Draganfly Inc. (formerly Drone Acquisition Corp.)

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Draganfly Inc. (formerly Drone Acquisition Corp.)

Opinion

We have audited the consolidated financial statements of Draganfly Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

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

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is David J. Goertz.

DMCL

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

April 24, 2020

MOORE

An independent firm
associated with Moore
Global Network Limited

Draganfly Inc. (formerly Drone Acquisition Corp.)
Consolidated Statements of Financial Position
Expressed in Canadian Dollars

As at	Notes		December 31, 2019		December 31, 2018
ASSETS					
Current Assets					
Cash		$	**2,429,375**	$	101,787
Accounts receivable	4		**224,695**		97,896
Inventory	5		**48,563**		61,185
Prepaid expenses and deposits	6		**272,630**		23,305
			2,975,263		284,173
Non-current Assets					
Subscription receivable	4		**-**		153,566
Equipment	8		**115,141**		55,178
Intellectual property	9		**1,385**		11,908
Right of use asset	10		**129,994**		-
TOTAL ASSETS		$	**3,221,783**	$	504,825
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade payables and accrued liabilities	12	$	**894,357**	$	2,586,087
Notes payable	13		**-**		844,304
Convertible debentures	14		**-**		1,207,043
Lease liability	11		**43,000**		-
			937,357		4,637,434
Non-current Liabilities					
Lease liability	11		**93,073**		-
TOTAL LIABILITIES			**1,030,430**		4,637,434
SHAREHOLDERS' EQUITY					
Share capital	15		**27,786,517**		12,561,342
Equity reserve	15		**2,508,233**		882,180
Accumulated deficit			**(28,103,397)**		(17,576,131)
TOTAL SHAREHOLDERS' EQUITY			**2,191,353**		(4,132,609)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	**3,221,783**	$	504,825

Nature of continuance and operations (Note 1)
Contingency (Note 18)
Subsequent events (Notes 13 and 24)

Approved and authorized for issuance by the Board of Directors on April 24, 2020.

"Scott Larson"
Director

"Cameron Chell"
Director

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

Draganfly Inc. (formerly Drone Acquisition Corp.)
Consolidated Statements of Comprehensive Loss
Expressed in Canadian Dollars

	Note	For the years ended December 31, 2019	2018
Revenue from sales of goods	**16**	**$ 248,939**	$ 423,705
Revenue from provision of services	**16**	**1,131,488**	963,308
TOTAL REVENUE		**1,380,427**	1,387,013
COST OF SALES	**5**	**(218,800)**	(452,399)
GROSS PROFIT		**1,161,627**	934,614
OPERATING EXPENSES			
Amortization	**9**	**$ 8,386**	$ 15,534
Depreciation	**8, 10**	**41,250**	22,521
Office and miscellaneous		**2,127,632**	328,292
Professional fees		**524,101**	131,028
Research and development		**16,883**	16,158
Share-based compensation	**15**	**761,559**	-
Travel		**30,896**	17,817
Wages and salaries		**989,083**	984,179
		(4,499,790)	(1,515,529)
OTHER INCOME (EXPENSE)			
Finance and other costs	**22**	**(171,905)**	(145,271)
Foreign exchange gain		**5,803**	2,971
Gain on disposal of assets	**8**	**28,651**	-
Gain on settlement of debt	**12, 15**	**198,976**	-
Listing expense	**3**	**(7,804,859)**	-
Loss on write-off loan receivable	**7**	**(13,560)**	-
Other income		**-**	8,130
Scientific research and development credit		**-**	113,356
NET AND COMPREHENSIVE LOSS		**$ (11,095,057)**	$ (601,729)
Loss per share			
Basic/Diluted		**$ (0.23)**	$ (0.02)
Weighted average number of common shares outstanding		**47,647,977**	39,344,881

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

Draganfly Inc. (formerly Drone Acquisition Corp.)
Consolidated Statements of Changes in Shareholders' Equity
Expressed in Canadian Dollars

	Number of Shares		Share Capital		Equity Reserve		Deficit		Total Shareholders' Equity
Balance at December 31, 2017	39,332,455	$	12,550,942	$	1,215,206	$	(17,297,428)	$	(3,531,280)
Shares issued for exercise of warrants	14,352		10,400		(10,000)		-		400
Expired options	-		-		(323,026)		323,026		-
Net loss	-		-		-		(601,729)		(601,729)
Balance at December 31, 2018	39,346,807		12,561,342		882,180		(17,576,131)		(4,132,609)
Shares issued for settlement of notes payable	1,291,549		645,775		-		-		645,775
Shares issued as transactions fees	2,000,000		1,000,000		-		-		1,000,000
Recapitalization of Draganfly Inc.	10,500,001		5,250,001		1,645,193		-		6,895,194
Shares issued of settlement of trades payable	45,325		22,662		-		-		22,662
Shares issued for settlement of convertible debentures and accrued interest	2,118,492		1,059,246		-		-		1,059,246
Shares issued for exercise of warrants	316,940		221,741		(212,908)		-		8,833
Reclassification of unexercised conversion feature	-		-		(567,791)		567,791		-
Shares and warrants issued on private placement	14,051,499		7,025,750		-		-		7,025,750
Stock-based compensation	-		-		761,559		-		761,559
Net loss	-		-		-		(11,095,057)		(11,095,057)
Balance at December 31, 2019	**69,670,613**	**$**	**27,786,517**	**$**	**2,508,233**	**$**	**(28,103,397)**	**$**	**2,191,353**

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

Draganfly Inc. (formerly Drone Acquisition Corp.)
Consolidated Statements of Changes in Cash Flows
Expressed in Canadian Dollars

	For the years ended December 31, 2019	2018
OPERATING ACTIVITIES		
Net loss	**$ (11,095,057)**	$ (601,729)
Adjustments for:		
Amortization	**8,386**	15,534
Depreciation	**41,250**	22,521
Finance and other costs	**171,905**	145,271
Gain on settlement of debt	**(198,976)**	-
Gain on disposal of assets	**(28,651)**	-
Expense of non-financial asset	**15,389**	-
Listing expense	**7,804,859**	-
Share-based compensation	**761,559**	-
	(2,519,336)	(418,404)
Net changes in non-cash working capital items:		
Accounts receivable	**(126,799)**	(35,150)
Inventory	**12,622**	94,761
Prepaid expenses	**(249,325)**	(2,833)
Trade payables and accrued liabilities	**(1,005,121)**	100,069
Funds used in operations activities	**(3,887,959)**	(261,556)
INVESTING ACTIVITIES		
Cash assumed from the Amalgamation	**28,538**	-
Purchase of equipment	**(87,785)**	(12,535)
Disposal of equipment	**31,500**	10,755
Funds used in investing activities	**(27,747)**	(1,780)
FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	**1,137,978**	373,243
Repayment of notes payable	**(882,770)**	(137,854)
Repayment of convertible debentures	**(486,131)**	-
Repayment of lease liability	**(38,000)**	-
Proceeds from issuance of common shares	**6,534,583**	400
Funds provided by financing activities	**6,265,660**	235,789
Effects of exchange rate changes on cash	**(22,366)**	(882)
Change in cash	**2,349,954**	(27,547)
Cash, beginning	**101,787**	130,216
Cash, ending	**$ 2,429,375**	$ 101,787

Supplemental cash flow disclosure (Note 23)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Draganfly Inc. (formerly Drone Acquisition Corp.) (the "Company") was incorporated by articles of incorporation dated June 1, 2018 under the Business Corporations Act (British Columbia). Effective November 5, 2019, the Company's shares began trading on the Canadian Securities Exchange (the "CSE") under the symbol "DFLY".

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

On August 15, 2019, the Company and 1187607 B.C. Ltd. ("Merger Co."), a wholly-owned subsidiary of the Company, completed a Business Combination Agreement (the "BCA") with Draganfly Innovations Inc. ("Draganfly Innovations") (the "Amalgamation"). Under the Amalgamation, shareholders of Draganfly Innovations received 1.794 fully paid and non-assessable common shares in the authorized share structure of the Company for each Draganfly Innovations share. Consequently, the Company owns 100% of Draganfly Innovations and the Draganfly Innovations shareholders became shareholders of the Company. Draganfly is an operational business of developing and manufacturing multi-rotor helicopters, industrial aerial video systems and civilian small unmanned aerial systems or vehicles. Pursuant to the Amalgamation the Company changed its name to "Draganfly Inc.".

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 financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. These consolidated 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 consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These consolidated financial statements were authorized for issue by the Board of Directors on April 24, 2020.

Basis of preparation

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

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 consolidated financial statements and in the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Share-based payments

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

Income taxes

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

Inventory

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

Contingencies

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Useful lives of equipment and intangible assets

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

Other Significant judgments

The preparation of consolidated 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 consolidated financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification of financial instruments;
- the assessment of revenue recognition using the five-step approach under IFRS 15 and the collectability of amounts receivable;
- the determination of whether a set of assets acquired and liabilities assumed constitute a business; and
- the determination of the functional currency of the company.

Foreign currency translation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

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.

Share-based payment expense relating to cash-settled awards, including restricted share units is accrued over the vesting period of the units based on the quoted market value of Company's common shares. As these awards will be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

Restricted Share Units

The restricted share units ("RSUs") entitle employees, directors, or officers to cash payments payable upon vesting based on vesting terms determined by the Company's Board of Directors at the time of the grant. A liability for outstanding RSUs is measured at fair value on the grant date and is subsequently adjusted for changes in fair value at each reporting date until settlement. The liability is recognized on a graded vesting basis over the vesting period, with a corresponding charge to profit or loss.

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

All financial assets are initially recorded at fair value and classified into one of four categories: fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI") and at amortized costs. All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Financial instruments comprise cash and accounts payable and accrued liabilities.

a) Financial assets

<u>Classification and measurement</u>

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The classification of debt instruments is driven by the business model for managing the financial assets and their contractual cash flow characteristics. Debt instruments are measured at amortized cost if the business model is to hold the instrument for collection of contractual cash flows and those cash flows are solely principal and interest. If the business model is not to hold the debt instrument, it is classified as FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL, for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument by-instrument basis) to designate them as at FVTOCI.

Financial assets at FVTPL
Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the income statement in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Financial assets at FVTOCI
Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets at amortized cost
Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

Derecognition of financial assets
Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the income statement. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

b) Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss (FVTPL) - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method. Accounts payable and accrued liabilities, and convertible debentures, are included in this category. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Derecognition of financial liabilities
Financial liabilities are derecognized when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in profit or loss.

Impairment of assets

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

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

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

Income taxes

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

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

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

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 deficit.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

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

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

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

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

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

Consulting services

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Cost of Goods Sold

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

Intangible Assets

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

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

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

Equipment

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

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

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

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

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

Research and development expenditures

Expenditures on research are expensed as incurred. Research activities include formulation, design, evaluation and final selection of possible alternatives, products, processes, systems or services. Development expenditures are expensed as incurred unless the Company can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) its intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits. Among other

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Government Assistance

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

SR&ED Investment tax credits

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

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

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement date, the lease liability is recognized at the present value of the future lease payments and discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate. A corresponding right-of-use ("ROU") asset will be recognized at the amount of the lease liability, adjusted for any lease incentives received and initial direct costs incurred. Over the term of the lease, financing expense is recognized on the lease liability using the effective interest rate method and charged to net income, lease payments are applied against the lease liability and depreciation on the ROU asset is recorded by class of underlying asset.

The lease term is the non-cancellable period of a lease and includes periods covered by an optional lease extension option if reasonably certain the Company will exercise the option to extend. Conversely, periods covered by an option to terminate are included if the Company does not expect to end the lease during that time frame. Leases with a term of less than twelve months or leases for underlying low value assets are recognized as an expense in net income on a straight-line basis over the lease term.

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

A lease modification will be accounted for as a separate lease if it materially changes the scope of the lease. For a modification that is not a separate lease, on the effective date of the lease modification, the Company will remeasure the lease liability and corresponding ROU asset using the interest rate implicit in the lease or the Company's incremental borrowing rate. Any variance between the remeasured ROU asset and lease liability will be recognized as a gain or loss in net income to reflect the change in scope.

Adoption of new accounting standard

The Company adopted the requirements of IFRS 16 effective January 1, 2019. 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 the current accounting for finance leases, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is substantially unchanged.

On adoption, the Company's lease consisted of an office lease. The Company transitioned to the new standard using the modified retrospective approach and:

- Measured the lease liability based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate at January 1, 2019;
- Measured the right-of-use asset based on the present value of the liability at the commencement date of the lease less any incentives received from the lessor; and
- Recording the cumulative difference to deficit.

The following is a reconciliation of total operating lease commitments at December 31, 2018 to the lease liabilities recognized at January 1, 2019:

Lease liability before discounting	$	38,000
Renewal options		133,000
Discounted using incremental borrowing rate		(39,366)
Lease liability	$	131,634

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

i. the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
ii. the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
iii. the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

included under non-current assets and lease liabilities have been included under current and non-current liabilities.

Expressed in Canadian Dollars

3. AMALGAMATION

On January 31, 2019, the Company and Draganfly Innovations entered into the BCA providing for a three-cornered amalgamation among the Company, Draganfly Innovations, and Merger Co. As of August 15, 2019, the Amalgamation closed and the Company acquired, on a one for 1.794 basis, all of the issued and outstanding Draganfly Innovations shares (the "Draganfly Innovations Shares") in exchange for 42,638,356 common shares of the Company.

This resulted in a reverse take-over, of the Company, by the shareholders of Draganfly Innovations. At the time of the Amalgamation, the Company did not constitute a business as defined under IFRS 3; therefore, the Amalgamation is accounted under IFRS 2, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense to net loss. As Draganfly Innovations is deemed to be the accounting acquirer for accounting purposes, these consolidated financial statements present the historical financial information of Draganfly Innovations up to the date of the Amalgamation.

Number of shares of Draganfly Inc.		10,500,001
Fair value of common shares in concurrent financing	$	0.50
Fair value of shares of Draganfly Inc.	$	5,250,001
Fair value of warrants		1,645,193
Fair value of shares issued for transaction fees		1,000,000
Net assets acquired	$	(90,335)
Listing expense	**$**	**7,804,859**

Fair value of the Company acquired, net of liabilities		
Cash	$	28,538
Accounts receivable		4,991
Loans receivable		963,269
Accounts payable and accrued liabilities		(406,463)
Subscription receipts		(500,000)
	$	**90,335**

The fair value of 10,500,001 issued common shares of the Company was estimated to be $0.50 per share using the price of a subscription receipts financing that was completed concurrently (Note 15).

Prior to the closing of the Amalgamation, Draganfly Innovations issued 2,000,000 common shares with a value of $1,000,000 as transaction fees for the Amalgamation to related parties.

The Company assumed 4,000,000 share purchase warrants exercisable at a price of $0.10 per share expiring on February 4, 2021. The fair value of share-purchase warrants was $1,645,193, estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	0.86%
Estimate life	1.48 years
Expected volatility	100%
Expected dividend yield	0%

Expressed in Canadian Dollars

3. AMALGAMATION (CONT'D)

As at August 15, 2019, the Company received $7,025,750 in proceeds to issue subscription receipts (the "Subscription Receipts") at a price of $0.50 per Subscription Receipt. Each Subscription Receipt was automatically converted, without payment of additional consideration and without any further action on the part of the holder, into one unit of the Company (a "Unit") on completion of the Amalgamation and the Company becoming reporting issuer in the Province of Saskatchewan and obtaining conditional approval of a listing of the common shares on the CSE (the "Transaction"). Each Unit consists of one common share and one warrant. Each warrant will entitle the holder to purchase one common share at a price of $0.50 for a period of 12 months following the issuance of warrants. The proceeds of the private placement were released to the Company on November 5, 2019 (Note 15).

4. ACCOUNTS RECEIVABLE

	December 31, 2019	December 31, 2018
Trade accounts receivable	**$ 146,194**	$ 66,295
GST input tax credits	**54,885**	7,985
SR&ED receivable	**23,616**	23,616
	$ 224,695	$ 97,896

Subscriptions receivable

During the year ended December 31, 2017, the Company agreed to settle subscriptions receivable of $160,000 by way of offsetting the amounts against amounts owing on certain notes payable. As at December 31, 2018, the outstanding balance is $153,566 in subscription receivables relating to shares issued in a prior year. During the year ended December 31, 2019, this receivable was settled against certain notes payable (Note 13).

5. INVENTORY

	December 31, 2019	December 31, 2018
Parts	**$ 48,563**	$ 61,185

During the year ended December 31, 2019, the Company recorded a provision to value its inventory for obsolete and slow-moving inventory, recognizing an expense in cost of sales of $nil (2018: $80,135).

During the year ended December 31, 2019, $96,463 (2018: $271,511) of inventory was sold and recognized in cost of sales.

6. PREPAID EXPENSES AND DEPOSITS

	December 31, 2019	December 31, 2018
Insurance	**$ 35,703**	$ 11,352
Prepaid marketing services	**227,459**	-
Prepaid subscriptions	**1,583**	1,526
WCB Premiums	**916**	853
Deposits	**6,969**	9,574
	$ 272,630	$ 23,305

Expressed in Canadian Dollars

7. NOTE RECEIVABLE

On September 30, 2019, the Company issued a note receivable to a vendor of the Company for USD $10,000. The note began to accrue interest on December 22, 2019. As at December 31, 2019, the balance of the note receivable was $13,232, including $328 of interest. The loan is unsecured, bears interest of 10% per annum and was due on December 22, 2019. As at December 31, 2019, the note receivable was deemed uncollectable and the Company recognized a loss of write off of loan receivable of $13,560.

8. EQUIPMENT

	Computer Equipment	Furniture and Equipment	Software	Total
Cost				
Balance at January 1, 2018	$ 163,255	$ 202,556	$ 72,499	$ 438,310
Additions	440	140	11,955	12,535
Disposals	(420)	(21,334)	(114)	(21,868)
Balance at December 31, 2018	163,275	181,362	84,340	428,977
Additions	-	87,785	-	87,785
Disposals	(1,056)	(31,647)	-	(32,703)
Impairment	(155,219)	(95,327)	(54,373)	(304,919)
Balance at December 31, 2019	**$ 7,000**	**$ 142,173**	**$ 29,967**	**$ 179,140**
Accumulated depreciation				
Balance at January 1, 2018	$ 147,074	$ 149,840	$ 65,477	$ 362,391
Charge for the year	3,341	14,854	4,326	22,521
Eliminated on disposal	(389)	(10,695)	(29)	(11,113)
Balance at December 31, 2018	150,026	153,999	69,774	373,799
Charge for the year	103	7,028	4,574	11,705
Eliminated on disposal	(1,654)	(26,770)	-	(28,424)
Impairment	(141,714)	(96,313)	(55,054)	(293,081)
Balance at December 31, 2019	**$ 6,761**	**$ 37,944**	**$ 19,294**	**$ 63,999**
Net book value:				
December 31, 2018	$ 13,249	$ 27,363	$ 14,566	$ 55,178
December 31, 2019	**$ 239**	**$ 104,229**	**$ 10,673**	**$ 115,141**

During the year ended December 31, 2019, the Company sold computer equipment for a gain on disposal of assets of $28,651 (December 31, 2018 - $nil).

Expressed in Canadian Dollars

9. INTELLECTUAL PROPERTY

		Total
Cost		
Balance at January 1, 2018	$	71,805
Balance at December 31, 2018		71,805
Impairment		(29,874)
Balance at December 31, 2019	**$**	**41,931**
Accumulated depreciation		
Balance at January 1, 2018	$	44,362
Charge for the year		15,534
Balance at December 31, 2018		59,896
Charge for the year		8,386
Impairment		(27,736)
Balance at December 31, 2019	**$**	**40,546**
Net book value:		
December 31, 2018	$	11,908
December 31, 2019	**$**	**1,385**

10. RIGHT OF USE ASSETS

The Company's right-of-use asset relates to the lease of office space.

On adoption of IFRS 16, the group recognized lease liability which had previously been classified as 'operating leases' under IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments and discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 12%.

On December 1, 2019, the Company entered into an amendment for the lease agreement, where the lease was amended with a change in annual payments. As there was no change to the underlying asset, the modification was not accounted for as a separate lease.

		Total
Cost		
Balance at January 1, 2019, on adoption of IFRS 16	$	131,634
Lease modification		27,905
Balance at December 31, 2019	**$**	**159,539**
Accumulated depreciation		
Balance at January 1, 2019, on adoption of IFRS 16	$	-
Charge for the period		29,545
Balance at December 31, 2019	**$**	**29,545**
Net book value:		
January 1, 2019, on adoption of IFRS 16	**$**	**131,634**
December 31, 2019	**$**	**129,994**

Expressed in Canadian Dollars

11. LEASE LIABILITY

		Total
Balance at January 1, 2019, on adoption of IFRS 16	$	131,634
Interest expense		14,534
Lease payments		(38,000)
Lease modification		27,905
Balance at December 31, 2019	**$**	**136,073**
Which consists of:		
Current lease liability	$	43,000
Non-current lease liability		93,073
Balance at December 31, 2019	**$**	**136,073**

12. TRADES PAYABLE AND ACCRUED LIABILITIES

		December 31, 2019		December 31, 2018
Trades payable	**$**	**688,309**	$	1,593,377
Accrued liabilities		**162,658**		106,220
Contingent liabilities (Note 18)		**-**		15,000
Due to related parties (Note 20)		**9,681**		837,781
Government grant payable (Note 17)		**33,709**		33,709
	$	**894,357**	$	2,586,087

During the year ended December 31, 2019, the Company settled $1,030,714 in trades payable through repayment of $512,492 and recognized a gain on settlement of debt of $518,222 (2018 - $nil).

13. NOTES PAYABLE

		December 31, 2019		December 31, 2018
Opening balance	**$**	**844,304**	$	571,675
Issuance of notes payable		**1,137,978**		373,243
Repayment of notes payable (1)		**(1,036,336)**		(137,854)
Settlement of notes payable		**(62,000)**		-
Foreign exchange		**(22,366)**		(882)
Interest accrued		**101,689**		38,122
Eliminated on consolidation		**(963,269)**		-
Ending balance	**$**	**-**	$	844,304

(1) Includes the application of $153,566 of subscription receivable (Note 4).

The Company had no notes payable outstanding as at December 31, 2019.

During the year ended December 31, 2019, the following new notes were executed:

- Note 13 was entered into with a company controlled by a director of the Company, bear interest at 12% per annum and are unsecured. Note 13 was settled during the year ended December 31, 2019.

Expressed in Canadian Dollars

13. NOTES PAYABLE (CONT'D)

- Notes 14 through 17, were entered into between the Company and Draganfly Innovations for $930,000, interest bearing at 10% per annum, calculated annually, and due at the earlier of 30 days from the date the Amalgamation is completed and one year from the date of the advance. Upon closing of the Amalgamation (Note 3), Notes 14 through 17 were eliminated upon consolidation.
- Note 18 was entered into with an individual for USD$125,000, interest bearing at 18% per annum, and is unsecured. The notes had a maturity date of October 29, 2019 and was repaid during the year ended December 31, 2019. This note also bore a USD$6,250 due diligence fee and a USD$6,250 closing fee that are being recognized over the life of the note as additional interest.

The Company's notes payable outstanding as at December 31, 2018 were as follows:

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

14. CONVERTIBLE DEBENTURES

	September 2015 (1)	August 2016 (2 and 3)	December 2016 (4)	January 2017 (5 and 6)	March 2017 (7)	Total
Cost						
Balance at January 1, 2018	$ 550,000	$ 200,000	$ 160,784	$ 51,202	$ 154,236	$ 1,116,222
Accretion	-	-	39,216	13,047	38,558	90,821
Balance at December 31, 2018	$ 550,000	$ 200,000	$ 200,000	$ 64,249	$ 192,794	$ 1,207,043
Repayments	(275,000)	(208,131)	-	-	-	(486,131)
Settled for shares	(275,000)	-	(200,000)	(65,000)	(200,000)	(740,000)
Accretion and interest	-	8,131	-	751	7,206	16,088
Balance at December 31, 2019	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

The Company had no convertible debentures outstanding as at December 31, 2019.

During the year ended December 31, 2019, half of Debenture 1 and the entire portion of Debentures 2 and 3 were repaid.

During the year ended December 31, 2019, the Company settled the remaining portion of Debenture 1 and Debentures 4 through 7 by issuing 2,118,492 common shares of the Company (Note 15 and 23).

15. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

For the year ended December 31, 2019,

- Prior to the closing of the Amalgamation (Note 3), Draganfly Innovations issued 719,927 (pre-consolidation) common shares to a company controlled by a director of the Company for settlement of $799,341 in accounts payable and application of $153,566 in subscription receivable (Note 4).
- Prior to the closing of the Amalgamation (Note 3), Draganfly Innovations issued 1,114,827 (pre-consolidation) common shares with a value of $1,000,000 as transaction fees for the Amalgamation to related parties.
- On August 15, 2019, the Amalgamation (Note 3) was completed and the Company acquired, on a 1.794 for 1 basis, all issued and outstanding shares of Draganfly Innovations in exchange for 42,638,356 common shares of the Company.
- On August 15, 2019, the Company issued 45,325 common shares for settlement of $22,662 in trades payables at a value of $0.50 per share.
- On August 15, 2019, the Company issued 2,118,492 common shares for settlement of $740,000 in convertible debentures and interest. As a result of the settlement, the Company recognized loss on settlement of debt of $319,246 in the statement of loss and comprehensive loss.
- On August 23, 2019, the Company issued 316,940 common shares for exercise of share purchase warrants of the Company for proceeds of $8,833. As a result of the exercise, $212,909 from reserve was reclassification to share capital.
- On October 25, 2019, the Company issued 14,051,499 units per the private placement (Note 3). Each unit consists of one common share and one warrant. These warrants have an exercise price of $0.50 per warrant, each convert to one common share, and have a life of one year, expiring on October 25, 2020.

For the year ended December 31, 2018,

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

Stock options

The Company has adopted an incentive share compensation plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the CSE requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares. The total number of common shares reserved and available for grant and issuance pursuant to this plan shall not exceed 20% (in the aggregate) of the issued and outstanding common shares from time to time. The number of options awarded and underlying vesting conditions are determined by the Board of Directors in its discretion. Such options will be exercisable for a period of up to 10 years from the date of grant. 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 Company 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 Company, measured at the Company's most recent balance sheet date; or (iii) 15% of the outstanding amount of the common shares of the Company, measured at the Company's most recent balance sheet date; and The number of common shares issuable pursuant to the exercise of options under the plan within a 12 month period to all eligible persons retained to provide investor relations activities (together with those common shares that are issued pursuant to any other share compensation arrangement) shall not, at any time, exceed 1% of the issued and outstanding common shares.

Expressed in Canadian Dollars

15. SHARE CAPITAL (CONT'D)

As at December 31, 2019, the Company had the following options outstanding and exercisable:

Grant Date	Expiry Date		Exercise Price	Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Exercisable
October 30, 2019	October 30, 2029	$	0.50	9.84	3,075,000	1,024,992
November 19, 2019	November 19, 2029	$	0.50	9.89	650,000	83,333
					3,725,000	**1,108,325**

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

	Number of Options		Weighted Average Exercise Price
Outstanding, December 31, 2017	300,000	$	1.25
Expired	(300,000)		1.25
Outstanding, December 31, 2018	-	$	-
Granted	**3,725,000**		**0.50**
Outstanding, December 31, 2019	**3,725,000**	**$**	**0.50**

During the year ended December 31, 2019,

- The Company granted 2,925,000 options to employees. Each option is exercisable at $0.50 per share for a period of 10 years from the grant date.
- The Company issued 800,000 options to consultants. Each option is exercisable at $0.50 per share for a period of 10 years from the grant date.

During the year ended December 31, 2018, the fair value of 300,000 expired options of $323,026 was reclassified from reserves to deficit.

During the year ended December 31, 2019, the Company recorded $599,701 in stock-based compensation for stock options, based on the fair values of stock options granted which were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

		Year ended December 31, 2019
Risk free interest rate		**1.45%-1.46%**
Expected volatility		**100%**
Expected life		**7.5 years**
Expected dividend yield		**0%**
Exercise price	**$**	**0.50**

The weighted average grant date fair value of options granted during the year ended December 31, 2019 was $0.46 per option.

15. SHARE CAPITAL (CONT'D)

Restricted share units (RSUs)

The Company has adopted an incentive share compensation 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, restricted stock units (RSUs). The number of RSUs awarded and underlying vesting conditions are determined by the Board of Directors in its discretion. RSUs will have a 3-year vesting period following the award date. 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 awarded pursuant to this plan, shall not exceed 20% (in the aggregate) of the issued and outstanding common shares from time to time.

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 Company 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) USD $1,000,000; (ii) 15% of the total assets of the Company, measured at the Company's most recent balance sheet date; or (iii) 15% of the outstanding amount of the common shares of the Company, measured at the Company's most recent balance sheet date. At the election of the Board of Directors, upon each vesting date, participants receive (a) the issuance of common shares from treasury equal to the number of RSUs vesting, or (b) a cash payment equal to the number of vested RSUs multiplied by the fair market value of a common share, calculated as the closing price of the common shares on the CSE for the trading day immediately preceding such payment date; or (c) a combination of (a) and (b).

On the grant date of RSUs, the Company determines whether it has a present obligation to settle in cash. If the Company has a present obligation to settle in cash, the RSUs are accounted for as liabilities, with the fair value remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. The Company has a present obligation to settle in cash if the choice of settlement in shares has no commercial substance, or the Company has a past practice or a stated policy of setting in cash, or generally settles in cash whenever the counterparty asks for cash settlement. If no such obligation exists, RSUs are accounted for as equity settled share-based payments and are valued using the share price on grant date. Upon settlement:

a) If the Company elects to settle in cash, the cash payment is accounted for as the repurchase of an equity interest (i.e. as a deduction from equity), except as noted in (c) below.
b) If the Company elects to settle by issuing shares, the value of RSUs initially recognized in reserves is reclassified to share capital, except as noted in (c) below.
c) If the Company elects the settlement alternative with the higher fair value, as at the date of settlement, the Company recognizes an additional expense for the excess value given (i.e. the difference between the cash paid and the fair value of shares that would otherwise have been issued, or the difference between the fair value of the shares and the amount of cash that would otherwise have been paid, whichever is applicable).

During the year ended December 31, 2019, the Company committed to grant 3,175,000 RSUs to employees and consultants of the Company with each RSU exercisable into one common share of the Company or the cash equivalent thereof upon the vesting conditions being met for a period of three years from the grant date. The Company at its discretion elected to grant the employees and consulting common shares rather than paying cash. As a result, the Company recorded share-based payment expense of $161,858 in stock-based compensation for RSUs, based on the fair values of RSUs granted which were calculated using the closing price of the Company's stock on the day prior to grant.

Expressed in Canadian Dollars

15. SHARE CAPITAL (CONT'D)

As at December 31, 2019 the Company had the following RSUs outstanding:

Grant Date	Number of RSUs Outstanding
October 30, 2019	2,925,000
November 19, 2019	250,000
	3,175,000

Warrants

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

	Number of Warrants		Weighted Average Exercise Price
Outstanding, December 31, 2017	784,232	$	0.30
Exercised	(14,352)		0.03
Outstanding, December 31, 2018	770,030	$	0.27
Warrants of the Company at time of Amalgamation (Note 3)	**4,000,000**		**0.10**
Expired	**(453,090)**		**0.03**
Exercised	**(316,940)**		**0.03**
Issued	**14,051,499**		**0.50**
Outstanding, December 31, 2019	**18,051,499**	**$**	**0.41**

As at December 31, 2019, the Company had the following warrants outstanding:

Date Issued	Expiry Date	Exercise Price	Number of Warrants Outstanding
February 4, 2019	February 4, 2021	$0.10	4,000,000
November 5, 2019	November 5, 2020	$0.50	14,051,499
			18,051,499

The weighted average remaining contractual life of warrants outstanding as of December 31, 2019 was 0.90 years (December 31, 2018 - 0.84 years).

Expressed in Canadian Dollars

16. REVENUE

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

		December 31, 2019		December 31, 2018
Product sales	**$**	**248,939**	$	423,705
Consulting		**1,131,488**		963,308
	$	**1,380,427**	$	1,387,013

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

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

		December 31, 2019		December 31, 2018
Canada	**$**	**127,118**	$	249,595
United States		**1,251,199**		1,131,940
International		**2,110**		5,478
	$	**1,380,427**	$	1,387,013

The Company derives significant revenues from one customer, which exceeds 10% of total revenues for either the year ended December 31, 2019 at 81%. During the year ended December 31, 2018, there were three customers that provided significant revenues that exceeded 10% (2018 – 63%).

17. GOVERNMENT ASSISTANCE

During the year ended December 31, 2019, the Company received $nil (December 31, 2018 – $89,740) in government assistance for the purchase of research related to scientific research and experimental development tax credit, the entire amount is included in other income. In addition, the Company recorded $nil (December 31, 2018 - $23,816) in SR&ED receivable for current year SR&ED claim.

In February 2016, the Company and an Alberta based government funded not-for-profit organization (the "Organization") entered into a funding agreement, whereby the Organization would fund 50% of the total costs, up to $375,000 to the Company for the development of a new product. During the year ended December 31, 2016, the Company received $75,000 in funding. On February 28, 2017, the Company and the Organization entered into a repayment agreement, where the Company would refund and repay a portion of the Organization's initial funding. The repayment agreement set out the terms and conditions upon which the Company was to pay $41,292 over a 12-month repayment plan. During the year ended December 31, 2018, the Company made its final repayment of $13,764.

In addition, the Company will pay the Organization $33,709 if the Company ever sells a product that the Organization's funding contributed to, recorded in accounts payable and accrued liabilities.

18. CONTINGENCY

On January 15, 2018, the Company entered into a settlement agreement with a vendor pursuant to an action filed under the Ontario Court. Per the agreement, the Company is to pay the settlement amount of $75,000 in 15 equal installments on a monthly basis. During the year ended December 31, 2019, the Company repaid $15,000 (2018 - $60,000) of the settlement amount.

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts and trade receivables. The majority of cash is deposited in bank accounts held with major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company does not have any past due outstanding receivables and the expected loss rate for undue balance is estimated to be nominal.

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

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

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

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

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

Expressed in Canadian Dollars

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONT'D)

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, 2018.

20. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

***Loans*:**

On July 17, 2015, the Company issued a note payable for $600,000 with the former owner of the Company. The note payable bears interest at 5% per annum, was due on December 1, 2015 and is secured against the intellectual property as at the effective date. During the year ended December 31, 2019, the Company repaid the balance owing of $378,770 (2018 - $nil). As at December 31, 2019, $nil (2018 - $364,655) in notes payable plus accrued interest is outstanding. For the year ended December 31, 2019, the Company recognized interest expense of $15,153 (2018 - $17,748).

i. On December 17, 2015, the Company issued a $160,000 note payable to a company controlled by a director of the Company. During the year ended December 31, 2017, the balance outstanding of $160,000 was applied against a subscription receivable (note 3). This subscription receivable was settled in the year ended December 31, 2019.

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

During the year ended December 31, 2019, the company repaid the balance owing of $290,973 (2018 - $37,086). As at December 31, 2019, $nil in promissory notes plus accrued interest is outstanding (2018 - $253,995). For the year ended December 31, 2019, the Company recorded interest expense of $13,860 (2018 - $17,581).

Trade payables and accrued liabilities:

During the year ended December 31, 2019, the Company had $9,681 (2018 - $837,781) payable to related parties outstanding that were included in accounts payable. The balances outstanding are unsecured, non-interest bearing and due on demand.

Key management compensation

Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management for the year ended December 31, 2019 and 2018 included:

	December 31, 2019	December 31, 2018
Contract work, in office and miscellaneous	**$ 420,039**	$ -
Salaries	**289,450**	280,000
Share-based payments	**480,158**	-
Total	**$ 1,189,647**	$ 280,000

Expressed in Canadian Dollars

21. INCOME TAXES

The following table reconciles the expected income taxes at the Canadian statutory income tax rates to the amounts recognized in the statements of comprehensive loss for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Loss before income taxes	**$ 11,095,507**	$ 601,729
Canadian statutory rates	**27%**	27%
Expected income tax	**2,996,000**	162,000
Non-deductible items	**(2,043,000)**	-
Adjustments to prior years provision versus statutory tax returns	**(388,000)**	-
Differences between prior year provision and final tax return	**(18,000)**	(20,000)
Change in deferred tax asset not recognized	**(547,000)**	(142,000)
Income tax	**$ -**	$ -

The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31, 2019	December 31, 2018
Deferred income tax assets (liabilities):		
Share issuance costs	**$ -**	$ 1,000
Non-capital losses	**2,439,000**	1,849,000
Property and equipment	**581,000**	650,000
Intangible assets	**-**	(27,000)
Scientific Research and Experimental Development	**49,000**	49,000
Total deferred income tax assets	**$ 3,069,000**	$ 2,522,000
Deferred income tax not recognized	**(3,069,000)**	(2,522,000)
Net deferred tax assets	**$ -**	$ -

The Company has non-capital loss carry forward of approximately $7,743,000 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the years 2033 to 2039.

22. FINANCE AND OTHER COSTS

	December 31, 2019	December 31, 2018
Accretion and interest expense (note 14)	**$ 16,088**	$ 90,821
Interest expense for notes payable (note 13)	**101,689**	38,122
Interest expense on lease liabilities (note 11)	**14,534**	-
Interest on outstanding trade payables and bank charges	**39,594**	16,328
	$ 171,905	$ 145,271

23. SUPPLEMENTAL CASH FLOW DISCLOSURES

During the year ended December 31, 2019:

- Settlement of $822,003 in accounts payable and application of $153,566 in subscription receivable through issuance of shares (Note 15); and
- Settlement of $740,000 of convertible debentures (Note 15).

24. SUBSEQUENT EVENTS

The following reportable events occurred subsequent to the year ended December 31, 2019:

- On January 31, 2020, the Company executed a share purchase agreement with the shareholders of Dronelogics Systems Inc. ("Dronelogics"), whereby the Company has agreed to acquire all of the issued and outstanding shares in the capital of Dronelogics, excluding the cinematography division, for a consideration of $2,000,000, plus the amount, if any, by which the estimated closing date working capital exceeds the target closing working capital (the "Transaction"). The consideration will be paid as follows:
    - $500,000 in cash, subject to working capital adjustment; and
    - 3,000,000 common shares in the capital of the Company at a deemed price of $0.50 per share.

  The shareholders of Dronelogics will enter into executive employment agreements with the Company. In addition, they will receive a nomination right to appoint one person to the board of directors of the Company for a period of two years from the Closing. The Transaction has been approved by the board of directors of the Company and Dronelogics. In connection with the Transaction, the Company will pay fees of $160,000 to certain advisors; consisting of $100,000 by way of 200,000 in shares at a deemed price of $0.50 per share and as to $60,000 in cash or shares at a deemed price of $0.50 per share. At Closing, the Company will issue: (i) additional shares to the shareholders, at a deemed price of $0.50 per share, in satisfaction of accrued management bonuses in connection with their services to Dronelogics; (ii) grant 445,000 incentive stock options to certain employees of Dronelogics pursuant to the Company's share compensation plan, exercisable at a price equal to closing price of the shares on the CSE on January 31, 2020. The options shall have a term of 10 years and vest in three equal tranches, on the first, second and third anniversaries of the date of grant, and (iii) award 375,000 RSUs to certain directors and officers of Dronelogics. RSUs were awarded to certain directors and officers of Dronelogics pursuant to the Company's share compensation plan. The RSUs shall vest in three equal tranches, on the first, second and third anniversaries of the date of award.

  Completion of the Transaction is subject to a number of closing conditions customary for a transaction of this nature, including the filing of required forms with the CSE.

- The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. There are significant uncertainties with respect to future developments and impact to the Company related to the COVID-19 pandemic, including the duration, severity and scope of the outbreak and the measures taken by governments and businesses to contain the pandemic. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on the Company's business operations cannot be reasonably estimated at this time. As at the financial statement approval date, the outbreak and the related mitigation measures have had the following impacts on the Company's operations, among others: temporary closure of business locations, supply chain issues, and decrease in sales. The extent to which these events may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine the ultimate financial impacts at this time. Any deterioration in the current situation could have an adverse impact on our business, results of operations, financial position and cash flows in 2020.