.6 Accounting Terms.

All accounting terms not specifically defined in this Agreement are to be interpreted in accordance with GAAP.

1.7 Schedules.

The schedules attached to this Agreement form an integral part of this Agreement for all purposes of it.

1.8 References to Persons and Agreements.

Any reference in this Agreement or any Ancillary Agreement to a Person includes such Person's heirs, administrators, executors, legal personal representatives, successors and permitted assigns. Except as otherwise provided in this Agreement or any Ancillary Agreement, the term "Agreement" and any reference in this Agreement to this Agreement, any Ancillary Agreement or any other agreement or document includes, and is a reference to, this Agreement, such Ancillary Agreement or such other agreement or document as it may have been, or may from time to time be amended, restated, replaced, supplemented or novated and includes all schedules to it.

1.9 Statutes.

Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it, as it or they may have been or may from time to time be amended or re-enacted.

1.10 Non-Business Days.

Whenever payments are to be made or an action is to be taken on or not later than a day which is not a Business Day, such payment shall be made or such action shall be taken on or not later than the next succeeding Business Day.

ARTICLE 2
CONTINUANCE AND AMALGAMATION

2.1 Continuance and Amalgamation.

(a) Each of the Parties covenants to take all such actions as are within its power to control and use commercially reasonable efforts to cause other actions to be taken which are not within its power to control, so as to complete the

Continuance and Amalgamation as set forth in this Section 2.1 and otherwise on the terms, and subject to the conditions, set forth in this Agreement.

(b) Each Party hereby agrees, unless such steps have already been completed, that as soon as reasonably commercially practicable after the date hereof or at such other time as is specifically indicated below in this Section 2.1, and on the applicable terms, and subject to the applicable conditions, set forth in this Agreement and the Amalgamation Agreement, it shall take the following steps:

(i) Continuance and Amalgamation Approval of Draganfly. Prior to the Effective Date, Draganfly shall convene and hold the following two meetings (together, the "**Meetings**") as soon as reasonably practicable: (i) the Draganfly Continuance meeting, to be held in accordance with the ABCA for the purpose of obtaining Continuance Approval; and (ii) the Draganfly Amalgamation meeting, to be held in accordance with the BCBCA following the completion of the Continuance for the purpose of obtaining Amalgamation Approval. Draganfly shall not adjourn or otherwise change the timing of the Draganfly Continuance meeting and the Draganfly Amalgamation meeting without the prior written consent of DroneCorp, such consent not to be unreasonably withheld. In connection with the Meetings, as promptly as reasonably practicable, Draganfly shall prepare the applicable proxy meeting materials together with any other documents required by applicable laws in connection and shall give DroneCorp the opportunity to review and comment on such materials and all such other documents and these documents shall be reasonably satisfactory to DroneCorp, acting reasonably, before they are filed or distributed to the Draganfly Shareholders entitled thereto subject to any disclosure obligations imposed on Draganfly by applicable law.

(ii) Amalgamation Resolution of DroneCorp. Prior to the Effective Date, DroneCorp, as the sole shareholder of Subco, will execute and deliver a written special resolution authorizing Subco to, among other things, enter into the Amalgamation, the Agreement and the Ancillary Agreements, and to perform the Business Combination and the Amalgamation.

(iii) Filing of Amalgamation Application. Subject to obtaining approval of the Draganfly Shareholders and the sole shareholder of Subco, and subject to the satisfaction or waiver of the applicable conditions of Closing as set forth in this Agreement, the Amalgamating Parties will submit the Amalgamation Application and such other documents as may be required under the BCBCA in connection therewith to give effect to the Amalgamation.

(iv) Amalgamation Agreement. The Parties hereby acknowledge that the form of Amalgamation Agreement attached as Schedule A complies with the requirements of the BCBCA.

(v) Amalgamation Steps. The Amalgamation shall, with such other matters as are necessary to effect the Amalgamation, and all as subject to the provisions of the Amalgamation Agreement, provide as follows:

(A) DroneCorp (or as directed to be registered by DroneCorp) will receive, subject to applicable securities laws, immediately prior to the completion of the Amalgamation, up to 1,114,827 Draganfly Shares (the "**Advisory Shares**") in consideration of DroneCorp's advisory services in connection with the Transaction (subject to adjustment in accordance with section 7.2(g) of the Agreement);

(B) the Amalgamating Parties will amalgamate and continue as Amalco;

(C) holders of Draganfly Shares (other than Dissenting Shareholders who are ultimately entitled to be paid fair value for their Dissenting Shares) will receive 1.794 fully paid and non-assessable DroneCorp Shares for each Draganfly Share held by such Draganfly Shareholder, such ratio to be adjusted such that only a total of up to 42,000,000 DroneCorp Shares (including the Advisory Shares and subject to adjustment in accordance with section 7.2(g) of the Agreement) (the "**Consideration Shares**") will be issued to Draganfly Shareholders excluding Draganfly Shares issued upon conversion of the Business Instincts' Debt and as applicable Draganfly Overdue Debt which holders will be issued DroneCorp Shares at the foregoing ratio outside of the Consideration Shares, and the Draganfly Shares shall thereafter be cancelled;

(D) the shares of Subco will be cancelled and replaced by Amalco Shares on the basis of one (1) Amalco Share for each share of Subco;

(E) as consideration for the issuance of the Consideration Shares to holders of Draganfly Shares to effect the Amalgamation, Amalco will issue to its immediate shareholder, DroneCorp, one (1) Amalco Share for each Consideration Share issued to holders of Draganfly Shares;

(F) Amalco will be a direct wholly-owned Subsidiary of DroneCorp upon completion of the Amalgamation; and

(G) all of the property, rights, privileges and assets of the Amalgamating Parties will continue as the property, rights, privileges and assets of Amalco, and Amalco will become liable for all of the liabilities and obligations of the Amalgamating Parties.

(vi) Trading Restrictions on Consideration Shares. The certificates representing the Considerations Shares (excluding the Advisory Shares) will be subject to trading restrictions to be effective as of the Listing and, if required, bear legends:

(A) 2,000,000 Consideration Shares with no trading restrictions;

(B) 6,000,000 Consideration Shares with a six month trading restriction;

(C) 6,000,000 Consideration Shares with a twelve month trading restriction;

(D) 6,000,000 Consideration Shares with a eighteen month trading restriction;

(E) 6,000,000 Consideration Shares with a twenty-four month trading restriction;

(F) 6,000,000 Consideration Shares with a thirty month trading restriction; and

(G) 8,000,000 Consideration Shares with a thirty-six month trading restriction.

(vii) No Fractional Shares. Notwithstanding Section 2.1(b)(v)(C) of this Agreement, no Draganfly Shareholder shall be entitled to, and DroneCorp will not issue, fractions of DroneCorp Shares and no cash amount will be payable by DroneCorp in lieu thereof. To the extent any Draganfly Shareholder is entitled to receive a fractional DroneCorp Share such fraction shall be rounded down to the closest whole number of the applicable security.

(viii) Warrants. The Parties acknowledge that upon completion of the Amalgamation, holders of Draganfly Warrants and DroneCorp Warrants will be entitled to receive, upon exercise of such warrants for the same aggregate consideration, DroneCorp Shares in lieu of shares otherwise issuable prior to the Effective Date adjusted in accordance with the terms of the agreements, plans or certificates representing such Draganfly Warrants and DroneCorp Warrants.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF DRAGANFLY

3.1 Representations and Warranties of Draganfly.

Draganfly represents and warrants, as of the date of this Agreement, as follows to DroneCorp and acknowledges and confirms that DroneCorp is relying on such representations and warranties in connection with the transactions contemplated by this Agreement:

(a) Corporate Existence of Draganfly. Draganfly is validly existing and in good standing as a corporation under the ABCA. No proceedings have been taken or authorized by Draganfly in respect of the bankruptcy, insolvency, liquidation, dissolution or winding up of Draganfly.

(b) Capacity to Enter Agreement. Draganfly has all necessary corporate power, authority and capacity to enter into and perform its obligations under this Agreement.

(c) Binding Obligation. This Agreement has been duly executed and delivered by Draganfly and constitutes a valid and binding obligation of Draganfly, enforceable against Draganfly in accordance with its terms, subject to applicable bankruptcy, insolvency and other Laws of general application limiting the enforcement of creditors' rights generally and to the fact that equitable remedies, including specific performance, are discretionary and may not be ordered in respect of certain defaults.

(d) Absence of Conflict. None of the execution and delivery of this Agreement and the Ancillary Agreements to which Draganfly is a party, the performance of Draganfly's obligations under this Agreement, or the completion of the transactions contemplated by this Agreement will:

(i) result in or constitute a breach of any term or provision of, or constitute a default under, the Constating Documents of Draganfly;

(ii) result in or constitute a breach of any term or provision of, or constitute a default under, any Material Contract to which Draganfly is a party or by which the Draganfly Shares are bound;

(iii) result in the creation or imposition of any Encumbrance on the Draganfly Shares or the assets of Draganfly;

(iv) contravene any applicable Law; or

(v) contravene any judgment, order, writ, injunction or decree of any Governmental Entity.

(e) Change of Control. Except as disclosed in the Disclosure Schedule, Draganfly is not a party to any written management contract or employment agreements which provides for a right of payment in the event of a change of control of Draganfly.

(f) Regulatory Approvals. No authorization, approval, order, consent of, or filing with, any Governmental Entity is required on the part of the Draganfly Shareholders in connection with the execution, delivery and performance of this Agreement or any other documents and agreements to be delivered under this Agreement where the lack of such authorization, approval, order, consent of, or filing with such Governmental Entity would have a Material Adverse Effect.

(g) Non-Reporting Issuer Status. Draganfly is not a "reporting issuer" within the meaning of the *Securities Act* (British Columbia) or the *Securities Act* (Alberta) and does not have a similar status in any other province or territory of Canada. No securities commission or similar regulatory authority has issued any order which is currently outstanding preventing or suspending trading in any securities of Draganfly, no such proceeding is, to the Knowledge of Draganfly, pending, contemplated or threatened and Draganfly is not in default of any requirement of any securities laws, rules or policies applicable to Draganfly or its securities, other than with respect to filing reports of exempt distributions.

(h) Consents. Except as disclosed in the Disclosure Schedule, there is no requirement to obtain any consent, approval or waiver of a party under any Material Contract to which Draganfly is a party in order to complete the Transaction where the lack of such consent, approval, order, or waiver of such party would have a Material Adverse Effect.

(i) Capacity and Powers of Draganfly. Draganfly has all necessary corporate power, authority and capacity to own or lease its assets and to carry on its business, including the Business, as currently being conducted.

(j) Authorized and Issued Capital. The authorized share structure of Draganfly consists of and excluding the Advisory Shares to be issued: (i) an unlimited number of Draganfly Shares, of which 22,294,432 Draganfly Shares are anticipated to be issued and outstanding as at Closing as fully paid shares not including those Draganfly Shares issued prior to Closing in exchange for Business Instincts' Debt (719,927 Draganfly Shares) and, as applicable, Draganfly Overdue Debt, and are or will be legally and beneficially owned by the Draganfly Shareholders; and (ii) an unlimited number of First Preferred Shares without nominal or par value of which nil are or will be issued and outstanding as at Closing.

(k) Subsidiary and Investments. Draganfly has no Subsidiaries. Other than as disclosed in the Disclosure Schedule, Draganfly does not own or hold, directly or indirectly, any Securities of, or have any interest in, any Person and Draganfly has not entered into any agreement to acquire any such interest.

(l) Options, Warrants and Convertible Debentures. The Disclosure Schedule sets out a true and correct list of holders of the outstanding convertible securities of Draganfly, being 429,225 Draganfly Warrants and convertible debentures in the principal amount of $1,215,000 and no other Person has any written or oral agreement or option or any right or privilege (whether by law, pre-emptive, contractual or otherwise with Draganfly) capable of becoming an agreement or option, including Securities, warrants, convertible debentures or other convertible obligations of any nature, for:

(i) the purchase of any Securities of Draganfly; or

(ii) the purchase of any of the assets of Draganfly other than in the Ordinary Course of the Business.

(m) Corporate Records. Other than as disclosed in the Disclosure Schedule, the corporate records and minute books of Draganfly contain in all material respects complete and accurate minutes of all meetings of, or all written resolutions passed by, the directors and shareholders of Draganfly, held or passed since incorporation. All those meetings were held, all those resolutions were passed, and the share certificate books, registers of shareholders, registers of transfers and registers of directors of Draganfly are complete and accurate in all material respects.

(n) Books and Records. The Books and Records fairly set out and disclose the financial position of Draganfly, and all material financial transactions of Draganfly have been accurately recorded in the Books and Records.

(o) Financial Statements. A copy of the Draganfly Financial Statements are attached hereto as Schedule D. Other than as set out in the Disclosure Schedule, the Draganfly Financial Statements have been prepared in accordance with GAAP and present fairly:

(i) the assets, liabilities (whether accrued, absolute, contingent or otherwise) and the financial condition of Draganfly as at the respective dates of the Draganfly Financial Statements; and

(ii) the sales, earnings and results of the operations of Draganfly during the periods covered by the Draganfly Financial Statements.

(p) Tax Matters. Except as disclosed in the Disclosure Schedule:

(i) All Tax Returns required by applicable Tax Law to be filed on or prior to the Effective Date by or on behalf of Draganfly have been or will be duly filed on a timely basis in compliance with their due dates under applicable Tax Law with the appropriate Governmental Entity on or before Closing. Each of those Tax Returns is or will be true, correct and complete. No position has been taken on any Tax Return with respect to the Business of Draganfly for a taxation year, or other period for which the assessment of any Taxes has not expired, that is contrary to any publicly announced position of a Governmental Entity, or that is substantially similar to any position that a Governmental Entity has successfully challenged in the course of an examination of a Tax Return of Draganfly.

(ii) Draganfly has duly, and on a timely basis, paid or remitted all Taxes required to be paid or remitted by it on or before Closing, including all Taxes shown as due and owing on all Tax Returns, all Taxes assessed or reassessed by any Governmental Entity, all Taxes held in trust or deemed to be held in trust for any Governmental Entity, and all instalments on account of Taxes for the current year. The liabilities reflected as reserves for Taxes on the Draganfly Financial Statements are sufficient for the payment or remittance of all Taxes which may become payable or remittable by Draganfly, whether or not disputed, in respect of any period ending on or before Closing.

(iii) There are no material liens for Taxes on any of the properties or assets of any of Draganfly, nor are such properties or assets the subject of any trust arising under Tax Law.

(iv) Draganfly has not requested, executed, received, or entered into any Contract relating to any waiver, which is still outstanding and which provides for any extension of time in respect of:

(A) the assessment, reassessment or collection of any Taxes by any Governmental Entity;

(B) the filing of any Tax Returns in respect of any Taxes for which Draganfly is or may be liable; or

(C) the payment or remittance of any Taxes or amounts on account of Taxes.

(v) Draganfly has not been required, or is not currently required, to file any Tax Returns with any Governmental Entity outside Canada. No claims have ever been made by any Governmental Entity that Draganfly is or may be subject to Tax in a jurisdiction where Draganfly does not file Tax Returns. To the Knowledge of Draganfly, there is no basis for a Claim that Draganfly is subject to Tax in a jurisdiction in which it does not file Tax Returns.

(vi) The Disclosure Schedule accurately reflects all notices of assessment and reassessment of Taxes that have been received by Draganfly from all relevant Governmental Entities with respect to the Tax liabilities of Draganfly for its fiscal year end 2017.

(vii) There are no material Tax deficiencies that have been claimed, proposed or asserted in writing against Draganfly that have not been fully paid or finally settled and there are no discussions, audits, assertions or Claims now pending, or to the Knowledge of Draganfly, threatened, in respect of Taxes due from or with respect to Draganfly.

(viii) All Taxes required to be deducted, withheld or remitted by Draganfly under any applicable Tax Law from amounts paid or credited by Draganfly to or for the account or benefit of any Person, including Taxes on payments to any of its present or former employees, officers or directors and Taxes on payments to any Person who is a non-resident of Canada, have been properly deducted, withheld and remitted on a timely basis to the appropriate Governmental Entities where a failure to make such deduction, withholding or remittance on a timely basis would have a Material Adverse Effect.

(ix) Copies of all Tax rulings pertaining to Draganfly have been provided to DroneCorp. To the Knowledge of Draganfly, there is no claim or threatened claim to revoke any such Tax ruling. Except as disclosed in the Disclosure Schedule, there are no Tax rulings or requests for Tax rulings pertaining to Draganfly that could affect the liability for Taxes or the amount of the taxable income or loss for any taxation year or period ending after Closing.

(x) There are no amounts outstanding and unpaid for which Draganfly has previously claimed a deduction from income under the ITA or any other applicable Tax Law and which may be included in Draganfly's income for any taxation year ending after Closing.

(xi) Other than as disclosed in the Disclosure Schedule, Draganfly has not directly or indirectly, transferred property to or acquired property from or provided services to or received services from any Person with whom

Draganfly was not dealing at arm's length, for consideration the fair market value of which was less than the fair market value of the property or service at the time of (in the case of property) the disposition or acquisition thereof or (in the case of services) the provision or receipt thereof, or been a party to any contract or transaction that could result in a liability for Tax under section 160 of the ITA or any substantially similar provisions of other applicable Tax Laws. Draganfly has provided DroneCorp with copies of all Contracts, minutes, and any other documents relating to transactions entered into by it prior to the Effective Date with Persons with whom Draganfly, as the case may be, was not dealing at arm's length at the time the transaction occurred.

(xii) To the knowledge of Draganfly, there are no circumstances existing which could result, and the Closing will not result, in the application to Draganfly of sections 80 through 80.4 of the ITA or any substantially similar provisions of any applicable Tax Laws.

(xiii) The Books and Records of Draganfly fairly and correctly set out and disclose, in all material respects, all liabilities and unclaimed input tax credits under Part IX of the ETA and other applicable Tax Laws. All financial transactions of Draganfly have been accurately and completely recorded in the Books and Records for Tax purposes.

(xiv) Draganfly has provided DroneCorp with copies of all Tax Returns for all fiscal periods for which the relevant limitation period has not expired and all working papers, calculations, and schedules relating thereto, together with all material communications relating thereto from any Governmental Entity and the response, if any, of Draganfly to such communication.

(xv) For all transactions between Draganfly and any non-resident person with whom it was not dealing at arm's length, Draganfly has made or obtained records or documents that meet the transfer pricing requirements of paragraphs 247(4) of the ITA.

(xvi) Draganfly has not made any elections or designations for the purposes of the ITA or the ETA or other applicable Tax Law, or for the purposes of any administrative rulings or notices or administrative practices pursuant to any Tax Law.

(xvii) The Disclosure Schedule sets out a complete and accurate list of all loans or indebtedness outstanding made to directors, former directors, officers, shareholders or employees of Draganfly or to any Person not dealing at arm's length with any of the foregoing.

(q) Tax Incentives. Either (i) Draganfly does not participate in the federal Scientific Research and Experimental Development ("**SR&ED**") Program, or (ii) Draganfly's participation in the SR&ED Program is *bona fide* and Draganfly has no knowledge that the Canada Revenue Agency will disallow, reassess, or reduce any SR&ED tax incentives applied for by, or previously granted to, Draganfly;

(r) Absence of Changes. Except as disclosed in the Disclosure Schedule and the Draganfly Financial Statements, since December 31, 2017 there has not been:

(i) any change in the financial condition, operations, results of operations, or Business of Draganfly, nor has there been any occurrence or circumstances which with the passage of time might reasonably be expected to have a Material Adverse Effect; or

(ii) any Loss, labour trouble, or other event, development or condition of any character (whether or not covered by insurance) suffered by Draganfly which had had, or may reasonably be expected to have, a Material Adverse Effect.

(s) Absence of Undisclosed Liabilities. Except: (i) for the Bridge Loan; (ii) the Related-Party Debt disclosed in the Disclosure Schedule; (iii) as disclosed in the Disclosure Schedule; (iv) as reflected or reserved against in the Draganfly Financial Statements or disclosed in a note therein; or (v) for current liabilities incurred in the ordinary course of Draganfly's business since December 31, 2017, Draganfly does not have any liabilities, obligations or commitments of the type required to be reflected on a balance sheet prepared in accordance with GAAP that could have, or could reasonably be expected to have, a Material Adverse Effect.

(t) Projected Revenue. The projected revenue set out in the Disclosure Schedule is based on fair and reasonable estimates, has been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis, and Draganfly is not aware of any fact or circumstance presently existing which would render the projected revenue materially incorrect or could reasonably be expected to have, a Material Adverse Effect.

(u) Title to Assets. Other than Licensed IP, Draganfly owns, possesses and has good and marketable title to all of its undertakings, property and assets not otherwise the subject of specific representations and warranties in this Article 3 including all the undertakings, property and assets reflected in the most recent balance sheet included in the Draganfly Financial Statements free and clear of all Encumbrances except as specifically disclosed in the Disclosure Schedule. The undertakings, property and assets of Draganfly comprise all of the undertakings, property and assets necessary for it to carry on the Business as it is currently operated.

(v) Real Property. The Disclosure Schedule lists all real property owned by Draganfly, including complete and accurate legal descriptions, and the particulars of all leases of real property to which Draganfly is a party.

(w) Personal Property. The Disclosure Schedule lists each item of Personal Property owned by Draganfly which had a book value in the Books and Records of Draganfly at the date of the Draganfly Financial Statements, of more than $10,000 or is otherwise material to the Business. No Personal Property owned by Draganfly is in the possession of a third party and Draganfly does not have any assets on consignment. Each item of Personal Property is in good operating condition and repair, ordinary wear and tear excepted, and is

reasonably fit and useable for the purpose for which it is being used in the ordinary course of the Business having regard to its use and age.

(x) Intellectual Property.

(i) The Disclosure Schedule sets out an accurate and complete list and description of all Owned IP that is registered with any Governmental Entity (including details as to the jurisdictions, numbers, and expiry dates of all registrations), Licenced IP and related Licence Agreements, Technology and Technical Information, including sufficient particulars to identify each item of Owned IP, Licensed IP and related Licence Agreements, Technology and Technical Information, its respective owner, if that owner is not the Corporation or a Subsidiary, and the nature and jurisdictions of its use, as well as the jurisdictions and particulars of all registrations of, and applications for registration of, the Owned IP made by the Corporation or any Subsidiary that are material to, associated with, or used in, its Business.

(ii) Draganfly is the only Person to have any right of title and interest, legal or beneficial, in any of the Owned IP, all of which is owned by Draganfly free and clear of any Encumbrances, and none of which is registered in the name of any Person other than Draganfly. No consent of any Person is necessary to make, construct, use, reproduce, translate, license, sell, modify, update, enhance or otherwise exploit any Owned IP. All Originating Persons have, by irrevocable written assignments, transferred to Draganfly all Intellectual Property Rights, and waived all moral rights, that any of them may have enjoyed with respect to any Owned IP to which they contributed.

(iii) Except as disclosed in the Disclosure Schedule, Draganfly has not assigned, licensed or otherwise granted any interest in any Owned IP, including any right to receive royalties or other payments, to any Person.

(iv) Except as disclosed in the Disclosure Schedule, to the Knowledge of Draganfly, no Person has infringed or misappropriated, or is infringing or misappropriating, any Intellectual Property Right in any Owned IP.

(v) Except as disclosed in the Disclosure Schedule, Intellectual Property Rights relating to Owned IP are in full force and effect, and all required registration or other fees have been paid to maintain them all in good standing in those jurisdictions where any associated Owned IP is used.

(vi) Each registered Trade-mark forming part of the Owned IP is used in its jurisdiction of registration, in association with all wares and services for which it is registered and in the form appearing in the applicable registration, and has been used with sufficient continuity in association with those wares and services and in that form, and any use by any licensee of any Trade-mark has been controlled and enforced by Draganfly so as to avoid any abandonment, cancellation, expungement or other such challenge against that Trade-mark associated with non-

continuous use, or otherwise (including the unenforceability of the Trade-mark), in each applicable jurisdiction.

(vii) The date of first use of the Trade-mark DRAGANFLY in Canada in association with compact unmanned drones by Draganfly is at least as early as 1998 and Draganfly has evidence of such use.

(viii) The date of first use of the Trade-mark DRAGANFLY in Canada in association with "training and educational services, namely flight training services provided to operators of unmanned aerial vehicles (drones); aerial inspection, surveying, data collection, photography and videography services using sensor-equipped and camera-equipped unmanned aerial vehicles (drones)" by Draganfly Innovations Inc. is at least as early as 2008 and Draganfly has evidence of such use.

(ix) The date of first use of the Trade-mark DRAGANFLY in the United States in association with unmanned aerial vehicles by Draganfly is at least as early as 1998 and Draganfly has evidence of such use.

(x) The date of first use of the Trade-mark DRAGANFLY in Canada in association with any goods or services, and not limited to those goods and services in (vii) and (viii), precedes the date of first use of the trade-mark DRAGONFLY in Canada in association with any goods or services by Dragonfly UAS.

(xi) The date of first use of the Trade-mark DRAGANFLY in the United States in association with any goods or services, and not limited to those goods and services in (ix), precedes the date of first use of the trade-mark DRAGONFLY in the United States in association with any goods or services by Dragonfly UAS.

(xii) The date of first use of the Trade-mark DRAGANFLY in the United States in association with any goods or services, and not limited to those goods and services in (ix), precedes the date of first use of the trade-mark DRAGONFLY in the United States in association with any goods or services by PerceptIn Inc.

(xiii) Draganfly has entered into valid and enforceable written agreements pursuant to which Draganfly has been granted all licenses, rights and permissions to use, reproduce, translate, sub-license, sell, modify, update, enhance or otherwise exploit the Licensed IP to the extent required to conduct all aspects of its Business as it is currently conducted (including, if required, the right to incorporate the Licensed IP into the Owned IP and to create and own derivatives and modifications of the Licensed IP) (the "**Licence Agreements**"). Except as disclosed in the Disclosure Schedule:

(A) all Licence Agreements are in full force and effect and none of Draganfly or any licensor is in default of its obligations under any Licence Agreement;

(B) no licensor of any Licensed IP is involved in an insolvency, bankruptcy or similar proceeding or has had a receiver appointed;

(C) except as disclosed in the Disclosure Schedule, all License Agreements for Licensed IP material to the Draganfly's Business are irrevocable licenses granted in perpetuity and worldwide in nature;

(D) the rights licensed under each Licence Agreement will be enforceable by Draganfly on and after the Closing to the same extent as prior to the Closing; and

(E) no Person has infringed or misappropriated, or is infringing or misappropriating, any Intellectual Property Rights or any licensor in or to any Licensed IP of which it is the exclusive licensee.

(xiv) Draganfly has entered into escrow agreements (including source code escrow agreements) or other arrangements as necessary to facilitate its continued use and exploitation of any Licensed IP the use and exploitation of which might be impaired in the event that the licensor of any of that Licensed IP ceases to carry on business, ceases to support or maintain that Licensed IP, or is involved in an insolvency, bankruptcy or similar proceeding.

(xv) Except as disclosed in the Disclosure Schedule:

(A) the past, current and proposed conduct by Draganfly of its Business (including all use or other exploitation of the Owned IP or Licensed IP by Draganfly, or any customers, distributors or other licensees of Draganfly) has not resulted in, and neither does nor will result in, any infringement, violation, misappropriation, or other conflict with any Intellectual Property Right of any Person, and there is no action or proceeding ongoing or threatened that alleges any such violation, misappropriation, or other conflict; and

(B) there are no outstanding orders, judgments, rulings, decrees, stipulations, covenants not to sue, or agreements (including any funding or facilities agreements or grants from any college, university, or Governmental Entity) relating to any of the Owned IP or Licensed IP that restrict the conduct of the Business of Draganfly, the enforcement of any Intellectual Property Rights included in the Owned IP or the Licensed IP, or the use, exercise, practise, or other exploitation of any Owned IP and Licensed IP by Draganfly or any of its customers, distributors or other licensees.

(xvi) The Technology, Technical Information, Licensed IP and Owned IP are sufficient to conduct the Business of Draganfly as it is currently conducted.

(xvii) No Owned IP that incorporates any open source code is in violation of any open source code licenses.

(xviii) No product sold or distributed by Draganfly has incorporated open source code in a manner that would detract from the enforceability of any of the patents and patent applications listed in the Disclosure Schedule and its Appendices, including the Zenon Patents.

(xix) Except as disclosed in the Disclosure Schedule, no Licensed IP contains any open source code, other than the Mission Planner flight planning software. The Mission Planner flight planning software is used as a stand-alone software program and has not been integrated into any other computer program, including without limitation any of the Owned IP.

(xx) Draganfly has in place appropriate disaster recovery plans, procedures and facilities, and has taken all reasonable steps, that are necessary to safeguard all Technology, Technical Information, Licensed IP and Owned IP that is material to its Business, and to restrict unauthorized access to it.

(xxi) The Disclosure Schedule contains true and correct copy of the Zenon Forbearance Agreement, which is in full force and effect and perfected in accordance with applicable Law.

(xxii) The Zenon Assignment Agreement has been executed by all relevant parties, is held in escrow with Stevenson Hood Thornton Beaubier LLP and is in full force and effect and validly assigns to Draganfly the Zenon Patents and such assignment is perfected in accordance with applicable Law. At Closing, the Zenon Assignment Agreement will be registered in the United States Patent and Trademark Office and in the Canadian Intellectual Property Office to cause the Zenon Patents to stand in the name of Draganfly as the sole registered owner.

(xxiii) Draganfly has not transfered to any third party any rights in any of the Zenon Patents or the Owned IP, including without limitation the patents and patent applications listed in the Disclosure Schedule and its Appendices.

(xxiv) All current and former Employees have conferred ownership of all Intellectual Property created by such Employees to Draganfly.

(xxv) For each of Draganfly's non-provisional United States patent applications, including both pending applications and applications that have granted as patents, and including patents and applications for which the registered owner(s) is any one of Draganfly, Zenon Dragan, Trace Live Network Inc., or the inventors, no named inventor or other person associated with the filing and prosecution of the non-provisional patent application was aware, at any time during the pendency of the application, of any prior art that was material to the patentability of any claim in the application, other than the prior art references cited by the U.S. Examiner (the "**Examiner**") against the application and the prior art references disclosed to the United States Patent and Trademark Office in an Information Disclosure Statement submitted against the application. For each of the non-provisional applications that issued as United States Patent Nos. 9,710,709, 9,892,322, 9,489,937 and 9,511,878, for which no Information

Disclosure Statement was filed in the United States Patent and Trademark Office, no person associated with the filing and prosecution of the application was aware of any prior art that was material to the patentability of any claim in the application at any time during the pendency of the application, other than the prior art references cited by the Examiner against the application.

(xxvi) Nothing developed by Draganfly for AeroVironment Inc., pursuant to the Standard Consulting Agreement dated May 22, 2017 or any other agreements with AeroVironment Inc., has been used in Draganfly's business or products.

(xxvii) Draganfly no longer makes, uses or sells any product claimed in Canadian Patent No. 2,645,369 owned by Burkhard Wiggerich and/or AirRobot GMBH & Co KG.

(y) Accounts Receivable. All accounts receivable of Draganfly reflected in the Draganfly Financial Statements, or which have come into existence since the date of the Draganfly Financial Statements, were created in the Ordinary Course of the Business from bona fide arm's length transactions and, except to the extent that they have been paid in the Ordinary Course of the Business since the date of the Draganfly Financial Statements, are valid and enforceable and payable in full, without any right of set-off or counterclaim or any reduction for any credit or allowance made or given, except to the extent of the allowance for doubtful accounts reflected in the Draganfly Financial Statements and, in the case of accounts receivable which have come into existence since the date of the Draganfly Financial Statements, of a reasonable allowance for doubtful accounts, which allowances are, and will as of Closing be, adequate and calculated in a manner consistent with Draganfly's previous accounting practice.

(z) Inventories. To the Knowledge of Draganfly, the inventories maintained by Draganfly have been accumulated for use or sale in the ordinary course of the Business, and are in good and marketable condition and the present levels of the inventories are consistent with the levels of inventories that have been maintained by Draganfly before the date of this Agreement in the normal course of the Business.

(aa) Material Contracts.

(i) The Disclosure Schedule lists all Material Contracts to which Draganfly is a party or bound;

(ii) the Material Contracts of Draganfly are in full force and effect (including, for avoidance of doubt, the Zenon Assignment Agreement and the Zenon Forbearance Agreement), there is no default or breach of any Material Contract by Draganfly, and there exists no state of facts which, after notice or lapse of time or both, would constitute a default or breach; and

(iii) no counterparty to any Material Contract is in default of any of its obligations under any Material Contract; and

(iv) Draganfly is entitled to all benefits under each Material Contract, as applicable, and Draganfly has not received any notice of termination of any Material Contract.

(bb) Compliance with Laws, Permits.

(i) Draganfly is conducting the Business in material compliance with all applicable Laws and has not been subject to any seizure, forfeiture, criminal sanction, administrative penalty or any other enforcement action by any Governmental Entity; and

(ii) All Permits of Draganfly are listed in the Disclosure Schedule. The Permits are the only material authorizations, registrations, permits, approvals, grants, licences, quotas, consents, commitments, rights or privileges (other than those relating to intellectual property) required to enable Draganfly to carry on the Business as currently conducted and to enable it to own, lease and operate its assets, and all such Permits are valid, subsisting, in full force and effect, and Draganfly is not in default or breach of any such Permit; no proceeding is pending or threatened to revoke or limit any such Permit, and the completion of the transactions contemplated by this Agreement will not result in the revocation of any such Permit or the breach of any term, provision, condition or limitation affecting the ongoing validity of any such Permit.

(cc) Governmental Licenses. Without limiting the generality of the representations made in Section 3.1(z):

(i) Draganfly possesses such permits, certificates, licences, approvals, registrations, qualifications, consents, and other authorizations, including all required Special Flight Operations Certificate from Transport Canada, Transportation of Dangerous Goods Certificates from Transport Canada and Certificates of Proficiency in Radio (collectively, "**Governmental Licences**"), issued by the appropriate federal, provincial, state, local, or foreign regulatory agencies or bodies necessary to conduct the business now operated by it in all jurisdictions in which it carries on business, that are material to the conduct of the business of Draganfly (as such business is currently conducted);

(ii) Draganfly is in material compliance with the terms and conditions of all such Governmental Licences;

(iii) All of such Governmental Licences are in good standing, valid, and in full force and effect;

(iv) Draganfly has not received any notice of proceedings relating to the revocation, suspension, termination, or modification of any such Governmental Licences, and there are no facts or circumstances, including without limitation, facts or circumstances relating to the revocation, suspension, modification, or terminations of any Governmental Licences held by others, known to Draganfly, that could lead to the revocation, suspension, modification, or termination of any

such Governmental Licences if the subject of an unfavourable decision, ruling or finding, except where such revocation, suspension, modification, or termination is not in respect of a material Governmental Licence or where such revocation, suspension, modification, or termination would not, individually or in the aggregate, have a Material Adverse Effect;

(v) Draganfly is not in material default with respect to filings to be effected or conditions to be fulfilled in order to maintain such Governmental Licences in good standing;

(vi) none of such Governmental Licences contains any term, provision, condition, or limitation which has or would reasonably be expected to affect or restrict in any material respect the operations or the business of Draganfly as now carried on or proposed to be carried on; and

(vii) Draganfly does not have reason to believe that any party granting any such Governmental Licences is considering limiting, suspending, modifying, withdrawing, or revoking the same in any material respect.

(dd) Safety of Products. All products manufactured and services provided to customers, in whole or in part, by Draganfly, and all component parts which are supplied to Draganfly are, to the knowledge of Draganfly, manufactured or provided in full compliance with and meet industry specific standards set by all organizations which pertain to the business of Draganfly and Draganfly's products and services have met and satisfied all product safety standards necessary to permit the sale of Draganfly's products and services in the jurisdictions in which Draganfly currently conducts business, except where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

(ee) Environmental Conditions. To the Knowledge of Draganfly, except as disclosed in the Disclosure Schedule, (i) Draganfly's conduct of the Business, and the current use and condition of the real property that is owned or leased by Draganfly, and the premises located on that real property, have been and are in compliance with all applicable environmental Laws, and there are no facts which would give rise to non-compliance of Draganfly with any environmental Laws, either in the conduct by Draganfly of the Business, or in the current uses and condition of any of the real property that is owned or leased by Draganfly, or the premises that are located on that real property and (ii) Draganfly has all Permits required by all environmental Laws for the conduct of the Business, and Draganfly is in compliance with all those Permits.

(ff) Anti-Corruption Matters. To the knowledge of Draganfly, no director, officer, employee, consultant, representative or agent of Draganfly, has (i) violated any anti-bribery or anti-corruption laws applicable to Draganfly, including but not limited to the *U.S. Foreign Corrupt Practices Act*, the *UK Bribery Act* and the *Corruption of Foreign Public Officials Act* (Canada), or (ii) offered, paid, promised to pay, or authorized the payment of any money, or offered, given, promised to give, or authorized the giving of anything of value, that goes beyond what is reasonable and customary and/or of modest value: (A) to any government official, whether directly or through any other person, for the

purpose of influencing any act or decision of a government official in his or her official capacity; inducing a government official to do or omit to do any act in violation of his or her lawful duties; securing any improper advantage; inducing a government official to influence or affect any act or decision of any governmental authority; or assisting any representative of Draganfly in obtaining or retaining business for or with, or directing business to, any person; or (B) to any person in a manner which would constitute or have the purpose or effect of public or commercial bribery, or the acceptance of or acquiescence in extortion, kickbacks, or other unlawful or improper means of obtaining business or any improper advantage. To the knowledge of Draganfly, no director, officer, employee, consultant, representative or agent of Draganfly, has (i) conducted or initiated any review, audit, or internal investigation that concluded Draganfly, or any director, officer, employee, consultant, representative or agent of the foregoing violated such laws or committed any material wrongdoing, or (ii) made a voluntary, directed, or involuntary disclosure to any governmental authority responsible for enforcing anti-bribery or anti-corruption laws, in each case with respect to any alleged act or omission arising under or relating to non-compliance with any such laws, or received any notice, request, or citation from any person alleging non-compliance with any such laws.

(gg) No Adverse Regulations. To the Knowledge of Draganfly, there is no legislation or governmental regulation currently in force which materially and adversely affects the Business, assets (including intangible assets), affairs, operations, prospects, liabilities (contingent or otherwise), capital, assets, properties, condition (financial or otherwise), or results of operations of Draganfly.

(hh) Suppliers and Customers. The Disclosure Schedule lists each supplier of goods and services from whom Draganfly has purchased goods or services representing more than 5% of the total value of the goods and services procured by Draganfly since the beginning of the last financial year of Draganfly. To the Knowledge of Draganfly, none of the suppliers listed in the Disclosure Schedule has advised Draganfly, either orally or in writing, that it is terminating or considering terminating its relationship with Draganfly, or considering negotiating its relationship with Draganfly on terms materially different from and less attractive than those which they currently enjoy whether as a result of the completion of the transactions contemplated by this Agreement or otherwise.

The Disclosure Schedule lists the customers of Draganfly as of the date of this Agreement to whom Draganfly had sales greater than $50,000 for the fiscal year ended December 31, 2017. None of the customers listed in the Disclosure Schedule have advised Draganfly, orally or in writing, that it is terminating or considering terminating its relationship with any of them, or considering negotiating its relationship with any of them on terms material and adverse to those which they currently enjoy whether as a result of the completion of the transactions contemplated by this Agreement or otherwise.

(ii) Rights to Use Personal Information. To the Knowledge of Draganfly, all Personal Information in the possession of Draganfly has been collected, used and disclosed in material compliance with all applicable Laws in those

jurisdictions in which Draganfly conducts, or is deemed by operation of law in those jurisdictions to conduct, the Business.

(i) Draganfly has disclosed to DroneCorp all Contracts and facts concerning the collection, use, retention, destruction and disclosure of Personal Information, and there are no other Contracts or facts which, on completion of the transactions contemplated by this Agreement, would restrict or interfere with the use of any Personal Information by Draganfly in the continued operation of the Business as conducted before Closing.

(ii) Except as disclosed in the Disclosure Schedule, to the Knowledge of Draganfly, there are no complaints, claims, suits or proceedings pending or threatened, with respect to Draganfly's collection, use or disclosure of Personal Information.

(jj) Product Warranties. The Disclosure Schedule lists all warranties given to buyers of products or services supplied by Draganfly. Except as disclosed in the Disclosure Schedule, there are no claims, suits, or proceedings against Draganfly on account of warranties or with respect to the production or sale of defective or inferior products or the provision of services, nor is there any material basis for any liability to, claim against, or Loss on the part of, Draganfly arising from, relating to, or in connection with the production or sale of the products or the provision of services before the date of this Agreement.

(kk) Employees and Employment Contracts. Draganfly is not a party to any written or oral employment, service, pension, deferred profit sharing, benefit, bonus or other similar agreement or arrangement except as disclosed in the Disclosure Schedule and none of those agreements or arrangements contains any specific agreement as to notice of termination or severance pay in lieu of notice except as disclosed in the Disclosure Schedule. Draganfly is not in arrears in the payment of any contribution or assessment required to be made by it pursuant to any of the agreements or arrangements disclosed in the Disclosure Schedule. Draganfly does not have any employee who cannot be dismissed on reasonable notice which in no event exceeds six months. All vacation pay, bonuses, commissions and other employee benefit payments and obligations with respect to the employees of Draganfly are reflected in and have been fully accrued in the Draganfly Financial Statements.

(ll) Insurance Policies. The Disclosure Schedule lists all insurance policies, and also specifies the insurer, the amount of the coverage, the type of insurance, the policy number and any pending claims with respect to each insurance policy. The insurance policies insure all the property and assets of Draganfly against Loss by all insurable hazards of risk on a replacement cost basis, and provide Draganfly with product liability coverage in amounts that are customary, and that would reasonably be considered adequate and prudent, for a company carrying on a business similar to the Business. All insurance policies are in full force and effect and Draganfly:

(i) is not in default, whether as to the payment of premiums or otherwise, under any material term or condition of any of the insurance policies; or

(ii) has not failed to give notice or present any claim under any of the insurance policies in a due and timely fashion.

(mm) Litigation.

(i) Except as disclosed in the Disclosure Schedule, there are no actions, suits, grievances or proceedings, whether judicial, arbitral or administrative, pending, commenced or, to the Knowledge of Draganfly, contemplated or threatened to which Draganfly is a party or to which the assets of Draganfly are subject, which might reasonably be expected to have a Material Adverse Effect on Draganfly or which might involve the possibility of an Encumbrance against the assets of Draganfly.

(ii) There is no outstanding judgment, decree, order, ruling or injunction involving Draganfly or relating in any way to the transactions contemplated by this Agreement.

(nn) U.S. Securityholders. All holders of Draganfly Shares, Draganfly Warrants and Dragranfly Options who are not Non-U.S. Holders are set forth on Schedule F, with such Schedule including the registered address of each such holder, and the parties acknowledge and agree that the parties shall be relying on such information to ensure compliance with applicable securities laws, including, but not limited to, United States federal and state securities laws. Any such holders of such securities will be required to deliver such representations, warranties, covenants or agreements as may be required by DroneCorp, acting reasonably, in order to establish the availability of an exemption from the registration requirements of the U.S. Securities Act and any applicable state securities laws in connection with the issuance of the DroneCorp securities to be exchanged for their Draganfly securities.

(oo) Disclosure. No representation or warranty or other statement made by Draganfly in this Agreement contains any untrue statement or omits to state a material fact necessary to make it, in light of the circumstances in which it was made, not misleading.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF DRONECORP

4.1 Representations and Warranties of DroneCorp.

DroneCorp represents and warrants to Draganfly as follows, and acknowledges that Draganfly is relying upon these representations and warranties in connection with the sale of the Draganfly Shares.

(a) Corporate Existence of DroneCorp. DroneCorp is a corporation duly incorporated and organized, is validly existing and in good standing under the *Business Corporations Act* (British Columbia).

(b) Capacity to Enter Agreement. DroneCorp has all necessary corporate power, authority and capacity to enter into and perform its obligations under this Agreement.

(c) Binding Obligation. The execution and delivery of this Agreement and the completion of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action on the part of DroneCorp. This Agreement has been duly executed and delivered by DroneCorp and constitutes a valid and binding obligation of DroneCorp, enforceable against DroneCorp in accordance with its terms, subject to applicable bankruptcy, insolvency and other laws of general application limiting the enforcement of creditors' rights generally and to the fact that equitable remedies, including specific performance, are discretionary and may not be ordered in respect of certain defaults.

(d) Absence of Conflict. None of the execution and delivery of this Agreement, the performance of DroneCorp's obligations under this Agreement, or the completion of the transactions contemplated by this Agreement, will result in or constitute a breach of any term or provision of, or constitute a default under, the notice of articles or articles of DroneCorp or any agreement or other commitment to which DroneCorp is a party.

(e) Regulatory Approvals. No authorization, approval, order, consent of, or filing with, any Governmental Entity is required on the part of DroneCorp in connection with the execution, delivery and performance of this Agreement or any other documents and agreements to be delivered under this Agreement.

(f) Consents. There is no requirement to obtain any consent, approval or waiver of a party under any Material Contract to which DroneCorp is a party in order to complete the Transaction where the lack of such consent, approval, order, or waiver of such party would have a Material Adverse Effect.

(g) Authorized and Issued Capital. The authorized share structure of DroneCorp consists of an unlimited number of DroneCorp Shares, of which 10,500,000 DroneCorp Shares are or will be issued and outstanding as at Closing as fully paid shares and are or will be legally and beneficially owned by the DroneCorp Shareholders.

(h) Options. Other than 4,000,000 DroneCorp Warrants, no Person has any written or oral agreement or option or any right or privilege (whether by law, pre-emptive, contractual or otherwise) capable of becoming an agreement or option, including Securities, warrants or convertible obligations of any nature, for:

(i) the purchase of any Securities of DroneCorp; or

(ii) the purchase of any of the assets of DroneCorp other than in the Ordinary Course of the Business.

(i) Corporate Records. The corporate records and minute books of DroneCorp contain in all material respects complete and accurate minutes of all meetings of, and all written resolutions passed by, the directors and shareholders of Draganfly, held or passed since incorporation. All those meetings were held, all those resolutions were passed, and the share certificate books, registers of

shareholders, registers of transfers and registers of directors of Draganfly DroneCorp are complete and accurate in all material respects.

(j) Books and Records. The Books and Records fairly and correctly set out and disclose the financial position of DroneCorp, and all material financial transactions of DroneCorp have been accurately recorded in the Books and Records.

(k) Material Contracts. To the Knowledge of DroneCorp:

(i) other than this Agreement and the Bridge Loan to be entered into with Draganfly, there are no Material Contracts to which DroneCorp is a party or bound;

(ii) neither DroneCorp is in default or breach of any Material Contract, and there exists no state of facts which, after notice or lapse of time or both, would constitute a default or breach; and

(iii) no counterparty to any Material Contract is in default of any of its obligations under any Material Contract; and

(iv) DroneCorp is entitled to all benefits under each Material Contract, as applicable, and Draganfly has not received any notice of termination of any Material Contract.

(l) Compliance with Laws, Permits. To the Knowledge of DroneCorp, DroneCorp is conducting the Business in material compliance with all applicable Laws and has not been subject to any seizure, forfeiture, criminal sanction, administrative penalty or any other enforcement action by any Governmental Entity; and

(m) Litigation.

(i) There are no actions, suits, grievances or proceedings, whether judicial, arbitral or administrative, pending, commenced or, to the Knowledge of DroneCorp, contemplated or threatened to which DroneCorp is a party or to which the assets of DroneCorp are subject, which might reasonably be expected to have a Material Adverse Effect on DroneCorp or which might involve the possibility of an Encumbrance against the assets of DroneCorp.

(ii) There is no outstanding judgment, decree, order, ruling or injunction involving DroneCorp or relating in any way to the transactions contemplated by this Agreement.

(n) Disclosure. No representation or warranty or other statement made by DroneCorp in this Agreement contains any untrue statement or omits to state a material fact necessary to make it, in light of the circumstances in which it was made, not misleading.

(o) Exempt Distribution. Subject to Section 2.1(b)(vi), the first trade of the Consideration Shares and DroneCorp Shares issuable pursuant to exercise of

Draganfly Warrants following Closing by any Draganfly Shareholder to whom the applicable securities laws of a jurisdiction of Canada apply will not be a distribution or otherwise subject to the prospectus requirements of such securities laws provided that:

(i) DroneCorp is and has been a reporting issuer in a jurisdiction of Canada for the four months immediately preceding such first trade;

(ii) the trade is not a "control distribution" as defined in National Instrument 45-102 – Resale of Securities;

(iii) no unusual effort is made to prepare the market or to create a demand for the Consideration Shares subject to such trade and no extraordinary commission or consideration is paid to a person or company in respect of the trade; and

(iv) if the seller of the Consideration Shares is an "insider" or "officer" of DroneCorp (as those terms are defined in such securities laws), the seller has no reasonable grounds to believe that DroneCorp is in default of securities legislation.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF SUBCO

5.1 Representations and Warranties of Subco

Subco represents and warrants, as of the date of this Agreement, as follows to Draganfly and acknowledges and confirms that Draganfly is relying on such representations and warranties in connection with the transactions contemplated by this Agreement:

(a) Corporate Existence of Subco. Subco is a company wholly-owned by DroneCorp and duly incorporated and validly existing under the laws of the Province of British Columbia.

(b) Capacity to Enter Agreement. Subco has all necessary corporate power, authority and capacity to enter into and perform its obligations under this Agreement.

(c) Binding Obligation. The execution and delivery of this Agreement and the completion of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action on the part of Subco This Agreement has been duly executed and delivered by Subco and constitutes a valid and binding obligation of Subco, enforceable against Subco in accordance with its terms, subject to applicable bankruptcy, insolvency and other laws of general application limiting the enforcement of creditors' rights generally and to the fact that equitable remedies, including specific performance, are discretionary and may not be ordered in respect of certain defaults.

(d) Absence of Conflict. None of the execution and delivery of this Agreement, the performance of Subco's obligations under this Agreement, or the completion of

the transactions contemplated by this Agreement, will result in or constitute a breach of any term or provision of, or constitute a default under, the notice of articles or articles of Subco or any agreement or other commitment to which Subco is a party.

ARTICLE 6
COVENANTS OF THE PARTIES

6.1 Non-Solicitation

From the date hereof until Closing, Draganfly will not, nor will it permit any of its respective directors, officers, employees, representatives or agents (including and without limitation, investments bankers, attorneys, and accountants) to take any action, directly or indirectly, to encourage, initiate or engage in discussions or negotiations with, or provide any information to any Person, other than DroneCorp, concerning the sale of any shares or material assets of Draganfly, or any amalgamation, merger, combination or similar transaction involving Draganfly which would be inconsistent with the matters contemplated by this Agreement. Draganfly will, on a no-names-basis, notify DroneCorp of any overture received from third parties relating to any proposal to acquire Draganfly or any part of the business of Draganfly, including, but not limited to, a Competing Proposal, including the material terms of any such proposal. Draganfly shall not enter into any agreement, arrangement or understanding requiring it to abandon, terminate or fail to consummate the transactions contemplated in this Agreement. Notwithstanding the foregoing, nothing herein will restrict Draganfly and its respective directors, officers, employees, representatives or agents (including without limitation, investment bankers, attorneys and accountants) from taking such actions as Draganfly determines, in good faith, may be required in order for the board of directors of Draganfly to discharge its fiduciary duties pursuant to applicable corporate.

6.2 Conduct of Business.

(a) During the period between the date of this Agreement and the earlier of Closing and the termination of this Agreement in accordance with its terms, except as otherwise expressly contemplated by this Agreement, DroneCorp, Draganfly and Subco will conduct its business in the Ordinary Course.

(b) During the period beginning on the date of this Agreement and ending at Closing, Draganfly will:

(i) continue in full force all of its insurance policies;

(ii) comply in all material respects with all Laws applicable to the Business; and

(iii) apply for, maintain in good standing and renew all Permits.

(c) Without limiting the generality of Section 6.2(a), DroneCorp, Draganfly and Subco covenants as follows, as applicable, for the period between the date of this Agreement and the earlier of Closing and the termination of this Agreement in accordance with its terms:

(i) Draganfly's business shall be conducted only in the Ordinary Course and Draganfly shall keep DroneCorp apprised of all material developments relating thereto.

(ii) Other than as contemplated by this Agreement, each of the Parties shall not directly or indirectly do or permit to occur any of the following without consent of all other Parties:

(A) amend its Constating Documents;

(B) declare, set aside or pay any dividend or other distribution or payment (whether in cash, shares or property) in respect of its outstanding shares;

(C) other than the Advisory Shares and up to 50,000 Draganfly Shares to be issued to settle certain interest payments, issue, grant, sell or pledge or agree to issue, grant, sell or pledge any shares, respectively, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, shares, respectively, except for securities issued pursuant to this Agreement, other than the Advisory Shares;

(D) redeem, purchase or otherwise acquire any of its outstanding shares or other securities, except as permitted hereunder;

(E) split, combine or reclassify any of its shares;

(F) reduce its stated capital;

(G) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization;

(H) other than up to $250,000 in additional indebtedness to Business Instincts for the purposes of funding the ordinary course of business operations of Draganfly, incur, create, assume or otherwise become liable for any indebtedness for borrowed money or any other material liability or obligation or issue any debt securities, or guarantee, endorse or otherwise as an accommodation become responsible for, the obligations of any other Person or make any loans or advances;

(I) other than as contemplated by this Agreement, pay, discharge, settle, satisfy, compromise, waive, assign or release any claims, liabilities or obligations;

(J) incur business expenses other than in the Ordinary Course and consistent with past practice or in connection with the Amalgamation and the transactions contemplated hereby;

(K) take any action, or refrain from taking any action, permit any action to be taken or not taken, inconsistent with this Agreement,

which might directly or indirectly interfere with or adversely affect the consummation of the Amalgamation; or

(L) enter into or modify any contract, agreement or commitment with respect to any of the foregoing.

(iii) Draganfly shall not adopt or amend or make any contribution to any bonus, profit sharing, option, pension, retirement, deferred compensation, insurance, incentive compensation, other compensation or other similar plan, agreement, trust, fund or agreements for the benefit of employees, except as is necessary to comply with the law or with respect to existing provisions of any such plans, programs, or agreements.

(iv) Draganfly shall not:

(A) grant any officer, director, employee or consultant an increase in compensation in any form or take any action with respect to the amendment or grant of any severance or termination pay policies for any directors, officers, employees or consultants, nor adopt or amend (other than to permit accelerated vesting of options) or make any contribution to any bonus, profit sharing, option, pension, retirement, deferred compensation, insurance, incentive compensation, other compensation or other similar plan from a trust fund for the benefit of directors, officers, employees or consultants, except as is necessary to comply with applicable local Law or with respect to existing provisions of any such plans, programs, arrangements or agreements;

(B) terminate any Employees or transferring any Employees to any other position; or

(C) except as required by applicable law, negotiate or entering into a collective bargaining agreement with any trade union or association which might qualify as a trade union.

(v) DroneCorp, Draganfly and Subco, respectively, shall promptly notify Draganfly and DroneCorp, as applicable, in writing of any Material Adverse Effect on DroneCorp, Draganfly and Subco, respectively, or of any material breach by DroneCorp, Draganfly and Subco of any representation or warranty provided by such Party in this Agreement with respect to itself.

6.3 Actions to Satisfy Conditions.

Each Party will take or cause to be taken all commercially reasonable actions that are within its power to control, and will make commercially reasonable efforts to cause other actions to be taken which are not within its power to control, so as to ensure its material compliance with, and satisfaction of, all conditions in Article 6 that are for the benefit of the other Party.

6.4 Access for Investigation

(a) Draganfly will permit DroneCorp through its authorized representatives, until Closing, to have reasonable access during normal business hours to all of the real property that is owned or leased by Draganfly, and to the premises located on that real property, and to all the Books and Records of Draganfly and to the properties and assets of Draganfly. Draganfly will also furnish to DroneCorp any financial and operating data and other information with respect to Draganfly or the Business as DroneCorp reasonably requests, whether to enable confirmation of the accuracy of the matters represented and warranted in Article 3, to verify the valid ownership, validity or enforceability of any of Draganfly's Intellectual Property, or to verify any facts relevant to this Agreement. DroneCorp will be provided ample opportunity to make a full investigation of all aspects of the financial affairs and Intellectual Property portfolio of Draganfly.

(b) Until Closing, or, in the event of the termination of this Agreement without the completion of the transactions contemplated by this Agreement, indefinitely after this Agreement terminates, DroneCorp and Draganfly will, subject to Section 6.4(c) and Section 9.4, keep confidential and not disclose or use, nor will they allow any of their representatives to disclose or use, any Confidential Information disclosed to them, for any purpose, except as contemplated by this Agreement. If this Agreement is terminated, all Confidential Information obtained by either DroneCorp or Draganfly in connection with this Agreement, including all copies, whether in written form or stored electronically, will be returned to the owners thereof promptly after that termination.

(c) The obligation under Section 6.4 to keep confidential and not disclose or use any Confidential Information does not apply to information which:

(i) becomes generally available to the public other than as a result of a disclosure in violation of this Agreement;

(ii) was available on a non-confidential basis before its disclosure hereunder;

(iii) becomes available on a non-confidential basis from a third-party source which is not bound by a confidentiality agreement with the disclosing party; or

(iv) is required to be disclosed by Law.

(d) The Parties acknowledge that their computers and data storage and retrieval systems may automatically back up Confidential Information stored in electronic form. The Parties agree that to the extent that those back-up procedures automatically create electronic copies of Confidential Information ("**Secondary Information**"), despite any requirement under this Agreement to return or destroy Confidential Information, such Secondary Information may stay in archival storage for the normal archival period for electronic data, provided that those data are periodically and systematically overwritten or otherwise destroyed. Secondary Information will be subject to the provisions of

this Agreement until destroyed and may not be accessed during its period of archival storage.

(e) Draganfly authorizes all Governmental Entities having jurisdiction to release all information in their possession respecting the Business, the real property that is owned or leased by Draganfly, and the premises located on that real property, to DroneCorp, and further authorizes each of them to carry out inspections of that real property and those premises upon the request of DroneCorp. Draganfly will execute and any specific authorization pursuant to this Section 6.4 within three Business Days after being requested to do so by DroneCorp.

(f) The collection, use and disclosure of Personal Information by any of the Parties before Closing is restricted to those purposes that relate to the transactions contemplated by this Agreement.

6.5 Personal Information – Post-Closing

DroneCorp covenants that following Closing it will cause Draganfly to use and disclose the Personal Information under its control at the time of Closing solely for the purposes for which that Personal Information was collected or permitted to be used or disclosed before the Transaction was completed.

6.6 Escrow and Trading Restrictions of Consideration Shares

The Parties agree that Consideration Shares issued on Closing may be subject to the escrow requirements of the CSE as may be applicable. The Parties further agree that the Consideration Shares issuable to Draganfly Shareholders on Closing and any replacement certificates issued by DroneCorp's transfer agent at the time of Listing, will be subject to the trading restrictions in section 2.1(b)(vi) of this Agreement.

6.7 Name of DroneCorp Following Amalgamation

Following the Effective Date, DroneCorp will change its name to "Draganfly Innovations Inc." or such other name as approved by the CSE and DroneCorp. Prior to the Effective Date, Draganfly shall file a name reservation with respect to the proposed name of DroneCorp as contemplated in this Section 6.7.

6.8 DroneCorp Directors And Officers – Post-Closing

At Closing, the Board of Directors of DroneCorp will be comprised of five directors, two of which will be nominees of DroneCorp and three of which will be nominees of Draganfly.

At Closing, the officers of DroneCorp will be comprised of such persons as may be determined by Board of Directors of DroneCorp from time to time.

6.9 CSE Listing – Post-Closing

Promptly following Closing, DroneCorp will file the Final Prospectus with the Principal Regulator to enable it to become a reporting issuer in Saskatchewan and such provinces of Canada as

may be agreed by the parties, and such Final Prospectus shall comply in all material respects, to the requirement of applicable laws.

6.10 Equity Financing – Post-Closing

The Parties agree that within 120 days following Listing, DroneCorp will use commercially reasonable efforts to complete an equity financing of approximately $2,500,000 in the capital of DroneCorp ("**Post-Closing Financing**").

6.11 Use Of Proceeds of Financings – Post-Closing

The Parties agree up to $1,750,000 from the proceeds of the Financing may be used by Draganfly to partially repay the Draganfly Overdue Debt and, if required, up to $800,000 from the proceeds of the Post-Closing Financing, may be used by Draganfly to repay in full the remaining balance of the Draganfly Overdue Debt.

6.12 Corporate Awareness and Investor Relations Program – Post-Closing

The Parties agree that following Closing, the Corporate Branding Budget shall be allocated from the proceeds of the Financing as the board of directors of DroneCorp shall allocate.

6.13 OTC Listing – Post-Closing

The Parties agree to apply for listing of the DroneCorp Shares on the OTC within 30 days of Listing.

6.14 Advancement of Bridge Loan

DroneCorp will advance the Bridge Loan to Draganfly promptly following delivery by Draganfly of Voting Agreements representing 51% of Locked-up Shareholders to DroneCorp. The Bridge Bridge Loan shall be interest bearing at a rate of 10% per annum and Draganfly will pay the unpaid portion of the Bridge Loan to DroneCorp without any requirement of DroneCorp to provide demand or notice for payment to Draganfly on the earlier of: (i) thirty (30) calendar days from the date of this Agreement is terminated, and (ii) one (1) year from the date of the advance of Bridge Loan to Draganfly.

ARTICLE 7
CONDITIONS

7.1 Mutual Conditions Precedent.

The Parties are not required to complete the Amalgamation unless each of the following conditions is satisfied on or prior to the Effective Date, which conditions may only be waived, in whole or in part, by the mutual consent of the Parties:

(a) No Law is in effect that makes the consummation of the Amalgamation illegal or otherwise prohibits or enjoins Draganfly or Subco from consummating the Amalgamation.

(b) There shall have been no law, statute, rule or regulation, domestic or foreign, enacted or promulgated which would prohibit or make illegal the consummation of the Amalgamation.

(c) Each Regulatory Approval necessary to consummate the Business Combination has been made, given or obtained on terms acceptable to DroneCorp and Draganfly, each acting reasonably, and each such Regulatory Approval is in force and has not been modified.

(d) The capital structure of DroneCorp, Draganfly and Subco immediately prior to the completion of the Amalgamation shall be as set out and described in this Agreement.

(e) The Share Compensation Plan shall have been adopted.

(f) The issuance of any DroneCorp securities to any holders of Draganfly Shares and Draganfly Warrants shall be exempt from the registration requirements under United States federal and state securities laws.

7.2 Conditions for the Benefit of DroneCorp.

The completion of the transactions contemplated hereunder is subject to the following conditions being satisfied at or prior to the Effective Date, which conditions are for the exclusive benefit of DroneCorp and may be waived, in whole or in part, by DroneCorp in its sole discretion:

(a) Representations, Warranties and Covenants. The representations and warranties of Draganfly made in this Agreement, and any other agreement or document delivered pursuant to this Agreement, will be true and accurate at Closing with the same force and effect as though those representations and warranties had been made as of Closing, and for certainty, any representations and warranties made as at a date before Closing will be deemed to be made as at Closing. However, if a representation or warranty is qualified by Material Adverse Effect, it must be true and correct in all respects after giving effect to such qualification. Draganfly will have complied with all covenants and agreements to be performed or caused to be performed by it under this Agreement, and any other agreement or document delivered pursuant to this Agreement, at or before Closing. In addition, Draganfly will have delivered to DroneCorp a certificate of two senior officers (CEO and CFO) of Draganfly confirming the same. The receipt of that certificate and the completion of the Closing will not be deemed to constitute a waiver of any of the representations, warranties or covenants of Draganfly contained in this Agreement, or in any other agreement or document delivered pursuant to this Agreement.

(b) No Material Adverse Effect. Since the date of this Agreement, there will not have been any change in any of the assets, financial condition, earnings, results of operations or prospects of Draganfly, or any other event, development or condition of any character (whether or not covered by insurance) that has, or might reasonably be expected to have, a Material Adverse Effect in respect to Draganfly. In addition, Draganfly will have

delivered to DroneCorp a certificate of two senior officers (CEO and CFO) of Draganfly confirming the same.

(c) Consents. All filings, notifications and consents with, to or from the parties to the Material Contracts of Draganfly, will have been made, given or obtained on terms acceptable to DroneCorp, acting reasonably, so that the transactions contemplated by this Agreement may be completed without resulting in the violation of, or a default under, or any termination, amendment or acceleration of any obligation under, any licence, Permit, lease of real property or Material Contract of Draganfly.

(d) Completion of Investigations. The investigations contemplated in Section 6.4 will have been completed and DroneCorp will be satisfied, in its sole discretion, with the results of those investigations, including the accuracy of the matters represented and warranted in Article 3 and evidence satisfactory to DroneCorp that Draganfly owns, possesses and has good and marketable title to its Intellectual Property.

(e) Voting Agreements. Concurrently with execution of this Agreement, each Locked-up Shareholder shall enter into a Voting Agreement with DroneCorp and Draganfly shall use commercially reasonable efforts to secure additional Voting Support Agreements from Draganfly Shareholders holding greater than 2% of the Draganfly Shares until the Effective Date.

(f) Bridge Loan. Draganfly shall have complied with all of the terms and conditions of the Bridge Loan.

(g) Business Instincts' Debt. Evidence satisfactory to DroneCorp that the Business Instincts' Debt has been satisfied in full, together with all releases.

(h) Total Debt and Liabilities. Evidence satisfactory to DroneCorp that Draganfly shall have in the aggregate no more than $3,250,000 in debt (which, for greater certainty shall be exclusive of the Business Instincts' Debt) and such debt shall be restructured on terms and conditions satisfactory to DroneCorp, in its sole discretion, to a maximum amount of $1,750,000 in Draganfly Overdue Debt which debt has not been restructured through the execution of forbearance agreements (using a form agreed to with DroneCorp) and that is payable in cash on Closing (the "**Debt Settlement Amount**"). Draganfly further covenants to use commercially reasonable efforts to negotiate in good faith with its creditors to reduce the Draganfly Overdue Debt such that it does not exceed the Debt Settlement Amount. Subject to corporate law and applicable securities laws, in the event that creditors of Draganfly have not agreed to restructure the Draganfly Overdue Debt by entering into forbearance agreements (using a form agreed to with DroneCorp) and as a result the Draganfly Overdue Debt exceeds the Debt Settlement Amount on Closing, the Advisory Shares issuable to DroneCorp (or as directed to be registered by DroneCorp) pursuant to Section 2.1(b)(v)(A) of this Agreement shall automatically increase on a dollar for dollar basis for each dollar of Draganfly debt outstanding that is in excess of the Debt Settlement Amount, calculated with reference to a price of $0.50 per Draganfly Share (the "**Adjustment Clause**"). For avoidance of doubt, Schedule

G of this Agreement sets outs examples of how this Adjustment Clause will operate.

(i) Employment Agreements. Draganfly agrees to use commercially reasonable efforts to enter into employment agreements with Paul Sun and Zenon Dragan within 60 days of executing this Agreement.

(j) Amalgamation Approval. The Amalgamation Approval shall have been obtained.

(k) Continuance. The Continuance shall have been completed.

(l) Dissent. Draganfly shall not have received notices of dissent with respect to the Amalgamation from Draganfly Shareholders who collectively hold more than 5% of the issued Draganfly Shares (each a "**Dissenting Shareholder**").

(m) Draganfly Financial Statements. The audited Draganfly Financial Statements shall have completed and provided to DroneCorp, in the form satisfactory to DroneCorp.

(n) Draganfly 2018 Audited Annual Financial Statements. The audited financial statements of Draganfly for the year ended December 31, 2018 shall have been completed and provided to DroneCorp, in form and substance satisfactory to DroneCorp.

(o) Letters of Transmittal. Draganfly shall have received sufficient number of Letters of Transmittal from Draganfly Shareholders to allow DroneCorp to meet the distribution requirements of the CSE.

(p) Assignment of Zenon Patents. The Zenon Assignment Agreement, which validly assigns the Zenon Patents to Draganfly, remains in full force and effect as of Closing. The Zenon Forbearance Agreement remains in full force and effect as of Closing.

(q) Deliveries. Draganfly will have delivered to DroneCorp, on or prior to the Effective Date, the following in form and substance satisfactory to DroneCorp acting reasonably:

(i) a certified copy of:

(A) the Constating Documents of Draganfly;

(B) all resolutions of the board of directors of Draganfly approving the entering into and completion of the Transaction;

(C) all resolutions of Draganfly Shareholders approving the Continuance;

(D) all resolutions of the Draganfly Shareholders approving the Amalgamation and the Transaction; and

(E) a list of the directors and officers of Draganfly authorized to sign agreements together with their specimen signatures;

(ii) a certificate of status, compliance, good standing or like certificate with respect to Draganfly issued by appropriate government officials of its jurisdictions of incorporation;

(iii) an opinion of counsel to Draganfly addressed to DroneCorp and its counsel, dated as of the Closing and in form and substance reasonably satisfactory to DroneCorp, with respect to use and registerability of all trademarks, ownership of Intellectual Property by Draganfly and any other matters that DroneCorp may reasonably request;

(iv) evidence of dates of first use for Draganfly's Trade-mark registrations and applications in Canada and in the United States in association with the wares and services listed in the Trade-mark registrations and applications;

(v) copies of any requests for amendment or voluntary amendments to Draganfly's Trade-mark registrations and applications in Canada and in the United States filed with the applicable government authority prior to the Effective Date;

(vi) evidence that dates of first use of the trade-mark DRAGONFLY in Canada and in the United States by Dragonfly UAS in association with any wares or services is after the date of first use of the Trade-mark DRAGANFLY by Draganfly in Canada and in the United States, respectively;

(vii) evidence that dates of first use of the trade-mark DRAGONFLY in the United States by PerceptIn Inc. in association with any wares or services is after the date of first use of the Trade-mark DRAGANFLY by Draganfly in the United States;

(viii) the Amalgamation Agreement duly executed by Draganfly;

(ix) the consents referred to in Section 7.2(c) herein;

(x) all Books and Records of and related to Draganfly and the Business, including copies of all of Draganfly's insurance policies; and

(xi) all documentation and other evidence reasonably requested by DroneCorp in order to establish the due authorization and completion of the transactions contemplated by this Agreement.

7.3 Conditions for the Benefit of Draganfly.

The completion of the transactions contemplated hereunder is subject to the following conditions being satisfied at or prior to the Effective Date, which conditions are for the exclusive benefit of Draganfly and may be waived, in whole or in part, by Draganfly in its sole discretion:

(a) Representations, Warranties and Covenants. The representations and warranties of DroneCorp made in this Agreement, and any other agreement or document delivered pursuant to this Agreement, will be true and accurate at Closing with the same force and effect as though those representations and warranties had been made as of Closing, and for certainty, any representations and warranties made as at a date before Closing will be deemed to be made as at Closing. However, if a representation or warranty is qualified by Material Adverse Effect, it must be true and correct in all respects after giving effect to such qualification. DroneCorp will have complied with all covenants and agreements to be performed or caused to be performed by it under this Agreement, and any other agreement or document delivered pursuant to this Agreement, at or before Closing. In addition, DroneCorp will have delivered to Draganfly a certificate of a senior officer of DroneCorp confirming the same. The receipt of that certificate and the completion of the Closing will not be deemed to constitute a waiver of any of the representations, warranties or covenants of DroneCorp contained in this Agreement, or in any other agreement or document delivered pursuant to this Agreement.

(b) No Material Adverse Effect. Since the date of this Agreement, there will not have been any change in any of the assets, financial condition, earnings, results of operations or prospects of DroneCorp, or any other event, development or condition of any character (whether or not covered by insurance) that has, or might reasonably be expected to have, a Material Adverse Effect in respect to DroneCorp. In addition, DroneCorp will have delivered to Draganfly a certificate of a senior officer of DroneCorp confirming the same.

(c) Financing. The Financing shall have been completed.

(d) Deliveries. DroneCorp shall deliver or cause to be delivered to Draganfly at or prior to the Effective Date the following in form and substance satisfactory to Draganfly acting reasonably:

(i) a certified copy of:

(A) the Constating Documents of DroneCorp and Subco;

(B) all resolutions of the board of directors of DroneCorp and Subco approving the entering into and completion of the transactions contemplated by this Agreement; and

(C) a list of the directors and officers of DroneCorp and Subco authorized to sign agreements together with their specimen signatures;

(ii) a certificate of status, compliance, good standing or like certificate with respect to DroneCorp issued by appropriate government officials of its jurisdiction of incorporation;

(iii) confirmation of DroneCorp having not more than $5,000 in outstanding liabilities on Closing (excluding costs related to the consummation of the Transaction);

(iv) the Amalgamation Agreement duly executed by DroneCorp and Subco; and

(v) all documentation and other evidence reasonably requested by Draganfly in order to establish the due authorization and completion of the transactions contemplated by this Agreement.

ARTICLE 8
TERMINATION, SURVIVAL AND INDEMNIFICATION

8.1 Term.

This Agreement shall be effective from the date hereof until the earlier of the Effective Date and the termination of this Agreement in accordance with its terms.

8.2 Termination Rights.

This Agreement may, by Notice in writing given prior to the Effective Date, be terminated:

(a) by mutual consent of DroneCorp and Draganfly;

(b) either DroneCorp or Draganfly if:

(i) Amalgamation Approval is not obtained, provided that Draganfly may not terminate this Agreement pursuant to this Section 8.2(b)(i) if the failure to obtain such approval has been caused by, or is a result of, a breach by Draganfly of any of its representations or warranties or the failure of Draganfly to perform any of its covenants or agreements under this Agreement;

(ii) after the date of this Agreement, any Law is enacted, made, enforced or amended, as applicable, that makes the consummation of the Amalgamation illegal or otherwise permanently prohibits or enjoins DroneCorp or Draganfly from consummating the Amalgamation, and such Law has, if applicable, become final and non-appealable; or

(iii) the Effective Date does not occur on or prior to the Outside Date, provided that a Party may not terminate this Agreement pursuant to this Section 8.2(b)(iii) if the failure of the Effective Date to so occur has been caused by, or is a result of, a breach by such Party of any of its representations or warranties or the failure of such Party to perform any of its covenants or agreements under this Agreement and further provided that Draganfly may not terminate this Agreement pursuant to this Section 8.2(b)(iii) if DroneCorp has the right to terminate this Agreement pursuant to Section 8.2(c)(i) (ii), or (iii).

(c) by DroneCorp if:

(i) a breach of any representation or warranty or failure to perform any covenant, agreement or condition on the part of Draganfly under this Agreement occurs, including any condition in Section 7.1 or 7.2, and such breach or failure is incapable of being cured or is not cured on or prior to the Outside Date; provided that DroneCorp is not then in breach of this Agreement so as to cause any condition in Section 7.1 or 7.3 not to be satisfied;

(ii) if there has been a Material Adverse Effect with respect to Draganfly;

(iii) Draganfly breaches Section 6.1 in any material respect; or

(iv) Draganfly accepts, approves, endorses or recommends any Competing Proposal or enters into an agreement in respect of a Competing Proposal or publicly announces its intention to do so;

(d) by Draganfly if a breach of any representation or warranty or failure to perform any covenant, agreement or condition on the part of DroneCorp under this Agreement occurs, including any condition in Section 7.1 or 7.3, and such breach or failure is incapable of being cured or is not cured on or prior to the Outside Date; provided that Draganfly is not then in breach of this Agreement so as to cause any condition in Section 7.1 or 7.2(a) not to be satisfied.

8.3 Effect of Termination.

(a) If a Party waives compliance with any of the conditions, obligations or covenants contained in this Agreement, the waiver will be without prejudice to any of its rights of termination in the event of non-fulfilment, non-observance or non-performance of any other condition, obligation or covenant in whole or in part.

(b) If this Agreement is terminated pursuant to Section 8.2, the Parties are released from all of their respective obligations under this Agreement except that the provisions of this Section 8.3, Section 8.5 and Article 9 (other than Sections 9.4 and Section 9.5 will survive provided, however, that neither the termination of this Agreement nor anything contained in Section 8.5 or this Section 8.3 will relieve any Party from any liability for any intentional or willful breach by it of this Agreement, including any intentional or willful making of a misrepresentation in this Agreement.

8.4 Survival and Indemnification.

(a) All of the covenants and representations and warranties contained in this Agreement, and in any other agreement or document delivered pursuant to this Agreement, will survive the Closing (including on termination of this Agreement).

(b) Each Party agrees that if it fails to observe or perform any covenant or obligation, or breaches any representation and warranty, contained in this

Agreement, or in any other agreement or document delivered pursuant to this Agreement it will indemnify the other Party and each director, officer or employee of the other Party from and against the full amount of any Loss that each may suffer as a result of that failure. Each Party also agrees to indemnify and hold harmless the other Party and each director, officer or employee of the other Party from and against the full amount of any Loss that each may suffer as a result of a third party claim, even if that third party claim is ultimately found not to be meritorious, or is settled with no verdict on its merits being reached.

(c) Draganfly will indemnify and hold harmless DroneCorp. and each director, officer or employee of DroneCorp from and against any Loss that each may suffer resulting from the termination of this Agreement under the terms of Section 8.2, if that Loss arises from the non-fulfilment or non-performance of the relevant conditions as a result of a breach of covenant, or representation and warranty, of Draganfly.

(d) DroneCorp. will indemnify and hold harmless Draganfly and each director, officer or employee of DroneCorp from and against any Loss that each may suffer resulting from the termination of this Agreement under the terms of Section 8.2, if that Loss arises from the non-fulfilment or non-performance of the relevant conditions as a result of a breach of covenant, or representation and warranty, of DroneCorp (other than in connection with not completing the Financing).

(e) If the Party or other indemnified Person entitled to make a Claim for indemnification under this Agreement (an "**Indemnified Party**") becomes aware of a Loss or potential Loss in respect of which the Indemnifying Party has agreed to indemnify it under this Agreement, the Indemnified Party will promptly give written notice (an "**Indemnity Notice**") of its Claim or potential Claim for indemnification (an "**Indemnity Claim**") to the Indemnifying Party. An Indemnity Notice must specify whether the Indemnity Claim arises as the result of a Claim made against an Indemnified Party by a Person who is not a Party (a "**Third Party Claim**") or as a result of a Loss that was suffered directly by an Indemnified Party (a "**Direct Claim**"), and must also specify with reasonable particularity (to the extent that the information is available):

(i) the factual basis for the Indemnity Claim; and

(ii) the amount of the Indemnity Claim, if known.

8.5 Termination and Expense Fees

(a) DroneCorp will be entitled to a payment from Draganfly of $750,000 (the "**Termination Fee**"):

(i) if DroneCorp terminates this Agreement under Section 8.2(c); or

(ii) if a Competing Proposal is made, proposed or publicly announced after the execution of this Agreement, before the termination of this Agreement, and before the Draganfly Meeting (if held) is completed, and either:

(A) the Amalgamation is submitted to the Draganfly Shareholders for approval while that Competing Proposal is outstanding and the Amalgamation Approval is not obtained; or

(B) the Amalgamation is not submitted for the approval of the Draganfly Shareholders,

and this Agreement is terminated pursuant to Section 8.2 and either:

(C) the original Competing Proposal (as originally proposed or as amended); or

(D) any other Competing Proposal that is made, proposed or publicly announced before the expiry or withdrawal of the original Competing Proposal (as originally proposed or as amended),

is consummated, or Draganfly shall have entered into an agreement relating to a Competing Proposal or its board of directors shall have recommended any Compeing Proposal, in all such cases on or before the date which is 12 months after the date of the termination of this Agreement,

(each, a "**Termination Fee Event**"), provided that Draganfly will not be obligated to make more than one payment of the Termination Fee under this Agreement, regardless of the number of Termination Fee Events which occur.

(b) DroneCorp will be entitled to a payment from Draganfly of $250,000 (the "**Expense Fee**"):

(i) if the Amalgmation Approval is not obtained by the Outside Date; or

(ii) if DroneCorp terminates this Agreement under Section 8.2(b)(iii).

(each, an "**Expense Fee Event**"), provided that Draganfly will not be obligated to make more than one payment of the Expense Fee under this Agreement, regardless of the number of Expense Fee Events which occur.

(c) Payment of a Termination Fee or Expense Fee under this Agreement will be made, within two Business Days upon written request by DroneCorp to Draganfly, to an account designated by DroneCorp.

Each Party acknowledges that all of the payment amounts set out in this Section 8.5 are payments in consideration for the disposition of DroneCorp's rights under this Agreement and represent liquidated damages which are a genuine pre-estimate of the damages which DroneCorp will suffer or incur as a result of the event giving rise to such payment and the resultant termination of this Agreement and are not penalties. Draganfly irrevocably waives any right that it may have to raise as a defence that any such liquidated damages are excessive or punitive. For greater certainty, the Parties agree that the payment of an amount pursuant to this Section 8.5 in the manner provided herein is the sole and exclusive remedy of DroneCorp in respect of the event giving rise to such payment, provided, however, that nothing contained in this Section

8.5, and no payment of any such amount, shall relieve or have the effect of relieving Draganfly in any way from liability for damages incurred or suffered by DroneCorp as a result of an intentional or willful breach of this Agreement and nothing contained in this Section 8.5 shall preclude Draganfly from seeking injunctive relief in accordance with the Agreement or otherwise to obtain specific performance of any of such acts, covenants or agreements, without the necessity of posting a bond or security in connection therewith.

ARTICLE 9
MISCELLANEOUS

9.1 Dissenting Shareholders

On the earlier of the Effective Date and the making of an agreement between a Dissenting Shareholder Draganfly or DroneCorp, as applicable, for the purchase of their Dissenting Shares, a Dissenting Shareholder shall cease to have any rights as a shareholder of Draganfly or DroneCorp, as applicable, other than the right to be paid the fair value of its Dissenting Shares in the amount agreed to. Notwithstanding anything in this Agreement to the contrary, Dissenting Shares which are held by Dissenting Shareholders shall not be exchanged for Amalco Shares on the Effective Date. However, in the event that a Dissenting Shareholder fails to perfect or effectively withdraws the Dissenting Shareholder's claim in accordance with the BCBCA or otherwise waives the Dissenting Shareholder's right to make a claim in accordance with the BCBCA, the Dissenting Shareholder's Draganfly Shares or DroneCorp Shares, as applicable, shall thereupon be deemed to have been exchanged for Amalco Shares on the basis set forth in Section 2.1 hereof.

9.2 Notices.

Any notice, direction or other communication (each a "**Notice**") given regarding the matters contemplated by this Agreement or any Ancillary Agreement must be in writing, sent by personal delivery, courier or by electronic mail and addressed:

(a) to Draganfly at:

Draganfly Innovations Inc.
2108 St. George Avenue
Saskatoon, SK S7M 0K7

[Contact information in this Section has been redacted for Confidentiality]

Attention: [redacted]
Phone Number: [redacted]
Email: [redacted]

and a copy to:

Borden Ladner Gervais LLP
1900, 520 – 3rd Ave S W,
Calgary, AB T2P 0R3

Attention: Jonathan Poirier
Phone Number: (403) 232-9592
Email: JPoirier@blg.com

(b) to Drone Acquisition Corp. and Subco at:

[redacted]

[Contact information in this Section has been redacted for Confidentiality]

Attention: [redacted]
Phone Number: [redacted]
Email: [redacted]

and a copy to:

Gowling WLG (Canada) LLP
Suite 2300, 550 Burrard Street
Vancouver, BC V6C 2B5

Attention: Denis Silva
Phone Number: (604) 891-2261
Email: denis.silva@gowlingwlg.com

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by e-mail or facsimile, on the Business Day following the date of confirmation of transmission by the originating facsimile. A Party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the Party at its changed address. Any element of a Party's address that is not specifically changed in a Notice will be assumed not to be changed. Sending a copy of a Notice to a Party's legal counsel as contemplated above is for information purposes only and does not constitute delivery of the Notice to that Party. The failure to send a copy of a Notice to legal counsel does not invalidate delivery of that Notice to a Party.

9.3 Time of the Essence.

Time is of the essence in this Agreement.

9.4 Announcements.

No press release, public statement or announcement or other public disclosure (a "**Public Statement**") with respect to this Agreement or the transactions contemplated in this Agreement may be made except with the prior written consent and joint approval of DroneCorp and Draganfly, or if required by Law or a Governmental Entity. Where the Public Statement is required by Law or a Governmental Entity, the Party required to make the Public Statement will use commercially reasonable efforts to obtain the approval of the other Party as to the form, nature and extent of the disclosure.

9.5 Expenses.

Each Party will pay for its own costs and expenses incurred in connection with this Agreement and the transactions contemplated herein.

9.6 Amendments.

This Agreement may only be amended, supplemented or otherwise modified by written agreement signed by the Parties.

9.7 Waiver.

No waiver of any of the provisions of this Agreement or any Ancillary Agreement will constitute a waiver of any other provision (whether or not similar). No waiver will be binding unless executed in writing by the Party to be bound by the waiver. A Party's failure or delay in exercising any right under this Agreement will not operate as a waiver of that right. A single or partial exercise of any right will not preclude a Party from any other or further exercise of that right or the exercise of any other right.

9.8 Entire Agreement.

This Agreement, together with the Ancillary Agreements, constitutes the entire agreement between the Parties with respect to the transactions contemplated by this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties in connection with the subject matter of this Agreement, except as specifically set forth in this Agreement or any Ancillary Agreement. The Parties have not relied and are not relying on any other information, discussion or understanding in entering into and completing the transactions contemplated by this Agreement and the Ancillary Agreements. If there is any conflict or inconsistency between the provisions of this Agreement and the provisions of any Ancillary Agreement, the provisions of this Agreement shall govern.

9.9 Successors and Assigns.

(a) This Agreement becomes effective only when executed by DroneCorp and Draganfly. After that time, it will be binding upon and enure to the benefit of DroneCorp and Draganfly and their respective successors and permitted assigns.

(b) Neither this Agreement nor any of the rights or obligations under this Agreement are assignable or transferable by any Party without the prior written consent of the other Parties.

9.10 Severability.

If any provision of this Agreement is determined to be illegal, invalid or unenforceable by an arbitrator or any court of competent jurisdiction, that provision will be severed from this Agreement and the remaining provisions shall remain in full force and effect.

9.11 Governing Law.

(a) This Agreement will be governed by and interpreted and enforced in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein.

(b) Each Party irrevocably attorns and submits to the exclusive jurisdiction of the British Columbia courts situated in the City of Vancouver and waives objection to the venue of any proceeding in such court or that such court provides an inconvenient forum.

9.12 Arbitration.

All disputes, disagreements, controversies, questions or claims arising out of or relating to this Agreement, including, without limitation, with respect to its formation, execution, validity, application, interpretation, performance, breach, termination or enforcement, ("**Disputes**"), will be determined by a sole arbitrator (the "**Arbitrator**") under the *Arbitration Act* (British Columbia) (the "**Arbitration Act**"). In addition:

(a) the Parties shall agree on the Arbitrator to be appointed. If the Parties cannot agree on the Arbitrator to be appointed within 10 Business Days, the Arbitrator will be appointed by a judge of the Supreme Court of British Columbia on the application of any Party on notice to all the other Parties;

(b) the law of British Columbia will apply to the substance of all Disputes;

(c) the arbitration will take place in the City of Vancouver unless otherwise agreed in writing by the Parties;

(d) the conduct of the arbitration will be in accordance with the procedural rules for domestic commercial arbitrations of the British Columbia International Commercial Arbitration Centre; and

(e) the Arbitrator will have the right to determine all questions of law, and will have the right to decide the Dispute on legal or equitable grounds (though not on grounds of conscience or some other basis), grant legal and equitable relief including injunctive relief and the right to grant permanent and interim injunctive relief, and final and interim damages awards. The Arbitrator will also have the discretion to award costs, including reasonable legal fees and expenses, reasonable expert's fees and expenses, reasonable witnesses' fees and expenses pre-award and post-award interest and costs of the arbitration.

9.13 Counterparts.

This Agreement may be executed in any number of counterparts (including counterparts by facsimile) and all such counterparts taken together shall be deemed to constitute one and the same instrument.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF the Parties have executed this Business Combination Agreement.

DRONE ACQUISITION CORP.

Per: DocuSigned by: Oggy Talic C0B2F0046A85485...

Director

DRAGANFLY INNOVATIONS INC.

Per: _____

Cameron Chell

Director

1187607 B.C. LTD.

By: DocuSigned by: Oggy Talic C0B2F0046A85485...

Director

IN WITNESS WHEREOF the Parties have executed this Business Combination Agreement.

DRONE ACQUISITION CORP.

Per: _____
Oggy Talic
Director

DRAGANFLY INNOVATIONS INC.

Per: _____
Cameron Chell
Director

1187607 B.C. LTD.

By: _____
Oggy Talic
Director

SCHEDULE A
FORM OF AMALGAMATION AGREEMENT

THIS AGREEMENT is dated as of the **[●]** day of **[●]**, 2019,

BY AND AMONG:

DRAGANFLY INNOVATIONS INC., a company **[continued]** under the laws of the Province of British Columbia

(hereinafter referred to as "**Draganfly**")

OF THE FIRST PART;

- and -

1187607 B.C. Ltd., a company existing under the laws of the Province of British Columbia

(hereinafter referred to as "**Subco**")

OF THE SECOND PART;

- and -

DRONE ACQUISITION CORP., a corporation existing under the laws of the Province of British Columbia

(hereinafter referred to as "**DroneCorp**")

OF THE THIRD PART.

WHEREAS Draganfly and Subco wish to amalgamate pursuant to the Act and to continue as one company to be known as **["●"]** in accordance with the terms and conditions hereof;

AND WHEREAS Subco is a wholly-owned subsidiary of DroneCorp and has not carried on any active business;

AND WHEREAS Draganfly, DroneCorp and Subco are parties to the Business Combination Agreement which contemplates such amalgamation;

AND WHEREAS the parties have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to the proposed amalgamation;

NOW THEREFORE THIS AGREEMENT WITNESSES that for and in consideration of the mutual covenants and agreements herein contained and other lawful and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **Definitions**. In this Agreement (including the recitals hereto):

a) "Act" means the *Business Corporations Act* (British Columbia) as from time to time amended or re-enacted;

b) "Agreement" means this amalgamation agreement;

c) "Amalco" means the company formed upon the amalgamation of the Amalgamating Parties pursuant to the Amalgamation;

d) "Amalco Shares" means the common shares in the capital of Amalco;

e) "Amalgamating Parties" means, collectively, Draganfly and Subco;

f) "Amalgamation" means the amalgamation of the Amalgamating Parties under the Act on the terms and conditions set forth in this Agreement;

g) "Amalgamation Application" means the amalgamation application in respect of the Amalgamation required by section 275(1)(a) of the Act to be filed with the Registrar, together with any changes to that application as permitted under this Agreement or as agreed to by the Amalgamating Parties;

h) "Articles" means the articles of Amalco signed by a director of Amalco;

i) "Business Combination" means the business combination between DroneCorp, Draganfly and Subco wherein DroneCorp will acquire all of the issued and outstanding shares of Draganfly by way of the Amalgamation;

j) "Business Combination Agreement" means the business combination agreement dated January ●, 2019 among DroneCorp, Draganfly and Subco governing the terms and conditions of the Business Combination, as amended from time to time;

k) "Business Combination Date" means the date the Business Combination is completed, as evidenced by the issuance of the Certificate of Amalgamation giving effect to the Amalgamation;

l) "Business Day" means a day other than a Saturday, Sunday or a civic or statutory holiday in the City of Vancouver, British Columbia;

m) "Certificate of Amalgamation" means the certificate of amalgamation to be issued by the Registrar;

n) "Effective Time" means 12:01 a.m. (Vancouver time) on the Business Combination Date;

o) "Exchange Ratio" means ●, wherein each one (1) Draganfly Share shall be exchanged for ● fully paid and non-assessable DroneCorp Shares, in accordance with the terms of the Agreement; **[NTD: Exchange Ratio to be determined prior to closing]**

p) "Draganfly Shareholders" means the holders of Draganfly Shares prior to the filing of the Amalgamation Application;

q) "Draganfly Shares" means common shares in the capital of Draganfly;

r) "Notice of Articles" means the notice of articles to be issued by the Registrar in respect of Amalco in the form contained in the Amalgamation Application;

s) "Paid-up Capital" has the meaning assigned to the term "paid-up capital" in subsection 89(1) of the *Income Tax Act* (Canada));

t) "Registrar" means the Registrar of Companies appointed under the Act;

u) "DroneCorp Shareholder" means a registered holder owning DroneCorp Shares prior to the filing of the Amalgamation Application;

v) "DroneCorp Shares" means the common shares in the capital of DroneCorp; and

w) "Subco Shares" means the common shares in the capital of Subco.

2. **Amalgamation**. Upon the conditions set out in this Agreement being satisfied or waived in accordance with the provisions of this Agreement and the Business Combination Agreement, including the adoption and approval by the shareholders of the Amalgamating Parties of this Agreement, the Amalgamating Parties hereby agree to:

a) amalgamate and continue as one company under the provisions of the Act upon the terms and conditions hereinafter set out; and

b) execute and file with the Registrar the Amalgamation Application.

3. **Certain Phrases, etc.** In this Agreement (i) the words "including", "includes" and "include" mean "including (or includes or include) without limitation", and (ii) the phrase "the aggregate of", "the total of", "the sum of", or a phrase of similar meaning means "the aggregate (or total or sum), without duplication, of". In the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

4. **Effect of the Amalgamation**. At the Effective Time, subject to the Act:

a) the amalgamation of the Amalgamating Parties and their continuance as one company, Amalco, under the terms and conditions prescribed in this Agreement shall be effective and irrevocable;

b) the property, rights and interests of each of the Amalgamating Parties shall continue to be the property, rights and interests of Amalco;

c) Amalco shall become capable immediately of exercising the functions of an incorporated company;

d) the shareholders of Amalco have the powers and the liability provided in the Act;

e) each shareholder of the Amalgamated Parties is bound this Agreement;

f) Amalco will be a wholly-owned Subsidiary of DroneCorp;

g) Amalco shall continue to be liable for the liabilities and obligations of each of the Amalgamating Parties;

h) any existing cause of action, claim or liability to prosecution with respect to either or both of the Amalgamating Parties shall be unaffected;

i) any legal proceeding being prosecuted or pending by or against any of the Amalgamating Parties may be continued to be prosecuted, or its prosecution may be continued, as the case may be, by or against Amalco; and

j) any conviction against, or ruling, order or judgment in favour of or against, any of the Amalgamating Parties may be enforced by or against Amalco.

5. **Name**. The name of Amalco shall be **["●"]**.

6. **Registered Office**. The mailing and delivery address of the registered office of Amalco shall be located at Suite 2300, Bentall 5, 550 Burrard Street, Vancouver, BC V6C 2B5.

7. **Records Office.** The mailing and delivery address of the records office of Amalco shall be located at Suite 2300, Bentall 5, 550 Burrard Street, Vancouver, BC V6C 2B5.

8. **Authorized Share Structure**. The authorized share structure of Amalco shall consist of an unlimited number of Amalco Shares, which shares shall have the rights, privileges, restrictions and conditions as set out in the Act.

9. **Restrictions on Business**. There shall be no restrictions on the business which Amalco is authorized to carry on.

10. **Number of Directors**. The minimum number of directors of Amalco, until changed in accordance with the Articles, will be two (2).

11. **Articles and Notice of Articles**. The Notice of Articles shall be in the form of the notice of articles forming part of the Amalgamation Application and the articles of Subco shall, so far as applicable, be the Articles of Amalco until repealed or amended in the normal manner provided for in the Act.

12. **Directors**. The directors of Amalco shall be the Persons whose names and addresses are set out below, who shall hold office until the first annual meeting of shareholders of Amalco or until their successors are duly elected or appointed:

Name	Address
[redacted]	[redacted]
[redacted]	[redacted]

[Contact information in this Section has been redacted for Confidentiality]

13. **Treatment of Issued Shares.** At the Effective Time:

a) Draganfly Shares shall be exchanged for fully paid and non-assessable DroneCorp Shares (the "Replacement Shares") on the basis of the Exchange Ratio;

b) Draganfly Shares replaced in accordance with the provisions of Section 13(a) hereof will be cancelled;

c) each issued and outstanding Subco Share will be cancelled and replaced by one (1) fully paid and non-assessable Amalco Share for each Subco Share held by DroneCorp;

d) as consideration for the issuance of DroneCorp Shares in exchange for the Draganfly Shares, Amalco shall issue to DroneCorp one (1) Amalco Share for each DroneCorp Share so issued.

14. **No Fractional Shares or Securities upon Conversion.** Notwithstanding Section 13 of this Agreement, no Draganfly Shareholder shall be entitled to, and DroneCorp will not issue, fractions of DroneCorp Shares and no cash amount will be payable by DroneCorp in lieu thereof. To the extent any Draganfly Shareholder is entitled to receive a fractional DroneCorp Share such fraction shall be rounded down to the closest whole number of the applicable security.

15. **Share Certificates.** On the Business Combination Date:

a) the registered holders of Draganfly Shares shall be deemed to be the registered holders of Replacement Shares to which they are entitled hereunder.

b) DroneCorp, as the registered holder of the Subco Shares, shall be deemed to be the registered holder of the Amalco Shares to which it is entitled hereunder and, upon surrender of the certificates representing such Subco Shares to Amalco, DroneCorp shall be entitled to receive a share certificate representing the number of Amalco Shares to which it is entitled as set forth in Section 13 hereof; and

c) share certificates evidencing Draganfly Shares shall cease to represent any claim upon or interest in Draganfly other than the right of the holder to receive, pursuant to the terms hereof and the Amalgamation, the applicable Replacement Shares in accordance with Section 13 hereof.

16. **Lost Certificates.** In the event any certificate which subsequent to the Effective Time represented one or more outstanding Draganfly Shares that were exchanged pursuant to Section 13 shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the holder of such Draganfly Share claiming such certificate to be lost, stolen or destroyed, DroneCorp will issue in exchange for such lost, stolen or destroyed certificate, one or more certificates representing the applicable Replacement Share pursuant to Section 13. The holder to whom certificates representing Replacement Shares are to be issued shall, as a condition precedent to the issuance thereof, give a bond satisfactory to DroneCorp in such sum as DroneCorp may direct or otherwise

indemnify DroneCorp in a manner satisfactory to DroneCorp against any claim that may be made against DroneCorp with respect to the certificate alleged to have been lost, stolen or destroyed.

17. **Amalco Shares and Shareholders.** Upon the Amalgamation becoming effective, the exchange of shares under Section 13 will result in 42,000,000 Amalco Shares being issued and outstanding as fully paid and non-assessable common shares in Amalco, all of which will be held by DroneCorp.

18. **Amalco Stated Capital.** The amount to be added to the stated capital account maintained in respect of the Amalco Shares in connection with the issue of Amalco Shares under Section 13 hereof on the Business Combination Date shall be the amount which is the sum of (i) the Paid-up Capital, determined immediately before the Effective Time, of all the issued and outstanding Draganfly Shares and (ii) the Paid-up Capital, determined immediately before the Effective Time, of the issued and outstanding Subco Shares converted into Amalco Shares.

19. **DroneCorp Stated Capital.** DroneCorp shall add an amount to the stated capital account maintained in respect of the DroneCorp Shares an amount equal to the Paid-Up Capital of the Draganfly Shares, determined immediately prior to the Effective Time.

20. **Filings with the Registrar.** The Amalgamating Parties will, on or prior to the Business Combination Date, cause the Amalgamation Application and any other documents that may be required to give effect to the Amalgamation to be filed with the Registrar.

21. **Covenants of Draganfly.** Draganfly covenants and agrees with Subco and DroneCorp that it will:

    a) use reasonable commercial efforts to obtain the approval of the holders of Draganfly Shares authorizing the Amalgamation, this Agreement and the transactions contemplated hereby in accordance with the Act;

    b) use reasonable efforts to cause each of the conditions precedent set forth in Sections 28 and 29 hereof to be complied with; and

    c) subject to the approval of the shareholders of Draganfly and Subco being obtained for the completion of the Amalgamation and subject to all applicable regulatory approvals being obtained, thereafter jointly file with Subco the Amalgamation Application with the Registrar and such other documents as may be required to give effect to the Amalgamation upon and subject to the terms and conditions of this Agreement.

22. **Covenants of DroneCorp.** DroneCorp covenants and agrees with Draganfly that it will:

    a) sign a resolution as sole shareholder of Subco in favour of the approval of the Amalgamation, this Agreement and the transactions contemplated hereby in accordance with the Act;

    b) use reasonable efforts to cause each of the conditions precedent set forth in Sections 28 and 30 hereof to be complied with; and

c) subject to the approval of the holders of Draganfly Shares being obtained for the completion of the Amalgamation, and the obtaining of all applicable regulatory approvals and the issuance of the Certificate of Amalgamation, issue that number of Replacement Shares as required by Section 13(a) hereof.

23. **Covenants of Subco**. Subco covenants and agrees with DroneCorp and Draganfly that it will not from the date of execution hereof to the Business Combination Date, except with the prior written consent of DroneCorp and Draganfly, conduct any business which would prevent Subco or Amalco from performing any of their respective obligations hereunder.

24. **Further Covenants of Subco.** Subco further covenants and agrees with Draganfly that it will:

a) use its best efforts to cause each of the conditions precedent set forth in Section 28 hereof to be complied with; and

b) subject to the approval of the holders of Draganfly Shares and the sole shareholder of Subco being obtained and subject to the obtaining of all applicable regulatory approvals, thereafter jointly file with Draganfly the Amalgamation Application with the Registrar and such other documents as may be required to give effect to the Amalgamation upon and subject to the terms and conditions of this Agreement.

25. **Representation and Warranty of DroneCorp.** DroneCorp hereby represents and warrants to and in favour of Draganfly and Subco and acknowledges that Draganfly and Subco are relying upon such representation and warranty, that DroneCorp is duly authorized to execute and deliver this Agreement and this Agreement is a valid and binding agreement, enforceable against DroneCorp in accordance with its terms.

26. **Representation and Warranty of Draganfly.** Draganfly hereby represents and warrants to and in favour of DroneCorp and Subco, and acknowledges that DroneCorp and Subco are relying upon such representation and warranty, that Draganfly is duly authorized to execute and deliver this Agreement and this Agreement is a valid and binding agreement, enforceable against Draganfly in accordance with its terms.

27. **Representation and Warranty of Subco**. Subco hereby represents and warrants to and in favour of Draganfly and DroneCorp, and acknowledges that Draganfly and DroneCorp are relying upon such representations and warranty, that Subco is duly authorized to execute and deliver this Agreement and this Agreement is a valid and binding agreement, enforceable against Subco in accordance with its terms.

28. **General Conditions Precedent**. The respective obligations of the parties hereto to consummate the transactions contemplated hereby, and in particular the Amalgamation, are subject to the satisfaction, on or before the Business Combination Date, of the following conditions, any of which may be waived by the consent of each of the parties without prejudice to their rights to rely on any other or others of such conditions:

a) this Agreement and the transactions contemplated hereby, including, in particular, the Amalgamation, shall be approved by the sole shareholder of Subco and by the Draganfly Shareholders in accordance with the Act;

b) all the conditions required to close the Business Combination set out herein and in the Business Combination Agreement being met or waived; and

c) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement, including, without limitation, the Amalgamation.

29. **Conditions to Obligations of DroneCorp and Subco**. The obligations of DroneCorp and Subco to consummate the transactions contemplated hereby and in particular the issue of the Replacement Shares and the Amalgamation, as the case may be, are subject to the satisfaction, on or before the Business Combination Date, of the conditions for the benefit of DroneCorp set forth in the Business Combination Agreement governing the terms and conditions of the Business Combination and of the following conditions:

a) the acts of Draganfly to be performed on or before the Business Combination Date pursuant to the terms of this Agreement shall have been duly performed by it and there shall have been no material adverse change in the financial condition or business of Draganfly, taken as a whole, from and after the date hereof; and

b) DroneCorp and Subco shall have received a certificate from a senior officer of Draganfly confirming that the conditions set forth in Section 29(a) hereof have been satisfied.

The conditions described above are for the exclusive benefit of DroneCorp and Subco and may be asserted by DroneCorp and Subco regardless of the circumstances or may be waived by DroneCorp and Subco in their sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which DroneCorp and Subco may have.

30. **Conditions to Obligations of Draganfly**. The obligations of Draganfly to consummate the transactions contemplated hereby and in particular the Amalgamation are subject to the satisfaction, on or before the Business Combination Date, of the conditions for the benefit of Draganfly set forth in the Business Combination Agreement governing the terms and conditions of the Business Combination and of the following conditions:

a) each of the acts of DroneCorp and Subco to be performed on or before the Business Combination Date pursuant to the terms of this Agreement shall have been duly performed by them and there shall have been no material adverse change in the financial condition or business of DroneCorp or Subco, taken as a whole, from and after the date hereof; and

b) Draganfly shall have received a certificate from a senior officer of DroneCorp and Subco confirming that the conditions set forth in Section 30(a) hereof have been satisfied.

The conditions described above are for the exclusive benefit of Draganfly and may be asserted by Draganfly regardless of the circumstances or may be waived by Draganfly in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Draganfly may have.

31. **Amendment and Waiver**. This Agreement may at any time and from time to time be amended by written agreement of the parties hereto without, subject to applicable law, further notice to or authorization on the part of their respective shareholders and any such amendment may, without limitation:

    a) change the time for performance of any of the obligations or acts of the parties hereto;

    b) waive any inaccuracies or modify any representation or warranty contained herein or in any document delivered pursuant hereto;

    c) waive compliance with or modify any of the covenants contained herein and waive or modify performance of any of the obligations of the parties hereto; or

    d) waive compliance with or modify any other conditions precedent contained herein;

    provided that no such amendment shall change the provisions hereof regarding the consideration to be received by Draganfly Shareholders in exchange for their Draganfly Shares without approval by the Draganfly Shareholders given in the same manner as required for the approval of the Amalgamation.

32. **Termination**. This Agreement may, prior to the issuance of the Certificate of Amalgamation, be terminated by mutual agreement of the respective boards of directors of the parties hereto, without further action on the part of the shareholders of Draganfly or Subco. This Agreement shall also terminate without further notice or agreement if:

    a) the Amalgamation is not approved by the Draganfly Shareholders entitled to vote in accordance with the Act; or

    b) the Business Combination Agreement is terminated.

33. **Binding Effect**. This Agreement shall be binding upon and enure to the benefit of the parties hereto and their successors and permitted assigns.

34. **Assignment**. No party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of each of the other parties.

35. **Further Assurances**. The parties hereto agree to execute and deliver such further instruments and to do such further reasonable acts and things as may be necessary or appropriate to carry out the intent of this Agreement.

36. **Notice**. Any notice which a party may desire to give or serve upon another party shall be in writing and may be delivered, mailed by prepaid registered mail, return receipt requested or sent by telecopy transmission to the following addresses:

a) to Draganfly at:

Draganfly Innovations Inc.
2108 St. George Avenue
Saskatoon, SK S7M 0K7

[Contact information in this Section has been redacted for Confidentiality]

Attention: [redacted]
Phone Number: [redacted]
Email: [redacted]

and a copy to:

Borden Ladner Gervais LLP
1900, 520 – 3rd Ave S W,
Calgary, AB T2P 0R3

Attention: Jonathan Poirier
Phone Number: (403) 232-9592
Email: JPoirier@blg.com

b) to DroneCorp and/or Subco at:

Drone Acquisition Corp.
[redacted]

[Contact information in this Section has been redacted for Confidentiality]

Attention: [redacted]
Phone Number: [redacted]
Email: [redacted]

and a copy to:

Gowling WLG (Canada) LLP
Suite 1600, 100 King Street West
Toronto, ON M5X 1G5

Attention: Denis Silva
Phone Number: (604) 891-2261
Email: denis.silva@gowlingwlg.com

or to such other address as the party to or upon whom notice is to be given or served has communicated to the other parties by notice given or served in the manner provided for in this Section. In the case of delivery or telecopy transmission, notice shall be deemed to be given on the date of delivery and in the case of mailing, notice shall be deemed to be given on the third Business Day after such mailing.

37. **Time of Essence**. Time shall be of the essence of this Agreement.

38. **Governing Law**. This Agreement shall be governed by and construed in accordance with the Laws of the Province of British Columbia and the federal Laws of Canada applicable therein.

39. **Counterparts.** This Agreement may be executed and delivered by the parties in one or more counterparts, each of which will be an original, and those counterparts will together constitute one and the same instrument.

40. **Electronic Delivery.** Delivery of this Agreement by facsimile, e-mail or other functionally equivalent electronic means of transmission constitutes valid and effective delivery.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the date first above written.

DRONE ACQUISITION CORP.

Per: _____
Oggy Talic
Director

DRAGANFLY INNOVATIONS INC.

Per: _____
[●]
[Director]

1187607 B.C. LTD.

Per: _____
Oggy Talic
Director

SCHEDULE B
FORM OF BRIDGE LOAN

(see attached)

LOAN AGREEMENT

THIS AGREEMENT is dated for reference the ___ day of _____, 2019

BETWEEN:

DRONE ACQUISITION CORP., 2300 – 550 Burrard Street, Vancouver, BC, V6C 2B5

(the "**Lender**")

AND:

DRAGANFLY INNOVATIONS INC., 2108 St. George Avenue, Saskatoon, SK, S7M 0K7

(the "**Borrower**")

WHEREAS the Lender and the Borrower have entered into a Business Combination Agreement (the "**Business Combination Agreement**") dated January 31, 2019 whereby the Lender and the Borrower will undertake certain corporate transactions; and

WHEREAS in connection with the Business Combination Agreement, the Lender has agreed to provide to the Borrower a bridge loan (the "**Loan**") in the principal sum of $350,000 in Canadian dollars in accordance with the following terms and conditions (this "**Loan Agreement**");

NOW THEREFORE THIS LOAN AGREEMENT witnesses that in consideration of the premises and the mutual covenants and agreements herein contained, the parties agree as follows:

1. INTERPRETATION

1.1 **Currency**. All references to $, dollars, or currency in this Loan Agreement are to Canadian dollars.

1.2 **Loan Amount**. "Loan Amount" means the Principal Sum and all other amounts payable to the Lender hereunder, including but not limited to interest, costs, and expenses.

1.3 **Loan Documents**. "Loan Documents" means this Loan Agreement, the Note, and all other documents or instruments executed by the Borrower in connection with this Loan Agreement and the Loan.

1.4 **Business Day**. The term "business day" as used herein means any day of the week except Saturday, Sunday, any day that is a "holiday", as such term is defined in the British Columbia Interpretation Act or any day which shall be a statutory holiday in the Canada or a day on which banking institutions in Canada are authorized or required by law or other government action to close.

1.5 **Governing Law**. This Loan Agreement will in all respects be governed by and will be construed and interpreted in accordance with the laws of British Columbia and the laws of Canada applicable therein.

1.6 **Severability**. If any one or more of the provisions contained in this Loan Agreement should be invalid, illegal or unenforceable in any respect in any jurisdiction, the validity, legality and enforceability of such provision or provisions will not in any way be affected or impaired thereby in any other jurisdiction and the validity, legality and enforceability of the remaining provisions contained herein will not in any way be affected or impaired thereby.

1.7 **Included Words**. Wherever the singular or the masculine is used herein the same will be deemed to include the plural or the feminine or the body politic or corporate where the context or the parties so require.

1.8 **Headings**. The headings to the clauses of this Loan Agreement are inserted for convenience only and will not affect the construction hereof.

1.9 **Defined Terms**. Capitalized terms not otherwise defined herein shall have the meanings as set forth in the Business Combination Agreement.

2. LOAN

2.1 **Amount**. The Lender hereby agrees to advance the Loan to the Borrower in one advance totalling $350,000, in the aggregate, upon execution and delivery of this Loan Agreement and the Note, on the terms and conditions contained herein (the aggregate of all amounts advanced to the Borrower is hereinafter defined as the "**Principal Sum**").

2.2 **Evidence of Indebtedness for Principal Sum**. As evidence of the Borrower's indebtedness to the Lender for the Principal Sum and interest thereon, the Borrower will make a promissory note (the "**Note**"), in the form attached as Schedule A, and deliver the same to the Lender concurrently with the signing and delivery of this Loan Agreement.

2.3 **Conflict with Promissory Note**. To the extent there is any conflict or inconsistency between the terms of this Loan Agreement and the Note, the terms of this Loan Agreement will prevail.

2.4 **Purpose**. The purpose of the Loan is to provide working capital for the business operations of the Borrower.

3. REPRESENTATIONS AND WARRANTIES

3.1 **Representations and Warranties**. The Borrower hereby represents and warrants to the Lender, regardless of any independent investigations that the Lender may make, as follows:

(a) the Borrower is duly incorporated and validly existing under the laws of the province of Alberta and has full corporate power and authority to own its assets and conduct its business as now owned and conducted. The Borrower is duly qualified to carry on business and is in good standing in each jurisdiction in which the character of its properties or the nature of its activities makes such qualification necessary;

(b) the Borrower has the requisite corporate power and authority to enter into this Loan Agreement and the Loan Documents, and to perform its obligations hereunder. The execution and delivery of this Loan Agreement and the Loan Documents by the Borrower and the consummation by the Borrower of the

transactions contemplated by this Loan Agreement and the Loan Documents have been duly authorized by the board of directors of the Borrower and no other corporate proceedings on the part of the Borrower are necessary to authorize this Loan Agreement and the Loan Documents. This Loan Agreement has been duly executed and delivered by the Borrower and constitutes a valid and binding obligation of the Borrower, enforceable by the Lender against the Borrower in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency and other applicable laws affecting the enforcement of creditors' rights generally and subject to the qualification that equitable remedies may be granted only in the discretion of a court of competent jurisdiction;

(c) the execution and delivery by the Borrower of this Loan Agreement and the Loan Documents and performance by it of its obligations hereunder and under the Loan Documents will not violate, conflict with or result in a breach of any provision of the constating documents of the Borrower or violate, conflict with or result in a breach of any material agreement to which the Borrower is bound; and

(d) the representations, warranties and covenants of the Borrower made to the Lender in the Business Combination Agreement form an integral part of this Loan Agreement. The Borrower acknowledges that, in making its decision to enter into this Loan Agreement for the Loan Amount, the Lender has relied on the representations, warranties and covenants of the Borrower made or given in this Loan Agreement and in the Business Combination Agreement.

4. INTEREST

4.1 **Calculation of Interest**. Interest will accrue on the Loan Amount at the rate of 10.0% per annum and will be calculated annually. Interest at such rate will accrue on the outstanding Loan Amount from the date such amount was advanced to the Lender to the date of payment and interest at such rate will be payable both before and after default under this Loan Agreement and before and after judgment.

4.2 **Payments of Interest**. All accrued and unpaid interest shall be due on the earlier of the Maturity Date, and upon the occurrence of an Event of Default.

5. PAYMENT OF PRINCIPAL SUM, INTEREST AND FEES

5.1 **Promise to Pay**. The Borrower will pay the unpaid portion of the Loan Amount to the Lender without any requirement of the Lender to provide demand or notice for payment to the Borrower on the earlier of: (i) thirty (30) calendar days from the date of the Business Combination Agreement is terminated, and (ii) one (1) year from the date of the advance of the Loan to the Borrower (the "**Maturity Date**").

5.2 **Place of Payment**. Any payment by the Borrower will be made by bank draft or certified cheque and delivered to the Lender at Suite 1088, 999 West Hastings Street, Vancouver, British Columbia V6C 2W2 or paid by wire transfer or other electronic payment to the account designated by Lender.

5.3 **Prepayment**. The Borrower will have the right, at any time and from time to time, without notice, to prepay all or any portion of the Loan Amount due under this Loan Agreement, without penalty or bonus upon payment of accrued and unpaid interest on the amount so paid,

including upon completion of the transactions contemplated by the Business Combination Agreement.

6. CONDITIONS PRECEDENT

6.1 The obligation of the Lender to advance the Loan shall be subject to the fulfilment, as of the date of each advance, of each of the following conditions:

(a) The Borrower shall have executed and delivered the Business Combination Agreement, the Zenon Assignment Agreement, the Zenon Modification Agreement and the Loan Documents;

(b) The Borrower shall have performed and complied with all of the covenants, agreements, obligations and conditions required by this Loan Agreement;

(c) the representations or warranties made by the Borrower in this Loan Agreement, the Business Combination Agreement or any of the Loan Documents are true and correct;

(d) The Lender shall have received certified copies of all action taken by the Borrower, including resolutions of the directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents;

(e) The Lender shall have received a certificate as to the legal existence and good standing and status of the Borrower, issued by the appropriate public official in the jurisdiction in which it is formed; and

(f) The Lender shall have received from the Borrower such instructions to advance the Loan as may in the Lender's opinion, acting reasonably, be necessary or advisable to give effect to this Loan Agreement.

7. POSITIVE COVENANTS

7.1 So long as the Loan Amount or any portion thereof, or other liability or obligation of the Borrower to the Lender remains outstanding under this Loan Agreement or so long as any commitment of the Lender under this Loan Agreement remains in effect, the Borrower shall:

(a) observe and comply in all material respect respects at all times with the provisions of all laws;

(b) use the Loan to provide working capital for the business operations of the Borrower; and

(c) provide such other information as the Lender may reasonably request from time to time.

8. NEGATIVE COVENANTS

8.1 So long as the Loan or any portion thereof, or other liability or obligation of the Borrower to the Lender remains outstanding under this Loan Agreement or so long as any commitment of the Lender under this Loan Agreement remains in effect, the Borrower shall not,

without the prior written consent of the Lender, take or omit to take any action, or do or fail to do anything, that would result in a material impairment of the assets, income or capital of the Borrower, or a material increase in the liabilities or expenses of the Borrower outside the regular course of business, except those actions which are permitted pursuant to the terms of the Business Combination Agreement.

9. EVENTS OF DEFAULT

9.1 **Events of Default**. The occurrence of any of the following events is an event of default (each, an "**Event of Default**"):

(a) the Borrower defaults in the payment of any amount when due under the Loan Documents, and such non-payment continues unremedied for five (5) Business Days; or

(b) the Borrower is in default in the payment of any monies owing by it to anyone in excess of $10,000 or is in default of any provision of a material contract, unless such monies owing or default is disclosed in the Business Combination Agreement or Disclosure Letter or waived by the respective lender; or

(c) the Borrower becomes insolvent, makes a general assignment for the benefit of creditors or the Borrower admits the Borrower's inability to pay its debts as they become due; or

(d) an order for relief is entered against the Borrower or the Borrower is adjudicated bankrupt or insolvent under or institutes any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt or similar proceeding relating to it under the laws of any jurisdiction; or

(e) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt or similar proceedings is instituted against the Borrower and remains undismissed for a period of thirty (30) days; or

(f) any representation or warranty made by the Borrower in this Loan Agreement, the Business Combination Agreement or any of the Loan Documents shall be false in any material respect when made; or

(g) any of the Loan proceeds are used for any purpose other than the stated purpose in Section 2.4;

(h) the Borrower is in breach of any other provision of this Loan Agreement, the Business Combination Agreement or the Loan Documents, and such breach shall continue unremedied for 10 days after written notice thereof from the Lender to the Borrower.

9.2 **Remedies For Events of Default**. Upon the occurrence of an Event of Default, the Lender may:

(a) accelerate and forthwith declare due and payable the Loan Amount and any and all accrued interest without presentment of any promissory notes evidencing the

same, and without demand, protest or other notices of any kind, all of which are hereby expressly waived; and

(b) exercise any and all rights, powers, remedies and recourses available to the Lender under the Loan Documents at law or in equity.

9.3 **Waiver of Default**. The Lender may by written instrument in its absolute discretion at any time and from time to time waive any breach by the Borrower of any Event of Default or any of the covenants herein.

9.4 **No Waiver**. No failure or delay on the part of the Lender in exercising any right, power or privilege under this Loan Agreement will operate as a waiver thereof, and any single or partial exercise of any right, power or privilege under this Loan Agreement will not preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein expressly specified are cumulative and not exclusive of any rights or remedies which the Lender would otherwise have under this Loan Agreement, at common law or in equity. The acceptance by the Lender of any further security or of any payment of or on account of the Loan Amount after a default or of any payment on account of any partial default will not be construed to be a waiver of any right to take advantage of any future default or of any past default not completely cured thereby. The Lender may exercise any and all rights, powers, remedies and recourses available to it under this Loan Agreement, any related agreements, or any other remedy available to them at law, concurrently or individually without the necessity of an election.

9.5 **Enforcement Costs**. The Borrower will be liable for any damages or expenses that the Lender incurs by reason of an Event of Default, including, without limitation, all unpaid amounts due hereunder and reasonable costs of enforcement and collection of the Loan Amount during an Event of Default.

9.6 **Records of the Lender**. The records of the Lender as to payment of any money payable hereunder or any part thereof being in default or of any demand for payment having been made will be prima facie evidence of such fact.

10. MISCELLANEOUS

10.1 **Notice**. The Lender may send any notice, demand or communication to the Borrower in respect of this Loan Agreement either in person, by courier service or other personal method of delivery, to Draganfly Innovations Inc., 2108 St. George Avenue, Saskatoon, Saskatchewan, S7M 0K7 or such other address which the Borrower has provided notice to the Lender in accordance with the requirements of this section. All notices and other communications given or made pursuant to this Loan Agreement shall be in writing and shall be deemed to have been duly given and received on the day it is delivered, provided that it is delivered on a business day prior to 5:00 p.m. local time in the place of delivery or receipt. However, if notice is delivered after 5:00 p.m. local time or if such day is not a business day then the notice shall be deemed to have been given and received on the next business day.

10.2 **No Prejudice**. Nothing in this Loan Agreement will prejudice or impair any other right or remedy which the Lender may otherwise have with respect to the Loan Amount hereunder.

10.3 **Expenses.** In the event of demand by the Lender under the Note in accordance with the terms of this Loan Agreement, the Borrower will pay all costs and expenses incurred by the Lender, including, without limitation, legal fees and expenses on a solicitor and own client

basis, in pursuing the Lender's remedies, pursuant to the terms and conditions of this Loan Agreement, against the Borrower.

10.4 **No Borrower Assignment**. The Borrower will have no right to assign or transfer its rights or obligations hereunder. The Lender may assign, transfer or convey its rights or obligations hereunder provided that it shall be a condition of such assignment, transfer or conveyance that the transferee first execute and deliver an instrument pursuant to which the transferee agrees to be bound by the terms hereof and by all liabilities and obligations.

10.5 **Enurement**. This Loan Agreement will be binding upon and enure to the benefit of the Borrower and the Lender and their respective successors and assigns.

10.6 **Time**. Time will be of the essence of this Loan Agreement.

10.7 **Counterparts**. This Loan Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The parties shall be entitled to rely upon delivery of an executed facsimile or similar executed electronic copy of this Loan Agreement, and such facsimile or similar executed electronic copy shall be legally effective to create a valid and binding agreement between the parties.

AS EVIDENCE OF THEIR AGREEMENT the parties hereto have caused this Loan Agreement to be executed and delivered by their authorized officers as of the date first noted above.

DRONE ACQUISITIONS CORP.

Per: _____
Authorized Signatory

DRAGANFLY INNOVATIONS INC.

Per: _____
Authorized Signatory

SCHEDULE A

PROMISSORY NOTE

CDN$350,000

FOR VALUE RECEIVED, DRAGANFLY INNOVATIONS INC. (the "**Borrower**") HEREBY PROMISES TO PAY TO DRONE ACQUISITION CORP. (the "**Lender**"), the principal sum of three hundred and fifty thousand dollars ($350,000) in lawful currency of Canada (the "**Principal Sum**"), and interest thereon at a rate of 10.00% per annum, upon and subject to the terms and conditions set out in the Loan Agreement (the "**Loan Agreement**") dated for reference ●, 2019 between the Borrower and the Lender as set out in the Loan Agreement and subject to the following additional terms and conditions:

Lender's Non-Waiver of Rights - Failure of the Lender to enforce any of its rights or remedies under this Note will not constitute a waiver of the rights of the Lender to enforce such rights and remedies thereafter.

Borrower's Waiver - Subject to the terms of the Loan Agreement, the Borrower hereby waives demand and presentment for payment, notice of non-payment, protest and notice of protest of this Note.

Expenses - In the event of demand by the Lender under this Note in accordance with the terms of the Loan Agreement, the Borrower will pay all costs and expenses incurred by the Lender, including, without limitation, legal fees and expenses on a solicitor and own client basis, in pursuing the Lender's remedies, pursuant to the terms and conditions of the Loan Agreement, against the Borrower.

Transferability - This Note is not transferable except in accordance with the terms of the Loan Agreement.

Governing Law - This Note (and any transactions, documents, instruments, or other agreements contemplated in this Note) shall be construed and governed exclusively by the laws in force in British Columbia and the federal laws of Canada applicable therein, and the Supreme Court of British Columbia shall have non-exclusive jurisdiction to hear and determine all disputes arising hereunder. This provision shall not be construed to affect the rights of the Lender to enforce a judgment or award outside said province, including the right to record and enforce a judgment or ward in any other jurisdiction.

Executed by a duly authorized signatory of the Borrower, as of the _____ day of ●, 2019.

DRAGANFLY INNOVATIONS INC.,

By: _____
Authorized Signatory

SCHEDULE C
DISCLOSURE SCHEDULE

[Part of the Disclosure Schedule containing exceptions to the representations and warranties set out in the Business Combination Agreement has been redacted on the basis that provision of the same would be highly prejudicial to the interest of the issuer]

APPENDIX 3.1(x)(xxi)

See attached.

FORBEARANCE AGREEMENT

THIS FORBEARANCE AGREEMENT (this "**Agreement**") is made as of November 5, 2018.

AMONG:

DRAGANFLY INNOVATIONS INC.
("**Draganfly**")

- and -

ZENON S. DRAGAN JR. FAMILY TRUST, by its TRUSTEE(S) (the "**Trust**")

- and -

DRAGANFLY HOLDINGS INC. ("**Holdings**")

- and -

CHRISTINE DRAGAN ("**Christine**")

- and -

ZENON DRAGAN ("**Zenon**," and sometimes together with the Trust, Holdings and Christine, the "**Vendors**")

RECITALS:

A. Pursuant to a Share Purchase Agreement dated July 17, 2015 (the "**Share Purchase Agreement**"), the Trust, Holdings, Christine and Zenon (collectively, the "**Vendors**") sold their shares in Draganfly Innovations Inc. (such corporation referred to as "**Draganfly**" before amalgamation with Trace Live Network Inc. ("**Trace**") and as the "**Debtor**" after such amalgamation);

B. Under Section 2.1(b) and Section 2.2(b) of the Share Purchase Agreement, the Debtor was required to pay and was indebted to the Trust (without any claim of set off or counterclaim) in the amount of $600,000.00, plus 5% interest thereon calculated and compounded monthly from July 17, 2015 (collectively, the "**Secured Consideration**"). Payment of the Secured Consideration was due on or before December 1, 2015;

C. Concurrent with the closing of the transaction contemplated in the Share Purchase Agreement, the Trust, Holdings, Trace and/or Draganfly and/or Draganfly Developments Inc. entered into certain Security Agreements to secure payment of the Secured Consideration (the "**Security Agreements**"), and for greater certainty and clarity:

(i) all intellectual property, both present and future, of Trace was mortgaged, pledged and otherwise secured; and

(ii) all intellectual property, both present and future, of Draganfly was mortgaged, pledged and otherwise secured, and Draganfly assigned the then present intellectual property (with such assignment being recorded in the Canadian Intellectual Property Office and/or the United

States Patent and Trademark Office) as security all of its patents and, pending patent applications to Zenon Dragan in his capacity as Trustee of the Trust)(the "**Assignments**"),

(collectively, the Security Agreements and the Assignments are referred to as the "**Security**", and sometimes together with the Share Purchase Agreement and the other documents entered into between and among the parties in connection with the Share Purchase Agreement are referred to as the "**Transaction Documents**");

D. Assignments from Zenon Dragan back to Draganfly (collectively, the "**Original Assignments Back**"), of all of the patents and patent applications that were assigned by Draganfly to Zenon as security in the Assignments (other than US 9,280,184 and CA 2,815,885, which were sold by Draganfly in 2017), are held in escrow pursuant to an Escrow Agreement among Trace, the Trust, the Debtor and Stevenson Hood Thornton Beaubier LLP (the "**Escrow Agent**") made effective as of July 17, 2015 (the "**Escrow Agreement**");

E. The Secured Consideration was not paid on or before December 1, 2015. The Vendors, Draganfly and Trace entered into an agreement made as of January 27, 2016 whereby the Vendors agreed to extend the date for payment of the balance of the Secured Consideration and other indebtedness and to forbear from enforcement of the Security in order to allow the Debtor additional time to repay the indebtedness on or before May 31, 2016;

F. Also concurrent with the closing of the Share Purchase Agreement, Draganfly and Holdings entered into a Lease Agreement made as of July 17, 2015, pursuant to which Holdings leased to Draganfly the lands and buildings located at 2108 St. George Avenue, in Saskatoon, Saskatchewan;

G. Draganfly and Trace amalgamated as of January 1, 2017 to form the Debtor;

H. Pursuant to a Partial Debt Repayment Agreement made effective as of the 26th day of October, 2017, the Debtor repaid a portion of the Secured Consideration. Of the Secured Consideration the principal amount of $278,569.70 has not been paid and interest in the amount of $83,065.42 has accrued as of October 31, 2018 but not been paid (the "**Outstanding Balance**");

I. As of October 31, 2018, Draganfly owed Holdings rent in the amount of $8,751.76 plus interest at 5% per annum, calculated and compounded monthly in the amount of $6,742.48 (collectively, the "**Past Due Rent**"). Draganfly does not have any claim for set-off or counterclaim against Holdings with respect to the Lease, and interest continues to accrue on the Past Due Rent;

J. The Debtor and Drone Acquisition Corp. ("**DAC**") have entered into negotiations with respect to the amalgamation of the Debtor and DAC, following which the successor company will be listed on the Canadian Securities Exchange (the "**Transaction**");

K. On the closing of the Transaction, the successor corporation formed on the amalgamation of the Debtor and DAC (the "**Amalco**") will pay to the Vendors the Outstanding Balance and the Past Due Rent (including any increases to Past Due Rent in the event that rent is not paid under the Lease from the date hereof to the Outside Date), together with any accrued interest thereon (collectively, the Outstanding Balance, Past Due Rent and accrued interest thereon, is the "**Indebtedness**"); and

L. The Debtor and DAC have requested that the Vendors forbear from enforcement of the Security until the earlier of (i) the date the Indebtedness is paid in full to the Vendors, and (ii) March 31, 2019 (the earlier of such dates being the "**Outside Date**"), all on the terms and conditions set forth in this Agreement; and

M. Upon receipt of payment in full of the Indebtedness on or before the Outside Date, the Vendors will forthwith release and forever discharge the Security, and deliver to Amalco the Original Assignments Back, together with assignments from Zenon Dragan to the Debtor of any patents and patent applications listed in Schedule "A" that are not included in the Original Assignments Back, in the form set forth in Schedule "B".

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1.1 Incorporation of Recitals.

The Recitals set forth above are hereby incorporated into this Agreement by this reference and are an integral part hereof. Draganfly confirms the accuracy of the facts and matters set out in paragraphs A through I of the Recitals above.

1.2 Acknowledgment Respecting Security

The parties hereto wish to mutually confirm that the security interest granted by the Security did not grant an equitable interest in any of the collateral to any of the Vendors, or to Zenon Dragan in his capacity as the Collateral Agent (as that term is defined in the Share Purchase Agreement), and that title to certain patents and patent applications was transferred into the name of Zenon Dragan to perfect the security interest in such patents and patent applications. As set forth in Section 5.5 of the Share Purchase Agreement, the Collateral Agent had no responsibility with respect to the collateral (other than to pass on notices received by him to Draganfly, to not encumber, sell or dispose of the collateral or to not grant any interest, right or license in the collateral for as long as he held the same as Collateral Agent). All liabilities and other responsibilities and the equitable interest in the collateral remained in the name of Draganfly.

1.3 Agreement of the Parties.

The parties hereby agree as follows:

(a) Draganfly acknowledges and agrees that the Transaction Documents are valid and enforceable in accordance with their terms, and that Draganfly is not released from any covenants, obligations, representations or warranties under the Transaction Documents. Save and except as specifically set forth herein, the terms of the Transaction Documents are not amended or merged in any manner as a result of the execution of this Agreement and shall remain in full force and effect following the execution of this Agreement for the benefit of the Vendors, as applicable, as and until the Indebtedness is paid in full to the Vendors. Following completion of the Transactions, if the Indebtedness is not paid in full, the Transaction Documents shall become valid and enforceable against Amalco in accordance with their terms.

(b) Each of the Vendors covenants and agrees that it will not take steps to enforce the Security (i) until after the Outside Date or (ii) in the event the Indebtedness is paid in full on or before the Outside Date, and will not make demand for the immediate payment of the Indebtedness on or before the Outside Date.

(c) The parties agree to amend the date for payment of the Secured Consideration under the Share Purchase Agreement to March 31, 2019.

(d) Draganfly (and if applicable, Amalco) shall pay interest on the aggregate amount of the Indebtedness, calculated at the rate of 5% per annum (compounded monthly), both before and after demand, default and judgment, until the Indebtedness is paid to the Vendors in full.

(e) If the Original Assignments Back, which are held by the Escrow Agent pursuant to the Escrow Agreement, omit (i) US Patent No. 10,059,442 (application no. 15/164,718, publication no. US2017/0008625) and CA Patent No. 2,935,793 (to the extent that such patent is registered in the name of Zenon Dragan as assignee), or (ii) any other patent or patent application listed in Schedule "A", then Zenon shall execute a further assignment back to Draganfly of any such omitted patent(s) or patent application(s) in the form set forth in Schedule "B" and deliver the same to the Escrow Agent forthwith to be held pursuant to the Escrow Agreement.

(f) Draganfly agrees that in an Event of Default (as hereinafter defined), Draganfly (and if applicable, Amalco) will consent to summary judgment in an amount equal to the Indebtedness and that summary judgment is warranted and appropriate in an Event of Default.

(g) Draganfly (and if applicable, Amalco) shall:

(i) continue its business operations in a prudent and business-like manner; and

(ii) immediately advise the Vendors of any breach or non-performance under this Agreement or any of the Transaction Documents.

(h) Draganfly waives (and if applicable, Amalco shall waive) any defence (whether by counterclaim or defence or by reason of any cause, matter, error, omission, neglect or thing caused or done, and whether direct or indirect), which it may have to any action brought by the Vendors or any one of them to collect the Indebtedness or to enforce or realize upon any of the Transaction Documents.

(i) It shall be an "**Event of Default**" if:

(i) Draganfly (or if applicable, Amalco) fails to pay the Indebtedness in accordance with the terms of this Agreement;

(ii) Draganfly (or, if applicable, Amalco) fails to strictly perform any covenant of such party contained herein;

(iii) except as provided by this Agreement, Draganfly (or if applicable, Amalco) defaults under any of the Security;

(iv) Draganfly (or if applicable, Amalco) or any encumbrancer or creditor of Draganfly (or if applicable, Amalco) threatens to or initiates any bankruptcy, receivership, arrangement, compromise or similar proceedings, or takes possession of, or commences proceedings or steps to realize upon, any property or asset of Draganfly (or if applicable, Amalco), including distress, execution, foreclosure, forfeiture or any similar process levied or enforced the property of Draganfly (or if applicable, Amalco);

(v) any encumbrancer or creditor files a petition against either of Draganfly (or if applicable, Amalco); or

(vii) the Vendors, in their sole and absolute judgment, acting reasonably, consider that there has been a material adverse change in the financial condition of Draganfly (or if applicable, Amalco).

(j) The Vendors represent that they have not, and will not, execute any agreement or assignment in conflict with this Agreement on or prior to the Outside Date (save and except in an Event of Default).

1.4 Modifications and Waivers

The Vendors may, at their sole option and in their sole discretion, waive any default hereunder. Such waiver shall not constitute a waiver of any subsequent event which would constitute an Event of Default.

1.5 Termination

Draganfly agrees that upon the happening of an Event of Default under this Agreement, the Vendors shall have the immediate right to terminate the remainder of the forbearance period herein, and the entire of the Indebtedness then outstanding will become immediately due and payable without notice. The Vendors will thereupon be entitled to take whatever action the Vendors (or any one of them) deems necessary under the Security without further notice.

1.6 Enurement

This Agreement enures to the benefit of and is binding upon the parties and their respective executors, heirs, administrators, successors (including any successor by reason of amalgamation of any party) and permitted assigns.

1.7 Amendment

No amendment, supplement, modification or waiver or termination of this Agreement and, unless otherwise specified, no consent or approval by any party, is binding unless executed in writing by all of the parties hereto.

1.8 Execution and Delivery

This Agreement may be executed by the parties in counterparts and may be executed and delivered by facsimile or e-mail, and all such counterparts and facsimiles and electronic copies together constitute one and the same agreement.

1.9 Governing Law

This Agreement shall be governed by the laws of the Province of Saskatchewan and the laws of Canada applicable therein. The Courts of the Province of Saskatchewan shall have exclusive jurisdiction with respect to any disputes arising hereunder or pursuant hereto.

1.10 Prevailing Agreement

If there is any inconsistency between this Agreement and any other agreement with the Vendors concerning the Indebtedness, the provisions of this Agreement shall prevail.

1.11 Further Assurances

Draganfly hereby covenants and agrees it will, upon the request of the Vendors, do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered all such further acts, deeds, assignments, transfers, conveyances and assurances as may be required for the better carrying out and performance of all the terms of this Agreement.

1.12 Invalid in Part

If any one or more of the provisions of this Agreement, or any application of a provision of this Agreement, is void, invalid or unenforceable, the validity, legality and enforceability of any other provision or provisions shall not in any way be affected or impaired.

1.13 Assignment

Draganfly shall not assign this Agreement or any of the provisions hereof without the express, written consent of the Vendors, which consent may be unreasonably withheld.

1.14 Time

Time shall be of the essence hereof.

1.15 Remedies not Exclusive

The parties agree that all the rights and remedies of the Vendors (or any of them) hereunder, and under the Transaction Documents are cumulative and are in addition to, without prejudice to, and shall not be deemed to exclude, any other right or remedy allowed to the Vendors (or any of them) hereunder or any other such agreement or document, except as specifically set out herein.

1.16 Instruction to the Escrow Agent

The parties hereby instruct, and this Agreement shall be written direction to, Stevenson Hood Thornton Beaubier LLP to continue to hold the Original Assignments Back, together with the assignments contemplated in Section 1.3(e) hereto, (collectively, "**the Assignments Back**") pursuant to the terms and conditions of the Escrow Agreement until the earlier of (i) the termination of this Agreement in accordance with the terms hereof, (ii) the payment by Draganfly or Amalco of the Indebtedness in full or (iii) March 31, 2019. The parties agree that in the Event of Default or other termination of this Agreement (save and except where the parties agree in writing otherwise or where the Indebtedness is paid in full to the Vendors), the Assignments Back shall be released to the Vendors in accordance with the Escrow Agreement. Upon payment in full of the Indebtedness to the Vendors on or before the Outside Date, the Assignments Back shall be released to the Debtor.

[SIGNATURES ON THE FOLLOWING PAGE.]

IN WITNESS OF WHICH the Parties have executed this Agreement as of the date first written above.

"Draganfly"

DRAGANFLY INNOVATIONS INC.

Per: _____

"Vendors"

DRAGANFLY HOLDINGS INC.

Per: _____
Zenon Dragan, President

ZENON S. DRAGAN JR. FAMILY TRUST

Per: _____
Zenon Dragan, Trustee

SIGNED, SEALED & DELIVERED
In the presence of:

_____
Witness

_____
ZENON DRAGAN

SIGNED, SEALED & DELIVERED
In the presence of:

_____
Witness

_____
CHRISTINE DRAGAN

IN WITNESS OF WHICH the Parties have executed this Agreement as of the date first written above.

"Draganfly"

DRAGANFLY INNOVATIONS INC.

Per: _____

"Vendors"

DRAGANFLY HOLDINGS INC.

Per: _____
Zenon Dragan, President

ZENON S. DRAGAN JR. FAMILY TRUST

Per: _____
Zenon Dragan, Trustee

SIGNED, SEALED & DELIVERED
In the presence of:

_____
Witness

_____
ZENON DRAGAN

SIGNED, SEALED & DELIVERED
In the presence of:

_____
Witness

_____
CHRISTINE DRAGAN
Nov. 5/18

Schedule "A" – Patents

WHEREAS, **Zenon DRAGAN**, of 102 Columbia Drive, Saskatoon, Saskatchewan, Canada, S7K 1E9 ("**ASSIGNOR**"), is the *registered* owner of the following patents, patent applications and industrial design registration, other than Canadian patent application no. 2,935,793 of which he is the unregistered owner by virtue of an assignment recorded in the United States Patent and Trademark Office at reel/frame 046358/0759 on July 16, 2018:

Country	Patent / Patent Application / Design No.	Filing Date	Current Registered Owner(s)/ Applicant(s)	Title
US	8,052,081	July 16, 2009	ZENON DRAGAN	DUAL ROTOR HELICOPTER WITH TILTED ROTATIONAL AXES
US	8,292,215	Oct 3, 2011	ZENON DRAGAN	HELICOPTER WITH FOLDING ROTOR ARMS
US	8,753,155	Jan 11, 2013	ZENON DRAGAN	WHEEL WITH FOLDING SEGMENTS
US	8,991,740	March 18, 2013	ZENON DRAGAN	VEHICLE WITH AERIAL AND GROUND MOBILITY
US	9,598,171	March 9, 2015	ZENON DRAGAN	VEHICLE WITH AERIAL AND GROUND MOBILITY
US	10,059,442	May 25, 2016	ZENON DRAGAN	VERTICAL TAKEOFF AND LANDING UNMANNED AIRCRAFT SYSTEM
CA	2,787,279	August 29, 2012	ZENON DRAGAN	VEHICLE WITH AERIAL AND GROUND MOBILITY
CA	2,787,075	August 22, 2012	ZENON DRAGAN	WHEEL WITH FOLDING SEGMENTS
CA	2,876,630	January 2, 2015	ZENON DRAGAN	UNMANNED ROTARY WING AIRCRAFT WITH COMPACT FOLDING ROTOR ARMS
CA	2,935,793	July 11, 2016	ZENON DRAGAN and ORVILLE OLM	VERTICAL TAKEOFF AND LANDING UNMANNED AIRCRAFT SYSTEM
CA	117,209 (Design)	August 29, 2006	ZENON DRAGAN	UNMANNED AERIAL VEHICLE

SCHEDULE "B"

ASSIGNMENT OF PATENT RIGHTS

FROM:

ZENON DRAGAN

TO:

DRAGANFLY INNOVATIONS INC.

CANADA & UNITED STATES

ASSIGNMENT

THIS AGREEMENT, between,

Draganfly Innovations Inc., whose full post office address is 2108 Saint George Avenue, Saskatoon, Saskatchewan, S7M 0K7 (hereinafter the "**Assignee**"),

-and-

Zenon Dragan, whose full post office address is 2108 Saint George Avenue, Saskatoon, Saskatchewan, S7M 0K7 (hereinafter the "**Assignor**"),

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the Assignor hereby sells, assigns and transfers to the Assignee, his entire right, title and interest for the patent applications, patents and industrial design registrations listed in **Appendix "A"** (hereinafter the "Patent rights") together with his right, title and interest in and to any and all divisional applications, continuations-in-part applications and continuation applications thereof, and any and all Letters Patent which may issue or be re-issued therefrom, including, without limitation, all applications which may hereafter be filed for inventions in Canada, the United States or any other foreign jurisdiction claiming priority to any of the patent applications, patents and industrial design registrations listed in **Appendix "A"**, and including without limitation the exclusive right to sue for past infringement of the Patent rights and to receive all remedies that arise therefrom;

AND the Assignor hereby agrees to execute, upon request, any and all further papers which may be necessary or desirable to enable the said Assignee, its successors and assigns, to file and prosecute any and all of the patent applications comprised in the Patent rights to obtain Letters Patent;

AND the Assignor further agrees to execute any and all further papers which may be necessary or desirable to vest or perfect the title of said Assignee, its successors and assigns, in and to the Patent rights.

SIGNED at _____, this _____ day of _____, _____.

_____ _____

Witness Zenon Dragan

Appendix "A"

Country	Patent / Patent Application / Design No.	Filing Date	Current Registered Owner(s)/ Applicant(s)	Title
US	10,059,442	May 25, 2016	ZENON DRAGAN	VERTICAL TAKEOFF AND LANDING UNMANNED AIRCRAFT SYSTEM
CA	2,935,793	July 11, 2016	ZENON DRAGAN/ORVILLE OLM	VERTICAL TAKEOFF AND LANDING UNMANNED AIRCRAFT SYSTEM

SCHEDULE D
DRAGANFLY FINANCIAL STATEMENTS

[The draft auditor's report has been redacted as it was unsigned]

Draganfly Innovations Inc.

Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

Expressed in Canadian Dollars

Draganfly Innovations Inc.
Consolidated Statements of Financial Position
Expressed in Canadian dollars
As at

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Current assets			
Cash		$ 130,216	$ 207,588
Receivables	3	62,746	642,717
Inventory	4	155,946	220,689
Prepaid		20,472	12,270
		369,380	1,083,264
Non-current assets			
Equipment	5	75,919	92,340
Intangibles	6	227,249	216,354
Goodwill	6	5,164,042	5,164,042
TOTAL ASSETS		**$ 5,836,590**	**$ 6,556,000**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	7	2,461,047	2,329,640
Note payable	8	571,675	1,039,523
Convertible debenture	9	1,142,726	1,408,083
TOTAL LIABILITIES		**4,175,448**	**4,777,246**
SHAREHOLDERS' EQUITY			
Share capital	10	12,280,942	11,840,142
Subscriptions receivable	10	(153,566)	(443,566)
Obligation to issue shares	9, 10	554,261	395,722
Equity reserve	10	943,735	1,693,685
Equity portion of convertible debenture	9, 10	113,167	345,091
Deficit		(12,077,397)	(12,052,320)
TOTAL SHAREHOLDERS' EQUITY		**1,661,142**	**1,778,754**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 5,836,590**	**$ 6,556,000**

Nature of operations and going concern (Note 1)
Contingency (Note 12)

Approved and authorized for issuance by the Board of Directors on January XX, 2019

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

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

Draganfly Innovations Inc.
Consolidated Statements of Comprehensive Loss
Expressed in Canadian dollars

	Notes	For the years ended December 31, 2017	December 31, 2016
SALES		$ 829,394	$ 1,173,122
COST OF SALES	4	(431,855)	(642,568)
GROSS PROFIT		397,539	530,554
OPERATING EXPENSES			
Amortization	6	$ 12,615	$ 25,927
Consulting fees		-	114,233
Depreciation	5	17,461	31,391
Management fees		-	257,709
Marketing fees		-	86,691
Office and miscellaneous		622,979	544,783
Professional fees		56,455	308,203
Research and development	6	22,180	362,229
Share based payments	11	64,558	551,918
Travel		24,863	11,921
Wages and salaries		1,073,162	1,349,079
		(1,894,273)	(3,664,084)
OTHER INCOME (EXPENSE)			
Gain on disposal of assets	6	938,150	158,676
Interest expense	8, 9	(413,240)	(277,027)
Government grant	11	64,000	290,310
Scientific research and development tax credit	11	(145,926)	371,775
Foreign exchange gain (loss)		(11,678)	61,309
Other expenses		(70,477)	(1,949)
NET AND COMPREHENSIVE LOSS		**$ (1,135,905)**	**$ (2,510,436)**
LOSS PER SHARE – BASIC AND DILUTED		**$ (0.05)**	**$ (0.12)**
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED		**21,528,161**	**21,147,867**

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

Draganfly Innovations Inc.
Consolidated Statements of Changes in Shareholders' Equity
Expressed in Canadian dollars

	Notes	Number of Shares	Share Capital	Subscriptions receivable	Obligation to issue securities	Equity reserve	Equity portion of convertible debenture	Deficit	Total Shareholders' Equity
Balance at December 31, 2015		20,965,513	11,452,932	(443,566)	530,555	1,131,767	244,146	(9,541,884)	3,373,950
Shares issued for cash	10	494,383	387,210	-	(250,000)	-	-	-	137,210
Share based payments – options granted	10	-	-	-	-	339,009	-	-	339,009
Share based payments – warrants issued	10	-	-	-	-	212,909	-	-	212,909
Issuance of warrants with loans payable	8	-	-	-	-	10,000	-	-	10,000
Issuance of convertible debentures	9	-	-	-	-	-	100,945	-	100,945
Obligation to issue shares for convertible debentures interest	9	-	-	-	115,167	-	-	-	115,167
Net loss		-	-	-	-	-	-	(2,510,436)	(2,510,436)
Balance at December 31, 2016		21,459,896	11,840,142	(443,566)	395,722	1,693,685	345,091	(12,052,320)	1,758,754
Shares issued for exercise of warrants	10	16,000	20,800	-		(20,000)	-	-	800
Issuance of warrants with loans payable	8	-	-	-	-	20,000	-	-	20,000
Share based payments – options granted	10	-	-	-	-	151,403	-	-	151,403
Units issued for cash	10	232,558	200,000	-	-	-	-	-	200,000
Issuance of convertible debentures	9	-	-	-	-	-	64,396	-	64,396
Obligation to issue shares for convertible debentures interest	9	-	-	-	178,539	-	-	-	178,539
Shares issued for convertible debenture	9, 10	216,000	220,000	-	(20,000)	-	-	-	200,000
Repayment of subscription receivable	10	-	-	290,000	-	-	-	-	290,000
Conversion feature expired unexercised	9	-	-	-	-	296,320	(296,320)	-	-
Expired options	10	-	-	-	-	(308,400)	-	308,400	-
Forfeited options – vested	10	-	-	-	-	(802,428)	-	802,428	-
Forfeited options – unvested	10	-	-	-	-	(86,845)	-	-	(86,845)
Net loss		-	-	-	-	-	-	(1,135,905)	(1,135,905)
Balance at December 31, 2017		**21,924,454**	**12,080,942**	**(153,566)**	**554,261**	**943,735**	**113,167**	**(12,077,397)**	**1,661,142**

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

Draganfly Innovations Inc.
Consolidated Statements of Cash Flows
Expressed in Canadian dollars

	For the years ended	
	December 31, 2017	**December 31, 2016**
OPERATING ACTIVIITES		
Net loss	$ (1,135,905)	$ (2,510,436)
Items not involving cash:		
Amortization	12,615	25,927
Depreciation	17,461	31,391
Gain on disposal of assets	(938,150)	(158,676)
Share based payments	64,558	551,918
Accretion and interest expense	371,271	278,248
Issuance of warrants for loans payable	20,000	10,000
Changes in non-cash working capital items		
Receivables	579,971	(272,349)
Inventory	64,743	218,500
Prepaid expense	(8,202)	44,782
Trade payables and accrued liabilities	301,952	910,556
Intangible assets	(7,810)	184,730
Net cash used in operating activities	(657,496)	(685,409)
INVESTING ACTIVITIES		
Purchase of equipment	(1,190)	(14,041)
Disposal of equipment	2,250	7,991
Net cash used in investing activities	1,060	(6,050)
FINANCING ACTIVITIES		
Proceeds from issuance of loans payable	204,114	102,394
Repayment of loans payable	(215,111)	(100,000)
Proceeds from issuance of convertible debenture	265,000	600,000
Proceeds of issuance of common shares	800	137,210
Proceeds for subscriptions receivable	330,000	-
Net cash provided by financing activities	584,803	739,604
Effects of exchange rate changes on cash	(5,739)	1,132
Change in cash	(71,633)	48,145
Cash, beginning	207,588	158,311
Cash, end	**$ 130,216**	**$ 207,588**
Supplementary cash flow disclosures:		
Equity portion of convertible debt	$ 64,396	$ 100,945
Shares to be issued for interest payable	$ 178,539	$ 115,167
Reclassification of expired unexercised conversion feature	$ 296,320	$ -
Reclassification of reserve for expired options	$ 308,400	$ -
Reclassification of reserve for forfeited options – vested	$ 802,428	$ -

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

1. NATURE AND CONTINUANCE OF OPERATIONS

On January 1, 2017, Draganfly Innovations Inc. (formerly Trace Live Network Inc.) (the "Company" or "Trace") 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 was incorporated by articles of incorporation dated January 1, 2017 under the Business Corporations Act (Alberta). 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, Canada, S7M 0K7.

These financial statements present the financial results of the Company as a consolidated entity up to the date of the amalgamation and the financial results of the amalgamated entity thereafter.

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 consolidated financing 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations 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 December XX, 2018.

Basis of preparation

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

Consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Control occurs when the Company is exposed to, or has right to, variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. Details of controlled entities are as follows:

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

	Country of incorporation	Percentage owned* December 31, 2017	Percentage owned* December 31, 2016
Draganfly Innovations Inc.	Canada	0%	100%
Trace US	United States	0%	100%

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

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 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.

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.

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

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 determination of whether an acquisition constitutes a business combination or an acquisition of assets;
- 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 parent company and its subsidiaries.

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 consolidated financial statements are presented in Canadian dollars which is the parent company's and the subsidiary'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.

Foreign operations:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

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

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except or maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

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

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Impairment of assets

The carrying amount of the Company's non-financial assets (which include property, plant and 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.

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

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.

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

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

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

Revenue from the sale of goods is recognized when the persuasive evidence of an arrangement between the Company and the customer exists, the Company has transferred the significant risks and rewards of ownership to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be reliably measured, and the probability of the economic benefits of the transaction can be reasonably estimated. Significant risks and rewards are generally considered to be transferred when the Company has shipped the product to customers. Revenue is recognized at the fair value of consideration received or receivable.

Consulting services

Revenue from consulting agreements is recognized when the persuasive evidence of an arrangement between the Company and the customer exists, the services have been rendered, the amount of revenue can be reliably measured, the costs incurred, or to be incurred, in respect of the transaction can be measured reliably and the probability of the economic benefits of the transaction can be reasonably estimated. Significant risks and rewards are generally considered to be transferred when the Company has provided the services. Revenue is recognized at the fair value of consideration received or receivable.

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.

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

Intangible Assets and Goodwill

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 include patents, trademarks and website costs.

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 periods of the Company's capitalized intangible assets that are available for use as of the date of these consolidated financial statements are as follows:

Type	Amortization period
Patents	20 years
Trademarks	20 years
Website costs	20 years

Goodwill represents the excess of the value of the consideration transferred over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash generating unit to which it relates.

Property, plant and equipment

Property, plant and equipment are 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 property, plant and equipment are as follows:

Class of equipment	Depreciation rate
Furniture and equipment	20%
Shop equipment	20%
Computer equipment	30%
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 Grants

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.

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 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Overall, the Company does not expect the implementation of IFRS 9 to have a significant impact on its financial assets. The Company continues to assess the impact of the disclosure requirements under IFRS on the Company's financial statements.

New standard IFRS 15 "Revenue from Contracts with Customers"

This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Overall, the Company does not expect the implementation of IFRS 15 to have a significant impact on its revenue. The Company continues to assess the impact of the disclosure requirements under IFRS on the Company's financial statements.

Expressed in Canadian dollars

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

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. While the Company is currently evaluating the impact this new guidance will have on its consolidated financial statements, the recognition of certain leases is expected to increase the assets and liabilities on the consolidated statements of financial position.

3. ACCOUNTS RECEIVABLE

	December 31, 2017	December 31, 2016
Trade accounts receivable	$ 61,069	$ 244,446
GST input tax credits	1,677	25,275
Income taxes receivable	-	372,996
	$ 62,746	$ 642,717

4. INVENTORY

Inventory consisted primarily of raw materials for manufacturing of multi-rotor helicopters, industrial areal video systems, civilian small unmanned aerial systems or vehicles, and wireless video systems.

	December 31, 2017	December 31, 2016
Raw materials	$ 155,946	$ 220,689

During the year ended December 31, 2017, the Company recorded a provision to value its inventory for obsolete and slow-moving inventory, recognizing an expense in cost of sales of $25,800 (2016: $68,916).

During the year ended December 31, 2017, $306,166 (2016: $392,716) of inventory was sold and recognized in cost of sales.

Expressed in Canadian dollars

5. EQUIPMENT

	Computer equipment	Furniture and equipment	Software	Shop equipment	Total
Cost:					
At January 1, 2016	$ 172,331	$ 131,563	$ 71,876	$ 57,552	$ 433,322
Additions	-	-	-	14,751	14,751
Disposals	(7,391)	(600)	-	-	(7,991)
At December 31, 2016	164,940	130,963	71,876	72,303	440,082
Additions	565	-	625	-	1,190
Disposals	(2,250)	-	-	-	(2,250)
At December 31, 2017	$ 163,255	$ 130,963	$ 72,501	$ 72,303	$ 439,022
Depreciation:					
At January 1, 2016	$ 133,298	$ 81,176	$ 57,234	$ 45,022	$ 316,730
Charge for the period	12,923	8,116	5,732	4,620	31,391
Eliminated on disposal	-	(379)	-	-	(379)
At December 31, 2016	146,221	88,913	62,966	49,642	347,742
Charge for the period	4,977	5,547	2,405	4,532	17,461
Eliminated on disposal	(2,100)	-	-	-	(2,100)
At December 31, 2017	$ 149,098	$ 94,460	$ 65,371	$ 54,174	$ 363,103
Net book value:					
At December 31, 2016	$ 18,719	$ 42,050	$ 8,910	$ 22,661	$ 92,340
At December 31, 2017	$ 14,157	$ 36,503	$ 7,130	$ 18,129	$ 75,919

Expressed in Canadian dollars

6. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

	Patents	Trademarks	Website	Total
Cost:				
At January 1, 2016	$ 190,782	$ 47,583	$ 70,455	$ 308,820
Additions	111,671	27,086	-	138,757
Disposals	-	-	(55,955)	(55,955)
Impairment	(110,756)	(30,268)	(14,500)	(155,524)
At December 31, 2016	191,697	44,401	-	236,098
Additions	37,328	1,882	-	39,210
Disposals	(17,622)	-	-	(17,622)
At December 31, 2017	$ 211,403	$ 46,283	$ -	$ 257,686
Amortization:				
At January 1, 2016	$ 15,670	$ 3,220	$ 21,594	$ 40,484
Charge for the period	12,353	2,642	10,932	25,927
Eliminated on disposal	-	-	(32,526)	(32,526)
Impairment	(11,912)	(2,229)	-	(14,141)
At December 31, 2016	16,111	3,633	-	19,744
Charge for the period	10,428	2,187	-	12,615
Eliminated on disposal	(1,992)	-	-	(1,992)
At December 31, 2017	$ 24,617	$ 5,820	$ -	$ 30,437
Net book value:				
At December 31, 2016	$ 175,586	$ 40,768	$ -	$ 216,354
At December 31, 2017	$ 186,786	$ 40,463	$ -	$ 227,249

On September 1, 2016, the Company sold its website for cash proceeds of USD$150,000 ($196,595) resulting in a gain on sale of intangibles of $158,676 in the statement of comprehensive loss.

On November 14, 2017, the Company sold two of its Patents and all related rights for cash proceeds of USD$750,000 ($953,850) resulting in a gain on sale of intangibles of $942,067 in the statement of comprehensive loss.

During the year ended December 31, 2017, the Company recognized an impairment of its patents and trademarks and website costs of $nil (2016 - $155,524) and the corresponding amortization of $nil (2016 - $14,141) in research and development expense, as it was determined that the Company would no longer develop or use the intangible assets to generate cash flows in the foreseeable future.

Patents and trademarks

Acquired patents and trademarks are depreciated over an estimated useful life of 20 years using the straight-line method.

Expressed in Canadian dollars

6. INTANGIBLE ASSETS AND GOODWILL (continued)

Goodwill

On July 17, 2015, the Company completed the acquisition of 100% of the issued and outstanding shares of Draganfly for total consideration of $5,967,935 (the "Acquisition"). Draganfly is an operational business of developing and manufacturing multi-rotor helicopters, industrial aerial video systems and civilian small unmanned aerial systems or vehicles. At the time of the Acquisition, the Company determined that Draganfly constituted a business as defined under IFRS 3, Business Combinations, and accounted for it as such on the date that control was acquired. The Company has recognized the identifiable assets and liabilities acquired at their estimated acquisition date fair values.

The purchase price allocation ("PPA") is as follows. The PPA determined at the Acquisition date is preliminary and subject to change up to a period of one year from the Acquisition date upon finalization of fair value determination.

		January 1, 2016
Consideration:	$	-
Cash		3,000,000
Loans issued (Note 8)		825,745
Shares issued		1,650,000
Fair value of options granted		465,447
Legal and professional fees related to Acquisition		26,744
Net assets acquired		803,893
Goodwill	$	5,164,042

Fair value of the Company acquired, net of assets		
Cash	$	156,615
Trade receivable		13,006
Inventory		480,000
Prepaid		17,591
Property, plant and equipment		62,529
Intangible assets		223,293
Accounts payable		(143,081)
Shareholder loan		(6,060)
	$	803,893

The total cash outflow pertaining to the Acquisition was $5,967,935. The excess of the consideration paid over the fair value of the identifiable assets less liabilities and customer relationships was recognized as goodwill in the amount of $5,164,042. The goodwill primarily consists of the assembled workforce.

Expressed in Canadian dollars

6. INTANGIBLE ASSETS AND GOODWILL (continued)

The options granted were valued using the Black-Scholes Options Pricing Model and the following input assumptions:

Weighted average fair value of the options granted	**$0.93**
Risk-free interest rate	1.27%
Estimated life	5 years
Expected volatility	100%
Expected dividend yield	0%
Forfeiture rate	0%

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2017	December 31, 2016
Trades payable	$ 1,513,973	$ 1,480,332
Accrued liabilities	70,826	46,020
Government grant payable (Note 12)	47,473	75,000
Due to related parties	828,775	728,288
	$ 2,461,047	$ 2,329,640

8. NOTES PAYABLE

On December 17, 2015, the Company entered into a promissory note agreement with a company related to a director of the Company, whereby the Company agreed to pay the note of $160,000 by January 30, 2016. The note payable is non-interest bearing, unsecured and has no fixed terms of repayment. During the year ended December 31, 2017, the balance outstanding of $160,000 was applied against subscription receivable.

As consideration for the Acquisition (Note 6) the Company entered into a loan agreement for $600,000 with the former owner of the Company. The loan payable is interest bearing at 5%, due on the Acquisition date and is secured against the patents, patent applications and industrial designs of the Company at the time of the Acquisition. During the year ended December 31, 2017, the Company repaid $221,430 (2016 - $100,000). As at December 31, 2017, $346,907 (2016 - $542,679) in notes payable is outstanding, including accrued interest. For the year ended December 31, 2017, the Company recognized interest expense of $25,658 (December 31, 2016 - $28,968).

As consideration for the Acquisition (Note 6) the Company entered into a working capital loan of $100,745. The loan payable is interest bearing at 5%, due on the Acquisition date and is secured against the patents, patent applications and industrial designs of the Company at the time of the Acquisition. During the year ended December 31, 2017, the Company repaid the outstanding balance in full. As at December 31, 2017, $nil (2016 - $108,318) in notes payable is outstanding, including accrued interest. For the year ended December 31, 2017, the Company recognized interest expense of $5,037 (December 31, 2016: $5,272).

Expressed in Canadian dollars

8. NOTES PAYABLE (continued)

As consideration for the Acquisition (Note 6) the Company entered into a loan agreement for $125,000 with an individual related to the Company. The note payable is non-interest bearing, unsecured and due on the Acquisition date. During the year ended December 31, 2017, the Company repaid $1,000 (2016 - $nil). As at December 31, 2017, $124,000 (2016 - $125,000) in notes payable is outstanding.

On December 12, 2016, the Company entered into a promissory note agreement, whereby the Company agreed to pay the note of USD$75,000 ($102,394) by June 12, 2017. The note payable is unsecured and bears interest at 10%. In addition, the Company issued 10% warrant coverage for each Draganfly share valued at $1.25 per share. Each warrant is exercisable at $0.05 per share for a period until December 22, 2019. During the year ended December 31, 2017, the Company repaid the notes payable in full. As at December 31, 2017, $nil (2016 - $103,525) in notes payable was outstanding. For the year ended December 31, 2017, the Company recognized interest expense of $nil (December 31, 2016: $3,287).

On April 25, 2017, the Company entered into a promissory note agreement, whereby the Company agreed to pay the note of USD$75,000 ($105,187) by August 23, 2017. The note payable is unsecured and bears interest at 10%. In addition, the Company issued 10% warrant coverage for each Draganfly share valued at $1.25 per share. Each warrant is exercisable at $0.05 per share for a period until December 22, 2019. During the year ended December 31, 2017, the Company repaid the notes payable in full. For the year ended December 31, 2017, the Company recognized interest expense of $3,348.

On November 1, 2017, the Company entered into a promissory note agreement, whereby the Company agreed to pay the note of USD$75,000 ($98,653) by March 1, 2018. The note payable is unsecured and bears interest at 10%. In addition, the Company issued 10% warrant coverage for each Draganfly share valued at $1.25 per share. Each warrant is exercisable at $0.05 per share for a period until December 22, 2019. For the year ended December 31, 2017, the Company recognized interest expense of $4,789. As at December 31, 2017, $100,602 in notes payable was outstanding.

A continuity of notes payable is as follows:

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	$ 1,039,523	$ 1,001,757
Issuance of notes payable	204,114	102,394
Repayment of notes payable	(215,111)	(100,000)
Foreign exchange	(5,739)	693
Repayment of notes payable through sale of assets	(328,812)	-
Applied against subscription receivable	(160,000)	-
Interest accrued	37,700	34,679
Balance at the end of the year	$ 571,675	$ 1,039,523

9. CONVERTIBLE DEBENTURES

On September 10, 2015, the Company issued convertible debenture for proceeds of $1,000,000. The debenture is unsecured, interest bearing at 10% per annum and matures on September 10, 2017. The debenture holder is entitled at their sole discretion to convert the unpaid principal balance 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. 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 $755,854 was calculated at the present value of interest payments and expected return of capital at a rate of 15% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $244,146 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, 2017, the Company recognized accretion expense of $107,977 (2016 - $111,232) and an obligation to issue shares of $96,000 (2016 - $100,000). On September 10, 2017, the conversion option expired unexercised, resulting in a reclassification to reserves. On November 14, 2017, the Company repaid $450,000 in the convertible debenture. As at December 31, 2017, $550,000 (2016 - $1,000,000) of the convertible debenture is outstanding plus accrued interest recorded as an obligation to issues shares of $226,756 (2016 - $130,756).

On December 23, 2016, the Company issued convertible debenture for proceeds of $200,000. The debenture is unsecured, interest bearing at 10% per annum and matures on December 23, 2018. The debenture holder is entitled at their sole discretion to convert the unpaid principal balance into common shares at a conversion rate of $1.00 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 $151,229 was calculated at the present value of interest payments and expected return of capital at a rate of 15% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $48,771 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, 2017, the Company recognized accretion expense of $19,494 (2016 - $343) and an obligation to issue shares of $20,000 (2016 - $430). As at December 31, 2017, there remains $171,495 (2016 - $151,565) of the convertible debenture outstanding plus accrued interest recorded as an obligation to issues shares of $20,430 (2016 - $430).

On August 18, 2016, the Company issued convertible debenture for proceeds of $100,000. The debenture is unsecured, interest bearing at 10% per annum and matures on August 18, 2017. The debenture holder is entitled at their sole discretion to convert the unpaid principal balance into common shares at a conversion rate of $1.00 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 $86,957 was calculated at the present value of interest payments and expected return of capital at a rate of 15% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $13,043 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, 2017, the Company recognized accretion expense of $8,827 (2016 - $4,217) and an obligation to issue shares of $10,000 (2016 - $3,683). On August 18, 2017, the conversion option expired unexercised, resulting in a reclassification to reserves. As at December 31, 2017, there remains $100,000 (2016 - $91,173) of the convertible debenture outstanding plus accrued interest recorded as an obligation to issues shares of $13,683 (2016 - $3,683).

9. CONVERTIBLE DEBENTURES (continued)

On August 18, 2016, the Company issued convertible debenture for proceeds of $100,000. The debenture is unsecured, interest bearing at 10% per annum and matures on August 18, 2017. The debenture holder is entitled at their sole discretion to convert the unpaid principal balance into common shares at a conversion rate of $1.00 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 $86,957 was calculated at the present value of interest payments and expected return of capital at a rate of 15% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $13,043 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, 2017, the Company recognized accretion expense of $8,827 (2016 - $4,217) and an obligation to issue shares of $10,000 (2016 - $3,683). On August 18, 2017, the conversion option expired unexercised, resulting in a reclassification to reserves. As at December 31, 2017, there remains $100,000 (2016 - $91,173) of the convertible debenture outstanding plus accrued interest recorded as an obligation to issues shares of $13,683 (2016 - $3,683).

On August 18, 2016, the Company issued convertible debenture for proceeds of $200,000. The debenture is unsecured, interest bearing at 10% per annum and matures on August 18, 2017. The debenture holder is entitled at their sole discretion to convert the unpaid principal balance into common shares at a conversion rate of $1.00 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 $173,913 was calculated at the present value of interest payments and expected return of capital at a rate of 15% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $26,087 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, 2017, the Company recognized accretion expense of $17,653 (2016 - $8,435) and an obligation to issue shares of $27,365 (2016 - $7,365). On August 18, 2017, the conversion option expired unexercised, resulting in a reclassification to reserves. On December 31, 2017, the Company issued 216,000 common shares as a repayment for the convertible debenture and the interest outstanding in obligation to issue shares. As at December 31, 2017, there remains $nil (2016 - $182,349) of the convertible debenture outstanding plus accrued interest recorded as an obligation to issues shares of $nil (2016 – 7,365).

On January 31, 2017, the Company issued convertible debenture for proceeds of $40,000. The debenture is unsecured, interest bearing at 10% per annum and matures 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 $1.00 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 $30,246 was calculated at the present value of interest payments and expected return of capital at a rate of 15% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $9,754 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, 2017, the Company recognized accretion expense of $3,471 (2016 - $nil) and an obligation to issue shares of $3,634 (2016 - $nil). As at December 31, 2017, there remains $33,717 (2016 - $nil) of the convertible debenture outstanding plus accrued interest recorded as an obligation to issues shares of $3,634 (2016 - $nil).

Expressed in Canadian dollars

9. CONVERTIBLE DEBENTURES (continued)

On January 31, 2017, the Company issued convertible debenture for proceeds of $200,000. The debenture is unsecured, interest bearing at 10% per annum and matures 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 $1.00 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 $151,229 was calculated at the present value of interest payments and expected return of capital at a rate of 15% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $48,771 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, 2017, the Company recognized accretion expense of $15,573 (2016 - $nil) and an obligation to issue shares of $16,613 (2016 - $nil). As at December 31, 2017, there remains $166,801 (2016 - $nil) of the convertible debenture outstanding plus accrued interest recorded as an obligation to issues shares of $16,613 (2016 - $nil).

On January 31, 2017, the Company issued convertible debenture for proceeds of $25,000. The debenture is unsecured, interest bearing at 10% per annum and matures 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 $1.00 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 $19,129 was calculated at the present value of interest payments and expected return of capital at a rate of 15% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component of $5,871 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, 2017, the Company recognized accretion expense of $2,218 (2016 - $nil) and an obligation to issue shares of $2,292 (2016 - $nil). As at December 31, 2017, there remains $21,347 (2016 - $nil) of the convertible debenture outstanding plus accrued interest recorded as an obligation to issues shares of $2,292 (2016 - $nil).

During the year ended December 31, 2017, the Company reclassified $296,320 in equity portion of convertible debenture to equity reserves for conversion options expired unexercised.

A continuity of the convertible debentures is as follows:

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	$ 1,408,083	$ 780,791
Proceeds from issuance of convertible debentures	265,000	600,000
Equity portion of convertible debentures	(64,396)	(100,945)
Repayment of convertible debentures through issuance of shares	(200,000)	-
Repayment of convertible debenture	(450,000)	-
Accretion and interest expense	362,578	243,404
Obligation to issue shares	(178,539)	(115,167)
Balance at the end of the year	$ 1,142,726	$ 1,408,083

10. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

For the year ended December 31, 2017,

- During the year ended December 31, 2017, the Company issued 16,000 shares for gross proceed of $800 for exercise of warrants. The fair value of $20,000 was reclassified from equity to share capital.
- On December 13, 2017, the Company issued 216,000 shares for settlement of notes payable and accrued interest with a fair value of $220,000.
- 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 shares for a period of 24 months.

For the year ended December 31, 2016

- At February 8, 2016, the Company repurchased 250,000 shares from a shareholder, originally issued at a nominal amount of $0.00001 per share.
- At February 8, 2016, the Company issued 250,000 shares for exercise of warrants at $0.00001 per share.
- At August 18, 2016, the Company issued 109,768 shares for proceeds of $137,210 at a fair value of $1.25 per share.
- At September 9, 2016, the Company issued 384,614 shares for a fair value of $250,000, received in year ended December 31, 2014, recorded as obligation to issue shares.

Subscriptions receivable

During the year ended December 31, 2017, the Company received $290,000 for subscription receivable. As at December 31, 2017, the outstanding balance is $153,566 (2016 - $443,566) in subscription receivable.

Obligation to issue shares

- During the year ended December 31, 2017, the Company converted $200,000 in convertible debentures and $20,000 in an obligation to issue shares for issuance of 216,000 shares.
- During the year ended December 31, 2017, the Company recognized $178,539 (2016 - $115,167) as an obligation to issue shares as interest payments for the convertible debentures (Note 9).

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

During the year ended December 31 2017, the Company recognized $151,403 (2016 - $339,009) in share-base payments for options granted in the year ended December 31, 2015.

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 accumulated deficit.
- The fair value of the 933,333 forfeited unexercised options $802,428 was reclassified from reserves to accumulated deficit.
- The fair value of the 166,667 forfeited unvested options $86,845 was reversed from share-based compensation.

Stock options at December 31, 2017 were as follows:

Expiry Date	Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)
June 1, 2018	$ 1.25	300,000	0.42

Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2015	154,980	$ 1.25
Issued	434,667	$ 0.02
Exercised	(250,000)	$ 0.00
Outstanding, December 31, 2016	339,647	$ 0.60
Issued	260,558	$ 0.77
Exercised	(16,000)	$ 0.05
Expired	(154,980)	$ 1.25
Outstanding, December 31, 2017	429,225	$ 0.49

Expressed in Canadian dollars

10. SHARE CAPITAL (continued)

Warrants outstanding at December 31, 2017 were as follows:

Exercise Price	Number of Warrants Outstanding	Expiration Date
0.05	20,000	April 1, 2019
0.86	232,558	October 12, 2019
0.05	176,667	December 22, 2019
	429,225	

The weighted average remaining contractual life of warrants outstanding as of December 31, 2017 was 1.84 years (December 31, 2016: 1.75 years). During the year ended December 31 2017, the Company recognized $nil (2016 - $212,909) in share-base payments for warrants issued.

11. GOVERNMENT ASSISTANCE

During the year ended December 31, 2017, the Company received $64,000 (December 31, 2016 - $290,310) 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, 2017, the Company incurred $145,926 (December 31, 2016 – received $371,775) 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.

12. CONTINGENCY

In February 2016, the Company and an Alberta based government funded non-profit organization (the "Organization") entered into a funding agreement, where 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 accounts payable (Note 7).

Subsequent to year ended December 31, 2017, the Company made its final repayment of $13,764. As of the date of the financial statements, the Company does not have plans to sell a product that the Organization's funding contributed to.

13. 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. 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.

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.

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.

14. 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, 2016.

SCHEDULE E
FORM OF COMPENSATION PLAN

DRAGANFLY INNOVATIONS INC.

SHARE COMPENSATION PLAN

1. DEFINITIONS AND INTERPRETATION

1.1 **Definitions:** For purposes of the Plan, unless the context requires otherwise, the following words and terms shall have the following meanings:

(a) "**1933 Act**" means the United States Securities Act of 1933, as amended;

(b) "**Account**" has the meaning attributed to that term in section 4.8;

(c) "**Administrators**" means the Board or such other persons as may be designated by the Board from time to time;

(d) "**Affiliate**" has the meaning attributed to that term in the *Securities Act* (British Columbia)

(e) "**Associate**" has the meaning attributed to that term in the *Securities Act* (British Columbia);

(f) "**Award Date**" means the date or dates on which an award of Restricted Share Units is made to a Participant in accordance with section 4.1;

(g) "**Blackout Period**" means the period during which designated directors, officers and employees of the Corporation cannot trade the Common Shares pursuant to the Corporation's policy respecting restrictions on directors', officers' and employee trading which is in effect at that time (which, for greater certainty, does not include the period during which a cease trade order is in effect to which the Corporation or in respect of an insider, that insider is subject);

(h) "**Board**" means the board of directors of the Corporation from time to time;

(i) "**Business Day**" means each day other than a Saturday, Sunday or statutory holiday in Vancouver, British Columbia, Canada;

(j) "**Change of Control**" means:

(i) the acceptance of an Offer by a sufficient number of holders of voting shares in the capital of the Corporation to constitute the offeror, together with persons acting jointly or in concert with the offeror, a shareholder of the Corporation being entitled to exercise more than 50% of the voting rights attaching to the outstanding voting shares in the capital of the Corporation (provided that prior to the Offer, the offeror was not entitled to exercise more than 50% of the voting rights attaching to the outstanding voting shares in the capital of the Corporation),

(ii) the completion of a consolidation, merger or amalgamation of the Corporation with or into any other corporation whereby the voting shareholders of the Corporation immediately prior to the consolidation, merger or amalgamation receive less than 50% of the voting rights

attaching to the outstanding voting shares of the consolidated, merged or amalgamated corporation or any parent entity, or

(iii) the completion of a sale whereby all or substantially all of the Corporation's undertakings and assets become the property of any other entity and the voting shareholders of the Corporation immediately prior to that sale hold less than 50% of the voting rights attaching to the outstanding voting securities of that other entity immediately following that sale;

(k) **"Code"** means the U.S. Internal Revenue Code of 1986, as amended;

(l) "**Common Shares**" means the common shares of the Corporation;

(m) "**Consultant**" means an individual (other than an employee or a director of the Corporation) or company 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 company, 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;

(n) "**Corporation**" means Draganfly Innovations Inc., a corporation existing under the *Business Corporations Act* (British Columbia) and the successors thereof;

(o) "**Effective Date**" means **[●]**;

(p) "**Eligible Person**" means:

(i) any officer or employee of the Corporation and/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 and/or any director of any Subsidiary of the Corporation; and

(ii) a Consultant;

(q) "**Event of Termination**" means an event whereby a Participant ceases to be an Eligible Person and shall be deemed to have occurred by the giving of any notice

of termination of employment or service (whether voluntary or involuntary and whether with or without cause), retirement, or any cessation of employment or service for any reason whatsoever, including disability or death;

(r) "**Exchange**" means the Canadian Stock Exchange or any other stock exchange or quotation system in Canada where the Common Shares are listed on or through which the Common Shares are listed or quoted;

(s) "**Grant Date**" means the date on which a grant of Options is made to a Participant in accordance with section 5.1;

(t) "**insider**" has the meaning attributed to that term in the *Securities Act* (British Columbia);

(u) "**Insider Participant**" means a Participant who is (i) an insider of the Corporation or any of its Subsidiaries, and (ii) an associate of any person who is an insider by virtue of (i);

(v) "**Investor Relations Activities**" means any activities, by or on behalf of the Corporation or shareholder of the Corporation, that promote or reasonably could be expected to promote the purchase or sale of securities of the Corporation, but does not include:

(i) the dissemination of information provided, or records prepared, in the ordinary course of business of the Corporation:

(A) to promote the sale of products or services of the Corporation, or

(B) to raise public awareness of the Corporation, that cannot reasonably be considered to promote the purchase or sale of securities of the Corporation;

(ii) activities or communications necessary to comply with the requirements of:

(A) applicable securities laws;

(B) the by-laws, rules or other regulatory instruments of the Exchange or any other self-regulatory body or exchange having jurisdiction over the Corporation;

(iii) communications by a publisher of, or writer for, a newspaper, magazine or business or financial publication, that is of general and regular paid circulation, distributed only to subscribers to it for value or to purchasers of it, if:

(A) the communication is only through the newspaper, magazine or publication, and

(B) the publisher or writer receives no commission or other consideration other than for acting in the capacity of publisher or writer; or

(iv) activities or communications that may be otherwise specified by the Exchange.

(w) "**Market Price**" means, as of any date, the closing price of the Common Shares on the Exchange 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;

(x) "**Market Value**" means, on any date, the volume weighted average price of the Common Shares traded on the Exchange for the five (5) consecutive trading days prior to such date;

(y) "**Offer**" means a bona fide arm's length offer made to all holders of voting shares in the capital of the Corporation to purchase, directly or indirectly, voting shares in the capital of the Corporation;

(z) "**Option**" means an option granted to an Eligible Person under the Plan to purchase Common Shares;

(aa) "**Option Agreement**" has the meaning ascribed to that term in section 3.2;

(bb) "**Participant**" means an Eligible Person selected by the Administrators to participate in the Plan in accordance with section 3.1 hereof;

(cc) "**Payout Date**" means the day on which the Corporation pays to a Participant the Market Value of the RSUs that have become vested and payable;

(dd) "**Plan**" means this share compensation plan, as amended, replaced or restated from time to time;

(ee) "**reserved for issuance**" refers to Common Shares that may be issued in the future upon the vesting of Restricted Share Units which have been awarded and upon the exercise of Options which have been granted;

(ff) "**Restricted Share Unit**" means a right granted in accordance with section 4.1 hereof to receive one Common Share that becomes vested in accordance with section 4.3;

(gg) "**Restricted Share Unit Agreement**" has the meaning ascribed to that term in section 3.2;

(hh) "**Share Compensation Arrangement**" means a stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of Common Shares to directors, officers and employees of the Corporation and any of its Subsidiaries or to Consultants;

(ii) "**Subsidiary**" has the meaning ascribed thereto in the *Securities Act* (British Columbia) and "**Subsidiaries**" shall have a corresponding meaning;

(jj) "**United States**" means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

(kk) "**U.S. Participant**" means a Participant who is a citizen of the United States or a resident of the United States, as defined in section 7701(a)(30)(A) and section 7701(b)(1) of the Code and any other Participant who is subject to tax under the Code with respect to compensatory awards granted pursuant to the Plan;

(ll) "**U.S. Person**" means a "U.S. person", as such term is defined in Regulation S under the 1933 Act; and

(mm) "**Withholding Obligations**" has the meaning ascribed to that term in section 4.6.

1.2 **Headings:** The headings of all articles, sections, and paragraphs in the Plan are inserted for convenience of reference only and shall not affect the construction or interpretation of the Plan.

1.3 **Context, Construction:** Whenever the singular or masculine are used in the Plan, the same shall be construed as being the plural or feminine or neuter or vice versa where the context so requires.

1.4 **References to this Plan:** The words "hereto", "herein", "hereby", "hereunder", "hereof" and similar expressions mean or refer to the Plan as a whole and not to any particular article, section, paragraph or other part hereof.

1.5 **Currency:** All references in this Plan or in any agreement entered into under this Plan to "dollars", "$" or lawful currency shall be references to Canadian dollars, unless the context otherwise requires.

2. PURPOSE AND ADMINISTRATION OF THE PLAN

2.1 **Purpose:** The purpose of the Plan is to advance the interests of the Corporation and its Subsidiaries, and its shareholders by: (i) ensuring that the interests of Eligible Persons are aligned with the success of the Corporation and its Subsidiaries; (ii) encouraging stock ownership by Eligible Persons; and (iii) providing compensation opportunities to attract, retain and motivate Eligible Persons.

2.2 **Common Shares Subject to the Plan:**

(a) The total number of Common Shares reserved and available for grant and issuance pursuant to this Plan, and the total number of Restricted Share Units that may be purchased pursuant to this Plan, shall not exceed 20% (in the aggregate) of the issued and outstanding Common Shares from time to time; 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 of the Corporation, measured at the Corporation's most recent balance sheet date.

2.3 **Administration of the Plan:** The Plan shall be administered by the Administrators, through the recommendation of the Compensation Committee of the Board. Subject to any limitations of the Plan, the Administrators shall have the power and authority to:

(a) adopt rules and regulations for implementing the Plan;

(b) determine the eligibility of persons to participate in the Plan, when Restricted Share Units and Options to Eligible Persons shall be awarded or granted, the number of Restricted Share Units and Options to be awarded or granted, the vesting criteria for each award of Restricted Share Units and the vesting period for each grant of Options;

(c) interpret and construe the provisions of the Plan and any agreement or instrument under the Plan;

(d) subject to regulatory requirements, make exceptions to the Plan in circumstances which they determine to be exceptional;

(e) require that any Participant provide certain representations, warranties and certifications to the Corporation to satisfy the requirements of applicable laws, including without limitation, exemptions from the registration requirements of the 1933 Act and applicable state securities laws; and

(f) make all other determinations and take all other actions as they determine to be necessary or desirable to implement, administer and give effect to the Plan.

3. ELIGIBILITY AND PARTICIPATION IN PLAN

3.1 **The Plan and Participation:** The Plan is hereby established for Eligible Persons. Restricted Share Units may be awarded and Options may be granted to any Eligible Person as determined by the Administrators in accordance with the provisions hereof. The Corporation and each Participant acknowledge that they are responsible for ensuring and confirming that such Participant is a bona fide Eligible Person entitled to receive Options or Restricted Share Units, as the case may be.

3.2 **Agreements:** All Restricted Share Units awarded hereunder shall be evidenced by a restricted share unit agreement ("**Restricted Share Unit Agreement**") between the Corporation and the Participant, substantially in the form set out in Exhibit A or in such other form as the Administrators may approve from time to time. All Options granted hereunder shall be evidenced by an option agreement ("**Option Agreement**") between the Corporation and the Participant, substantially in the form as set out in Exhibit B or in such other form as the Administrators may approve from time to time.

4. AWARD OF RESTRICTED SHARE UNITS

4.1 **Award of Restricted Share Units:** The Administrators may, at any time and from time to time, award Restricted Share Units to Eligible Persons. In awarding any Restricted Share Units, the Administrators shall determine:

(a) to whom Restricted Share Units pursuant to the Plan will be awarded;

(b) the number of Restricted Share Units to be awarded and credited to each Participant's Account;

(c) the Award Date; and

(d) subject to section 4.3 hereof, the applicable vesting criteria.

Upon the award of Restricted Share Units, the number of Restricted Share Units awarded to a Participant shall be credited to the Participant's Account effective as of the Award Date.

4.2 **Restricted Share Unit Agreement:** Upon the award of each Restricted Share Unit to a Participant, a Restricted Share Unit Agreement shall be delivered by the Administrators to the Participant.

4.3 **Vesting:**

(a) Subject to subsections (c) and (d) below, at the time of the award of Restricted Share Units, the Administrators shall determine in their sole discretion the vesting criteria applicable to such Restricted Share Units.

(b) For greater certainty, the vesting of Restricted Share Units may be determined by the Administrators to include criteria such as performance vesting, in which the number of Common Shares to be delivered to a Participant for each Restricted Share Unit that vests may fluctuate based upon the Corporation's performance and/or the market price of the Common Shares, in such manner as determined by the Administrators in their sole discretion.

(c) Each Restricted Share Unit shall be subject to vesting in accordance with the terms set out in the Restricted Share Unit Agreement.

(d) Notwithstanding anything to the contrary in this Plan, all vesting and issuances or payments, as applicable, in respect of a Restricted Share Unit shall be completed no later than December 15 of the third calendar year commencing after the Award Date for such Restricted Share Unit.

4.4 **Blackout Periods:** Should the date of vesting of a Restricted Share Unit fall within a Blackout Period or within nine Business Days following the expiration of a Blackout Period, such date of vesting shall be automatically extended without any further act or formality to that date which is the tenth Business Day after the end of the Blackout Period, such tenth Business Day to be considered the date of vesting for such Restricted Share Unit for all purposes under the Plan. Notwithstanding section 6.4 hereof, the ten Business Day period referred to in this section 4.4 may not be extended by the Board.

4.5 **Vesting and Settlement:** As soon as practicable after the relevant date of vesting of any Restricted Share Units awarded under the Plan and with respect to a U.S. Participant, no later than 60 days thereafter, but subject to subsection 4.3(d), a Participant shall be entitled to receive and the Corporation shall issue or pay (at its discretion):

(a) a lump sum payment in cash equal to the number of vested Restricted Share Units recorded in the Participant's Account multiplied by the Market Value of a Common Share on the Payout Date;

(b) the number of Common Shares required to be issued to a Participant upon the vesting of such Participant's Restricted Share Units in the Participant's Account, 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

(c) any combination of the foregoing.

4.6 **Taxes and Source Deductions**: the Corporation or an affiliate of the Corporation may take such reasonable steps for the deduction and withholding of any taxes and other required source deductions which the Corporation or the affiliate, as the case may be, is required by any law or regulation of any governmental authority whatsoever to remit in connection with this Plan, any Restricted Share Units or any issuance of Common Shares ("**Withholding Obligations**"). Without limiting the generality of the foregoing, the Corporation may, at its discretion: (i) deduct and withhold those amounts it is required to remit pursuant to the Withholding Obligations from any cash remuneration or other amount payable to the Participant, whether or not related to the Plan, the vesting of any Restricted Share Units or the issue of any Common Shares; (ii) allow the Participant to make a cash payment to the Corporation equal to the amount required to be remitted, pursuant to the Withholding Obligations, which amount shall be remitted by the Corporation to the appropriate governmental authority for the account of the Participant; or (iii) settle a portion of vested Restricted Share Units of a Participant in cash equal to the amount the Corporation is required to remit, pursuant to the Withholding Obligations, which amount shall be remitted by the Corporation to the appropriate governmental authority for the account of the Participant. Where the Corporation considers that the steps undertaken in connection with the foregoing result in inadequate withholding or a late remittance of taxes, the delivery of any Common Shares to be issued to a Participant on vesting of any Restricted Share Units may be made conditional upon the Participant (or other person) reimbursing or compensating the Corporation or making arrangements satisfactory to the Corporation for the payment to it in a timely manner of all taxes required to be remitted, pursuant to the Withholding Obligations, for the account of the Participant.

4.7 **Rights Upon an Event of Termination:**

(a) If an Event of Termination has occurred in respect of any Participant, any and all Common Shares corresponding to any vested Restricted Share Units in the Participant's Account shall be issued as soon as practicable after the Event of Termination to the former Participant in accordance with section 4.5 hereof. With respect to each Restricted Share Unit of a U.S. Participant, such Restricted Share Unit will be settled and shares issued as soon as practicable following the date of vesting of such Restricted Share Unit as set forth in the applicable Restricted Share Unit Agreement, but in all cases within 60 days following such date of vesting.

(b) If an Event of Termination has occurred in respect of any Participant, any unvested Restricted Share Units in the Participant's Account shall, unless otherwise determined by the Administrators in their discretion, forthwith and

automatically be forfeited by the Participant and cancelled. With respect to any Restricted Share Unit of a U.S. Participant, if the Administrators determine, in their discretion, to waive vesting conditions applicable to a Restricted Share Unit that is unvested at the time of an Event of Termination, such Restricted Share Unit shall not be forfeited or cancelled, but instead will be deemed to be vested and settled and shares delivered following the date of vesting of such Restricted Share Unit as set forth in the applicable Restricted Share Unit Agreement.

(c) Notwithstanding the foregoing subsection 4.7(b), if a Participant retires in accordance with the Corporation's retirement policy, at such time, any unvested performance-based Restricted Share Units in the Participant's Account shall not be forfeited by the Participant or cancelled and instead shall be eligible to become vested in accordance with the vesting conditions set forth in the applicable Restricted Share Unit Agreement after such retirement (as if retirement had not occurred), but only if the performance vesting criteria, if any, are met on the applicable date.

(d) For greater certainty, if a Participant's employment is terminated for just cause, each unvested Restricted Share Unit in the Participant's Account shall forthwith and automatically be forfeited by the Participant and cancelled.

(e) For the purposes of this Plan and all matters relating to the Restricted Share Units, the date of the Event of Termination shall be determined without regard to any applicable severance or termination pay, damages, or any claim thereto (whether express, implied, contractual, statutory, or at common law).

4.8 **Restricted Share Unit Accounts:** A separate notional account for Restricted Share Units shall be maintained for each Participant (an "**Account**"). Each Account will be credited with Restricted Share Units awarded to the Participant from time to time pursuant to section 4.1 hereof by way of a bookkeeping entry in the books of the Corporation. On the vesting of the Restricted Share Units pursuant to section 4.3 hereof and the corresponding issuance of Common Shares to the Participant pursuant to section 4.5 hereof, or on the forfeiture and cancellation of the Restricted Share Units pursuant to section 4.7 hereof, the applicable Restricted Share Units credited to the Participant's Account will be cancelled.

4.9 **Record Keeping:** the Corporation shall maintain records in which shall be recorded:

(a) the name and address of each Participant;

(b) the number of Restricted Share Units credited to each Participant's Account;

(c) any and all adjustments made to Restricted Share Units recorded in each Participant's Account; and

(d) any other information which the Corporation considers appropriate to record in such records.

5. GRANT OF OPTIONS

5.1 **Grant of Options:** Subject to section 2.2, the total number of Common Shares reserved and available for grant pursuant to this section on exercise of Options (together with those Common Shares issuable pursuant to any other Share Compensation Arrangement) shall not exceed 10% of the number of issued and outstanding Common Shares from time to time.

The Administrators may at any time and from time to time grant Options to Eligible Persons. In granting any Options, the Administrators shall determine:

(a) to whom Options pursuant to the Plan will be granted;

(b) the number of Options to be granted, the Grant Date and the exercise price of each Option;

(c) the expiration date of each Option; and

(d) subject to section 5.3 hereof, the applicable vesting criteria,

provided, however that the exercise price for a Common Share pursuant to any Option shall not be less than the Market Price on the Grant Date in respect of that Option.

5.2 **Option Agreement:** Upon each grant of Options to a Participant, an Option Agreement shall be delivered by the Administrators to the Participant.

5.3 **Vesting:**

(a) Subject to subsection **Error! Reference source not found.** above with respect to grants to Eligible Persons providing Investor Relations Activities, at the time of the grant of any Options, the Administrators shall determine, in accordance with minimum vesting requirements of the Exchange, the vesting criteria applicable to such Options.

(b) 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.

5.4 **Term of Option/Blackout Periods:** The term of each Option shall be determined by the Administrators; provided that no Option shall be exercisable after ten years from the Grant Date. 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 shall be automatically extended without any further act or formality to that date which is the tenth Business Day after the end of the Blackout Period, such tenth Business Day to be considered the expiration date for such Option for all purposes under the Plan. Notwithstanding section 6.4 hereof, the ten Business Day period referred to in this section 5.4 may not be extended by the Board.

5.5 **Exercise of Option:**

Options that have vested in accordance with the provisions of this Plan and the applicable Option Agreement may be exercised at any time, or from time to time, during their term and subject to the provisions of Section 5.9 hereof as to any number of whole Common Shares that are then available for purchase thereunder; provided that no partial exercise may be for less than 100 whole Common Shares. Options may be exercised by delivery of a written notice of exercise to the Administrators, substantially in the form attached to this Plan as Exhibit C, with respect to the Options, or by any other form or method of exercise acceptable to the Administrators.

5.6 **Payment and Issuance:**

(a) Upon actual receipt by the Corporation or its agent of the materials required by subsection 5.5 and receipt by the Corporation of cash, a cheque, bank draft or other form of acceptable payment for the aggregate exercise price, the number of Common Shares in respect of which the Options are exercised will be issued as fully paid and non-assessable shares and the Participant exercising the Options shall be registered on the books of the Corporation as the holder of the appropriate number of Common Shares. No person or entity shall enjoy any part of the rights or privileges of a holder of Common Shares which are subject to Options until that person or entity becomes the holder of record of those Common Shares. No Common Shares will be issued by the Corporation prior to the receipt of payment by the Corporation for the aggregate exercise price for the Options being exercised.

(b) Without limiting the foregoing, and unless otherwise determined by the Administrators or not compliant with any applicable laws, (i) cashless exercise of Options shall only be available to a Participant who was granted and is exercising such Options outside the United States as a non-U.S. Person in compliance with Regulation S under the 1933 Act at a time when the Common Shares are listed and posted for trading on an Exchange or market in Canada that permits cashless exercise, the Participant intends to immediately sell the Common Shares issuable upon exercise of such Options in Canada and the proceeds of sale will be sufficient to satisfy the exercise price of the Options, and (ii) if an eligible Participant elects to exercise the Options through cashless exercise and complies with any relevant protocols approved by the Administrators, a sufficient number of the Common Shares issued upon exercise of the Options will be sold in Canada by a designated broker on behalf of the Participant to satisfy the exercise price of the Options, the exercise price of the Options will be delivered to the Corporation and the Participant will receive only the remaining unsold Common Shares from the exercise of the Options and the net proceeds of the sale after deducting the exercise price of the Options, applicable taxes and any applicable fees and commissions, all as determined by the Administrators from time to time. The Corporation shall not deliver the Common Shares issuable upon a cashless exercise of Options until receipt of the exercise price therefor, whether by a designated broker selling the Common Shares issuable upon exercise of such Options through a short position or such other method determined by the Administrators in compliance with applicable laws.

5.7 **Cashless Exercise:** Provided that the Common Shares are listed and posted for trading on an Exchange or market that permits cashless exercise, a Participant may elect a cashless exercise in a notice of exercise, which election will result in all of the Common Shares issuable on the exercise being sold. In such case, the Participant will not be required to deliver to the Administrators a cheque or other form of payment for the aggregate exercise price referred to above. Instead the following provisions will apply:

(a) The Participant will instruct a broker selected by the Participant to sell through the stock exchange or market on which the Common Shares are listed or quoted, the Common Shares issuable on the exercise of Options, as soon as possible upon the issue of such Common Shares to the Participant at the then applicable bid price of the Common Shares.

(b) Before the relevant trade date, the Participant will deliver the exercise notice including details of the trades to the Corporation electing the cashless exercise and the Corporation will direct its registrar and transfer agent to issue a certificate for such Participant's Common Shares in the name of the broker (or as the broker may otherwise direct) for the number of Common Shares issued on the exercise of the Options, against payment by the broker to the Corporation of (i) the exercise price for such Common Shares; and (ii) the amount the Corporation determines, in its discretion, is required to satisfy the Corporation withholding tax and source deduction remittance obligations in respect of the exercise of the Options and issuance of Common Shares.

(c) The broker will deliver to the Participant the remaining proceeds of sale, net of any brokerage commission or other expenses.

5.8 **Taxes and Source Deductions**: The Corporation or an affiliate of the Corporation may take such reasonable steps for the deduction and withholding of any taxes and other required source deductions which the Corporation or the affiliate, as the case may be, is required by any law or regulation of any governmental authority whatsoever to remit pursuant to the Withholding Obligations in connection with this Plan, any Options or any issuance of Common Shares. Without limiting the generality of the foregoing, the Corporation may, at its discretion: (i) deduct and withhold those amounts it is required to remit, pursuant to the Withholding Obligations, from any cash remuneration or other amount payable to the Participant, whether or not related to the Plan, the exercise of any Options or the issue of any Common Shares; or (ii) allow the Participant to make a cash payment to the Corporation equal to the amount required to be remitted, pursuant to the Withholding Obligations, which amount shall be remitted by the Corporation to the appropriate governmental authority for the account of the Participant. Where the Corporation considers that the steps undertaken in connection with the foregoing result in inadequate withholding or a late remittance of taxes, the delivery of any Common Shares to be issued to a Participant on the exercise of Options may be made conditional upon the Participant (or other person) reimbursing or compensating the Corporation or making arrangements satisfactory to the Corporation for the payment in a timely manner of all taxes required to be remitted, pursuant to the Withholding Obligations, for the account of the Participant.

5.9 **Rights Upon an Event of Termination:**

(a) If an Event of Termination has occurred in respect of a Participant, any unvested Options, to the extent not available for exercise as of the date of the Event of

Termination, shall, unless otherwise determined by the Administrators in their discretion, forthwith and automatically be cancelled, terminated and not available for exercise without further consideration or payment to the Participant.

(b) Except as otherwise stated herein or otherwise determined by the Administrators in their discretion (provided such determination does not exceed a maximum of one year), upon the occurrence of an Event of Termination in respect of a Participant, any vested Options granted to the Participant that are available for exercise may be exercised only before the earlier of:

(i) the expiry of the Option; and

(ii) six months after the date of the Event of Termination.

(c) Notwithstanding the foregoing subsections 5.9(a) and (b), if a Participant's employment is terminated for just cause, each Option held by the Participant, whether or not then exercisable, shall forthwith and automatically be cancelled and may not be exercised by the Participant.

(d) For the purposes of this Plan and all matters relating to the Options, the date of the Event of Termination shall be determined without regard to any applicable severance or termination pay, damages, or any claim thereto (whether express, implied, contractual, statutory, or at common law).

5.10 **Record Keeping:** The Corporation shall maintain an Option register in which shall be recorded:

(a) the name and address of each holder of Options;

(b) the number of Common Shares subject to Options granted to each holder of Options;

(c) the term of the Option and exercise price, including adjustments for each Option granted; and

(d) any other information which the Corporation considers appropriate to record in such register.

6. GENERAL

6.1 **Effective Date of Plan:** The Plan shall be effective as of the Effective Date.

6.2 **Change of Control:** If there is a Change of Control transaction then, notwithstanding any other provision of this Plan except subsection 4.3(d) which will continue to apply in all circumstances, the Administrators may, in their sole discretion, determine that any or all unvested Restricted Share Units and any or all Options (whether or not currently exercisable) shall vest or become exercisable, as applicable, at such time and in such manner as may be determined by the Administrators in their sole discretion such that Participants under the Plan shall be able to participate in the Change of Control transaction, including, at the election of the holder thereof, by surrendering such Restricted Share Units and Options to the Corporation or a third party or exchanging such Restricted Share Units or Options, for consideration in the form of cash and/or

securities, to be determined by the Administrators in their sole discretion. Notwithstanding the foregoing, with respect to Options of U.S. Participants, any exchange, substitution or amendment of such Options will occur only to the extent and in a manner that will not result in the imposition of taxes under Section 409A of the Code, and with respect to Restricted Share Units of U.S. Participants, any surrender or other modification of Restricted Share Units will occur only to the extent such surrender or other modification will not result in the imposition of taxes under Section 409A of the Code.

6.3 **Reorganization Adjustments:**

(a) 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 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 company assets to holders of Common Shares, or any other corporate transaction or event involving the Corporation or the Common Shares, the Administrators, in the Administrators' sole discretion, may, subject to any relevant resolutions of the Board, and without liability to any person, make such changes or adjustments, if any, as the Administrators consider fair or equitable, in such manner as the Administrators may determine, to reflect such change or event including, without limitation, adjusting the number of Options and Restricted Share Units outstanding under this 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 this Plan, provided that the value of any Option or Restricted Share Unit immediately after such an adjustment, as determined by the Administrators, shall not exceed the value of such Option or Restricted Share Unit prior thereto, as determined by the Administrators.

(b) Notwithstanding the foregoing, with respect to Options and Restricted Share Units of U.S. Participants, such changes or adjustments will be made in a manner so as to not result in the imposition of taxes under Section 409A of the Code and will comply with the requirements in subsection 4.3(d).

(c) The Corporation shall give notice to each Participant in the manner determined, specified or approved by the Administrators of any change or adjustment made pursuant to this section and, upon such notice, such adjustment shall be conclusive and binding for all purposes.

(d) The Administrators may from time to time adopt rules, regulations, policies, guidelines or conditions with respect to the exercise of the power or authority to make changes or adjustments pursuant to section 6.2 or section 6.3(a). The Administrators, in making any determination with respect to changes or adjustments pursuant to section 6.2 or section 6.3(a) shall be entitled to impose such conditions as the Administrators consider or determine necessary in the circumstances, including conditions with respect to satisfaction or payment of all applicable taxes (including, but not limited to, withholding taxes).

6.4 **Amendment or Termination of Plan:**

The Board may amend this Plan or any Restricted Share Unit or any Option at any time without the consent of Participants provided that such amendment shall:

(a) not adversely alter or impair any Restricted Share Unit previously awarded or any Option previously granted except as permitted by the provisions of section 6.3 hereof, and, with respect to Restricted Share Units and Options of U.S. Participants, such amendment will not result in the imposition of taxes under Section 409A;

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

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

(i) amendments of a "housekeeping nature", including any amendment to the Plan or a Restricted Share Unit or Option that is necessary to comply with applicable laws, tax or accounting provisions or the requirements of any regulatory authority or stock exchange and any amendment to the Plan or a Restricted Share Unit 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 Restricted Share Units or Options to qualify for favourable treatment under any applicable tax law;

(iii) a change to the vesting provisions of any Restricted Share Unit or any Option (including any alteration, extension or acceleration thereof);

(iv) a change to the termination provisions of any Option or Restricted Share Units (for example, 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 section 5.4);

(v) the introduction of features to the Plan that would permit the Corporation to, instead of issuing Common Shares from treasury upon the vesting of the Restricted Share Units, retain a broker and make payments for the benefit of Participants to such broker who would purchase Common Shares in the open market for such Participants;

(vi) the amendment of this Plan as it relates to making lump sum payments to Participants upon the vesting of the Restricted Share Units;

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

(d) be subject to disinterested shareholder approval in the event of any reduction in the exercise price of any Option granted under the Plan to an Insider Participant.

For greater certainty and subject to approval by the Canadian Securities Exchange (if applicable), shareholder approval shall be required in circumstances where an amendment to the Plan would:

(a) change from a fixed maximum percentage of issued and outstanding Common Shares to a fixed maximum number of Common Shares;

(b) increase the limits in section 2.2;

(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 extended by virtue of section 5.4 hereof); or

(e) amend this section 6.4.

6.5 **Termination:** The Administrators may terminate this Plan at any time in their absolute discretion. If the Plan is so terminated, no further Restricted Share Units shall be awarded and no further Options shall be granted, but the Restricted Shares Units then outstanding and credited to Participants' Accounts and the Options then outstanding shall continue in full force and effect in accordance with the provisions of this Plan. Any termination of this Plan shall occur in a manner that will not result in the imposition of taxes on a U.S. Participant under Section 409A.

6.6 **Transferability:** A Participant shall not be entitled to transfer, assign, charge, pledge or hypothecate, or otherwise alienate, whether by operation of law or otherwise, the Participant's Restricted Share Units or Options or any rights the Participant has under the Plan.

6.7 **Rights as a Shareholder:** Under no circumstances shall the Restricted Share Units or Options be considered Common Shares nor shall they entitle any Participant to exercise voting rights or any other rights attaching to the ownership of Common Shares (including, but not limited to, the right to dividend equivalent payments).

6.8 **Credits for Dividends:** Unless otherwise determined by the Administrators, whenever cash or other dividends are paid on Common Shares, additional Restricted Share Units will be automatically granted to each Participant who holds Restricted Share Units on the record date for such dividends. The number of such Restricted Share Units (rounded to the nearest whole Restricted Share Units) to be credited to such Participant as of the date on which the dividend is paid on the Common Shares shall be an amount equal to the quotient obtained when (i) the aggregate value of the cash or other dividends that would have been paid to such Participant if the Participant's Restricted Share Units as of the record date for the dividend had been Common Shares, is divided by (ii) the Market Value of the Common Shares as of the date on which the dividend is paid on the Common Shares. Restricted Share Units granted to a Participant shall be subject to the same vesting conditions (time and performance (as applicable)) as the Restricted Share Units to which they relate.

6.9 **No Effect on Employment, Rights or Benefits:**

(a) The terms of employment shall not be affected by participation in the Plan.

(b) Nothing contained in the Plan shall confer or be deemed to confer upon any Participant the right to continue as a director, officer, employee or Consultant nor interfere or be deemed to interfere in any way with any right of the Corporation, the Board or the shareholders of the Corporation to remove any Participant from the Board or of the Corporation or any Subsidiary to terminate any Participant's employment or agreement with a Consultant at any time for any reason whatsoever.

(c) Under no circumstances shall any person who is or has at any time been a Participant be able to claim from the Corporation or any Subsidiary any sum or other benefit to compensate for the loss of any rights or benefits under or in connection with this Plan or by reason of participation in this Plan.

6.10 **Market Value of Common Shares:** The Corporation makes no representation or warranty as to the future market value of any Common Shares. No Participant shall be entitled, either immediately or in the future, either absolutely or contingently, to receive or obtain any amount or benefit granted to or to be granted for the purpose of reducing the impact, in whole or in part, of any reduction in the market value of the shares of the Corporation or a corporation related thereto.

6.11 **Compliance with Applicable Law:**

(a) If any provision of the Plan contravenes any law or any order, policy, by-law or regulation of any regulatory body having jurisdiction, then such provision shall be deemed to be amended to the extent necessary to bring such provision into compliance therewith. Notwithstanding the foregoing, the Corporation shall have no obligation to register any securities provided for in this Plan under the 1933 Act.

(b) The award of Restricted Share Units, the grant of Options and the issuance of Common Shares under this Plan shall be carried out in compliance with applicable statutes and with the regulations of governmental authorities and the Exchange. If the Administrators determine in their discretion that, in order to comply with any such statutes or regulations, certain action is necessary or desirable as a condition of or in connection with the award of a Restricted Share Unit, the grant of an Option or the issue of a Common Share upon the vesting of a Restricted Share Unit or exercise of an Option, as applicable, that Restricted Share Unit may not vest in whole or in part and that Option may not be exercised in whole or in part, as applicable, unless that action shall have been completed in a manner satisfactory to the Administrators. In addition, unless the Restricted Share Units, the Options and the Common Shares issuable pursuant to the Restricted Share Units and Options, as applicable, have been registered under the 1933 Act and any applicable U.S. state securities laws, all rights of a Participant under this Plan shall be subject to and conditioned upon the availability of exemptions or exclusions from the registration requirements of the 1933 Act and any applicable U.S. state securities, as determined by the Corporation in its sole discretion. Any Restricted Share Units or Options granted or issued to a person in the United States or a U.S. Person, as well as the issue

of Common Shares pursuant thereto, will result in any certificate representing such securities bearing a United States restrictive legend restricting transfer of such securities under United States federal and state securities laws.

6.12 **Governing Law:** This Plan shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein, and with respect to U.S. Participants, the Code.

6.13 **Subject to Approval:** The Plan is adopted subject to the approval of the Exchange and any other required regulatory approval. To the extent a provision of the Plan requires regulatory approval which is not received, such provision shall be severed from the remainder of the Plan until the approval is received and the remainder of the Plan shall remain in effect.

6.14 **Special Terms and Conditions Applicable to U.S. Participants:** Options issued to U.S. Participants are intended to be exempt from Section 409A of the Code pursuant to Treas. Reg. Section 1.409A-1(b)(5)(i)(A) and the Plan and such Options will be construed and administered accordingly. Options may be issued to U.S. Participants under the Plan only if the shares with respect to the Options qualify as "service recipient stock" as defined in Treas. Reg. Section 1.409A-1(b)(5)(E)(iii). Restricted Share Units awarded to U.S. Participants are intended to be compliant with Section 409A of the Code and such Restricted Share Units will be construed and administered accordingly. Any waiver or acceleration of vesting under the Plan or any Restricted Share Unit Agreement for a U.S. Participant may occur only to the extent that such acceleration or waiver will not result in the imposition of taxes under Section 409A of the Code. Any payments made under this Plan or any Restricted Share Unit Agreement to a U.S. Participant as a result of a termination of employment that are deemed to be subject to Section 409A of the Code shall occur only if such termination constitutes a "separation from service" as defined in Treas. Reg. 1.409A-1(h). Additionally, any payments resulting from a separation from service made to a U.S. Participant who is a "specified employee" as defined in Treas. Reg. 1.409A-1(i) shall be subject to the six month delay in payments required by Treas. Reg. 1.409A-1(3)(v) if such payments are deemed to be subject to Section 409A of the Code. Although the Corporation intends Options and Restricted Share Units granted to U.S. Participants to be exempt from or compliant with Section 409A, the Corporation makes no representation or guaranty as to the tax treatment of such Options and Restricted Share Units. Each U.S. Participant (and any beneficiary or the estate of the Participant, as applicable) is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on or for the account of such U.S. Participant in connection with this Plan. Neither the Corporation nor any affiliate, nor any employee or director of the Corporation or an affiliate, shall have any obligation to indemnify or otherwise hold such U.S. Participant, beneficiary or estate harmless from any or all such taxes or penalties.

ADOPTED the **[●]** day of **[●]**, 2018.

EXHIBIT A

THE RESTRICTED SHARE UNITS AND THE UNDERLYING COMMON SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT") OR ANY U.S. STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO U.S. PERSONS UNLESS SUCH SECURITIES ARE REGISTERED UNDER THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS ARE AVAILABLE. THE TERMS "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED IN REGULATION S UNDER THE 1933 ACT.

RESTRICTED SHARE UNIT AGREEMENT

Notice is hereby given that, effective this _____ day of _____, _____ (the "**Restricted Share Grant Date**") **Draganfly Innovations Inc.** (the "**Corporation**") has granted to _____ (the "**Participant**"), _____ Restricted Share Units pursuant to the Corporation's Share Compensation Plan (the "**Plan**"), a copy of which has been provided to the Participant.

Restricted Share Units are subject to the following terms:

(a) Pursuant to the Plan and as compensation to the Participant, the Corporation hereby grants to the Participant, as of the Restricted Share Grant Date, the number of Restricted Share Units set forth above.

(b) The granting and vesting of the Restricted Share Units and the payment by the Corporation of any payout in respect of any Vested Restricted Share Units (as defined below) are subject to the terms and conditions of the Plan, all of which are incorporated into and form an integral part of this Restricted Share Unit Agreement.

(c) The Restricted Share Units shall become vested restricted share units (the "**Vested Restricted Share Units**") in accordance with the following schedule:

(i) ● on the 6 month anniversary of the Restricted Share Grant Date;

(ii) ● on the 12 month anniversary of the Restricted Share Grant Date;

(iii) ● on the 18 month anniversary of the Restricted Share Grant Date; and

(iv) ● on the 24 month anniversary of the Restricted Share Grant Date (each a "**Vesting Date**").

(d) As soon as reasonably practicable and no later than 60 days following the Vesting Date, or, if the Participant is not a U.S. Participant (as defined in the Plan), such later date mutually agreed to by the Corporation and the Participant, the Participant shall be entitled to receive, and the Corporation shall issue or provide, a payout with respect to those Vested Restricted Share Units in the Participant's Account to which the Vesting Date relates (each a "**Payout Date**"):

(i) a lump sum payment in cash equal to the number of vested Restricted Share Units recorded in the Participant's Account multiplied by the Market Value of a Common Share on the Payout Date;

(ii) the number of Common Shares required to be issued to a Participant upon the vesting of such Participant's Restricted Share Units in the Participant's Account, 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 the foregoing.

subject to any applicable Withholding Obligations.

(e) The Participant acknowledges that:

(i) he or she has received and reviewed a copy of the Plan; and

(ii) the Restricted Share Units have been granted to the Participant under the Plan and are subject to all of the terms and conditions of the Plan to the same effect as if all of such terms and conditions were set forth in this Restricted Share Unit Agreement, including with respect to termination and forfeiture as set out in Section 4.7 of the Plan.

Notwithstanding anything to the contrary in this Restricted Share Unit Agreement all vesting and issuances or payments, as applicable, in respect of a Restricted Share Unit evidenced hereby shall be completed no later than December 15 of the third calendar year commencing after the Restricted Share Grant Date;

The grant of the Restricted Share Units evidenced hereby is made subject to the terms and conditions of the Plan. The Participant agrees that he/she may suffer tax consequences as a result of the grant of these Restricted Share Units and the vesting of the Restricted Share Units. The Participant acknowledges that he/she is not relying on the Corporation for any tax advice and has had an adequate opportunity to obtain advice of independent tax counsel.

The Participant represents and warrants to the Corporation that (i) under the terms and conditions of the Plan the Participant is a bona fide Eligible Person (as defined in the Plan) entitled to receive Restricted Share Units, and (ii) either (A) the Participant is not in the United States or a U.S. Person, nor is the Participant acquiring the Restricted Share Units for the benefit of a person in the United States or a U.S. Person, or (B) an exemption from the registration requirements of the 1933 Act and all applicable state securities laws is available and the Participant has provided evidence satisfactory to the Corporation to such effect. The Corporation may condition awards and elections under the Plan upon receiving from the undersigned such representations and warranties and such evidence of registration or exemption under the 1933 Act and all applicable U.S. state securities laws as is satisfactory to the Corporation, acting in its sole discretion.

In the event of any inconsistency between the terms of this Restricted Share Unit Agreement and the Plan, the terms of the Plan shall prevail unless otherwise determined in the Plan.

Draganfly Innovations Inc.

Authorized Signatory	Signature of Participant
	Name of Participant

EXHIBIT B

THE OPTIONS AND THE OPTIONED SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT") OR ANY U.S. STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO U.S. PERSONS UNLESS SUCH SECURITIES ARE REGISTERED UNDER THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS ARE AVAILABLE. THE TERMS "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED IN REGULATION S UNDER THE 1933 ACT.

OPTION AGREEMENT

Notice is hereby given that, effective this _____ day of _____, _____ (the "**Effective Date**") **Draganfly Innovations Inc.** (the "**Corporation**") has granted to _____ (the "**Participant**"), Options to acquire _____ Common Shares (the "**Optioned Shares**") up to 4:30 p.m. Pacific Time on the _____ day of _____, _____ (the "**Option Expiry Date**") at an exercise price of Cdn$_____ per Optioned Share pursuant to the Corporation's Share Compensation Plan (the "**Plan**"), a copy of which is attached hereto.

Optioned Shares may be acquired as follows:

(f) **[insert vesting provisions, if applicable]; and**

(g) **[insert hold period when required]**.

The grant of the Options evidenced hereby and the Option Expiry Date thereof, is made subject to the terms and conditions of the Plan. The Participant agrees that he/she may suffer tax consequences as a result of the grant of these Options, the exercise of the Options and the disposition of Optioned Shares. The Participant acknowledges that he/she is not relying on the Corporation for any tax advice and has had an adequate opportunity to obtain advice of independent tax counsel.

The Participant represents and warrants that (i) under the terms and conditions of the Plan the Participant is a bona fide Eligible Person (as defined in the Plan) entitled to receive Options, and (ii) either (A) the Participant is not in the United States or a U.S. Person, nor is the Participant acquiring the Options or any Optioned Shares for the benefit of a person in the United States or a U.S. Person, or (B) an exemption from the registration requirements of the 1933 Act and all applicable state securities laws is available and the Participant has provided evidence satisfactory to the Corporation to such effect. The Participant understands that the Options may not be exercised in the United States or by or on behalf of a U.S. Person unless the Options and the Option Shares have been registered under the 1933 Act or are exempt from registration thereunder. The Corporation may condition the exercise of the Options upon receiving from the Participant such representations and warranties and such evidence of registration or exemption under the 1933 Act and all applicable state securities laws as is satisfactory to the Corporation, acting in its sole discretion.

In the event of any inconsistency between the terms of this Option Agreement and the Plan, the terms of the Plan shall prevail.

Draganfly Innovations Inc.

Authorized Signatory	Signature of Participant
	Name of Participant

EXHIBIT C

NOTICE OF OPTION EXERCISE

TO: **Draganfly Innovations Inc.** (the "**Corporation**")

FROM: _____

DATE: _____

The undersigned hereby irrevocably gives notice, pursuant to the Corporation's Share Compensation Plan (the "**Plan**"), of the exercise of the Options to acquire and hereby subscribes for:

[check one]

☐ (a) all of the Optioned Shares; or

☐ (b) _____ of the Optioned Shares,

which are the subject of the Option Agreement attached hereto.

Calculation of total Exercise Price:

(i)	number of Optioned Shares to be acquired on exercise	_____ Optioned Shares
(ii)	multiplied by the Exercise Price per Optioned Share:	$ _____
	TOTAL EXERCISE PRICE, enclosed herewith (unless this is a cashless exercise):	$ _____

A. ☐ The undersigned (i) at the time of exercise of these Options is not in the "United States" or a "U.S. Person" (as such terms are defined in Regulation S under the United States Securities Act of 1933, as amended (the "**1933 Act**") and is not exercising these Options on behalf of a person in the United States or U.S. Person and (ii) did not execute or deliver this Notice of Option Exercise in the United States.

B. ☐ The undersigned has delivered an opinion of counsel of recognized standing or other evidence in form and substance satisfactory to the Corporation to the effect that an exemption from the registration requirements of the 1933 Act, and applicable state securities laws is available for the issuance of the Optioned Shares.

Note: The undersigned understands that unless Box A is checked, the certificates representing the Optioned Shares will bear a legend restricting transfer without registration under the 1933 Act and applicable state securities laws unless an exemption from registration is available.

Note: Certificates representing Optioned Shares will not be registered or delivered to an address in the United States unless Box B above is checked.

Note: If Box B is checked, any opinion or other evidence tendered must be in form and substance satisfactory to the Corporation. Holders planning to deliver an opinion of counsel or other evidence in connection with the exercise of Options should contact the Corporation in advance to determine whether any opinions to be tendered or other evidence will be acceptable to the Corporation.

I hereby:

☐ (a) unless this is a cashless exercise, enclose a cheque payable to "[●]" for the aggregate Exercise Price plus the amount of the estimated Withholding Obligations and agree that I will reimburse the Corporation for any amount by which the actual Withholding Obligations exceed the estimated Withholding Obligations; or

☐ (b) advise the Corporation that I am exercising the above Options on a cashless exercise basis, in compliance with the procedures established from time to time by the Administrators for cashless exercises of Options under the Plan. I will consult with the Corporation to determine what additional documentation, if any, is required in connection with my cashless exercise of the above Options. I agree to comply with the procedures established by the Corporation for cashless exercises and all terms and conditions of the Plan. Please prepare the Optioned Shares certificates, if any, issuable in connection with this exercise in the following name(s):

_____

_____

_____
Signature of Participant

_____
Name of Participant

Letter and consideration/direction received on _____, 20 _____.

[●]

By: _____
[Name]
[Title]

SCHEDULE F
LIST OF NOT NON-U.S. HOLDERS

Name	# of Shares
Paul Beard	1,900,000
John Lang	200,000
Kestrel Enterprises Inc.	106,500
Ryan Larkin	16,000
Ryan Larkin and Emiliya Larkin	8,000
Total shares	**2,230,500**

SCHEDULE G
ADJUSTMENT CLAUSE EXAMPLES

Adjustment Clause Examples	
$250,000 in excess of Debt Settlement Amount	500,000 common shares of the resulting issuer to the Transaction registered to DroneCorp (or as directed to be registered by DroneCorp)
$500,000 in excess of Debt Settlement Amount	1,000,000 common shares of the resulting issuer to the Transaction registered to DroneCorp (or as directed to be registered by DroneCorp)
$750,000 in excess of Debt Settlement Amount	1,500,000 common shares of the resulting issuer to the Transaction registered to DroneCorp (or as directed to be registered by DroneCorp)
$1,000,000 in excess of Debt Settlement Amount	2,000,000 common shares of the resulting issuer to the Transaction registered to DroneCorp (or as directed to be registered by DroneCorp)