# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 20-F

**(Mark One)**

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

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

**For the fiscal year ended** **December 31, 2021**

**OR**

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

**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report . . . . . .

**For the transition period from _____ to _____**

Commission file number: 001-40688

# Draganfly Inc.

(Exact name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**British Columbia, Canada**

(Jurisdiction of Incorporation or Organization)

**2108 St. George Avenue, Saskatoon, Saskatchewan, S7M 0K7, Canada**

(Address of Principal Executive Offices)

**Paul Sun, Chief Financial Officer**
**Telephone: 800.979.9794**
**E-mail: paul.sun@draganfly.com**

**2108 St. George Avenue, Saskatoon, Saskatchewan, S7M 0K7, Canada**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Shares | DPRO | The Nasdaq Stock Market LLC |

Securities registered or to be registered pursuant to Section 12(g) of the Act

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to section 15(d) of the Act

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 33,197,984

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐Yes ☒No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐Yes ☒No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒Yes ☐No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files)

☒Yes ☐No

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

†The term "new or revised financial accounting standard" refers to any updated issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

| | | | | | |
|---|---|---|---|---|---|
| U.S. GAAP | ☐ | International Financial Reporting Standards as issued by the International Accounting Standards Board | ☒ | Other | ☐ |

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐Yes ☒No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court

☐Yes ☒No

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## GENERAL MATTERS

Unless otherwise noted or the context indicates otherwise "we", "us", "our", the "Company" or "Draganfly" refer to Draganfly Inc. and its subsidiaries.

Unless otherwise indicated, financial information in this Annual Report on Form 20-F (this "**Annual Report**") has been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. Unless otherwise noted herein, all references to "$," "C$," "Canadian dollars," or "dollars" are to the currency of Canada and "US$," "United States dollars," or "U.S. dollars" are to the currency of the United States.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and as such, we have elected to comply with certain reduced U.S. public company reporting requirements.

The Company prepares and reports its consolidated financial statements in accordance with IFRS. However, this Annual Report may make reference to certain non-IFRS measures including key performance indicators used by management. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS.

The Company uses non-IFRS measures including "gross profit," "gross margin" and "working capital" which may be calculated differently by other companies. These non-IFRS measures and metrics are used to provide investors with supplemental measures of the Company's operating performance and liquidity and thus highlight trends in the Company's business that may not otherwise be apparent when relying solely on IFRS measures. Management believes that gross profit, defined as revenue less operating expenses, is a useful supplemental measure of operations. Gross profit helps provide an understanding on the level of costs needed to create revenue. Gross margin illustrates the gross profit as a percentage of revenue. Management believes that working capital, defined as current assets less current liabilities, is an indicator of the Corporation's liquidity and its ability to meet its current obligations. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of companies in similar industries. Management also uses non-IFRS measures and metrics in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of executive compensation. For reconciliations of these non-IFRS measures to the relevant reported measures, please see the "*Results of Operations – Cost of Goods Sold / Gross Margin*" for a discussion of gross profit and gross margin, and for a discussion of working capital, "*Selected Financial Information*" sections of the Company's Management's Discussion and Analysis for the year ended December 31, 2021, attached to this Annual Report in Exhibit 15.1.

Unless otherwise indicated, the Company has obtained the market and industry data contained in this Annual Report from its internal research, management's estimates and third-party public information and other industry publications. While the Company believes such internal research, management's estimates and third-party public information is reliable, such internal research and management's estimates have not been verified by any independent sources and the Company has not verified any third party public information. While the Company is not aware of any

misstatements regarding the market and industry data contained in this Annual Report, such data involves risks and uncertainties and are subject to change based on various factors, including those described under "Cautionary Statement Regarding Forward-Looking Information and Statements" and "Item 3.D. Risk Factors".

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. In some cases, you can identify forward-looking statements by terminology such as "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "potential," or the negative of these terms or other similar expressions. The statements we make regarding the following matters are forward-looking by their nature and are based on certain of the assumptions noted below:

- the intentions, plans and future actions of the Company;
- statements relating to the business and future activities of the Company;
- anticipated developments in operations of the Company;



- market position, ability to compete and future financial or operating performance of the Company;
- the timing and amount of funding required to execute the Company's business plans;
- capital expenditures;
- the effect on the Company of any changes to existing or new legislation or policy or government regulation;
- the availability of labor;
- requirements for additional capital;
- goals, strategies and future growth;
- the adequacy of financial resources;
- expectations regarding revenues, expenses and anticipated cash needs;
- the impact of the COVID-19 pandemic on the business and operations of the Company; and
- general market conditions and macroeconomic trends driven by the COVID-19 pandemic and/or geopolitical conflicts, including supply chain disruptions, market volatility, inflation, and labor challenges, among other factors.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, levels of activity, performance or achievements to differ materially from the results, levels of activity, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to, those factors identified under the *Risk Factors* listed below in Item 3.D. of this Annual Report. Furthermore, unless otherwise stated, the forward-looking statements contained in this Annual Report are made as of the date hereof, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, changes or otherwise, except as required by law.



# PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not required.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not required.

## ITEM 3. KEY INFORMATION

### 3.A.

[Reserved]

### 3.B. Capitalization and Indebtedness

Not required.

### 3.C. Reasons for the Offer and Use Of Proceeds

Not required.

### 3.D. Risk Factors

An investment in the Company's common shares, without par value, (the "**Common Shares**") is highly speculative and involves significant risks. **In addition to the other information contained in this Annual Report and the documents incorporated by reference herein and therein, you should review and carefully consider the risks described herein.** The risks described herein are not the only risk factors facing us and should not be considered exhaustive. Additional risks and uncertainties not currently known to us, or that we currently consider immaterial, may also materially and adversely affect our business, operations and condition, financial or otherwise.

**Risks Related to the Company, its Business and Industry**

***The Company has a history of losses.***

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

***A shareholder's holding in the Company may be diluted if the Company issues additional Common Shares or other securities in the future.***

The Company may issue additional Common Shares or other securities in the future, which may dilute a shareholder's holding in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders have no pre-emptive rights in connection with further issuances of any securities. The directors of the Company have the discretion to determine if an issuance of Common Shares or other securities is warranted, the price at which any such securities are issued and the other terms of issue of Common Shares or securities. In addition, the Company may issue additional Common Shares upon the exercise of incentive stock options to acquire Common Shares under its share compensation plan or upon the exercise or conversion of other outstanding convertible securities of the Company, which will result in further dilution to shareholders. In addition, the issuance of Common Shares or other securities in any potential future acquisitions, if any, may also result in further dilution to shareholder interests.



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

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

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

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

***The Company will be affected by operational risks and may not be adequately insured for certain risks.***

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

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

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

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

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

***The Company operates in a competitive market.***

The Company faces competition and new competitors will continue to emerge throughout the world. Services offered by the Company's competitors may take a larger share of consumer spending than anticipated, which could cause revenue generated from the Company's products and services to fall below expectations. It is expected that competition in these markets will intensify. Some of the other publicly traded companies we may compete with include Alpine 4 Tech, Inc., Aerovironment Inc., EHang Holdings Limited, AgEagle, Drone Delivery Canada, Inc., and Red Cat Holdings, Inc.

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

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

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

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

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

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

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

Transport Canada is responsible for establishing, managing, and developing safety and security standards and regulations for civil aviation in Canada, and includes unmanned civil aviation (drones). Civil operations include law enforcement, scientific research, or use by private sector companies for commercial purposes. The Canadian Aviation Regulations ("**CARs**") govern civil aviation safety and security in Canada, and by extension govern operation of drones in Canada to an acceptable level of safety.

While Transport Canada has been a leader in the development of regulations for the commercial use of remotely piloted aircraft systems ("**RPAS**") and continues to move forward rapidly with its regulatory development, it has acknowledged the challenge of regulations keeping pace with the rapid development in technology and the growing

demand for commercial RPAS use, particularly in the beyond visual line-of-sight environment. In 2012, the Canadian Aviation Regulation Advisory Council UAS working group released its Phase 2 report which outlined a proposed set of revision to the CARs to permit beyond visual line of sight operations. This report was the basis for the recently released Notice of Proposed Amendment ("**NPA**") by Transport Canada on lower risk beyond visual line-of-sight.



Failure to obtain necessary regulatory approvals from Transport Canada or other governmental agencies, including the granting of certain Special Flight Operations Certificates ("**SFOCs**"), or limitations put on the use of RPAS in response to public safety concerns, may prevent the Company from testing or operating its aircraft and/or expanding its sales which could have an adverse impact on the Company's business, prospects, results of operations and financial condition.

***There are risks associated with the regulatory regime and permitting requirements of the Company's business.***

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

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

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

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

***The Company may be subject to the risks associated with future acquisitions.***

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

***The Company's inability to retain management and key employees could impair the future success of the Company.***

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



***A significant growth in the number of personnel would place a strain upon the Company's management and resources.***

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

***The Company faces uncertainty and adverse changes in the economy.***

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

***The Company is subject to certain market-based financial risks associated with its operations.***

The Company could be subject to interest rate risks, which is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities, however market fluctuations could increase the costs at which the Company can access capital and its ability to obtain financing and the Company's cash balances carry a floating rate of interest. In addition, the Company engages in transactions in currencies other than its functional currency. Depending on the timing of these transactions and the applicable currency exchange rates, conversions to the Company's functional currency may positively or negatively impact the Company.

***The COVID-19 pandemic could negatively affect our business, operations and future financial performance.***

In March 2020 the World Health Organization designated the outbreak of a novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. This resulted in governments, companies, and individuals worldwide enacting emergency measures to combat the spread of the virus, including the implementation of travel bans, mandated and self-imposed quarantine periods and physical distancing, that have caused a material disruption to businesses globally. Throughout the course of the pandemic, the impact of COVID-19 has varied significantly due to both global and localized infection rates, notwithstanding widespread vaccine availability within Canada and the United States beginning in spring 2020.

As a result of the pandemic, 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. Such volatility has let to significant challenges to the global supply chain, disrupted labor markets and has recently contributed to rising levels of inflation. The Company has experienced material pandemic related impacts, including the loss of its primary customer engineering customer in 2020 due to mandated stay-at-home orders. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and

central bank interventions. As such, the Company cannot predict with any certainty what the future impacts the pandemic may have on its business.

Management of the Company has and continues to closely monitor the impact of the COVID-19 global pandemic, with a focus on the health and safety of the Company's employees, customers, and business continuity. Since the outbreak of the pandemic, the Company has taken various steps to mitigate the impact of COVID-19, including following government or health authority guidelines and restrictions at its facilities to ensure the safety of its staff and product consumers. The Company will continue to follow government or health authority guidelines and restrictions and has experienced minimal disruption to its operations and supply chain. However, there is no guarantee that the company's mitigation efforts will prove successful in combating the spread of the virus or that supply chain disruptions will not occur in the future. As the Company reintegrates its personnel to its workplace, it may incur additional costs to adapt the workplace to meet applicable health and safety requirements. The occurrence of additional waves of the virus or its variants, or insufficient vaccination levels may require the Company to revise or delay such plans. To the extent that it is unable to effectively protect its workforce against the transmission of the virus, the Company may be forced to slow or reverse its reintegration efforts and could face allegations of liability.

Given the uncertainties associated with the ongoing COVID-19 pandemic, including the uncertainty surrounding the remaining duration and outcome, COVID-19 variants and vaccine efficacy, the Company is unable to estimate the full impact of the COVID-19 pandemic on its business, financial condition, results of operations, and/or cash flows; however, the impact could be material. The Company cannot accurately predict the future impact COVID-19 may have on, among others, the: (i) demand for drone delivery services, (ii) severity and the length of potential measures taken by governments to manage the spread of the virus and their effect on labour availability and supply lines, (iii) availability of essential supplies, (iv) purchasing power of the Canadian dollar, or (v) ability of the Company to obtain necessary financing. Despite global vaccination efforts, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in the future.



***The conflict between Russia and Ukraine could destabilize global markets and threatens global peace.***

On February 24, 2022, Russian military forces launched a full-scale military invasion of Ukraine. In response, Ukrainian military personal and civilians are actively resisting the invasion. Many countries throughout the world have provided aid to the Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in their resistance to the Russian invasion. The North Atlantic Treaty Organization ("**NATO**") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. The outcome of the conflict is uncertain and is likely to have wide ranging consequences on the peace and stability of the region and the world economy. Certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia and such sanctions may have far reaching effects on the global economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

***Negative macroeconomic and geopolitical trends could affect the Company's ability to access sources of capital.***

The COVID-19 pandemic and the Russian invasion of Ukraine could negatively impact the Company's ability to obtain financing and access sources of capital. Both events have led to significant market volatility as governments undertake measures to prevent the spread of COVID-19 and discourage political conflict. These events have contributed to significant uncertainty in global markets, increased inflationary pressures, and could lead to a tightening of credit markets and a decline in economic activity. These impacts could have a material adverse effect on the Company's liquidity and ability to obtain financing in the future. As the Company has a history of losses and present revenues do not allow it to sustain its operations, an inability to access credit or capital markets could undermine the Company's ability to continue as a going concern.

***The Company may be subject to the risks associated with foreign operations in other countries.***

The Company's primary revenues are expected to be achieved in Canada and the US. However, the Company may expand to markets outside of North America and become subject to risks normally associated with conducting business

in other countries. As a result of such expansion, the Company may be subject to the legal, political, social and regulatory requirements and economic conditions of foreign jurisdictions. The Company cannot predict government positions on such matters as foreign investment, intellectual property rights or taxation. A change in government positions on these issues could adversely affect the Company's business.

If the Company expands its business to foreign markets, it will need to respond to rapid changes in market conditions, including differing legal, regulatory, economic, social and political conditions in these countries. If the Company is not able to develop and implement policies and strategies that are effective in each location in which it does business, then the Company's business, prospects, results of operations and financial condition could be materially and adversely affected.

***There are tax risks the Company may be subject to in carrying on business in Canada.***

The Company is a resident of Canada for purposes of the *Income Tax Act* (Canada) (the "**Tax Act**"). Since the Company is operating in a new and developing industry there is a risk that foreign governments may look to increase their tax revenues or levy additional taxes to level the playing field for perceived disadvantages to traditional brick and mortar businesses. There is no guarantee that governments will not impose such additional adverse taxes in the future.

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

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



Recently, the global supply chain has experienced significant disruptions caused by the COVID-19 pandemic and by geopolitical conflict, including the war in Ukraine. These disruptions have impacted a variety of products and goods and have had various downstream effects, making it more difficult to reliably and timely source and supply goods and has also resulted in shortages of labor and equipment. The macroeconomic impacts of the COVID-19 pandemic and global conflicts have contributed to inflationary pressure and increased market volatility, adding additional pricing uncertainty. These conditions, if not mitigated or remedied in a timely manner, could delay or preclude delivery of raw materials needed to manufacture our products or delivery of the Company's products to customers, particularly in international markets. If the Company is unable to obtain components from third-party suppliers in the quantities and of the quality that it requires, on a timely basis and at acceptable prices, then it may not be able to deliver its products on a timely or cost-effective basis to its customers, or at all, which could cause customers to terminate their contracts with the Company, increase the Company's costs and seriously harm its business, results of operations and financial condition. Moreover, if any of the Company's suppliers become financially unstable, then it may have to find new suppliers. It may take several months to locate alternative suppliers, if required, or to redesign the Company's products to accommodate components from different suppliers. The Company may experience significant delays in manufacturing and shipping its products to customers and incur additional development, manufacturing and other costs to establish alternative sources of supply if the Company loses any of these sources or is required to redesign its products. The Company cannot predict if it will be able to obtain replacement components within the time frames that it requires at an affordable cost, if at all.

***Natural outdoor elements such as wind and precipitation may have a material adverse effect on the use and effectiveness of the Company's products.***

The Company's business will involve the operation and flying of UAVs, a technology-based product used outside. As such, the business is subject to various risks inherent in a technology-based businesses operated in outdoor conditions, including faulty parts, breakdowns and crashes. Although the Company anticipates the use of its UAVs in good climactic conditions and that adequate flying conditions will be monitored by trained personnel, there can be no assurance that unpredictable natural outdoor elements will not have a material adverse effect on the use and effectiveness of its products.

***The Company's products may be subject to the recall or return.***

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, safety concerns, packaging issues and inadequate or inaccurate labeling disclosure. If any of the Company's equipment were to be recalled due to an alleged product defect, safety concern or for any other reason, the Company could be required to incur unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management time and attention. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Transport Canada or other regulatory agencies, requiring further management time and attention and potential legal fees, costs and other expenses.

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

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



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

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

The existence of any defects, errors, or failures in the Company's products or the misuse of the Company's products could also lead to product liability claims or lawsuits against it. A defect, error or failure in one of the Company's UAV could result in injury, death or property damage and significantly damage the Company's reputation and support for its UAV in general. The Company anticipates this risk will grow as its UAV begins to be used in Canadian domestic airspace and urban areas. The Company's UAV test systems also have the potential to cause injury, death or property damage in the event that they are misused, malfunction or fail to operate properly due to unknown defects or errors. Although the Company maintains insurance policies, it cannot provide any assurance that this insurance will be adequate to protect the Company from all material judgments and expenses related to potential future claims or that these levels of insurance will be available in the future at economical prices or at all. A successful product liability claim could result in substantial cost to us. Even if the Company is fully insured as it relates to a particular claim, the

claim could nevertheless diminish the Company's brand and divert management's attention and resources, which could have a negative impact on the Company's business, financial condition and results of operations.

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

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

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

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



***Negative consumer perception regarding the Company's products could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company.***

The Company believes the UAV industry is highly dependent upon consumer perception regarding the safety, efficacy, and quality of the UAV used. Consumer perception of these products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, and other publicity regarding the use of UAV. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention, or other research findings or publicity will be favourable to the UAV market. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, the efficacy, and quality of UAV based surveys in general, or the Company's products specifically, could have a material adverse effect.

***If the Company fails to successfully promote its product brand, this could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.***

The Company believes that brand recognition is an important factor to its success. If the Company fails to promote its brands successfully, or if the expenses of doing so are disproportionate to any increased net sales it achieves, it would have a material adverse effect on the Company's business, prospects, financial condition and results of operations. This will depend largely on the Company's ability to maintain trust, be a technology leader, and continue to provide high-quality and secure technologies, products and services. Any negative publicity about the Company or its industry, the quality and reliability of the Company's technologies, products and services, the Company's risk management processes, changes to the Company's technologies, products and services, its ability to effectively manage and resolve customer complaints, its privacy and security practices, litigation, regulatory activity, and the experience of sellers and buyers with the Company's products or services, could adversely affect the Company's reputation and the confidence in and use of the Company's technologies, products and services. Harm to the Company's brand can arise from many sources, including; failure by the Company or its partners to satisfy expectations of service and quality; inadequate protection of sensitive information; compliance failures and claims; litigation and other claims; employee misconduct; and misconduct by the Company's partners, service providers, or other counterparties. If the Company does not successfully maintain a strong and trusted brand, its business could be materially and adversely affected.

***The Company may be subject to electronic communication security risks.***

A significant potential vulnerability of electronic communications is the security of transmission of confidential information over public networks. Cyberattacks could result in unauthorized access to the Company's computer systems or its third-party IT service provider's systems and, if successful, misappropriate personal or confidential information. Anyone who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in its operations. The Company may be required to expend capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

Since the outset of the COVID-19 pandemic, there has been an increase in the volume and sophistication of targeted cyber-attacks. Pandemic-adjusted operations, such as work from home arrangements and remote access to the Company's systems, may pose heightened risk of cyber security and privacy breaches and may put additional stress on the Company's IT infrastructure. A failure of such infrastructure could severely limit the Company's ability to conduct ordinary operations or expose the Company to liability. To date, the Company's systems have functioned capably, and it has not experienced a material impact to its operations as a result of an IT infrastructure issue. In addition, the outbreak of hostilities between Russia and Ukraine and the response of the global community to such aggression is widely seen as increasing the risk of state-sponsored cyberattacks.



Even the most well-protected IT networks, systems and facilities remain potentially vulnerable because the techniques used in attempted security breaches are continually evolving and generally are not recognized until launched against a target or, in some cases, are designed not to be detected and, in fact, may not be detected. Any such compromise of the Company's or its third party's IT service providers' data security and access, public disclosure, or loss of personal or confidential business information, could result in legal claims and proceedings, liability under laws to protect privacy of personal information, and regulatory penalties, and could disrupt our operations, require significant management attention and resources to remedy any damages that result, and damage our reputation and customers willingness to transact business with us, any of which could adversely affect our business.

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

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

adverse effect on its business and reputation. Complying with these various laws could cause the Company to incur substantial costs or require it to change its business practices in a manner adverse to its business.

***The Company relies on its business partners, and they may be given access to sensitive and proprietary information in order to provide services and support to the Company's teams.***

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

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

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



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

***Obtaining and maintaining the Company's patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and its patent protection could be reduced or eliminated for non-compliance with these requirements.***

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

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

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

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

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

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



***The Company may not be able to protect its intellectual property rights throughout the world.***

Filing, prosecuting, and defending patents on all of the Company's product candidates throughout the world would be prohibitively expensive. Therefore, the Company has filed applications and/or obtained patents only in key markets including the United States and Canada. Competitors may use the Company's technologies in jurisdictions where it

has not obtained patent protection to develop their own products and their products may compete with products of the Company.

***Failure to adhere to the Company's financial reporting obligations and other public company requirements could adversely affect the market price of the Common Shares.***

The Company is subject to reporting and other obligations under applicable securities laws in Canada and the United States, and the rules of the CSE and the Nasdaq. These reporting and other obligations place significant demands on the Company's management, administrative, operational and accounting resources. If the Company is unable to meet such demands in a timely and effective manner, its ability to comply with its financial reporting obligations and other rules applicable to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause the Company to fail to satisfy its reporting obligations or result in material misstatements in its financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely affected which could also cause investors to lose confidence in its reported financial information, which could result in a reduction in the trading price of the Common Shares.

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

***We have limited operating experience as a publicly traded company in the U.S.***

We have limited operating experience as a publicly traded company in the U.S. Although our management team have experience managing a publicly-traded company, there is no assurance that the past experience of our management team will be sufficient to operate the Company as a publicly traded company in the United States, including timely compliance with the disclosure requirements of the U.S. Securities and Exchange Commission (the "**SEC"**). We are required to develop and implement internal control systems and procedures in order to satisfy the periodic and current reporting requirements under applicable SEC regulations and comply with the listing standards of the Nasdaq. These requirements place significant strain on our management team, infrastructure and other resources. In addition, our management team may not be able to successfully or efficiently manage the Company as a U.S. public reporting company that is subject to significant regulatory oversight and reporting obligations.

***If the Company is required to write down goodwill and other intangible assets, the Company's financial condition and results could be negatively affected.***

Goodwill impairment arises when there is deterioration in the capabilities of acquired assets to generate cash flows, and the fair value of the goodwill dips below its book value. The Company is required to review its goodwill for impairment at least annually. Events that may trigger goodwill impairment include deterioration in economic conditions, increased competition, loss of key personnel, and regulatory action. Should any of these occur, an impairment of goodwill relating to the acquisition of Dronelogics Systems Inc. could have a negative effect on the assets of the Company.



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

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

***The Company's directors and officers may have conflicts of interest in conducting their duties.***

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

Our Articles provide that the Company must indemnify a director or former director against all judgments, penalties or fines to which such person is or may be liable by reason of such person being or having been a director of the Company and the executive officers and directors may also have rights to indemnification from the Company, including pursuant to directors' and officers' liability insurance policies, that will survive termination of their agreements.

**Risks Related to Our Common Shares**

***The market price of the Common Shares may be highly volatile.***

The market price of the Common Shares may be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including but not limited to

- revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- actual or anticipated changes or fluctuations in our results of operations;
- announcements by us or our competitors of new products or new or terminated significant contracts, commercial relationships or capital commitments;
- rumors and market speculation involving us or other companies in our industry;
- changes in our executive management team or the composition of the board of directors of the Company (the "**Board**");
- fluctuations in the share prices of other companies in the technology and emerging growth sectors;
- general market conditions and macroeconomic trends driven by factors outside our control, such as the COVID-19 pandemic and/or geopolitical conflicts, including supply chain disruptions, market volatility, inflation, and labor challenges, among other factors;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of competitors;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- shareholder activism and related publicity;
- foreign exchange rates; and
- other risk factors as set out in this Annual Report and in the documents incorporated by reference into this Annual Report.

If the market price of our Common Shares drops significantly, shareholders could institute securities class action lawsuits against us, regardless of the merits of such claims. Such a lawsuit could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business. This could harm our business, results of operations and financial condition.

***There is no guarantee that an active trading market for our Common Shares will be maintained on the CSE and/or the Nasdaq. Investors may not be able to sell their Common Shares quickly or at the latest market price if the trading in our Common Shares is not active.***

Our Common Shares are currently listed on the CSE, Nasdaq, and the Frankfurt Stock Exchange, however, our shareholders may be unable to sell significant quantities of Common Shares into the public trading markets without a significant reduction in the price of their Common Shares, or at all and there can be no guarantee that an active trading market for the Common Shares may be maintained. There can be no assurance that there will be sufficient liquidity of our Common Shares on the trading market, and that we will continue to meet the listing requirements of the CSE, the Nasdaq or any other public listing exchange.

***Future issuances of equity securities by us or sales by our existing shareholders may cause the price of our Common Shares to fall.***

The market price of our Common Shares could decline as a result of issuances of securities or sales by our existing shareholders in the market, including by our directors, executive officers and significant shareholders, or the perception that these sales could occur. Sales of our Common Shares by shareholders might also make it more difficult for us to sell Common Shares at a time and price that we deem appropriate. We also expect to issue Common Shares in the future. Future issuances of Common Shares, or the perception that such issuances are likely to occur, could affect the prevailing trading prices of the Common Shares.

***We may never pay dividends over the foreseeable future.***

Investors should not rely on an investment in our Common Shares to provide dividend income. The Company does not anticipate that it will pay any cash dividends to holders of its Common Shares in the foreseeable future. Instead, the Company plans to retain any earnings to maintain and expand its operations. In addition, any future debt financing arrangement may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on its Common Shares. Accordingly, investors must rely on sales of their Common Shares after price appreciation, which may never occur, as the only way to realize any return on their investment. As a result, investors seeking cash dividends should not purchase the Company's Common Shares.

***The Company may be classified as a "passive foreign investment company" for U.S. federal income tax purposes, which would subject U.S. investors that hold the Company's Common Shares to potentially significant adverse U.S. federal income tax consequences.***

If the Company is classified as a passive foreign investment company ("**PFIC**") for U.S. federal income tax purposes in any taxable year, U.S. investors holding Common Shares generally will be subject, in that taxable year and all subsequent taxable years (whether or not the Company continued to be a PFIC), to certain adverse US federal income tax consequences. The Company will be classified as a PFIC in respect of any taxable year in which, after taking into account its income and gross assets (including the income and assets of 25% or more owned subsidiaries), either (i) 75% or more of its gross income consists of certain types of "passive income" or (ii) 50% or more of the average quarterly value of its assets is attributable to "passive assets" (assets that produce or are held for the production of passive income). Based upon the current and expected composition of the Company's income and assets, the Company believes that it was not a PFIC for the taxable year ended December 31, 2021 and expects that it will not be a PFIC for the current taxable year. Nevertheless, because the Company's PFIC status must be determined annually with respect to each taxable year and will depend on the composition and character of the Company's assets and income, and the value of the Company's assets (which may be determined, in part, by reference to the market value of Common Shares, which may be volatile) over the course of such taxable year, the Company may be a PFIC in any taxable year.

The determination of whether the Company will be or become a PFIC may also depend, in part, on how, and how quickly, the Company uses its liquid assets and the cash raised in an offering. If the Company determines not to deploy significant amounts of cash for active purposes, the Company's risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that the Company will not be a PFIC for any future taxable year. In addition, it is possible that the U.S. Internal Revenue Service may challenge the Company's classification of certain income and assets as non-passive, which may result in the Company being or becoming a PFIC in the current or subsequent years.



If the Company is a PFIC for any year during a U.S. holder's holding period, then such U.S. holder generally will be required to treat any gain realized upon a disposition of Common Shares, or any "excess distribution" received on its Common Shares, as ordinary income, and to pay an interest charge on a portion of such gain or distribution, unless the U.S. holder makes a timely and effective "qualified electing fund" election ("**QEF Election**") or a "mark-to-market" election with respect to its Common Shares. A U.S. holder who makes a QEF Election generally must report on a current basis its share of the Company's net capital gain and ordinary earnings for any year in which the Company is a PFIC, whether or not the Company distributes any amounts to its shareholders. However, U.S. holders should be aware that there can be no assurance that the Company will satisfy the record keeping requirements that apply to a QEF, or that the Company will supply U.S. holders with information that such U.S. holders require to report under the QEF Election rules, in the event that the Company is a PFIC and a U.S. holder wishes to make a QEF Election. Thus, U.S. holders may not be able to make a QEF Election with respect to their Common Shares. A U.S. holder who makes a mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the Common Shares over the taxpayer's basis therein. Each U.S. holder should consult its own tax advisors regarding the PFIC rules and the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

***United States investors may not be able to obtain enforcement of civil liabilities against us.***

The Company is incorporated under the laws of British Columbia, Canada, and its principal executive offices are located in Canada. Most of the Company's directors and officers and most of the experts named in this Annual Report reside outside of the United States and all or a substantial portion of the Company's assets and the assets of these persons are located outside the United States. Consequently, it may not be possible for an investor to effect service of process within the United States on the Company or those persons. Furthermore, it may not be possible for an investor to enforce judgments obtained in United States courts based upon the civil liability provisions of United States federal securities laws or other laws of the United States against those persons or the Company. There is doubt as to the enforceability, in original actions in Canadian courts, of liabilities based upon United States federal securities laws and as to the enforceability in Canadian courts of judgments of United States courts obtained in actions based upon the civil liability provisions of the United States federal securities laws. Therefore, it may not be possible to enforce those actions against the Company, certain of the Company's directors and officers or the experts named in this Annual Report.

***We are an emerging growth company and intend to take advantage of reduced disclosure requirements applicable to emerging growth companies, which could make our Common Shares less attractive to investors.***

We are an "emerging growth company" as defined in the JOBS Act. We will remain an emerging growth company until the earliest to occur of (i) the last day of the fiscal year in which we have total annual gross revenue of $1.07 billion or more; (ii) December 31, 2026 (the last day of the fiscal year ending after the fifth anniversary of the date of the completion of the first sales of its common equity pursuant to an effective registration statement under the United States Securities Act of 1933, as amended (the "**Securities Act**")); (iii) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period; or (iv) the date we qualify as a "large accelerated filer" under the rules of the SEC, which means the market value of our Common Shares held by non-affiliates exceeds $700 million as of the last business day of its most recently completed second fiscal quarter after we have been a reporting company in the United States for at least 12 months. For so long as we remain an emerging growth company, we are permitted to and intend to rely upon exemptions from certain disclosure requirements that

are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404 ("**Section 404**") of the Sarbanes-Oxley Act (2002), as amended (the "**Sarbanes-Oxley Act**").

We may take advantage of some, but not all, of the available exemptions available to emerging growth companies. We cannot predict whether investors will find our Common Shares less attractive if we rely on these exemptions. If some investors find our Common Shares less attractive as a result, there may be a less active trading market for our Common Shares and the price of our Common Shares may be more volatile.



***We will incur increased costs as a result of operating as a public company in the United States and our management will be required to devote substantial time to new compliance initiatives.***

As a U.S. public company, particularly if or when we are no longer an "emerging growth company" as defined under the JOBS Act, we will incur significant legal, accounting and other expenses, in addition to those we currently incur as a Canadian public company, that we did not incur prior to being listed in the United States. In addition, the Sarbanes-Oxley Act, and rules implemented by the SEC and Nasdaq impose various other requirements on public companies, and we will need to spend time and resources to ensure compliance with our reporting obligations in both Canada and the United States.

For example, pursuant to Section 404, we will be required to furnish a report by our management on our internal control over financial reporting ("**ICFR**"), which, if or when we are no longer an emerging growth company, must be accompanied by an attestation report on ICFR issued by our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we will document and evaluate our ICFR, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of our ICFR, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for ICFR. Despite our efforts, there is a risk that neither we nor our independent registered public accounting firm will be able to conclude within the prescribed timeframe that our ICFR is effective as required by Section 404. This could result in a determination that there are one or more material weaknesses in our ICFR, which could cause an adverse reaction in the financial markets due to a loss of confidence in the reliability of our consolidated financial statements.

In addition, becoming a public company in the United States will increase legal and financial compliance as well as regulatory costs, such as additional Nasdaq fees, and will make some of our public company obligations more time consuming. We intend to invest resources to comply with evolving laws, regulations and standards in both Canada and the United States, and this investment may result in increased general and administrative expenses and increased diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with public company laws, regulations and standards in the United States are insufficient, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

We also expect that being a public company in the United States and complying with applicable rules and regulations will make it more expensive for us to obtain sufficient levels of director and officer liability insurance coverage. This factor could also make it more difficult for us to attract and retain qualified executive officers and members of our Board of Directors.

***As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic U.S. issuer, which may limit the information publicly available to our U.S. shareholders.***

We currently qualify as a "foreign private issuer" under applicable U.S. federal securities laws and, therefore, are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act and related rules and regulations. As a result, we do not file the same reports that a U.S. domestic issuer would file with the SEC, although we will be required to file with or furnish to the SEC the continuous disclosure documents that we are required to file in Canada under Canadian securities laws. In addition, our officers, directors and principal

shareholders are exempt from the reporting and "short swing" profit recovery provisions of Section 16 of the Exchange Act. Therefore, our shareholders may not know on as timely a basis when our officers, directors and principal shareholders purchase or sell our securities as the reporting periods under the corresponding Canadian insider reporting requirements are longer. In addition, as a foreign private issuer, we are exempt from the proxy rules under the Exchange Act. We are also exempt from Regulation FD, which prohibits issuers from making selective disclosures of material non-public information. While we expect to comply with the corresponding requirements relating to proxy statements and disclosure of material non-public information under Canadian securities laws, these requirements differ from those under the Exchange Act and Regulation FD and shareholders should not expect to receive in every case the same information at the same time as such information is provided by U.S. domestic issuers.

In addition, as a foreign private issuer, we have the option to follow certain Canadian corporate governance practices, except to the extent that such laws would be contrary to U.S. federal securities laws and Nasdaq listing rules and provided that we disclose the requirements we are not following and describe the Canadian practices we follow instead. We plan to rely on this exemption in part. As a result, our shareholders may not have the same protections afforded to shareholders of U.S. domestic issuers that are subject to all U.S. corporate governance requirements.



At some point in the future, we may cease to qualify as a foreign private issuer. If we cease to qualify, we will be subject to the same reporting requirements and corporate governance requirements as a U.S. domestic issuer, which may increase our costs of being a public company in the United States.

## ITEM 4. INFORMATION ON THE COMPANY

### 4.A. History and Development of the Company

***Name, Address and Incorporation***

The Company was incorporated as Drone Acquisition Corp. ("**DAC**") under the *Business Corporations Act* (British Columbia) (the "**BCBCA**") on June 1, 2018 for the purpose of reorganizing and recapitalizing the business of Draganfly Innovations Inc. ("**Former Draganfly**"). Effective July 17, 2019, the Company amended its articles to remove various classes of authorized but unissued preferred shares and replace them with only one class of preferred shares (the "**Preferred Shares**"). Effective August 15, 2019, the Company changed its name to "Draganfly Inc." On August 22, 2019, the Company amended its articles to re-designate its Class A Common Shares as Common Shares.

The Company's head office is located at 2108 St. George Avenue, Saskatoon, Saskatchewan S7M 0K7. The Company's telephone number is (800) 979-9794. The Company's registered office is located at Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2Z7. The Company's registered agent in the United States is C T Corporation System, 1015 15th Street N.W., Suite 1000, Washington, D.C., 20005 and its telephone number is (202) 572-3133.

***General Development of the Business of the Company***

Founded in 1998, we believe that Former Draganfly, is recognized as one of the first commercial multi-rotor manufacturers and has a legacy for its innovation and superior customer service. Zenon Dragan is the founder of Former Draganfly and is a recognized leading expert on UAV.

Former Draganfly introduced its first systems in 1999 and since evolved and shaped the UAV industry. The Company's aircraft are widely used by public safety agencies worldwide and we believe that we were one of the first UAV to receive a FAA (Federal Aviation Administration) Certificate of Authorization in the fall of 2009 with the Mesa County Colorado Sheriff's Office. In 2013, the Royal Canadian Mounted Police flew one of the Company's drones to locate and save the life of an accident victim.

We believe that Draganfly aircraft have achieved many industry firsts, including:

- one of the first public safety UAV to shoot aerial photos documenting a manned aircraft accident in an urban area;
- one of the first UAV operated by a public safety organization flown at night to locate and save a life;
- one of the first UAV helicopter to be granted a county wide U.S. FAA Certificate of Authorization;
- named as a test platform at one of the U.S. FAA's certified test sites;
- one of the first to have a drone included in the Smithsonian National Air and Space Museum; and
- four of the first six compliance certifications for its products issued by Transport Canada.

***Three Year History***

A detailed description on the significant developments of the business of the Company over the last three completed financial years is set out below.



*Financial year ended December 31, 2019*

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

Under the Amalgamation, holders of common shares of Former Draganfly ("**Former Draganfly Shares**") (other than dissenting shareholders) received 1.794 Common Shares for each Former Draganfly share held by such Former Draganfly shareholder. Consequently, the Company owns 100% of Draganfly Innovations Inc. and the Former Draganfly shareholders became shareholders of the Company.

The Company completed a non-brokered private placement offering on May 22, 2019 and August 6, 2019 (the "**Subscription Receipt Offering**") of securities raising aggregate gross proceeds of $7,025,749.50 through the issuance of 14,051,499 subscription receipts of the Company ("**Subscription Receipts**") at a price of $0.50 per Subscription Receipt. The Subscription Receipt Offering was required in order to satisfy closing conditions of the Going Public Transaction. Each subscription receipt automatically converted, without payment of additional consideration and without any further action on the part of the holder, into one unit of the Company upon the completion of the Going Public Transaction and the listing of the Common Shares on the CSE. Each unit consisted of one Common Share and one transferable Common Share purchase warrant. Each warrant entitled the holder to purchase one Common Share at a price of $0.50 for a period 12 months following the issuance of the warrants.

The Company completed the listing of its Common Shares for trading on the CSE under the symbol "DFLY" on November 5, 2019.

The Board and the Company's senior management were reconstituted in conjunction with the completion of the Going Public Transaction to consist of four directors, Cameron Chell, Denis Silva, Scott Larson and Olen Aasen, and Cameron Chell as Chairman and CEO and Paul Sun as CFO and Corporate Secretary.

On November 7, 2019, the Company announced that Andrew Hill Card Jr. was appointed to the Board.

On November 15, 2019, the Company completed the listing of its Common Shares for trading on the Frankfurt Stock Exchange under the trading symbol "3U8".

*Financial year ended December 31, 2020*

On January 9, 2020, the Company completed the listing of its Common Shares for trading on the OTCQB Venture Market of the OTC Markets under the symbol "DFLYF".

On March 26, 2020, the Company announced that it had been selected as the exclusive global systems integrator for a project with Vital Intelligence Inc. ("**Vital**"), a healthcare data services and deep learning company, in conjunction with the University of South Australia, using technology developed with help from the Australian Department of Defence Science and Technology Group.

On April 30, 2020, the Company completed the acquisition of all of the shares of Dronelogics Systems Inc. for a purchase price of $2,000,000 paid by way of a cash payment of $500,000 and 3,225,438 Common Shares at a deemed price of $0.50 per Common Share. In connection with the acquisition, Justin Hannewyk, President of Dronelogics Systems Inc., was appointed to the Board.

On June 18, 2020, the Company announced that John M. Mitnick was appointed to the Board.

On July 3, 2020, the Company announced that Scott Larson, a director of the Company, was appointed President of the Company.



On July 6, 2020, Draganfly completed a non-brokered private placement of 961,538 Common Shares at a price of $0.52 per Common Share for gross proceeds of $500,000.

On July 16, 2020, Draganfly completed an issuance of shares for a debt transaction for payment of a third-party strategic vendor's invoices. Draganfly issued an aggregate of 555,409 Common Shares at a deemed price of $0.55 per Common Share to settle $305,475.03 of outstanding debt.

On December 2, 2020, the Company announced that it had completed an initial closing of its Regulation A+ offering of units of the Company (the "**Regulation A+ Offering**"). The Company issued 2,556,496 units at price of US$0.47 per unit for gross proceeds in the amount of US$1,201,553 in the first closing. Each unit is comprised of one Common Share and one Common Share purchase warrant, with each warrant entitling the holder to acquire one Common Share at a price of US$0.71 per Common Share until November 30, 2022. The Common Shares and Warrants issued in connection with the offering were subject to a nine month hold period which expired on August 30, 2021.

On December 22, 2020, the Company announced that it had been selected by Coldchain Technology Services, LLC ("**Coldchain**") to immediately develop and provide flight services of a robust vaccine delivery payload for use in critical regions for drone delivery of the COVID-19 vaccine.

*Financial year ended December 31, 2021*

On January 6, 2021, the Company announced the awarding of a new patent for a vertical take-off and landing cargo delivery drone with variable center of gravity.

On January 21, 2021, the Company announced that it had been selected to provide engineering and development services for a drone-based air support defense system for Integrated Launcher Solutions Inc. ("**ILS**"). The Company entered into a memorandum of understanding with ILS with the objective to create the terms and conditions surrounding a project management and development agreement for the production of ILS's multi-launching air support defence system.

On March 2, 2021, the Company announced that it will be the exclusive supplier of drones to Woz ED's drone program across its national K-12 curriculum with the expected deployment of approximately 3000 drones in 2021. The Company entered into a memorandum of understanding with Woz ED with the objective to create the terms and conditions surrounding a business agreement. The memorandum of understanding automatically terminated after 60 days.

On March 9, 2021, the Company announced that it had completed the final closing of the Regulation A+ Offering. The Company issued 32,443,457 units at price of US$0.47 per unit for gross proceeds in the amount of approximately US$15.3 million in the final closing. Each unit is comprised of one Common Share and one Common Share purchase warrant, with each warrant entitling the holder to acquire one Common Share at a price of US$0.71 per Common Share for a period of two years from the date of issuance. The Common Shares and Warrants issued in connection with the offering were subject to a nine month hold period.

On March 9, 2021, the Company also announced that it has entered into an asset purchase agreement with Vital to purchase all the assets of Vital (the "**Vital Asset Acquisition**") in consideration for: (a) a cash payment of $500,000 with $50,000 paid upon execution of the asset purchase agreement, $200,000 to be paid at closing and $250,000 to be paid on the six-month anniversary date of closing; and (b) 6,000,000 units of the Company with each unit being comprised of one Common Share and one common share purchase warrant. Each warrant will entitle the holder to acquire one Common Share for a period of 24 months following closing at an exercise price of $2.67 per Common Share and the Company will be able to accelerate the expiry date of the warrants after one year in the event the underlying common shares have a value of at least 30% greater than the exercise price of the warrants. The units will be held in escrow following closing with 1,500,000 units being released at closing and the remainder to be released upon the Company reaching certain revenue milestones received from the purchased assets. The Company completed the Vital Asset Acquisition on March 25, 2021.

On March 23, 2021, the Company announced that it signed a services deal to deploy EagleEye™ AI flight services with Windfall Geotek Inc. Windfall Geotek Inc. contractually agreed to have Draganfly provide $1,000,000 in flight services over the course of the next year with $500,000 already directly funded and allocated.



On May 13, 2021, the Company announced that it entered into a definitive agreement with Coldchain to develop, deploy and operate solutions for the delivery of medical supplies, medicine, and vaccines. The definitive agreement provides for phase one of a planned five-phase roll-out for the comprehensive development, deployment, and operation of a medical drone delivery service as well as the development of a solution for the timely delivery of medical supplies, medicine, and vaccines. Phase one will also include working with various regulatory bodies, including the FAA, to obtain licenses and approvals for initial non-commercial beta test delivery routes. Phase one has a value of US$125,000, to be executed over a maximum of 10 months and the parties have agreed to negotiate an extension to the definitive agreement for phase two prior to the expiry of phase one. Under phase two, Coldchain will commit to purchasing no less than US$625,000 in equipment and services from Draganfly.

On May 19, 2021, the Company announced that it signed a contract with ILS for the development, prototyping, and eventual production of a non-lethal 40 mm multi-launching systems that can be mounted and deployed from drones, drone systems, robots, robotic systems, and other stationary platforms or similar systems. As part of the contract, Draganfly provided ILS with strategic vendor financing of US$150,000 to assist in the development of the project and in consideration ILS granted Draganfly a worldwide royalty equal to 8% of the gross revenue received from the project for a period of five years from earlier of the repayment date or maturity date of the loan. The loan is secured against the intellectual property related to the project.

On July 22, 2021, the Company announced the expected listing of its Common Shares on the Nasdaq, subject to meeting the final listing requirements of the Nasdaq.

On July 27, 2021, the Company announced that in connection with the proposed listing of the Common Shares on the Nasdaq, the Company will consolidate its Common Shares effective July 29, 2021 (the "**Consolidation**") on a basis

of one new Common Share for every five then issued and outstanding Common Shares under a new CSE stock symbol "DPRO".

On July 29, 2021, the Company announced that its application to list its Common Shares on the Nasdaq was approved by The Nasdaq Stock Market LLC and the Common Shares began trading on July 30, 2021 under the ticker "DPRO".

On August 3, 2021, the Company announced that it completed an underwritten public offering in the United States (the "**US Offering**") of 5,000,000 post-Consolidation Common Shares at a price of US$4.00 per Common Share, for total gross proceeds of approximately US$20,000,000, before deducting underwriting discounts and expenses of the US Offering. ThinkEquity, a division of Fordham Financial Management, Inc., acted as sole book-running manager for the US Offering.

On August 12, 2021, the Company announced that it launched its new, North American designed and built, Draganflyer Commander2 drone system. The Draganflyer Commander2 is a small Unmanned Aerial System (sUAS) and replaced the Company's Commander platform launched in 2015.

On September 9, 2021, the Company announced that Julie Myers Wood was appointed to the Board and that Justin Hannewyk resigned from the Board.

On September 15, 2021, the Company announced that the over-allotment option granted to the underwriters in connection with the US Offering was exercised in respect of 95,966 post-Consolidation Common Shares. The exercise of the over-allotment at US$4.00 per Common Share produced additional gross proceeds of US$383,864, bringing the aggregate gross proceeds to Draganfly under the US Offering to US$20,383,864, before deducting underwriting discounts and expenses of the US Offering.

On September 22, 2021, the Company announced that it entered into an exclusive manufacturing agreement with Valqari LLC ("**Valqari**") to produce Valqari's Drone Delivery Stations. As per the manufacturing agreement, Draganfly will be the exclusive manufacturer of Valqari's Drone Delivery Stations. Valqari will be ordering at least $400,000 of manufacturing services during the initial phase of the agreement.

On October 12, 2021, the Company announced that it signed a minimum $9 million manufacturing agreement with Digital Dream Labs, Inc. ("**DDL**") to design and develop an AI consumer companion robot drone. As per the terms of the agreement, Draganfly will be the exclusive manufacturer and assembler of the drone. DDL will order at least 50,000 units annually with delivery starting in 2022. The drone will be integrated into DDL's existing product family, including support, sales and distribution channels used for its other consumer robots. Draganfly has also been granted a right of first refusal to become the exclusive manufacturer and assembler of subsequent drone or UAV-based robots to be added to DDL's product portfolio. The parties have entered into a binding letter agreement reflecting the above terms and will use commercially reasonable efforts to enter into a definitive agreement. The binding letter agreement will govern the relationship between DDL and Draganfly and there can be no assurance that a definitive agreement will be completed or entered into amongst the parties.

***January 1, 2022 to the Effective Date***

On March 22, 2022, the Company announced that it had received an order for the Company's Medical Response and Search and Rescue Drones from Coldchain for immediate deployment with Revived Soldiers Ukraine. Draganfly will provide an immediate combined total of 10 North American-made Medical Response and Search and Rescue Drones. In addition, Draganfly will be donating three drone systems to Revived Soldiers Ukraine. The total initial order size (subject to conditions) is up to 200 units.



***Significant Acquisitions During 2021***

Draganfly did not complete any significant acquisitions during its most recently completed financial year for which disclosure is required under Part 8 of National Instrument 51-102 — *Continuous Disclosure Obligations* of the Canadian Securities Administrators.

***Market for Securities***

*Trading Price and Volume of Common Shares*

The Common Shares are listed and posted for trading on the CSE under the symbol "DPRO". The following table sets forth the price range (high and low prices) in Canadian dollars of the Common Shares (on a post-Consolidation basis) and volume traded on the CSE, for the periods indicated (as reported by the CSE).

| Period | High (C$) | Low (C$) | Volume |
|---|---|---|---|
| **2021** | | | |
| January | 20.25 | 3.85 | 11,400,861 |
| February | 21.25 | 10.65 | 3,947,466 |
| March | 19.10 | 9.00 | 2,285,062 |
| April | 12.40 | 6.85 | 1,072,256 |
| May | 10.75 | 7.30 | 1,010,472 |
| June | 10.40 | 7.95 | 763,940 |
| July[(1)] | 9.45 | 4.60 | 1,006,700 |
| August | 5.28 | 3.35 | 624,806 |
| September | 5.25 | 3.80 | 557,116 |
| October | 4.77 | 3.42 | 475,773 |
| November | 4.85 | 2.94 | 777,859 |
| December | 3.83 | 2.05 | 658,328 |
| **2022** | | | |
| January | 2.22 | 1.34 | 556,191 |
| February | 1.75 | 1.35 | 184,388 |
| March 1-25 | 4.80 | 1.50 | 2,041,588 |

**Note:**

(1) Effective July 29, 2021, the Company completed the Consolidation on a basis of one new Common Share for every five then issued and outstanding Common Shares and changed its stock symbol on the CSE from "DFLY" to "DPRO".

*Prior Sales*

The following table summarizes the issuances of unlisted securities (on a post-Consolidation basis) for the year ended December 31, 2021:

| Date of Issuance | Securities | Number of Common Shares Issued/Issuable or Aggregate Amount | Price/Exercise Price per Security | |
|---|---|---|---|---|
| February 2, 2021 | Options[(1)] | 30,000 | C$ | 13.20 |
| February 5, 2021 | Warrants[(2)] | 1,323,275 | US$ | 3.55 |
| March 5, 2021 | Warrants[(2)] | 5,154,321 | US$ | 3.55 |
| March 8, 2021 | Options[(1)] | 10,000 | C$ | 13.90 |
| March 11, 2021 | RSUs[(1)] | 98,668 | | N/A |
| March 22, 2021 | Warrants[(3)] | 1,200,000 | C$ | 13.35 |
| April 27, 2021 | Options[(1)] | 182,000 | C$ | 10.15 |
| April 27, 2021 | RSUs[(1)] | 10,000 | | N/A |
| July 29, 2021 | Broker Warrants[(4)] | 250,000 | US$ | 5.00 |
| September 3, 2021 | RSUs[(1)] | 165,000 | | N/A |
| September 9, 2021 | Options[(1)] | 25,826 | C$ | 4.84 |

| | | | | |
|---|---|---|---|---|
| September 9, 2021 | RSUs[1] | 25,826 | | N/A |
| September 14, 2021 | Broker Warrants[4] | 4,798 | US$ | 5.00 |

**Notes:**

(1) Issued pursuant to the amended and restated share compensation plan of the Company (the "**Share Compensation Plan**").
(2) Issued pursuant to the Regulation A+ Offering.
(3) Issued pursuant to the Vital Acquisition.
(4) Issued pursuant to the US Offering.



***Escrowed Securities***

The following table summarizes the Company's securities (on a post-Consolidation basis) that remain in escrow or subject to restrictions on transfer as of the date hereof:

| Designation of Class | Number of securities held in escrow or that are subject to contractual restriction on transfer | Percentage of Class[4] |
|---|---|---|
| Common Shares | 402,521[1] | 1.2% |
| Common Shares | 2,800,000[2] | 8.4% |
| Common Shares | 900,000[3] | 2.7% |
| Warrants | 900,000[3] | 100% |

**Notes:**

(1) In connection with the listing of the Common Shares for trading on the CSE, an aggregate of 1,341,734 post-Consolidation Common Shares were deposited in escrow with TSX Trust Company (Endeavor Trust Corporation subsequently replaced TSX Trust Company as escrow agent). 10% of such Common Shares were released from escrow on the date the Common Shares were listed on the CSE, and 15% will be release from escrow every six months thereafter, subject to acceleration provisions provided for in National Policy 46-201 – *Escrow for Initial Public Offerings*.
(2) Pursuant to the terms of the Combination Agreement, certain shareholders of Former Draganfly and the Company agreed to voluntary trading restrictions on their Common Shares for a period of three years with 5% of such Common Shares released on the date of listing of the Common Shares on the CSE and then 15% released every six months thereafter until month 36 when the remaining 20% will be released.
(3) In connection with the Vital Asset Acquisition, 900,000 post-Consolidation Common Shares and 900,000 post-Consolidation warrants were deposited in escrow with DLA Piper (Canada) LLP, as escrow agent, to be released upon the Company reaching certain revenue milestones received from the purchased assets.
(4) Percentages based on 33,197,984 Common Shares issued and outstanding as of March 28, 2022.

***Dividends***

The Company has not declared or paid a dividend. Other than the requirements of the BCBCA, there are no restrictions on the Company that would prevent it from paying a dividend. However, as of April 3, 2022, the Board intends to retain any future earnings (when available) for reinvestment in the Company's business, and therefore, it has no current intention to declare or pay dividends on the Common Shares in the foreseeable future. Any future determination to pay dividends on the Common Shares will be at the sole discretion of the Board of Directors after considering a variety of factors and conditions existing from time to time including its earnings, financial condition and other relevant factors.

***Legal Proceedings and Regulatory Actions***

Draganfly is not, and has not been at any time within the most recently completed financial year, a party to any legal proceedings, nor is or was Draganfly's property the subject of any legal proceedings, known or contemplated, that involves a claim for damages exclusive of interest and costs that met or exceeded 10% of the Company's current assets.

Further, there have not been any (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the year ended December 31, 2020, (b) any other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision, or (c) settlement agreements entered into by the Company before a court relating to securities legislation or with a securities regulatory authority during the year ended December 31, 2021.



***Interests of Management and Others in Material Transactions***

Other than as set forth herein, or as previously disclosed, the Company is not aware of any material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, of any director or executive officer or any shareholder holding more than 10% of the Common Shares or any associate or affiliate of any of the foregoing in any transaction within the three most recently completed financial years or during the current financial year or any proposed or ongoing transaction of the Company which has or will materially affect the Company.

***Auditor, Transfer Agent and Registrar***

The auditors of the Company are Dale Matheson Carr-Hilton Labonte LLP, Chartered Professional Accountants, 1500-1700, 1140 W Pender Street, Vancouver, BC V6E 4G1.

Endeavor Trust Corporation is the transfer agent and registrar for the Common Shares at its principal office in Vancouver, British Columbia.

***Interests of Experts***

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by the Company during, or related to, the Company's most recently completed financial year other than Dale Matheson Carr-Hilton Labonte LLP, the Company's auditors.

Dale Matheson Carr-Hilton Labonte LLP are the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the relevant rules and related interpretations prescribed by the relevant bodies in Canada and any applicable legislation or regulations.

Denis Silva, a director of the Company, is a lawyer at DLA Piper (Canada) LLP, which law firm provides legal services to the Company. As of the date hereof, the associates and partners of DLA Piper (Canada) LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

**Additional Information**

Additional information about the Company is available on SEDAR at www.sedar.com and on our website at www.draganfly.com. We do not incorporate the contents of our website or of www.sedar.com into this Annual Report. Information on our website does not constitute part of this Annual Report. In addition, the SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC which can be viewed as www.sec.gov.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Draganfly's securities and securities authorized for issuance under equity compensation plans, where applicable, will be contained in Draganfly's information circular for the next annual meeting of shareholders that involves the election of directors and additional information as provided in Draganfly's comparative financial statements for its most recently completed financial year. Draganfly will provide this information to any person, upon request made to the Chief Financial Officer of Draganfly at 2108 St. George Avenue Saskatoon, Saskatchewan S7M 0K7. The documents will also be located on SEDAR at www.sedar.com.

Additional financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the period ended December 31, 2021, which are also available on SEDAR.



## 4.B. Business Overview

### General

The Company is a manufacturer, contract engineering, and product development company within the UAV and health space, serving the public safety, agriculture, industrial inspections, monitoring, spraying, and mapping and surveying markets. We provide sustainable, custom and "off-the-shelf" hardware, services, and solutions to companies and government agencies. Our mission is to deliver products that provide vital information to our customers with the hopes of saving time, money and lives.

### Drone Industry Overview

Drones or UAV have rapidly evolved from a military origin to commercial and civil government applications from security to farming. The increased automation of drones provides additional value to existing workflows, triggering more widespread adoption. A global shift to sustainable and eco-friendly options has further increased demand for drone usage.

Drone applications are being utilized in multiple industries on a global basis. A portion of manned military aircraft ("**MMA**") created the drone industry as a safe, inexpensive option. Defense will remain the largest market over the foreseeable future. However, the mobile phone industry created an affordable technology stack for drones. The ability to carry a camera enabled many people to utilize the platforms for media production and beyond. That demand initiated in the consumer market and has migrated along with technological advancements into the growth of commercial drone industry.

The major segments of the drone market are drone hardware, software and services. Drone hardware are the physical goods, including drone platforms, aerial mobility platforms and components and systems. The software segment includes flight planning, navigation and computer vision, unmanned traffic management ("**UTM**"), fleet operations, ecosystems, networks and software development kits ("**SDKs**"). The services aid the drone hardware and software manufacturers. They include drone service providers ("**DSPs**"), system integrators, pilot training providers, retailers and marketplaces, coalitions and organizations, drone test sites, insurance providers and university/educational facilities.

Drone application methods are being used by a variety of industries today. There are approximately eight methods that are garnering the most attention: mapping, surveying, inspection, filming/photography, dispensing/spraying, warehousing, monitoring/detection, and delivery. These applications are being used today by the civil government, educational facilities, agricultural, construction, health care, real estate, energy, transportation, insurance, security, and scientific industries. According to Drone Industry Insights, the fastest growing drone application method will be delivery and is forecasted at 28.6% CAGR over the next five years[1]; however, this will not happen without intense industry scrutiny and regulation.

### Products and Services

The Company can provide its customers with an entire suite of products and services that include: quadcopters, fixed wing aircrafts, ground based robots, handheld controllers, flight training, and software used for tracking, live streaming, and data collection. In addition, Draganfly has launched a health/telehealth platform. The initial focus of the platform is a COVID-19 screening set of technologies that remotely detects a number of key COVID-19 respiratory symptoms. The Company is also offering sanitary spraying services to indoor and outdoor public gathering spaces such as sport stadiums and fields to provide additional protection against the spread of contagious viruses such as COVID-19.

[1] See Global Drone Market Report 2020-2025



The Company generates revenues across the following categories

| | Revenues | | |
|---|---|---|---|
| | Fiscal year ended December 31, | | |
| **Category of Activity** | **2021** | **2020** | **2019** |
| Product Sales | $ 5,103,399 | $ 3,087,223 | $ 248,939 |
| Drone Services | $ 1,304,799 | $ 630,532 | - |
| Engineering Services | $ 645,667 | $ 645,756 | $ 1,131,488 |

The Company did not derive significant revenue from any customers that exceed 10% of total revenues for the year ended December 31, 2021. At December 31, 2020 the Company had one custom engineering customer from which it received revenues in excess of 10% of total revenues for the fiscal year ($474,701).

***Draganfly Products***

Quadcopters and Multirotors

The Company is among the longest-running manufacturers of quadcopters and multirotor drones in the world. Draganfly's quadcopters and multirotor drones include the following:

- *Draganflyer Commander2* – The Draganflyer Commander2 is a multi-mission, high-endurance, electric sUAS that combines the signature design elements of our past Draganflyer systems with the most advanced features to date. The Commander2 can be used for numerous applications across many industries including agriculture, public safety, and aerial 3D modeling. Paired with powerful MAVLink-based flight planning software, the Draganflyer Commander2 supports both fully- and semi-automated missions, as well as manual flight operations with a pilot in the loop for a high level of system control to handle any operational task.

- *Draganflyer Commander* – a high-endurance, electric, autonomous quadcopter drone built on Draganfly's patented carbon fiber folding airframe with interchangeable payloads for a variety of missions requiring high resolution imagery, including surveying, 3D mapping, industrial inspection, search and rescue, and high-endurance public safety applications.

- *Draganflyer X4-P* – semi-autonomous quadcopter with 18-minute flight time ideal for medium projects.

- *Quantix™ Mapper* – exclusive to Draganfly through its partnership with AeroVironment, it is a fully-automated drone that is designed for mapping.

- *Tango2* – a high endurance, dual battery, sUAS capable of carrying a wide array of payload systems. The aircraft utilizes the Draganfly intelligent power management system to extend flight time while increasing safety. This sUAS is ideal for agricultural monitoring and research, mapping, surveying, environmental monitoring, and search and rescue.

Universal Control System

The Draganfly Universal Control System is a complete, handheld ground control system that is built to integrate with other software and hardware systems. The Draganfly Universal Control System is designed to provide precise control over sUAS helicopters, fixed-wing, and ground-based robots. Draganfly software provides sophisticated flight planning, automated takeoff, grid following, waypoints, landing, data collection, and video downlink.

Software

The Draganfly Surveyor drone flight planning software is an intuitive, easy to use, application that enables customers to quickly plan, fly, and process meaningful data. Based on the project, camera type, optics, and altitude, the drone software determines the appropriate camera shutter interval, aircraft speed, and flight plan to capture the optimum required photo overlap to generate 2D and 3D maps and models. The Draganfly Surveyor directly integrates with Pix4Dmapper for survey-grade results and can be used alongside other third-party photogrammetry programs.

Vital Intelligence

Draganfly installs standalone and airborne health assessment systems at locations such as universities, hotels, casinos, family entertainment complexes, shopping centers, and other high-traffic locations. These systems effectively measure social distancing and visitors' vital signs like temperature, cough, and respiratory rate to identify high-risk visitors. Vital Intelligence is a data platform that turns an existing camera into a touchless symptom detection system, measuring vital signs and social distancing. Draganfly integrates this technology into a variety of platforms and camera systems – both on the ground and in the air – to assess people coming into and traveling throughout a facility.



***Draganfly Services***

Custom Engineering

Draganfly is a contract engineering partner for government agencies, enterprise organizations, academic institutions, and businesses of all sizes. The Draganfly team's truest capabilities are actualized during the engineering process as hardware designers, software designers, engineers, project managers, and vertical-specific experts come together to build custom drone solutions for its partners. Draganfly's end-to-end engineering services include:

- Hardware design: Component, product, and system design.
- Software design: Custom software and interface design.
- Development: Including integration with third party platforms, PixX4D, Pixhawk, Ardupilot, DJI and more.
- Modeling: 3D design and modeling of mechanical components.
- ITAR (International Traffic in Arms Regulations) equipment management: Approved handling and integration of ITAR, and Controlled Goods technologies.
- Support: Testing, training, documentation, and repairs.

Training

Draganfly offers custom-designed training packages that are tailored to specific operations and use cases. The Company also offers basic training for new UAV owners, up to advanced classes for users who understand the fundamentals and are looking for new ways to increase flight efficiency or comply with federal regulations.

Flight Services

Draganfly has a team of qualified pilots that conduct flights on behalf of its customers. The team specializes in working with emergency services including police, fire, and search and rescue personnel. Draganfly also supports industrial applications, utility and power companies, environmental and agricultural entities and others.

Spraying Services

Draganfly operates, in partnership with a leader in natural and organic disinfectants, to administer a sanitization spraying service in large public venues by misting a surface spray across the entire venue in four to six hours.

**Principal Markets**

Draganfly has more than 20 years of experience designing and manufacturing professional drones for military, public safety, energy, agriculture, and insurance. Draganfly has sold products and services to a number of countries but predominantly focuses on the North American market given its geographical location.

***Military and Government***

Military and government contractors have partnered with Draganfly to improve personnel and infrastructure safety. Draganfly works with partners to design and manufacture custom airframes, design and develop payloads, and manage complex flight operations. Draganfly team members hold advanced pilot certificates and are approved to fly in controlled airspace and at airports. Since the Company's development team is cleared by Canada's Controlled Goods Program, the team is permitted to handle ITAR equipment and technologies, and the Company's facilities are built to protect those technologies and ensure they are only handled by approved personnel.



***Public Safety***

In 2013, the Royal Canadian Mounted Police flew one of the Company's drones to locate and save the life of an accident victim, which we believe was one of the first times a public safety organization used a UAV to save a life. Years later, the Company is still a leader in using drone technology to keep the public safe. Draganfly works with its partners to identify unknowns, such as substances, spills, packages, and chemicals while not putting human lives at risk. Draganfly builds aerial and ground systems with custom payloads and sensors to scan scenes, survey public events, locate objects, and clear debris faster and more safely than on-the-ground manpower. The Company also empowers its partners to maximize existing infrastructures via custom API integrations that ensure Draganfly's technology enhances their safety systems.

***Environmental and Energy***

Draganfly offers a suite of commercial UAV solutions for energy companies and those servicing the energy market, like surveyors and consultants. Draganfly equips energy companies with the hardware and software they need to optimize existing operations, improve safety, and respond after a natural disaster. Partners can use Draganfly hardware and 3D modeling software to remotely inspect sites that would put human lives at risk. They also conduct environmental monitoring with Draganfly's sample collection solutions, assessing water and ground pollution, gas composition, infrastructure, and other environments.

***Agriculture***

Draganfly works with its partners to collect high-quality data, using multi- and hyper-spectral imaging, 3D modeling, and a suite of sophisticated sensor technology that assesses environmental factors. Seed companies use Draganfly technology to optimize growth season, measuring seed trial results throughout the research and development process. Farmers can use Draganfly flight and data collection services to monitor hectares of land year-round, assessing factors like fertilizer efficiency, weed production, and more.

**Operations**

***Canadian Operations***

Draganfly Innovation Inc.'s products are manufactured at its machine shop within its leased head office based in Saskatoon, Saskatchewan, Canada. Draganfly Innovations Inc. operates the fully operational facility located at 2108 St. George Avenue, Saskatoon, SK S7M 0K7. This facility is to be used only for the purposes of Draganfly Innovations Inc. operating its business of design, development, production, distribution, sale and/or licensing of drones or robots, or such other use as permitted by the landlord from time to time.

Dronelogics Systems Inc.'s products and services are provided through its leased space located at Unit 319, 2999 Underhill Avenue, Burnaby, British Columbia.

***United States Operations***

The Company, through its wholly-owned subsidiary, Draganfly Innovations USA Inc., has an office in Palm Beach Gardens, Florida that currently stores some inventory for operations in the United States.

The Company has derived its revenues across the following primary geographic market segments for the last three fiscal years:

| | Revenues | | |
|---|---|---|---|
| | Fiscal year ended December 31, | | |
| **Region** | **2021** | **2020** | **2019** |
| Canada | $ 4,937,935 | $ 2,270,862 | $ 127,118 |
| United States | $ 2,071,492 | $ 1,982,404 | $ 1,251,199 |
| International | $ 44,438 | $ 110,245 | $ 2,110 |



**Competitive Conditions**

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

The market remains highly competitive. Private equity continues to significantly capitalize drone start-ups at industry high valuations. The publicly-traded companies in the drone segment trade at different valuations, with a steep discount to private-equity backed ventures. Some of the other publicly traded companies we may compete with include Alpine 4 Tech, Inc., Aerovironment Inc., EHang Holdings Limited, AgEagle, Drone Delivery Canada, Inc., and Red Cat Holdings, Inc.

**Regulatory Framework**

A new regulatory framework relating to the use of drones in Canada was published by Transport Canada in January 2019 and came into effect on June 1, 2019. The changes, published in the Canadian Aviation Regulations ("**CARs**"), Part IX, introduce new rules based on the weight of the RPA and the intended operation. This framework creates three broad categories of RPAS: (i) small RPAS in limited (low risk) operations ("**Small RPAS Basic**"); (ii) small RPAS in advanced (complex) operations ("**Small RPAS Advanced**"); and (iii) all other RPA operations that fall outside (i) and (ii) above. These regulations focus on foundational issues such as aircraft marking and registration, pilot knowledge and certification, airworthiness of the aircraft, and flight rules.

Small RPAS Basic are defined as RPAS weighing between 250 grams and 25 kilograms and operated in rural and unpopulated areas. These RPAS will require identification markings, including name, address and contact information of the owner and pilot of the RPA. Pilots must be at least 14 years of age and must hold a valid Basic RPA licence that is specific to small drones. Additional restrictions are imposed that include that the RPA cannot operate: (i) within approximately 30 meters of people or open-air assemblies of people, (ii) above 400 feet, (iii) within approximately 1.85 kilometers of heliports or (iv) within approximately 5.5 kilometers of airports. These regulations require the RPA to always be operated within visual line-of-sight.

Small RPAS Advanced are defined as RPAS weighing between 250 grams and 25 kilograms and operated in urban and/or populated areas. These RPAS will require identification, marking and registration with Transport Canada as well as meeting specified design standards acceptable to Transport Canada. The RPA will be assigned a unique identification/registration number issued by Transport Canada. Pilots must be at least 16 years of age and must hold a valid Advanced RPAS licence that is specific to small drones. Approval for operation must be granted by Air Traffic Control when operating in controlled airspace or near controlled aerodromes. A set of flight rules must be followed at all times for these more complex operations. Restrictions, including distances from people, are determined based on the safety certification of the RPA being operated. The RPA must always be operated within visual line-of-sight.



The current legislation utilizes a similar Special Flight Operations Certificate ("**SFOC**") application process, as the previous regulations, to approve any operations that do not fit within the regulatory regime set out above, such as operating beyond visual-line-of-sight. For those wishing to operate outside of the regulatory framework set out in CARs, part IX, there will be a variety of SFOC application processes tailored to the nature and use of the RPA. The more complex and riskier the proposed operation, the more thorough and detailed the SFOC application process.

Those operators requiring an SFOC must apply to the Transport Canada Civil Aviation Regional Office at least 30 working days prior to the date of the proposed RPAS operation. Transport Canada has wide discretion in reviewing and approving SFOC applications; however, to date the Company has never been refused an SFOC for which it has applied. The purpose of the SFOC application review is to ensure that the proposed operation is safe and associated risks have been adequately mitigated by the Company.

In April 2020, Transport Canada published a Notice of Proposed Amendment (defined herein as "**NPA**") as the first step in the publication of new regulations for beyond visual line-of-sight operations. The NPA provided a synopsis of the high-level policies Transport Canada is proposing to support beyond visual line-of-sight operations in lower risk environments such as remote and isolated areas. These new regulations will also provide clear direction and guidance on the use of heavier aircraft (up to 650 kilograms), operations at higher altitudes than currently permitted in CARs, Part IX, and will set the foundation for an operator certification program. Once published, these regulations will permit routine beyond visual-line-of-sight operations without the need for the Company to request specific permission for each operation, as is currently required with the current SFOC process. The first draft of these regulations were

expected to be published in Canada Gazette in Spring of 2021; however, as at the date of this Annual Report, the first draft has not been published.

The Company is currently fully compliant with all current regulatory requirements and has applied for, and received Transport Canada approval for several SFOCs.

**Components**

The Company obtains hardware components, various subsystems and systems, and raw materials from a limited group of suppliers. The Company does not have long-term agreements with any of these suppliers that obligate such suppliers to continue to sell components, subsystems, systems or products to the Company. The Company's reliance on these suppliers involves significant risks and uncertainties, including whether suppliers will provide an adequate supply of required raw materials, components, subsystems, or systems of sufficient quality, will increase prices for the raw materials, components, subsystems or systems, and will perform their obligations on a timely basis. See "Item 3.D. Risk Factors".

**Intangible Properties**

Intangibles such as patents, software, specific technology know-how, and applications expertise all have a significant effect on the Company's business. The Company has been focused on developing proprietary technology which meets or exceeds anticipated Canadian government requirements relating to drone delivery. By virtue of being one of the first commercial UAV companies in the industry, the Company's subsidiary, Draganfly Innovations Inc., holds commercial patents.

The Company has the following patents and patents pending in the application stage in its portfolio and intends to continue to expand and grow its intellectual property portfolio:

| Title | Country | Application No. | Issue Date | Patent No. | Status |
|---|---|---|---|---|---|
| Multi Rotor UAV With Compact Folding Rotor Arms | Canada | 2,917,434 | 4/23/2019 | 2,917,434 | Issued |
| Vehicle with Aerial and Ground Mobility | Canada | 2,787,279 | 10/22/2013 | 2,787,279 | Issued |
| Vertical Takeoff and Landing Unmanned Aircraft System | Canada | 2,935,793 | 1/15/2021 | 2,935,793 | Issued |
| Wheel with Folding Segments | Canada | 2,787,075 | 10/29/2013 | 2,787,075 | Issued |
| Action Camera System for Unmanned Aerial Vehicle | United States | 15/707,752 | 1/22/2019 | 10,187,580 | Issued |
| Action Camera System for Unmanned Aerial Vehicle | United States | 14/533,995 | 9/19/2017 | 9,769,387 | Issued |



| Title | Country | Application No. | Issue Date | Patent No. | Status |
|---|---|---|---|---|---|
| Cascade Recognition for Personal Tracking via Unmanned Aerial Vehicle (UAV) | United States | 14/642,370 | 7/18/2017 | 9,710,709 | Issued |
| Cascade Recognition for Personal Tracking via | United States | 15/651,672 | 2/13/2018 | 9,892,322 | Issued |

| | | | | | |
|---|---|---|---|---|---|
| Unmanned Aerial Vehicle (UAV) | | | | | |
| Cascade Recognition for Personal Tracking via Unmanned Aerial Vehicle (UAV) | United States | 15/894,292 | 10/8/2019 | 10,438,062 | Issued |
| Dual Rotor Helicopter with Tilted Rotational Axes | United States | 12/458,608 | 11/8/2011 | 8,052,081 | Issued |
| Helicopter with Folding Rotor Arms | United States | 13/200,825 | 10/23/2012 | 8,292,215 | Issued |
| Multi Rotor UAV With Compact Folding Rotor Arms | United States | 14/994,080 | 7/31/2018 | 10,035,581 | Issued |
| Pixel Based Image Tracking System For Unmanned Aerial Vehicle (UAV) Action Camera System | United States | 15/256,193 | 10/10/2017 | 9,785,147 | Issued |
| Pixel Based Image Tracking System for Unmanned Aerial Vehicle (UAV) Action Camera System | United States | 14/825,956 | 9/13/2016 | 9,442,485 | Issued |
| Real Time Noise Reduction System for Dynamic Motor Frequencies Aboard an Unmanned Aerial Vehicle (UAV) | United States | 14/642,496 | 11/8/2016 | 9,489,937 | Issued |
| System and Method for Adaptive Y Axis Power Usage and Non Linear Battery Usage for Unmanned Aerial Vehicle Equipped with Action Camera System | United States | 14/825,914 | 12/6/2016 | 9,511,878 | Issued |
| Tandem Wing Aircraft System with Shrouded Propeller | United States | 15/584,815 | 8/13/2019 | 10,377,488 | Issued |
| Vehicle with Aerial and Ground Mobility | United States | 14/641,468 | 3/21/2017 | 9,598,171 | Issued |
| Vehicle with Aerial and Ground Mobility | United States | 13/846,074 | 3/31/2015 | 8,991,740 | Issued |
| Vertical Take Off And Landing (VTOL) Aircraft Having Variable Center Of Gravity | United States | 15/706,158 | 10/20/2020 | 10,807,707 | Issued |
| Vertical Takeoff and Landing Unmanned Aircraft System | United States | 15/164,718 | 8/28/2018 | 10,059,442 | Issued |
| Visually Intelligent Camera Device with Peripheral Control Outputs | United States | 14/939,369 | 8/6/2019 | 10,375,359 | Issued |
| Wheel with Folding Segments | United States | 13/739,419 | 6/17/2014 | 8,753,155 | Issued |

The Company also has the following registered trademarks and pending applications:

| Description | Name/Title | Official No. | Governmental Entity |
|---|---|---|---|
| Trademark Application (Status: Filed) | DRAGANFLY | 1,972,336 | CIPO |
| Registered Trademark | DRAGANFLYER EXPLORE | TMA1,025,742 | CIPO |
| Registered Trademark | DRAGANFLYER APEX | TMA1,025,624 | CIPO |
| Registered Trademark | DRAGANFLYER COMMANDER | TMA1,008,809 | CIPO |
| Registered Trademark | DRAGANFUEL | TMA997,118 | CIPO |
| Registered Trademark | DRAGANFLY INNOVATIONS | TMA908,564 | CIPO |
| Registered Trademark | DRAGANFLYER | TMA906,939 | CIPO |
| Registered Trademark | DRAGANFLY & DESIGN | TMA905,935 | CIPO |
| Registered Trademark | DRAGANFLY | TMA1,071,582 | CIPO |
| Registered Trademark | DRAGANFLY | TMA1,069,670 | CIPO |
| Registered Trademark | DRAGANFLYER GUARDIAN | TMA904,883 | CIPO |
| Registered Trademark | DRAGANVIEW | TMA886,217 | CIPO |
| Registered Trademark | DRAGANFLYER APEX | 6248237 | USPTO |
| Registered Trademark | DRAGANFLY | 6373176 | USPTO |
| Registered Trademark | DRAGANFLYER COMMANDER | 5760146 | USPTO |
| Registered Trademark | DRAGANFUEL | 5563360 | USPTO |
| Registered Trademark | DRAGANFLY INNOVATIONS | 5130969 | USPTO |
| Registered Trademark | DRAGANFLYER | 4920316 | USPTO |
| Registered Trademark | DRAGANFLY & Design | 5130970 | USPTO |
| Registered Trademark | DRAGANFLYER GUARDIAN | 4995725 | USPTO |
| Registered Trademark | DRAGANVIEW | 4920317 | USPTO |
| Trademark Application[2] | DRAGANFLY | 88488410 | USPTO |

**Market Opportunity**

Drones have rapidly evolved from their military origin to commercial and civil government applications from security to farming. The increased automation of drones provides additional value to existing workflows, triggering more widespread adoption. A global shift to sustainable and eco-friendly options has further increased demand for drone usage. Lastly, regulatory amendments are anticipated to have an ongoing impact on the drone industry. According to Drone Industry Insights, the commercial and private drone market could grow from $22.5 billion in 2020 to $42.8 billion in 2025, representing compound annual growth rate ("**CAGR**") of 13.8%.[3]

Drone application methods are being used by a variety of industries today. The most active segments are Mapping, Surveying, Inspection, Filming/photography, dispensing/spraying, warehousing, monitoring/detection, and delivery. These applications are being used today by the civil government, educational facilities, agricultural, construction, health care, real estate, energy, transportation, insurance, security, and scientific industries for public safety, data collection and profit. According to the Drone Industry Insights, the fastest growing drone application method will be delivery and is forecasted at 28.6% CAGR over the next five years and it is widely believed over 100,000 new jobs will be created in the drone market by 2025.[4] However, regulatory hurdles and intense industry scrutiny need to be addressed.

[2] The US application is suspended pending registration of the Canadian mark

[3] See Global Drone Market Report 2020-2025
[4] See Global Drone Market Report 2020-2025



Our existing products are configured to meet the needs of multiple industries. We continue to add new customers in different market verticals. We are actively designing and developing new products and services to meet increased customer demands.

**Growth Strategy**

Draganfly markets its products and services as a drone solution platform that enables customer to do things not easily done before and to collect data not easily available before. Draganfly provides solutions to our customers utilizing drones and adjunct technologies. Sensors, software, AI and more all make up this ability to provide solutions that only a company with end-to-end capabilities can provide. Draganfly grows by dealing with the decision makers in organizations who generally have budget control and/or profit and loss responsibility. Draganfly will continue to develop specific solutions and IP for industry verticals by working directly with customers. Draganfly will also pursue an acquisition strategy focused on adding additional capabilities to its platform that strengthen its value proposition of being able to provide new and total solutions that other drone companies cannot. Draganfly is focused on growth through developing new products, expanding its customer base, and pursuing accretive acquisition opportunities, both within and outside North America, in new markets that complement its existing portfolio.

**Sales and Marketing**

Draganfly plans to expand it sales and market capabilities in three key areas. First, Draganfly intends to implement a sales force that has the ability to build relationships and sell specifically designed solutions into industry verticals. This sales force will be specialized into segments that sell either direct or into a channel dependent on the specific product or service solution being provided. Draganfly plans to expand business development personnel that can work with specific industries to envision and develop new product lines and services not yet contemplated by our customers. Second, Draganfly plans to drive greater market awareness of the Draganfly brand via public relations as well as an expanded marketing pushing via specific sponsorships of events that complement and highlight the Draganfly technology. i.e., sporting events where Draganfly's Vital Intelligence Technology is used to provide health screening for spectators and/or staff; or, where Draganfly's 20hr + spraying solution via drones is used to disinfect and coat the stadium from pathogens. Third, Draganfly plans targeted marketing and advertising via tradeshows/conferences which are virtual or physical (post COVID restrictions) as well as target digital advertising campaigns used to generate inbound inquires for specific products, services or solution opportunities.

**Customers**

Key customers are customers looking to gain strategic advantage in particular markets via the use of drones and drone technology. These are often large organization with a specific problem that they are currently solving in an expensive manner which usually means the use of teams of people or expensive personnel. By designing solution and providing everything from design to manufacturing to sensor development and even giving recognition on patents of IP development (not with commercial interest) to providing the services and housing the data we develop customer relationships that are very "sticky".

**Specialized Skill and Knowledge**

There is a specialized skill required for the development, operations, maintenance, sales and marketing of the Company's technology. The Company's current staff possesses the necessary skills and knowledge required for the Company's business; however, additional employees may be added to staff as needed. All operational staff hold the appropriate licenses and certificate as mandated by Transport Canada.

**Changes to Contracts**

No aspect of Draganfly's business is anticipated to be affected in the current financial year by renegotiation or termination of any contract.

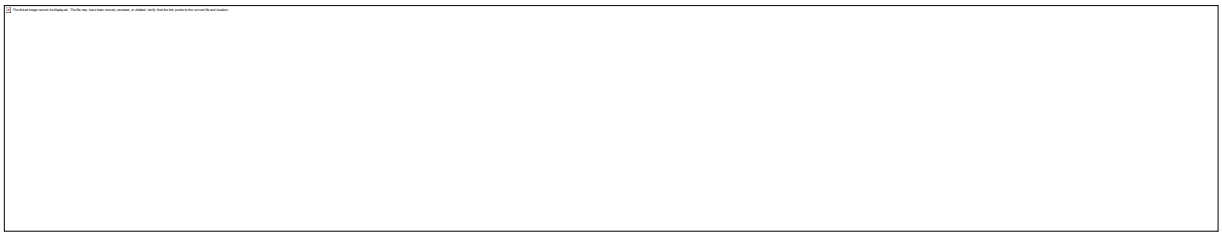
**Capital Expenditures**

During the years ended December 31, 2021, 2020 and 2019, we did not undertake any capital expenditures.



### 4.C. Organizational Structure

We have three wholly-owned subsidiaries. The following chart shows the Company's subsidiaries:



### 4.D. Property, Plant and Equipment

Draganfly Innovation Inc.'s products are manufactured at its machine shop within its leased head office located at 2108 St. George Avenue, Saskatoon, SK S7M 0K7 (approximately 3,800 square feet in size).

Dronelogics Services Inc.'s services are provided through its leased space located at Unit 319, 2999 Underhill Avenue, Burnaby, British Columbia (approximately 2,752 square feet in size).

The Company, through its wholly-owned subsidiary, Draganfly Innovations USA Inc., has a leased office at 3910 RCA Boulevard, Suite 1015, Palm Beach Gardens, Florida where inventory is stored (approximately 1,600 square feet in size).

See also "Item 4.B. Business Overview Operations – Operations".

## ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The management's discussion and analysis of the Company for the year ended December 31, 2021 is included in this Annual Report in Exhibit 15.1.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### 6.A Directors and Senior Management

The following table sets forth the name, office held, age, and functions and areas of experience in the Company of each of our directors and senior management:

| Name and Municipality of Residence | Age | Position Held and Date Appointed | Principal Occupation within the past five years |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **Cameron Chell**<br>Bowen Island, British Columbia, Canada | 53 | Chief Executive Officer, Chairman and a Director (August 14, 2019) | Chairman and Chief Executive Officer of the Company since August 2019; President, Chairman and co-founder of CurrencyWorks Inc. from November 2017 to present; Chief Executive Officer and co-founder of Business Instincts Group Inc., a Calgary-based Venture Creation Firm, from 2009 to 2021; co-founder of BitRail, LLC from May 2019 to May 2020; co-creator and Chairman of KODAKOne from May 2017 to May 2020; director of Health Outcomes Worldwide from June 2017 to February 2021; and Chairman of TruTrace Technologies Inc. from April 2017 to September 2020. |



| Name and Municipality of Residence | Age | Position Held and Date Appointed | Principal Occupation within the past five years |
|---|---|---|---|
| **Scott Larson**[3]<br>Burnaby, British Columbia, Canada | 49 | President (July 3, 2020) and a Director (August 14, 2019) | President of the Company since July 2020; former Chief Executive Officer of Kater Technologies, a Vancouver-based mobility as a service (MaaS) company building out an integrated intermodal transportation platform incorporating public transportation, buses, taxis and ride hailing vehicles into a single service, from January 2019 to March 2020; former Chief Executive Officer of Helios Wire, a satellite company building out a space-enabled IoT/M2M network, from 2016 to 2019; and former Chief Executive Officer and founder of UrtheCast Corp. from 2010 to 2015. |
| **Olen Aasen**[1][2][3]<br>Vancouver, British Columbia, Canada | 39 | Director (August 14, 2019) | Practicing lawyer since 2007. |
| **Andrew Hill Card Jr.**[2]<br>Jaffrey, New Hampshire, United States | 74 | Director (November 7, 2019) | Chairman of the National Endowment for Democracy (NED), a non-profit organization dedicated to the growth and strengthening of democratic institutions around the world, from January 2018 to January 2021; Interim Chief Executive Officer of the George & Barbara Bush Foundation from June 2020 to December 2020; and President of Franklin Pierce University in New Hampshire from January 2015 to August 2016. |
| **John M. Mitnick**[1][2]<br>McLean, Virginia, United States | 59 | Director (June 18, 2020) | Member of Board of Directors of Valaurum, Inc., March 2016 to February 2018 and since October 2019; Advisor to Carbon Neutral Royalty Ltd. from February 2022 to present; General Counsel of the U.S. Department of Homeland Security from February 2018 to September 2019; and Senior Vice President, General Counsel, and Secretary of The Heritage Foundation from March 2014 to February 2018. |

| | | | |
|---|---|---|---|
| **Denis Silva**[3]<br>Vancouver, British Columbia, Canada | 42 | Director<br>(August 14, 2019) | Corporate and securities partner with the law firm DLA Piper (Canada) LLP since July 2020; and partner at the law firm Gowling WLG (Canada) LLP from 2015 to 2020. |
| **Julie Myers Wood**[1]<br>McLean, Virginia, United States | 52 | Director<br>(September 9, 2021) | Chief Executive Officer of Guidepost Solutions LLC since May 2014; Chief Executive Officer of ICS Consulting LLC; and has held several high level positions within the U.S. government including at the Departments of Justice, Homeland Security, Treasury, and Commerce, as well as at the White House. |
| **Paul Sun**<br>Oakville, Ontario, Canada | 50 | Chief Financial Officer and Corporate Secretary<br>(August 14, 2019) | Chief Financial Officer of the Company since August 2019; Chief Financial Officer of Former Draganfly since July 2015; and Managing Director, Institutional Equity Sales at Beacon Securities Limited from January 2013 to December 2014. |
| **Justin Hannewyk**<br>Vancouver, British Columbia, Canada | 37 | President of Dronelogics Systems Inc.<br>(April 30, 2020) | President of Dronelogics Systems Inc., a wholly-owned subsidiary of the Company, since 2009; and an independent consultant to enterprise clients with respect to the integration of drones for over 10 years. |

**Notes:**

(1) Member of the Audit Committee.
(2) Member of the Nominating and Corporate Governance Committee.
(3) Member of the Compensation Committee.



The directors listed above will hold office until the next annual meeting of the Company or until their successors are elected or appointed. There are no family relationships among our directors and executive officers. There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any of our directors or executive officers was selected.

As at March 28, 2022, the directors and senior officers of Draganfly, as a group, beneficially own or control, directly or indirectly, 738,389 Common Shares or 2.2% of the issued and outstanding Common Shares.

***Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions***

To the knowledge of management, no director or executive officer as at the date hereof, is or was within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including Draganfly), that (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For the purposes hereof, "order" means (a) a cease trade order, (b) an order similar to a cease trade order, or (c) an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days.

To the knowledge of management, other than as disclosed herein, no director or executive officer of Draganfly, or a shareholder holding a sufficient number of securities of Draganfly to affect materially the control of the company (a) is, as at the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any company (including Draganfly) that, while that person was acting in that capacity, or within a year of that person

ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

By Order of the Supreme Court of Newfoundland and Labrador dated June 17, 2020, Deloitte Restructuring Inc. was appointed as the receiver and manager of all current and future assets, undertakings, and properties of the Kami Mine Limited Partnership, Kami General Partner Limited, and Alderon Iron Ore Corp. The receivership was initiated by a secured creditor of the Kami Mine Limited Partnership after its failure to refinance the secured debt due to the COVID-19 pandemic. Mr. Aasen was Corporate Secretary of Alderon Iron Ore Corp. and Secretary and Director of Kami General Partner Limited until April 28, 2020.

***Penalties or Sanctions***

Other than as disclosed herein, no director, executive officer or shareholder holding a sufficient number of securities of Draganfly to materially affect the control of the Company has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

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

- prohibition against ASE Approval (as defined in the General By-law of the ASE) in any capacity for a period of five years commencing November 6, 1998;
- a fine in the sum of $25,000;
- strict supervision for a period of two years following re-registration in any capacity; and
- close supervision for a period of one year following the period of strict supervision described above.



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

- representations were made by the promoter of a company to one of Mr. Chell's clients that he would only be permitted to purchase securities in the initial public offering of that company if he would agree to purchase additional securities in the secondary market following the listing on the ASE and, in or around March or April, 1996, Mr. Chell disclosed confidential information to the promoter of that company concerning a client's account with respect to a cheque returned NSF to Mr. Chell's employer;
- the investment objectives for two of Mr. Chell's clients were amended without prior knowledge or consent of such clients and purchases and sales of securities were subsequently executed in the accounts of such clients which were unsuitable for the clients given the stated investment objectives for the accounts prior to the amendment of such investment objectives;
- Mr. Chell executed a total of 21 transactions in the accounts of two of Mr. Chell's clients without prior knowledge or authorization of such clients;

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

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

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

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

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

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

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

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

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

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



***Conflicts of Interest***

There are potential conflicts of interest to which the directors and officers of Draganfly will be subject to in connection with the operations of Draganfly. In particular, certain of the directors and officers of Draganfly are involved in managerial or director positions with other companies whose operations may, from time to time, be in direct competition with those of Draganfly or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Draganfly.

In accordance with the applicable corporate and securities legislation, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with Draganfly are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Draganfly. Certain of the directors and each of the executive officers of Draganfly have either other employment or other business or time restrictions placed on them and accordingly, these directors of Draganfly will only be able to devote part of

their time to the affairs of Draganfly. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the applicable corporate law.

### 6.B. Compensation

***Summary Compensation Table***

For the year ended December 31, 2021, our directors and executive officers received compensation for services, as follows:

| Name and Principal Position | Year | Salary ($) | Share-Based Awards ($)[1][2] | Option-Based Awards ($)[3][4] | Non-Equity Incentive Plan Compensation (C$) | | Pension Value ($) | All Other Compen-sation ($)[6] | Total Compen-sation ($) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Annual Incentive Plans[5] | Long-Term Incentive Plans | | | |
| **Cameron Chell**[7] Chairman, CEO and Director | 2021 | 290,225 | 570,300 | Nil | Nil | Nil | Nil | Nil | 860,525 |
| **Paul Sun** CFO | 2021 | 208,118 | 365,400 | Nil | Nil | Nil | Nil | Nil | 573,318 |
| **Scott Larson**[7] President and Director | 2021 | 205,690 | 270,900 | Nil | Nil | Nil | Nil | Nil | 476,590 |
| **Olen Aasen** Director | 2021 | Nil | 346,250 | Nil | Nil | Nil | Nil | 100,141[7] | 446,391 |
| **Denis Silva** Director | 2021 | Nil | 346,250 | Nil | Nil | Nil | Nil | 88,497[7] | 434,747 |
| **Andrew Hill Card, Jr** Director | 2021 | Nil | 346,250 | Nil | Nil | Nil | Nil | 77,719[7] | 423,969 |
| **John M. Mitnick** Director | 2021 | Nil | 346,250 | Nil | Nil | Nil | Nil | 80,341[7] | 426,591 |
| **Julie Myers Wood** Director | 2021 | Nil | 124,997 | 96,305 | Nil | Nil | Nil | 23,426[7] | 148,423 |
| **Justin Hannewyk**[7] President of Dronelogics Systems Inc. and former Director | 2021 | 150,776 | 96,750 | Nil | Nil | Nil | Nil | Nil | 247,526 |



**Notes:**

(1) "Share-Based Award" means an award under an equity incentive plan of equity-based instruments that do not have option-like features, including, for greater certainty, common shares, restricted shares, restricted share units, deferred share units, phantom shares, phantom share units, common share equivalent units and stock.

(2) Based on the number of restricted share units ("**RSUs**") granted multiplied by the market price of the underlying Common Shares on the grant date. This methodology was chosen in order to be consistent with industry.

(3) "Option-Based Award" means an award under an equity incentive plan of options, including, for greater certainty, share options, share appreciation rights and similar instruments that have option-like features. See also "Item 6.E. Share Ownership".

(4) This does not represent cash paid to the individual. This figure is based on the grant date fair value of such stock options of the Company ("**Options**"). The grant date fair value was determined in accordance with IFRS. This methodology was chosen in order to be consistent with the accounting fair value used by the Company in its financial statements and since the Black-Scholes option pricing model is a commonly used methodology for valuing options which provides an objective and reasonable estimate of fair value. The key assumptions of this valuation include current market price of the stock, exercise price of the option, option term, risk-free interest rate, dividend yield of stock and volatility of stock return. Calculating the value of stock options using the Black-Scholes option pricing model is very different from a simple "in-the-money" value calculation. In fact, stock options that are well out-of-the-money can still have a significant "grant date fair value" based on a Black-Scholes option pricing model, especially where, as in the case of the Company, the price of the share underlying the option is highly volatile. Accordingly, caution must be exercised in comparing grant date fair value amounts with cash compensation or an in-the-money option value calculation.
(5) Represents annual cash bonus awards that are declared and paid annually. The Company does not have a formal bonus plan and the amount of bonuses paid is not set in relation to any formula or specific criteria but is a result of a subjective determination by the Compensation Committee and the Board. As of March 29, 2022, the annual cash bonus awards for the executive officers of the Company for the year ended December 31, 2021 have not been determined or approved by the Board.
(6) This amount represents the aggregate amount of perquisites paid to the individual.
(7) This amount represents director's fees paid to such director.
(8) Mr. Chell, Mr. Larson and Mr. Hannewyk did not receive any additional compensation for serving as directors of the Corporation.

## 6.C. Board Practices

All of our directors are elected at the annual general meeting of our shareholders and each holds such office until his or her successor is elected or appointed, unless his or her office is earlier vacated by way of the director's resignation or death or under any of the relevant provisions of our Articles or the BCBCA.

***Employment, Consulting and Directors' Service Contracts***

The Company is not a party to any contract, agreement, plan or arrangement that provides for payments to a director or executive officer at, following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, a change in control of the Company, its subsidiaries or affiliates or a change in a director or executive officer responsibilities, other than as described below.

The Company's consulting agreement, as amended, (the "**Chell Consulting Agreement**") with 1502372 Alberta Ltd. (the "**Consultant**") requires the Company to pay monthly fees of C$33,333.33 (amounting to C$400,000 annually) for the provision by of executive services by the Consultant to the Company, and in this regard, has Cameron Chell hold the position of Chairman and Chief Executive Officer of the Company and contains the following provisions: (a) where termination notice is given by the Company, other than for certain specified reasons as set out in the Chell Consulting Agreement, the Company shall give the Consultant at least 60 days' advance notice in writing; and (b) where termination is given by the Consultant, the Consultant shall give the Company 60 days' advance notice in writing. If the Chell Consulting Agreement is terminated pursuant to either (a) or (b) above, then the Consultant will be entitled to the fees earned to the effective date of termination and any expenses incurred on behalf of the Company prior to the effective date of termination which are otherwise reimbursable by the Company pursuant to the terms of the Chell Consulting Agreement. The Consultant is also entitled a bonus as determined by the Compensation Committee equal to 100% of the Consultant annual fees. The Consultant is a private company controlled by Cameron Chell. During the year ended December 31, 2021, the Company and the Consultant entered into an amending agreement to the Chell Consulting Agreement to increase the monthly fees from US$14,166.67 (amounting to US$170,000 annually) to C$33,333.33 (amounting to C$400,000 annually).



The Company's consulting agreement, as amended, (the "**Larson Consulting Agreement**") with Scott Larson requires the Company pay (a) an annual base salary of C$250,000 and (b) as determined by the Compensation

Committee, an annual bonus of up to the base salary, for the provision by of executive services as President to the Company. If the Larson Consulting Agreement is terminated by the Company without just cause, Mr. Larson will be entitled to remuneration in the amount equal the base salary for a period of four months. During the year ended December 31, 2021, the Company and Mr. Larson entered into an amending agreement to the Larson Consulting Agreement to increase the annual base salary from US$140,000 to C$250,000.

The Company's employment agreement, as amended, (the "**Sun Agreement**") with Paul Sun requires the Company pay (a) an annual base salary of C$220,000 and (b) as determined by the Company's Compensation Committee, an annual bonus of up to the base salary, for the provision of executive services as Chief Financial Officer to the Company. If the Sun Agreement is terminated by the Company without just cause, Mr. Sun will be entitled to remuneration in the amount equal the base salary and Mr. Sun's last bonus earned divided by 12 and multiplied by six. Mr. Sun is also entitled to receive a lump sum payment equal to 18 months of his base salary and average bonus upon a change of control of the Company. During the year ended December 31, 2021, the Company and Mr. Sun entered into an amending agreement to the Sun Agreement to increase the annual base salary from C$150,000 to C$220,000.

The Company's employment agreement, as amended, (the "**Hannewyk Agreement**") with Justin Hannewyk requires the Company pay (a) an annual base salary of C$180,000 and (b) as determined by the Company's Compensation Committee, an annual bonus of up to the base salary, for the provision of executive services as President of Dronelogics Systems Inc. If the Hannewyk Agreement is terminated by the Company without just cause, Mr. Hannewyk will be entitled to 12 months' notice less the minimum amount of notice required under the British Columbia *Employment Standards Act*, or, in the Company's sole discretion, payment of the base salary plus the cost of Mr. Hannewyk's group benefits. The Company may terminate the Hannewyk Agreement at any time without cause during the six months following a change of control of the Company, and Mr. Hannewyk will be entitled to terminate the Hannewyk Agreement for good reason during the six months following a change of control of the Company, and Mr. Hannewyk would be entitled to receive a lump sum payment equal to the base salary plus the cost of Mr. Hannewyk's group benefits. During the year ended December 31, 2021, the Company and Mr. Hannewyk entered into an amending agreement to the Hannewyk Agreement to increase the annual base salary from C$120,000 to C$180,000.

***Audit Committee***

The Audit Committee is a committee of the Board to which the Board delegates its responsibility for oversight of the financial reporting process. The Audit Committee is also responsible for managing, on behalf of our shareholders, the relationship between the Company and the external auditor.

Pursuant to National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators ("**NI 52-110**"), the Company is required to disclose certain information with respect to its Audit Committee, as summarized below.

*Audit Committee Terms of Reference*

The Company must, pursuant to NI 52-110, have a written charter which sets out the duties and responsibilities of its Audit Committee. The terms of reference of the Audit Committee are attached hereto as Exhibit 15.2.

*Audit Committee Composition*

The following are the members of the Audit Committee:

| | | |
|---|---|---|
| Olen Aasen[(1)] | Independent[(2)] | Financially Literate[(2)] |
| Julie Myers Wood | Independent[(2)] | Financially Literate[(2)] |
| John M. Mitnick | Independent[(2)] | Financially Literate[(2)] |

**Notes:**

(1) Chairman of the Audit Committee.
(2) As defined by NI 52-110.

*Relevant Education and Experience*

All members of the Audit Committee have been either directly involved in the preparation of the financial statements, filing of quarterly and annual financial statements, dealing with auditors, or as a member of the Audit Committee. All members have the ability to read, analyze and understand the complexities surrounding the issuance of financial statements.

*Olen Aasen*

Mr. Aasen is a corporate and securities lawyer with more than 15 years of experience in corporate, securities and regulatory matters. He has been the Corporate Secretary, General Counsel or Vice President, Legal at various Canadian and U.S. listed companies. Mr. Aasen obtained a J.D. from the University of British Columbia in 2006 and was called to the British Columbia Bar in 2007. Mr. Aasen was also appointed to the 2016 Legal 500 GC Powerlist for Canada.

*Julie Myers Wood*

Ms. Myers was appointed by President Bush to serve as Assistant Secretary of Homeland Security for Immigration and Customs Enforcement (ICE). Previously, Ms. Myers worked for the Office of Independent Counsel under Kenneth Starr and was appointed Assistant Secretary for Export Enforcement at the Department of Commerce. She currently is CEO for Guidepost Solutions, LLC, a leading investigative and compliance consulting firm where she leads a global team of investigators, experienced security and technology consultants, and compliance and monitoring experts across a multitude of industries including government and public service agencies.

*John M. Mitnick*

Mr. Mitnick is an American attorney with 32 years of experience serving at the highest levels of government and the private sector. From February 2018 until September 2019, he served as the General Counsel of the U.S. Department of Homeland Security (DHS), having been confirmed for that position unanimously by the U.S. Senate. From March 2014 to February 2018, he served as Senior Vice President, General Counsel, and Secretary of The Heritage Foundation, an influential think tank, and from November 2007 to April 2013, he served as Vice President, General Counsel, and Secretary of a Raytheon division with more than US$3 billion in annual sales, more than 9,000 employees, and business operations in more than 40 countries and on all continents. Mr. Mitnick has also served on the Board of Directors of Valaurum, Inc., a private mint, from March 2016 to February 2018 and since October 2019. He received his Juris Doctor degree from the University of Virginia School of Law and a Bachelor of Arts degree in Jurisprudence from the University of Oxford. He also holds a Bachelor of Arts degree in History and Political Science (summa cum laude) from Emory University.

*Reliance on Certain Exemptions*

At no time since the commencement of the Company's financial year ended December 31, 2021, has the Company relied on any exemption from NI 52-110, including Section 2.4 of NI 52-110 (De Minimis Non-Audit Services), or an exemption granted under Part 8 of NI 52-110.

The Company has relied upon the exemption provided by section 6.1 of NI 52-110 which exempts venture issuers from the requirement to comply with the restrictions on the composition of its Audit Committee.

*Audit Committee Oversight*

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

*Pre-Approval Policies and Procedures*

The Audit Committee is authorized by the Board to review the performance of the Company's external auditors and approve in advance provision of services other than auditing and to consider the independence of the external auditors, including reviewing the range of services provided in the context of all consulting services bought by the Company. The Audit Committee is authorized to approve any non-audit services or additional work which the Chairman of the Audit Committee deems as necessary who will notify the other members of the Audit Committee of such non-audit or additional work.



*External Auditor Service Fees*

See "Item 16C. Principal Accountant Fees and Services".

***Compensation Committee***

The Compensation Committee has the responsibility for reviewing matters relating to the compensation of the directors, officers and employees of the Company and its subsidiaries in the context of the budget and business plan of the Company. As part of the mandate and responsibility of the Compensation Committee, it is responsible for formulating and making recommendations to the Board in respect of compensation issues relating to directors, officers and employees of the Company. Without limiting the generality of the foregoing, the Compensation Committee has the following responsibilities:

(a) reviewing and making recommendations to the Board with respect to the overall compensation strategy and policies for directors, officers and employees of the Company, including executive officer and management compensation criteria, corporate and personal goals and objectives;

(b) reviewing and making recommendations to the Board with respect to the corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluating the performance of the Chief Executive Officer in light of those goals and objectives, and recommending to the Board the compensation level of the Chief Executive Officer based on this evaluation;

(c) reviewing and making recommendations to the Board with respect to the compensation of the Chairman of the Board;

(d) reviewing and making recommendations to the Board with respect to the annual compensation of all other executive officers and directors of the Company;

(e) reviewing and making recommendations to the Board, as appropriate, in connection with the Company's succession planning with respect to the Chief Executive Officer and other senior executive officers;

(f) administering the Share Compensation Plan, and any other stock option plan, restricted share unit plan or deferred share unit plan that may be in effect from time to time, in accordance with the terms of such plans;

(g) making recommendations to the Board with respect to the Company's incentive compensation and equity-based plans that are subject to Board approval;

(h) reviewing and approving the annual public disclosure in the information circular relating to executive compensation of the Company;

(i) reviewing the results of the annual CEO evaluation prior to submission to the Nominating and Corporate Governance Committee and the Board;

(j) reviewing and making recommendations regarding the form of annual CEO evaluation questionnaire; and

(k) reviewing and reassessing the adequacy of the charter of the Audit Committee on an annual basis.

The Compensation Committee is composed of a majority of independent directors, being Scott Larson, Olen Aasen and Denis Silva. The Chairman of the Compensation Committee is Scott Larson. The Compensation Committee meets at least once per year and at such other times as the Chairman of the Compensation Committee determines.



### 6.D. Employees

As at December 31, 2021, the Company had 41 employees (37 employees located in Canada and three employees located in the U.S.) and three full-time and three part-time consultants whose services were, and continue to be, used on a regular basis for day-to-day operations.

### 6.E. Share Ownership

The following table sets out the number of Common Shares, Options and RSUs (on a post-Consolidation basis) owned or over which control or direction is exercised by each our directors and executive officers and, where known after reasonable enquiry, by their respective associates or affiliates as at April 3, 2022.

| Name and position | Number and Percentage of Common Shares[1] | Type of compensation security | Number of compensation securities | Date of issue or grant | Issue, conversion or exercise price ($) | Expiry Date |
|---|---|---|---|---|---|---|
| **Cameron Chell**<br>Chairman, CEO and Director | Nil | Options<br>RSUs<br>RSUs<br>RSUs | 50,000<br>16,666<br>20,000<br>40,000 | October 30, 2019<br>October 30, 2019<br>March 8, 2021<br>September 3, 2021 | 2.50<br>2.50<br>13.90<br>3.87 | October 30, 2029<br>October 30, 2022<br>March 8, 2024<br>September 3, 2024 |
| **Paul Sun**<br>CFO | 131,226<br>(0.4%) | Options<br>RSUs<br>RSUs<br>RSUs | 33,333<br>33,334<br>12,000<br>30,000 | October 30, 2019<br>October 30, 2019<br>March 8, 2021<br>September 3, 2021 | 2.50<br>2.50<br>13.90<br>3.87 | October 30, 2029<br>October 30, 2022<br>March 8, 2024<br>September 3, 2024 |
| **Scott Larson**<br>President and Director | Nil | Options<br>Options<br>RSUs<br>RSUs | 50,000<br>100,000<br>16,666<br>70,000 | October 30, 2019<br>July 3, 2020<br>October 30, 2019<br>September 3, 2021 | 2.50<br>3.20<br>2.50<br>3.87 | October 30, 2029<br>July 3, 2025<br>October 30, 2022<br>September 3, 2024 |
| **Olen Aasen**<br>Director | 17,353<br>(0.05%) | Options<br>RSUs<br>RSUs | 16,667<br>16,666<br>16,667 | October 30, 2019<br>October 30, 2019<br>March 8, 2021 | 2.50<br>2.50<br>13.90 | October 30, 2029<br>October 30, 2022<br>March 8, 2024 |
| **Denis Silva**<br>Director | 31,665<br>(0.1%) | Options<br>RSUs<br>RSUs | 16,667<br>16,666<br>16,667 | October 30, 2019<br>October 30, | 2.50<br>2.50<br>13.90 | October 30, 2029<br>October 30, |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | 2019<br>March 8, 2021 | | 2022<br>March 8, 2024 |
| **Andrew Hill Card, Jr**<br>Director | 34,190<br>(0.1%) | Options<br>RSUs<br>RSUs | 50,000<br>16,667<br>16,667 | October 30, 2019<br>October 30, 2019<br>March 8, 2021 | 2.50<br>2.50<br>13.90 | October 30, 2029<br>October 30, 2022<br>March 8, 2024 |
| **Justin Hannewyk**<br>President of Dronelogics Systems Inc. and former Director | 461,354<br>(1.4%) | RSUs | 25,000 | September 3, 2021 | 3.87 | September 3, 2024 |
| **John M. Mitnick**<br>Director | 62,601<br>(0.2%) | Options<br>RSUs<br>RSUs | 50,000<br>8,334<br>16,667 | November 19, 2019<br>November 19, 2019<br>March 8, 2021 | 2.50<br>2.50<br>13.90 | November 19, 2029<br>November 19, 2022<br>March 8, 2024 |
| **Julie Myers Wood**<br>Director | Nil | Options<br>Options<br>RSUs | 30,000<br>25,826<br>25,826 | April 30, 2020<br>September 9, 2021<br>September 9, 2021 | 3.85<br>4.84<br>4.84 | April 30, 2030<br>September 9, 2026<br>September 9, 2024 |

**Note:**

(1) Percentages based on 33,197,984 Common Shares issued and outstanding as of March 28, 2022.



***Share Compensation Plan***

The Board has previously adopted the Share Compensation Plan that provides for the granting of Options and RSUs on such terms and conditions as prescribed by the Share Compensation Plan. The Share Compensation Plan is a "rolling" plan, pursuant to which the maximum number of Common Shares issuable under the Share Compensation Plan and any other share compensation arrangement of the Company including the RSUs that may be awarded under the Share Compensation Plan, is 20% of the Common Shares then issued and outstanding. The Share Compensation Plan was adopted effective August 19, 2019 and amended effective April 14, 2021.

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

*Purpose of the Share Compensation Plan*

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

*Eligible Persons*

The following people are eligible to participate in the Share Compensation Plan: any officer or employee of the Company or any officer or employee of any subsidiary of the Company and, solely for purposes of the grant of Options, any director of the Company or any director of any subsidiary of the Company, and any Consultant (defined under the Share Compensation Plan as an individual (other than an employee or a director of the Company) or a corporation that is not a U.S. Person that: (a) is engaged to provide on an ongoing bona fide basis, consulting, technical, management or other services to the Company or to an affiliate of the Company, other than services provided in relation to an offer or sale of securities of the Company in a capital raising transaction, or services that promote or maintain a market for the Company's securities; (b) provides the services under a written contract between the Company or the affiliate and the individual or the Company, as the case may be; (c) in the reasonable opinion of the Company, spends or will spend a significant amount of time and attention on the affairs and business of the Company or an affiliate of the Company; and (d) has a relationship with the Company or an affiliate of the Company that enables the individual to be knowledgeable about the business and affairs of the Company.

*Administration of the Share Compensation Plan*

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

*Restrictions on the Award of RSUs and Grant of Options*

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

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

(b) the aggregate sales price (meaning the sum of all cash, property, notes, cancellation of debt, or other consideration received or to be received by the 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) US$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, measured at the Company's most recent balance sheet date.



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

*Restricted Share Units*

The total number of Common Shares that may be issued on exercise of Options and RSUs, together with any other share compensation arrangements of the Company, shall not exceed 20% of the number of issued and outstanding Common Shares from time to time.

*Mechanics for RSUs*

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

*Vesting Provisions*

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

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

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



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

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

*Options*

The total number of Common Shares that may be issued on exercise of Options and RSUs, together with any other share compensation arrangements of the Company, shall not exceed 20% of the number of issued and outstanding Common Shares from time to time.

*Mechanics for Options*

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

*Vesting Provisions*

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

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

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

*Other Terms*

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



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

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

*Transferability*

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

*Reorganization and Change of Control Adjustments*

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

*Amendment Provisions in the Share Compensation Plan*

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

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

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

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

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

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

(iii) a change to the vesting provisions of any RSU or any Option (including any alteration, extension or acceleration thereof);

(iv) a change to the termination provisions of any Option or RSU (for example, relating to termination of employment, resignation, retirement or death) that does not entail an extension beyond the original expiration date;



(v) the introduction of features to the Share Compensation Plan that would permit the Company to, instead of issuing Common Shares from treasury upon the vesting of the RSUs, retain a broker and make payments for the benefit of Participants to such broker who would purchase Common Shares in the open market for such Participants;

(vi) the amendment of the Share Compensation Plan as it relates to making lump sum payments to Participants upon the vesting of the RSUs; and

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

(d) be subject to disinterested shareholder approval in the event of any reduction in the exercise price of any Option granted under the Share Compensation Plan to an insider Participant.

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

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

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

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

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

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

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### 7.A. Major Shareholders

To the knowledge of the Board and executive officers of the Company, as at April 3, 2022, no persons or companies beneficially own, directly or indirectly or exercise control or direction over shares carrying 5% or more of the voting rights attached to all outstanding shares of the Company.

### 7.B. 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.

***Trade payables and accrued liabilities***

On August 1, 2019, the Company entered in a business services agreement with Business Instincts Group Inc. ("**BIG**"), a company in which Cameron Chell, CEO, Chairman and a director of the Company, has a material interest and that he previously controlled, to provide: corporate development and governance, strategic facilitation and management, general business services, office space, corporate business development video content, website redesign and management, and online visibility management. The services are provided by a team of up to six consultants and the costs of all charges are based on the fees set in the Agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the company incurred fees of $315,643 compared to $177,000 in 2020 and $80,000 in 2019. As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $nil and December 31, 2019 - $nil).

On October 1, 2019, the Company entered into an independent consultant agreement with 1502372 Alberta Ltd, a company controlled by Cameron Chell, CEO, Chairman and a director of the Company, to provide executive consulting services to the Company. The costs of all charges are based on the fees set in the consultant agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the Company incurred fees of $290,225 compared to $525,164 in 2020 and compared to $9,000 in 2019. As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $321,741 and December 31, 2019 - $9,450).

On July 3, 2020, the Company entered into an executive consultant agreement with Scott Larson, a director of the Company, to provide executive consulting services, as President, to the Company. The costs of all charges are based on the fees set in the executive agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the Company incurred fees of $205,191 (December 31, 2020 – 227,524). As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $153,887).

As at December 31, 2021, the Company had $nil (December 31, 2020 - $475,628 and December 31, 2019 - $9,681) 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 years ended December 31, 2021, 2020, and 2019 included:

| For the year ended December 31 | 2021 ($) | 2020 ($) | 2019 ($) |
|---|---|---|---|
| Director fees | 370,094 | - | - |
| Management fees paid to a company controlled by CEO and director | 290,225 | 737,164 | 186,000 |
| Management fees paid to a company controlled by the President and director | 205,691 | 227,524 | - |
| Management fees paid to a company controlled by a former director | 500,074 | 165,000 | 195,000 |
| Salaries | 722,068 | 655,799 | 179,429 |
| Salaries paid to the former owner of the Company | - | 86,097 | 149,060 |
| Share-based payments | 2,475,949 | 1,614,158 | 480,158 |
| **Totals** | **4,564,102** | **3,485,742** | **1,189,647** |

### 7.C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

The audited consolidated financial statements for the years ended December 31, 2021 and 2020 can be found under "Item 17. Financial Statements".

### 8.B. Significant Changes

We are not aware of any significant change that has occurred since December 31, 2021, the date of the audited consolidated financial statements included in this Annual Report, and that has not been disclosed elsewhere in this Annual Report.

## ITEM 9. THE OFFER AND LISTING.

### 9.A. Offer and Listing Details

The Common Shares are listed and posted for trading on the CSE under the trading symbol "DPRO", on the Nasdaq under the symbol "DPRO", and on the Frankfurt Stock Exchange under the trading symbol "3U8".

### 9.B. Plan of Distribution

Not applicable.

### 9.C. Markets

A discussion of all stock exchanges and other regulated markets on which our securities are listed is provided under "Item 9.A. Offer and Listing Details."

### 9.D. Selling Shareholders

Not applicable.

### 9.E. Dilution

Not applicable.

### 9.F. Expenses of the Issue

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

### 10.A. Share Capital

Not applicable.

### 10.B. Memorandum and Articles of Association

The Company was incorporated under the laws of the Province of British Columbia, Canada and was assigned the number BC1166724. The Company is governed by the BCBCA.

Our Articles do not contain a description of our objects and purposes.

Our Articles do not restrict a director's power to vote on a proposal, arrangement or contract in which the director is materially interested, vote compensation to themselves or any other members of their body in the absence of an independent quorum or exercise borrowing powers. There is no mandatory retirement age for our directors and our directors are not required to own securities of the Company in order to serve as directors.

Our authorized share capital consists of an unlimited number of Common Shares of which 33,197,984 were issued and outstanding as of March 28, 2022 and an unlimited number of Preferred Shares, issuable in series, none of which were issued and outstanding as of March 28, 2022.

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

The Preferred Shares may be issuable in series and the directors may, from time to time before the issue of any Preferred Shares of any particular series, define and attach special rights, privileges, restrictions, and conditions to the Preferred Shares of any series, including voting rights, entitlement to dividends, and redemption, conversion, and

exchange rights. In the event of the liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, holders of Preferred Shares will rank on a parity with holders of the Preferred Shares of every other series and be entitled to preference over the Common Shares and over any other shares of the Company ranking junior to the Preferred Shares.



The provisions in our Articles attaching to the Common Shares may be altered, amended, repealed, suspended or changed by the affirmative vote of the holders of not less than two-thirds of the Common Shares present in person or by proxy at any such meeting of holders.

Our Articles provide for our directors to hold office until the expiry of his or her term (which is stipulated to be immediately before the next election or appointment of directors at an annual general meeting of our shareholders) or until his or her successor is elected or appointed, unless their respective office is earlier vacated in accordance with our Articles or with the provisions of the BCBCA. A director appointed or elected to fill a vacancy on the Board holds office for the unexpired term of their predecessor.

An annual meeting of shareholders must be held at such time in each year that is not later than 15 months after the last preceding annual meeting and at such place as the Board may from time to time determine. The holders of not less than five percent of the issued Common Shares that carry the right to vote at a meeting may requisition our Board to call a meeting of shareholders for the purposes stated in the requisition. The quorum for the transaction of business at any meeting of shareholders is two persons who are, or represented by proxy, shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to vote at the meeting. In addition to those persons who are entitled to vote at a meeting of shareholders, the only other persons entitled to be present at the meeting are the directors, the president (if any), the secretary (if any), the assistant secretary (if any), any lawyer for the Company, the auditor of the Company and any other persons invited to be present at the meeting by the directors or by the chair of the meeting and any persons entitled or required under the BCBCA or our Articles to be present at the meeting; but if any of those persons does attend the meeting, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

Except as provided in the *Investment Canada Act*, there are no limitations specific to the rights of non-Canadians to hold or vote the Common Shares under the laws of Canada or the Province of British Columbia, or in our charter documents.

Our Articles do not contain provisions that would have an effect of delaying, deferring or preventing a change in control of the Company. Our Articles do not contain any provisions that would operate only with respect to a merger, acquisition or corporate restructuring of our company.

Our Articles do not contain any provisions governing the ownership threshold above which shareholder ownership must be disclosed.

Our Articles are not significantly different from the requirements of the BCBCA and the conditions imposed by our Articles governing changes in capital are not more stringent than what is required by the BCBCA.

### 10.C. Material Contracts

Other than as described below, there are no material contracts entered into by Draganfly within the two most recently completed financial years, or before the two most recently completed financial years but which are still in effect, other than contracts entered into in the ordinary course of business.

On August 1, 2019, the Company entered in a business services agreement (the "**BIG Agreement**") with BIG, a company that Cameron Chell, the Chairman, CEO and director of the Company, has a material interest in, to provide: corporate development and governance, strategic facilitation and management, general business services, office space, corporate business development video content, website redesign and management, and online visibility management. The services are provided by a team of up to six consultants and the costs of all charges are based on the fees set forth

in the BIG Agreement and are settled on a monthly basis. The Company records these charges under Office and Miscellaneous. For the year ended December 31, 2021, the Company incurred fees of $315,643 compared to $177,000 in 2020. As at December 31, 2021, the Company was indebted to BIG in the amount of $nil (December 31, 2020 - $nil).

### 10.D. Exchange Controls

There are currently no government laws, decrees, regulations or other legislation of Canada or the United States that restrict the export or import of capital (including the availability of cash and cash equivalents) or that affect the remittance of dividends, distributions, interest or other payments to non-residents of Canada or the United States holding our Common Shares. Any remittances of dividends to United States residents and to other non-residents are, however, subject to withholding tax. See "Taxation" below.



### 10.E. Taxation

**Certain U.S. Federal Income Tax Considerations**

The following discussion describes the material U.S. federal income tax consequences relating to the ownership and disposition of Common Shares by U.S. Holders (as defined below). This discussion applies to U.S. Holders that hold Common Shares as capital assets (generally, property held for investment). This discussion is based on the Code, U.S. Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion does not address all of the U.S. federal income tax consequences that may be relevant to specific U.S. Holders in light of their particular circumstances or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as certain financial institutions, banks, insurance companies, broker-dealers and traders in securities or other persons that generally mark their securities to market for U.S. federal income tax purposes, tax-exempt entities or government organizations, retirement plans, regulated investment companies, real estate investment trusts, certain former citizens or residents of the United States, persons who hold Common Shares as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or integrated investment, persons required to accelerate the recognition of any item of gross income with respect to the Common Shares as a result of such income being recognized on an applicable financial statement, persons that have a "functional currency" other than the U.S. dollar, persons that own directly, indirectly or through attribution 10% or more of the voting power or value of our shares, corporations that accumulate earnings to avoid U.S. federal income tax, partnerships and other pass-through entities (or arrangements treated as a partnership for U.S. federal income tax purposes), and investors in such pass-through entities). This discussion does not address any U.S. state or local or non-U.S. tax consequences or any U.S. federal estate, gift or alternative minimum tax consequences.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of Common Shares that is, for U.S. federal income tax purposes, (1) an individual who is a citizen or resident of the United States, (2) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia, (3) an estate the income of which is subject to U.S. federal income tax regardless of its source or (4) a trust (x) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (y) that has elected under applicable U.S. Treasury regulations to be treated as a domestic trust for U.S. federal income tax purposes.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Common Shares, the U.S. federal income tax consequences relating to an investment in the Common Shares will depend in part upon the status and activities of such entity or arrangement and the particular partner. Any such entity or arrangement should consult its own tax advisor regarding the U.S. federal income tax consequences applicable to it and its partners of the purchase, ownership and disposition of Common Shares.

U.S. Holders should consult their own tax advisors as to the particular tax consequences applicable to them relating to the purchase, ownership and disposition of Common Shares, including the applicability of U.S. federal, state and local tax laws and non-U.S. tax laws.

***Passive Foreign Investment Company Consequences***

In general, a corporation organized outside the United States will be treated as a PFIC, for any taxable year in which either (1) at least 75% of its gross income is "passive income", or (2) on average at least 50% of its assets, determined on a quarterly basis, are assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents, and gains from the sale or exchange of property that gives rise to passive income. Assets that produce or are held for the production of passive income generally include cash, even if held as working capital or raised in a public offering, marketable securities, and other assets that may produce passive income. Generally, in determining whether a non-U.S. corporation is a PFIC, a proportionate share of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value) is taken into account.



Based upon the current and expected composition of our income and assets, we believe that we were not a PFIC for the taxable year ended December 31, 2021 and expect that we will not be a PFIC for the current taxable year. Nevertheless, because our PFIC status must be determined annually with respect to each taxable year and will depend on the composition and character of our assets and income, including our use of proceeds from the Common Shares, and the value of our assets (which may be determined, in part, by reference to the market value of Common Shares, which may be volatile) over the course of such taxable year, we may be a PFIC in any taxable year. The determination of whether we will be or become a PFIC may also depend, in part, on how, and how quickly, we use our liquid assets and the cash raised in an offering of Common Shares. If we determine not to deploy significant amounts of cash for active purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that we will not be a PFIC for any future taxable year. In addition, it is possible that the U.S. Internal Revenue Service may challenge our classification of certain income and assets as non-passive, which may result in us being or becoming a PFIC in the current or subsequent years.

If we are a PFIC in any taxable year during which a U.S. Holder owns Common Shares, the U.S. Holder could be liable for additional taxes and interest charges under the "PFIC excess distribution regime" upon (1) a distribution paid during a taxable year that is greater than 125% of the average annual distributions paid in the three preceding taxable years, or, if shorter, the U.S. Holder's holding period for the Common Shares, and (2) any gain recognized on a sale, exchange or other disposition, including a pledge, of the Common Shares, whether or not we continue to be a PFIC. Under the PFIC excess distribution regime, the tax on such distribution or gain would be determined by allocating the distribution or gain ratably over the U.S. Holder's holding period for Common Shares. The amount allocated to the current taxable year (i.e., the year in which the distribution occurs or the gain is recognized) and any year prior to the first taxable year in which we are a PFIC will be taxed as ordinary income earned in the current taxable year. The amount allocated to other taxable years will be taxed at the highest marginal rates in effect for individuals or corporations, as applicable, to ordinary income for each such taxable year, and an interest charge, generally applicable to underpayments of tax, will be added to the tax.

If we are a PFIC for any year during which a U.S. Holder holds Common Shares, we must generally continue to be treated as a PFIC by that holder for all succeeding years during which the U.S. Holder holds the Common Shares, unless (i) we cease to meet the requirements for PFIC status and the U.S. Holder makes a "deemed sale" election with respect to the Common Shares or for the period immediately preceding our cessation in meeting the tests described above the Common Shares were subject to a mark-to-market election or (ii) the U.S. Holder makes a timely and effective "qualified electing fund" election ("**QEF Election**") with respect to all taxable years during such U.S. Holder's holding period in which the we are a PFIC. If the election is made, the U.S. Holder will be deemed to sell the Common Shares it holds at their fair market value on the last day of the last taxable year in which we qualified as a PFIC, and any gain recognized from such deemed sale would be taxed under the PFIC excess distribution regime.

After the deemed sale election, the U.S. Holder's Common Shares would not be treated as shares of a PFIC unless we subsequently become a PFIC.

If we are a PFIC for any taxable year during which a U.S. Holder holds Common Shares and one of our non-U.S. corporate subsidiaries is also a PFIC (i.e., a lower-tier PFIC), such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC and would be taxed under the PFIC excess distribution regime on distributions by the lower-tier PFIC and on gain from the disposition of shares of the lower-tier PFIC even though such U.S. Holder would not receive the proceeds of those distributions or dispositions. Each U.S. Holder is advised to consult its tax advisors regarding the application of the PFIC rules to our non-U.S. subsidiaries.

If we are a PFIC, a U.S. Holder will not be subject to tax under the PFIC excess distribution regime on distributions or gain recognized on Common Shares if such U.S. Holder makes a valid "mark-to-market" election for our Common Shares. A mark-to-market election is available to a U.S. Holder only for "marketable stock". Our Common Shares will be marketable stock as long as they remain listed on Nasdaq and are regularly traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. If a mark-to-market election is in effect, a U.S. Holder generally would take into account, as ordinary income each year, the excess of the fair market value of Common Shares held at the end of such taxable year over the adjusted tax basis of such Common Shares. The U.S. Holder would also take into account, as an ordinary loss each year, the excess of the adjusted tax basis of such Common Shares over their fair market value at the end of the taxable year, but only to the extent of the excess of amounts previously included in income over ordinary losses deducted as a result of the mark-to-market election. The U.S. Holder's tax basis in Common Shares would be adjusted to reflect any income or loss recognized as a result of the mark-to-market election. Any gain from a sale, exchange or other disposition of Common Shares in any taxable year in which we are a PFIC would be treated as ordinary income and any loss from such sale, exchange or other disposition would be treated first as ordinary loss (to the extent of any net mark-to-market gains previously included in income) and thereafter as capital loss.



A mark-to-market election will not apply to Common Shares for any taxable year during which we are not a PFIC, but will remain in effect with respect to any subsequent taxable year in which we become a PFIC. Such election will not apply to any non-U.S. subsidiaries that we may organize or acquire in the future. Accordingly, a U.S. Holder may continue to be subject to tax under the PFIC excess distribution regime with respect to any lower-tier PFICs that we may organize or acquire in the future notwithstanding the U.S. Holder's mark-to-market election for the Common Shares.

A U.S. Holder who makes a QEF Election generally must report on a current basis its share of our net capital gain and ordinary earnings for any year in which were are a PFIC, whether or not we distribute any amounts to our shareholders. However, U.S. holders should be aware that there can be no assurance that we will satisfy the record keeping requirements that apply to a QEF, or that we will supply U.S. holders with information that such U.S. holders require to report under the QEF election rules, in the event that the Company is a PFIC and a U.S. holder wishes to make a QEF election.

Each U.S. person that is an investor of a PFIC is generally required to file an annual information return on IRS Form 8621 containing such information as the U.S. Treasury Department may require. The failure to file IRS Form 8621 could result in the imposition of penalties and the extension of the statute of limitations with respect to U.S. federal income tax.

The U.S. federal income tax rules relating to PFICs are very complex. U.S. Holders are strongly urged to consult their own tax advisors with respect to the impact of PFIC status on the purchase, ownership and disposition of Common Shares, the consequences to them of an investment in a PFIC, any elections available with respect to the Common Shares and the IRS information reporting obligations with respect to the purchase, ownership and disposition of Common Shares of a PFIC.

Subject to the discussion above under "— Passive Foreign Investment Company Consequences," a U.S. Holder that receives a distribution with respect to Common Shares generally will be required to include the gross amount of such

distribution (before reduction for any Canadian withholding taxes withheld therefrom) in gross income as a dividend when actually or constructively received to the extent of the U.S. Holder's pro rata share of our current and/or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent a distribution received by a U.S. Holder is not a dividend because it exceeds the U.S. Holder's pro rata share of our current and accumulated earnings and profits, it will be treated first as a tax-free return of capital and reduce (but not below zero) the adjusted tax basis of the U.S. Holder's Common Shares. To the extent the distribution exceeds the adjusted tax basis of the U.S. Holder's Common Shares, the remainder will be taxed as capital gain. Because we may not account for our earnings and profits in accordance with U.S. federal income tax principles, U.S. Holders should expect all distributions to be reported to them as dividends. Distributions on Common Shares that are treated as dividends generally will constitute income from sources outside the United States for foreign tax credit purposes and generally will constitute passive category income. Such dividends will not be eligible for the "dividends received" deduction generally allowed to corporate shareholders with respect to dividends received from U.S. corporations.

Dividends paid by a "qualified foreign corporation" are eligible for taxation in the case of non-corporate U.S. Holders at a reduced long-term capital gains rate rather than the marginal tax rates generally applicable to ordinary income provided that certain requirements are met. Each non-corporate U.S. Holder is advised to consult its tax advisors regarding the availability of the reduced tax rate on dividends with regard to its particular circumstances.

A non-U.S. corporation (other than a corporation that is classified as a PFIC for the taxable year in which the dividend is paid or the preceding taxable year) generally will be considered to be a qualified foreign corporation (a) if it is eligible for the benefits of a comprehensive tax treaty with the United States which the Secretary of Treasury of the United States determines is satisfactory for purposes of this provision and which includes an exchange of information provision, or (b) with respect to any dividend it pays on Common Shares that are readily tradable on an established securities market in the United States. We believe that we qualify as a resident of Canada for purposes of, and are eligible for the benefits of, the U.S.-Canada Treaty, which the IRS has determined is satisfactory for purposes of the qualified dividend rules and that it includes an exchange of information provision, although there can be no assurance in this regard. Further, our Common Shares will generally be considered to be readily tradable on an established securities market in the United States if they remain listed on Nasdaq. Therefore, subject to the discussion above under " Passive Foreign Investment Company Consequences", if the U.S. Treaty is applicable, or if the Common Shares are readily tradable on an established securities market in the United States, dividends paid on Common Shares will generally be "qualified dividend income" in the hands of non-corporate U.S. Holders, provided that certain conditions are met, including conditions relating to holding period and the absence of certain risk reduction transactions.



***Sale, Exchange or Other Disposition of Common Shares***

Subject to the discussion above under "— Passive Foreign Investment Company Consequences," a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes upon the sale, exchange or other disposition of Common Shares in an amount equal to the difference, if any, between the amount realized (i.e., the amount of cash plus the fair market value of any property received) on the sale, exchange or other disposition and such U.S. Holder's adjusted tax basis in the Common Shares. Such capital gain or loss generally will be long-term capital gain taxable at a reduced rate for non-corporate U.S. Holders or long-term capital loss if, on the date of sale, exchange or other disposition, the Common Shares were held by the U.S. Holder for more than one year. Any capital gain of a non-corporate U.S. Holder that is not long-term capital gain is taxed at ordinary income rates. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by a U.S. Holder from the sale or other disposition of Common Shares will generally be gain or loss from sources within the United States for U.S. foreign tax credit purposes.

***Medicare Tax***

Certain U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally are subject to a 3.8% Medicare tax on all or a portion of their net investment income, which may include their gross dividend income and net gains from the disposition of Common Shares. If you are a U.S. person that is an individual,

estate or trust, you are encouraged to consult your tax advisors regarding the applicability of this Medicare tax to your income and gains in respect of your investment in Common Shares.

***Information Reporting and Backup Withholding***

U.S. Holders may be required to file certain U.S. information reporting returns with the IRS with respect to an investment in Common Shares, including, among others, IRS Form 8938 (Statement of Specified Foreign Financial Assets). As described above under "Passive Foreign Investment Company Consequences", each U.S. Holder who is a shareholder of a PFIC must file an annual report containing certain information. U.S. Holders paying more than US$100,000 for Common Shares may be required to file IRS Form 926 (Return by a U.S. Transferor of Property to a Foreign Corporation) reporting this payment. Substantial penalties may be imposed upon a U.S. Holder that fails to comply with the required information reporting.

Dividends on and proceeds from the sale or other disposition of Common Shares may be reported to the IRS unless the U.S. Holder establishes a basis for exemption. Backup withholding may apply to amounts subject to reporting if the holder (1) fails to provide an accurate U.S. taxpayer identification number or otherwise establish a basis for exemption, or (2) is described in certain other categories of persons. However, U.S. Holders that are corporations generally are excluded from these information reporting and backup withholding tax rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability if the required information is furnished by the U.S. Holder on a timely basis to the IRS.

U.S. Holders should consult their own tax advisors regarding the backup withholding tax and information reporting rules.

EACH U.S. HOLDER IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN COMMON SHARES IN LIGHT OF THE U.S. HOLDER'S OWN CIRCUMSTANCES.



**Certain Canadian Federal Income Tax Considerations for United States Residents**

The following is, at the date of this Annual Report, a summary of certain Canadian federal income tax considerations generally applicable to the holding and disposition of Common Shares acquired by a holder who, at all relevant times, (a) for the purposes of the Tax Act (i) is not resident, or deemed to be resident, in Canada, (ii) deals at "arm's length" with the Company, and is not "affiliated" with the Company (each as defined in the Tax Act), (iii) holds Common Shares as capital property, (iv) does not use or hold Common Shares in the course of carrying on, or otherwise in connection with, a business carried on or deemed to be carried on in Canada, and (v) is not an insurer that carries on an insurance business in Canada and elsewhere or "authorized foreign bank" (as defined in the Tax Act), or other holder of special status, and (b) for the purposes of the Canada-U.S. Tax Convention (1980) (the "**Tax Treaty**"), is a resident of the United States, has never been a resident of Canada, does not have and has not had, at any time, a "permanent establishment" (as defined in the Tax Treaty) of any kind in Canada, and otherwise qualifies for the full benefits of the Tax Treaty. Holders who meet all the criteria in clauses (a) and (b) above are referred to herein as "**United States Holders**", and this summary only addresses such United States Holders.

This summary does not deal with special situations, such as the particular circumstances of traders or dealers, tax exempt entities, insurers or financial institutions, or other holders of special status or in special circumstances. Such holders, and all other holders who do not meet the criteria in clauses (a) and (b) above, should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the "**Regulations**"), the current provisions of the Tax Treaty (each as in force as of the date of this Annual Report) and the Company's understanding of the administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax

Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that such Proposed Amendments will be enacted in the form proposed. However, such Proposed Amendments might not be enacted in the form proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative policies or assessing practices, whether by legislative, governmental or judicial decision or action, nor does it take into account tax laws of any province or territory of Canada or of any other jurisdiction outside Canada, which may differ significantly from those discussed in this summary.

For the purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of Common Shares must generally be expressed in Canadian dollars. Amounts denominated in United States currency generally must be converted into Canadian dollars using a rate of exchange that is acceptable to the CRA.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular United States Holder, and no representation with respect to the Canadian federal income tax consequences to any particular United States Holder or prospective United States Holder is made. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, all United States Holders should consult with their own tax advisors for advice with respect to their own particular circumstances.

***Withholding Tax on Dividends***

Amounts paid or credited or deemed to be paid or credited as, on account or in lieu of payment of, or in satisfaction of, dividends on Common Shares to a United States Holder will be subject to Canadian withholding tax. Under the Tax Act, the rate of withholding is 25% of the gross amount of the dividend.

Under the Tax Treaty, the rate of withholding on any such dividend beneficially owned by a United States Holder is generally reduced to 15%, or 5% if the United States Holder is a company that owns, directly or indirectly, at least 10% of the voting stock of the Company.

***Dispositions of Common Shares***

A United States Holder generally will not be subject to tax under the Tax Act in respect of a capital gain realized on the disposition or deemed disposition of a Common Share, nor will a capital loss arising therefrom be recognized under the Tax Act, unless such Common Share constitutes "taxable Canadian property" (as defined in the Tax Act) of the United States Holder and the gain is not exempt from tax pursuant to the terms of the Tax Treaty.



Provided the Common Shares are listed on a "designated stock exchange" (as defined in the Tax Act) (which currently includes the Nasdaq and CSE) and are so listed at the time of disposition, the Common Shares generally will not constitute "taxable Canadian property" of a United States Holder at that time unless, at any time during the 60-month period immediately preceding the disposition, the following two conditions are met concurrently: (i) 25% or more of the issued shares of any class or series of shares of the Company were owned by or belonged to one or any combination of (a) the United States Holder, (b) persons with whom the United States Holder did not deal at "arm's length" (within the meaning of the Tax Act), or (c) partnerships in which the United States Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships; and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of (a) real or immovable property situated in Canada, (b) "Canadian resource properties" (as defined in the Tax Act), (c) "timber resource properties" (as defined in the Tax Act), or (d) options in respect of, interests in, or, for civil law purposes, a right in, the foregoing property, whether or not such property exists. Notwithstanding the foregoing, a Common Share may be deemed to be "taxable Canadian property" in certain other circumstances. United States Holders should consult their own tax advisors as to whether their Common Shares will constitute "taxable Canadian property".

United States Holders who may hold Common Shares as "taxable Canadian property" should consult their own tax advisors with respect to the application of Canadian capital gains taxation, any potential relief under the Tax Treaty, and special compliance procedures under the Tax Act, none of which is described in this summary.

SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CANADIAN OR OTHER TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES, INCLUDING, IN PARTICULAR, THE EFFECT OF ANY NON-U.S., STATE OR LOCAL TAXES.

### 10.F. Dividends and Paying Agents

Not applicable.

### 10.G. Statement by Experts

Not applicable.

### 10.H. Documents on Display

Documents concerning our company referred to in this Annual Report may be viewed by appointment during normal business hours at our registered and records office at Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2Z7.

### 10.I. Subsidiary Information

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of 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 and liquidity risk associated with cash and the marketable security is managed by ensuring assets are placed with major financial institutions with strong investment grade ratings.

Credit risk on trade and other receivables reflects the risk that the Company may be unable to recover them. The Company manages its credit risk by closely monitoring the granting of credit. Trade and other receivables that are greater than 30 days are considered past due. Based on the status of trade and other receivables, no allowance for doubtful accounts has been recorded as at December 31, 2021 (December 31, 2010 - $nil).



### Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to minimal interest rate risk on its cash balances as they carry a floating rate of interest. We do not currently hedge our interest rate risk.

### Foreign Currency Risk

We are also exposed to market risk related to change in foreign currency exchange rates. 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 engage in significant transactions and activities in currencies other than its functional currency, the Canadian dollar. Such transactions are primarily denominated in the U.S. dollar. Transactions in foreign currencies are translated into Canadian dollars at rates of

exchange at the time of such transactions Depending on the timing of the transactions and the applicable currency exchange rates such conversions may positively or negatively impact the Company. We do not currently hedge our foreign exchange rate risk.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### 12.A. Debt Securities

Not applicable.

### 12.B. Warrants and Rights

Not applicable.

### 12.C. Other Securities

Not applicable.

### 12.D. American Depositary Shares

Not applicable.

## PART II

## ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

## ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

### 14.E. Use of Proceeds

The effective date of the registration statement on Form F-10 (File No. 333-258074) for the Company's initial underwritten public offering of securities in the United States was July 29, 2021 (defined herein as the "**US Offering**"). The offering of 5,000,000 Common Shares at a price of U.S.$4.00 per share closed on August 3, 2021 for gross proceeds of U.S.$20,000,000, before deducting underwriting discounts and offering expenses of approximately U.S.$2,400,000 for total net proceeds to the Company from the offering of U.S.$17,600,000. ThinkEquity, a division of Fordham Financial Management, Inc. ("**ThinkEquity**"), was the sole book-running manager for the offering.

In addition, ThinkEquity was granted a 45-day over-allotment option following the closing date to purchase up to an additional 750,000 shares. On September 15, 2021, the Company announced the exercise of 95,966 of the over-allotment shares at a price of U.S.$4.00 per share for additional gross proceeds of U.S.$383,864, bringing the aggregate gross proceeds of the US Offering to U.S.$20,383,864 before deducting underwriting discounts and offering expenses. After deducting underwriting discounts and offering expenses of U.S.$2,400,000, the total net proceeds to the Company from the US Offering were approximately U.S.$17,983,864. None of the net proceeds of the US Offering were paid directly or indirectly to any director or officer of ours or to their associates, persons owning 10% or more of any class of our equity securities, or to any of our affiliates.



The Company has not fully used the net proceeds of the US Offering. The proceeds that the Company has used (approximately U.S.$9,500,000 as of December 31, 2021) have been used for general corporate purposes, including

funding ongoing operations, growth initiatives, and working capital. There has been no material change in the planned use of proceeds from our initial public offering from that described in our prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act on July 30, 2021 (the "**Supplement**"). The Company intends to continue to use the remaining net proceeds of the offering, together with existing cash, for general corporate purposes, including to fund ongoing operations, to fund growth initiatives and/or for working capital requirements including the continuing development and marketing of the Company's core products, potential acquisitions and research and development, as set out in the Supplement.

## ITEM 15. CONTROLS AND PROCEDURES

***Disclosure Controls and Procedures***

At the end of the period covered by this Annual Report, an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) under the Exchange Act) was carried out by the Company's principal executive officer (the "**CEO**") and principal financial officer (the "**CFO**"). Based upon that evaluation, the Company's CEO and CFO have concluded that, as of the end of the period covered by this report, the design and operation of the Company's disclosure controls and procedures are effective to ensure that (i) information required to be disclosed in reports that the Company files or submits to regulatory authorities is recorded, processed, summarized and reported within the time periods specified by regulation, and (ii) is accumulated and communicated to management, including the Company's CEO and CFO, to allow timely decisions regarding required disclosure.

It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

***Management Report on Internal Control Over Financial Reporting & Auditor Attestation***

This Annual Report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

***Changes in Internal Control over Financial Reporting***

During the year ended December 31, 2021, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## ITEM 16. [RESERVED]

## ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Company's Audit Committee, which consists exclusively of independent directors within the meaning of NI 52-110 and the Nasdaq listing requirements, is comprised of Olen Aasen, Julie Myers Wood and John M. Mitnick. Olen Aasen is the Chair of the Audit Committee. The Board of Directors has determined that Julie Myers Wood, Olen Aasen, and John M. Mitnick each meet the independence requirements for directors, including the heightened independence standards for members of the audit committee under Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and NI 52-110. The Board has determined that Olen Aasen is "financially literate" within the meaning of NI 52-110 and the Nasdaq listing requirements and an "audit committee financial expert" as defined by Rule 10A-3 under the Exchange Act. For a description of the education and experience of each member of the Audit Committee, see "Item 6A. Directors, Senior Management and Employees."

## ITEM 16B. CODE OF ETHICS

The Company has adopted a Code of Business Conduct and Ethics applicable to all of its directors, officers and employees, including its CEO and CFO, which is a "code of ethics" as defined in section 406(c) of the Sarbanes-Oxley Act. The Code of Business Conduct and Ethics sets out the fundamental values and standards of behavior that the Company expects from our directors, officers and employees with respect to all aspects of its business.

If the Company grants any waiver of the Code of Business Conduct and Ethics, whether explicit or implicit, to a director or executive officer, it will disclose the nature of such waiver on its website to the extent required by, and in accordance with, the rules and regulations of the SEC.

The full text of the Code of Business Conduct and Ethics is posted on the Company's website at www.draganfly.com and the System for Electronic Document Analysis and Retrieval (SEDAR) profile at www.sedar.com. The information on or accessible through the website is not part of and is not incorporated by reference into this Annual Report, and the inclusion of the website address in this Annual Report is only for reference.

The Audit Committee is responsible for reviewing and evaluating the Code of Business Conduct and Ethics periodically and will recommend any necessary or appropriate changes thereto to the Board for consideration. The Audit Committee will also assist the Board of Directors with the monitoring of compliance with the Code of Business Conduct and Ethics.

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth information regarding the amount billed and accrued to the Company by Dale Matheson Carr-Hilton Labonte LLP, for the fiscal years ended December 31, 2021 and 2020:

| | Year Ended December 31, | |
|---|---|---|
| **Services** | **2021** | **2020** |
| Audit Fees[1] | $ 280,000 | $ 94,000 |
| Audit-Related Fees[2] | - | $ 8,925 |
| Tax Fees[3] | $ 11,000 | $ 4,000 |
| Other Fees[4] | - | - |

**Notes:**

(1) "Audit fees" means the aggregate fees billed for professional services rendered by our principal accounting firm for the audit of the Company's annual financial statements and the review of its comparative interim financial statements.
(2) "Audit-related fees" means the aggregate fees billed for professional services rendered by the Company's principal accounting firm for the assurance and related services, which mainly included the audit and review of financial statements and are not reported under "Audit fees" above.
(3) "Tax fees" means the aggregate fees billed for professional services rendered by the Company's principal accounting firm for tax compliance, tax advice and tax planning.
(4) "Other fees" means the aggregate fees incurred in each of the fiscal years listed for the professional tax services rendered by the Company's principal accounting firm other than services reported under "Audit fees," "Audit-related fees" and "Tax fees."

The policy of the Company's Audit Committee is to pre-approve all audit and non-audit services provided by Dale Matheson Carr-Hilton Labonte LLP, its independent registered public accounting firm, including audit services, audit-related services, tax services, and other services as described above.

## ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

## ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not Applicable.



## ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

## ITEM 16G. CORPORATE GOVERNANCE

The Company is a foreign private issuer and its Common Shares are listed on the Nasdaq Capital Market. Rule 5615(a)(3) of the rules of the Nasdaq Stock Market LLC Rules (the "**Nasdaq Rules**") permits a foreign private issuer to follow its home country practices in lieu of certain requirements of the 5600 Series of the Nasdaq Rules, which set forth corporate governance requirements. In order to claim such an exemption, the Company must disclose the significant differences between its corporate governance practices and those required to be followed by U.S. domestic issuers under the Nasdaq Rules. Set forth below is a brief summary of such differences.

### Quorum Requirement

Nasdaq Rule 5620(c) requires that each company that is not a limited partnership shall provide for a quorum as specified in its by-laws for any meeting of holders of common stock; provided, however, that in no case shall such quorum be less than 33 1/3% of the outstanding shares of the company's common voting stock. The Company does not presently follow this Nasdaq Rule. Instead, and in accordance with the Nasdaq exemption, the Company complies with the BCBCA which does not require a quorum of no less than 33 1/3% of the outstanding shares of the Company's common voting shares and provides that the quorum for the transaction of business at a meeting of shareholders is the quorum established by the Company's Articles, which is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting.

### Independent Compensation Committee

Nasdaq Rule 5605(d)(2) requires that listed companies have a compensation committee comprised entirely of independent directors. The Company does not have a compensation committee comprised entirely of independent directors. Under Canadian securities laws, National Policy 58-201 only recommends that a compensation committee be composed entirely of independent directors. The rules of the CSE likewise do not require an entirely independent compensation committee.

## ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

## ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

# PART III

## ITEM 17: FINANCIAL STATEMENTS

***Financial Statements Filed as Part of this Annual Report:***

Audited Annual Financial Statements as at December 31, 2021 and 2020:

Independent Auditor's Report of Dale Matheson Carr-Hilton Labonte LLP, dated April 3, 2022; F-2

Consolidated Statements of Financial Position for the years ended December 31, 2021 and 2020; F-3

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2021 and 2020; F-4

Consolidated Statements of Changes in Shareholder Equity (Deficiency) for the years ended December 31, 2021 and 2020; F-5

Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020; F-7

Notes to the Consolidated Financial Statements. F-9



## ITEM 18: FINANCIAL STATEMENTS

Refer to Item 17. Financial Statements.

## ITEM 19. EXHIBITS

The following Exhibits are being filed as part of this Annual Report, or are incorporated by reference where indicated:

| Exhibit Number | Description |
|---|---|
| 1.1* | Certificate of Incorporation dated June 1, 2018. |
| 1.2 | Articles dated June 1, 2018 (incorporated herein by reference to the Company's Registration Statement on Form S-8 (Registration Number 333-259459) filed with the SEC on September 10, 2021). |
| 1.3* | Certificate of Change of Name dated August 15, 2019. |
| 1.4 | Notice of Articles dated June 1, 2018 (incorporated herein by reference to the Company's Registration Statement on Form S-8 (Registration Number 333-259459) filed with the SEC on September 10, 2021). |
| 2.1* | Specimen Option Agreement of the Company |
| 2.2* | Specimen Restricted Share Unit Agreement of the Company |
| 2.3* | Specimen Warrant Certificate of the Company |
| 2.4* | Specimen Warrant Certificate of the Company |
| 2.5* | Specimen Warrant Certificate of the Company |
| 4.1* | Business Services Agreement between the Company and Business Instincts Group Inc. dated August 1, 2019. |
| 4.2* | Share Compensation Plan dated August 9, 2019, as amended April 14, 2021 (incorporated herein by reference to the Company's Registration Statement on Form S-8 (Registration Number 333-259459) filed with the SEC on September 10, 2021) |
| 4.3* | Consultant Agreement with 1502372 Alberta Ltd., dated October 1, 2019 |
| 4.4* | Amending Agreement with 1502372 Alberta Ltd., dated September 3, 2021 |
| 4.5* | Consultant Agreement with Scott Larson dated July 3, 2020 |
| 4.6* | Amending Agreement with Scott Larson, dated September 3, 2021 |
| 4.7* | Employment Agreement with Paul Sun dated November, 2020 |
| 4.8* | Amending Agreement with Paul Sun, dated September 3, 2021 |
| 4.9* | Employment Agreement with Justin Hannewyk dated April 30, 2020 |
| 4.10* | Amending Agreement with Justin Hannewyk, dated September 3, 2021 |
| 8.1* | Subsidiaries of the Company |
| 11.1* | Code of Business Conduct and Ethics |
| 12.1* | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 12.2* | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |

| | |
|---|---|
| 13.1* | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 13.2* | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 15.1* | Management Discussion and Analysis of the Company for the year ended December 31, 2021. |
| 15.2* | Audit Committee Charter |
| 15.3* | Consent of independent registered public accounting firm (Dale Matheson Carr-Hilton Labonte LLP) |
| 101* | The following materials from the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2021, formatted in eXtensible Business Reporting Language (XBRL):<br>(i) Consolidated Balance Sheets as of December 31, 2021 and 2020;<br>(ii) Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019;<br>(iii) Consolidated Statements of Comprehensive Loss for the years ended December 31, 2021, 2020 and 2019;<br>(iv) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2021, 2020 and 2019;<br>(v) Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019; and<br>(vi) Notes to Consolidated Financial Statements |
| 104* | Cover Page Interactive Data File (formatted as Inline eXtensible Business Reporting Language (iXBRL) and contained in Exhibit 101) |

* Filed herewith.



## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**DRAGANFLY INC.**

*/s/ Paul Sun*

By: Paul Sun
Title: Chief Financial Officer

Date: April 3, 2022



**Draganfly Inc.**
**Consolidated Financial Statements**
**Years Ended December 31, 2021 and 2020**
**(Expressed in Canadian Dollars)**

## INDEPENDENT AUDITOR'S REPORT (PCAOB ID1173)

### Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of Draganfly Inc.

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated statements of financial position of Draganfly Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of *comprehensive loss, changes in shareholders' equity, and cash flows* for the years ended December 31, 2021, 2020, and 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company *as of* December 31, 2021 and 2020, and its financial performance and its cash flows for the years ended December 31, 2021, 2020 and 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Basis for Opinion**

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

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

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

**DALE MATHESON CARR-HILTON LABONTE LLP**
**CHARTERED PROFESSIONAL ACCOUNTANTS**

*/s/ DMCL*

We have served as the Company's auditor since 2019.
Vancouver, Canada
April 3, 2022

**Draganfly Inc.**
**Consolidated Statements of Financial Position**
**Expressed in Canadian Dollars**

| As at | Notes | December 31, 2021 | December 31, 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets | | | |
| Cash and cash equivalents | 6 | **$ 23,075,713** | $ 1,982,416 |
| Receivables | 7 | **1,407,127** | 810,791 |
| Inventory | 8 | **3,390,822** | 1,233,619 |
| Notes receivable | 9 | **190,170** | - |
| Prepaids | 10 | **5,494,877** | 335,022 |
| | | **33,558,709** | 4,361,848 |
| Non-current Assets | | | |
| Goodwill | 13 | **5,940,409** | 2,166,563 |
| Equipment | 12 | **297,043** | 153,870 |
| Intangible assets | 13 | **593,901** | 273,867 |
| Investments | 11 | **291,066** | - |
| Notes receivable | 9 | **964,006** | - |
| Right of use asset | 14 | **468,106** | 144,419 |
| **TOTAL ASSETS** | | **$ 42,113,240** | $ 7,100,567 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Current Liabilities | | | |
| Trade payables and accrued liabilities | 16 | **$ 799,139** | $ 1,857,177 |
| Customer deposits | 17 | **172,134** | 385,449 |
| Deferred income | 18 | **73,286** | - |
| Loans payable | 19 | **6,745** | 62,978 |
| Derivative liability | 20 | **5,560,002** | 748,634 |
| Lease liability | 15 | **110,481** | 93,239 |
| | | **6,721,787** | 3,147,477 |
| Non-current Liabilities | | | |
| Deferred income | 18 | **-** | 5,062 |
| Loans payable | 19 | **86,572** | 34,938 |
| Lease liability | 15 | **378,642** | 64,885 |
| **TOTAL LIABILITIES** | | **7,187,001** | 3,252,362 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 20 | **81,038,365** | 36,943,304 |
| Reserves – share-based payments | 20 | **6,406,117** | 3,024,007 |
| Accumulated deficit | | **(52,322,182)** | (36,119,210) |
| Accumulated other comprehensive income (loss) | | **(196,061)** | 104 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **34,926,239** | 3,848,205 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **$ 42,113,240** | $ 7,100,567 |

**Nature and Continuance of Operations** (Note 1)

Approved and authorized for issuance by the Board of Directors on April 3, 2022.

| *"Scott Larson"* | *"Cameron Chell"* |
|---|---|
| *Director* | *Director* |

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



**Draganfly Inc.**
**Consolidated Statements of Comprehensive Loss**
**Expressed in Canadian Dollars**

| | | For the years ended December 31, | | |
|---|---|---|---|---|
| | Note | **2021** | 2020 | 2019 |
| **REVENUE** | | | | |
| Revenue from sales of goods | 21 | **$ 5,103,399** | $ 3,087,223 | $ 248,939 |
| Revenue from provision of services | 21 | **1,950,466** | 1,276,288 | 1,131,488 |
| **TOTAL REVENUE** | | **7,053,865** | 4,363,511 | 1,380,427 |
| | | | | |
| **COST OF SALES** | 8 | **(4,410,777)** | (2,603,911) | (218,800) |
| | | | | |
| **GROSS PROFIT** | | **2,643,088** | 1,759,600 | 1,161,627 |
| | | | | |
| **OPERATING EXPENSES** | | | | |
| Amortization | 13 | **$ 135,966** | $ 43,518 | $ 8,386 |
| Depreciation | 12,14 | **175,098** | 109,108 | 41,250 |
| Director fees | 23 | **370,094** | - | - |
| Insurance | | **2,962,767** | 39,988 | 23,900 |
| Office and miscellaneous | 22 | **6,455,998** | 3,387,865 | 2,103,732 |
| Professional fees | 23 | **4,445,949** | 1,762,594 | 524,101 |
| Research and development | | **510,895** | 567,999 | 16,883 |
| Share-based payments | 20,23 | **3,952,595** | 2,668,464 | 761,559 |
| Travel | | **143,904** | 25,617 | 30,896 |
| Wages and salaries | 23 | **2,768,010** | 1,649,329 | 989,083 |
| | | **(21,921,276)** | (10,254,482) | (4,499,790) |
| **OTHER INCOME (EXPENSE)** | | | | |
| Change in fair value of derivative liability | 4,20 | **8,149,812** | (748,634) | - |
| Finance and other costs | | **5,074** | (23,117) | (171,905) |
| Foreign exchange gain (loss) | | **362,448** | (87,104) | 5,803 |
| Gain on disposal of assets | | **-** | - | 28,651 |
| Gain (loss) on settlement of debt | | **-** | (38,879) | 198,976 |
| Gain on forgiveness of debt | | **-** | 127,711 | - |
| Government income | 26 | **24,148** | 51,627 | - |
| Listing expense | 5 | **-** | - | (7,804,859) |
| Loss on write-off of loan receivable | | **-** | - | (13,560) |
| Loss on write-off of notes receivable | 9 | **(891,471)** | - | - |
| Loss on impairment of goodwill | 13 | **(4,579,763)** | | |
| Other income (loss) | 26 | **4,968** | 1,197,465 | - |
| **NET LOSS** | | **(16,202,972)** | (8,015,813) | (11,095,057) |
| | | | | |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |

| | | | | |
|---|---|---|---|---|
| **Items that may be reclassified to profit or loss** | | | | |
| Foreign exchange translation | | **136,475** | 104 | - |
| **Items that will not be reclassified to profit or loss** | | | | |
| Change in fair value of equity investments at FVOCI | 11 | **(332,640)** | - | - |
| **COMPREHENSIVE LOSS** | | **$ (16,399,137)** | $ (8,015,709) | $ (11,095,057) |
| | | | | |
| **Net loss per share** | | | | |
| Basic & diluted | | **$ (0.59)** | $ (0.48) | $ (1.16) |
| **Weighted average number of common shares outstanding - basic & diluted** | | **27,647,293** | 16,558,184 | 9,529,595 |

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



**Draganfly Inc.**
**Consolidated Statements of Changes in Shareholders' Equity**
**Expressed in Canadian Dollars**

| | | | | | Accumulated Other Comprehensive Income (Loss) | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares | Share Capital | Reserves - Share-Based Payments | Accumulated Deficit | Change in Fair Value of Investments at FVTOCI | Exchange Differences on Translation of Foreign Operations | Total Shareholders' Equity |
| **Balance at December 31, 2018** | **7,869,384** | **$ 12,561,342** | **$ 882,180** | **$ (17,576,131)** | **$ -** | **$ -** | **$ (4,132,609)** |
| Shares issued for settlement of notes payable | 258,310 | 645,775 | - | - | - | - | 645,775 |
| Shares issued as transactions fees | 400,000 | 1,000,000 | - | - | - | - | 1,000,000 |
| Recapitalization of Draganfly Inc. | 2,100,000 | 5,250,001 | 1,645,193 | - | - | - | 6,895,194 |
| Shares issued of settlement of trades payable | 9,065 | 22,662 | - | - | - | - | 22,662 |
| Shares issued for settlement of convertible debentures and accrued interest | 423,698 | 1,059,246 | - | - | - | - | 1,059,246 |
| Shares issued for exercise of warrants | 63,388 | 221,741 | (212,908) | - | - | - | 8,833 |
| Reclassification of unexercised conversion feature | - | - | (567,791) | 567,791 | - | - | - |
| Shares and warrants issued on private placement | 2,810,300 | 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** | **13,934,145** | **$ 27,786,517** | **$ 2,508,233** | **$ (28,103,397)** | **$ -** | **$ -** | **$ 2,191,353** |
| Shares issued for exercise of warrants | 1,584,775 | 4,007,130 | (1,645,193) | - | - | - | 2,361,937 |
| Shares issued for acquisition | 645,088 | 2,178,961 | - | - | - | - | 2,178,961 |
| Shares issued as finder's fees | 40,000 | 100,000 | - | - | - | - | 100,000 |
| Shares issued for debt settlement | 111,082 | 344,354 | - | - | - | - | 344,354 |
| Shares issued for financing | 703,607 | 2,018,845 | - | - | - | - | 2,018,845 |
| Shares issued for exercise of RSU's | 199,998 | 507,497 | (507,497) | - | - | - | - |
| Share-based payments | - | - | 2,668,464 | - | - | - | 2,668,464 |
| Net loss | - | - | - | (8,015,813) | - | - | (8,015,813) |
| Translation of foreign operations | - | - | - | - | - | 104 | 104 |
| **Balance at December 31, 2020** | **17,218,695** | **$ 36,943,304** | **$ 3,024,007** | **$ (36,119,210)** | **$ -** | **$ 104** | **$ 3,848,205** |

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



**Draganfly Inc.**
**Consolidated Statements of Changes in Shareholders' Equity**
**Expressed in Canadian Dollars**

| | | | | | Accumulated Other Comprehensive Loss | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares | Share Capital | Reserves - Share-Based Payments | Accumulated Deficit | Change in Fair Value of Investments at FVOCI | Exchange Differences on Translation of Foreign Operations | Total Shareholders' Equity |
| **Balance at December 31, 2020** | **17,218,695** | **$36,943,304** | **$ 3,024,007** | **$ (36,119,210)** | **$ -** | **$ 104** | **$ 3,848,205** |
| Shares issued for acquisition | 1,200,000 | 2,303,999 | 1,241,250 | - | - | - | 3,545,249 |
| Shares issued for financing | 11,584,657 | 36,092,187 | - | - | - | - | 36,092,187 |
| Share issue costs | - | (4,678,821) | 864,060 | - | - | - | (3,814,761) |
| Shares issued for exercise of RSUs | 448,660 | 1,752,052 | (1,752,052) | - | - | - | - |
| Shares issued for exercise of warrants | 1,939,534 | 4,929,790 | - | - | - | - | 4,929,790 |
| Shares issued for exercise of stock options | 405,499 | 1,937,866 | (923,743) | - | - | - | 1,014,123 |
| Shares issued in lieu of cash | 371,901 | 1,757,988 | - | - | - | - | 1,757,988 |
| Share-based payments | - | - | 3,952,595 | - | - | - | 3,952,595 |
| Net loss | - | - | - | (16,202,972) | - | - | (16,202,972) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Change in fair value of equity investments at FVOCI | - | - | - | - | (332,640) | - | (332,640) |
| Translation of foreign operations | - | - | - | - | - | 136,475 | 136,475 |
| **Balance at December 31, 2021** | **33,168,946** | **$81,038,365** | **$ 6,406,117** | **$ (52,322,182)** | **$ (332,640)** | **$ 136,579** | **$ 34,926,239** |

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



**Draganfly Inc.**
**Consolidated Statements of Cash Flows**
**Expressed in Canadian Dollars**

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2021** | 2020 | 2019 |
| **OPERATING ACTIVITIES** | | | |
| Net loss | **$ (16,202,972)** | $ (8,015,813) | $ (11,095,057) |
| Adjustments for: | | | |
| Amortization | **135,966** | 43,518 | 8,386 |
| Depreciation | **175,098** | 109,108 | 41,250 |
| Change in fair value of derivative liability | **(8,149,812)** | 748,634 | - |
| Impairment of notes receivable | **891,471** | - | - |
| Impairment of goodwill | **4,579,763** | - | - |
| Finance and other costs | **(926)** | 23,117 | 171,905 |
| Gain on settlement of debt | **-** | 38,879 | (198,976) |
| Gain on forgiveness of debt | **-** | (127,711) | - |
| Gain on disposal of assets | **-** | - | (28,651) |
| Income from government assistance | **(24,148)** | (21,090) | - |
| Expense of non-financial asset | **-** | - | 15,389 |
| Listing expense | **-** | - | 7,804,859 |
| Shares Issued as acquisition cost | **-** | 100,000 | - |
| Share-based payments | **3,952,595** | 2,568,464 | 761,559 |
| | **(14,642,965)** | (4,532,894) | (2,519,336) |
| Net changes in non-cash working capital items: | | | |
| Receivables | **(596,336)** | (1,481,944) | (126,799) |
| Inventory | **(2,157,203)** | (555,371) | 12,622 |
| Prepaids | **(3,401,868)** | 31,605 | (249,325) |
| Trade payables and accrued liabilities | **(1,044,133)** | 1,261,066 | (1,005,121) |
| Customer deposits | **(213,315)** | 139,490 | - |
| Deferred income | **51,186** | 5,062 | - |
| **Funds used in operating activities** | **(22,004,634)** | (5,132,986) | (3,887,959) |
| **INVESTING ACTIVITIES** | | | |
| Cash paid for acquisition, net of cash received | **(466,643)** | (457,407) | 28,538 |
| Purchase of equipment | **(212,579)** | (23,888) | (87,785) |
| Disposal of equipment | **-** | - | 31,500 |
| Purchase of investments | **(623,706)** | - | - |

| | | | |
|---|---|---|---|
| Issuance of notes receivable | **(2,002,678)** | - | - |
| Proceeds from sales of investments | **-** | 997,714 | - |
| **Funds provided by (used in) investing activities** | **(3,305,606)** | 516,419 | (27,747) |

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



**Draganfly Inc.**
**Consolidated Statements of Cash Flows**
**Expressed in Canadian Dollars**

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2021** | 2020 | 2019 |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of common shares for financing | **44,255,651** | 2,018,845 | 6,534,583 |
| Share issue costs | **(3,814,762)** | - | - |
| Proceeds from issuance of common shares for warrants exercised | **4,929,790** | 2,361,937 | - |
| Proceeds from issuance of common shares for stock options exercised | **1,014,123** | - | - |
| Proceeds from issuance of loans | **60,000** | 129,310 | - |
| Loans repayments | **(4,319)** | (5,062) | - |
| Proceeds from issuance of notes payable | **-** | 123,000 | 1,137,978 |
| Repayment of convertible debentures | **-** | - | (486,131) |
| Repayment of notes payable | **-** | (183,000) | (882,770) |
| Repayment of loans | **(44,428)** | (192,084) | - |
| Repayment of lease liability | **(128,996)** | (83,442) | (38,000) |
| **Funds provided by financing activities** | **46,267,059** | 4,169,504 | 6,265,660 |
| | | | |
| Effects of exchange rate changes on cash | **136,478** | 104 | (22,366) |
| Change in cash | **20,956,819** | (447,063) | 2,349,954 |
| Cash, beginning of year | **1,982,416** | 2,429,375 | 101,787 |
| **Cash, end of year** | **$ 23,075,713** | $ 1,982,416 | $ 2,429,375 |
| | | | |
| **Cash and cash equivalents consist of the following:** | | | |
| Cash held in banks | **$ 22,729,212** | $ 1,839,871 | $ 2,429,375 |
| Guaranteed investment certificate | **346,501** | 142,545 | - |
| | **$ 23,075,713** | $ 1,982,416 | $ 2,429,375 |

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



**Draganfly Inc.**
**Notes to the Consolidated Financial Statements**
**For The Year Ended December 31, 2021**
**Expressed in Canadian Dollars**

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Draganfly Inc. (the "Company") was incorporated on June 1, 2018 under the Business Corporations Act (British Columbia). The Company's shares trade on the Canadian Securities Exchange (the "CSE")," on the Nasdaq Capital Market (the "Nasdaq") under the symbol "DPRO" and on the Frankfurt Stock Exchange under the symbol "3U8". The Company's head office is located at 2108 St. George Avenue, Saskatoon, SK, S7M 0K7 and its registered office is located at 2800 – 666 Burrard Street, Vancouver, BC, V6C 2Z7.

### *COVID-19*

The outbreak of the coronavirus, also known as "COVID-19," spread across the globe and is impacting worldwide economic activity. 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. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The Company will continue to monitor the impact of the COVID-19 pandemic, the duration and impact of which is unknown at this time which may include further disruptions to global supply chains and the manufacturing and delivery of parts that the Company relies on for its products. Although it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods, such impacts are not expected to be significant going forward. Aside from the acquisition of Dronelogics and being opportunistic on other partnerships or acquisitions, the Company has expanded its products and services offered to include health and telehealth applications relating to COVID-19, as a way to mitigate the effects of COVID-19.

### *Share consolidation*

During the year ended December 31, 2021 in conjunction with its Regulation A financing, the Company underwent a share consolidation at a 5-1 ratio. All reference to share, per share amounts, warrants, RSU's and stock options in these financial statements have been retroactively restated to reflect the consolidation.





## 2. 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 3, 2022.

### *Basis of consolidation*

Each subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries listed in the following table:

| Name of Subsidiary | Place of Incorporation | Ownership Interest |
|---|---|---|
| Draganfly Innovations Inc. | Canada | 100% |
| Draganfly Innovations USA, Inc. | US | 100% |
| Dronelogics Systems Inc. | Canada | 100% |

All intercompany balances and transactions were eliminated on consolidation.

***Significant estimates and assumptions***

The preparation of financial statements in accordance with IFRS requires the Company to use judgment in applying its accounting policies and make estimates and assumptions about reported amounts at the date of the 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.

*Impairment of Non-financial assets*

The CGU's recoverable amount is evaluated using the higher of the value in use and fair value less costs to sell calculations. In calculating the recoverable amount, the Company utilizes discounted cash flow techniques. Management calculates the discounted cash flows based upon its best estimate of a number of economic, operating, engineering, environmental, political and social assumptions. Any changes in the assumptions due to changing circumstances may affect the calculation of the recoverable amount.

*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.





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

*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. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

*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.

*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.

***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:

*Business combinations*

The definition of whether a set of assets acquired and liabilities assumed constitute a business may require the company to make certain judgements taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or economic benefits.

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

*Business combination versus asset acquisition*

The Company considered the applicability of IFRS 3 – Business Combinations ("IFRS 3") with respect to the Acquisitions (Notes 3, 4, and 5). IFRS 3 defines a business as having a system where inputs enter a process to produce outputs. The Company has determined that the acquisition of Dronelogics Systems Inc. and Vital Intelligence Inc. are business combinations and, accordingly, have accounted for as such.

*Other significant judgments*

- 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***

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at the reporting period rate of exchange. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses denominated in a foreign currency are translated at the monthly average exchange rate. Gains and losses resulting from the translation adjustments are included in income.

The functional currencies for the parent company and each subsidiary are as follows:

| | |
|---|---|
| Draganfly Inc. | Canadian Dollar |
| Draganfly Innovations Inc. | Canadian Dollar |
| Draganfly Innovations USA, Inc. | US Dollar |
| Dronelogics Systems Inc. | Canadian Dollar |

Financial statements of subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollars as follows: all asset and liability accounts are translated at the year-end exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the year. The resulting translation gains and losses are recorded as exchange differences on translating foreign operations in other comprehensive income.

***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. RSUs are measured at the fair value of awards on the grant date using the prior days closing price. Amounts recorded for forfeited unvested RSUs are reversed in the period the forfeiture occurs. The expense 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 income 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. For the periods presented, the Company incurred a loss and therefore basic loss per share equals diluted loss per share.

***a) Financial assets***

***Classification and measurement***

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





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

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. Trade payables, customer deposits and loans 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, 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.





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

***Impairment of non-financial assets***

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indicators exist, then the asset's recoverable amount is estimated. The recoverable amounts of the following types of intangible assets are measured annually, whether or not there is any indication that it may be impaired:

- an intangible asset with an indefinite useful life;
- an intangible asset not yet available for use; and
- goodwill recognized in a business combination.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of comprehensive loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets other than goodwill and intangible assets that have indefinite useful lives, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed in a subsequent period when there has been an increase in the recoverable amount of a previously impaired asset or CGU. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

***Income taxes***

Current income tax:

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

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

Deferred income tax:

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





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

***Inventory***

Inventory consists of raw materials for manufacturing of multi-rotor helicopters, industrial areal video systems, civilian small unmanned aerial systems or vehicles, health monitoring equipment, 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.

***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 at a point-in-time 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.

*Services*

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

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





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

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

***Cost of Goods Sold***

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

***Intangible Assets and Goodwill***

An intangible asset is an identifiable asset without physical substance. An asset is identifiable if it is separable, or arises from contractual or legal rights, regardless of whether those rights are transferrable or separable from the Company or from other rights and obligations. Intangible assets include 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 on a straight line basis over the expected life of each intellectual property to write off the cost of the assets from the date they are available for use.

Goodwill represents the excess of the value of the consideration transferred over the fair value of the net identifiable assets and liabilities acquired in a business combination. Goodwill is allocated to the cash generating unit to which it relates.

***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 generally calculated on a declining balance method to write off the cost of the assets to their residual values over their estimated useful lives. Depreciation for leasehold improvements is fully expensed over the expected term of the lease. The depreciation rates applicable to each category of equipment are as follows:





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

| Class of equipment | Depreciation rate |
|---|---|
| Computer equipment | 30% |
| Furniture and equipment | 20% |
| Leasehold improvements | Over expected life of lease |
| Software | 30% |
| Vehicles | 30% |

***Research and development expenditures***

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

***Government Assistance***

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

***SR&ED Investment tax credits***

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

The Company claims provincial 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 a 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.





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

**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.

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.

## 3. DRONELOGICS ACQUISITION

On April 30, 2020, the Company acquired all of the issued and outstanding shares of Dronelogics Systems Inc. ("Dronelogics"), excluding the cinematography division, a leading drone reseller and services company based in Burnaby, BC. The purpose of the acquisition was to increase the Company's scope of products and services to include the sale of third-party manufactured UAVs and drone-as-a-service type work while adding immediate revenue to the business, for consideration of $500,000 cash and 645,088 common shares (the "Transaction").

In connection with the Transaction, the Company paid fees of $160,000 to certain advisors consisting of $100,000 by way of 40,000 in shares at a price of $2.50 per share and $60,000 in cash. At closing, the Company (i) granted 89,000 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 have a term of 10 years and 14,000 vest in three equal tranches, on the grant date and first and second anniversaries of the date of grant while 70,000 vest on the first anniversary of the grant date, and (ii) awarded 75,000 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 vest in three equal tranches, on the first, second and third anniversaries of the date of award.

The purchase price allocation ("PPA") is as follows:

| | | |
|---|---|---|
| Number of shares of Draganfly Inc. | | 645,088 |
| Fair value of common shares | $ | 4.15 |
| Fair value of shares of Draganfly Inc. | $ | 2,178,960 |
| Cash portion of purchase price | | 500,000 |
| Total | $ | 2,678,960 |

**Expressed in Canadian Dollars**

**Expressed in Canadian Dollars**

**3. DRONELOGICS ACQUISITION (CONT'D)**

| | | |
|---|---|---|
| **Tangible assets acquired** | | |
| Cash | $ | 42,593 |
| Accounts receivable | | 98,852 |
| Inventory | | 629,684 |
| Prepaids and deposits | | 93,997 |
| Other current assets | | 3,014 |
| Capital assets | | 54,946 |
| Right-of-use assets | | 83,428 |
| Accounts payable and accrued liabilities | | (222,766) |
| Customer deposits | | (245,959) |
| Loans | | (245,752) |
| Other current liabilities | | (8,437) |
| Lease liabilities | | (87,203) |
| | | 196,397 |
| **Identifiable intangible assets** | | |
| Customer relationships | | 197,000 |
| Website | | 119,000 |
| | | 316,000 |
| **Goodwill** | | 2,166,563 |
| **Total consideration** | $ | 2,678,960 |

The Company estimated the fair value as follows:

- Customer relationships based on an income approach, specifically multi-period excess earnings method, by identifying key customers, applying attribution rate of 15% per annum and discount rate of 18% per annum; and
- Website based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 0.5% and discount rate of 17% per annum.

Furthermore, the excess of the consideration paid over the fair value of the identifiable assets (liabilities) acquired was recognized as goodwill, which primarily consisted of the assembled workforce.

From the date of the acquisition to December 31, 2020, the acquired business contributed $4,086,350 of revenue and a net income of $434,528.





**4. VITAL INTELLIGENCE ACQUISITION**

On March 25, 2021, the Company acquired the assets of Vital Intelligence Inc. ("Vital"), a company that had developed a health/telehealth platform that could detect a number of key underlying respiratory symptoms. The Company acquired it to diversify its existing product line as well as recognized opportunities that an initial focus on COVID-19 screening set of technologies would most likely lead to other facets within the healthcare field creating revenue growth from a new vertical, for consideration of: (a) a cash payment of $500,000 and (b) 1,200,000 units of the Company with each unit being comprised of one common share and one warrant (the "Acquisition"). Each warrant will entitle the holder to acquire one common share for a period of 24 months following closing for $13.35 and the

Company will be able to accelerate the expiry date of the warrants after one year in the event the underlying common shares have a value of at least 30% greater than the exercise price of the warrants. The units will be held in escrow with 300,000 units being released at closing and the remainder to be released upon the Company reaching certain revenue milestones received from the purchased assets. The units were issued on March 22, 2021. On August 19, 2021 the parties agreed to reduce the final payment from $250,000 to $227,984 due to certain assets listed in the purchase agreement had not been delivered by Vital.

The units of the Company are to be releasable from escrow in accordance with the terms and conditions of the agreement, as follows:

a) 300,000 units shall be released on the closing date;
b) 300,000 units shall be released from escrow upon the Vital assets earning revenue in the aggregate amount of $2,000,000;
c) 300,000 units shall be released from escrow upon the Vital assets earning revenue in the aggregate amount of $4,000,000; and
d) 300,000 units shall be released from escrow upon the Vital assets earning revenue in the aggregate amount of $6,000,000.

Upon acquisition, the 900,000 shares held in escrow were classified as a derivative liability and were valued based upon:

- A weighted average probability of achieving the milestones necessary to release the shares held in escrow, and
- Discounted due to the lack of liquidity.

On acquisition, the fair value of the derivative liability (note 20) was $4,797,717. At December 31, 2021, the liability was revalued based upon new weighted average probabilities of achieving the revenue milestones. As a result, the fair value was adjusted to $694,230, with the difference flowing through the consolidated statement of loss.

| | | |
|---|---|---|
| **Contingent consideration** | | |
| **Fair value of contingent consideration** | **$** | **4,797,717** |
| **Change in fair value of contingent consideration** | | **(4,103,487)** |
| **Contingent consideration at December 31, 2021 (note 20)** | **$** | **694,230** |

The PPA is as follows:

| | | |
|---|---|---|
| Number of units of Draganfly Inc. | | 578,248 |
| Fair value of units | $ | 14.43 |
| Fair value of units of Draganfly Inc. | $ | 8,342,966 |
| Cash portion of purchase price | | 466,643 |
| Total | $ | 8,809,609 |
| | | |
| **Identifiable intangible assets** | | |
| Brand | $ | 23,000 |
| Software | | 433,000 |
| | | 456,000 |
| | | |
| **Goodwill** | | 8,353,609 |
| **Total consideration** | $ | 8,809,609 |

**Expressed in Canadian Dollars**

## 4. VITAL INTELLIGENCE ACQUISITION (CONT'D)

Significant estimates are as follows:

- Number of units issued based upon a weighted average calculation for the Company achieving the revenue targets.
- Brand fair value based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 0.25% and discount rate of 14.4% per annum.
- Software fair value based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 5.0% and discount rate of 14.4% per annum.

Furthermore, the excess of the consideration paid over the fair value of the identifiable assets (liabilities) acquired was recognized as goodwill, which primarily consisted of continued development of the technology platform integrating the latest technological developments.

From the date of the acquisition to December 31, 2021, Vital contributed $115,369 of revenue and a net loss of $203,231.

## 5. 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 8,527,671 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. | | 2,100,000 |
| Fair value of common shares in concurrent financing | $ | 2.50 |
| 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 $2.50 per share using the price of a subscription receipts financing that was completed concurrently.

**Draganfly Inc.**
**Notes to the Consolidated Financial Statements**
**For The Year Ended December 31, 2021**
**Expressed in Canadian Dollars**

## 5. AMALGAMATION (CONT'D)

Prior to the closing of the Amalgamation, Draganfly Innovations issued 222,965 common shares with a value of $1,000,000 as transaction fees for the Amalgamation to related parties.

The Company assumed 800,000 share purchase warrants exercisable at a price of $0.50 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% |

As at August 15, 2019, the Company received $7,025,750 in proceeds to issue subscription receipts (the "Subscription Receipts") at a price of $2.50 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 $2.50 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.

## 6. CASH AND CASH EQUIVALENTS

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| Cash held in banks | **$ 22,729,212** | $ 1,839,871 |
| Guaranteed investment certificates | **346,501** | 142,545 |
| | **$ 23,075,713** | $ 1,982,416 |

On March 27, 2020, the Company purchased a $142,000 guaranteed investment certificate ("GIC") to secure its credit cards. The terms of the GIC are for 1 year at a rate of 0.50% per annum. On March 27, 2021 the company renewed the GIC for $142,710 for 1 year at a rate of 0.10% per annum.

On May 28, 2021, the Company purchased an additional $140,000 GIC to further secure its credit cards. The terms of the GIC are for 1 year at a rate of 0.35% per annum.

On December 21, 2021, the Company purchased an additional $50,000 USD GIC to further secure its credit cards. The terms of the GIC are for 1 year at 0.05% per annum.

All GIC's must be maintained and renewed upon maturity until such time as the associated credit cards are cancelled.

**7. RECEIVABLES**

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Trade accounts receivable | **$ 951,314** | $ 780,254 |
| Corporate taxes receivable | **182,820** | - |
| GST receivable | **272,993** | $ - |
| SR&ED receivable | **-** | 30,537 |
| | **$ 1,407,127** | $ 810,791 |

**8. INVENTORY**

| | December 31, 2021 | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Finished goods | **$ 3,017,363** | $ 1,155,871 | $ - |
| Parts | **373,459** | 77,748 | 48,653 |
| | **$ 3,390,822** | $ 1,233,619 | $ 48,653 |

During the year ended December 31, 2021, $3,420,713 (2020: $2,257,797 2019: $118,826) of inventory was sold and recognized in cost of sales. During the year ended December 31, 2021, the Company recorded an allowance to value its inventory for obsolete and slow-moving inventory, recognizing an expense in cost of sales of $nil (2020: $23,955, 2019: $nil).

| | December 31, 2021 | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Inventory | **$ 3,420,713** | $ 2,257,797 | $ 118,626 |
| Consulting and services | **679,345** | 164,119 | 86,280 |
| Other | **310,719** | 181,995 | 13,894 |
| | **$ 4,410,777** | $ 2,603,911 | $ 218,800 |





**9. NOTES RECEIVABLE**

| | Start Date | Maturity Date | Rate | Principal | Interest | Accretion | Impairment | Total |
|---|---|---|---|---|---|---|---|---|
| Note 1[(1)] | 2021-04-21 | 2022-10-21 | 0% | $ 180,597 | $ - | $ 9,573 | $ - | $ 190,170 |
| Note 2[(1)] | 2021-06-01 | 2023-06-01 | 8% | 114,833 | 5,378 | - | (120,211) | - |
| Note 3[(1)] | 2021-09-22 | 2024-09-22 | 5% | 943,385 | 13,156 | 7,465 | - | 964,006 |
| Note 4 | 2021-11-17 | 2022-04-26 | 8% | 750,000 | 21,260 | - | (771,260) | - |
| Total | | | | $1,988,815 | $ 39,794 | $ 17,038 | $ (891,471) | $1,154,176 |

(1) These notes are denominated in US dollars and are converted to Canadian dollars at the reporting date.

**Expressed in Canadian Dollars**

Note 1 is non-interest bearing and is secured by intellectual property. This note is measured at fair value through profit or loss. The fair value was determined based on the price the company paid for this loan which was the investee's most recent financing.

Note 2 bears interest at 8% and is secured by a general security agreement. Management has determined that it is unlikely that either the loan will be repaid or the Company will receive some other type of return. Therefore, the loan has been written down to $Nil.

Note 3 bears interest at 5%, is unsecured, and contains a conversion feature upon sale of the recipient. This note is measured at fair value through profit or loss. The fair value was determined based on the price the company paid for this convertible loan which was the investee's most recent financing.

Note 4 was issued pursuant to letter of intent on an acquisition that the Company is no longer pursuing. The loan is interest bearing at 8% and is due April 26, 2022. Management has determined that it is unlikely that either the loan will be repaid or the Company will receive some other type of return. Therefore, the loan has been written down to $Nil.

**10. PREPAIDS**

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| Insurance | **$ 2,938,246** | $ 992 |
| Prepaid director fees | **107,763** | - |
| Prepaid interest | **6,969** | - |
| Prepaid marketing services | **1,638,179** | 187,826 |
| Prepaid rent | **-** | 3,583 |
| Prepaid subscriptions | **35,687** | 5,953 |
| Deposits | **768,033** | 136,668 |
| | **$ 5,494,877** | $ 335,022 |





**11. INVESTMENTS**

| | |
|---|---|
| Balance at December 31, 2020 | $ - |
| **Investments** | **623,706** |
| **Change in fair value** | **(332,640)** |
| **Balance at December 31, 2021** | **$ 291,066** |

**Fair value of investments is comprised of:**

| | |
|---|---|
| Public company shares | $ 142,857 |
| Public company warrants | 21,429 |
| Private company shares | 126,780 |
| **Balance at December 31, 2021** | **$ 291,066** |

On March 10, 2021, the Company purchased 1,428,571 units of a publicly listed company for $500,000. Each unit is comprised of one common share and one warrant. The warrants have an exercise price of $0.50 each and convert to one common share, and expire on March 17, 2023.

The fair values of these warrants were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | **December 31, 2021** | March 10, 2021 |
|---|---|---|
| Risk free interest rate | **0.91%** | 0.28% |
| Expected volatility | **124.09%** | 150.88% |
| Expected life | **2 years** | 2 years |
| Expected dividend yield | **0%** | 0% |

Volatility is calculated using the historical volatility method

On October 27, 2021, the Company purchased 50,000 common shares of a private company for USD$100,000. These assets have been recorded at the price of the company's most recent private placement, and converted to Canadian dollars at the reporting date.

**12. EQUIPMENT**

| | **Computer Equipment** | **Furniture and Equipment** | **Leasehold Improvements** | **Software** | **Vehicles** | **Total** |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance at January 1, 2020 | $ 7,000 | $ 142,173 | $ - | $ 29,967 | $ - | $179,140 |
| Additions | 2,028 | 21,860 | - | - | - | 23,888 |
| Net assets acquired in the Transaction | 15,369 | 7,573 | 4,352 | - | 27,652 | 54,946 |
| Balance at December 31, 2020 | $ 24,397 | $ 171,606 | $ 4,352 | $ 29,967 | $ 27,652 | $257,974 |
| **Additions** | **29,713** | **170,866** | **-** | **-** | **12,000** | **212,579** |
| **Revaluation** | **-** | **-** | **-** | **-** | **(3,619)** | **(3,619)** |
| **Balance at December 31, 2021** | **$ 54,110** | **$ 342,472** | **$ 4,352** | **$ 29,967** | **$ 36,033** | **$466,934** |
| | | | | | | |
| Accumulated depreciation | | | | | | |
| Balance at January 1, 2020 | $ 6,761 | $ 37,944 | $ - | $ 19,294 | $ - | $ 63,999 |
| Charge for the year | 5,631 | 22,019 | 3,220 | 3,202 | 6,033 | 40,105 |
| Balance at December 31, 2020 | $ 12,392 | $ 59,963 | $ 3,220 | $ 22,496 | $ 6,033 | $104,104 |
| **Charge for the year** | **12,899** | **42,314** | **1,132** | **2,241** | **7,201** | **65,787** |
| **Balance at December 31, 2021** | **$ 25,291** | **$ 102,277** | **$ 4,352** | **$ 24,737** | **$ 13,234** | **$169,891** |
| | | | | | | |
| **Net book value:** | | | | | | |
| December 31, 2020 | $ 12,005 | $ 111,643 | $ 1,132 | $ 7,471 | $ 21,619 | $153,870 |
| **December 31, 2021** | **$ 28,819** | **$ 240,195** | **$ -** | **$ 5,230** | **$ 22,799** | **$297,043** |

**Expressed in Canadian Dollars**

## 13. INTANGIBLE ASSETS AND GOODWILL

| | Patents | Customer Relationships | Brand | Software | Goodwill | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance at December 31, 2019 | $ 41,931 | $ - | $ - | $ - | $ - | $ 41,931 |
| Intangible assets acquired in the Transaction | - | 197,000 | - | 119,000 | 2,166,563 | 2,482,563 |
| Balance at December 31, 2020 | $ 41,931 | $ 197,000 | $ - | $ 119,000 | $ 2,166,563 | $ 2,524,494 |
| **Intangible assets acquired in the Acquisition** | **-** | **-** | **23,000** | **433,000** | **8,353,609** | **8,809,609** |
| **Impairment of goodwill** | **-** | **-** | **-** | **-** | **(4,579,763)** | **(4,579,763)** |
| **Balance at December 31, 2021** | **$ 41,931** | **$ 197,000** | **$ 23,000** | **$ 552,000** | **$ 5,940,409** | **$ 6,754,340** |
| | | | | | | |
| Accumulated amortization | | | | | | |
| Balance at December 31, 2019 | $ 40,546 | $ - | $ - | $ | $ - | $ 40,546 |
| Change for the year | 1,385 | 26,267 | - | 15,866 | - | 43,518 |
| Balance at December 31, 2020 | 41,931 | 26,267 | - | 15,866 | - | 84,064 |
| **Change for the year** | **-** | **34,147** | **3,450** | **98,369** | **-** | **135,966** |
| **Balance at December 31, 2021** | **$ 41,931** | **$ 60,414** | **$ 3,450** | **$ 114,235** | **$ -** | **$ 220,030** |
| | | | | | | |
| **Net book value:** | | | | | | |
| December 31, 2020 | $ - | $ 170,733 | $ - | $ 103,134 | $ 2,166,563 | $ 2,440,430 |
| **December 31, 2021** | **$ -** | **$ 136,586** | **$ 19,550** | **$ 437,765** | **$ 5,940,409** | **$ 6,534,310** |

**Customer relationships**

On April 30, 2020, the Company acquired a 100% interest in Dronelogics (note 3) and assigned $197,000 to the fair value of customer relationships.

**Brand**

On April 30, 2020, the Company acquired a 100% interest in Dronelogics and assigned $119,000 to the fair value of the website/domain name.

On March 25, 2021, the Company acquired the assets of Vital (note 4) and assigned $23,000 to the fair value of the brand.

**Software**

On March 25, 2021, the Company acquired the assets of Vital and assigned $433,000 to the fair value of the software.

**Goodwill**

On April 30, 2020, the Company acquired a 100% interest in Dronelogics, which included goodwill. Goodwill was valued at $2,166,563.

On March 25, 2021, the Company acquired the assets of Vital, which included goodwill. Goodwill was valued at $8,353,609.

**Expressed in Canadian Dollars**

## 13. INTELLECTUAL PROPERTIES AND GOODWILL (CONT'D)

On December 31, 2021 the Company performed its annual goodwill impairment test on Vital and Dronelogics. The Company determined the recoverable amount based on a value in use calculation using the following key assumptions:

- 5 year post tax cash flow projections expected to be generated based on a financial forecast with a terminal growth rate of 2%
- Budgeted cash flows calculated using a weighted average revenue EBITDA margin of 14% for Drone and 42% for Vital respectively were estimated by management based on the past performance and future growth prospects as well as observed trends among comparable companies.
- Cash flows were discounted at the weighted average cost of capital of 17% for Dronelogics and 24% for Vital based on peer group averages and adjusted for the Company's risk factors.

Based on the annual goodwill impairment test, the Company deemed that the goodwill for Vital required impairment, as such the Company recorded an impairment of $4,579,763.

The most sensitive inputs to the value in use model are the growth and discount rates. All else being equal:

- A 10% reduction in the Value in use for the discounted cash flow model would result in a reduction of $597,100 for Dronelogics and $570,133 for Vital.

Changing the above assumption would result in an impairment for Dronelogics, and would result in additional impairment for Vital.

The key assumptions used in the calculations of the recoverable amounts include sales growth per year, changes in cost of sales and capital expenditures based on internal forecasts.

## 14. RIGHT OF USE ASSETS

| | | **Total** |
|---|---|---|
| Cost | | |
| Balance at December 31, 2019 | $ | 159,539 |
| Leases acquired in the Acquisition | | 83,428 |
| Balance at December 31, 2020 | $ | 242,967 |
| **Additions** | | **447,242** |
| **Lease removal** | | **(7,092)** |
| **Balance at December 31, 2021** | **$** | **683,117** |
| | | |
| Accumulated depreciation | | |
| Balance at December 31, 2019 | $ | 29,545 |
| Charge for the year | | 69,003 |
| Balance at December 31, 2020 | $ | 98,548 |
| Historical correction | | 7,152 |
| **Charge for the year** | | **109,311** |
| **Balance at December 31, 2021** | **$** | **215,011** |

**Expressed in Canadian Dollars**

| | | |
|---|---|---|
| Net book value: | | |
| December 31, 2020 | $ | 144,419 |
| **December 31, 2021** | **$** | **468,106** |





## 15. LEASE LIABILITY

The Company leases certain assets under lease agreements. The lease liabilities consist of leases of facilities and vehicles with terms ranging from one to five years. The leases are calculated using incremental borrowing rates ranging from 7.5% to 10.5%

| | | **Total** |
|---|---|---|
| Balance at December 31, 2019 | $ | 136,073 |
| Leases acquired in the Acquisition | | 87,203 |
| Interest expense | | 18,290 |
| Lease Payments | | (83,442) |
| Balance at December 31, 2020 | $ | 158,124 |
| **Addition** | | **440,675** |
| **Interest expenses** | | **26,964** |
| **Lease payments** | | **(128,995)** |
| **Lease removal** | | **(7,645)** |
| **Balance at December 31, 2021** | **$** | **489,123** |
| | | |
| Which consists of: | | |
| Current lease liability | $ | 110,481 |
| Non-current lease liability | | 378,642 |
| **Balance at December 31, 2021** | **$** | **489,123** |

| **Maturity analysis** | | **Total** |
|---|---|---|
| Less than one year | $ | 150,276 |
| One to three years | | 251,765 |
| Four to five years | | 183,473 |
| Greater than five years | | 5,030 |
| Total undiscounted lease liabilities | | 590,544 |
| Amount representing implicit interest | | (101,421) |
| **Lease liability** | **$** | **489,123** |

## 16. TRADE PAYABLES AND ACCRUED LIABILITIES

| | | **December 31, 2021** | | December 31, 2020 |
|---|---|---|---|---|
| Trade accounts payable | **$** | **362,890** | $ | 813,881 |
| Accrued liabilities | | **402,540** | | 512,205 |
| Due to related parties (Note 23) | | **-** | | 475,628 |

**Expressed in Canadian Dollars**

| | | |
|---|---|---|
| Government grant payable | **33,709** | 33,709 |
| GST/PST Payable | **-** | 21,754 |
| | **$ 799,139** | $ 1,857,177 |

## 17. CUSTOMER DEPOSITS

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Customer deposits | **$ 172,134** | $ 385,449 |





## 18. DEFERRED INCOME

At times, the Company may take payment in advance for services to be rendered. These amounts are held and recognized as services are rendered.

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Deferred income from customers | **$ 80,000** | $ - |
| Deferred income from government | **5,233** | 5,062 |
| Deferred income from note receivable accretion | **(11,947)** | - |
| | **73,286** | 5,062 |

## 19. LOANS PAYABLE

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Opening balance | **$ 97,916** | $ - |
| Acquisition of loans | **-** | 120,851 |
| Issuance of loans payable | **60,000** | 60,000 |
| Fair value adjustment | **(24,576)** | (26,152) |
| Repayment of loans payable | **(44,428)** | (57,873) |
| Accretion expense | **4,405** | 1,090 |
| Ending balance | **$ 93,317** | $ 97,916 |

| | Start Date | Maturity Date | Rate | Carrying Value December 31, 2021 | Carrying Value December 31, 2020 |
|---|---|---|---|---|---|
| CEBA | 2020-05-19 | 2022-12-31 | 0% | $ 37,384 | $ 34,938 |
| CEBA | 2021-04-23 | 2022-12-31 | 0% | 37,383 | - |
| Vehicle loan | 2019-08-30 | 2024-09-11 | 6.99% | 18,550 | 25,295 |
| Shopify loan | 2020-08-05 | | 7.00% | - | 37,683 |
| Total | | | | $ 93,317 | $ 97,916 |

On May 19, 2020, Dronelogics received a $40,000 CEBA loan. This loan is currently interest-free and 25% of the loan, up to $10,000, is forgivable if the loan is repaid on or before December 31, 2022. If the loan is not repaid by that date, the loan can be converted to a three-year term loan at an interest rate of 5%.

On December 4, 2020, the Government of Canada allowed for an expansion of the CEBA loan by $20,000, of which, an additional $10,000 is forgivable if the loan is repaid on or before December 31, 2022.

On April 23, 2021, Draganfly Innovations Inc. received a $60,000 CEBA loan. This loan is currently interest free and up to $20,000 is forgivable if the loan is repaid on or before December 31, 2022. If the loan is not repaid by that date, the loan can be converted to a three-year term loan at an interest rate of 5%.

The CEBA loans are unsecured and the vehicle loan is secured by the vehicle and the Shopify loan is secured by the Company's accounts receivable.





## 20. SHARE CAPITAL

***Authorized share capital***

Unlimited number of common shares without par value.

***Issued share capital***

During the year ended December 31, 2021,

- The Company issued 1,580,525 common shares for the exercise of warrants for $3,951,312.
- The Company issued 149,999 common shares for the vesting of Restricted Share Units.
- The Company issued 392,999 common shares for the exercise of stock options for $987,248.
- The Company issued 15,000 common shares in lieu of cash.
- The Company issued 6,488,691 units for the Regulation A+ financing in the United States for proceeds of $18,815,485. Each unit is comprised of one common share and one share purchase warrant. These warrants had a fair value of $0.57 USD allocated to them, have an exercise price of $3.55 USD per warrant, each convert to one common share, and have a life of two years. The fair value of $8,261,511 was allocated to the warrant derivative liability.
- The Company issued 1,200,000 units for the acquisition of Vital Intelligence. Each unit is comprised of one common share and one warrant. These warrants have an exercise price of $13.35 per warrant, each convert to one common share, and have a life of two years.
- The Company issued 5,095,966 common shares in a private placement for $25,538,213.
- The Company issued 359,009 common shares for the exercise of warrants for $978,478.
- The Company issued 298,661 common shares for the vesting of Restricted Share Units.
- The Company issued 12,500 common shares for the exercise of stock options for $26,875.
- The Company issued 356,901 common shares in lieu of cash.

For the year ended December 31, 2020,

- The Company issued 24,000 common shares for the exercise of warrants for $60,000.
- The Company issued 20,000 common shares for the exercise of warrants for $50,000.

- The Company issued 210,320 common shares for the exercise of warrants for $105,160.
- The Company issued 73,000 common shares for the exercise of warrants for $36,500.
- The Company issued 294,840 common shares for the exercise of warrants for $147,420.
- The Company issued 121,840 common shares for the exercise of warrants for $60,920.
- The Company issued 126,000 common shares for the exercise of warrants for $115,000.
- The Company issued 645,088 common shares for the acquisition of Dronelogics and an additional 40,000 common shares as finder's fees.
- The Company issued 12,000 common shares for the exercise of warrants for $30,000.
- The Company issued 45,600 common shares for the exercise of warrants for $114,000.
- The Company issued 192,308 common shares for cash proceeds of $500,000.
- The Company issued 111,082 common shares for debt settlement of $344,354 and recognized a loss of $38,879 in the statement of comprehensive loss.
- The Company issued 2,000 common shares for the exercise of warrants for $5,000.
- The Company issued 2,200 common shares for the exercise of warrants for $5,500.
- The Company issued 637,975 common shares for the exercise of warrants for $1,594,938.
- The Company issued 7,117 common shares for the vesting of Restricted Share Units.
- The Company issued 511,299 units for the Regulation A+ financing in the United States for proceeds of $1,518,845. Each unit is comprised of one common share and one share purchase warrant. These warrants have an exercise price of $3.55 USD per warrant, each convert to one common share, and have a life of two years, expiring on November 30, 2022.
- The Company issued 2,040 common shares for the vesting of Restricted Share Units.
- The Company issued 2,647 common shares for the vesting of Restricted Share Units.
- The Company issued 188,194 common shares for the vesting of Restricted Share Units.
- The Company issued 15,000 common shares for the exercise of warrants for $37,500.





**20. SHARE CAPITAL (CONT'D)**

For the year ended December 31, 2019,

- The Company issued 143,985 common shares to a company controlled by a former director of the Company for settlement of $799,341 in accounts payable and application of $153,566 in subscription receivable.
- The Company issued 222,965 common shares with a value of $1,000,000 as transaction fees for the Draganfly Innovations amalgamation to related parties.
- The Company issued 8,517,671 common shares for the amalgamation with Draganfly Innovations.
- The Company issued 9,065 common shares for settlement of $22,662 in trades payables at a value of $2.50 per share.
- The Company issued 423,698 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.
- The Company issued 63,388 common shares for exercise of share purchase warrants of the Company for proceeds of $8,833. As a result of the exercise, $212,908 from reserve was reclassification to share capital.
- The Company issued 2,810,300 units in a private placement. Each unit consists of one common share and one warrant. These warrants have an exercise price of $2.50 per warrant, each convert to one common share, and have a life of one year, expiring on October 25, 2020.

***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.

As at December 31, 2021, 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 | $ 2.50 | 7.84 | 296,665 | 296,665 |
| November 19, 2019 | November 19, 2029 | $ 2.50 | 7.89 | 50,000 | 50,000 |
| April 30, 2020 | April 30, 2030 | $ 2.50 | 8.33 | 87,000 | 78,666 |
| April 30, 2020 | April 30, 2030 | $ 3.85 | 8.33 | 110,000 | 70,000 |
| July 3, 2020 | July 3, 2025 | $ 3.20 | 3.51 | 200,000 | 166,666 |
| November 24, 2020 | November 24, 2030 | $ 2.50 | 8.90 | 32,000 | 21,000 |
| December 11, 2020 | December 11, 2030 | $ 2.15 | 8.95 | 12,500 | 12,500 |
| February 2, 2021 | February 2, 2031 | $ 13.20 | 9.09 | 30,000 | 10,000 |
| March 8, 2021 | March 8, 2026 | $ 13.90 | 4.19 | 10,000 | 5,000 |
| April 27, 2021 | April 27, 2031 | $ 10.15 | 9.23 | 182,000 | - |
| September 9, 2021 | September 9, 2026 | $ 4.84 | 4.69 | 25,826 | - |
| | | | | **1,035,991** | **710,497** |

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, December 31, 2019 | 744,993 | $ 2.50 |
| Forfeited | (43,334) | 2.50 |
| Granted | 492,000 | 3.08 |
| Outstanding, December 31, 2020 | 1,193,659 | $ 2.75 |
| **Exercised** | **(405,494)** | **2.50** |
| **Granted** | **247,826** | **10.12** |
| **Outstanding, December 31, 2021** | **1,035,991** | **$ 4.60** |

During the year ended December 31, 2021,

- The Company granted 30,000 options to an employee. Each option is exercisable at $13.20 per share for 10 years.
- The Company granted 10,000 options to a consultant. Each option is exercisable at $13.90 per share for 5 years.
- The Company granted 182,000 options to employees and a consultant. Each option is exercisable at $10.15 per share for 10 years.
- The Company granted 25,826 options to an employee. Each option is exercisable at $4.84 per share for 5 years.

**Expressed in Canadian Dollars**

**20. SHARE CAPITAL (CONT'D)**

***Stock Options (cont'd)***

During the year ended December 31, 2020,

- The Company granted 89,000 options to employees. Each option is exercisable at $2.50 per share for a period of 10 years from the grant date.
- The Company granted 120,000 options to consultants. Each option is exercisable at $3.85 per share for a period of 10 years from the grant date.
- The Company granted 200,000 options to employees. Each option is exercisable at $3.20 per share for a period of 5 years from the grant date.
- The Company granted 33,000 options to employees. Each option is exercisable at $2.50 per share for a period of 10 years from the grant date.
- The Company granted 50,000 options to a consultant. Each option is exercisable at $2.15 per share for a period of 10 years from the grant date.

During the year ended December 31, 2021, the Company recorded $1,660,894 (2020 - $1,724,853 and 2019 – $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,** | **2021** | 2020 | 2019 |
|---|---|---|---|
| Risk free interest rate | **0.69%-1.40%** | 0.43%-0.66% | 1.45%-1.46% |
| Expected volatility | **62.84%-113.16%** | 113.53%-119.03% | 100% |
| Expected life | **5 years** | 5-10 years | 7.5 years |
| Expected dividend yield | **0%** | 0% | 0% |
| Exercise price | **$ 4.84-13.90** | $ 2.15-3.85 | $ 2.50 |

Volatility is calculated using the historical volatility method based on a comparative company's stock price.

***Restricted Share Units***

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.

As at December 31, 2021, the Company had the following RSUs outstanding:

| | **Number of RSUs** |
|---|---|
| Outstanding, December 31, 2019 | 634,997 |
| Vested | (199,998) |
| Forfeited | (68,333) |
| Issued | 248,000 |
| Outstanding, December 31, 2020 | 614,666 |
| **Vested** | **(448,660)** |
| **Issued** | **348,826** |
| **Outstanding, December 31, 2021** | **514,832** |

**Expressed in Canadian Dollars**

**20. SHARE CAPITAL (CONT'D)**

***Restricted Share Units (cont'd)***

During the year ended December 31, 2021, 323,661 RSUs fully vested according to the terms and the Company accelerated the vesting of 124,999 RSUs. The Company issued 348,826 RSUs to employees 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.

During the year ended December 31, 2020, the Company committed to grant 248,000 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.

During the year ended December 31, 2021, the Company recorded share-based payment expense of $2,291,701 (2020: $943,611, 2019: $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.

***Warrants***

During the years ended December 31, 2021 and 2020, the Company issued warrants ("USD Warrants") with a USD exercise price. Being in a foreign currency that is not the Company's functional currency, these USD Warrants are required to be recorded as a financial liability and not as equity. As a financial liability, these USD Warrants are revalued on a quarterly basis to fair market value with the change in fair value being recorded profit or loss. The initial fair value of these USD Warrants was parsed out from equity and recorded as a financial liability.

To reach a fair value of the USD Warrants, a Black Scholes calculation is used, calculated in USD as the Company also trades on the Nasdaq. The Black Scholes value per USD Warrant is then multiplied by the number of outstanding warrants and then multiplied by the foreign exchange rate at the end of the period from the Bank of Canada.

Warrant Derivative Liability

| | | |
|---|---|---|
| Balance at January 1, 2020 | $ | - |
| Warrant issuance | | 281,732 |
| Change in fair value of warrants outstanding | | 466,902 |
| Balance at December 31, 2020 | $ | 748,634 |
| **Warrant issuance** | | **8,261,511** |
| **Exercised** | | **(98,048)** |
| **Change in fair value of warrants outstanding** | | **(4,046,325)** |
| **Warrant Balance at December 31, 2021** | | **4,865,772** |
| **Derivative liability** | | |
| **Warrants** | **$** | **4,865,772** |
| **Contingent consideration (note 4)** | | **694,230** |
| **Contingent consideration at December 31, 2021** | **$** | **5,560,002** |

Details of these warrants and their fair values are as follows:

**Expressed in Canadian Dollars**

| Issue Date | Exercise Price | Number of Warrants Outstanding at December 31, 2021 | Fair Value at December 31, 2021 | Number of Warrants Outstanding at December 31, 2020 | Fair Value at December 31, 2020 |
|---|---|---|---|---|---|
| November 30, 2020 | US$ 3.55 | 482,425 | $ 182,262 | 511,299 | $ 748,634 |
| February 5, 2021 | US$ 3.55 | 1,323,275 | 951,226 | - | - |
| March 5, 2021 | US$ 3.55 | 5,154,321 | 3,731,285 | - | - |
| July 29, 2021 | US$ 5.00 | 250,000 | 84,625 | - | - |
| September 14, 2021 | US$ 5.00 | 4,798 | 1,685 | - | - |
| | | **7,214,819** | **$ 4,865,772** | 511,299 | $ 748,634 |





**20. SHARE CAPITAL (CONT'D)**

***Warrants (cont'd)***

The fair values of these warrants were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| Year ended December 31, | 2021 | 2020 |
|---|---|---|
| Risk free interest rate | **0.23%-0.95%** | 0.20%-0.24% |
| Expected volatility | **70.95%-144.59%** | 72.76%-74.10% |
| Expected life | **2-3 years** | 2 years |
| Expected dividend yield | **0%** | 0% |

Volatility is calculated using the historical volatility method.

During the year ended December 31, 2020, the Company amended the expiry date of the November 5, 2019 warrants from November 5, 2020 to November 5, 2021 provided that 25% of the warrants were exercised by October 21, 2020 and 25% were exercised by May 5, 2021.

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, December 31, 2019 | 3,610,340 | $ 2.05 |
| Exercised | (1,584,775) | 1.50 |
| Forfeited | (120,000) | 2.50 |
| Issued | 511,299 | 3.55 |
| Outstanding, December 31, 2020 | 2,416,864 | $ 2.95 |
| **Exercised** | **(1,939,534)** | **2.54** |
| **Forfeited** | **(6,000)** | **2.50** |
| **Issued** | **7,943,489** | **5.10** |
| **Outstanding, December 31, 2021** | **8,414,819** | **$ 4.99** |

**Expressed in Canadian Dollars**

As at December 31, 2021, the Company had the following warrants outstanding:

| Date issued | Expiry date | Exercise price | Number of warrants outstanding |
|---|---|---|---|
| November 30, 2020 | November 30, 2022 | US$ 3.55 | 482,425 |
| February 5, 2021 | February 5, 2023 | US$ 3.55 | 1,323,275 |
| March 5, 2021 | March 5, 2023 | US$ 3.55 | 5,154,321 |
| March 22, 2021 | March 22, 2023 | CDN$13.35 | 1,200,000 |
| July 29, 2021 | July 29, 2024 | US$ 5.00 | 250,000 |
| September 14, 2021 | September 14, 2024 | US$ 5.00 | 4,798 |
| | | | **8,414,819** |

The weighted average remaining contractual life of warrants outstanding as of December 31, 2021, was 1.20 years (December 31, 2020 – 1.07 years).

Of 1,200,000 warrants issued on March 22, 2021 to acquire Vital, 900,000 of the warrants are currently held in escrow, to be released upon completion of the milestones (note 4).





## 21. REVENUE

The Company sub-classifies revenue within the following components: product revenue and services 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. Services revenue consists of fees charged for custom engineering, drone as a service work, and training and simulation consulting.

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2021** | 2020 | 2019 |
| Product sales | **$ 5,103,399** | $ 3,087,223 | $ 248,939 |
| Drone service | **1,304,799** | 630,532 | - |
| Services | **645,667** | 645,756 | 1,131,488 |
| | **$ 7,053,865** | $ 4,363,511 | $ 1,380,427 |

The Company does not derive significant revenue from any (2020 – 1) customers that exceeds 10% of total revenues for the year ended December 31, 2021 (2020 – $474,701 of custom engineering services revenue).

*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.

**Expressed in Canadian Dollars**

Geographic revenue segmentation is as follows:

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2021** | 2020 | 2019 |
| Canada | **$ 4,937,935** | $ 2,270,862 | $ 127,118 |
| United States | **2,071,492** | 1,982,404 | 1,251,199 |
| International | **44,438** | 110,245 | 2,110 |
| | **$ 7,053,865** | $ 4,363,511 | $ 1,380,427 |





**21. REVENUE (CONT'D)**

Non current assets for each geographic segment are as follows:

| | For the years ended December 31, | | |
|---|---|---|---|
| | Canada | United States | International |
| Goodwill | **$ 2,166,564** | $ 3,773,845 | $ - |
| Property and equipment | **297,043** | - | - |
| Intangible assets | **219,093** | 374,808 | - |
| Investments | **291,066** | - | - |
| Notes receivable | **-** | 964,006 | - |
| Right of use assets | **468,106** | - | - |
| | **$ 3,441,872** | $ 5,112,659 | $ - |





**22. OFFICE AND MISCELLANEOUS**

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2021** | 2020 | 2019 |
| Advertising, Marketing, and Investor Relations | **$ 5,165,791** | $ 2,610,930 | $ 1,356,174 |
| Compliance fees | **432,874** | 122,916 | 80,525 |
| Contract Work | **300,975** | 399,546 | 438,601 |
| Other | **556,358** | 254,473 | 228,432 |
| | **$ 6,455,998** | $ 3,387,865 | $ 2,103,732 |

**Draganfly Inc.**
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**Expressed in Canadian Dollars**

## 23. 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.

**Trade payables and accrued liabilities:**

On Aug 1, 2019, the Company entered in a business services agreement (the "Agreement") with Business Instincts Group ("BIG"), a company that Cameron Chell, CEO and director has a material interest in that he previously controlled, to provide: corporate development and governance, strategic facilitation and management, general business services, office space, corporate business development video content, website redesign and management, and online visibility management. The services are provided by a team of up to six consultants and the costs of all charges are based on the fees set in the Agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the company incurred fees of $315,643 compared to $177,000 in 2020, and $80,000 in 2019.

On October 1, 2019, the Company entered into an independent consultant agreement ("Consultant Agreement") with 1502372 Alberta Ltd, a company controlled by Cameron Chell, CEO and director, to provide executive consulting services to the Company. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the Company incurred fees of $290,225 compared to $525,164 in 2020, and $9,000 in 2019. As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $321,741, December 31, 2019 $9,450).

On July 3, 2020, the Company entered into an executive consultant agreement ("Executive Agreement") with Scott Larson, a director of the Company, to provide executive consulting services, as President, to the Company. The costs of all charges are based on the fees set in the Executive Agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the Company incurred fees of $205,191 (December 31, 2020 – 227,524). As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $153,887).

As at December 31, 2021, the Company had $nil (December 31, 2020 - $475,628, December 31, 2019 $9,681) payable to related parties outstanding that were included in accounts payable. The balances outstanding are unsecured, non-interest bearing and due on demand.



**Draganfly Inc.**
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## 23. RELATED PARTY TRANSACTIONS (CONT'D)

**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, 2021 and 2020 included:

| For the years ended December 31, | 2021 | 2020 | 2019 |
|---|---|---|---|
| Director fees | **$ 370,094** | $ - | $ - |
| Management fees paid to a company controlled by CEO and director | **290,225** | 737,164 | 186,000 |
| Management fees paid to a company controlled by the President and director | **205,691** | 227,524 | - |
| Management fees paid to a company controlled by a former director | **500,074** | 165,000 | 195,000 |
| Salaries | **722,068** | 655,799 | 179,429 |
| Salaries paid to the former owner of the Company | **-** | 86,097 | 149,060 |
| Share-based payments | **2,475,949** | 1,614,158 | 480,158 |
| | **$ 4,564,102** | $ 3,485,742 | 1,189,647 |

## 24. 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 and the United States. 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.

**Expressed in Canadian Dollars**

## 24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONT'D)

The following table summarizes the sensitivity of the fair value of the Company's risk to foreign exchange rates, with all other variables held constant. Fluctuations of 10 percent in the foreign exchange rate between US dollars and Canadian dollars could have resulted in a change impacting net income upon consolidation as follows:

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| Foreign exchange rate | **$ 150,715** | $ 27,018 |

***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***

A number of the Company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities. The Company has established a control framework with respect to the measurement of fair values. Fair values are categorized into different levels of a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Equity securities in investee companies and warrants are measured at fair value. The financial assets measured at fair value by hierarchy are shown in the table below. The amounts shown are based on the amounts recognized in the statements of financial position. These financial assets are measured at fair value through profit and loss.

| **December 31, 2021** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equity securities in investee companies | $ 164,286 | $ 126,780 | $ - | $ 291,066 |
| Notes receivable | - | 1,154,176 | - | 1,154,176 |
| Derivative liability | - | - | 5,560,002 | 5,560,002 |
| **Total** | **$ 164,286** | **$1,280,956** | **$5,560,002** | **$7,005,244** |

| **December 31, 2021** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Derivative liability | - | - | 748,634 | 748,634 |
| **Total** | **$ -** | **$ -** | **$ 748,634** | **$ 748,634** |

**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, debt, and equity comprised of issued share capital, and share-based payment reserve.

**Expressed in Canadian Dollars**

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, 2020.

The breakdown of the Company's capital is as follows:

| | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| Cash | **$ 23,075,713** | $ 1,982,416 |
| Debt | **93,317** | 97,916 |
| Equity | **$ 34,926,239** | $ 3,848,205 |

**25. 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, 2021, 2020 and 2019:

| | **December 31, 2021** | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Loss before income taxes | $ **16,202,972** | $ 8,015,813 | $ 11,095,507 |
| Canadian statutory rates | | 27% | 27% |
| Expected income tax recovery | **4,196,600** | 2,164,000 | 2,996,000 |
| Impact of different foreign statutory tax rates | **34,900** | - | - |
| Non-deductible items | **116,400** | (687,000) | (2,043,000) |
| Share issue costs | **887,600** | - | - |
| Adjustments to prior years provision versus statutory tax returns | **376,500** | 189,000 | (388,000) |
| Differences between prior year provision and final tax return | **(206,000)** | (535,000) | (18,000) |
| Change in deferred tax asset not recognized | **(5,406,000)** | (1,131,000) | (547,000) |
| Income tax | **$ -** | $ - | $ - |





**25. INCOME TAXES (CONT'D)**

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, 2021** | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Deferred income tax assets (liabilities): | | | |
| Share issuance costs | $ **728,000** | $ 30,000 | $ - |
| Non-capital losses | **7,043,000** | 3,656,000 | 2,439,000 |
| Property and equipment | **449,000** | 457,000 | 581,000 |

**Expressed in Canadian Dollars**

| | | | |
|---|---|---|---|
| Capital gain reserve | **74,000** | - | - |
| Scientific Research and Experimental Development | **291,000** | 57,000 | 49,000 |
| Total deferred income tax assets | $ **8,585,000** | $ 4,200,000 | $ 3,069,000 |
| Deferred income tax not recognized | **(8,585,000)** | (4,200,000) | (3,069,000) |
| Net deferred tax assets | $ **-** | $ - | $ - |

The Company has non-capital loss carry forward of approximately $25,487,000 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 2036 to 2040.

**26. OTHER INCOME**

The Company had previously written off an investment in a UK-based company. On April 27, 2020, this company was sold and the Company received $1,179,513 (US$854,838).

**27. SUPPLEMENTAL CASH FLOW DISCLOSURES**

During the year ended December 31, 2021:

- The Company issued 15,000 common shares in lieu of cash.
- The Company issued 1,200,000 units for the acquisition of Vital Intelligence. Each unit is comprised of one common share and one warrant. These warrants have an exercise price of $13.35 per warrant, each convert to one common share, and have a life of two years.
- The Company issued 356,901 common shares in lieu of cash.
- The Company recorded a change in fair value of investments of $332,640 to other comprehensive loss.

During the year ended December 31, 2020, the Company settled debt of $344,354 with the issuance of 111,082 common shares and recognized a gain on settlement of debt of $28,614.

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;
- Issuance of 400,000 common shares at $2.50 per shares as finders' fees, and;
- Settlement of $740,000 of convertible debentures.





**28. GOVERNMENT ASSISTANCE**

In response to COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") program in April 2020. CEWS provides a wage subsidy on eligible remuneration, subject to a maximum per employee, to eligible employers based on meeting certain eligibility criteria. The Company determined that it qualified for this subsidy. The Company has recognized the government assistance as a reduction to expenses as it has complied with the eligibility criteria and the subsidy has been received. Included in the statement of comprehensive loss for the year ended December 31, 2021 is - $250,756 (2020 - $490,748) relating to the CEWS program of which was recorded as a reduction of wages and salaries included in operating expenses.

In September 2020, the Government of Canada announced the Canada Emergency Rent Subsidy ("CERS") to provide a rent subsidy to eligible businesses based on meeting certain eligibility criteria. The Company determined that it qualified for this subsidy as well. The Company has recognized the government assistance as a reduction to expenses as it has complied with the eligibility criteria and the subsidy has been received. The amount included in the statement of comprehensive loss for the year ended December 31, 2021 is - $22,668 (2020 - $nil) relating to the CERS program of which was recorded as a reduction of rent included in operating expenses. As at December 31, 2021, the Company had - $nil (2020 - $nil) included in amounts receivables for CERS subsidies receivable.

In October 2021 the Government of Canada announced the Hardest Hit Business Recovery Program ("HHBRP") to provide continued wage and rent subsidies to business' severely affected by COVID-19, based on meeting certain eligibility criteria. The Company determined that it qualified for this subsidy. The Company has recognized the government grant as a reduction to expenses as it has complied with the eligibility criteria and the subsidy has been received. The amount included in the statement of comprehensive loss for the year ended December 31, 2021 is - $50,756 in wage subsidies and $3,791 in rent subsidies (2020 - $nil, and - $nil respectively) relating to the HHBRP program of which were recorded as a reduction wages and salaries and rent expense respectively. As at December 31, 2021, the Company had - $54,548 (2020 - $nil) included in amounts receivables for HHBRP subsidies receivable.



**Exhibit 1.1**

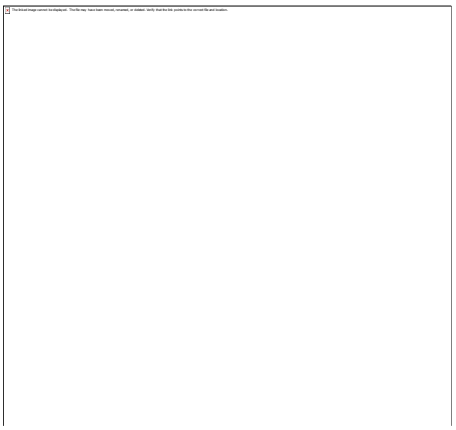
Number: BC1166724

BRITISH
COLUMBIA

**CERTIFICATE**
**OF**
**INCORPORATION**

*BUSINESS CORPORATIONS ACT*

I Hereby Certify that DRONE ACQUISITION CORP. was incorporated under the Business Corporations Act on June 1, 2018 at 03:50 PM Pacific Time.



ELECTRONIC CERTIFICATE

*Issued under my hand at Victoria, British Columbia*
*On June 1, 2018*

**CAROL PREST**
*Registrar of Companies*
Province of British Columbia
Canada

**Exhibit 1.3**

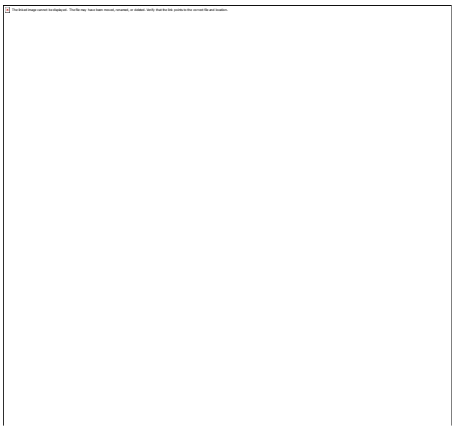
Number: BC1166724

BRITISH
COLUMBIA

**CERTIFICATE**
**OF**
**CHANGE OF NAME**

*BUSINESS CORPORATIONS ACT*

I Hereby Certify that DRONE ACQUISITION CORP. changed its name to DRAGANFLY INC. on August 15, 2019 at 12:01 AM Pacific Time.



ELECTRONIC CERTIFICATE

*Issued under my hand at Victoria, British Columbia*
*On August 15, 2019*

**CAROL PREST**
*Registrar of Companies*
Province of British Columbia
Canada

---

**Exhibit 2.1**

**THE OPTIONS AND THE OPTIONED SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT") OR ANY U.S. STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO U.S. PERSONS UNLESS SUCH SECURITIES ARE REGISTERED UNDER THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS ARE AVAILABLE. THE TERMS "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED IN REGULATION S UNDER THE 1933 ACT.**

**OPTION AGREEMENT**

Notice is hereby given that, effective this [●] day of [●] (the "**Effective Date**") **Draganfly Inc.** (the "**Corporation**") has granted to [●] (the "**Participant**"), Options to acquire [●] Common Shares (the "**Optioned Shares**") up to 4:30

p.m. Pacific Time on the [●] day of [●] (the "**Option Expiry Date**") at an exercise price of Cdn$[●] per Optioned Share pursuant to the Corporation's Share Compensation Plan (the "**Plan**"), a copy of which is attached hereto.

Optioned Shares may be acquired as follows:

(a) [●]; and

(b) [●].

The grant of the Options evidenced hereby and the Option Expiry Date thereof, is made subject to the terms and conditions of the Plan. The Participant agrees that he/she may suffer tax consequences as a result of the grant of these Options, the exercise of the Options and the disposition of Optioned Shares. The Participant acknowledges that he/she is not relying on the Corporation for any tax advice and has had an adequate opportunity to obtain advice of independent tax counsel.

The Participant represents and warrants that (i) under the terms and conditions of the Plan the Participant is a bona fide Eligible Person (as defined in the Plan) entitled to receive Options, and (ii) either (A) the Participant is not in the United States or a U.S. Person, nor is the Participant acquiring the Options or any Optioned Shares for the benefit of a person in the United States or a U.S. Person, or (B) an exemption from the registration requirements of the 1933 Act and all applicable state securities laws is available and the Participant has provided evidence satisfactory to the Corporation to such effect. The Participant understands that the Options may not be exercised in the United States or by or on behalf of a U.S. Person unless the Options and the Option Shares have been registered under the 1933 Act or are exempt from registration thereunder. The Corporation may condition the exercise of the Options upon receiving from the Participant such representations and warranties and such evidence of registration or exemption under the 1933 Act and all applicable state securities laws as is satisfactory to the Corporation, acting in its sole discretion.

In the event of any inconsistency between the terms of this Option Agreement and the Plan, the terms of the Plan shall prevail.



**Draganfly Inc.**

| | |
|---|---|
| Authorized Signatory | Signature of Participant |
| | Name of Participant |

**Exhibit 2.2**

**RESTRICTED SHARE UNIT AGREEMENT**

Notice is hereby given that, effective this [●] day of [●] (the "**Restricted Share Grant Date**") **Draganfly Inc.** (the "**Corporation**") has granted to [●] (the "**Participant**"), [●] Restricted Share Units pursuant to the Corporation's Share Compensation Plan (the "**Plan**"), a copy of which has been provided to the Participant.

Restricted Share Units are subject to the following terms:

(a) Pursuant to the Plan and as compensation to the Participant, the Corporation hereby grants to the Participant, as of the Restricted Share Grant Date, the number of Restricted Share Units set forth above.

(b) The granting and vesting of the Restricted Share Units and the payment by the Corporation of any payout in respect of any Vested Restricted Share Units (as defined below) are subject to the terms and conditions of the Plan, all of which are incorporated into and form an integral part of this Restricted Share Unit Agreement.

(c) The Restricted Share Units shall become vested restricted share units (the "**Vested Restricted Share Units**") in accordance with the following schedule:

(i) [●] on [●]; and

(ii) [●] on [●] (each a "**Vesting Date**").

(d) As soon as reasonably practicable and no later than 60 days following the Vesting Date, or, if the Participant is not a U.S. Participant (as defined in the Plan), such later date mutually agreed to by the Corporation and the Participant, the Participant shall be entitled to receive, and the Corporation shall issue or provide, a payout with respect to those Vested Restricted Share Units in the Participant's Account to which the Vesting Date relates (each a "**Payout Date**"):

(i) a lump sum payment in cash equal to the number of vested Restricted Share Units recorded in the Participant's Account multiplied by the Market Value of a Common Share on the Payout Date;

(ii) the number of Common Shares required to be issued to a Participant upon the vesting of such Participant's Restricted Share Units in the Participant's Account, duly issued as fully paid and non-assessable shares and such Participant shall be registered on the books of the Corporation as the holder of the appropriate number of Common Shares; or

(iii) any combination of the foregoing,

subject to any applicable Withholding Obligations.

(e) The Participant acknowledges that:

(i) he or she has received and reviewed a copy of the Plan; and

(ii) the Restricted Share Units have been granted to the Participant under the Plan and are subject to all of the terms and conditions of the Plan to the same effect as if all of such terms and conditions were set forth in this Restricted Share Unit Agreement, including with respect to termination and forfeiture as set out in Section 4.7 of the Plan.



Notwithstanding anything to the contrary in this Restricted Share Unit Agreement all vesting and issuances or payments, as applicable, in respect of a Restricted Share Unit evidenced hereby shall be completed no later than December 15 of the third calendar year commencing after the Restricted Share Grant Date;

The grant of the Restricted Share Units evidenced hereby is made subject to the terms and conditions of the Plan. The Participant agrees that he/she may suffer tax consequences as a result of the grant of these Restricted Share Units and the vesting of the Restricted Share Units. The Participant acknowledges that he/she is not relying on the Corporation for any tax advice and has had an adequate opportunity to obtain advice of independent tax counsel.

The Participant represents and warrants to the Corporation that (i) under the terms and conditions of the Plan the Participant is a bona fide Eligible Person (as defined in the Plan) entitled to receive Restricted Share Units, and (ii) either (A) the Participant is not in the United States or a U.S. Person, nor is the Participant acquiring the Restricted Share Units for the benefit of a person in the United States or a U.S. Person, or (B) an exemption from the registration requirements of the 1933 Act and all applicable state securities laws is available and the Participant has provided evidence satisfactory to the Corporation to such effect. The Corporation may condition awards and elections under the Plan upon receiving from the undersigned such representations and warranties and such evidence of registration or exemption under the 1933 Act and all applicable U.S. state securities laws as is satisfactory to the Corporation, acting in its sole discretion.



In the event of any inconsistency between the terms of this Restricted Share Unit Agreement and the Plan, the terms of the Plan shall prevail unless otherwise determined in the Plan.

**Draganfly Inc.**

Authorized Signatory

**Exhibit 2.3**

**THE WARRANTS REPRESENTED HEREBY AND THE UNDERLYING SECURITIES ISSUABLE UPON EXERCISE HEREUNDER HAVE BEEN QUALIFIED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REGULATION A. TIER 2, OFFERING STATEMENT IN AN EXEMPT OFFERING UNDER THE SECURITIES ACT OF 1933, AS AMENDED. RESALES OF THE SECURITIES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER ANY STATE SECURITIES LEGISLATION AND THEREFORE RESALES OF THE WARRANTS MAY, IN SOME STATES BE LIMITED BY STATE SECURITIES LEGISLATION UNLESS AN EXEMPTION FROM REGISTRATION OR QUALIFICATION IS AVAILABLE UNDER THAT STATES' SECURITIES LAWS.**

**UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE THAT IS 9 MONTHS AFTER**

**THE WARRANTS REPRESENTED HEREBY WILL BE VOID AND OF NO VALUE AFTER 5:00 PM (VANCOUVER TIME) ON THE DATE THAT IS THE TWENTY-FOUR (24) MONTH ANNIVERSARY OF ISSUANCE OF A RESPECTIVE PURCHASER'S UNITS IN THE OFFERING (THE "CLOSING DATE").**

## WARRANT CERTIFICATE

**DRAGANFLY INC.**
(a British Columbia Company)

Certificate Number: [●]

[●] Warrants to Purchase
[●] Shares

**COMMON SHARE PURCHASE WARRANTS**

**THIS IS TO CERTIFY THAT**, for value received, [●] of or his lawful assignee (the "**Holder**") is the registered holder of warrants (the "**Warrants**") of Draganfly Inc. (the "**Company**"). Each Warrant shall entitle the Holder to subscribe for and purchase one fully paid and non-assessable common shares without par value (collectively the "**Shares**" and individually, a "**Share**") in the authorized capital of the Company at any time on or before 5:00 p.m. Vancouver time on the date that is the twenty-four (24) month anniversary of issuance of a respective purchaser's Units in the Offering, (the "**Expiry Date**"), at a price of US$0.71 per Share, subject, however, to the provisions and upon the Terms and Conditions attached hereto as Schedule "A." The Warrants are exercisable immediately and terminating on the date that is the twenty-four (24) month anniversary of issuance of a respective purchaser's Units (defined below) in the offering of the securities described in the Offering Circular that is available through the online website platform located at www.draganfly.com, which is owned and operated by the Company, as well as on the SEC EDGAR website and the SEDAR website. Each "**Unit**" of securities is comprised of one Share, and one Warrant to purchase one additional Share.

The rights represented by this Warrant Certificate may be exercised by the Holder, in whole or in part (but not as to a fraction of a Share) by surrender of this Warrant Certificate (properly endorsed as required), together with a Warrant Exercise Form in the form attached hereto as Appendix "B", duly completed and executed, to the Company at 2108 St. George Avenue, Saskatoon, SK, S7M 0K7 (Attention: Chief Financial Officer), or such other address as the Company may from time to time in writing direct, together with a certified cheque or bank draft payable to or to the order of the Company in payment of the purchase price of the number of Shares subscribed for. The Holder is advised to read "Instruction to Holders" attached hereto as Appendix "A" for details on how to complete the Warrant Exercise Form (as such term is defined in Schedule "A").

**IN WITNESS WHEREOF** the Company has caused this Warrant Certificate to be executed by its duly authorized officer, this

**DRAGANFLY INC.**

Per:

Authorized Signatory

---

**SCHEDULE "A"**

**TERMS AND CONDITIONS**
**ATTACHED TO COMMON SHARE PURCHASE WARRANTS**
**ISSUED BY DRAGANFLY INC.**
**(the "Company")**

Each Warrant of the Company, whether single or part of a series, is subject to these Terms and Conditions as they were at the date of issue of the Warrant.

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**PART 1.**
**DEFINITIONS AND INTERPRETATION**

**Definitions**

1.1 In these Terms and Conditions, except as otherwise expressly provided herein, the following words and phrases will have the following meanings:

(a) "**Company**" means Draganfly Inc. and includes any successor corporations;

(b) "**Company's auditor**" means the accountant duly appointed as auditor of the Company;

(c) "**Exchange**" has the meaning ascribed thereto in §3.3;

(d) "**Exercise Price**" means US$0.71 per Share or as may be adjusted as per Part 5;

(e) "**Expiry Date**" means the date defined as such on the face page of the Warrant Certificate;

(f) "**Expiry Time**" means 5:00 p.m. Vancouver time on the Expiry Date;

(g) "**Holder**" means the registered holder of a Warrant;

(h) "**Joint Actors**" has the meaning ascribed thereto in §7.1;

(i) "**person**" means an individual, corporation, partnership, trustee or any unincorporated organization, and words importing persons have a similar meaning;

(j) "**Shares**" or "**shares**" means the common shares in the capital of the Company as constituted at the date of issue of a Warrant and any shares resulting from any event referred to in §4.7;

(k) "**U.S. Securities Act**" has the meaning ascribed thereto in §2.6;

(l) "**Warrant**" means a warrant as evidenced by the certificate, one Warrant entitles the holder to purchase one (1) Share of the Company (subject to adjustment) on or before the Expiry Date at the Exercise Price set forth on the Warrant Certificate;

(m) "**Warrant Certificate**" means the certificate evidencing the Warrant;

(n) "**Warrant Exercise Form**" means Appendix "B" hereof; and

(o) "**Warrant Transfer Form**" means Appendix "C" hereof.



**General**

1.2 In these Terms and Conditions, except as otherwise expressly provided herein:

(a) the words "herein", "hereof", and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Part, clause, subclause or other subdivision;

(b) a reference to a Part means a Part of these Terms and Conditions and the symbol § followed by a number or some combination of numbers and letters refers to the section, paragraph or subparagraph of these Terms and Conditions so designated;

(c) the headings are for convenience only, do not form a part of these Terms and Conditions and are not intended to interpret, define or limit the scope, extent or intent of these Terms and Conditions or any of its provisions;

(d) all dollar amounts referred to herein are expressed in United States funds;

(e) time will be of the essence hereof; and

(f) words importing the singular number include the plural and vice versa, and words importing the masculine gender include feminine and neuter genders.

(g) this Warrant Certificate shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

**Applicable Law**

1.3 This Warrant shall be governed by and construed in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein, without reference to its principles governing the choice or conflict of laws.

## PART 2.
## ISSUE OF WARRANTS

**Additional Warrants**

2.1 The Company may at any time and from time to time issue Warrants or grant options or similar rights to purchase shares of in its capital.

**Issue in Substitution for Lost Warrants**

2.2 In case a Warrant Certificate will become mutilated, lost, destroyed or stolen, the Company in its discretion may issue and deliver a new Warrant Certificate of like date and tenor as the one mutilated, lost, destroyed or stolen in exchange for, and in place of, and upon cancellation of such mutilated Warrant Certificate, or in lieu of and in substitution for such lost, destroyed or stolen Warrant Certificate, and the Warrants represented by such substituted Warrant Certificate will be entitled to the benefit hereof and rank equally in accordance with its terms with all other Warrants of the same issue. The Company may charge a reasonable fee for the issuance and delivery of a new Warrant Certificate.

2.3 The applicant for the issue of a new Warrant Certificate pursuant hereto will bear the cost of the issue thereof and in the case of loss, destruction or theft furnish to the Company such evidence of ownership, and of loss, destruction or theft of the Warrant Certificate so lost, destroyed or stolen as will be satisfactory to the Company in its discretion; and such applicant may also be required to furnish indemnity in amount and form satisfactory to the Company in its discretion and will pay the reasonable charges of the Company in connection therewith.



**Holder not a Shareholder**

2.4 The holding of a Warrant will not constitute the Holder a shareholder of the Company, nor entitle the Holder to any right or interest in respect thereof, except as expressly provided in the Warrant Certificate.

**Canadian Securities Law Exemption**

2.5 The Holder acknowledges and agrees that the Warrants and any Shares issued pursuant to the exercise of any Warrants have been or will be issued pursuant to an exemption from the registration and prospectus requirements of applicable Canadian securities law and that the Company has no obligation to, and does not intend to, file any prospectus or registration statement in any jurisdiction in order to qualify any of such Warrants and/or Shares for resale.

**U.S. Securities Law Matters**

2.6 Neither the Warrants nor the Shares issuable upon exercise hereof have been or will be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or U.S. state securities laws.

The Warrants and the Shares issuable upon exercise hereof have been qualified in an exempt Regulation A. Tier 2 offering pursuant to Section 3(b) of the U.S. Securities Act. The Warrants and Shares issuable hereunder are not "restricted securities" as defined in Rule 144 of the U.S. Securities Act. Notwithstanding the foregoing the Warrants and the Shares issuable thereunder may not be transferred or resold in the United States without an exemption under applicable state securities legislation and regulations thereunder.

## PART 3.
## OWNERSHIP AND TRANSFER OF WARRANT

**Exchange of Warrants**

3.1 A Warrant Certificate in any authorized denomination, upon compliance with the reasonable requirements of the Company, may be exchanged for a Warrant Certificate(s) in any other authorized denomination of the same issue entitling the Holder to purchase an equal aggregate number of Shares at the same Exercise Price and on the same terms as the Warrant Certificate so exchanged.

3.2 Warrants may be exchanged only with the Company. Any Warrants tendered for exchange will be surrendered to the Company and cancelled.

3.3 Subject to applicable securities legislation and the rules, policies, notices and orders issued by applicable securities regulatory authorities, including the Canadian Securities Exchange, or such other stock exchange as the Shares may then be listed and posted for trading on (the "Exchange"), the Warrants are transferable on the terms and conditions contained herein and by the Holder completing and submitting to the Company a completed and duly executed Warrant Transfer Form and provision of such additional documents as may be reasonably requested by the Company. Subject to the foregoing, the Company shall issue and mail as soon as practicable, and in any event within 5 business days of receipt of this Warrant certificate, together with a duly completed and executed Warrant Transfer Form attached hereto, a new Warrant certificate (with or without legends as may be appropriate) registered in the name of the transferee or as the transferee may direct and shall take all other necessary actions to effect the transfer as directed.



**Charges for Exchange**

3.4 On exchange of Warrants, the Company, except as otherwise herein provided, may charge a reasonable fee for each new Warrant Certificate issued, and payment of any transfer taxes or governmental or other charges required to be paid will be made by the party requesting such exchange.

**Ownership of Warrants**

3.5 The Company may deem and treat the Holder of a Warrant as the absolute owner of such Warrant for all purposes and will not be affected by any notice or knowledge to the contrary.

**Notice to Holder**

3.6 Unless herein otherwise expressly provided, any notice to be given hereunder to a Holder will be deemed to be validly given, if mailed to the address of the Holder as set out on the Warrant Certificate. Any notice so given will be deemed to have been received 5 days from the date of mailing to the Holder or any market intermediary then holding the Warrants of the Holder in any trust account.

## PART 4.
## EXERCISE OF WARRANTS

**Method of Exercise of Warrants**

4.1 The right to purchase Shares conferred by a Warrant may be exercised by the Holder surrendering the Warrant Certificate, together with a duly completed and executed Warrant Exercise Form and a certified cheque or bank draft payable to, or to the order of Company at the address as set out on the Warrant Certificate, for the purchase price applicable at the time of surrender in respect of the shares subscribed for in lawful money of the United States to the Company at the address as set out on the Warrant Exercise Form.

**Effect of Exercise of Warrants**

4.2 Upon surrender and payment as aforesaid, the shares so subscribed for will be deemed to have been issued, and the Holder will be deemed to have become the holder of such shares on the date of such surrender and payment, and such shares will be issued at the Exercise Price as may be adjusted in the events and in the manner described herein.

4.3 Within 10 business days after surrender and payment as aforesaid, the Company will forthwith cause to be delivered to the person in whose name the shares are directed to be registered as specified in such Warrant Exercise Form, or if no such direction is given, the Holder, a certificate for the appropriate number of shares not exceeding those which the Holder is entitled to purchase pursuant to the Warrant Certificate surrendered.

**Subscription for Less than Entitlement**

4.4 A Holder may purchase a number of Shares less than the number which the Holder is entitled to purchase pursuant to the surrendered Warrant Certificate. In the event of any purchase of a number of Shares less than the number which can be purchased pursuant to a Warrant Certificate, the Holder, upon exercise thereof, will, in addition to certificates representing Shares issued on such exercise, and be entitled to receive a new Warrant Certificate in respect of the balance of the Shares which the Holder was entitled to purchase pursuant to the surrendered Warrant Certificate but which were not then purchased.



4.5 The Company shall not be required to issue fractional Shares upon the exercise of the Warrants evidenced hereby and the Holder shall not be entitled to any cash payment or compensation in lieu of a fractional Share.

**Expiration of Warrants**

4.6 After the Expiry Date, all rights under the Warrants will wholly cease and terminate, and the Warrants will thereupon be void and of no effect.

**Exercise Price**

4.7 The price per share which must be paid to exercise a Warrant is the Exercise Price, as may be adjusted in the events and in the manner described herein.

**Legends on Shares**

4.8 In addition to the other legends that may be required by applicable law, the certificates representing Shares issued upon exercise of Warrants will bear the following legend:

"UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE , 202__ **[INSERT DATE THAT IS 4 MONTHS AND A DAY AFTER THE DISTRIBUTION DATE]**;

provided that at any time subsequent to **[INSERT DATE THAT IS FOUR MONTHS AND A DAY AFTER THE DISTRIBUTION DATE]**, any certificate representing such Shares may be exchanged for a certificate bearing no such legends.

U.S. Legends: The certificates representing Shares underlying the Warrants shall bear such legend, if any, as may be required under applicable U.S. state securities laws until such time as is no longer required under the applicable requirements of such state securities laws, with such determination based upon the opinion of United States counsel acceptable to the Company.

## PART 5.
## ADJUSTMENTS

**Adjustments**

5.1 If and whenever the Shares will be subdivided into a greater or consolidated into a lesser number of shares, or in the event of any payment by the Company of a stock dividend (other than a dividend paid in the ordinary course), or in the event that the Company conducts a rights offering to its shareholders, the exercise price will be decreased or increased proportionately as the case may be. Upon any such subdivision, consolidation, payment of a stock dividend or rights offering, subject to the consent of the Exchange (if required), the number of shares deliverable upon the exercise of a Warrant and the exercise price of the Warrant will be increased or decreased proportionately as the case may be.

5.2 In case of any reclassification of the capital of the Company, or in the case of the merger, reorganization or amalgamation of the Company with, or into any other company or of the sale of substantially all of the property and assets of the Company to any other company, each Warrant will, after such reclassification of capital, merger, amalgamation or sale, confer the right to purchase that number of shares or other securities or property of the Company or of the company resulting from such reclassification, merger, amalgamation, or to which such sale will be made, as the case may be, which the Holder would then hold if the Holder had exercised the Holder's rights under the Warrant before reclassification of capital, merger, amalgamation or sale; and in any such case, if necessary, appropriate adjustments will be made in the application of the provisions set forth in this Part 5 with respect to the rights and interest thereafter of the Holders to the end that the provisions set forth in this Part 5 will thereafter correspondingly be made applicable as nearly as may reasonably be in relation to any Shares or other securities or property thereafter deliverable on the exercise of a Warrant, subject to any approvals required by the Exchange.



5.3 The adjustments provided for in this Part 5 are cumulative. Determination of Adjustments

5.4 If any question will at any time arise with respect to any adjustments to be made under §5.1 and §5.2, such question will be conclusively determined by the Company's auditor, or, if the Company's auditor declines to so act, any other chartered accountant in the Province of British Columbia that the Company may designate (acting reasonably) and who will have access to all appropriate records, and such determination will be binding upon the Company and the Holder.

**Hold Period**

5.5 The Shares received by the Holder upon the exercise of the Warrants is subject to a hold period as determined by the Securities Act (British Columbia). There may be further restrictions on resale in accordance with the requirements of any exchange, including the Canadian Securities Exchange, and/or other applicable securities laws.

## PART 6.
## COVENANTS BY THE COMPANY

**Reservation of Shares**

6.1 The Company will reserve, and there will remain unissued out of its authorized capital, a sufficient number of shares to satisfy the rights of purchase provided for in all Warrants from time to time outstanding.

**Securities Qualification Requirements**

6.2 If, in the opinion of counsel for the Company, any filing is required to be filed with or any permission is required to be obtained from any securities regulatory body or any other step is required under any Federal or Provincial law before any shares which the Holder is entitled to purchase pursuant to the Holder's Warrant may properly and legally be issued upon exercise thereof, the Company covenants that it will take such action.

## PART 7.
## RESTRICTION ON EXERCISE

**Blocking Language**

7.1 Notwithstanding anything contained herein to the contrary, the rights represented by this Warrant Certificate will not be exercisable by the Holder, in whole or in part, and the Company will not give effect to any such exercise, if, after giving effect to such exercise, the Holder, together with any person or company acting jointly or in concert with the Holder (the "Joint Actors") would in the aggregate beneficially own, or exercise control or direction over that number of voting securities of the Company which is twenty percent (20%) or greater of the total issued and outstanding voting securities of the Company, immediately after giving effect to such exercise. For greater certainty, the rights represented by this Warrant Certificate will not be exercisable by the Holder, in whole or in part, and the Company will not give effect to any such exercise, if, after giving effect to such exercise, the Holder, together with its Joint Actors, would be deemed to hold a number of voting securities sufficient to materially affect the control of the Company.



7.2 Notwithstanding any provision to the contrary contained herein, no Shares will be issued pursuant to the exercise of any Warrant if the issuance of such securities would constitute a violation of the securities laws of any applicable jurisdiction, and the certificates evidencing the Shares thereby issued may bear such legend as may, in the opinion of legal counsel to the Company, be necessary in order to avoid a violation of any securities laws of any applicable jurisdiction or to comply with the requirements of any stock exchange on which the Shares of the Company are listed, provided that, at any time, in the opinion of legal counsel to the Company, such legends are no longer necessary in order to avoid a violation of any such laws, or the holder of any such legended certificate, at that holder's expense, provides the Company with evidence satisfactory in form and substance to the Company (which may include an opinion of legal counsel satisfactory to the Company) to the effect that such holder is entitled to sell or otherwise transfer such Shares in a transaction in which such legends are not required, such legended certificate may thereafter be surrendered to the Company in exchange for a certificate which does not bear such legend.

## PART 8.
## MODIFICATION OF TERMS, SUCCESSORS

**Modification of Terms and Conditions for Certain Purposes**

8.1 From time to time the Company may, subject to the provisions of the Warrant Certificate and approval of the Exchange, when so directed by the Holders, modify the terms and conditions hereof, for any one or more or all of the following purposes:

(a) adding to the provisions hereof such additional covenants and enforcement provisions as, in the opinion of counsel for the Company, are necessary or advisable in the circumstances;

(b) making such provisions not inconsistent herewith as may be necessary or desirable with respect to matters or questions arising hereunder or for the purpose of obtaining a listing or quotation of Warrants on any stock exchange or house;

(c) adding to or altering the provisions hereof in respect of the registration of Warrants making provision for the exchange of Warrant Certificates of different denominations; and making any modification in the form of Warrant Certificates which does not affect the substance thereof;

(d) for any other purpose not inconsistent with the terms hereof, including the correction or rectification of any ambiguities, defective provisions, errors or omissions herein; and

(e) to evidence any succession of any corporation and the assumption by any successor of the covenants of the Company herein and in the Warrants contained as provided hereafter in this Part 8.

**Company may Amalgamate on Certain Terms**

8.2 Nothing herein contained will prevent any amalgamation or merger of the Company with or into any other company, or the sale of the property or assets of the Company to any company lawfully entitled to acquire the same; provided however that the company formed by such merger or amalgamation or which acquires by conveyance or transfer all or substantially all the properties and assets of the Company will be a company organized and existing under the laws of Canada or of the United States of America or any Province, State, District or Territory thereof, which will, simultaneously with such amalgamation, merger, conveyance or transfer, assume the due and punctual performance and observance of all the covenants and conditions hereof to be performed or observed by the Company and will succeed to and be substituted for the Company, and such changes in phraseology and form (but not in substance) may be made in the Warrant Certificate as may be appropriate in view of such amalgamation, merger or transfer.



**Additional Financings**

8.3 Nothing herein contained will prevent the Company from issuing any other securities or rights with respect thereto during the period within which a Warrant is exercisable, upon such terms as the Company may deem appropriate.

[End of Schedule "A"]

**APPENDIX "A"**

**INSTRUCTIONS TO HOLDERS**

**TO EXERCISE:**

To exercise Warrants, the Holder must complete, sign and deliver the Warrant Exercise Form, attached as Appendix and deliver the Warrant Certificate(s) to the Company, indicating the number of common shares to be acquired.

**TO TRANSFER:**

To transfer Warrants, the Holder must complete, sign and deliver the Warrant Transfer Form, attached as Appendix and deliver the Warrant Certificate(s) to the Company. The Company may require such other certificates or opinions to evidence compliance with applicable securities legislation in Canada.

To transfer Warrants, the Warrant Holder's signature on the Warrant Transfer Form must be guaranteed by an authorized officer of a chartered bank, trust company or an investment dealer who is a member of a recognized stock exchange.

**GENERAL:**

If forwarding any documents by mail, registered mail must be employed.

If the Warrant Exercise Form is signed by a trustee, executor, administrator, curator, guardian, attorney, officer of a corporation or any person acting in a fiduciary or representative capacity, the Warrant Certificate must also be accompanied by evidence of authority to sign satisfactory to the Company.

The address of the Company is:

Draganfly Inc.
2108 St. George Avenue
Saskatoon, Saskatchewan, S7M 0K7
Attention: Chief Financial Officer
Telephone: +1 (306)-955-9907

[End of Appendix "A"]

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**APPENDIX "B"**

**WARRANT EXERCISE FORM**

TO: Draganfly Inc.
2108 St. George Avenue
Saskatoon, Saskatchewan, S7M 0K7
Attention: Chief Financial Officer
Telephone: +1 (306)-955-9907

The undersigned Holder of the within Warrants hereby subscribes for _____ common shares (the "Shares") of DRAGANFLY INC. (the "Company") pursuant to the within Warrants on the terms and price specified in the Warrants. This subscription is accompanied by a certified cheque or bank draft payable to or to the order of the Company for the whole amount of the purchase price of the Shares.

The undersigned hereby directs that the Shares be registered as follows:

| NAME(S) IN FULL | ADDRESS(ES) | NO. OF SHARES |
|---|---|---|
| | | |
| | | |

The undersigned Holder represents and warrants that he or she is an "accredited investor", as defined in Rule 501(a) of Regulation D under the U.S. Securities Act (a "U.S. Accredited Investor"), and has completed the U.S. Accredited Investor Status Certificate in the form attached to this exercise form; OR Holder is a "qualified investor" meaning the aggregate exercise price you pay is not more than ten percent (10%) of the greater of your annual income or your net worth. DIFFERENT RULES MAY APPLY TO NON-NATURAL PERSONS. BEFORE MAKING ANY

REPRESENTATION THAT YOUR INVESTMENT DOES NOT EXCEED APPLICABLE THRESHOLDS, WE ENCOURAGE YOU TO REVIEW RULE 251(d)(2)(i)(C) OF REGULATION A+.

**STOP:**

**COMPLETE THE FOLLOWING ONLY IF THE WARRANTS AND/OR THE UNDERLYING SHARES ARE NOT QUALIFIED UNDER REGULATION A, TIER 2.**

Unless the Shares have been registered or qualified under Regulation A under the U.S. Securities Act, and the applicable state securities legislation, as at the time of exercise hereunder, the undersigned Warrantholder represents, warrants and certifies as follows (check one):

(A) ☐ the undersigned Warrantholder at the time of exercise of the Warrant is not in the United States, is not a "U.S. person" as defined in Regulation S under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), and is not exercising the Warrant for the account or benefit of a U.S. person or a person in the United States (as defined in Regulation S), and did not execute or deliver this exercise form in the United States; OR

(B) ☐ the undersigned Warrantholder is resident in the United States, is a U.S. person, or is exercising the Warrant for the account or benefit of a U.S. person or a person in the United States (a "U.S. Holder"), and is an "accredited investor", as defined in Rule 501(a) of Regulation D under the U.S. Securities Act (a "U.S. Accredited Investor"), and has completed the U.S. Accredited Investor Status Certificate in the form attached to this exercise form; OR



(C) ☐ if the undersigned Warrantholder is a U.S. Holder, the undersigned Warrantholder has delivered to the Company and the Company's transfer agent an opinion of counsel (which will not be sufficient unless it is in form and substance satisfactory to the Company) or such other evidence satisfactory to the Company to the effect that with respect to the common shares to be delivered upon exercise of the Warrant, the issuance of such securities has been registered under the U.S. Securities Act and applicable state securities laws, or an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws is available.

**Note: Unless the Shares have been registered or qualified under Regulation A under the U.S. Securities Act and the applicable state securities legislation certificates representing Shares will not be registered or delivered to an address in the United States unless box (B) or (C) immediately above is checked.**

If the undersigned Warrantholder has indicated that the undersigned Warrantholder is a U.S. Accredited Investor by marking box (B) above, the undersigned Warrantholder additionally represents and warrants to the Company that:

1 the undersigned Warrantholder has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Common Shares, and the undersigned is able to bear the economic risk of loss of his or her entire investment;

2. the undersigned is: (i) purchasing the Shares for his or her own account or for the account of one or more U.S. Accredited Investors with respect to which the undersigned is exercising sole investment discretion, and not on behalf of any other person; (ii) is purchasing the Shares for investment purposes only and not with a view to resale, distribution or other disposition in violation of United States federal or state securities laws; and (iii) in the case of the purchase by the undersigned of the Shares as agent or trustee for any other person or persons (each a "Beneficial Owner"), the undersigned Warrantholder has due and proper authority to act as agent or trustee for and on behalf of each such Beneficial Owner in connection with the transactions contemplated hereby; provided that: (x) if the undersigned Warrantholder, or any Beneficial Owner, is a

corporation or a partnership, syndicate, trust or other form of unincorporated organization, the undersigned Warrantholder or each such Beneficial Owner was not incorporated or created solely, nor is it being used primarily to permit purchases without a prospectus or registration statement under applicable law; and (y) each Beneficial Owner, if any, is a U.S. Accredited Investor; and

3. the undersigned has not exercised the Warrants as a result of any form of general solicitation or general advertising (as such terms are used in Rule 502 of Regulation D under the U.S. Securities Act), including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media, or broadcast over radio, television, the Internet or other form of telecommunications, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

If the undersigned has indicated that the undersigned is a U.S. Accredited Investor by marking box (B) above, the undersigned also acknowledges and agrees that:

1. the Company has provided to the undersigned the opportunity to ask questions and receive answers concerning the terms and conditions of the offering, and the undersigned has had access to such information concerning the Company as the undersigned has considered necessary or appropriate in connection with the undersigned's investment decision to acquire the Shares;



2. if the undersigned decides to offer, sell or otherwise transfer any of the Shares, the undersigned must not, and will not, offer, sell or otherwise transfer any of such Shares directly or indirectly, unless:

   a) the sale is to the Company;

   b) the sale is made outside the United States in a transaction meeting the requirements of Rule 904 of Regulation S under the U.S. Securities Act and in compliance with applicable local laws and regulations;

   c) the sale is made pursuant to the exemption from the registration requirements under the U.S. Securities Act provided by Rule 144 thereunder, if available, and in accordance with any applicable state securities or "blue sky" laws; or

   d) the Shares are sold in a transaction that does not require registration under the U.S. Securities Act or any applicable state laws and regulations governing the offer and sale of securities,

   and in the case of (c) or (d) above, it has prior to such sale furnished to the Company an opinion of counsel reasonably satisfactory to the Company;

3. the Shares are "restricted securities" under applicable federal securities laws and that the U.S. Securities Act and the rules of the United States Securities and Exchange Commission provide in substance that the undersigned may dispose of the Shares only pursuant to an effective registration statement under the U.S. Securities Act or an exemption therefrom;

4. the Company has no obligation to register any of the Shares or to take action so as to permit sales pursuant to the U.S. Securities Act (including Rule 144 thereunder);

5. the certificates representing the Shares (and any certificates issued in exchange or substitution for the Shares) will bear a legend stating that such securities have not been registered under the U.S. Securities Act or the securities laws of any state of the United States, and may not be offered for sale or sold unless registered under the U.S. Securities Act and the securities laws of all applicable states of the United States, or unless an exemption from such registration requirements is available;

6. the legend may be removed by delivery to the registrar and transfer agent and the Company of an opinion of counsel, reasonably satisfactory to the Company, that such legend is no longer required under applicable requirements of the U.S. Securities Act or state securities laws;

7. there may be material tax consequences to the undersigned of an acquisition or disposition of the Shares;

8. the Company gives no opinion and makes no representation with respect to the tax consequences to the undersigned under United States, state, local or foreign tax law of the undersigned's acquisition or disposition of any Shares; in particular, no determination has been made whether the Company will be a "passive foreign investment company" (commonly known as a "PFIC") within the meaning of Section 1297 of the United States Internal Revenue Code;

9. funds representing the subscription price for the Shares which will be advanced by the undersigned to the Company upon exercise of the Warrants will not represent proceeds of crime for the purposes of the United States Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the "PATRIOT Act"), and the undersigned acknowledges that the Company may in the future be required by law to disclose the undersigned's name and other information relating to this exercise form and the undersigned's subscription hereunder, on a confidential basis, pursuant to the PATRIOT Act. No portion of the subscription price to be provided by the undersigned (i) has been or will be derived from or related to any activity that is deemed criminal under the laws of the United States of America, or any other jurisdiction, or (ii) is being tendered on behalf of a person or entity who has not been identified to or by the undersigned, and it shall promptly notify the Company if the undersigned discovers that any of such representations ceases to be true and provide the Company with appropriate information in connection therewith; and



10. the undersigned consents to the Company making a notation on its records or giving instructions to any transfer agent of the Company in order to implement the restrictions on transfer set forth and described in this subscription form.

In the absence of instructions to the contrary, the securities or other property will be issued in the name of or to the Warrantholder hereof and will be sent by first class mail to the last address of the Warrantholder appearing on the register maintained for the Warrants.

DATED this _____ day of _____

| | |
|---|---|
| _____ | _____ |
| Signature of witness | Signature of Holder |
| _____ | _____ |
| Witness's Name | Name and Title of Authorized Signatory for the Holder |

Please print below your name and address in full.

Legal Name: _____

Address: _____

_____

## INSTRUCTIONS FOR SUBSCRIPTION

The signature to the subscription must correspond in every particular with the name written upon the face of the Warrant Certificate without alteration. If the registration in respect of the certificates representing the Shares to be issued upon exercise of the Warrants differs from the registration of the Warrant Certificates the signature of the registered holder must be guaranteed by an authorized officer of a Canadian chartered bank, or of a major Canadian trust company, or by a medallion signature guarantee from a member recognized under the Signature Medallion Guarantee Program, or from a similar entity in the United States, if this transfer is executed in the United States, or in accordance with industry standards.

In the case of persons signing by agent or attorney or by personal representative(s), the authority of such agent, attorney or representative(s) to sign must be proven to the satisfaction of the Company.

If the Warrant Certificate and the form of subscription are being forwarded by mail, registered mail must be employed.

## U.S. ACCREDITED INVESTOR STATUS CERTIFICATE

In connection with the exercise of certain outstanding warrants of **DRAGANFLY INC.** (the "**Company**") by the Warrantholder, the Warrantholder hereby represents and warrants to the Company that the Warrantholder, and each beneficial owner (each a "**Beneficial Owner**"), if any, on whose behalf the Warrantholder is exercising such warrants, satisfies one or more of the following categories of Accredited Investor (**please write "W/H" for the undersigned Warrantholder, and "B/O" for each beneficial owner, if any, on each line that applies**):

_____ (1) Any bank as defined in Section 3(a)(2) of the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the U.S. Securities Act whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to Section 15 of the U.S. Securities Exchange Act of 1934; any insurance company as defined in Section 2(a)(13) of the U.S. Securities Act; any investment company registered under the U.S. Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; any Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the U.S. Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of US$5,000,000; any employee benefit plan within the meaning of the U.S. Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of US$5,000,000, or, if a self-directed plan, with investment decisions made solely by persons that are "accredited investors" (as such term is defined in Rule 501 of Regulation D of the U.S. Securities Act);

_____ (2) Any private business development company as defined in Section 202(a)(22) of the U.S. Investment Advisers Act of 1940;

_____ (3) Any organization described in Section 501(c)(3) of the U.S. Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of US$5,000,000;



_____ (4) Any trust with total assets in excess of US$5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person (being defined

as a person who has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the prospective investment);

_____ (5) A natural person whose individual net worth, or joint net worth with that person's spouse, at the time of purchase, exceeds US$1,000,000 (for the purposes of calculating net worth, (i) the person's primary residence shall not be included as an asset; (ii) indebtedness that is secured by the person's primary residence, up to the estimated fair market value of the primary residence at the time of this certification, shall not be included as a liability (except that if the amount of such indebtedness outstanding at the time of this certification exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability); and (iii) indebtedness that is secured by the person's primary residence in excess of the estimated fair market value of the primary residence shall be included as a liability);

_____ (6) A natural person who had annual gross income during each of the last two full calendar years in excess of US$200,000 (or together with his or her spouse in excess of US$300,000) and reasonably expects to have annual gross income in excess of US$200,000 (or together with his or her spouse in excess of US$300,000) during the current calendar year, and no reason to believe that his or her annual gross income will not remain in excess of US$200,000 (or that together with his or her spouse will not remain in excess of US$300,000) for the foreseeable future;

_____ (7) Any director or executive officer of the Company; or

_____ (8) Any entity in which all of the equity owners meet the requirements of at least one of the above categories (if this alternative is selected you must identify each equity owner and provide statements for each demonstrating how they qualify as an accredited investor).

[End of Appendix "B"]

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**APPENDIX "C"**

**WARRANT TRANSFER FORM**

TO: Draganfly Inc.
2108 St. George Avenue
Saskatoon, Saskatchewan, S7M 0K7
Attention: Chief Financial Officer
Telephone: +1 (306)-955-9907

FOR VALUE RECEIVED, the undersigned holder of the within Warrants hereby sells, assigns and transfers to _____, _____, Warrants of Draganfly Inc. (the "Company") registered in the name of the undersigned on the records of the Company and irrevocably appoints _____ the attorney of the undersigned to transfer the said securities on the books or register with full power of substitution.

The undersigned hereby directs that the Warrants hereby transferred be issued and delivered as follows:

| NAME(S) IN FULL | ADDRESS(ES) | NO. OF SHARES |
|---|---|---|
| | | |
| | | |

DATED this _____ day of _____, 20____.

Signature of Warrant Holder | Signature Guaranteed

**INSTRUCTIONS FOR TRANSFER**

Signature of the Warrant Holder must be the signature of the person appearing on the face of this Warrant Certificate.

If the Transfer Form is signed by a trustee, executor, administrator, curator, guardian, attorney, officer of a corporation or any person acting in a fiduciary or representative capacity, the certificate must be accompanied by evidence of authority to sign satisfactory to the Company.

The signature on the Transfer Form must be guaranteed by a chartered bank or trust company, or a member firm of an approved signature guarantee medallion program. The guarantor must affix a stamp bearing the actual words: "SIGNATURE GUARANTEED".

The Warrants will only be transferable in accordance with applicable laws. The Warrants and the common shares issuable upon exercise thereof not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or under the securities laws of any state of the United States, and may not be transferred to or for the account or benefit of a U.S. person or any person in the United States without registration under the U.S. Securities Act and applicable state securities laws, or compliance with the requirements of an exemption from registration. "United States" and "U.S. person" are as defined in Regulation S under the U.S. Securities Act.

[End of Appendix "C"]

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**Exhibit 2.4**

**UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE JULY 23, 2021.**

Number of Warrants: ●
Certificate No: ●

Issue Date: March 22, 2021 (the "**Issue Date**")
Expiry Date: March 22, 2023 (the "**Expiry Date**", subject to the Accelerated Expiry (as defined herein))

**WARRANT CERTIFICATE**

**DRAGANFLY INC.**

For value received, ● (the "**Holder**") is the registered holder of that number of warrants (the "**Warrants**") of Draganfly Inc. (the "**Corporation**") as set forth above.

1. **Warrants**. Each Warrant shall entitle the holder to purchase one common share of the Corporation (a "**Share**") as constituted on the Issue Date, at a price of $2.67 per Share until 4:00 pm (Vancouver time) on the earlier to occur of: (a) the Expiry Date; and (b) the Accelerated Expiry. If, at any time after March 22, 2022 and before the Expiry Date, the Shares have a closing price at or above $3.47 per Share on the Canadian Securities Exchange, the Corporation may give notice (an "**Acceleration Notice**") to the Holder that the Warrants shall expire on a date that is not less than 90 days from the date of the Acceleration Notice (the "**Accelerated Expiry**").

2. **Transferable.** Subject to the provisions hereof, applicable securities legislation and the rules, policies, notices and orders issued by applicable securities regulatory authorities, including the Canadian Securities Exchange, or such other stock exchange as the Shares may then be listed and posted for trading on (the "**Exchange**"), the Warrants evidenced hereby (or any portion thereof) may be assigned or transferred by the holder by provision of a Transfer Form in the

form attached as Schedule "B" hereto duly completed and executed and such additional documents as may be reasonably requested by the Corporation. Subject to the foregoing, the Corporation shall issue and mail as soon as practicable, and in any event within five (5) business days of receipt of this Warrant certificate, together with a duly completed and executed Transfer Form attached hereto, a new Warrant certificate (with or without legends as may be appropriate) registered in the name of the transferee or as the transferee may direct and shall take all other necessary actions to effect the transfer as directed.

3. **Warrants Exercise Procedure.** The Warrants represented by this Warrant certificate may be exercised in whole or in part at any time prior to the Expiry Date or the Accelerated Expiry, as applicable, by surrendering the original of this Warrant certificate at the offices of the Corporation set out in subsection 17(g) hereof together with a subscription form in the form attached as Schedule "A" hereto duly completed and executed, such additional documents as may be contemplated thereby, and a certified cheque, bank draft or money order in lawful money of Canada payable to or to the order of the Corporation.

4. **Register of Warrantholders.** The Corporation shall cause a register (the "**Register**") to be kept in which shall be entered the names and addresses of all holders of the Warrants and the number of Warrants held by each of them. The Corporation may treat the registered holder of any certificate representing Warrants as the absolute owner of the Warrants represented thereby for all purposes, and the Corporation shall not be affected by any notice or knowledge to the contrary except where the Corporation is required to take notice by statute or by order of a court of competent jurisdiction.

5. **Partial Exercise**. The Holder may subscribe for and purchase less than the full number of Shares entitled to be subscribed for and purchased hereunder. In the event that the Holder subscribes for and purchases less than the full number of Shares entitled to be subscribed for and purchased under this Warrant certificate prior to the Expiry Date, the Corporation shall issue a new Warrant certificate to the Holder in substantially the same form as this Warrant certificate with appropriate changes to reflect the unexercised balance of the Warrants.



6. **Delivery of Shares**. Within five business days of receipt by the Corporation of this Warrant certificate in accordance with, and the documents and payment noted in, Section 3, the Corporation will deliver a certificate(s) representing the Shares subscribed for and purchased by the Holder hereunder, and a replacement Warrant certificate, if any.

7. **No Rights of Shareholders**. Nothing contained in this Warrant certificate shall be construed as conferring upon the Holder any right or interest whatsoever as a holder of Shares of the Corporation or any other right or interest except as herein expressly provided.

8. **Adjustment of Subscription and Purchase Rights**. The rights evidenced by this Warrant certificate are to purchase Shares. If there shall, prior to the exercise of any of the rights evidenced hereby, be any (i) reorganization of the authorized capital of the Corporation by way of consolidation, merger, sub-division, amalgamation, arrangement, reclassification or otherwise; (ii) transfer, sale, lease or exchange of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another person; (iii) the payment of any stock dividends (other than in the ordinary course of business); (iv) a special distribution or rights offering; (v) the change or exchange of the Shares into or with another security; or (vi) any similar event or transaction not specifically contemplated by this Section 8 as determined by the Corporation in its sole discretion (collectively, a "**Reorganization"**), then there shall automatically be an adjustment, as applicable, in (A) the number of Shares of the Corporation which may be issued pursuant hereto and/or the exercise price for the Shares, by corresponding amounts if applicable, and/or (B) the kind and aggregate number of shares or other securities or property resulting from the Reorganization, so that the rights evidenced hereby shall thereafter be as reasonably as possible equivalent to the rights originally granted hereby and such that the Holder, upon exercise of this Warrant following the effective date of the Reorganization, shall receive the kind and type of shares, securities or property the Holder would have been entitled to receive if, on the effective date thereof, the Holder had been the registered holder of the number of Shares which the Holder was theretofore entitled to purchase or receive upon the exercise of this Warrant certificate. In accordance with this certificate, the Corporation will make adjustments as it considers necessary and equitable acting in good faith. If at any time a dispute

arises with respect to adjustments provide for herein, such dispute will be conclusively determined by the Canadian auditors of the Corporation or if they are unable or unwilling to act, by such other firm of Canadian independent chartered accountants as may be selected by the directors of the Corporation and any such determination, absent manifest error, will be binding upon the Corporation, the Holder and shareholders of the Corporation. The Corporation will provide such auditors or accountants with access to all necessary records of the Corporation and fees payable to such accountants or auditors will be paid by the Corporation.

9. **Consolidation and Amalgamation.** In the case of the Corporation entering into a transaction whereby all or substantially all of its undertaking, property and assets would become the property of any other corporation (herein called a "**successor corporation**") whether by way of reorganization, reconstruction, consolidation, amalgamation, arrangement, merger, transfer, sale, disposition or otherwise, the successor corporation shall be bound by all of the provisions hereof including the due and punctual performance of all covenants of the Corporation and forthwith following the occurrence of such event, the successor corporation resulting from such reorganization, reconstruction, consolidation, amalgamation, arrangement, merger, transfer, sale, disposition or otherwise (if not the Corporation), shall expressly assume, by supplemental certificate satisfactory in form to the Holder, acting reasonably, and executed and delivered to the Holder, the due and punctual performance and observance of this Warrant certificate to be performed and observed by the Corporation and these securities and the terms set forth in this Warrant certificate will be a valid and binding obligation of the successor corporation entitling the Holder, as against the successor corporation, to all the rights of the Holder under this Warrant certificate.

10. **No Fractional Shares**. Upon the exercise of the Warrants evidenced hereby, the Corporation shall not be required to issue an aggregate number of Shares that results in any fractional Shares being issued and the Holder shall not be entitled to any cash payment or compensation in lieu of a fractional Share.

11. **Legending of Shares.** The Warrants have been, and the Shares will be, issued pursuant to an exemption (an "**Exemption**") from the registration and prospectus requirements of applicable securities law. To the extent that the Corporation relies on such Exemption, the Shares may be subject to restrictions on resale and transferability contained in applicable securities laws.



The Holder hereby agrees and consents by acceptance hereof that the certificate or certificates representing the Shares issued before the date that is four months and one day from the Issue Date upon exercise of the Warrant, shall be impressed with a legend in the following form:

> UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE JULY 23, 2021.

12. **Change; Waiver**. The provisions of these Warrants may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to in writing by the Corporation and the Holder.

13. **No Obligation to Purchase.** Nothing herein contained or done pursuant hereto shall obligate the Holder to purchase or pay for or the Corporation to issue any Shares except those Shares in respect of which the Holder shall have exercised its right to purchase in the manner provided hereunder.

14. **Covenants.**

(a) The Corporation covenants that (i) so long as any Shares evidenced hereby remain outstanding, it shall reserve and there shall remain unissued out of its authorized capital a sufficient number of Shares to satisfy the right of purchase provided for herein should the Holder determine to exercise its rights in respect of all the Shares available for purchase and issuance under outstanding Warrants, and (ii) all Shares which shall be issued upon the due exercise of the right to purchase provided for herein, upon payment therefor of the amount at which such Shares may at the time be purchased

pursuant to the provisions hereof, shall be issued as fully paid and non-assessable common shares in the capital of the Corporation and free of all liens, charges and encumbrances;

(b) The Corporation shall preserve and maintain its corporate existence; and

(c) The Corporation will maintain the listing of its Shares on the Exchange and its status as a reporting issuer not in default or the equivalent under the securities legislation of each of the jurisdictions in which it is a reporting issuer or the equivalent as of the date hereof (the "**Reporting Jurisdictions**") up to and including the Expiry Date, provided the foregoing shall not, in any manner, preclude the Corporation from pursuing or completing a transaction that would result in the delisting of the Shares from the Exchange or ceasing to be a reporting issuer or the equivalent in each of the Reporting Jurisdictions where the board of directors of the Corporation, acting in good faith and in accordance with applicable laws, determines that such a transaction is in the best interests of the Corporation.

15. **Representations and Warranties.** The Corporation hereby represents and warrants with and to the Holder that the Corporation is duly authorized and has the corporate and lawful power and authority to create and issue this Warrant certificate and the Shares issuable upon the exercise hereof and perform its obligations hereunder and that this Warrant certificate represents a valid, legal and binding obligation of the Corporation enforceable in accordance with its terms.

16. **Lost Certificate.** If this Warrant certificate becomes stolen, lost, mutilated or destroyed, the Corporation may, on such terms as it may in its discretion impose, respectively issue and countersign a new Warrant certificate of like denomination, tenor and date as the Warrant certificate so stolen, lost, mutilated or destroyed.

17. **General**.

(a) The headings in this certificate are for reference only and do not constitute terms of the Warrant certificate.

(b) Whenever the singular or masculine is used in this Warrant certificate the same shall be deemed to include the plural or the feminine or the body corporate as the context may require.



(c) This Warrant certificate shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

(d) Time shall be of the essence of this Warrant certificate.

(e) This Warrant shall be governed by and construed in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein, without reference to its principles governing the choice or conflict of laws. The Corporation and the Holder hereby irrevocably attorn and submit to the exclusive jurisdiction of the courts of the Province of British Columbia, sitting in the City of Vancouver, with respect to any dispute related to or arising from this Warrant certificate.

(f) All references herein to monetary amounts are references to lawful money of Canada.

(g) All notices or other communications to be given to the Holder by the Corporation under this Warrant certificate shall be delivered by hand, courier, ordinary prepaid mail, facsimile or electronic mail; and, if delivered by hand, shall be deemed to have been given on the delivery date, if delivered by ordinary prepaid mail shall be deemed to have been given on the fifth day following the delivery date and, if sent by facsimile or electronic mail, on the date of transmission if sent before 5:00 p.m.

(local time where the notice is received) on a business day or, if such day is not a business day, on the first business day following the date of transmission.

Notices to the Holder shall be addressed to the address of the Holder set out in the Register.

Notices to the Corporation shall be addressed to:

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

Attention: Chief Financial Officer
Email: paul.sun@draganfly.com

Each of the Corporation and the Holder may change its address for service by notice in writing to the other of them specifying its new address for service under this Warrant certificate.

***[THE REMAINDER OF THIS PAGE IS LEFT INTENTIONALLY BLANK.]***



IN WITNESS WHEREOF the Corporation has caused this Warrant certificate to be signed by its duly authorized officer on March 22, 2021.

**DRAGANFLY INC.**

By:_____
Authorized Signatory

The digital signature above shall be deemed to constitute an original signature to this Warrant certificate.

**SCHEDULE "A"**

**WARRANT CERTIFICATE SUBSCRIPTION FORM**

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

Dear Sirs:

The undersigned hereby exercises the right to purchase and hereby subscribes for _____ common shares (the "**Shares**") of Draganfly Inc. (the "**Corporation**") referred to in the Warrant certificate attached hereto according to the conditions thereof, and herewith makes payment of the purchase price in full for the Shares.

In connection with the exercise of the Warrant certificate, the undersigned represents as follows: (Please check the **ONE** box applicable):

☐ 1. The undersigned (i) at the time of exercise is not a U.S. person, (ii) at the time of exercise is not within the United States, (iii) is not exercising any of the Warrants represented by this Warrant certificate for the account or benefit of any U.S. person or person within the United States, and (iv) did not execute or deliver this Subscription Form in the United States.

☐ 2. The undersigned has delivered to the Corporation a written opinion of U.S. counsel reasonably satisfactory to the Corporation to the effect that the Shares to be delivered upon exercise hereof are exempt from registration under the 1933 Act and the securities laws of all applicable states of the United States.

"**1933 Act**" means the United States *Securities Act of 1933*, as amended. "**U.S. person**" and "**United States**" are as defined by Regulation S under the 1933 Act.

Certificates representing Shares will not be registered or delivered to an address in the United States unless Box 2 above is checked and the requirements in connection therewith have been satisfied.

Certificates representing Shares issued upon exercise of Warrants pursuant to Box 2 above will bear a U.S. restrictive legend.

If any Shares represented by this Warrant certificate are not being exercised, a new Warrant certificate will be issued and delivered with the Share certificate(s).

Please issue and deliver a certificate for the Shares being purchased as follows:

NAME: _____
(please print)

ADDRESS: _____
_____

DELIVERY _____
_____



**INSTRUCTIONS:**

1. The registered holder of a Warrant may exercise its right to acquire Shares by completing and surrendering this Subscription Form and the ORIGINAL Warrant certificate representing the Warrants being converted to the Corporation, together with the aggregate amount of the exercise price for the Shares as provided for in the Warrant certificate. Certificates representing the Shares to be acquired on exercise will be sent by prepaid first class mail to the address(es) above within five business days after the receipt of all required documentation, subject to the terms of the Warrant certificate.

2. If this Subscription Form indicates that the Shares are to be issued to a person or persons other than the registered holder of the Warrants to be converted: (i) the signature of the registered holder on this Subscription Form must be medallion guaranteed by an authorized officer of a chartered bank, trust Corporation or an investment dealer who is a member of a recognized stock exchange, and (ii) the registered holder must pay to the Corporation all applicable taxes and other duties.

3. If this Subscription Form is signed by a trustee, executor, administrator, custodian, guardian, attorney, officer of a corporation or any other person acting in a fiduciary or representative capacity, this Subscription Form must be accompanied by evidence of authority to sign satisfactory to the Corporation.

**DATED** this _____ day of _____, _____.

| | |
|---|---|
| | (Signature) |
| Signature of Witness<br>**[Please Note Instruction 2]** | Signature of registered holder or Signatory thereof |
| | If applicable, print Name and Office of Signatory |
| Print name of Witness | |
| | Print Name of registered holder as on certificate |
| | Street Address |
| | City, Province/State and Postal/ZIP Code |

**SCHEDULE "B"**

**TRANSFER FORM**

**FOR VALUE RECEIVED**, the undersigned transferor hereby sells, assigns and transfers unto

(Transferee)

(Address)

_____of the Warrants registered in the name of the undersigned transferor represented by the attached Warrant Certificate.

**THE UNDERSIGNED TRANSFEROR HEREBY CERTIFIES AND DECLARES** that the Warrants are not being offered, sold or transferred to, or for the account or benefit of, a "U.S. person" (as defined in Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**")) or a person within the United States unless registered under the U.S. Securities Act and any applicable state securities laws or unless an exemption from such registration is available.

**DATED** this _____day of _____, _____.

| | |
|---|---|
| Signature of Registered Holder<br>(Transferor) | Signature Guarantee |
| Print name of Registered Holder | |

Address

**NOTE**: The signature on this Transfer Form must correspond with the name as recorded on the face of the Warrant Certificate in every particular without alteration or enlargement or any change whatsoever or this Transfer Form must be signed by a duly authorized trustee, executor, administrator, or attorney of the Holder or a duly authorized signing officer in the case of a corporation. If this Transfer Form is signed by any of the foregoing, or any person acting in a fiduciary or representative capacity, the Warrant Certificate must be accompanied by evidence of authority to sign.

All endorsements or assignments of these Warrants must be signature guaranteed by a bank or trust company or by a member of a stock exchange in Canada.

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**Exhibit 2.5**

THE REGISTERED HOLDER OF THIS PURCHASE WARRANT BY ITS ACCEPTANCE HEREOF, AGREES THAT IT WILL NOT SELL, TRANSFER OR ASSIGN THIS PURCHASE WARRANT EXCEPT AS HEREIN PROVIDED AND THE REGISTERED HOLDER OF THIS PURCHASE WARRANT AGREES THAT IT WILL NOT SELL, TRANSFER, ASSIGN, PLEDGE OR HYPOTHECATE THIS PURCHASE WARRANT FOR A PERIOD OF ONE HUNDRED EIGHTY DAYS FOLLOWING THE EFFECTIVE DATE (DEFINED BELOW) TO ANYONE OTHER THAN (I) THINKEQUITY, A DIVISION OF FORDHAM FINANCIAL MANAGEMENT, INC., OR AN UNDERWRITER OR A SELLING FIRM IN CONNECTION WITH THE OFFERING, OR (II) A BONA FIDE OFFICER OR PARTNER OF THINKEQUITY, A DIVISION OF FORDHAM FINANCIAL MANAGEMENT, INC., OR OF ANY SUCH UNDERWRITER OR SELLING FIRM.

THIS PURCHASE WARRANT IS NOT EXERCISABLE PRIOR TO JANUARY 29, 2022. VOID AFTER 5:00 P.M., EASTERN TIME, JULY 29, 2024.

**WARRANT TO PURCHASE COMMON SHARES**

**DRAGANFLY INC.**

Warrant Shares: [●] Initial Exercise Date: January 29, 2022

THIS WARRANT TO PURCHASE COMMON SHARES (the "**Warrant**") certifies that, for value received, [●] or its assigns (the "**Holder**") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after January 29, 2022 (the "**Initial Exercise Date**") and, in accordance with FINRA Rule 5110(f)(2)(G)(i), prior to at 5:00 p.m. (New York time) on the date that is three (3) years following the Effective Date (the "**Termination Date**") but not thereafter, to subscribe for and purchase from Draganfly Inc., a British Columbia corporation (the "**Company**"), up to [●] Common Shares, with no par value per share, of the Company (the "**Warrant Shares**"), as subject to adjustment hereunder. The purchase price of one Common Share under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1 . Definitions. In addition to the terms defined elsewhere in this Agreement, the following terms have the meanings indicated in this Section 1:

"**Affiliate**" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the Securities Act.

"**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed, or a legal holiday in the United States or day in which banking institutions in the State of New York are required by law or other governmental action to remain closed; provided, however, for clarification, commercial banks shall not be deemed to be authorized or required by law to remain closed due to "stay at home", "shelter-in-place", "non-essential employee" or any other similar orders or restrictions or the closure of any physical branch locations at the direction of any governmental authority so long as the electronic funds transfer systems (including for wire transfers) of commercial banks in The City of New York generally are open for use by customers on such day

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"**Commission**" means the United States Securities and Exchange Commission.

"**Common Shares**" means the common shares of the Company, with no par value per share, and any other class of securities into which such securities may hereafter be reclassified or changed.

"**Common Share Equivalents**" means any securities of the Company or its subsidiaries which would entitle the holder thereof to acquire at any time Common Shares, including, without limitation, any debt, preferred shares, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Shares.

"**Effective Date**" means the effective date of the registration statement on Form F-10 (File No. 333-258074), including any related prospectus or prospectuses, for the registration of the Warrant and the Warrant Shares under the Securities Act, that the Company has filed with the Commission.

"**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"**Offering**" means the offering of securities pursuant to which this Warrant was issued.

"**Person**" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"**Rule 144**" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"**Standard Settlement Period**" means the standard settlement period, expressed in a number of Trading Days, on the Company's primary Trading Market with respect to the Common Shares as in effect on the date of delivery of the Notice of Exercise.

"**Trading Day**" means a day on which the Common Shares are traded on a Trading Market, provided however, that if a Trading Day is not a Business Day, then "Trading Day" shall mean the next following Business Day.

"**Trading Market**" means any of the following markets or exchanges on which the Common Shares are listed or quoted for trading on the date in question: the Canadian Securities Exchange, the NYSE American, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, or the New York Stock Exchange (or any successors to any of the foregoing).

"**VWAP**" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Shares are then listed or quoted for trading on a Trading Market, the daily volume weighted average price of the Common Shares for such date (or the nearest preceding date) on the Trading Market on which the Common Shares are then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (b) if the Common Shares are then quoted for trading on the OTCQB or OTCQX operated by OTC Markets Group, the volume weighted average price of the Common Shares for such date (or the nearest preceding date) on the OTCQB or OTCQX as applicable, (c) if the Common Shares are then quoted for trading on the Pink Open Market operated by OTC Markets Group (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per Common Share reported on the Pink Open Market, or (d) in all other cases, the fair market value of a Common Share as determined by an independent appraiser selected in good faith by the Holder and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

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Section 2. Exercise.

(a) Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and at or prior to 5:00 p.m. (New York City time) on the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed facsimile copy (or e-mail attachment) of the Notice of Exercise form annexed hereto. Within the earlier of (i) two (2) Trading Days and (ii) the number of Trading Days comprising the Standard Settlement Period following the date of exercise as aforesaid, the Holder shall deliver to the Company the aggregate Exercise Price for the Warrant Shares specified in the applicable Notice of Exercise by wire transfer or cashier's check drawn on a United States bank unless the cashless exercise procedure specified in Section 2(c) below is specified in the applicable Notice of Exercise. No ink-original Notice of Exercise shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Exercise form be required. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within five (5) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise within one (1) Business Days of receipt of such notice. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

(b) Exercise Price. The exercise price per Common Share under this Warrant shall be $5.00, subject to adjustment hereunder (the "**Exercise Price**").

(c) Cashless Exercise. In lieu of exercising this Warrant by delivering the aggregate Exercise Price by wire transfer or cashier's check, at the election of the Holder this Warrant may also be exercised, in whole or in part, at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = as applicable: (i) the VWAP on the Trading Day immediately preceding the date of the applicable Notice of Exercise if such Notice of Exercise is (1) both executed and delivered pursuant to Section 2(a) hereof on a day that is not a Trading Day or (2) both executed and delivered pursuant to Section 2(a) hereof on a Trading Day prior to the opening of "regular trading hours" (as defined in Rule 600(b)(64) of Regulation NMS promulgated under the

federal securities laws) on such Trading Day, (ii) the VWAP on the Trading Day immediately preceding the date of the applicable Notice of Exercise if such Notice of Exercise is executed during "regular trading hours" on a Trading Day and is delivered within two (2) hours thereafter (including until two (2) hours after the close of "regular trading hours" on a Trading Day) pursuant to Section 2(a) hereof or (iii) the VWAP on the date of the applicable Notice of Exercise if the date of such Notice of Exercise is a Trading Day and such Notice of Exercise is both executed and delivered pursuant to Section 2(a) hereof after the close of "regular trading hours" on such Trading Day;

(B) = the Exercise Price of this Warrant, as adjusted hereunder; and

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(X) = the number of Warrant Shares that would be issuable upon exercise of this Warrant in accordance with the terms of this Warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

If Warrant Shares are issued in such a "cashless exercise," the parties acknowledge and agree that in accordance with Section 3(a)(9) of the Securities Act, the Warrant Shares shall take on the registered characteristics of the Warrants being exercised, and the holding period of the Warrants being exercised may be tacked on to the holding period of the Warrant Shares. The Company agrees not to take any position contrary to this Section 2(c). The Company shall not take any action that would prevent the exercise of this Warrant by means of a "cashless exercise" (as contemplated under Section 2(c) hereof) or make Rule 144 unavailable to the Holder for resale of the Warrant Shares without volume or manner-of-sale restrictions or current public information requirements unless the Warrant Shares are registered for resale pursuant to an effective registration statement under the Securities Act.

Notwithstanding anything herein to the contrary, on the Termination Date, this Warrant shall be automatically exercised via cashless exercise pursuant to this Section 2(c).

Mechanics of Exercise.

(i) Delivery of Warrant Shares Upon Exercise. The Company shall cause the Warrant Shares purchased hereunder to be transmitted by its transfer agent to the Holder by crediting the account of the Holder's or its designee's balance account with The Depository Trust Company through its Deposit or Withdrawal at Custodian system (the "**DWAC**") if the Company is then a participant in such system and either (A) there is an effective registration statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by Holder, or (B) the Warrant Shares are eligible for resale by the Holder without volume or manner-of-sale limitations pursuant to Rule 144 and, in either case, the Warrant Shares have been sold by the Holder prior to the Warrant Share Delivery Date (as defined below), and otherwise by physical delivery of a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of Warrant Shares to which the Holder is entitled pursuant to such exercise to the address specified by the Holder in the Notice of Exercise by the date that is the earlier of (i) two (2) Trading Days and (ii) the number of Trading Days comprising the Standard Settlement Period after the delivery to the Company of the Notice of Exercise (such date, the "**Warrant Share Delivery Date**"). If the Warrant Shares can be delivered via DWAC, the transfer agent shall have received from the Company, at the expense of the Company, any legal opinions or other documentation required by it to deliver such Warrant Shares without legend (subject to receipt by the Company of reasonable back up documentation from the Holder, including with respect to affiliate status) and, if applicable and requested by the Company prior to the Warrant Share Delivery Date, the transfer agent shall have received from the Holder a confirmation of sale of the Warrant Shares (provided the requirement of the Holder to provide a confirmation as to the sale of Warrant Shares shall not be applicable to the issuance of unlegended Warrant Shares upon a cashless exercise of this Warrant if the Warrant Shares are then eligible for resale pursuant to Rule 144(b)(1)). The Warrant Shares shall be deemed

to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised, with payment to the Company of the Exercise Price (or by cashless exercise, if permitted) and all taxes required to be paid by the Holder, if any, pursuant to Section 2(c)(vi) prior to the issuance of such shares, having been paid. If the Company fails for any reason to deliver to the Holder the Warrant Shares subject to a Notice of Exercise by the second Trading Day following the Warrant Share Delivery Date, the Company shall pay to the Holder, in cash, as liquidated damages and not as a penalty, for each $1,000 of Warrant Shares subject to such exercise (based on the VWAP of the Common Shares on the date of the applicable Notice of Exercise), $10 per Trading Day (increasing to $20 per Trading Day on the fifth Trading Day after such liquidated damages begin to accrue) for each Trading Day after the second Trading Day following such Warrant Share Delivery Date until such Warrant Shares are delivered or Holder rescinds such exercise.

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(ii) Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

(iii) Rescission Rights. If the Company fails to cause its transfer agent to deliver to the Holder the Warrant Shares pursuant to Section 2(c)(i) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise; provided, however, that the Holder shall be required to return any Warrant Shares or Common Shares subject to any such rescinded exercise notice concurrently with the return to Holder of the aggregate Exercise Price paid to the Company for such Warrant Shares and the restoration of Holder's right to acquire such Warrant Shares pursuant to this Warrant (including, issuance of a replacement warrant certificate evidencing such restored right).

(iv) Compensation for Buy-In on Failure to Timely Deliver Warrant Shares Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause its transfer agent to transmit to the Holder the Warrant Shares pursuant to an exercise on or before the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases, Common Shares to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount, if any, by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the Common Shares so purchased exceeds (y) the amount obtained by multiplying (1) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue by (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored (in which case such exercise shall be deemed rescinded) or deliver to the Holder the number of Common Shares that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Shares having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of Common Shares with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder $1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver Common Shares upon exercise of the Warrant as required pursuant to the terms hereof.

(v) No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

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(vi) Charges, Taxes and Expenses. Issuance of Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such Warrant Shares, all of which taxes and expenses shall be paid by the Company, and such Warrant Shares shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event that Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto. The Company shall pay all transfer agent fees required for same-day processing of any Notice of Exercise and all fees to the Depository Trust Company (or another established clearing corporation performing similar functions) required for same-day electronic delivery of the Warrant Shares.

(vii) Closing of Books. The Company shall not close its shareholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

(viii) Signature. This Section 2 and the exercise form attached hereto set forth the totality of the procedures required of the Holder in order to exercise this Warrant. Without limiting the preceding sentences, no ink-original exercise form shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any exercise form be required in order to exercise this Warrant. No additional legal opinion, other information or instructions shall be required of the Holder to exercise this Warrant. The Company shall honor exercises of this Warrant and shall deliver Shares underlying this Warrant in accordance with the terms, conditions and time periods set forth herein.

(d) Holder's Exercise Limitations. The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, the Holder (together with the Holder's Affiliates, and any other Persons acting as a group together with the Holder or any of the Holder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of Common Shares beneficially owned by the Holder and its Affiliates shall include the number of Common Shares issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of Common Shares which would be issuable upon (i) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates and (ii) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Common Share Equivalents) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(d), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(d) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in

relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(d), in determining the number of outstanding Common Shares, a Holder may rely on the number of outstanding Common Shares as reflected in (A) the Company's most recent periodic or annual report filed with the Commission, as the case may be, (B) a more recent public announcement by the Company or (C) a more recent written notice by the Company or the Company's transfer agent setting forth the number of Common Shares outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm orally and in writing to the Holder the number of Common Shares then outstanding. In any case, the number of outstanding Common Shares shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its Affiliates since the date as of which such number of outstanding Common Shares was reported. The "**Beneficial Ownership Limitation**" shall be 9.99% of the number of Common Shares outstanding immediately after giving effect to the issuance of Common Shares issuable upon exercise of this Warrant. The Holder, upon notice to the Company, may increase or decrease the Beneficial Ownership Limitation provisions of this Section 2(d), provided that the Beneficial Ownership Limitation in no event exceeds 9.99% of the number of Common Shares outstanding immediately after giving effect to the issuance of Common Shares upon exercise of this Warrant held by the Holder and the provisions of this Section 2(d) shall continue to apply. Any increase in the Beneficial Ownership Limitation will not be effective until the 61st day after such notice is delivered to the Company. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(d) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

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Section 3. Certain Adjustments.

(a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on Common Shares or any other equity or equity equivalent securities payable in Common Shares (which, for avoidance of doubt, shall not include any Common Shares issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding Common Shares into a larger number of shares, (iii) combines (including by way of reverse share split or consolidation) outstanding Common Shares into a smaller number of shares, or (iv) issues by reclassification of Common Shares any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of Common Shares (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of Common Shares outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of shareholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification. For the purposes of clarification, the Exercise Price of this Warrant will not be adjusted in the event that the Company or any subsidiary thereof, as applicable, sells or grants any option to purchase, or sell or grant any right to reprice, or otherwise dispose of or issue (or announce any offer, sale, grant or any option to purchase or other disposition) any Common Shares or Common Share Equivalents, at an effective price per share less than the Exercise Price then in effect.

(b) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 3(a) above, if at any time the Company grants, issues or sells any Common Share Equivalents or rights to purchase shares, warrants, securities or other property *pro rata* to all or substantially all of the record holders of Common Shares (the "**Purchase Rights**"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of Common Shares acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation,

the Beneficial Ownership Limitation) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Shares are to be determined for the grant, issue or sale of such Purchase Rights (provided, however, to the extent that the Holder's right to participate in any such Purchase Right would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Purchase Right to such extent (or beneficial ownership of such Common Shares as a result of such Purchase Right to such extent) and such Purchase Right to such extent shall be held in abeyance for the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation).

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(c) Pro Rata Distributions. During such time as this Warrant is outstanding, if the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of Common Shares, by way of return of capital or otherwise (including, without limitation, any distribution of cash, shares or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "**Distribution**"), at any time after the issuance of this Warrant, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of Common Shares acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof, including without limitation, the Beneficial Ownership Limitation) immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of Common Shares are to be determined for the participation in such Distribution (provided, however, to the extent that the Holder's right to participate in any such Distribution would result in the Holder exceeding the Beneficial Ownership Limitation, then the Holder shall not be entitled to participate in such Distribution to such extent (or in the beneficial ownership of any Common Shares as a result of such Distribution to such extent) and the portion of such Distribution shall be held in abeyance for the benefit of the Holder until such time, if ever, as its right thereto would not result in the Holder exceeding the Beneficial Ownership Limitation). To the extent that this Warrant has not been partially or completely exercised at the time of such Distribution, such portion of the Distribution shall be held in abeyance for the benefit of the Holder until the Holder has exercised this Warrant.

(d) Fundamental Transaction. If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger, amalgamation, arrangement or consolidation of the Company with or into another Person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Shares are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Shares, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Shares or any compulsory share exchange pursuant to which the Common Shares are effectively converted into or exchanged for other securities, cash or property, or (v) the Company, directly or indirectly, in one or more related transactions consummates a share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person or group of Persons whereby such other Person or group acquires more than 50% of the outstanding Common Shares (not including any Common Shares held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such share purchase agreement or other business combination) (each a "**Fundamental Transaction**"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder (without regard to any limitation in Section 2(d) on the exercise of this Warrant), the number of Common Shares of the successor or acquiring corporation or of the Company, if it is the surviving corporation or is otherwise the continuing corporation, and any additional consideration (the "**Alternate Consideration**") receivable by holders of Common Shares as a result of such Fundamental Transaction for each Common Share for which this Warrant is exercisable immediately prior to such Fundamental Transaction (without regard to any limitation in Section 2(d) on the exercise of this Warrant). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately

adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one Common Share in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Shares are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. The Company shall cause any successor entity in a Fundamental Transaction in which the Company is not the survivor (the "**Successor Entity**") to assume in writing all of the obligations of the Company under this Warrant in accordance with the provisions of this Section 3(d) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the Holder, deliver to the Holder in exchange for this Warrant a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant which is exercisable for a corresponding number of shares or other securities of such Successor Entity (or its parent entity) equivalent to the Common Shares acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and with an exercise price which applies the exercise price hereunder to such shares or other securities (but taking into account the relative value of the Common Shares pursuant to such Fundamental Transaction and the value of such shares or other securities, such number of shares or other securities and such exercise price being for the purpose of protecting the economic value of this Warrant immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant with the same effect as if such Successor Entity had been named as the Company herein.

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(e) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of Common Shares deemed to be issued and outstanding as of a given date shall be the sum of the number of Common Shares (excluding treasury shares, if any) issued and outstanding.

(f) Notice to Holder.

(i) Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and any resulting adjustment to the number of Warrant Shares and setting forth a brief statement of the facts requiring such adjustment.

(ii) Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Shares, (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Shares, (C) the Company shall authorize the granting to all holders of the Common Shares rights or warrants to subscribe for or purchase any shares of the Company or of any rights, (D) the approval of any shareholders of the Company shall be required in connection with any reclassification of the Common Shares, any consolidation, merger, amalgamation or arrangement to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Shares are converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be mailed a notice to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common

Shares of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, amalgamation, arrangement, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Shares of record shall be entitled to exchange their Common Shares for securities, cash or other property deliverable upon such reclassification, consolidation, merger, amalgamation, arrangement, sale, transfer or share exchange; provided that the failure to provide such notice or any defect therein shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any of its subsidiaries, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K or a Report of Foreign Private Issuer on Form 6-K. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

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Section 4. Transfer of Warrant.

(a) Transferability. Pursuant to FINRA Rule 5110(g)(1), neither this Warrant nor any Warrant Shares issued upon exercise of this Warrant shall be sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the securities by any person for a period of 180 days immediately following the date of effectiveness or commencement of sales of the Offering, except the transfer of any security:

(i) by operation of law or by reason of reorganization of the Company;

(ii) to any FINRA member firm participating in the Offering and the officers or partners thereof, if all securities so transferred remain subject to the lock-up restriction in this Section 4(a) for the remainder of the time period;

(iii) if the aggregate amount of securities of the Company held by the Holder or related person do not exceed 1% of the securities being offered;

(iv) that is beneficially owned on a pro-rata basis by all equity owners of an investment fund, provided that no participating member manages or otherwise directs investments by the fund, and participating members in the aggregate do not own more than 10% of the equity in the fund; or

(v) the exercise or conversion of any security, if all securities received remain subject to the lock-up restriction in this Section 4(a) for the remainder of the time period.

Subject to the foregoing restriction, any applicable securities laws and the conditions set forth in Section 4(d), this Warrant and all rights hereunder (including, without limitation, any registration rights) are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company unless the Holder has assigned this Warrant in full, in which case, the Holder shall surrender this Warrant to the Company within three (3) Trading

Days of the date the Holder delivers an assignment form to the Company assigning this Warrant full. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

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(b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the initial issuance date of this Warrant and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

(c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "**Warrant Register**"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

(d) Representation by the Holder. The Holder, by the acceptance hereof, represents and warrants that it is acquiring this Warrant and, upon any exercise hereof, will acquire the Warrant Shares issuable upon such exercise, for its own account and not with a view to or for distributing or reselling such Warrant Shares or any part thereof in violation of the Securities Act or any applicable state securities law, except pursuant to sales registered or exempted under the Securities Act.

Section 5. Registration Rights.

5.1 Demand Registration.

5.1.1 Grant of Right. The Company, upon written demand (a "**Demand Notice**") of the Holder(s) of at least 51% of the Warrants and/or the underlying Warrant Shares (the "**Majority Holders**"), agrees to register, on one occasion, all or any portion of the Warrant Shares underlying the Warrants (collectively, the "**Registrable Securities**"). On such occasion, the Company shall file a registration statement with the Commission covering the Registrable Securities within sixty (60) days after receipt of a Demand Notice and use its reasonable best efforts to have the registration statement declared effective promptly thereafter, subject to compliance with review by the Commission; provided, however, that the Company shall not be required to comply with a Demand Notice if the Company has filed a registration statement with respect to which the Holder is entitled to piggyback registration rights pursuant to 5.2 hereof and either: (i) the Holder has elected to participate in the offering covered by such registration statement or (ii) if such registration statement relates to an underwritten primary offering of securities of the Company, until the offering covered by such registration statement has been withdrawn or until thirty (30) days after such offering is consummated. The demand for registration may be made at any time beginning on the Initial Exercise Date and expiring on the fifth anniversary of the Effective Date. The Company covenants and agrees to give written notice of its receipt of any Demand Notice by any Holder(s) to all other registered Holders of the Warrants and/or the Registrable Securities within ten (10) days after the date of the receipt of any such Demand Notice.

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5.1.2 Terms. The Company shall bear all fees and expenses attendant to the registration of the Registrable Securities pursuant to 5.1.1, but the Holders shall pay any and all underwriting commissions and the expenses of any legal counsel selected by the Holders to represent them in connection with the sale of the Registrable Securities. The Company agrees to use its commercially reasonable efforts to cause the filing required herein to become effective promptly and to qualify or register the Registrable Securities in such States as are reasonably requested by the

Holder(s); provided, however, that in no event shall the Company be required to register the Registrable Securities in a State in which such registration would cause: (i) the Company to be obligated to register or license to do business in such State or submit to general service of process in such State, or (ii) the principal shareholders of the Company to be obligated to escrow their shares of capital stock of the Company. The Company shall cause any registration statement filed pursuant to the demand right granted under Section 5.1.1 to remain effective for a period of at least twelve (12) consecutive months after the date that the Holders of the Registrable Securities covered by such registration statement are first given the opportunity to sell all of such securities. The Holders shall only use the prospectuses provided by the Company to sell the Warrant Shares covered by such registration statement, and will immediately cease to use any prospectus furnished by the Company if the Company advises the Holder that such prospectus may no longer be used due to a material misstatement or omission. Notwithstanding the provisions of this Section 5.1.2, the Holder shall be entitled to a demand registration under this Section 5.1.2 on only one (1) occasion and such demand registration right shall terminate on the fifth anniversary of the date of the Underwriting Agreement (as defined below) in accordance with FINRA Rule 5110(f)(2)(G)(iv).

5.1.3 Notwithstanding the foregoing, Section 5.1.1 shall not apply if the Holder can exercise this Warrant by means of a "cashless exercise" (as contemplated under Section 2(c) hereof) and the Warrant Shares issued upon such cashless exercise are eligible for resale without volume or manner-of-sale restrictions or current public information requirements pursuant to Rule 144.

5.2 "Piggy-Back" Registration.

5.2.1 Grant of Right. In addition to the demand right of registration described in Section 5(a) hereof, the Holder shall have the right, for a period of no more than two (2) years from the Initial Exercise Date in accordance with FINRA Rule 5110(f)(2)(G)(v), to include the Registrable Securities as part of any other registration of securities filed by the Company (other than in connection with a transaction contemplated by Rule 145(a) promulgated under the Securities Act or pursuant to Form S-8 or any equivalent form); provided, however, that if, solely in connection with any primary underwritten public offering for the account of the Company, the managing underwriter(s) thereof shall, in its reasonable discretion, impose a limitation on the number of Registrable Securities which may be included in the Registration Statement because, in such underwriter(s)' judgment, marketing or other factors dictate such limitation is necessary to facilitate public distribution, then the Company shall be obligated to include in such Registration Statement only such limited portion of the Registrable Securities with respect to which the Holder requested inclusion hereunder as the underwriter shall reasonably permit. Any exclusion of Registrable Securities shall be made pro rata among the Holders seeking to include Registrable Securities in proportion to the number of Registrable Securities sought to be included by such Holders; provided, however, that the Company shall not exclude any Registrable Securities unless the Company has first excluded all outstanding securities, the holders of which are not entitled to inclusion of such securities in such Registration Statement or are not entitled to pro rata inclusion with the Registrable Securities.

5.2.2 Terms. The Company shall bear all fees and expenses attendant to registering the Registrable Securities pursuant to Section 5.2.1 hereof, but the Holders shall pay any and all underwriting commissions and the expenses of any legal counsel selected by the Holders to represent them in connection with the sale of the Registrable Securities. In the event of such a proposed registration, the Company shall furnish the then Holders of outstanding Registrable Securities with not less than thirty (30) days written notice prior to the proposed date of filing of such registration statement. Such notice to the Holders shall continue to be given for each registration statement filed by the Company during the two (2) year period following the Initial Exercise Date until such time as all of the Registrable Securities have been sold by the Holder. The holders of the Registrable Securities shall exercise the "piggy-back" rights provided for herein by giving written notice within ten (10) days of the receipt of the Company's notice of its intention to file a registration statement. Except as otherwise provided in this Warrant, there shall be no limit on the number of times the Holder may request registration under this Section 5.2.2; provided, however, that such registration rights shall terminate on the second anniversary of the Initial Exercise Date.

5.2.3 Notwithstanding the foregoing, Section 5.2.1 shall not apply if the Holder can exercise this Warrant by means of a "cashless exercise" (as contemplated under Section 2(c) hereof) and the Warrant Shares issued upon such cashless exercise are eligible for resale without volume or manner-of-sale restrictions or current public information requirements pursuant to Rule 144.

5.3 General Terms

5.3.1 Indemnification. The Company shall indemnify the Holder(s) of the Registrable Securities to be sold pursuant to any registration statement hereunder and each person, if any, who controls such Holders within the meaning of Section 15 of the Securities Act or Section 20 (a) of the Exchange Act against all loss, claim, damage, expense or liability (including all reasonable attorneys' fees and other expenses reasonably incurred in investigating, preparing or defending against any claim whatsoever) to which any of them may become subject under the Securities Act, the Exchange Act or otherwise, arising from such registration statement but only to the same extent and with the same effect as the provisions pursuant to which the Company has agreed to indemnify the Underwriters contained in Section 5.1 of the Underwriting Agreement between the Underwriters and the Company, dated as of July 29, 2021. The Holder(s) of the Registrable Securities to be sold pursuant to such registration statement, and their successors and assigns, shall severally, and not jointly, indemnify the Company, against all loss, claim, damage, expense or liability (including all reasonable attorneys' fees and other expenses reasonably incurred in investigating, preparing or defending against any claim whatsoever) to which they may become subject under the Securities Act, the Exchange Act or otherwise, arising from information furnished by or on behalf of such Holders, or their successors or assigns, in writing, for specific inclusion in such registration statement to the same extent and with the same effect as the provisions contained in Section 5.2 of the Underwriting Agreement pursuant to which the Underwriters have agreed to indemnify the Company.

5.3.2 Exercise of Warrants. Nothing contained in this Warrant shall be construed as requiring the Holder(s) to exercise their Warrants prior to or after the initial filing of any registration statement or the effectiveness thereof.

5.3.3 Documents Delivered to Holders. The Company shall furnish to each Holder participating in any of the foregoing offerings and to each underwriter of any such offering, if any, a signed counterpart, addressed to such Holder or underwriter, of: (i) an opinion of counsel to the Company, dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, an opinion dated the date of the closing under any underwriting agreement related thereto), and (ii) a "cold comfort" letter dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, a letter dated the date of the closing under the underwriting agreement) signed by the independent registered public accounting firm which has issued a report on the Company's financial statements included in such registration statement, in each case covering substantially the same matters with respect to such registration statement (and the prospectus included therein) and, in the case of such accountants' letter, with respect to events subsequent to the date of such financial statements, as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to underwriters in underwritten public offerings of securities. The Company shall also deliver promptly to each Holder participating in the offering requesting the correspondence and memoranda described below and to the managing underwriter, if any, copies of all correspondence between the Commission and the Company, its counsel or auditors and all memoranda relating to discussions with the Commission or its staff with respect to the registration statement and permit each Holder and underwriter to do such investigation, upon reasonable advance notice, with respect to information contained in or omitted from the registration statement as it deems reasonably necessary to comply with applicable securities laws or rules of FINRA. Such investigation shall include access to books, records and properties and opportunities to discuss the business of the Company with its officers and independent auditors, all to such reasonable extent and at such reasonable times as any such Holder shall reasonably request.

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5.3.4 Underwriting Agreement. The Company shall enter into an underwriting agreement with the managing underwriter(s), if any, selected by any Holders whose Registrable Securities are being registered

pursuant to this Section 5, which managing underwriter shall be reasonably satisfactory to the Company. Such agreement shall be reasonably satisfactory in form and substance to the Company, each Holder and such managing underwriters, and shall contain such representations, warranties and covenants by the Company and such other terms as are customarily contained in agreements of that type used by the managing underwriter. The Holders shall be parties to any underwriting agreement relating to an underwritten sale of their Registrable Securities and may, at their option, require that any or all the representations, warranties and covenants of the Company to or for the benefit of such underwriters shall also be made to and for the benefit of such Holders. Such Holders shall not be required to make any representations or warranties to or agreements with the Company or the underwriters except as they may relate to such Holders, their Warrant Shares and their intended methods of distribution.

5.3.5 Documents to be Delivered by Holder(s). Each of the Holder(s) participating in any of the foregoing offerings shall furnish to the Company a completed and executed questionnaire provided by the Company requesting information customarily sought of selling security holders.

5.3.6 Damages. Should the registration or the effectiveness thereof required by Sections 5.1 and 5.2 hereof be delayed by the Company or the Company otherwise fails to comply with such provisions, the Holder(s) shall, in addition to any other legal or other relief available to the Holder(s), be entitled to obtain specific performance or other equitable (including injunctive) relief against the threatened breach of such provisions or the continuation of any such breach, without the necessity of proving actual damages and without the necessity of posting bond or other security.

Section 6. Miscellaneous.

(a) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a shareholder of the Company prior to the exercise hereof as set forth in Section 2(c)(i).

(b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which shall in no event include the posting of any bond), and upon surrender and cancellation of such Warrant or share certificate, if mutilated, the Company shall make and deliver a new Warrant or share certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or share certificate.

(c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Trading Day, then, such action may be taken or such right may be exercised on the next succeeding Trading Day.

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(d) Authorized Shares.

The Company covenants that, during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Shares a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of issuing the necessary Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company shall take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Shares may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and non-assessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, amalgamation, arrangement, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company shall (i) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (ii) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable Warrant Shares upon the exercise of this Warrant and (iii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

(e) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the underwriting agreement, dated July 29, 2021, by and between the Company and ThinkEquity, a division of Fordham Financial Management, Inc., as representatives of the underwriters set forth therein (the "**Underwriting Agreement**").

(f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, and the Holder does not utilize cashless exercise, will have restrictions upon resale imposed by state and federal securities laws.

(g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies. Without limiting any other provision of this Warrant or the Underwriting Agreement, if the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Underwriting Agreement.

(i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any Common Shares or as a shareholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

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(j) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

(k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for

the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

(l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

(m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

(n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

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*(Signature Page Follows)*

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**IN WITNESS WHEREOF**, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

**DRAGANFLY INC.**

By: _____
Name:
Title:

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**NOTICE OF EXERCISE**

**TO: DRAGANFLY INC.**

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

☐ in lawful money of the United States; or

☐ if permitted the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please register and issue said Warrant Shares in the name of the undersigned or in such other name as is specified below:

_____

The Warrant Shares shall be delivered to the following DWAC Account Number or by physical delivery of a certificate to:

_____

_____

_____

(4) Accredited Investor. If the Warrant is being exercised via cash exercise, the undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____

*Signature of Authorized Signatory of Investing Entity*: _____

Name of Authorized Signatory: _____

Title of Authorized Signatory: _____

Date: _____



**ASSIGNMENT FORM**

(To assign the foregoing warrant, execute this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, [____] all of or [_____] shares of the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

_____

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

_____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

**Exhibit 4.1**

THIS BUSINESS SERVICES AGREEMENT is entered into effective on August 1, 2019.

BETWEEN:

**Business Instincts Group Inc.**
a corporation having its office located
at L120, 2303 4th Street SW., Calgary, Alberta T2S 2S7

(hereinafter referred to as "BIG")

AND

**Draganfly Innovations Inc.**
a corporation having its office located
at 2108 St. George Ave, Saskatoon, SK, S7M0K7

(hereinafter referred to as the "Client")

**WHEREAS** in order to help achieve its corporate and business objectives, the Client desires and has agreed to retain the services of BIG to provide the services and complete the duties described in Schedule "A" attached hereto and BIG agrees to provide such services to the Client, in accordance with the terms and conditions contained herein;

**WHEREAS** the parties desire that the Services (as defined below) shall be provided by BIG directly to each of the senior executive officers and management team employed by the Client (collectively, "Senior Management" and each a "Senior Manager") of the Client;

**WHEREAS** the Canadian Dollar is the accepted currency for the purposes of this Agreement;

**NOW THEREFORE** in consideration and mutual covenants herein contained and such good and other consideration, the receipt and sufficiency of which is acknowledged by each of the parties, the parties hereto agree as follows:

1. **Services, Term, and Compensation.** The term of this Agreement (the "Term"), the services to be provided by BIG under this Agreement (the "Services") and the amounts to be paid to BIG as full and complete consideration for BIG providing the Services under this Agreement (the "Fees"), are set out in the attached Schedule "A", which forms part of this Agreement.

This Agreement shall come into force and effect as of the date set out first above, and shall continue as prescribed in Schedule "A". In the event of the expiration or termination of this Agreement, the Client agrees to pay to BIG any and all unpaid Fees and expenses (as set forth herein) in full.

2. **Independent Contractor.** Subject to the terms and conditions of this Agreement, the Client hereby engages BIG as an independent contractor to perform the Services, and BIG hereby accepts such engagement. It is expressly agreed that BIG is acting as an independent contractor in performing the Services hereunder.

3. **Nature of Engagement.** BIG shall perform the Services as an independent contractor, and nothing contained in this Agreement shall be construed to create or imply a joint venture, partnership, principal-agent, or employment relationship between the Client and BIG. Unless the Client specifically

authorizes BIG in writing to do so, BIG shall neither act or purport to be acting as the agent of the Client, nor enter into any agreement on behalf of the Client or otherwise bind, nor purport to bind the Client or cause the Client to incur liability in any manner whatsoever. All final decisions with respect to services provided by BIG hereunder shall be entirely the Client's to make, and BIG shall have no liability relating to or arising from the Client's decisions. It is understood that BIG's responsibility to the Client is solely contractual in nature and that BIG does not act in a fiduciary capacity in relation to the Client as a result of this Agreement.

With the prior written consent of BIG, not to be unreasonably withheld, nothing in this Agreement shall prohibit the Client, or any entity chosen by the Client, from performing some or all of the functions of BIG herein. It is recognized that BIG will expend significant time and commit considerable resources to the Client. The Services are not exclusive to the Client however, and BIG may render similar services to other parties both during and after the Term.

4. **Third-Party Expenses.** The Client is responsible for paying specific disbursements charged by third parties to BIG relating to this Agreement, including graphic design, creative, legal and other advisory fees. The Client further agrees to reimburse BIG for any out-of-pocket expenses incurred by BIG in connection with this Agreement and carrying out the Services within thirty (30) days of presentation of reasonably itemized invoices to the Client as set forth in clause 5 below.

5. **Billing.** Accounts, including out-of-pocket expenses, will be rendered by BIG as prescribed in Schedule "A". Interest on overdue accounts attracts interest which is calculated at the rate of 12% per annum commencing thirty (30) days following the date of the invoice until the account is paid in full. Any out-of-pocket expenses and disbursements to be charged by third parties shall be pre-approved by the Client.

6. **Information Provided to BIG.** The Client agrees BIG is entitled to rely (without independent verification) upon any information by the Client in relation to this agreement, including information with respect to the assets, liabilities, earnings, earning potential, financial condition, historical performance, future prospects and financial projections, and any assumptions used in the development of such projections furnished by the Client or any individual on behalf of the Client, and BIG is entitled to assume that all such information is true, correct and complete in all material respects and does not contain any untrue statements of material fact or omit to state a material fact necessary to ensure the information supplied is not misleading. BIG is not liable or responsible for any loss or damage suffered by the Client or others if any misstatement, error or omission in any material, information, document or representation supplied or approved by the Client. If at any time during the effectiveness of this Agreement, the Client or any of the Client's agents or advisors becomes aware of any material change in any of the information previously furnished to BIG, the Client will promptly advise BIG of the change.

**7. Confidentiality.**

a) For the purpose of this section, the term "Confidential Information" includes, but is not limited to, all business and financial information, marketing and strategic plans, equipment details, software

programs, manuals, maps, customer and client lists, employee information, supplier information, analyses, reports, technologies, processes and operations, compilations, forecasts, studies. lists, summaries, notes, designs, formulae, innovations, techniques, data, patents and trade secrets of the Client, as well as the present and contemplated products, techniques and other services evolved or to be used by the Client. Confidential Information does not include such portions of the Confidential Information which: (i) are, or prior to the time of disclosure or utilization become, generally available to the public; (ii) are received by BIG from an independent third party who had obtained the Confidential. Information lawfully and was, to the best of BIG's knowledge, under

No obligation of secrecy or duty of confidentiality owed to the Client; (iii) BIG can show was in BIG's lawful possession before BIG received such Confidential Information from the Client, or (iv) BIG can show that such Confidential Information was independently developed by BIG having no access to the Confidential Information at the time of its independent development.

b) In the course of performing the Services, BIG acknowledges and understands that it will have access to and will be entrusted with Confidential Information which is not public, but is proprietary and confidential to the Client. BIG shall keep the Confidential Information strictly confidential and shall take all necessary precautions against unauthorized disclosure of the Confidential Information during the Term of this Agreement and thereafter. BIG shall not use or reproduce any Confidential Information, in any manner, except as reasonably required to perform the Services and/or fulfill the purposes of this Agreement. BIG shall ensure that any copies of Confidential Information it takes or makes are clearly marked, or otherwise identified as confidential and proprietary to the Client and that all Confidential Information and copies thereof are stored in a secure location while in BIG's possession, control, charge or custody.

c) BIG hereby agrees and acknowledges that the disclosure of any of the Confidential Information to competitors of the Client or to the general public would be highly detrimental to the best interests of the Client. Accordingly, BIG covenants and agrees with the Client that, save with the written consent of the Client, it will not, either during the Term of this Agreement, or at any time thereafter, directly or indirectly, disclose, allow access to, transmit or transfer any of such Confidential Information to any person other than its directors, officers, employees, consultants, agents and advisers or to similar representatives of the Client, nor shall it use the same for any purpose other than the purposes of performing the Services to be performed by BIG under this Agreement.

d) BIG acknowledges that it shall not acquire any right, title or interest in or to any Confidential Information by virtue of it having access to the same during the Term of this Agreement.

e) In the event BIG is requested or required pursuant to any Court order, or other legal or regulatory demand, to disclose any Confidential Information to a third party, BIG agrees that it will provide the Client with prompt notice of such request or requirement so that the Client, at its option, may seek an appropriate protective order or other remedies to ensure that Confidential Information will be accorded confidential treatment.

f) Upon termination or expiry of this Agreement, for whatever reason, BIG agrees to:

(i) deliver to the Client, or destroy, all Confidential Information and copies thereof which are in its power or possession which relate in any way to the business of the Client, or its customers; and

(ii) remove any Confidential Information from BIG's computers, or computer databases that may have been created in the course of performing BIG's Services under this Agreement (other than

information stored on back-up servers pursuant to the retention of files laws and policies) and certify the return or destruction of all documents containing Confidential Information.



8. **Ownership of Work Product.** Any and all Work Product conceived, developed, reduced to practice or a definite and practical shape, invented, authored, wrote, created, produced or otherwise generated on behalf of BIG or by any employee, agent, contractor, representative or other individual acting on behalf of BIG ("BIG Personnel") in connection with the performance of the Services will be the exclusive property of the Client. BIG shall assign and waive, and shall cause to be assigned or waived at BIG's

expense, any right, title and interest in and to the Work Product to or in favor of the Client. In this Agreement, "Work Product" includes, without limitation any and all of the following: (a) any invention,

process, formula, algorithm, specification, technique, concept, idea, method, diagnostic, compound, development, composition, apparatus, machine, test, design, trade secret, know how or any improvement, modification, thereto or any issued patent, industrial design or application therefor applied for, issued or granted in any jurisdiction anywhere in the world, including but not limited to reissues, divisions, continuations, continuations-in-part, re-examinations, renewals and substitutes thereof, foreign counterparts of the foregoing, including, without limitation, the right to apply for Letters Patent in the United States, Canada and all other countries throughout the world and all rights to claim priority based on said applications under the terms of any international convention, and all rights in the United States, Canada and all other countries throughout the world to sue and recover for past or future infringement of such rights; (b) trade names, trademarks, trade secrets, service names, service marks, business names, product names, brands, logos and other distinctive identifications used in commerce, whether in connection with products or services, and the goodwill associated with any of the foregoing; (c) original works of authorship, derivative works and other copyrightable works of any nature, and fixations of any of the foregoing; (d) computer software or code of any type (whether source code or object code) in any programming or markup language, underlying any type of computer programming (whether application software, middleware, firm ware or system software) including, but not limited to, applets, assemblers, compilers, design tools, and user interfaces, databases and fixations thereof; (e) uniform resource locators, website addresses, domain names, website content and all fixations thereof; and (f) any other intellectual and industrial property in and to the foregoing, which is recognized under the law of any jurisdiction anywhere in the world, whether under common law, by statute or otherwise.

9. **Moral Rights.** BIG acknowledges and agrees that the Client may use, alter, vary, adapt and exploit any Work Product as the Client sees fit, in its sole and unfettered discretion. At its own expense, BIG shall cause to be assigned, waived or released any and all rights including, but not limited to, all moral rights (as defined under the Copyright Act (Canada)), in or otherwise relating to any Work Product in favor of the Client, its successor and assigns.

10. **Further Assurances.** At the requested of the Client, BIG will promptly do all acts and execute and deliver to the Client all instruments that may be required to effect, register, record, or otherwise perfect

the interest of the Client in or relating to Work Product, and BIG will cause the BIG Personnel to do the same.



11. **Conflicts.** BIG assists other companies and individuals, some of whom may, on occasion, be competitors or adverse in interest to the Client. BIG will not disclose to others any sensitive, proprietary or

otherwise confidential information of a non-public nature concerning or affecting the Client's affairs, unless such disclosure is authorized by the client or required to defend BIG against any claim, action, suit, or proceeding, or to the extent such disclosure is required by any applicable law or regulation.

12. **Announcements.** Provided the Client has provided its prior written consent, not to be unreasonably withheld, BIG may, subject to compliance with paragraph 7 hereof, disclose the existence of this Agreement to certain persons and entities selected by BIG and in certain electronic and print publications, including BIG's website. In accordance with all applicable laws, including the Client's disclosure obligations under applicable securities laws, the Client is expressly permitted to make any required disclosures of this Agreement, including the material terms hereof.

13. **Legal and Tax Advice.** BIG will not provide or be responsible for obtaining legal or tax advice with respect to the Client, nor any other legal and regulatory requirements and issues which may arise pursuant to this Agreement. The Client is responsible for ensuring compliance with all of the Client's legal and regulatory requirements in connection with all aspects of this Agreement.

14. **Best Efforts/Timely Performance.** BIG will use all reasonable efforts to perform the Services described in Schedule "A" to this Agreement within the time-frame agreed upon by the parties. Neither the execution and/or delivery of this Agreement, nor the provision of Services hereunder constitutes a guarantee or commitment, express or implied, on the part of BIG, as to the timeliness of BIG's performance of the Services. Further, BIG shall not be liable for failures or delays in performance that arise from causes beyond our control.

15. **Indemnification.**

    a) The Client shall indemnify BIG, its shareholders, directors, officers and employees (in each case, a "**BIG Indemnitee**") from and against all losses, damages, costs and expenses, and hold such BIG Indemnitee harmless from and against any and all claims, liabilities, demands, actions, causes of action, lawsuits and proceedings which may be made or brought against or suffered by a BIG Indemnitee, or which it may suffer or incur as a result of, in respect of or arising out of, the performance of the Services. Notwithstanding the foregoing, no BIG Indemnitee shall be entitled to any indemnification by the Client for or in respect of any act, matter or omission caused by (i) fraud, wilful misconduct, bad faith or gross negligence; (ii) violation of applicable laws; or (iii) a breach of this Agreement.

    b) BIG shall indemnify and hold harmless the Client, its shareholders, directors, officers and employees (in each case, an "**Client Indemnitee**") from and against all losses, damages, costs and expenses, and hold such Client Indemnitee harmless from and against any and all claims, liabilities, demands, actions, causes of action, lawsuits and proceedings which may be made or brought against or suffered by a Client Indemnitee, which it may suffer or incur as a result of, in respect of or arising out of any act, matter or omission caused by BIG or any representative thereof: i) fraud, wilful

misconduct, bad faith or gross negligence; (ii) violation of applicable laws; or (iii) a breach of this Agreement.



16. **Non-Solicitation.** During the Term and for a period of one (1) year thereafter, the Client will not directly or indirectly recruit, solicit or hire any employee of BIG, or induce or attempt to induce any employee of BIG to terminate his/her employment with, or otherwise cease his/her relationship with BIG. During the

Term and for a period of one (1) year thereafter, BIG will not directly or indirectly recruit, solicit or hire any employee of the Client, or induce or attempt to induce any employee of the Client to terminate his/her employment with, or otherwise cease his/her relationship with the Client.

17. **Successors and Assigns.** This Agreement and all obligations and benefits of the Client and BIG shall bind the Client and BIG and any of the respective successors and assigns of either.

18. **Termination on Notice.**

    a) Either party may terminate this Agreement at any time upon the provision of sixty (60) days written notice to the other party.

    b) Upon termination of the Agreement BIG will be entitled to no further compensation except the following lump-sum payments (if applicable):

        i) any fees and commissions earned to the effective date of termination;

        ii) out of pocket expenses incurred prior to the effective date of termination which is otherwise reimbursable by the Client pursuant to the terms of this Agreement.

        iii) a lump sum payment of $29,000 CAD (such amount reflecting 2 months of the pro-rata fees set forth in Schedule “A” attached hereto.

19. **Arbitration of Disputes.** The Client and BIG agree that all claims or controversies, whether such claims or controversies arose prior to, on, or subsequent to the date hereof, between the Client and BIG or any of the present or former members, managers, officers, employees, agents and representatives of either party concerning or arising from, without limitation, the construction, performance or breach of this Agreement, or any duty arising therefrom, shall be determined by arbitration. Any arbitration under this Agreement shall be conducted pursuant to the laws of the Province of Alberta before a single arbitrator and shall be binding upon the Client and BIG. The costs of the arbitrator shall be borne equally by the Client and BIG, and each of the Client and BIG shall bear their respective legal and other fees unless the arbitrator decides to allocate a greater burden of said costs and fees to the unsuccessful party.

20. **Notices.** Any and all notices, demands, or other communications required or desired to be given hereunder by any party shall be in:

    a) writing and shall be validly given or made to another party if personally served, or if deposited in the Canadian mail, certified or registered, postage prepaid, return receipt requested, but not required; or

b) via electronic mail.



If such notice or demand is served personally, notice shall be deemed constructively made at the time of such personal service. If such notice, demand or other communication is given by mail, such notice shall be conclusively deemed given five days after deposit thereof in the Canadian mail addressed to the party to whom such notice, demand or other communication is to be given as follows:

If to BIG:

Business Instincts Group Inc.,
L120, 2303 4 Street SW
Calgary, Alberta T2S 2S7

Attention: Erika Racicot
(403)992-7295
erika@businessinstincts.com

If to the Client:
Dragonfly Innovations Inc.
Attention: Paul Sun, CFO
416-569-5070
Paul.Sun@draganflyinnovations.com

Any party hereto may change its office or email addresses for purposes of this paragraph by written notice given in the manner provided above.

21. **Waiver.** Failure of either party hereto to insist upon strict compliance with any of the terms, covenants, and conditions hereof shall not be deemed a waiver or relinquishment of any similar right or power hereunder at any subsequent time or of any other provision hereof.

22. **Modification or Amendment.** No amendment, change or modification of this Agreement shall be valid unless in writing signed by the parties hereto,

23. **Survival.** Any provision of this Agreement which expressly states that it is to continue in effect after termination or expiration of this Agreement, or which by its nature would survive the termination or expiration of this Agreement, shall do so.

24. **Severability.** If anyone or more of the provisions of this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, any such provision shall be severable from this Agreement, in which event this Agreement shall be construed as if such provision had never been contained herein and the remainder of this Agreement shall nevertheless remain in full force and effect.

25. **Entire Understanding.** This document, and Schedule "A" hereto, constitute the entire understanding and agreement of the parties, and any and all prior agreements, understandings, and representations are hereby terminated and canceled in their entirety and are of no further force and effect.

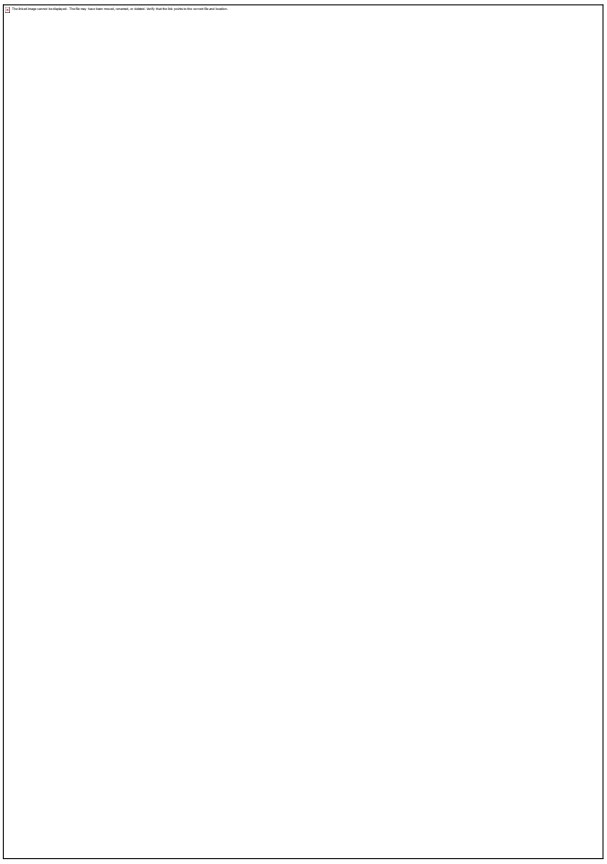
26. **Jurisdiction.** The laws of the Province of Alberta shall govern the validity of this Agreement, the construction of its terms and the interpretation of the rights and duties of the parties hereto. The parties

hereto irrevocably submit to the jurisdiction of Alberta for the purpose of any legal suit, action or other proceeding arising out of the Agreement.

27. **Counterparts**. Each party hereto may sign this Agreement in counterparts and deliver such counterparts by facsimile or other electronic delivery, which parts will be read together and construed as if all signing parties had signed one copy of this Agreement.



IN WITNESS WHEREOF the undersigned have executed this Agreement as of the day and year first written above.





**SCHEDULE A**

**BUSINESS SERVICES, MONTHLY RATE, SCOPE OF WORK, and TERM**

Business Instincts Group Inc., ("BIG") will provide staffing, business functions, and other business services in the following areas to Draganfly Innovations Inc. ("the Client") on an on-going basis during the term of the Agreement.

All figures in Canadian Dollars, applicable taxes are in addition.

| Service | Deliverables | Fee |
|---|---|---|
| Corporate Development and Governance (Monthly) | BIG has been engaged to create and deliver:<br>● Provide Executive Management Support;<br>● Liaison with Management and the Board of Directors and Advisors to provide clarity on the best path forward for Draganfly and partners;<br>● Ongoing business development work, including prospecting, sales, and pipeline management;<br>● Ongoing corporate development and mergers and acquisitions work;<br>● Create and manage investor presentations and investor material;<br>● Recruitment efforts surrounding Executives, Board of Directors, Board of Advisors, and Management level employees<br>● Manage shareholder communication process;<br>● Provide assistance in developing Capital structures;<br>● Partner integrations where applicable;<br>● Assist and provide guidance on product/service development; and<br>● Assist with financing efforts; | $7,500.00 |



| | | |
|---|---|---|
| Strategic Facilitation & Management (Monthly) | RIPKIT implementation, including quarterly and monthly strategy sessions and weekly meetings;<br>● Access to the RIPKIT platform for monitoring and goal tracking; and | $2,500.00 |

| | | |
|---|---|---|
| | ● Weekly Tracking of RIPs, and Strategic goals, including Offsite sessions, RIP resets and team alignment meetings.<br><br>● Project facilitator to assist in project growth and support.<br><br>● Coordination of efforts between all areas of the business to ensure projects and timelines stay on track. | |
| Business Services (Monthly) | Provide personnel to directly support Draganfly Innovations Senior Management with respect to:<br><br>HR Support & recruiting support;<br><br>Administration and project coordination of basic marketing initiatives. | $2,500.00 |
| Shared Office Space LA Office | Office/Shop space including up to 2desks | $2000.00 |

**Total Fee (Monthly): $14,500 (plus tax)**

Term:

March 1, 2020— July 31, 2020

Performance:

Our performance will be reviewed quarterly, measured against the RIPKIT by the Client and the BIG team.

Fees:

As compensation for the services rendered pursuant to this agreement, and as compensation for the past services provided by BIG to the client prior to the effective date of the agreement, the client shall pay to BIG any amounts due within 30 days of the invoice plus any applicable tax. All expenses incurred will be billed directly to BIG and allocated to the Client appropriately.

**The Client understands that based on workloads surrounding financing efforts, capital structure, shareholder engagement/communications, business development, and marketing initiatives there may be an increase in billing within select months. This increase will only occur with previous management approval of the request.**



**SCHEDULE B**

**SHAREHOLDER MARKETING VIDEO CONTENT SCOPE OF WORK**

Business Instincts Group Inc., ("BIG") will provide video marketing services in the following areas to Draganfly Innovations Inc. ("the Client") on an on-going basis during the term of the 3-month engagement, budget to be in part allocated through Draganfly's marketing initiatives.

All figures in Canadian Dollars, applicable taxes are in addition.

| Service | Deliverables | Fee |
|---|---|---|
| Corporate Business Development Video Content | BIG has been engaged to create and deliver:<br><br>BIG implementation of the awareness to advocacy video series;<br><br>● Video Production of 15 Corporate videos reflecting the Draganfly story, their ability to execute, service and solutions set. | $47,000 |

***Total Fee: $47,000 (plus tax)**

***BIG acknowledges that payment has already been made for this service. Videos will be delivered during the term of this agreement.**

Term:

March 1, 2020—July 31, 2020

Fees:

As compensation for the services rendered pursuant to this agreement, and as compensation for the past services provided by BIG to the client prior to the effective date of the agreement, the client shall pay to BIG any amounts due

within 30 days of the invoice plus any applicable tax. All expenses incurred with be billed directly to BIG and allocated to the Client appropriately. **The Client understands that based on workloads surrounding financing efforts, capital structure, shareholder engagement/communications, business development, and marketing initiatives there may be an increase in billing within select months. This increase will only occur with previous management approval of the request.**

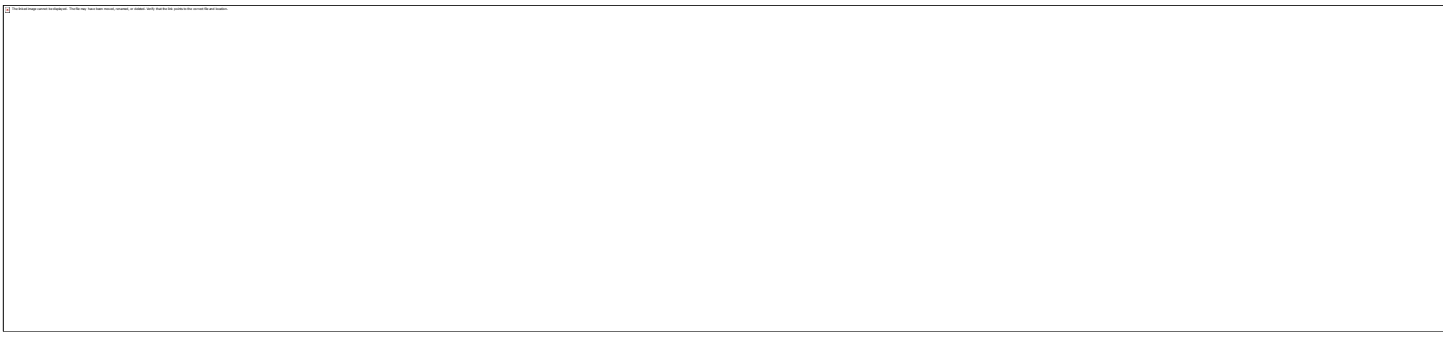




**Exhibit 4.2**

**DRAGANFLY INC.**

**SHARE COMPENSATION PLAN**

## 1. DEFINITIONS AND INTERPRETATION

1.1 **Definitions:** For purposes of the Plan, unless the context requires otherwise, the following words and terms shall have the following meanings:

(a) "**1933 Act**" means the United States Securities Act of 1933, as amended;

(b) "**Account**" has the meaning attributed to that term in section 4.8;

(c) "**Administrators**" means the Board or such other persons as may be designated by the Board from time to time;

(d) "**Affiliate**" has the meaning attributed to that term in the *Securities Act* (British Columbia);

(e) "**Associate**" has the meaning attributed to that term in the *Securities Act* (British Columbia);

(f) "**Award Date**" means the date or dates on which an award of Restricted Share Units is made to a Participant in accordance with section 4.1;

(g) "**Blackout Period**" means the period during which designated directors, officers and employees of the Corporation cannot trade the Common Shares pursuant to the Corporation's policy respecting restrictions on directors', officers' and employee trading which is in effect at that time (which, for greater certainty, does not include the period during which a cease trade order is in effect to which the Corporation or in respect of an insider, that insider is subject);

(h) "**Board**" means the board of directors of the Corporation from time to time;

(i) "**Business Day**" means each day other than a Saturday, Sunday or statutory holiday in Vancouver, British Columbia, Canada;

(j) "**Change of Control**" means:

(i) the acceptance of an Offer by a sufficient number of holders of voting shares in the capital of the Corporation to constitute the offeror, together with persons acting jointly or in concert with the offeror, a shareholder of the Corporation being entitled to exercise more than 50% of the voting rights attaching to the outstanding voting shares in the capital of the Corporation (provided that prior to the Offer, the offeror was not entitled to exercise more than 50% of the voting rights attaching to the outstanding voting shares in the capital of the Corporation),

(ii) the completion of a consolidation, merger or amalgamation of the Corporation with or into any other corporation whereby the voting shareholders of the Corporation immediately prior to the consolidation, merger or amalgamation receive less than 50% of the voting rights attaching to the outstanding voting shares of the consolidated, merged or amalgamated corporation or any parent entity, or



(iii) the completion of a sale whereby all or substantially all of the Corporation's undertakings and assets become the property of any other entity and the voting shareholders of the Corporation immediately prior to that sale hold less than 50% of the voting rights attaching to the outstanding voting securities of that other entity immediately following that sale;

Notwithstanding the foregoing, if it is determined that an award hereunder with respect to a U.S. Participant is subject to the requirements of Section 409A of the Code and payable upon a Change of Control, the Corporation will not be deemed to have undergone a Change of Control unless the Corporation is deemed to have undergone a "change in control event" pursuant to the definition of such term in Section 409A of the Code to the extent required for the award to comply with Section 409A of the Code;

(k) **"Code"** means the U.S. Internal Revenue Code of 1986, as amended, and includes the valid and binding governmental regulations, court decisions and other regulatory and judicial authority issued or rendered thereunder;

(l) "**Common Shares**" means the common shares of the Corporation;

(m) "**Consultant**" means an individual (other than an employee or a director of the Corporation) or company that:

(A) is engaged to provide on an ongoing bona fide basis, consulting, technical, management or other services to the Corporation or to an Affiliate of the Corporation, other than services provided in relation to an offer or sale of securities of the Corporation in a capital-raising transaction, or services that promote or maintain a market for the Corporation's securities;

(B) provides the services under a written contract between the Corporation or the Affiliate and the individual or the company, as the case may be;

(C) in the reasonable opinion of the Corporation, spends or will spend a significant amount of time and attention on the affairs and business of the Corporation or an Affiliate of the Corporation; and

(D) has a relationship with the Corporation or an Affiliate of the Corporation that enables the individual to be knowledgeable about the business and affairs of the Corporation;

(n) "**Corporation**" means Draganfly Inc., a corporation existing under the *Business Corporations Act* (British Columbia) and the successors thereof;

(o) "**Effective Date**" means August 19, 2019;



(p) "**Eligible Person**" means:

(i) any officer or employee of the Corporation and/or any officer or employee of any Subsidiary of the Corporation and any director of the Corporation and/or any director of any Subsidiary of the Corporation; and

(ii) a Consultant;

(q) "**Event of Termination**" means an event whereby a Participant ceases to be an Eligible Person and shall be deemed to have occurred by the giving of any notice of termination of employment or service (whether voluntary or involuntary and whether with or without cause), retirement, or any cessation of employment or service for any reason whatsoever, including disability or death;

(r) "**Exchange**" means the Canadian Stock Exchange or any other stock exchange or quotation system where the Common Shares are listed on or through which the Common Shares are listed or quoted;

(s) "**Grant Date**" means the date on which a grant of Options is made to a Participant in accordance with section 5.1;

(t) "**insider**" has the meaning attributed to that term in the *Securities Act* (British Columbia);

(u) "**Insider Participant**" means a Participant who is (i) an insider of the Corporation or any of its Subsidiaries, and (ii) an associate of any person who is an insider by virtue of (i);

(v) "**Investor Relations Activities**" means any activities, by or on behalf of the Corporation or shareholder of the Corporation, that promote or reasonably could be expected to promote the purchase or sale of securities of the Corporation, but does not include:

(i) the dissemination of information provided, or records prepared, in the ordinary course of business of the Corporation:

(A) to promote the sale of products or services of the Corporation, or

(B) to raise public awareness of the Corporation, that cannot reasonably be considered to promote the purchase or sale of securities of the Corporation;

(ii) activities or communications necessary to comply with the requirements of:

(A) applicable securities laws;

(B) the by-laws, rules or other regulatory instruments of the Exchange or any other self-regulatory body or exchange having jurisdiction over the Corporation;

(iii) communications by a publisher of, or writer for, a newspaper, magazine or business or financial publication, that is of general and regular paid circulation, distributed only to subscribers to it for value or to purchasers of it, if:

(A) the communication is only through the newspaper, magazine or publication, and

(B) the publisher or writer receives no commission or other consideration other than for acting in the capacity of publisher or writer; or

(iv) activities or communications that may be otherwise specified by the Exchange.

(w) "**Market Price**" means, as of any date, the closing price of the Common Shares on the Exchange for the last market trading day prior to the date of grant of the Option or if the Common Shares are not listed on a stock exchange, the Market Price shall be determined in good faith by the Administrators;

(x) "**Market Value**" means, on any date, the volume weighted average price of the Common Shares traded on the Exchange for the five (5) consecutive trading days prior to such date;

(y) "**Offer**" means a bona fide arm's length offer made to all holders of voting shares in the capital of the Corporation to purchase, directly or indirectly, voting shares in the capital of the Corporation;

(z) "**Option**" means an option granted to an Eligible Person under the Plan to purchase Common Shares;

(aa) "**Option Agreement**" has the meaning ascribed to that term in section 3.2;

(bb) "**Participant**" means an Eligible Person selected by the Administrators to participate in the Plan in accordance with section 3.1 hereof;

(cc) "**Payout Date**" means the day on which the Corporation pays to a Participant the Market Value of the RSUs that have become vested and payable;

(dd) "**Plan**" means this share compensation plan, as amended, replaced or restated from time to time;

(ee) "**reserved for issuance**" refers to Common Shares that may be issued in the future upon the vesting of Restricted Share Units which have been awarded and upon the exercise of Options which have been granted;

(ff) "**Restricted Share Unit**" means a right granted in accordance with section 4.1 hereof to receive one Common Share that becomes vested in accordance with section 4.3;

(gg) "**Restricted Share Unit Agreement**" has the meaning ascribed to that term in section 3.2;

(hh) "**Share Compensation Arrangement**" means a stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of Common Shares to directors, officers and employees of the Corporation and any of its Subsidiaries or to Consultants;



(ii) "**Subsidiary**" has the meaning ascribed thereto in the *Securities Act* (British Columbia) and "**Subsidiaries**" shall have a corresponding meaning;

(jj) "**United States**" means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

(kk) "**U.S. Participant**" means a Participant who is a citizen of the United States or a resident of the United States, as defined in section 7701(a)(30)(A) and section 7701(b)(1) of the Code and any other Participant who is subject to tax under the Code with respect to compensatory awards granted pursuant to the Plan;

(ll) "**U.S. Person**" means a "U.S. person", as such term is defined in Rule 902 of Regulation S under the 1933 Act; and

(mm) "**Withholding Obligations**" has the meaning ascribed to that term in section 4.6.

1.2 **Headings:** The headings of all articles, sections, and paragraphs in the Plan are inserted for convenience of reference only and shall not affect the construction or interpretation of the Plan.

1.3 **Context, Construction:** Whenever the singular or masculine are used in the Plan, the same shall be construed as being the plural or feminine or neuter or vice versa where the context so requires.

1.4 **References to this Plan:** The words "hereto", "herein", "hereby", "hereunder", "hereof" and similar expressions mean or refer to the Plan as a whole and not to any particular article, section, paragraph or other part hereof.

1.5 **Currency:** All references in this Plan or in any agreement entered into under this Plan to "dollars", "$" or lawful currency shall be references to Canadian dollars, unless the context otherwise requires.

## 2. PURPOSE AND ADMINISTRATION OF THE PLAN

2.1 **Purpose:** The purpose of the Plan is to advance the interests of the Corporation and its Subsidiaries, and its shareholders by: (i) ensuring that the interests of Eligible Persons are aligned with the success of the Corporation and its Subsidiaries; (ii) encouraging stock ownership by Eligible Persons; and (iii) providing compensation opportunities to attract, retain and motivate Eligible Persons.

2.2 **Common Shares Subject to the Plan:**

(a) The total number of Common Shares reserved and available for grant and issuance pursuant to this Plan, and the total number of Restricted Share Units that may be awarded pursuant to this Plan, shall not exceed 20% (in the aggregate) of the issued and outstanding Common Shares from time to time;



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

(c) 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.

2.3 **Administration of the Plan:** The Plan shall be administered by the Administrators, through the recommendation of the Compensation Committee of the Board. Subject to any limitations of the Plan, the Administrators shall have the power and authority to:

(a) adopt rules and regulations for implementing the Plan;

(b) determine the eligibility of persons to participate in the Plan, when Restricted Share Units and Options to Eligible Persons shall be awarded or granted, the number of Restricted Share Units and Options to be awarded or granted, the vesting criteria for each award of Restricted Share Units and the vesting period for each grant of Options;

(c) interpret and construe the provisions of the Plan and any agreement or instrument under the Plan;

(d) subject to regulatory requirements, make exceptions to the Plan in circumstances which they determine to be exceptional;

(e) require that any Participant provide certain representations, warranties and certifications to the Corporation to satisfy the requirements of applicable laws, including without limitation, the registration requirements of the 1933 Act and applicable state securities laws, or exemptions therefrom; and

(f) make all other determinations and take all other actions as they determine to be necessary or desirable to implement, administer and give effect to the Plan.

## 3. ELIGIBILITY AND PARTICIPATION IN PLAN

3.1 **The Plan and Participation:** The Plan is hereby established for Eligible Persons. Restricted Share Units may be awarded and Options may be granted to any Eligible Person as determined by the Administrators in accordance with the provisions hereof. The Corporation and each Participant acknowledge that they are responsible for ensuring and confirming that such Participant is a bona fide Eligible Person entitled to receive Options or Restricted Share Units, as the case may be.

3.2 **Agreements:** All Restricted Share Units awarded hereunder shall be evidenced by a restricted share unit agreement ("**Restricted Share Unit Agreement**") between the Corporation and the Participant, substantially in the form set out in Exhibit A or in such other form as the Administrators may approve from time to time. All Options granted hereunder shall be evidenced by an option agreement ("**Option Agreement**") between the Corporation and the Participant, substantially in the form as set out in Exhibit B or in such other form as the Administrators may approve from time to time.



## 4. AWARD OF RESTRICTED SHARE UNITS

4.1 **Award of Restricted Share Units:** The Administrators may, at any time and from time to time, award Restricted Share Units to Eligible Persons. In awarding any Restricted Share Units, the Administrators shall determine:

(a) to whom Restricted Share Units pursuant to the Plan will be awarded;

(b) the number of Restricted Share Units to be awarded and credited to each Participant's Account;

(c) the Award Date; and

(d) subject to section 4.3 hereof, the applicable vesting criteria.

Upon the award of Restricted Share Units, the number of Restricted Share Units awarded to a Participant shall be credited to the Participant's Account effective as of the Award Date.

4.2 **Restricted Share Unit Agreement:** Upon the award of each Restricted Share Unit to a Participant, a Restricted Share Unit Agreement shall be delivered by the Administrators to the Participant.

4.3 **Vesting:**

(a) Subject to subsections (c) and (d) below, at the time of the award of Restricted Share Units, the Administrators shall determine in their sole discretion the vesting criteria applicable to such Restricted Share Units.

(b) For greater certainty, the vesting of Restricted Share Units may be determined by the Administrators to include criteria such as performance vesting, in which the number of Common Shares to be delivered to a Participant for each Restricted Share Unit that vests may fluctuate based upon the Corporation's performance and/or the Market Price of the Common Shares, in such manner as determined by the Administrators in their sole discretion.

(c) Each Restricted Share Unit shall be subject to vesting in accordance with the terms set out in the Restricted Share Unit Agreement.

(d) Notwithstanding anything to the contrary in this Plan, all vesting and issuances or payments, as applicable, in respect of a Restricted Share Unit shall be completed no later than December 15 of the third calendar year commencing after the Award Date for such Restricted Share Unit.



4.4 **Blackout Periods:** Should the date of vesting of a Restricted Share Unit fall within a Blackout Period or within nine Business Days following the expiration of a Blackout Period, such date of vesting shall be automatically extended without any further act or formality to that date which is the tenth Business Day after the end of the Blackout Period, such tenth Business Day to be considered the date of vesting for such Restricted Share Unit for all purposes under the Plan. Notwithstanding section 6.4 hereof, the ten Business Day period referred to in this section 4.4 may not be extended by the Board.

4.5 **Vesting and Settlement:** As soon as practicable after the relevant date of vesting of any Restricted Share Units awarded under the Plan and with respect to a U.S. Participant, no later than 60 days thereafter, but subject to subsection 4.3(d), a Participant shall be entitled to receive and the Corporation shall issue or pay (at its discretion):

(a) a lump sum payment in cash equal to the number of vested Restricted Share Units recorded in the Participant's Account multiplied by the Market Value of a Common Share on the Payout Date;

(b) the number of Common Shares required to be issued to a Participant upon the vesting of such Participant's Restricted Share Units in the Participant's Account, duly issued as fully paid and non-assessable shares and such Participant shall be registered on the books of the Corporation as the holder of the appropriate number of Common Shares; or

(c) any combination of the foregoing.

4.6 **Taxes and Source Deductions**: the Corporation or an affiliate of the Corporation may take such reasonable steps for the deduction and withholding of any taxes and other required source deductions which the Corporation or the affiliate, as the case may be, is required by any law or regulation of any governmental authority whatsoever to remit in connection with this Plan, any Restricted Share Units or any issuance of

Common Shares ("**Withholding Obligations**"). Without limiting the generality of the foregoing, the Corporation may, at its discretion: (i) deduct and withhold those amounts it is required to remit pursuant to the Withholding Obligations from any cash remuneration or other amount payable to the Participant, whether or not related to the Plan, the vesting of any Restricted Share Units or the issue of any Common Shares; (ii) allow the Participant to make a cash payment to the Corporation equal to the amount required to be remitted, pursuant to the Withholding Obligations, which amount shall be remitted by the Corporation to the appropriate governmental authority for the account of the Participant; or (iii) settle a portion of vested Restricted Share Units of a Participant in cash equal to the amount the Corporation is required to remit, pursuant to the Withholding Obligations, which amount shall be remitted by the Corporation to the appropriate governmental authority for the account of the Participant. Where the Corporation considers that the steps undertaken in connection with the foregoing result in inadequate withholding or a late remittance of taxes, the delivery of any Common Shares to be issued to a Participant on vesting of any Restricted Share Units may be made conditional upon the Participant (or other person) reimbursing or compensating the Corporation or making arrangements satisfactory to the Corporation for the payment to it in a timely manner of all taxes required to be remitted, pursuant to the Withholding Obligations, for the account of the Participant.



4.7 **Rights Upon an Event of Termination:**

(a) If an Event of Termination has occurred in respect of any Participant, any and all Common Shares corresponding to any vested Restricted Share Units in the Participant's Account shall be issued as soon as practicable after the Event of Termination to the former Participant in accordance with section 4.5 hereof. With respect to each Restricted Share Unit of a U.S. Participant, such Restricted Share Unit will be settled and shares issued as soon as practicable following the date of vesting of such Restricted Share Unit as set forth in the applicable Restricted Share Unit Agreement, but in all cases within 60 days following such date of vesting.

(b) If an Event of Termination has occurred in respect of any Participant, any unvested Restricted Share Units in the Participant's Account shall, unless otherwise determined by the Administrators in their discretion, forthwith and automatically be forfeited by the Participant and cancelled. With respect to any Restricted Share Unit of a U.S. Participant, if the Administrators determine, in their discretion, to waive vesting conditions applicable to a Restricted Share Unit that is unvested at the time of an Event of Termination, such Restricted Share Unit shall not be forfeited or cancelled, but instead will be deemed to be vested and settled and shares delivered following the date of vesting of such Restricted Share Unit as set forth in the applicable Restricted Share Unit Agreement.

(c) Notwithstanding the foregoing subsection 4.7(b) and subject to the requirements of the Exchange, if a Participant retires in accordance with the Corporation's retirement policy, at such time, any unvested performance-based Restricted Share Units in the Participant's Account shall not be forfeited by the Participant or cancelled and instead shall be eligible to become vested in accordance with the vesting conditions set forth in the applicable Restricted Share Unit Agreement after such retirement (as if retirement had not occurred), but only if the performance vesting criteria, if any, are met on the applicable date.

(d) For greater certainty, if a Participant's employment is terminated for just cause, each unvested Restricted Share Unit in the Participant's Account shall forthwith and automatically be forfeited by the Participant and cancelled.

(e) For the purposes of this Plan and all matters relating to the Restricted Share Units, the date of the Event of Termination shall be determined without regard to any applicable severance or termination pay, damages, or any claim thereto (whether express, implied, contractual, statutory, or at common law).

4.8 **Restricted Share Unit Accounts:** A separate notional account for Restricted Share Units shall be maintained for each Participant (an "**Account**"). Each Account will be credited with Restricted Share Units awarded to the Participant from time to time pursuant to section 4.1 hereof by way of a bookkeeping entry in the books of the Corporation. On the vesting of the Restricted Share Units pursuant to section 4.3 hereof and the corresponding issuance of Common Shares to the Participant pursuant to section 4.5 hereof, or on the forfeiture and cancellation of the Restricted Share Units pursuant to section 4.7 hereof, the applicable Restricted Share Units credited to the Participant's Account will be cancelled.



4.9 **Record Keeping:** the Corporation shall maintain records in which shall be recorded:

(a) the name and address of each Participant;

(b) the number of Restricted Share Units credited to each Participant's Account;

(c) any and all adjustments made to Restricted Share Units recorded in each Participant's Account; and

(d) any other information which the Corporation considers appropriate to record in such records.

## 5. GRANT OF OPTIONS

5.1 **Grant of Options:** Subject to section 2.2, the total number of Common Shares reserved and available for grant pursuant to this section on exercise of Options (together with those Common Shares issuable pursuant to any other Share Compensation Arrangement, including Restricted Share Units) shall not exceed 20% of the number of issued and outstanding Common Shares from time to time.

The Administrators may at any time and from time to time grant Options to Eligible Persons. In granting any Options, the Administrators shall determine:

(a) to whom Options pursuant to the Plan will be granted;

(b) the number of Options to be granted, the Grant Date and the exercise price of each Option;

(c) the expiration date of each Option; and

(d) subject to section 5.3 hereof, the applicable vesting criteria,

provided, however that the exercise price for a Common Share pursuant to any Option shall not be less than the Market Price on the Grant Date in respect of that Option.

5.2 **Option Agreement:** Upon each grant of Options to a Participant, an Option Agreement shall be delivered by the Administrators to the Participant.

5.3 **Vesting:**

(a) Subject to subsection 2.2(c) above with respect to grants to Eligible Persons providing Investor Relations Activities, at the time of the grant of any Options, the Administrators shall determine, in accordance with minimum vesting requirements of the Exchange, the vesting criteria applicable to such Options.

(b) The Administrators may determine when any Option will become exercisable and may determine that Options shall be exercisable in instalments or pursuant to a vesting schedule. The Option Agreement will disclose any vesting conditions prescribed by the Administrators.



5.4 **Term of Option/Blackout Periods:** The term of each Option shall be determined by the Administrators; provided that no Option shall be exercisable after ten years from the Grant Date. Should the term of an Option expire on a date that falls within a Blackout Period or within nine Business Days following the expiration of a Blackout Period, such expiration date shall be automatically extended without any further act or formality to that date which is the tenth Business Day after the end of the Blackout Period, such tenth Business Day to be considered the expiration date for such Option for all purposes under the Plan. Notwithstanding section 6.4 hereof, the ten Business Day period referred to in this section 5.4 may not be extended by the Board.

5.5 **Exercise of Option:**

Options that have vested in accordance with the provisions of this Plan and the applicable Option Agreement may be exercised at any time, or from time to time, during their term and subject to the provisions of Section 5.9 hereof as to any number of whole Common Shares that are then available for purchase thereunder; provided that no partial exercise may be for less than 100 whole Common Shares. Options may be exercised by delivery of a written notice of exercise to the Administrators, substantially in the form attached to this Plan as Exhibit C, with respect to the Options, or by any other form or method of exercise acceptable to the Administrators.

5.6 **Payment and Issuance:**

(a) Upon actual receipt by the Corporation or its agent of the materials required by subsection 5.5 and receipt by the Corporation of cash, a cheque, bank draft or other form of acceptable payment for the aggregate exercise price, the number of Common Shares in respect of which the Options are exercised will be issued as fully paid and non-assessable shares and the Participant exercising the Options shall be registered on the books of the Corporation as the holder of the appropriate number of Common Shares. No person or entity shall enjoy any part of the rights or privileges of a holder of Common Shares which are subject to Options until that person or entity becomes the holder of record of those Common Shares. No Common Shares will be issued by the Corporation prior to the receipt of payment by the Corporation for the aggregate exercise price for the Options being exercised.

(b) Without limiting the foregoing, unless otherwise determined by the Administrators or not compliant with any applicable laws or rules of the Exchange, a Participant may elect a cashless exercise in a notice of exercise in accordance with the following: (i) cashless exercise of Options shall only be available to a Participant who intends to immediately sell the Common Shares issuable upon exercise of such Options and the proceeds of sale will be sufficient to satisfy the exercise price of the Options, and (ii) if an eligible Participant elects to exercise the Options through cashless exercise and complies with any relevant protocols approved by the Administrators, a sufficient number of the Common Shares issued upon exercise of the Options will be sold by a designated broker on behalf of the Participant to satisfy the exercise price of the Options, the exercise price of the Options will be delivered to the Corporation and the Participant will receive only the remaining unsold Common Shares from the exercise of the Options and the net proceeds of the sale after deducting the exercise price of the Options, applicable taxes and any applicable fees and commissions, all as determined by the Administrators from time to time. The Corporation shall not deliver the Common Shares issuable upon a cashless exercise of Options until receipt of the exercise price therefor, whether by a designated broker selling the Common Shares issuable upon exercise of such Options through a short position or such other method determined by the Administrators in compliance with applicable laws.

5.7 **Cashless Exercise:** Provided that the Common Shares are listed and posted for trading on a stock exchange or market that permits cashless exercise, a Participant may elect a cashless exercise in a notice of exercise, which election will result in all of the Common Shares issuable on the exercise being sold. In such case, the Participant will not be required to deliver to the Administrators a cheque or other form of payment for the aggregate exercise price referred to above. Instead the following provisions will apply:

(a) The Participant will instruct a broker selected by the Participant to sell through the stock exchange or market on which the Common Shares are listed or quoted, the Common Shares issuable on the exercise of Options, as soon as possible upon the issue of such Common Shares to the Participant at the then applicable bid price of the Common Shares.

(b) Before the relevant trade date, the Participant will deliver the exercise notice including details of the trades to the Corporation electing the cashless exercise and the Corporation will direct its registrar and transfer agent to issue a certificate for such Participant's Common Shares in the name of the broker (or as the broker may otherwise direct) for the number of Common Shares issued on the exercise of the Options, against payment by the broker to the Corporation of (i) the exercise price for such Common Shares; and (ii) the amount the Corporation determines, in its discretion, is required to satisfy the Corporation withholding tax and source deduction remittance obligations in respect of the exercise of the Options and issuance of Common Shares.

(c) The broker will deliver to the Participant the remaining proceeds of sale, net of any brokerage commission or other expenses.

5.8 **Taxes and Source Deductions**: The Corporation or an affiliate of the Corporation may take such reasonable steps for the deduction and withholding of any taxes and other required source deductions which the Corporation or the affiliate, as the case may be, is required by any law or regulation of any governmental authority whatsoever to remit pursuant to the Withholding Obligations in connection with this Plan, any Options or any issuance of Common Shares. Without limiting the generality of the foregoing, the Corporation may, at its discretion: (i) deduct and withhold those amounts it is required to remit, pursuant to the Withholding Obligations, from any cash remuneration or other amount payable to the Participant, whether or not related to the Plan, the exercise of any Options or the issue of any Common Shares; or (ii) allow the Participant to make a cash payment to the Corporation equal to the amount required to be remitted, pursuant to the Withholding Obligations, which amount shall be remitted by the Corporation to the appropriate governmental authority for the account of the Participant. Where the Corporation considers that the steps undertaken in connection with the foregoing result in inadequate withholding or a late remittance of taxes, the delivery of any Common Shares to be issued to a Participant on the exercise of Options may be made conditional upon the Participant (or other person) reimbursing or compensating the Corporation or making arrangements satisfactory to the Corporation for the payment in a timely manner of all taxes required to be remitted, pursuant to the Withholding Obligations, for the account of the Participant.



5.9 **Rights Upon an Event of Termination:**

(a) If an Event of Termination has occurred in respect of a Participant, any unvested Options, to the extent not available for exercise as of the date of the Event of Termination, shall, unless otherwise determined by the Administrators in their discretion, forthwith and automatically be cancelled, terminated and not available for exercise without further consideration or payment to the Participant.

(b) Except as otherwise stated herein or otherwise determined by the Administrators in their discretion (provided such determination does not exceed a maximum of one year), upon the occurrence of an Event of Termination in respect of a Participant, any vested Options granted to the Participant that are available for exercise may be exercised only before the earlier of:

(i) the expiry of the Option; and

(ii) six months after the date of the Event of Termination.

(c) Notwithstanding the foregoing subsections 5.9(a) and (b), if a Participant's employment is terminated for just cause, each Option held by the Participant, whether or not then exercisable, shall forthwith and automatically be cancelled and may not be exercised by the Participant.

(d) For the purposes of this Plan and all matters relating to the Options, the date of the Event of Termination shall be determined without regard to any applicable severance or termination pay, damages, or any claim thereto (whether express, implied, contractual, statutory, or at common law).

5.10 **Record Keeping:** The Corporation shall maintain an Option register in which shall be recorded:

(a) the name and address of each holder of Options;

(b) the number of Common Shares subject to Options granted to each holder of Options;

(c) the term of the Option and exercise price, including adjustments for each Option granted; and

(d) any other information which the Corporation considers appropriate to record in such register.

## 6. GENERAL

6.1 **Effective Date of Plan:** The Plan shall be effective as of the Effective Date.



6.2 **Change of Control:** If there is a Change of Control transaction then, notwithstanding any other provision of this Plan except subsection 4.3(d) which will continue to apply in all circumstances, the Administrators may, in their sole discretion, determine that any or all unvested Restricted Share Units and any or all Options (whether or not currently exercisable) shall vest or become exercisable, as applicable, at such time and in such manner as may be determined by the Administrators in their sole discretion such that Participants under the Plan shall be able to participate in the Change of Control transaction, including, at the election of the holder thereof, by surrendering such Restricted Share Units and Options to the Corporation or a third party or exchanging such Restricted Share Units or Options, for consideration in the form of cash and/or securities, to be determined by the Administrators in their sole discretion. Notwithstanding the foregoing, with respect to Options of U.S. Participants, any exchange, substitution or amendment of such Options will occur only to the extent and in a manner that will not result in the imposition of taxes under Section 409A of the Code, and with respect to Restricted Share Units of U.S. Participants, any surrender or other modification of Restricted Share Units will occur only to the extent such surrender or other modification will not result in the imposition of taxes under Section 409A of the Code.

6.3 **Reorganization Adjustments:**

(a) In the event of any declaration by the Corporation of any stock dividend payable in securities (other than a dividend which may be paid in cash or in securities at the option of the holder of Common Shares), or any subdivision or consolidation of Common Shares, reclassification or conversion of Common Shares, or any combination or exchange of securities, merger, consolidation,

recapitalization, amalgamation, plan of arrangement, reorganization, spin off involving the Corporation, distribution (other than normal course cash dividends) of company assets to holders of Common Shares, or any other corporate transaction or event involving the Corporation or the Common Shares, the Administrators, in the Administrators' sole discretion, may, subject to any relevant resolutions of the Board, and without liability to any person, make such changes or adjustments, if any, as the Administrators consider fair or equitable, in such manner as the Administrators may determine, to reflect such change or event including, without limitation, adjusting the number of Options and Restricted Share Units outstanding under this Plan, the type and number of securities or other property to be received upon exercise or redemption thereof, and the exercise price of Options outstanding under this Plan, provided that the value of any Option or Restricted Share Unit immediately after such an adjustment, as determined by the Administrators, shall not exceed the value of such Option or Restricted Share Unit prior thereto, as determined by the Administrators.

(b) Notwithstanding the foregoing, with respect to Options and Restricted Share Units of U.S. Participants, such changes or adjustments will be made in a manner so as to not result in the imposition of taxes under Section 409A of the Code and will comply with the requirements in subsection 4.3(d).

(c) The Corporation shall give notice to each Participant in the manner determined, specified or approved by the Administrators of any change or adjustment made pursuant to this section and, upon such notice, such adjustment shall be conclusive and binding for all purposes.

(d) The Administrators may from time to time adopt rules, regulations, policies, guidelines or conditions with respect to the exercise of the power or authority to make changes or adjustments pursuant to section 6.2 or section 6.3(a). The Administrators, in making any determination with respect to changes or adjustments pursuant to section 6.2 or section 6.3(a) shall be entitled to impose such conditions as the Administrators consider or determine necessary in the circumstances, including conditions with respect to satisfaction or payment of all applicable taxes (including, but not limited to, withholding taxes).



6.4 **Amendment or Termination of Plan:**

The Board may amend this Plan or any Restricted Share Unit or any Option at any time without the consent of Participants provided that such amendment shall:

(a) not adversely alter or impair any Restricted Share Unit previously awarded or any Option previously granted except as permitted by the provisions of section 6.3 hereof, and, with respect to Restricted Share Units and Options of U.S. Participants, such amendment will not result in the imposition of taxes under Section 409A;

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

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

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

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

(iii) a change to the vesting provisions of any Restricted Share Unit or any Option (including any alteration, extension or acceleration thereof);

(iv) a change to the termination provisions of any Option or Restricted Share Units (for example, relating to termination of employment, resignation, retirement or death) that does not entail an extension beyond the original expiration date (as such date may be extended by virtue of section 5.4);

(v) the introduction of features to the Plan that would permit the Corporation to, instead of issuing Common Shares from treasury upon the vesting of the Restricted Share Units, retain a broker and make payments for the benefit of Participants to such broker who would purchase Common Shares in the open market for such Participants;

(vi) the amendment of this Plan as it relates to making lump sum payments to Participants upon the vesting of the Restricted Share Units;

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



(d) be subject to disinterested shareholder approval in the event of any reduction in the exercise price of any Option granted under the Plan to an Insider Participant.

For greater certainty and subject to approval by the Exchange (if applicable), shareholder approval shall be required in circumstances where an amendment to the Plan would:

(a) change from a fixed maximum percentage of issued and outstanding Common Shares to a fixed maximum number of Common Shares;

(b) increase the limits in section 2.2;

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

(d) extend the term of any Option beyond the original term (except if such period is being extended by virtue of section 5.4 hereof); or

(e) amend this section 6.4.

6.5 **Termination:** The Administrators may terminate this Plan at any time in their absolute discretion. If the Plan is so terminated, no further Restricted Share Units shall be awarded and no further Options shall be granted, but the Restricted Shares Units then outstanding and credited to Participants' Accounts and the Options then outstanding shall continue in full force and effect in accordance with the provisions of this Plan. Any termination of this Plan shall occur in a manner that will not result in the imposition of taxes on a U.S. Participant under Section 409A.

6.6 **Transferability:** A Participant shall not be entitled to transfer, assign, charge, pledge or hypothecate, or otherwise alienate, whether by operation of law or otherwise, the Participant's Restricted Share Units or Options or any rights the Participant has under the Plan.

6.7 **Rights as a Shareholder:** Under no circumstances shall the Restricted Share Units or Options be considered Common Shares nor shall they entitle any Participant to exercise voting rights or any other rights attaching to the ownership of Common Shares (including, but not limited to, the right to dividend equivalent payments).

6.8 **Credits for Dividends:** Unless otherwise determined by the Administrators, whenever cash or other dividends are paid on Common Shares, additional Restricted Share Units will be automatically granted to each Participant who holds Restricted Share Units on the record date for such dividends. The number of such Restricted Share Units (rounded to the nearest whole Restricted Share Units) to be credited to such Participant as of the date on which the dividend is paid on the Common Shares shall be an amount equal to the quotient obtained when (i) the aggregate value of the cash or other dividends that would have been paid to such Participant if the Participant's Restricted Share Units as of the record date for the dividend had been Common Shares, is divided by (ii) the Market Value of the Common Shares as of the date on which the dividend is paid on the Common Shares. Restricted Share Units granted to a Participant shall be subject to the same vesting conditions (time and performance (as applicable)) as the Restricted Share Units to which they relate.



6.9 **No Effect on Employment, Rights or Benefits:**

(a) The terms of employment shall not be affected by participation in the Plan.

(b) Nothing contained in the Plan shall confer or be deemed to confer upon any Participant the right to continue as a director, officer, employee or Consultant nor interfere or be deemed to interfere in any way with any right of the Corporation, the Board or the shareholders of the Corporation to remove any Participant from the Board or of the Corporation or any Subsidiary to terminate any Participant's employment or agreement with a Consultant at any time for any reason whatsoever.

(c) Under no circumstances shall any person who is or has at any time been a Participant be able to claim from the Corporation or any Subsidiary any sum or other benefit to compensate for the loss of any rights or benefits under or in connection with this Plan or by reason of participation in this Plan.

6.10 **Market Value of Common Shares:** The Corporation makes no representation or warranty as to the future market value of any Common Shares. No Participant shall be entitled, either immediately or in the future, either absolutely or contingently, to receive or obtain any amount or benefit granted to or to be granted for the purpose of reducing the impact, in whole or in part, of any reduction in the market value of the shares of the Corporation or a corporation related thereto.

6.11 **Compliance with Applicable Law:**

(a) If any provision of the Plan contravenes any law or any order, policy, by-law or regulation of any regulatory body having jurisdiction, then such provision shall be deemed to be amended to the extent necessary to bring such provision into compliance therewith. Notwithstanding the foregoing, the Corporation shall have no obligation to register any securities provided for in this Plan under the 1933 Act.

(b) The award of Restricted Share Units, the grant of Options and the issuance of Common Shares under this Plan shall be carried out in compliance with applicable statutes and with the regulations of governmental authorities and the Exchange. If the Administrators determine in their discretion that, in order to comply with any such statutes or regulations, certain action is necessary or desirable as a condition of or in connection with the award of a Restricted Share Unit, the grant of an Option or the issue of a Common Share upon the vesting of a Restricted Share Unit or exercise of an Option, as applicable, that Restricted Share Unit may not vest in whole or in part and that Option may not be exercised in whole or in part, as applicable, unless that action shall have been completed in a

manner satisfactory to the Administrators. Without limiting the foregoing, any Common Shares issued upon the vesting of Restricted Share Units or exercise of Options granted pursuant to this Plan must be registered under the 1933 Act, and all applicable state securities laws, or must comply with the requirements of an exemption or exclusion therefrom. If the Common Shares issued upon the vesting of Restricted Share Units or exercise of Options are issued in the United States or to a U.S. Person in reliance upon an exemption from the registration requirements of the 1933 Act and applicable state securities laws, such Common Shares will be "restricted securities" (as such term is defined in Rule 144 under the 1933 Act) and the certificate representing such Common Shares will bear a legend restricting the transfer of such securities under the 1933 Act and applicable state securities laws. The Board may require that a Participant provide certain representations, warranties and certifications to the Corporation to satisfy the requirements of applicable securities laws, including without limitation, the registration requirements of the 1933 Act and applicable state securities laws or exemptions or exclusions therefrom.



6.12 **Governing Law:** This Plan shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein, and with respect to U.S. Participants, the Code.

6.13 **Subject to Approval:** The Plan is adopted subject to the approval of the Exchange and any other required regulatory approval. To the extent a provision of the Plan requires regulatory approval which is not received, such provision shall be severed from the remainder of the Plan until the approval is received and the remainder of the Plan shall remain in effect.

6.14 **Special Terms and Conditions Applicable to U.S. Participants:** Options issued to U.S. Participants are intended to be exempt from Section 409A of the Code pursuant to Treas. Reg. Section 1.409A-1(b)(5)(i)(A) and the Plan and such Options will be construed and administered accordingly. Options may be issued to U.S. Participants under the Plan only if the shares with respect to the Options qualify as "service recipient stock" as defined in Treas. Reg. Section 1.409A-1(b)(5)(E)(iii). Restricted Share Units awarded to U.S. Participants are intended to be either exempt from (e.g., as short-term deferrals) or compliant with Section 409A of the Code and such Restricted Share Units will be construed and administered accordingly. Any waiver or acceleration of vesting under the Plan or any Restricted Share Unit Agreement for a U.S. Participant may occur only to the extent that such acceleration or waiver will not result in the imposition of taxes under Section 409A of the Code. Any payments made under this Plan or any Restricted Share Unit Agreement to a U.S. Participant as a result of a termination of employment that are deemed to be subject to Section 409A of the Code shall occur only if such termination constitutes a "separation from service" as defined in Treas. Reg. 1.409A-1(h). Additionally, any payments resulting from a separation from service made to a U.S. Participant who is a "specified employee" as defined in Treas. Reg. 1.409A-1(i) shall be subject to the six month delay in payments required by Treas. Reg. 1.409A-1(3)(v) if such payments are deemed to be subject to Section 409A of the Code. Although the Corporation intends Options and Restricted Share Units granted to U.S. Participants to be exempt from or compliant with Section 409A, the Corporation makes no representation or guaranty as to the tax treatment of such Options and Restricted Share Units. Each U.S. Participant (and any beneficiary or the estate of the Participant, as applicable) is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on or for the account of such U.S. Participant in connection with this Plan. Neither the Corporation nor any affiliate, nor any employee or director of the Corporation or an affiliate, shall have any obligation to indemnify or otherwise hold such U.S. Participant, beneficiary or estate harmless from any or all such taxes or penalties.

**ADOPTED** the 19th day of August, 2019 and Amended on April 14, 2021.

**EXHIBIT A**

**[Insert of the underlying Common Shares have not been registered under the 1933 Act:**

**THE RESTRICTED SHARE UNITS AND THE UNDERLYING COMMON SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT") OR ANY U.S. STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO U.S. PERSONS UNLESS SUCH SECURITIES ARE REGISTERED UNDER THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS ARE AVAILABLE. THE TERMS "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED IN REGULATION S UNDER THE 1933 ACT.]**

**RESTRICTED SHARE UNIT AGREEMENT**

Notice is hereby given that, effective this _____ day of _____, _____ (the "**Restricted Share Grant Date**") **Draganfly Inc.** (the "**Corporation**") has granted to _____ (the "**Participant**"), _____ Restricted Share Units pursuant to the Corporation's Share Compensation Plan (the "**Plan**"), a copy of which has been provided to the Participant.

Restricted Share Units are subject to the following terms:

(a) Pursuant to the Plan and as compensation to the Participant, the Corporation hereby grants to the Participant, as of the Restricted Share Grant Date, the number of Restricted Share Units set forth above.

(b) The granting and vesting of the Restricted Share Units and the payment by the Corporation of any payout in respect of any Vested Restricted Share Units (as defined below) are subject to the terms and conditions of the Plan, all of which are incorporated into and form an integral part of this Restricted Share Unit Agreement.

(c) The Restricted Share Units shall become vested restricted share units (the "**Vested Restricted Share Units**") in accordance with the following schedule:

(i) ● on the 6 month anniversary of the Restricted Share Grant Date;

(ii) ● on the 12 month anniversary of the Restricted Share Grant Date;

(iii) ● on the 18 month anniversary of the Restricted Share Grant Date; and

(iv) ● on the 24 month anniversary of the Restricted Share Grant Date (each a "**Vesting Date**").

(d) As soon as reasonably practicable and no later than 60 days following the Vesting Date, or, if the Participant is not a U.S. Participant (as defined in the Plan), such later date mutually agreed to by the Corporation and the Participant, the Participant shall be entitled to receive, and the Corporation shall issue or provide, a payout with respect to those Vested Restricted Share Units in the Participant's Account to which the Vesting Date relates (each a "**Payout Date**"):



(i) a lump sum payment in cash equal to the number of vested Restricted Share Units recorded in the Participant's Account multiplied by the Market Value of a Common Share on the Payout Date;

(ii) the number of Common Shares required to be issued to a Participant upon the vesting of such Participant's Restricted Share Units in the Participant's Account, duly issued as fully paid and non-assessable shares and such Participant shall be registered on the books of the Corporation as the holder of the appropriate number of Common Shares; or

(iii) any combination of the foregoing.

subject to any applicable Withholding Obligations.

(e) The Participant acknowledges that:

(i) he or she has received and reviewed a copy of the Plan; and

(ii) the Restricted Share Units have been granted to the Participant under the Plan and are subject to all of the terms and conditions of the Plan to the same effect as if all of such terms and conditions were set forth in this Restricted Share Unit Agreement, including with respect to termination and forfeiture as set out in Section 4.7 of the Plan.

Notwithstanding anything to the contrary in this Restricted Share Unit Agreement all vesting and issuances or payments, as applicable, in respect of a Restricted Share Unit evidenced hereby shall be completed no later than December 15 of the third calendar year commencing after the Restricted Share Grant Date;

The grant of the Restricted Share Units evidenced hereby is made subject to the terms and conditions of the Plan. The Participant agrees that he/she may suffer tax consequences as a result of the grant of these Restricted Share Units and the vesting of the Restricted Share Units. The Participant acknowledges that he/she is not relying on the Corporation for any tax advice and has had an adequate opportunity to obtain advice of independent tax counsel.

The Participant represents and warrants to the Corporation that (i) under the terms and conditions of the Plan the Participant is a bona fide Eligible Person (as defined in the Plan) entitled to receive Restricted Share Units, and (ii) if the Common Shares issuable pursuant to the Restricted Share Units have not been registered under the 1933 Act, either (A) the Participant is not in the United States or a U.S. Person, nor is the Participant acquiring the Restricted Share Units for the benefit of a person in the United States or a U.S. Person, or (B) an exemption from the registration requirements of the 1933 Act and all applicable state securities laws is available and the Participant has provided evidence satisfactory to the Corporation to such effect. The Corporation may condition awards and elections under the Plan upon receiving from the undersigned such representations and warranties and such evidence of registration or exemption under the 1933 Act and all applicable U.S. state securities laws as is satisfactory to the Corporation, acting in its sole discretion.

In the event of any inconsistency between the terms of this Restricted Share Unit Agreement and the Plan, the terms of the Plan shall prevail unless otherwise determined in the Plan.

**Draganfly Inc.**

| | |
|---|---|
| Authorized Signatory | Signature of Participant |
| | Name of Participant |

**EXHIBIT B**

**[Insert if the underlying Common Shares have not been registered under the 1933 Act:**

**THE OPTIONS AND THE OPTIONED SHARES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT") OR ANY U.S. STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO U.S. PERSONS UNLESS SUCH SECURITIES ARE REGISTERED UNDER THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS, OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE 1933 ACT AND ALL APPLICABLE U.S. STATE SECURITIES LAWS ARE AVAILABLE. THE TERMS "UNITED STATES" AND "U.S. PERSON" ARE AS DEFINED IN REGULATION S UNDER THE 1933 ACT.]**

## OPTION AGREEMENT

Notice is hereby given that, effective this _____ day of _____, _____ (the "**Effective Date**") **Draganfly Inc.** (the "**Corporation**") has granted to _____ (the "**Participant**"), Options to acquire _____ Common Shares (the "**Optioned Shares**") up to 4:30 p.m. Pacific Time on the _____ day of _____, _____ (the "**Option Expiry Date**") at an exercise price of Cdn$_____ per Optioned Share pursuant to the Corporation's Share Compensation Plan (the "**Plan**"), a copy of which is attached hereto.

Optioned Shares may be acquired as follows:

(f) **[insert vesting provisions, if applicable]; and**

(g) **[insert hold period when required]**.

The grant of the Options evidenced hereby and the Option Expiry Date thereof, is made subject to the terms and conditions of the Plan. The Participant agrees that he/she may suffer tax consequences as a result of the grant of these Options, the exercise of the Options and the disposition of Optioned Shares. The Participant acknowledges that he/she is not relying on the Corporation for any tax advice and has had an adequate opportunity to obtain advice of independent tax counsel.

The Participant represents and warrants to the Corporation that (i) under the terms and conditions of the Plan the Participant is a bona fide Eligible Person (as defined in the Plan) entitled to receive Options, and (ii) if the Common Shares issuable pursuant to the Restricted Share Units have not been registered under the 1933 Act, either (A) the Participant is not in the United States or a U.S. Person, nor is the Participant acquiring the Options or any Optioned Shares for the benefit of a person in the United States or a U.S. Person, or (B) an exemption from the registration requirements of the 1933 Act and all applicable state securities laws is available and the Participant has provided evidence satisfactory to the Corporation to such effect. The Participant understands that the Options may not be exercised in the United States or by or on behalf of a U.S. Person unless the Options and the Option Shares have been registered under the 1933 Act or are exempt from registration thereunder. The Corporation may condition the exercise of the Options upon receiving from the Participant such representations and warranties and such evidence of registration or exemption under the 1933 Act and all applicable state securities laws as is satisfactory to the Corporation, acting in its sole discretion.

In the event of any inconsistency between the terms of this Option Agreement and the Plan, the terms of the Plan shall prevail.

**Draganfly Inc.**

| | |
|---|---|
| _____ | _____ |
| Authorized Signatory | Signature of Participant |
| | _____ |
| | Name of Participant |

**EXHIBIT C**

**NOTICE OF OPTION EXERCISE**

TO: **Draganfly Inc.** (the "**Corporation**")

FROM: _____

DATE: _____

The undersigned hereby irrevocably gives notice, pursuant to the Corporation's Share Compensation Plan (the "**Plan**"), of the exercise of the Options to acquire and hereby subscribes for:

*[check one]*

☐ (a) all of the Optioned Shares; or

☐ (b) _____ of the Optioned Shares,

which are the subject of the Option Agreement attached hereto.

Calculation of total Exercise Price:

(i) number of Optioned Shares to be acquired on exercise _____ Optioned Shares

(ii) multiplied by the Exercise Price per Optioned Share: $ _____

TOTAL EXERCISE PRICE, enclosed herewith (unless this is a cashless exercise): $ _____

A. ☐ The undersigned (i) at the time of exercise of these Options is not in the "United States" or a "U.S. Person" (as such terms are defined in Regulation S under the United States Securities Act of 1933, as amended (the "**1933 Act**") and is not exercising these Options on behalf of a person in the United States or U.S. Person and (ii) did not execute or deliver this Notice of Option Exercise in the United States.

B. ☐ The undersigned has delivered an opinion of counsel of recognized standing or other evidence in form and substance satisfactory to the Corporation to the effect that an exemption from the registration requirements of the 1933 Act, and applicable state securities laws is available for the issuance of the Optioned Shares.

C. ☐ The Optioned Shares have been registered under the 1933 Act.

Note: The undersigned understands that unless Box A or C is checked, the certificates representing the Optioned Shares will bear a legend restricting transfer without registration under the 1933 Act and applicable state securities laws unless an exemption from registration is available.

Note: Certificates representing Optioned Shares will not be registered or delivered to an address in the United States unless Box B or C above is checked.

Note: If Box B is checked, any opinion or other evidence tendered must be in form and substance satisfactory to the Corporation. Holders planning to deliver an opinion of counsel or other evidence in connection with

the exercise of Options should contact the Corporation in advance to determine whether any opinions to be tendered or other evidence will be acceptable to the Corporation.

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I hereby:

☐ (a) unless this is a cashless exercise, enclose a cheque payable to "**[●]**" for the aggregate Exercise Price plus the amount of the estimated Withholding Obligations and agree that I will reimburse the Corporation for any amount by which the actual Withholding Obligations exceed the estimated Withholding Obligations; or

☐ (b) advise the Corporation that I am exercising the above Options on a cashless exercise basis, in compliance with the procedures established from time to time by the Administrators for cashless exercises of Options under the Plan. I will consult with the Corporation to determine what additional documentation, if any, is required in connection with my cashless exercise of the above Options. I agree to comply with the procedures established by the Corporation for cashless exercises and all terms and conditions of the Plan. Please prepare the Optioned Shares certificates, if any, issuable in connection with this exercise in the following name(s):

_____

_____

_____
Signature of Participant

_____
Name of Participant

Letter and consideration/direction received on _____, 20 _____.

[●]

By: _____
[Name]
[Title]

---

**Exhibit 4.3**

**INDEPENDENT CONSULTANT AGREEMENT**

This Independent Consultant Agreement ("**Agreement**") is dated effective as of the 1st day of October, 2019 (the "**Effective Date**").

**BETWEEN:**

**DRAGANFLY INC.,** a company duly incorporated under the laws of the Province of British Columbia with a business address at 2108 St. George Avenue, Saskatoon, Saskatchewan S7M 0K7

("**Company**")

**AND**:

**1502372 ALBERTA LTD.**, a corporation having an address at
L120, 2303 – 4 Street SW, Calgary, AB T2S 2S7

("**Consultant**")

**AND**:

**CAMERON CHELL**, the principal of the Consultant

("**Principal**")

**WHEREAS**:

A. The Consultant has considerable expertise in the general management of start-ups, financial and business matters; and

B. The Company wishes to obtain, and the Consultant wishes to provide, certain services to the Company on the terms and conditions set out in this Agreement;

**NOW THEREFORE**, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration (including but not limited to a signing bonus paid by the Company to the Consultant for this Agreement in the amount of CAD $50.00), the receipt and sufficiency of which are hereby acknowledged, the Company, the Consultant and the Principal covenant and agree as follows:

## 1. SERVICES TO BE PROVIDED

1.1 Commencing on the Effective Date, the Consultant shall provide executive services to the Company and, in this regard, the Consultant shall have the Principal hold the position of **Chairman and Chief Executive Officer** at the Company. Furthermore, commencing on the Effective Date the Consultant shall provide such services to the Company as are described in Schedule A to this Agreement (the "**Services**"). The Consultant shall also provide any other services not specifically mentioned in Schedule A, but which, by reason of the Consultant's capability, the Consultant knows or ought to know are necessary to ensure that the best interests of the Company are maintained.



1.2 The Consultant shall provide all of the Services through the Principal, unless otherwise agreed in writing by the Company. The Consultant and the Principal undertake to make the Principal available to perform the Services required under this Agreement.

1.3 The Consultant shall perform the Services to the level of competence and skill one would reasonably expect from a company with the skills and experience similar to that of the Consultant. The Consultant shall devote sufficient working time, attention and ability in a timely manner to the Business of the Company (as defined herein), and to any associated company, as is reasonably necessary for the proper performance of the Services pursuant to this Agreement.

1.4 The Consultant will faithfully, honestly and diligently serve the Company, use its best efforts to promote the best interests of the Company and co-operate with the Company, and utilize maximum professional skill and care to ensure that the Services are rendered to the satisfaction of the Company.

1.5 The Consultant will comply with all applicable rules, laws and regulations, and all applicable Company policies (to the extent they have been provided to the Consultant by the Company), having application to the carrying out and performance of its obligations under this Agreement.

1.6 At all times while on the Company's premises or representing the Company in any other location in connection with the provision of the Services, the Consultant will observe the Company's rules and regulations with respect to conduct, health, safety and protection of persons and property.

## 2. INDEPENDENT CONSULTANT RELATIONSHIP

2.1 It is expressly agreed that the Consultant's relationship with the Company is that of an independent contractor in performing the Services under this Agreement, and nothing in this Agreement is intended to, or shall be construed to, create a partnership, agency, joint venture, employment or similar relationship either between the Consultant and the Company, or the Principal and the Company.

2.2 The Consultant and, where applicable, the Principal, shall file on a timely basis, all tax returns and payments required to be filed with or made to any federal or provincial tax authority with respect to the performance of the Services and the consideration therefor under this Agreement.

2.3 The Consultant is solely responsible for, and must maintain adequate records of, expenses incurred in the course of performing the Services.

2.4 The Consultant represents and warrants that the Consultant has the right to provide the Services to the Company without violation of obligations to others and that any advice, information and documents given by the Consultant to the Company under this Agreement may be used fully and freely by the Company, unless otherwise so designated orally or in writing by the Consultant at the time of communication of such information.



2.5 The Consultant and the Principal agree to indemnify and save harmless the Company and its directors, officers, employees, administrators and agents from:

(a) any and all liability for any premium, contribution, remittance, tax, assessment, penalty, interest, wages or any other amount of any kind whatsoever, arising under one or more statutes relating to income tax, Employment Insurance, Canada Pension Plan, workers' compensation, employment standards, human rights or any other similar statute of Canada or the Province of British Columbia that may arise in connection with the performance of the Services under this Agreement; and

(b) any and all costs, charges, legal fees and expenses reasonably incurred by the Company or such persons identified in this section in connection with defending any civil, criminal, statutory or administrative action, proceeding or other remedy with respect to any such alleged liability.

2.6 The Company will not be liable to the Consultant for any damages, liabilities, penalties, interest or costs suffered by the Consultant's failure to make the statutorily required deductions or payments.

## 3. CONSIDERATION FOR SERVICES

**3.1** As compensation for carrying out the Services during the term of this Agreement, the Company agrees to pay to the Consultant a consulting fee in the amount of CAD $3,000 per month for the first four months, and then CAD $10,000 per month for the remainder of this Agreement or until any change is mutually agreed upon. All fees will be paid on a monthly basis upon submission of an invoice.

## 4. TERM AND TERMINATION

4.1 This Agreement will commence on the Effective Date and will continue for twelve (12) months ("**Term**"), unless terminated in accordance with Section 4.3 or renewed in accordance with Section 4.2.

4.2 Notwithstanding Section 4.1, this Agreement will automatically be renewed for subsequent terms of twelve (12) months unless the Company provides written notice to the Consultant by no later than sixty (60) days prior to the last day of the applicable Term of its intention to not renew this Agreement. If this Agreement is renewed, the Company's board of directors ("**Board**") shall perform an annual review of compensation paid to the Consultant, at around the time of any renewal.



4.3 Notwithstanding Section 4.1, and notwithstanding any renewal under Section 4.2, this Agreement may be terminated at any time by:

(a) the Consultant giving at least sixty (60) days' advance notice in writing to the Company;

(b) the Company by giving at least sixty (60) days advance notice in writing to the Consultant; or

(c) the Company without notice in the event that the Consultant: (i) breaches any term of this Agreement, (ii) neglects the Services or any other duty to be performed by the Consultant under this Agreement, (iii) engages in any conduct which is dishonest, or damages the reputation or standing of the Company, (iv) is convicted of any criminal act, (v) engages in any act of moral turpitude, (vi) files a voluntary petition in bankruptcy, or (vii) is adjudicated as bankrupt or insolvent.

4.4 Upon termination of this Agreement for any reason, the Consultant shall promptly deliver the following in accordance with the directions of the Company:

(a) a final accounting, reflecting the balance of expenses incurred on behalf of the Company as of the date of termination;

(b) all documents pertaining to the Company or this Agreement, including, but not limited to, all Confidential Information, books of account, correspondence and contracts; and

(c) all equipment and any other property belonging to the Company.

4.5 If this Agreement is terminated for any reason set forth in Section 4, then the Consultant will be entitled to the fees earned to the effective date of termination and any expenses incurred on behalf of the Company prior to the effective date of termination which are otherwise reimbursable by the Consultant pursuant to the terms of this Agreement.

4.6 The definitions contained in this Agreement and the rights and obligations contained in this Section 4 and in Sections 5, 6, 7 and 8 will survive any termination or expiration of this Agreement.

4.7 Upon the termination of this Agreement for whatever reason, upon the request of the Company, the Consultant shall cause the Principal to immediately resign, and the Principal shall so resign, without claim for compensation or severance of any kind whatsoever, from all offices and directorships held by the Principal in the Company or any affiliated company and in the event of their respective failure to do so the Company is hereby irrevocably authorized to appoint its designated person in their respective names and on their behalf to execute any documents and to do all things requisite to give effect thereto.

4.8 The Consultant shall not, at any time after the termination of this Agreement, represent itself as being in any way connected with or interested in the business of the Company.

## 5. CONFIDENTIALITY

5.1 For the purposes of this Agreement, "**Confidential Information**" means information, whether or not originated by the Consultant, that relates to the business or affairs of the Company, its affiliates, clients, sales personnel or suppliers and is confidential or proprietary to, about or created by the Company, its affiliates, clients or suppliers (whether or not reduced to writing or designated or marked as confidential), including, but not limited to, the following:

(a) any technical and non-technical information related to the Company's business and current, future and proposed products and services of the Company, including, without limitation, Company Innovations (as defined herein), Company Property (as defined herein) and the Company's information concerning research, development, design and product details and specifications, financial information, procurement requirements, engineering and manufacturing information, and business plans;

(b) information relating to strategies, research, communications, business plans and financial data of the Company;

(c) any information of or regarding the Company and its business which is not readily publicly available;

(d) work product resulting from or related to work or projects performed, or to be performed, for the Company or its affiliates, including, but not limited to, the methods, processes, procedures, analysis, techniques and audits used in connection therewith;

(e) any intellectual property contributed to the Company, and any other technical and business information of the Company and its affiliates which is of a confidential, trade secret and/or proprietary character;

(f) marketing and development plans, price and cost data, price and fee amounts, pricing and billing policies, quoting procedures, marketing techniques, methods of obtaining business, forecasts and forecast assumptions and volumes, current and prospective client lists, and future plans and potential strategies of the Company that have been or are being discussed;

(g) information belonging to third parties or which is claimed by third parties to be confidential or proprietary and which the Company has agreed to keep confidential; and

(h) any other information that becomes known to the Consultant as a result of this Agreement or the services performed hereunder, including information received by the Company from others, that the Consultant, acting reasonably, believes is confidential information or that the Company takes measures to protect.



5.2 The Consultant's obligations under this Section 5 do not apply to any Confidential Information that the Consultant can demonstrate: (a) was in the public domain at or subsequent to the time the Confidential Information was communicated to the Consultant by the Company through no fault of the Consultant; (b) was rightfully in the Consultant's possession free of any obligation of confidence at or subsequent to the time the Confidential Information was communicated to the Consultant by the Company; or (c) was independently developed by the Consultant without use of, or reference to, any Confidential Information communicated to

the Consultant by the Company. A disclosure of any Confidential Information by Consultant in response to a valid order by a court or other governmental body or as otherwise required by law will not be considered to be a breach of this Agreement or a waiver of confidentiality for other purposes, provided, however, that the Consultant provides prompt prior written notice thereof to the Company to enable the Company to seek a protective order or otherwise prevent the disclosure

5.3 The Consultant acknowledges that the Confidential Information is a valuable and unique asset of the Company and that the Confidential Information is and will remain the exclusive property of the Company. The Consultant agrees to maintain securely and hold in strict confidence all Confidential Information received, acquired or developed by the Consultant or disclosed to the Consultant as a result of or in connection with the Services. The Consultant and the Principal agree that, both during and after the termination of this Agreement, the Consultant and the Principal will not, directly or indirectly, divulge, communicate, use, copy or disclose or permit others to use, copy or disclose, any Confidential Information to any person, except as such disclosure may be consented to by prior written authorization of the board of directors of the Company.

5.4 The Consultant may use the Confidential Information solely to perform the Services for the benefit of Company. The Consultant shall treat all Confidential Information with the same degree of care as the Consultant accords to the Consultant's own confidential information, but in no case shall the Consultant use less than reasonable care. The Consultant shall immediately give notice to the Company of any unauthorized use or disclosure of the Confidential Information. The Consultant shall assist the Company in remedying any unauthorized use or disclosure of the Confidential Information.

5.5 All Confidential Information and any materials and items (including, without limitation, software, equipment, tools, artwork, documents, drawings, papers, diskettes, tapes, models, apparatus, sketches, designs and lists) that the Company furnishes to the Consultant, whether delivered to the Consultant by the Company or made by the Consultant in the performance of the Services, and whether or not they contain or disclose Confidential Information (collectively, the "**Company Property**"), are the sole and exclusive property of the Company or the Company's affiliates, suppliers or customers. The Consultant agrees to treat the Company Property with the same degree of care as the Consultant treats its own property, but in no case shall the Consultant use less than reasonable care. Within five (5) days after any request by the Company, the Consultant shall destroy or deliver to the Company, at the Company's option: (a) all Company Property and (b) all materials and items in the Consultant's possession or control that contain or disclose any Confidential Information. The Consultant will provide the Company a written certification of the Consultant's compliance with the Consultant's obligations under this Section 5.5.



5.6 During the term of this Agreement, the Consultant will not accept work, enter into a contract or accept an obligation in breach of the Consultant's obligations under Section 7 of this Agreement, or the scope of the Services to be rendered for the Company under this Agreement. The Consultant warrants that, to the best of the Consultant's knowledge, there is no other existing contract or duty on the Consultant's part that conflicts with or is inconsistent with this Agreement.

5.7 The Consultant represents and warrants that the Consultant has not used and will not use, while performing the Services, any materials or documents of another company which the Consultant is under a duty not to disclose. The Consultant understands that, while performing the Services, the Consultant shall not breach any obligation or confidence or duty the Consultant may have to any current or former client or employer. The Consultant represents and warrants that it will not, to the best of its knowledge and belief, use or cause to be incorporated in any of the Consultant's work product, any data software, information, designs, techniques or know-how which the Consultant or the Company does not have the right to use.

5.8 The Consultant will indemnify and hold harmless the Company from and against any and all third party claims, suits, actions, demands and proceedings against the Company and all losses, costs, damages, expenses, fees and liabilities related thereto arising out of or related to: (a) an allegation that any item, material

or other deliverable delivered by the Consultant under this Agreement infringes any intellectual property rights or publicity rights of a third party; (b) an alleged breach by the Consultant of any agreement between the Consultant and any third party; or (c) any negligence by the Consultant or any other act or omission of the Consultant, including, without limitation, any breach of this Agreement by the Consultant.

**6. DISCLOSURE AND ASSIGNMENT OF WORK RESULTING FROM PROVISION OF SERVICES.**

6.1 In this Agreement, "**Innovations**" means all discoveries, designs, developments, improvements, inventions (whether or not protectable under patent laws), works of authorship, information fixed in any tangible medium of expression (whether or not protectable under copyright laws), trade secrets, know-how, ideas (whether or not protectable under trade secret laws), mask works, trademarks, service marks, trade names and trade dress. "**Company Innovations**" means Innovations that: (a) result or derive from the provision of the Services or from the Consultant's knowledge or use of Confidential Information; (b) are conceived or made by the Consultant (individually or in collaboration with others) in the course of provision of the Services; (c) result from or derive from the use or application of the resources of the Company, its affiliates or suppliers; (d) relate to the Business of the Company or to actual or demonstrably anticipated research and development by the Company or its affiliates; or (e) the Consultant, solely or jointly with others, creates, derives, conceives, develops, makes or reduces to practice during the Term.



6.2 All Company Innovations shall be the exclusive property of the Company and the Company shall have sole discretion to deal with Company Innovations. The Consultant agrees that no intellectual property rights in the Company Innovations are or shall be retained by the Consultant. For greater certainty, all work done during the Term by the Consultant for the Company or its affiliates is the sole property of the Company or its affiliates, as the case may be, as the first author for copyright purposes and in respect of which all copyright shall vest in the Company or the relevant affiliate, as the case may be.

6.3 The Consultant agrees to maintain adequate and current records of all Company Innovations, which records shall be and remain the property of the Company. The Consultant agrees to promptly disclose and describe to the Company all Company Innovations. The Consultant hereby does and will irrevocably assign to the Company or the Company's designee all of the Consultant's right, title and interest in and to any and all Company Innovations and all associated records.

6.4 In consideration of the benefits to be received by the Consultant under the terms of this Agreement, the Consultant hereby irrevocably sells, assigns and transfers, and agrees in the future to sell, assign and transfer all right, title and interest in and to the Company Innovations and intellectual property rights therein, including, without limitation, all patents, copyright, industrial design, circuit topography and trademarks, and any goodwill associated therewith in Canada, the United States and worldwide to the Company and the Consultant shall hold all the benefits of the rights, title and interest mentioned above in trust for the Company prior to the assignment to the Company, save and except for any moral rights which the Consultant shall waive. To the extent any of the rights, title and interest in and to Company Innovations cannot be assigned by the Consultant to the Company, the Consultant hereby grants to the Company an exclusive, royalty-free, transferable, irrevocable, worldwide, fully paid-up license (with rights to sublicense through multiple tiers of sublicensees) to fully use, practice and exploit those non-assignable rights, title and interest, including, but not limited to, the right to make, use, sell, offer for sale, import, have made, and have sold, the Company Innovations. To the extent any of the rights, title and interest in and to the Company Innovations can neither be assigned nor licensed by the Consultant to the Company, the Consultant hereby irrevocably waives and agrees never to assert the non-assignable and non-licensable rights, title and interest against the Company, any of the Company's successors in interest, or any of the Company's customers.

6.5 The Consultant agrees to perform, during and after the Term, all acts that the Company deems necessary or desirable to permit and assist the Company, at its expense, in obtaining, perfecting and enforcing the full benefits, enjoyment, rights and title throughout the world in the Company Innovations as provided to the

Company under this Agreement. If the Company is unable for any reason to secure the Consultant's signature to any document required to file, prosecute, register or memorialize the assignment of any rights under any Company Innovations as provided under this Agreement, the Consultant hereby irrevocably designates and appoints the Company and the Company's duly authorized officers and agents as the Consultant's agents and attorneys-in-fact to act for and on the Consultant's behalf and instead of the Consultant to take all lawfully permitted acts to further the filing, prosecution, registration, memorialization of assignment, issuance and enforcement of rights in, to and under the Company Innovations, all with the same legal force and effect as if executed by the Consultant. The foregoing is deemed a power coupled with an interest and is irrevocable.



6.6 If the Consultant incorporates or permits to be incorporated any Innovations relating in any way, at the time of conception, reduction to practice, creation, derivation, development or making of the Innovation, to the Company's business or actual or demonstrably anticipated research or development but which were conceived, reduced to practice, created, derived, developed or made by the Consultant (solely or jointly) either unrelated to the Consultant's work for Company under this Agreement or prior to the Effective Date (collectively, the "**Out-of-Scope Innovations**") into any of the Company Innovations, then the Consultant hereby grants to the Company and the Company's designees a royalty-free, transferable, irrevocable, worldwide, fully paid-up license (with rights to sublicense through multiple tiers of sublicensees) to fully use, practice and exploit all patent, copyright, moral right, mask work, trade secret and other intellectual property rights relating to the Out-of-Scope Innovations. Notwithstanding the foregoing, the Consultant agrees that the Consultant shall not incorporate, or permit to be incorporated, any Innovations conceived, reduced to practice, created, derived, developed or made by others or any Out-of-Scope Innovations into any Company Innovations without the Company's prior written consent.

## 7. NON-INTERFERENCE WITH BUSINESS

7.1 In this Agreement, "**Business of the Company**" means the business of manufacturing search and navigation equipment within the commercial UAV space.

7.2 The Consultant agrees that, during the Term, the Consultant will not, on its own behalf or on behalf of or in connection with any third party, directly or indirectly, in any capacity whatsoever, including, without limitation, as an employer, employee, principal, agent, director, officer, joint venturer, partner, shareholder or other equity holder, lender or other debt holder, independent contractor, licensor, licensee, franchisor, franchisee, distributor, consultant, financier, supplier or trustee, or by or through any company, cooperative, partnership, trust, unincorporated association or otherwise, anywhere in North America:

(a) carry on, be engaged in, have any financial or other interest in or be otherwise commercially involved in any endeavour, activity or business which is in competition with the Business of the Company;

(b) canvass or solicit the business of (or procure or assist the canvassing or soliciting of the business of) any customer, prospective customer or supplier of the Company to supply or purchase any goods or services that are substantially the same as or in competition with goods or services supplied in the Business of the Company;

(c) accept (or procure or assist the acceptance of) any business from any customer, prospective customer, sales personnel or supplier that is substantially the same as or in competition with the Business of the Company; or

(d) supply (or procure or assist the supply of) any goods or services to any customer, prospective customer, sales personnel or supplier that are substantially the same as or in competition with the goods or services supplied in the Business of the Company.

7.3 During the Term, and for a period of twelve (12) months immediately following the termination or expiration of this Agreement, the Consultant agrees not to solicit or induce any customer, prospective customer, supplier, sales personnel, employee or independent contractor involved with the Company to terminate or breach any employment, contractual or other relationship with Company, or to otherwise discontinue or alter such third party's relationship with the Company.

7.4 During the Term, and for a period of twelve (12) months immediately following the termination or expiration of this Agreement, the Consultant agrees not to, on its own behalf or on behalf of or in connection with any third party, directly or indirectly, in any capacity whatsoever, engage in any pattern of conduct that involves the making or publishing of written or oral statements or remarks (including without limitation the repetition or distribution of derogatory rumours, allegations, negative reports or comments) which are disparaging, deleterious or damaging to the integrity, reputation or goodwill of the Company or any of its affiliates, officers, directors, employees, consultants or advisors.

**8. GENERAL**

8.1 This Agreement contains the entire Agreement and obligation between the parties with respect to its subject matter. No amendment to this Agreement will be valid or effective unless in writing and signed by all of the parties.

8.2 The Principal undertakes to ensure the Consultant fulfills all of its obligations under this Agreement, and not to do anything which would impair or prejudice the Consultant's ability to do so. The Principal shall be jointly and severally liable with the Consultant for any breach by the Consultant of this Agreement. The Principal agrees that he is bound, along with the Consultant, in respect of the Consultant's obligations in Sections 5, 6 and 7 of this Agreement.

8.3 The Consultant's obligations under this Agreement are of a unique character that gives them particular value, and that the breach of any of these obligations will cause irreparable and continuing damage to the Company for which money damages are insufficient. The Company is entitled to injunctive relief, a decree for specific performance, and all other relief as may be proper (including money damages if appropriate), without the need to post a bond.

8.4 The Consultant and the Principal acknowledge that the restrictions contained in Sections 5, 6 and 7 are, in view of the nature of the Business of the Company, reasonable and necessary to protect the legitimate interests of the Company, that the Company would not have entered into this Agreement in the absence of such restrictions and that any violation of any provision of those Sections could result in irreparable injury to the Company. The Consultant agrees that, in the event it violates any of the restrictions referred to in Section 5, 6 and 7, the Company shall be entitled to such injunctive relief or other remedies at law or in equity which the Court deems fit.



8.5 The Consultant expressly acknowledges that this Agreement is reasonable and valid in all respects and irrevocably waives (and irrevocably agrees not to raise) as a defence any issue of reasonableness in any proceeding to enforce any provision of this Agreement, the intention of the parties being to provide for the legitimate and reasonable protection of the interests of the Company by providing, without limitation, for the broadest scope, the longest duration and the widest territory allowable by law.

8.6 The Consultant agrees to indemnify the Company from all losses, claims, actions, damages, assessments or demands (including reasonable legal fees and expenses) which result from negligent acts or omissions of the Consultant in providing the Services. Notwithstanding the foregoing, the Company agrees that the Consultant

will be covered by the Company's Directors & Officers and Employment Practices Liability Insurance, once such insurance is obtained by the Company.

8.7 Any notice, request, demand or other communication hereunder shall be in writing and shall be delivered as follows, with notice deemed given as indicated: (a) by personal delivery, when actually delivered; (b) by overnight courier, upon written verification of receipt; (c) by facsimile or email, when sent, if sent during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient's next business day; or (e) by certified or registered mail, return receipt requested, upon verification of receipt. Notice to the Principal may be given at the same address as shown for the Consultant. Notice shall be sent to the addresses set forth on the first page of this Agreement or to such other address as the parties may advise each other in writing from time to time in accordance with this Section 8.7.

8.8 The Company and the Consultant will be responsible for all of their own expenses, legal and other professional fees, disbursements, and all other costs incurred in connection with the negotiation, preparation, execution and delivery of this Agreement and all documents and instruments relating hereto. The parties agree that they have had adequate opportunity to seek independent legal advice with respect to the subject matter of this Agreement, and have either obtained such advice or consciously chosen not to do so with full knowledge of the risks associated with not obtaining such legal advice.

8.9 If any provision of this Agreement, including as to term or geographical area, is held to be illegal, invalid or unenforceable under present or future laws by any court of competent jurisdiction, such illegality, invalidity or unenforceability shall not affect the legality, enforceability or validity of any other provisions of this Agreement or of the same provision as applied to any other fact or circumstance, and such illegal, unenforceable or invalid provision shall be modified to the minimum extent necessary to make such provision legal, valid or enforceable.

8.10 Time shall be of the essence of this Agreement.



8.11 Except as specifically permitted herein, the Consultant will not sell, assign or transfer any rights or interests created under this Agreement or delegate any of the Consultant's duties without the prior written consent of the Company.

8.12 The headings in this Agreement are inserted for convenience of reference only and shall not affect the construction or interpretation of this Agreement. Wherever the singular or masculine or neuter is used in this Agreement, the same shall be construed as meaning the plural or feminine or a body politic or corporate and vice versa where the context so requires.

8.13 The parties agree that this Agreement is effective as of the Effective Date, and the parties agree that there is fresh, sufficient consideration for this Agreement. The parties waive the ability to claim that: (i) this Agreement is void for lack of fresh, sufficient consideration, and (ii) this Agreement is not effective as of the Effective Date.

8.14 This Agreement will be governed by and construed in accordance with the laws of the Province of British Columbia, and the federal laws of Canada applicable therein, and each of the parties irrevocably submit to the exclusive jurisdiction of courts of competent jurisdiction in the Province of British Columbia, without reference to its conflicts of law jurisprudence, in respect of any dispute or claim arising out of this Agreement or any legal obligation between the parties. Notwithstanding the foregoing, the Company may enforce any obligation of the Consultant or the Principal which continues after the Consultant ceases providing the Services under this Agreement in any court of competent jurisdiction.

8.15 This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument.

Counterparts may be executed either in original or electronic form and each of the parties to this Agreement agree that any signature delivered by electronic transmission will be deemed to be the original signature of the delivering party.

8.16 Unless otherwise provided, all dollar amounts referred to in this Agreement are in lawful money of Canadian.

**(Signature page follows)**



**IN WITNESS WHEREOF**, the parties have signed this Agreement as of the day and year first written above.

**DRAGANFLY INC.**
by its authorized signatory

*/s/ Paul Sun*
Name:Paul Sun
Title: Chief Financial Officer

**1502372 ALBERTA LTD.**
by its authorized signatory

*/s/ Cameron Chell*
Name:Cameron Chell
Title:

*/s/ Cameron Chell*
**CAMERON CHELL**
Principal of 1502372 ALBERTA LTD.

**SCHEDULE A**

**SERVICES**

Defined terms used but not otherwise defined in this Schedule A have the meaning ascribed thereto in the Independent Consultant Agreement dated effective October 1, 2019 (the "**Agreement**") between Cameron Chell ("**Consultant**") and Draganfly Innovations Inc. (the "**Company**") of which this Schedule A forms part.

The Services to be provided by the Consultant under the Agreement are as follows:

1. Communicating, on behalf of the Company, with shareholders, government entities, and the public
2. Leading the development of the Company's short- and long-term strategy
3. Creating and implementing the Company or organization's vision and mission
4. Maintaining awareness of the competitive market landscape, expansion opportunities, industry developments, etc.
5. Ensuring that the Company maintains high social responsibility wherever it does business
6. Assessing risks to the Company and ensuring they are monitored and minimized
7. Setting strategic goals and making sure they are measurable and describable

**Exhibit 4.4**

**INDEPENDENT CONSULTANT AGREEMENT AMENDING AGREEMENT**

**THIS AGREEMENT, effective as of _____, 2021 (the "Effective Date") is between:**

**DRAGANFLY INC.**,

a company duly incorporated under the laws of the Province of British Columbia with a business address at 2108 St. George Avenue, Saskatoon, Saskatchewan S7M 0K7,

(Hereinafter referred to as the **"Company**")

-and-

**1502372 ALBERTA LTD.**,
a corporation having an address at L120, 2303 – 4 Street SW, Calgary, AB T2S 2S7

(Hereinafter referred to as the **"Consultant**")

-and-

**CAMERON CHELL**,

the principal of the Consultant

(Hereinafter referred to as the "**Principal**")

(collectively, the "**Parties**")

**WHEREAS:**

A. The Parties entered into an Independent Consultant Agreement dated October 1, 2019 (the "**Independent Consultant Agreement**") setting out the terms and conditions of the Consultant's engagement;

B. The Company wishes to continue to engage the services of the Consultant and the Principal, and the Consultant and Principal desire to continue to be engaged by the Company upon the terms and subject to the conditions of the Independent Consultant Agreement as amended by the terms of this Independent Consultant Agreement Amending Agreement hereinafter set forth;



**NOW THEREFORE** in consideration of the promises and the mutual covenants and agreements contained in this Independent Consultant Agreement Amending Agreement (this "**Amending Agreement**"), including the increase to the Consultant's consulting fees and the grant of restricted share units, and in exchange for the Consultant and Principal's continued engagement, the Parties agree to amend the Independent Consultant Agreement as follows:

1. Provision 3.1 entitled "Consideration for Services" in the Independent Consultant Agreement will be replaced with the following:

   As compensation for carrying out the Services during the term of this Agreement, the Company agrees to pay to the Consultant a consulting fee in the amount of CAD $400,000 per year for the remainder of this Agreement or until any change is mutually agreed upon. All fees will be paid on a monthly basis upon submission of an invoice.

2. Provision 3.2 entitled "Consideration for Services" will be added into the Independent Consultant Agreement as follows:

As further compensation for carrying out the Services during the term of this Agreement, the Consultant will be eligible to receive an annual success fee (the "**Success Fee**") as determined by the Company in its sole discretion. The Success Fee, if any, for a given year: (i) will be determined following the completion of the Company's financial year each year, based on performance metrics to be determined by the Company's compensation committee in its sole discretion; (ii) will be paid following the completion of such year; and (iii) is not earned or accrued until and unless the Consultant is engaged on the last day of the period for which the Success Fee is payable. The Consultant understands and agrees that payment of a Success Fee should not be considered to be expected compensation and the payment of a Success Fee in any one or successive years shall not create an entitlement to a Success Fee in any subsequent year.

Beginning in the calendar year of 2021, the Consultant's target annual Success Fee is CDN$300,000.00, pro-rated to the date of this Amending Agreement for 2021.

3. Provision 3.3 entitled "Consideration for Services" will be added into the Independent Consultant Agreement as follows:

   Subject to the receipt of all necessary regulatory approvals, the Company shall grant to the Consultant 40,000 restricted share units ("RSU") in Draganfly Inc., which shall vest and be governed in accordance with the Company's RSU plan.

4. All other terms and conditions of engagement set out in the Independent Consultant Agreement will remain unchanged and in effect.



5. The Consultant hereby releases the Company from any and all claims it has or may have arising in any way out of the terms of this Amending Agreement or the changes to its engagement as set out herein, specifically includes any claims under any applicable human rights, workers' compensation, employment standards, employment or labour legislation.

6. This Amending Agreement amends the Independent Consultant Agreement. This Amending Agreement and the Independent Consultant Agreement shall be read together and constitute one agreement. The Parties agree that the terms of the Amending Agreement will be effective on the Effective Date.

7. This Amending Agreement enures to the benefit of and binds the parties hereto and their respective heirs, executors, legal personal representatives, successors and permitted assigns.

8. If there is a conflict between any provision of this Amending Agreement and any provision of the Independent Consultant Agreement, the relevant provision(s) of this Amending Agreement are to prevail.

9. This Amending Agreement is governed by, and is to be construed and interpreted in accordance with the laws of British Columbia. The Parties irrevocably attorn to the jurisdiction to the Courts of the Province of British Columbia.

[*signature page follows*]



TO EVIDENCE THEIR AGREEMENT the parties have executed the Amending Agreement this _____ day of _____ 2021:

**DRAGANFLY INC.**

*Authorized Signatory*
I have authority to bind the Corporation

**1502372 ALBERTA LTD.**

*by its authorized signatory,*
*Cameron Chell*

**CAMERON CHELL**

*Principal of 1502372 Alberta Ltd.*

---

**Exhibit 4.5**

**EXECUTIVE CONSULTING AGREEMENT**

**THIS INDEPENDENT CONSULTING AGREEMENT** "**AGREEMENT"** is entered into on this 3rd day of July, 2020 (the "**Effective Date**")

**BETWEEN:**

**DRAGANFLY INC.**
(the "**Company**")

and -

**SCOTT LARSON**
("**Executive**")

**WHEREAS** The Company is builder and supplier of quality, cutting-edge unmanned aerial vehicles and geoinformation software that serves the public safety, agriculture, industrial inspections, security, and mapping and surveying markets.

**AND WHEREAS** The Consultant is an Executive with relevant operational, financial and corporate development experience in the technology sector and whose skills are a material inducement for the Company to enter into this Agreement;

**AND WHEREAS** The Company desires to retain the Executive as an Independent Contractor on a limited basis to provide corporate development, operational, financial assistance and to generally assist the company in its strategic plan (the "**Services**"); and

**NOW THEREFORE** The Executive agrees to provide the Services as an Independent Contractor to the Company, subject to the terms of this Agreement.

**ARTICLE I**
**COMMENCEMENT AND TERM**

**1.01 Term**

The Company will employ Executive for a term commencing on the effective date of this Agreement and Executive's engagement with the Company shall be terminable in accordance with the applicable provision in Article VI of this Agreement.

**ARTICLE II**
**ASSIGNMENT**

**2.01 Position**

Executive shall be employed by the Company as a member of the senior executive team in the position of President ("**President**").



**2.02 Duties**

As set out below, Executive shall perform the duties and exercise the powers that are normally performed or exercised by President (the "**Duties**"). In addition, Executive shall perform such Duties and exercise such powers as prescribed or specified by the Board of Directors. Executive acknowledges that the nature of Executive's position and Duties make him a fiduciary to the Company. Executive further acknowledges that such Duties and responsibilities may require frequent travel and frequent performance of work at irregular times acting reasonably.

Executive shall be responsible for leading the development and execution of the Company's long-term strategy with a view to creating shareholder value. Executive shall, under direction of the CEO and Board of Directors, among other things:

(a) be responsible for all day-to-day management decisions;

(b) implement the Company's short and long-term plans**;**

(c) act as a direct liaison between the Board of Directors and management of the Company;

(d) communicate on behalf of the Company to shareholders, employees, Government authorities, other stakeholders, and the public.

## ARTICLE III
## REMUNERATION

**3.01 Salary Compensation**

Commencing on the Effective Date, the Company shall pay Executive:

a) An annual base salary of US$140,000 (the "**Base Salary**") per annum, payable monthly.

b) The Executive will also be eligible for an "**Annual Bonus**" of 100% of the Base Salary, for a total potential Annual Bonus of US$140,000. The annual Bonus will be determined following the completion of the Company's financial year each year based on performance metrics to be negotiated by the end of August 31, 2020, as determined by the Company's compensation committee. The Annual Bonus shall be prorated for 2020.

The Base Salary and Annual Bonus shall be reviewed by the Company's compensation committee following the completion of the Company's financial year each year. The Annual Bonus, if deemed to be payable, will be due to the Executive regardless of whether the term has ended.

**3.02 Equity Awards**

Concurrent with the execution hereof and by virtue of Executive's position, the Company will grant the Executive 500,000 stock options to acquire common shares of the Company (the "**Stock Options**") will vest after nine months from the Effective Date and any common shares resulting from the exercise of such Stock Options shall be pooled over a period of six months.

**3.03 Expense Reimbursement**

The Company shall reimburse Executive on a monthly basis for all bona-fide business expenses (including travel, accommodation, entertainment/business expenses) incurred by Executive on behalf of the Company upon submission of written receipts or other written evidence. Any single or series of related expenses exceeding US$5,000 and any expenses exceeding US$5,000 in the aggregate in any month shall be subject to pre-approval by the CEO.

## ARTICLE IV
## DUTIES OF EXECUTIVE

**4.01 Rules and Regulations**

Executive shall be bound by and shall faithfully observe and abide by all applicable laws and all the rules and regulations to which the Company may be subject from time to time, which are brought to Executive's notice or of which Executive should reasonably be aware.

**4.02 Conflict of Interest**

As a fiduciary to the Company, Executive shall refrain from any situation in which Executive's personal interests' conflict, or may appear to conflict, with Executive's Duties with the Company. Executive shall not participate in the ownership of, have any financial involvement with or work for, any competing business or for any client or potential client of the Company or otherwise take steps that would benefit him personally while causing loss or damage to the Company, including reputational and/or financial loss or damage. Executive acknowledges that if there is any doubt in this respect, Executive shall inform the Board of Directors and obtain prior written authorization.

## ARTICLE V
## CONFIDENTIAL INFORMATION, INTELLECTUAL PROPERTY, NON-COMPETITION AND NON-SOLICITATION

**5.01 Definitions**

(a) In this Agreement, unless something in the subject-matter or context is inconsistent therewith:

"**Confidential Information**" means all confidential information of the Company, including but not limited to trade secrets, customer lists and other confidential information concerning the business and affairs of the Company.



"**Intellectual Property**" means, without limitation, any domestic and foreign:

(i) patents, inventions, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions, developments, trade secrets, know-how, methods, processes, designs, technology, technical data, schematics, formulae and client lists, and documentation relating to any of the foregoing; (iii) works of authorship, copyrights, copyright registrations and applications for copyright registration; (iv) designs, design registrations, design registration applications and integrated circuit topographies; (v) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-

mark registrations, trade mark applications, trade dress and logos, and the goodwill associated with any of the foregoing; (vi) computer software and programs (both source code and object code form), all proprietary rights in the computer software and programs and all documentation and other materials related to the computer software and programs; (vii) any other intellectual property and industrial property and moral rights, title and interest therein, anywhere in the world and whether registered or unregistered, registrable or unregistrable, or protected or protectable under intellectual property laws, or (viii) any derivatives of or improvements on any of the foregoing,

which Executive may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time Executive is in the employ of the Company, including the copyright thereon.

In the context of any action taken by Executive, the words "**directly or indirectly**" include any action taken by Executive for Executive's own benefit or the benefit of any person competing with the Company, whether taken individually or in partnership or jointly or in conjunction with any person as principal, agent, trustee, employee or shareholder (other than holding of shares listed on a Canadian or United States stock exchange that does not exceed 5% of the outstanding shares so listed).

**5.02 Confidential Information**

(a) Executive acknowledges that, by reason of Executive's employment with the Company, Executive will have access to Confidential Information. Executive agrees that, during and after Executive's employment with the Company, Executive will not disclose to any person, except in the proper course of Executive's employment with the Company, or use for Executive's own purposes or for any purposes other than those of the Company, any Confidential Information acquired, created or contributed to by Executive.

(b) Any breach of Section 5.02(a) by Executive will result in material and irreparable harm to the Company although it may be difficult for the Company to establish the monetary value flowing from such harm. Executive therefore agrees that the Company, in addition to being entitled to the monetary damages which flow from the breach, will be entitled to injunctive relief in a court of appropriate jurisdiction in the event of any breach by Executive of Section 5.02(a).



**5.03 Intellectual Property**

Executive hereby irrevocably and unconditionally waives all moral rights arising under the *Copyright Act* (Canada) as amended (or any successor legislation of similar effect), or similar legislation in any applicable jurisdiction, or at common law, that Executive may have now or in the future with respect to Intellectual Property, including, without limitation, any right Executive may have to have Executive's name associated with the Intellectual Property or to have Executive's name not associated with the Intellectual Property, any right Executive may have to prevent the alteration, translation or destruction of the Intellectual Property, and any rights Executive may have to control the use of the Intellectual Property in association with any product, service, cause, or institution. Executive agrees that this waiver may be invoked by the Company, and by any of its authorized agents or assignees, in respect of any or all of the Intellectual Property. Executive agrees that all Intellectual Property is and shall be owned by the Company and not Executive and hereby assigns all such Intellectual Property to the extent not already owned by the Company by operation of law. Executive further agrees to, promptly, at the request of the Company, take all such steps and execute all such assignments and other documents as the Company may reasonably require or consider helpful to effect or evidence the assignment and transfer of the Intellectual Property and to protect, obtain or maintain any patents, copyrights, trade-marks or other proprietary rights in the Intellectual Property.

**5.04 Non-Solicitation**

(a) During the Restricted Period, Executive shall not, directly or indirectly:

(i) other than for the benefit of the Company or any of its affiliates solicit any customer of the Company who was a customer in the twelve (12) months preceding Executive's last day of active employment for the purpose of selling or providing any products or services similar to those sold or provided by the Company;

(ii) refer any customer of the Company who was a customer in the twelve (12) months preceding Executive's last day of active employment to a competitor of the Company;

(iii) solicit for business of any person or entity who is, or was at any time within the previous 12 months, a customer of the Business conducted by the Company (or a potential customer with whom Executive had Business-related dealings in the prior 12 month period prior to termination); or

(iv) otherwise attempt to interfere with or damage the business relationship between the Company, on the one hand, and any customer of the Company who was a customer in the twelve (12) months preceding Executive's last day of employment.



(b) For a period of 12 months following cessation of Executive's active employment, Executive shall not, directly or indirectly:

(i) solicit the employment of (whether as an employee, independent contractor or otherwise) any personnel of the Company (other than any personnel who at the time of the solicitation has not worked for the Company or any of its affiliates for a period of at least six (6) months); or

(ii) otherwise attempt to interfere with or damage the business relationship between the Company, on the one hand, and any personnel of the Company, on the other hand. Notwithstanding the foregoing, the restrictions set forth in this Subsection 5.05(b)(ii) shall not prohibit Executive from conducting general solicitations of employment or engagement that are not targeted to personnel of the Company.

**5.05 Acknowledgements**

Executive acknowledges that:

(a) the business of the Company is carried on throughout Canada and that the Company is interested in and solicits or canvasses opportunities throughout Canada;

(b) the reputation of the Company in the industry and its relationships with its customers is the result of hard work, diligence and perseverance on behalf of the Company over an extended period of time;

(c) the nature of the business of the Company is such that the on-going relationship between the Company and its customers is material and has a significant effect on the ability of the Company to continue to obtain business from its customers with respect to both long term and new contracts; and

(d) in light of the foregoing, the restrictions in this Article 5 are reasonable and valid and Executive hereby waives all defences to the strict enforcement thereof.

**5.06 Equitable Remedies**

Executive further acknowledges and agrees that: (i) the Company would suffer irreparable and ongoing damages (including a significant loss of the value and goodwill of the Business) in the event that any provision of this Article 5 (or Section 6.04) were not performed in accordance with its terms or otherwise were breached; and (ii) monetary damages, even if available, alone would not be an adequate remedy for any such non-performance or breach. Accordingly, such Executive agrees that in the event of any breach or threatened breach of any provision of this Article 5, or Section 6.04, the Company shall be entitled, in addition to all other rights and remedies that it may have existing in its favor at law, in equity or otherwise to seek injunctive or other equitable relief (including a temporary restraining order, a preliminary injunction and a final injunction) to prevent any such breach or threatened breach and to enforce such provisions specifically, without the necessity of posting a bond or other security or of proving actual damages. The prevailing party in any action commenced under this Section 5.07 (whether through a monetary judgment, injunctive relief or otherwise) also shall be entitled to recover reasonable legal fees and court costs incurred in connection with such action.



## ARTICLE VI
## TERMINATION OF CONSULTING AGREEMENT

**6.01 Termination by the Company For Cause**

The Company may immediately terminate this Consulting Agreement with the Executive, at any time, for Cause (without notice or payment of compensation in lieu of notice or damages of any kind) by notifying Executive in writing of such termination. For greater certainty, "Cause" means: (i) Executive's conviction of or admission to the commission of an indictable offence or Executive's conviction of or admission to a violation of another criminal law involving the affairs of the Company; (ii) any intentional act of fraud, theft, embezzlement or other illegal conduct by Executive involving the Company; (iii) a material breach (which breach is not promptly cured within five (5) business days after receiving written notice of same) of Executive's obligations under any agreement entered into between Executive and the Company or any of its affiliates; willful or substantial neglect by Executive of Executive's Duties and responsibilities under this Agreement for a period of ten (10) business days after receiving written notice of the same; Executive's material breach of the Company's policies or procedures that is not reasonably curable in the Company's sole discretion (acting reasonably) or any other willful misconduct which causes material harm to the Company or its business reputation, including due to any adverse publicity; and/or (vi) any conduct that constitutes cause at common law.

**6.02 Termination by the Company Without Cause**

In the event that Executive's Consulting Agreement is terminated by the Company without Cause or Executive resigns his engagement for Good Reason, as defined below, then, subject to Executive's execution and non-revocation of a release in a form satisfactory to the Company as set out in Section 6.05 below, the Company shall pay Executive severance in an amount equal to the Base Salary for a period of four (4) months. This Severance shall only be applicable if this Agreement is not terminated, or any reason, prior to the four (4) month anniversary of the Effective Date. For clarity:

(a) Executive shall not be entitled to any severance in the event that Executive's Independent Consulting Agreement with the Company is terminated for Cause or Executive resigns without Good Reason;

(b) Executive shall not be entitled to any severance in the event that this Agreement is terminated prior to the four month anniversary of the Effective Date;

(c) Executive agrees that such payments and other benefits set out in this Section 6.02 shall be his complete and full entitlements to notice or pay in lieu as set out under the Employment Standards Act of Canada, contract or common law.

**6.03 Voluntary Resignation for Good Reason**

Good Reason will be established where Executive voluntarily resigns after any of the following actions are taken by the Company or any of its subsidiaries without Executive's consent (any of the following being "**Good Reason**"): (i) a reduction in the Base Salary or any target bonus agreed from time to time (but not including any diminution related to a broader compensation reduction that is not limited to any particular employee or executive); or (ii) a material diminution in Executive's title, Duties, or responsibilities from those in effect on the date hereof (it being understood that Executive's obligation to report to the Board of Directors and the Board of Director's exercise of its final authority over Company matters shall not give rise to any such claim of diminution); provided, however, that no event shall constitute Good Reason unless Executive has notified the Company in writing describing the event which constitutes Good Reason and then only if the Company fails to cure such event within thirty (30) days after the Company's receipt of such written notice.



**6.04 Return of Property**

Upon any cessation of Executive's employment under this Agreement, or for any reason at any time, and as a condition of the Company paying Executive any termination payments or benefits required hereunder, Executive shall at once deliver or caused to be delivered to the Company all books, documents, effects, money, securities or other property belonging to the Company or for which the Company is liable to others, which are in the possession, charge, control or custody of Executive.

**6.05 Expense Reimbursement**

Upon termination for any reason, any expenses properly and legally incurred under this Agreement shall be promptly repaid to Executive.

**6.06 Release**

Executive acknowledges and agrees that the payments, benefits and entitlements pursuant to this Article that are in excess of his statutory minimums shall be in full satisfaction of all terms of the cessation of Executive's employment, including termination pay pursuant to the ESA. Except as otherwise provided in this Article or as may be required by the ESA, Executive shall not be entitled to any further termination payments, damages, compensation or entitlements whatsoever. As a condition precedent to any payment or entitlement pursuant to this Article that exceeds Executive's statutory minimum entitlements, Executive agrees to deliver to the Company prior to any such payment or receipt of such entitlement, a full and final release from all actions or claims in connection therewith in favour of the Company, its affiliates, subsidiaries, directors, officers, employees and agents, in a form reasonably satisfactory to the Company.

## ARTICLE VII
## DIRECTORS AND OFFICERS

**7.01 Indemnity**

Subject to the provisions of the *Canada Business Corporations Act*, the Company agrees to indemnify and save Executive harmless from and against all demands, claims, costs, charges and expenses, including any amount paid to settle an action or satisfy a judgment, reasonably incurred by Executive in respect of any civil, criminal or administrative action or proceeding to which Executive is made a party by reason of being or having been a director or officer of the Company or of any affiliated Company whether before or after any cessation of employment if:

(a) Executive acted honestly and in good faith with a view to the best interests of the Company; and



(b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, Executive had reasonable grounds for believing that Executive's conduct was lawful.

**7.02 Insurance**

If Executive is a director or officer at the relevant time, Executive shall be covered by comprehensive directors' and officers' liability insurance, which shall be established and maintained by the Company at its expense. The insurance policies to be maintained by the Company hereunder may contain exclusions from coverage in respect of negligence or *mala fides* acts on the part of Executive.

## ARTICLE VIII
## CONTRACT PROVISIONS

**8.01 No Breach of Obligations to Others**

Executive acknowledges and represents to the Company that in carrying out Executive's Duties and functions for the Company, Executive will not disclose to the Company any confidential information of any third party. Executive acknowledges and represents to the Company that Executive has not brought to the Company nor will Executive use in the performance of Executive's Duties and functions with the Company any confidential materials or property of any third party. Executive further acknowledges and represents that Executive is not a party to any agreement with or under any legal obligation to any third party that conflicts with any of Executive's obligations to the Company under this Agreement.

**8.02 Headings**

The headings of the Articles and paragraphs herein are inserted for convenience of reference only and shall not affect the meaning or construction hereof.

**8.03 Independent Advice**

Executive confirms having had the reasonable opportunity to obtain independent legal advice regarding this Agreement that Executive is signing this Agreement freely and voluntarily with full understanding of its contents.

**8.04 Governing Law**

This Agreement shall be governed by the laws in force in the Province of British Columbia and the laws of Canada applicable therein.



**8.05 Entire Agreement**

This Agreement constitutes and expresses the whole agreement of the parties hereto with reference to any of the matters or things herein provided for or herein before discussed or mentioned with reference to Executive's employment, and it cancels and replaces any and all prior understandings and agreements between Executive and the Company. All promises, representations, collateral agreements and understandings not expressly incorporated in this Agreement are hereby superseded by the within Agreement.

**8.06 Severability**

If any provision contained herein is determined to be void or unenforceable in whole or in part, it shall not be deemed to affect or impair the validity of any other provision herein and each such provision is deemed to be separate and distinct.

**8.07 Survival**

This Agreement shall continue in full force and effect during the term of this Agreement and, upon the termination of this Agreement pursuant to Sections 6.01, 6.02 or 6.03, Sections 5.02, 5.03, 5.04, 5.05 and 6.05 shall survive such termination.

**8.08 Notice**

Any notice required or permitted to be given under this Agreement shall be in writing and shall be properly given if personally delivered, delivered by facsimile transmission (with confirmation of receipt) or mailed by prepaid registered mail addressed as follows:

(a) in the case of the Company:

XXXXX

(b) in the case of Executive:

Scott Larson
Suite 3907 – 1788 Gilmore Ave.
Burnaby, BC
V5C 0L5

**8.09 Amendments and Waiver**

No modification of or amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both of the parties hereto and no waiver of any breach of any term or provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided, shall be limited to the specific breach waived.



**8.10 Successors**

This Agreement and all rights of Executive hereunder shall enure to the benefit of and be enforceable by Executive and Executive's personal or legal representatives, heirs, executors, administrators and successors and shall enure to the benefit of and be binding upon the Company, its successors and assigns.

**8.11 Taxes and Deductions**

All payments under this Agreement shall be subject to withholding of such amounts, if any, relating to tax or other payroll deductions as the Company may reasonably determine should be withheld pursuant to any applicable law or regulation.

**8.12 Currency**

All dollar amounts set forth or referred to in this Agreement refer to the currency of the United States of America.

**8.13 Counterparts**

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

**8.14 Copy of Agreement**

Executive hereby acknowledges receipt of a copy of this Agreement duly executed by the Company.



**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the day and year first above written.

**Draganfly Corporation**

Name:Cameron Chell
Title: CEO

Scott Larson

**Exhibit 4.6**

**INDEPENDENT CONSULTING AGREEMENT AMENDING AGREEMENT**

**THIS AGREEMENT, effective as of _____, 2021 (the "Effective Date") is between:**

**DRAGANFLY INC.**,

a company duly incorporated under the laws of the Province of British Columbia with a business address at 2108 St. George Avenue, Saskatoon, Saskatchewan S7M 0K7,

(Hereinafter referred to as the **"Company**")

-and-

**SCOTT LARSON**

(Hereinafter referred to as the "**Consultant**")

(collectively, the "**Parties**")

**WHEREAS:**

A. The Parties entered into an Independent Consulting Agreement dated July 3, 2020 (the "**Independent Consultant Agreement**") setting out the terms and conditions of the Consultant's engagement;

B. The Company wishes to continue to engage the services of the Consultant, and the Consultant desires to continue to be engaged by the Company upon the terms and subject to the conditions of the Independent Consultant Agreement as amended by the terms of this Independent Consulting Agreement Amending Agreement hereinafter set forth;

**NOW THEREFORE** in consideration of the promises and the mutual covenants and agreements contained in this Independent Consulting Agreement Amending Agreement (this "**Amending Agreement**"), including the increase to the Consultant's consulting fees and the grant of restricted share units, and in exchange for the Consultant's continued engagement, the Parties agree to amend the Independent Consultant Agreement as follows:

1. Provision 3.01 entitled "Salary Compensation" in the Independent Consultant Agreement will be replaced with the following:

   Commencing on the Effective Date of the Amending Agreement, the Company shall pay Executive an annual base salary of CDN$250,000.00 (the "**Base Salary**") per annum, payable monthly.



   The Executive will also be eligible for an "**Annual Bonus**" of 100% of the Base Salary, for a total potential Annual Bonus of CDN$250,000.00. The Annual Bonus will be determined following the completion of the Company's financial year each year, based on performance metrics to be determined by the Company's compensation committee in its sole discretion. The Annual Bonus for 2021 shall be pro-rated to the date of the Amending Agreement.

   The Base Salary and Annual Bonus shall be reviewed by the Company's compensation committee following the completion of the Company's financial year each year. The Annual Bonus, if deemed to be payable, will be due to the Executive regardless of whether the term has ended.

2. Provision 3.02 entitled "Equity Awards" in the Independent Consultant Agreement will be replaced with the following:

   Concurrent with the execution hereof and by virtue of Executive's position, the Company will grant the Executive 500,000 stock options to acquire common shares of the Company (the "**Stock Options**") which will vest after nine months from the Effective Date and any common shares resulting from the exercise of such Stock Options shall be pooled over a period of six months.

   In addition to the Stock Options, subject to the receipt of all necessary regulatory approvals, the Company shall grant to the Executive 70,000 restricted share units ("RSU") in Draganfly Inc., which shall vest and be governed in accordance with the Company's RSU plan.

3. All other terms and conditions of engagement set out in the Independent Consultant Agreement will remain unchanged and in effect.

4. The Consultant hereby releases the Company from any and all claims it has or may have arising in any way out of the terms of this Amending Agreement or the changes to its engagement as set out herein, specifically includes any claims under any applicable human rights, workers' compensation, employment standards, employment or labour legislation.

5. This Amending Agreement amends the Independent Consultant Agreement. This Amending Agreement and the Independent Consultant Agreement shall be read together and constitute one agreement. The Parties agree that the terms of the Amending Agreement will be effective on the Effective Date.

6. This Amending Agreement enures to the benefit of and binds the parties hereto and their respective heirs, executors, legal personal representatives, successors and permitted assigns.

7. If there is a conflict between any provision of this Amending Agreement and any provision of the Independent Consultant Agreement, the relevant provision(s) of this Amending Agreement are to prevail.

8. This Amending Agreement is governed by, and is to be construed and interpreted in accordance with the laws of British Columbia. The Parties irrevocably attorn to the jurisdiction to the Courts of the Province of British Columbia.



TO EVIDENCE THEIR AGREEMENT the parties have executed the Amending Agreement this _____ day of _____ 2021:

| | |
|---|---|
| **DRAGANFLY INC.** | **SCOTT LARSON** |
| *Authorized Signatory*<br>I have authority to bind the Corporation | (*Consultant Signature*) |

**Exhibit 4.7**

**EMPLOYMENT AGREEMENT**

This Employment Agreement ("**Agreement**") is dated as of the **November _____, 2020** the "**Effective Date**").

**BETWEEN:**

**DRAGANFLY INC.,** a company duly incorporated under the laws of the Province of British Columbia with a business address at 2108 St. George Avenue, Saskatoon, Saskatchewan S7M 0K7

("**Company**")

**AND**:

**PAUL SUN,** 1179 Fairmeadow Trail, Oakville , Ontario L6M 2M8

(the "**Employee**")

**WHEREAS**:

A. The Company carries on the worldwide business of manufacturing search and navigation equipment within the commercial UAV space;

B. The Company has employed the Employee since June 1, 2015; and

C. The Company and the Employee wish to amend and restate the employment relationship on the terms set out in this Agreement.

**NOW THEREFORE**, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration (including but not limited to the $15,000 annual incentive payment at clause 3.2, the Pixology bonus at clause 3.4, and a signing bonus paid by the Company to the Employee for this Agreement in the amount of CAD $50.00), the receipt and sufficiency of which are hereby acknowledged, the Company and the Employee covenant and agree as follows:

## 1. SERVICES TO BE PROVIDED

1.1 Commencing on the Effective Date, the Employee shall provide executive services to the Company and, in this regard, the Employee shall hold the position of **Chief Financial Officer** at the Company. Furthermore, commencing on the Effective Date the Employee shall provide such services to the Company as are described in Schedule "A" to this Agreement (the "**Services**"). The Employee shall also provide any other services not specifically mentioned in Schedule "A", but which, by reason of the Employee's capability, the Employee knows or ought to know are necessary to ensure that the best interests of the Company are maintained.



1.2 The Employee shall perform the Services to the level of competence and skill one would reasonably expect from an Employee with the skills and experience similar to that of the Employee. The Employee shall devote sufficient working time, attention and ability in a timely manner to the Business of the Company (as hereinafter defined), and to any associated company, as is reasonably necessary for the proper performance of the Services pursuant to this Agreement.

1.3 The Employee will faithfully, honestly and diligently serve the Employee, use its best efforts to promote the best interests of the Company and co-operate with the Company, and utilize maximum professional skill and care to ensure that the Services are rendered to the satisfaction of the Company.

1.4 The Employee will comply with all applicable rules, laws and regulations, and all applicable Company policies (to the extent they have been provided to the Employee by the Company), having application to the carrying out and performance of its obligations under this Agreement.

1.5 At all times while on the Company's premises or representing the Company in any other location in connection with the provision of the Services, the Employee will observe the Company's rules and regulations with respect to conduct, health, safety and protection of persons and property.

## 2. LOCATION AND PERFORMANCE OF WORK

2.1 The Employee shall work primarily from Oakville, Ontario. The Employee shall also be expected to regularly travel to, and perform the duties at, such other locations as may be determined by Company from time to time. The Employee warrants and represents that the Employee shall maintain a valid passport and that the Employee is not disqualified, to the Employee's knowledge, from receiving permission to enter the U.S., the European Union, China or any other country or region of the world as a business visitor.

## 3. CONSIDERATION FOR SERVICES

3.1 As compensation for carrying out the Services during the term of this Agreement, the Company agrees to pay the Employee a salary in the amount of CDN$150,000 (the "**Annual Salary**") payable by semi-monthly instalments. The Company will review the Annual Salary annually during the term of this Agreement and may, in its sole discretion, adjust the Annual Salary.

3.2 As of September 1, 2020, the Employee will also receive an annual retention payment amount of CDN$15,000, in addition to the Annual Salary ("**Annual retention Payment**"). This amount will accrue pro rata and will be paid at a time proposed by management, acting reasonably, and accepted by the Board.

3.3 In addition to the above Annual Salary and Annual Retention Payment, the Employee shall be eligible to earn a discretionary annual performance bonus ("**Performance Bonus**"), pursuant to the terms and conditions that are set out in Schedule "B" of this Agreement and as determined and approved by the Board. The Company shall pay the Employee the Performance Bonus within the thirty (30) days following the Employee's completion of each Term (as hereinafter defined), beginning from the Effective Date. The Employee understands and agrees that payment of a Performance Bonus should not be considered to be expected compensation and the payment of a Performance Bonus in any one or successive years shall not create an entitlement to a Performance Bonus in any subsequent year. Further, the Employee shall be eligible to earn a Performance Bonus on a pro-rated basis, and the Employee shall be entitled to receive a pro rata portion of the Performance Bonus for any period of employment predating the payment of the Performance Bonus. In order for the Employee to be entitled to receive a Performance Bonus payment, the Employee must be employed on the date that the payment is made, not including any period of notice or pay in lieu of notice or severance, if applicable. This is because a Performance Bonus is not earned until the payment date. Without limiting the generality of the foregoing, a Performance Bonus shall only continue to vest, accrue or be payable up to the date designated by the Company as the effective date on which the period of employment ends.

3.4 In addition to the above Annual Salary and Performance Bonus, the Employee will be entitled to a one-time bonus ("**Pixology Bonus**"), which will be paid as set out as described in Schedule "C" of this Agreement. The Employee agrees that the Pixology Bonus is a one time bonus, does not form part of the Employee's regular compensation package, and does not create an entitlement to additional future compensation or incentives. The Employee also understands and agrees that the Pixology Bonus will not be included in any termination payment or severance calculations, either pursuant to this Agreement or common law.

If the Employee gives notice of resignation or the Company terminates the Employee's employment for just cause before the applicable Pixology Bonus payment dates as outline in Schedule "C" of this Agreement, the Employee will not be entitled to any remaining amounts of the Pixology Bonus after the date of notice of resignation or date of termination for just cause. For greater certainty, even if all or part of the Pixology Bonus would have become payable during a notice period, if the Employee has provided notice of resignation, or the Employee's employment was terminated for cause before the all or part of the Pixology Bonus was paid pursuant to Schedule "C", the Employee will not be entitled to any remaining Pixology Bonus amount(s).

The Employee agrees that this clause and Schedule "C" contains all of the understandings and representations between the Company and the Employee relating to the Employee's efforts with Pixology, compensation related to Pixology, and the Pixology Bonus. This clause and Schedule "C" supersedes all prior and contemporaneous understandings, discussions, agreements, representations and warranties, both written and oral, with respect to compensation for the Employee's efforts with respect to Pixology and the Pixology Bonus.

3.5 The Employee shall be entitled to participate in the Company's benefit programs as may be amended from time to time (the "**Benefits**"). All Benefits are subject to the terms and conditions of the applicable policies. The Employee agrees that the Company may substitute or modify the Benefits or their terms and conditions without notice.



**4. VACATION**

4.1 The Employee shall be entitled to take vacation during each calendar year at such time or times as shall be agreed between the Employee and the Company, in the amount of **four (4)** weeks, pro-rated for part years. The Employee shall be entitled to carry over vacation entitlement from one (1) year to the next without written approval of the Company, without any excess being forfeited subject to any applicable statutory minimums being honoured.

## 5. EXPENSES

5.1 The Employee shall be reimbursed by the Company for all out-of-pocket expenses actually, necessarily and properly incurred by the Employee in the discharge of duties for the Company. The Employee agrees that such reimbursements shall be due only after the Employee has rendered an itemized expense account, together with receipts where applicable, showing all monies actually expended on behalf of the Company and such other information as may be required and requested by the Company.

## 6. STATUTORY DEDUCTIONS AND TAXES

6.1 The Company shall be entitled to withhold from any compensation, benefits or amounts payable under this Agreement all applicable federal or provincial taxes and other statutory deductions as may be required from time to time pursuant to any law or governmental regulation or ruling.

## 7. TERM AND TERMINATION

7.1 This Agreement will commence on the Effective Date and will continue until terminated in accordance with the provisions of this Agreement ("**Term**").

7.2 The Employee may resign employment by giving the Company sixty (60) days' written notice, in which event the Employee shall not be entitled to any severance payment but shall be entitled to receive all Annual Salary earned to the date of cessation of employment, all earned but unpaid bonus payment, any outstanding earned but untaken vacation pay and reimbursement of any final expenses (collectively, "**Final Wages**"). The Company may, at its option, terminate the Employee's employment prior to the end of such resignation notice period, in which case, the Company shall only be liable to pay the Employee his Annual Salary on regular paydays through to the end of the resignation period, to pay all earned but unpaid bonus payment, to pay out any outstanding earned but untaken vacation pay, to reimburse any final expenses and to continue Benefits other than disability and other coverages which cannot be extended to former employees over such period.



7.3 At any time, the Company may terminate the employment of the Employee without just cause by notice in writing stating the last day of employment (the "**Termination Date**"), in which case the Company shall be obligated to provide the Employee with the compensation set out below (the "**Severance**"). The unconditional lump sum portions of the Severance shall be payable within fourteen (14) business days following the Termination Date. The Severance shall consist of the following:

(a) the Final Wages;

(b) an additional lump sum payment equal to the Annual Salary plus last Performance Bonus earned divided by 12 and then multiplied by six (6) (the "**Severance Period**"); and

(c) the Company shall continue at its cost the Benefits then in effect for the Employee, other than disability insurance and other coverages which cannot be extended to former employees, until the earlier of the end of the Severance Period or the Employee obtaining alternate coverage (of which prompt written notice must be given to the Company).

It is intended that the Severance exceeds the minimum requirements of the *Employment Standards Act* (Ontario), as amended. To the extent that the Severance falls below a minimum requirement of this statute, or its regulations, as may be amended from time to time, then the Company shall be required to pay an amount to the Employee that meets, but does not exceed, such minimum requirement, in lieu of the Severance.

7.4 At any time, the Company may terminate the engagement of the Employee and this Agreement for cause. In such event, the Employee shall not be entitled to any compensation or advance notice, but shall be entitled to receive Final Wages. For purposes of this Agreement, "cause" includes but is not limited to: (i) the Employee commits a crime involving dishonesty, breach of trust, or physical harm to any person; (ii) the Employee willfully engages in conduct that is in bad faith and injurious to the Company, including but not limited to, misappropriation or disclosure of trade secrets or any other kind of Company assets including intellectual property or Confidential Information, dishonesty, fraud, embezzlement, diverting or misusing Company resources for Employee's own or a third party's benefit; (iii) the Employee commits a material breach of this Agreement or known Company policy, including policy against bullying, sexual harassment or racial discrimination, which breach is not cured within twenty (20) days after written notice to Employee from the Company; (iv) the Employee willfully refuses to implement or follow a lawful policy or directive of the Company, which breach is not cured within twenty (20) days after written notice to Employee from the Company; (v) the Employee has demonstrated a clear inability to satisfactorily perform the duties of the position despite an opportunity to improve his performance; or (vi) any other conduct that constitutes cause for termination of employment under the common law.

## 8. CHANGE OF CONTROL

8.1 **Change of Control**" means:

(a) the acquisition, beneficially, directly or indirectly, by any person or group of persons acting jointly or in concert, within the meaning of National Instrument 62-104, Takeover Bids and Issuer Bids, or any successor instrument thereto, of common shares of the Company which, when added to all other common shares of the Company at the time held directly or indirectly by such person or persons acting jointly or in concert, totals for the first time more than 50% of the outstanding common shares of the Company;



(b) during any period of not more than six (6) consecutive months, the removal, by extraordinary resolution of the shareholders of the Company, of more than fifty-one (51%) percent of the incumbent directors on the Company's Board at the beginning of the period;

(c) the consummation of a sale of all or substantially all of the assets of the Company; or

(d) the consummation of a reorganization, plan of arrangement, merger or other transaction which has substantially the same effect as to (a) to (c) above.

If at any time during the term of this Agreement there is a Change of Control, and within twelve (12) months of such Change of Control there is a termination by the Company without cause or termination by the Employee due to the following ("**Good Reason**"):

(a) the failure of the Company to pay any amount due to the Employee hereunder, which failure persists for fifteen (15) days after the Company receives the Employee's notice of failure;

(b) any unilateral material reduction in the Employee's title or a material reduction in his duties or responsibilities;

(c) any unilateral material adverse change in the Employee's Annual Salary, or

(d) the Company's material breach of this Agreement, which breach has not been cured by the Company within fifteen (15) days after receipt of notice from the Employee specifying, in reasonable detail, the nature of the breach or failure,

the Employee shall then be entitled to receive from the Company only a lump sum payment equal to eighteen (18) months of Annual Salary and average Performance Bonus. The Employee acknowledges and agrees that the terms of this clause set out the entire obligation of the Company to give the Employee notice or pay in lieu of notice in the event that the Employee's employment is terminated for a reason as described in this clause.



## 9. CONFIDENTIALITY

9.1 For the purposes of this Agreement, "**Confidential Information**" means information, whether or not originated by the Employee, that relates to the business or affairs of the Company, its affiliates, clients, sales personnel or suppliers and is confidential or proprietary to, about or created by the Company, its affiliates, clients or suppliers (whether or not reduced to writing or designated or marked as confidential), including, but not limited to, the following:

(a) any technical and non-technical information related to the Company's business and current, future and proposed products and services of the Company, including, without limitation, Company Innovations (as defined herein), Company Property (as defined herein) and the Company's information concerning research, development, design and product details and specifications, financial information, procurement requirements, engineering and manufacturing information, and business plans;

(b) information relating to strategies, research, communications, business plans and financial data of the Company;

(c) any information of or regarding the Company and its business which is not readily publicly available;

(d) work product resulting from or related to work or projects performed, or to be performed, for the Company or its affiliates, including, but not limited to, the methods, processes, procedures, analysis, techniques and audits used in connection therewith;

(e) any intellectual property contributed to the Company, and any other technical and business information of the Company and its affiliates which is of a confidential, trade secret and/or proprietary character;

(f) marketing and development plans, price and cost data, price and fee amounts, pricing and billing policies, quoting procedures, marketing techniques, methods of obtaining business, forecasts and forecast assumptions and volumes, current and prospective client lists, and future plans and potential strategies of the Company that have been or are being discussed;

(g) information belonging to third parties or which is claimed by third parties to be confidential or proprietary and which the Company has agreed to keep confidential; and

(h) any other information that becomes known to the Employee as a result of this Agreement or the services performed hereunder, including information received by the Company from others, that the Employee, acting reasonably, believes is confidential information or that the Company takes measures to protect.

9.2 The Employee's obligations under this Section 9 do not apply to any Confidential Information that the Employee can demonstrate: (a) was in the public domain at or subsequent to the time the Confidential Information was communicated to the Employee by the Company through no fault of the Employee; (b) was rightfully in the Employee's possession free of any obligation of confidence at or subsequent to the time the Confidential Information was communicated to the Employee by the Company; or (c) was independently developed by the Employee without use of, or reference to, any Confidential Information communicated to the Employee by the Company. A disclosure of any Confidential Information by Employee in response to a valid order by a court or other governmental body or as otherwise required by law will not be considered to be a breach of this Agreement or a waiver of confidentiality for other purposes, provided, however, that the Employee provides prompt prior written notice thereof to the Company to enable the Company to seek a protective order or otherwise prevent the disclosure.



9.3 The Employee acknowledges that the Confidential Information is a valuable and unique asset of the Company and that the Confidential Information is and will remain the exclusive property of the Company. The Employee agrees to maintain securely and hold in strict confidence all Confidential Information received, acquired or developed by the Employee or disclosed to the Employee as a result of or in connection with the Services. The Employee agrees that, both during and after the termination of this Agreement, the Employee will not, directly or indirectly, divulge, communicate, use, copy or disclose or permit others to use, copy or disclose, any Confidential Information to any person, except as such disclosure may be consented to by prior written authorization of the Board.

9.4 The Employee may use the Confidential Information solely to perform the Services for the benefit of Company. The Employee shall treat all Confidential Information with the same degree of care as the Employee accords to the Employee's own confidential information, but in no case shall the Employee use less than reasonable care. The Employee shall immediately give notice to the Company of any unauthorized use or disclosure of the Confidential Information. The Employee shall assist the Company in remedying any unauthorized use or disclosure of the Confidential Information.

9.5 All Confidential Information and any materials and items (including, without limitation, software, equipment, tools, artwork, documents, drawings, papers, diskettes, tapes, models, apparatus, sketches, designs and lists) that the Company furnishes to the Employee, whether delivered to the Employee by the Company or made by the Employee in the performance of the Services, and whether or not they contain or disclose Confidential Information (collectively, the "**Company Property**"), are the sole and exclusive property of the Company or the Company's affiliates, suppliers or customers. The Employee agrees to treat the Company Property with the same degree of care as the Employee treats its own property, but in no case shall the Employee use less than reasonable care. Within five (5) days after any request by the Company, the Employee shall destroy or deliver to the Company, at the Company's option: (a) all Company Property and (b) all materials and items in the Employee's possession or control that contain or disclose any Confidential Information. The Employee will provide the Company a written certification of the Employee's compliance with the Employee's obligations under this Section 9.5.

9.6 During the term of this Agreement, the Employee will not accept work, enter into a contract or accept an obligation in breach of the Employee's obligations under Section 11 of this Agreement, or the scope of the Services to be rendered for the Company under this Agreement. The Employee warrants that, to the best of the Employee's knowledge, there is no other existing contract or duty on the Employee's part that conflicts with or is inconsistent with this Agreement.

9.7 The Employee represents and warrants that the Employee has not used and will not use, while performing the Services, any materials or documents of another company which the Employee is under a duty not to disclose. The Employee understands that, while performing the Services, the Employee shall not breach any obligation or confidence or duty the Employee may have to any current or former client or employer. The Employee represents and warrants that it will not, to the best of its knowledge and belief, use or cause to be incorporated in any of the Employee's work product, any data software, information, designs, techniques or know-how which the Employee or the Company does not have the right to use.

9.8 The Employee will indemnify and hold harmless the Company from and against any and all third party claims, suits, actions, demands and proceedings against the Company and all losses, costs, damages, expenses, fees and liabilities related thereto arising out of or related to: (a) an allegation that any item, material or other deliverable delivered by the Employee under this Agreement infringes any intellectual property rights or publicity rights of a third party; (b) an alleged breach by the Employee of any agreement between the Employee and any third party; or (c) any negligence by the Employee or any other act or omission of the Employee, including, without limitation, any breach of this Agreement by the Employee.

## 10. DISCLOSURE AND ASSIGNMENT OF WORK RESULTING FROM PROVISION OF SERVICES

10.1 In this Agreement, "**Innovations**" means all discoveries, designs, developments, improvements, inventions (whether or not protectable under patent laws), works of authorship, information fixed in any tangible medium of expression (whether or not protectable under copyright laws), trade secrets, know-how, ideas (whether or not protectable under trade secret laws), mask works, trademarks, service marks, trade names and trade dress. "**Company Innovations**" means Innovations that: (a) result or derive from the provision of the Services or from the Employee's knowledge or use of Confidential Information; (b) are conceived or made by the Employee (individually or in collaboration with others) in the course of provision of the Services; (c) result from or derive from the use or application of the resources of the Company, its affiliates or suppliers; (d) relate to the Business of the Company or to actual or demonstrably anticipated research and development by the Company or its affiliates; or (e) the Employee, solely or jointly with others, creates, derives, conceives, develops, makes or reduces to practice during the Term.

10.2 All Company Innovations shall be the exclusive property of the Company and the Company shall have sole discretion to deal with Company Innovations. The Employee agrees that no intellectual property rights in the Company Innovations are or shall be retained by the Employee. For greater certainty, all work done during the Term by the Employee for the Company or its affiliates is the sole property of the Company or its affiliates, as the case may be, as the first author for copyright purposes and in respect of which all copyright shall vest in the Company or the relevant affiliate, as the case may be.



10.3 The Employee agrees to maintain adequate and current records of all Company Innovations, which records shall be and remain the property of the Company. The Employee agrees to promptly disclose and describe to the Company all Company Innovations. The Employee hereby does and will irrevocably assign to the Company or the Company's designee all of the Employee's right, title and interest in and to any and all Company Innovations and all associated records.

10.4 In consideration of the benefits to be received by the Employee under the terms of this Agreement, the Employee hereby irrevocably sells, assigns and transfers, and agrees in the future to sell, assign and transfer all right, title and interest in and to the Company Innovations and intellectual property rights therein, including, without limitation, all patents, copyright, industrial design, circuit topography and trademarks, and any goodwill associated therewith in Canada, the United States and worldwide to the Company and the Employee shall hold all the benefits of the rights, title and interest mentioned above in trust for the Company prior to the assignment to the Company, save and except for any moral rights which the Employee shall waive. To the extent any of the rights, title and interest in and to Company Innovations cannot be assigned by the Employee to the Company, the Employee hereby grants to the Company an exclusive, royalty-free,

transferable, irrevocable, worldwide, fully paid-up license (with rights to sublicense through multiple tiers of sublicensees) to fully use, practice and exploit those non-assignable rights, title and interest, including, but not limited to, the right to make, use, sell, offer for sale, import, have made, and have sold, the Company Innovations. To the extent any of the rights, title and interest in and to the Company Innovations can neither be assigned nor licensed by the Employee to the Company, the Employee hereby irrevocably waives and agrees never to assert the non-assignable and non-licensable rights, title and interest against the Company, any of the Company's successors in interest, or any of the Company's customers.

10.5 The Employee agrees to perform, during and after the Term, all acts that the Company deems necessary or desirable to permit and assist the Company, at its expense, in obtaining, perfecting and enforcing the full benefits, enjoyment, rights and title throughout the world in the Company Innovations as provided to the Company under this Agreement. If the Company is unable for any reason to secure the Employee's signature to any document required to file, prosecute, register or memorialize the assignment of any rights under any Company Innovations as provided under this Agreement, the Employee hereby irrevocably designates and appoints the Company and the Company's duly authorized officers and agents as the Employee's agents and attorneys-in-fact to act for and on the Employee's behalf and instead of the Employee to take all lawfully permitted acts to further the filing, prosecution, registration, memorialization of assignment, issuance and enforcement of rights in, to and under the Company Innovations, all with the same legal force and effect as if executed by the Employee. The foregoing is deemed a power coupled with an interest and is irrevocable.



10.6 If the Employee incorporates or permits to be incorporated any Innovations relating in any way, at the time of conception, reduction to practice, creation, derivation, development or making of the Innovation, to the Company's business or actual or demonstrably anticipated research or development but which were conceived, reduced to practice, created, derived, developed or made by the Employee (solely or jointly) either unrelated to the Employee's work for Company under this Agreement or prior to the Effective Date (collectively, the "**Out-of-Scope Innovations**") into any of the Company Innovations, then the Employee hereby grants to the Company and the Company's designees a royalty-free, transferable, irrevocable, worldwide, fully paid-up license (with rights to sublicense through multiple tiers of sublicensees) to fully use, practice and exploit all patent, copyright, moral right, mask work, trade secret and other intellectual property rights relating to the Out-of-Scope Innovations. Notwithstanding the foregoing, the Employee agrees that the Employee shall not incorporate, or permit to be incorporated, any Innovations conceived, reduced to practice, created, derived, developed or made by others or any Out-of-Scope Innovations into any Company Innovations without the Company's prior written consent.

## 11. NON-INTERFERENCE WITH BUSINESS

11.1 In this Agreement, "**Business of the Company**" means the business of manufacturing search and navigation equipment within the commercial UAV space.

11.2 The Employee agrees that, during the Term, the Employee will not, on its own behalf or on behalf of or in connection with any third party, directly or indirectly, in any capacity whatsoever, including, without limitation, as an employer, employee, principal, agent, director, officer, joint venturer, partner, shareholder or other equity holder, lender or other debt holder, independent contractor, licensor, licensee, franchisor, franchisee, distributor, consultant, financier, supplier or trustee, or by or through any company, cooperative, partnership, trust, unincorporated association or otherwise, anywhere in North America:

(a) carry on, be engaged in, have any financial or other interest in or be otherwise commercially involved in any endeavour, activity or business which is in competition with the Business of the Company;

(b) canvass or solicit the business of (or procure or assist the canvassing or soliciting of the business of) any customer, prospective customer or supplier of the Company to supply or purchase any goods or

services that are substantially the same as or in competition with goods or services supplied in the Business of the Company;

(c) accept (or procure or assist the acceptance of) any business from any customer, prospective customer, sales personnel or supplier that is substantially the same as or in competition with the Business of the Company; or

(d) supply (or procure or assist the supply of) any goods or services to any customer, prospective customer, sales personnel or supplier that are substantially the same as or in competition with the goods or services supplied in the Business of the Company.



11.3 During the Term, and for a period of twelve (12) months immediately following the termination or expiration of this Agreement, the Employee agrees not to solicit or induce any customer, prospective customer, supplier, sales personnel, employee or independent contractor involved with the Company to terminate or breach any employment, contractual or other relationship with the Company, or to otherwise discontinue or alter such third party's relationship with the Company.

11.4 During the Term, and for a period of twelve (12) months immediately following the termination or expiration of this Agreement, the Employee agrees not to, on its own behalf or on behalf of or in connection with any third party, directly or indirectly, in any capacity whatsoever, engage in any pattern of conduct that involves the making or publishing of written or oral statements or remarks (including without limitation the repetition or distribution of derogatory rumours, allegations, negative reports or comments) which are disparaging, deleterious or damaging to the integrity, reputation or goodwill of the Company or any of its affiliates, officers, directors, employees, consultants or advisors.

## 12. FULL SATISFATION AND RELEASE

12.1 The Employee agrees to accept the Severance, as applicable, in full satisfaction of any and all claims the Employee has or may have against the Company arising out of such termination, including: under applicable employment standards legislation and entitlement to reasonable notice under common law. The Employee agrees to sign and deliver a full and final release of the Company of all such claims arising upon such termination in return for payment of the lump sum components of the Severance in excess of employment standards minimum payments.

## 13. RIGHT TO DEDUCT

13.1 The Company shall have the right to offset any money properly due by the Employee to the Company against any amounts payable by the Company to the Employee under this Agreement.

## 14. GENERAL

14.1 This Agreement contains the entire Agreement and obligation between the parties with respect to its subject matter. No amendment to this Agreement will be valid or effective unless in writing and signed by all of the parties.

14.2 The Employee undertakes to fulfill all of its obligations under this Agreement, and not to do anything which would impair or prejudice the Employee's ability to do so. The Employee agrees that he is bound under his obligations in Sections 9, 10 and 11 of this Agreement.

14.3 The Employee's obligations under this Agreement are of a unique character that gives them particular value, and that the breach of any of these obligations will cause irreparable and continuing damage to the Company for which money damages are insufficient. The Company is entitled to injunctive relief, a decree for specific performance, and all other relief as may be proper (including money damages if appropriate), without the need to post a bond.

14.4 It is intended that this Agreement shall be in compliance with the minimum requirements of Ontario's *Employment Standards Act,* as may be amended from time to time. To the extent that a term or condition of this Agreement falls below a minimum requirement of this statute or its regulations, as may be amended from time to time, such minimum requirement, and no greater requirement, shall replace the term or condition of this Agreement, and shall be incorporated into the Agreement.

14.5 The Employee acknowledges that the restrictions contained in Section s 9, 10 and 11 are, in view of the nature of the Business of the Company, reasonable and necessary to protect the legitimate interests of the Company, that the Company would not have entered into this Agreement in the absence of such restrictions and that any violation of any provision of those Sections could result in irreparable injury to the Company. The Employee agrees that, in the event it violates any of the restrictions referred to in Section 9, 10 and 11, the Company shall be entitled to such injunctive relief or other remedies at law or in equity which the Court deems fit.

14.6 The Employee expressly acknowledges that this Agreement is reasonable and valid in all respects and irrevocably waives (and irrevocably agrees not to raise) as a defence any issue of reasonableness in any proceeding to enforce any provision of this Agreement, the intention of the parties being to provide for the legitimate and reasonable protection of the interests of the Company by providing, without limitation, for the broadest scope, the longest duration and the widest territory allowable by law.

14.7 The Employee agrees to indemnify the Company from all losses, claims, actions, damages, assessments or demands (including reasonable legal fees and expenses) which result from negligent acts or omissions of the Employee in providing the Services. Notwithstanding the foregoing, the Company agrees that the Employee will be covered by the Company's Directors & Officers and Employment Practices Liability Insurance, once such insurance is obtained by the Company.

14.8 Any notice, request, demand or other communication hereunder shall be in writing and shall be delivered as follows, with notice deemed given as indicated: (a) by personal delivery, when actually delivered; (b) by overnight courier, upon written verification of receipt; (c) by facsimile or email, when sent, if sent during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient's next business day; or (d) by certified or registered mail, return receipt requested, upon verification of receipt. Notice shall be sent to the addresses set forth on the first page of this Agreement or to such other address as the parties may advise each other in writing from time to time in accordance with this Section 14.8.



14.9 The Company and the Employee will be responsible for all of their own expenses, legal and other professional fees, disbursements, and all other costs incurred in connection with the negotiation, preparation, execution and delivery of this Agreement and all documents and instruments relating hereto. The parties agree that they have had adequate opportunity to seek independent legal advice with respect to the subject matter of this Agreement, and have either obtained such advice or consciously chosen not to do so with full knowledge of the risks associated with not obtaining such legal advice.

14.10 If any provision of this Agreement, including as to term or geographical area, is held to be illegal, invalid or unenforceable under present or future laws by any court of competent jurisdiction, such illegality, invalidity or unenforceability shall not affect the legality, enforceability or validity of any other provisions of this Agreement or of the same provision as applied to any other fact or circumstance, and such illegal,

unenforceable or invalid provision shall be modified to the minimum extent necessary to make such provision legal, valid or enforceable.

14.11 Time shall be of the essence of this Agreement.

14.12 Except as specifically permitted herein, the Employee will not sell, assign or transfer any rights or interests created under this Agreement or delegate any of the Employee's duties without the prior written consent of the Company.

14.13 The headings in this Agreement are inserted for convenience of reference only and shall not affect the construction or interpretation of this Agreement. Wherever the singular or masculine or neuter is used in this Agreement, the same shall be construed as meaning the plural or feminine or a body politic or corporate and vice versa where the context so requires.

14.14 The parties agree that this Agreement is effective as of the Effective Date, and the parties agree that there is fresh, sufficient consideration for this Agreement. The parties waive the ability to claim that: (i) this Agreement is void for lack of fresh, sufficient consideration, and (ii) this Agreement is not effective as of the Effective Date.

14.15 This Agreement will be governed by and construed in accordance with the laws of the Province of Ontario, and the federal laws of Canada applicable therein, and each of the parties irrevocably submit to the exclusive jurisdiction of courts of competent jurisdiction in the Province of Ontario, without reference to its conflicts of law jurisprudence, in respect of any dispute or claim arising out of this Agreement or any legal obligation between the parties. Notwithstanding the foregoing, the Company may enforce any post-employment obligation of the Employee under this Agreement in any court of competent jurisdiction anywhere in the world.

14.16 This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument. Counterparts may be executed either in original or electronic form and each of the parties to this Agreement agree that any signature delivered by electronic transmission will be deemed to be the original signature of the delivering party.

14.17 Unless otherwise provided, all dollar amounts referred to in this Agreement are in lawful money of Canadian.



**IN WITNESS WHEREOF**, the parties have signed this Agreement as of the day and year first written above.

**DRAGANFLY INC.**
by its authorized signatory

Name: Cameron Chell
Title: Chief Executive Officer

Name: Paul Sun

**SCHEDULE "A"**

**SERVICES**

Defined terms used but not otherwise defined in this Schedule "A" have the meaning ascribed thereto in the Employment Agreement dated November _____, 2020 (the "**Agreement**") between Paul Sun ("**Employee**") and Draganfly Inc. (the "**Company**") of which this Schedule "A" forms part.

The Services to be provided by the Employee under the Agreement are as follows:

- Providing leadership, direction and management of the finance and accounting team.
- Providing strategic recommendations to the CEO/president and members of the executive management team.
- Managing the processes for financial forecasting and budgets, and overseeing the preparation of all financial reporting.
- Advising on long-term business and financial planning.
- Establishing and developing relations with senior management and external partners and stakeholders.
- Reviewing all formal finance, HR and IT related procedures.
- Other tasks and mandates as set by the Board and President.

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**SCHEDULE "B"**

**ANNUAL PERFORMANCE BONUS**

Defined terms used but not otherwise defined in this Schedule "B" have the meaning ascribed thereto in the Employment Agreement dated November _____, 2020 (the "**Agreement**") between Paul Sun ("**Employee**") and Draganfly Inc. (the "**Company**") of which this Schedule "B" forms part.

The Employee shall be eligible to receive, at the sole discretion of the Company, an annual Performance Bonus, equivalent to an amount not exceeding the Employee's Annual Salary as referenced in the Agreement. The following bonus target percentages will guide the Company's Compensation Committee in determining an appropriate bonus:

| | |
|---|---|
| Financing / capital raise of at least CDN$7 million | 30% |
| Actual vs Projected Budget Management | 25% |
| Monthly Reporting at 95% accuracy within 21 days | 10% |
| Company-wide HR / Equity / Compensation alignment | 10% |
| 12 months burn rate in cash in bank | 15% |
| Signed revenue / contracts of CDN$7 million | 10% |

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**SCHEDULE "C"**

ONE TIME LEGACY PIXOLOGY BONUS

1. A one time payment of CDN$40,000 will be paid on following schedule:

    a. CDN$20,000 as at Effective Date or as soon as practical thereafter based on management's proposal, Board acceptance, and the Company's cash flow situation;

b. CDN$10,000 at time of the Employee's next annual Performance Bonus (this payment is in addition to annual Performance Bonus calculations); and

c. CDN$10,000 at time of Pixology escrow release (estimated October 2021).

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**Exhibit 4.8**

**EMPLOYMENT AGREEMENT AMENDING AGREEMENT**

**THIS AGREEMENT, effective as of _____, 2021 (the "Effective Date") is between:**

**DRAGANFLY INC.**,

a company duly incorporated under the laws of the Province of British Columbia with a business address at 2108 St. George Avenue, Saskatoon, Saskatchewan S7M 0K7,

(Hereinafter referred to as the **"Company**")

OF THE FIRST PART.

-and-

**PAUL SUN**,

an individual residing at 1179 Fairmeadow Trail, Oakville , Ontario L6M 2M8

(Hereinafter referred to as the "**Employee**" or "**you**")

OF THE SECOND PART.

(collectively, the "**Parties**")

**WHEREAS:**

A. The Company and the Employee entered into an Employment Agreement dated November, 2020 (the "**Employment Agreement**") setting out the terms and conditions of the Employee's employment;

B. The Company wishes to continue to engage the services of the Employee and the Employee desires to continue to be employed by the Company upon the terms and subject to the conditions of the Employment Agreement as amended by the terms of this Employment Agreement Amending Agreement hereinafter set forth;

---



**NOW THEREFORE** in consideration of the promises and the mutual covenants and agreements contained in this Employment Agreement Amending Agreement (this "**Amending Agreement**"), including the increase to the Employee's base salary and the grant of restricted share units, and in exchange for the Employee's continued employment, the Parties agree to amend the Employment Agreement as follows:

1. Provision 3.1 entitled "Consideration for Services" in the Employment Agreement will be replaced with the following:

As compensation for carrying out the Services during the term of this Agreement, the Company agrees to pay the Employee a salary in the amount of CDN$220,000.00 (the "**Annual Salary**") payable by semi-monthly instalments. The Company will review the Annual Salary annually during the term of this Agreement and may, in its sole discretion, adjust the Annual Salary.

2. Provision 3.2 entitled "Consideration for Services" in the Employment Agreement will be removed.

3. Provision 3.3 entitled "Consideration for Services" in the Employment Agreement will be replaced with the following:

   In addition to the above Annual Salary, the Employee shall be eligible to earn a discretionary annual performance bonus ("**Performance Bonus**"). The Performance Bonus will be determined following the completion of the Company's financial year each year, based on performance metrics to be determined by the Company's compensation committee in its sole discretion. The Company shall pay the Employee the Performance Bonus, if any, within the thirty (30) days following the Employee's completion of each Term (as hereinafter defined), beginning from the Effective Date. The Employee understands and agrees that payment of a Performance Bonus should not be considered to be expected compensation and the payment of a Performance Bonus in any one or successive years shall not create an entitlement to a Performance Bonus in any subsequent year. Further, the Employee shall be eligible to earn a Performance Bonus on a pro-rated basis, and the Employee shall be entitled to receive a pro rata portion of the Performance Bonus for any period of employment predating the payment of the Performance Bonus. To be eligible for a Performance Bonus, the Employee must also be Actively Employed on the date of payment of any such bonus. For purposes of this Agreement, the last day that the Employee is "Actively Employed" shall be the later of: (i) the last day that the Employee actually performs their duties prior to the termination of the Employee's employment with the Company for any reason; or (ii) the end of the minimum period of statutory notice of termination prescribed by the Ontario *Employment Standards Act, 2000* (the "**ESA**"). This is because a Performance Bonus is not earned until the payment date. For clarity, except to the extent required by the ESA: (i) the last day that the Employee is Actively Employed shall not be extended by any contractual or common law notice of termination period in respect of which the Employee receives or may receive pay in lieu of notice of termination or damages in lieu of such notice of termination; and (ii) entitlement to any Performance Bonus shall not be included in any entitlement which the Employee may have to pay in lieu or damages in lieu of notice of termination.



   Beginning in the calendar year of 2021, the Employee's annual target Performance Bonus is CDN$220,000.00, pro-rated to the date of this Amending Agreement for 2021. To clarify, the Performance Bonus remains discretionary as solely determined and approved by the Board. The Employee understands and agrees that payment of a Performance Bonus should not be considered to be expected compensation and the payment of a Performance Bonus in any one or successive years shall not create an entitlement to a Performance Bonus in any subsequent year.

4. Provision 3.6 entitled "Consideration for Services" will be added into the Employment Agreement as follows:

   Subject to the receipt of all necessary regulatory approvals, the Company shall grant to you 30,000 restricted share units ("RSU") in Draganfly Inc., which shall vest and be governed in accordance with the Company's RSU plan.

5. All other terms and conditions of employment set out in the Employment Agreement will remain unchanged and in effect.

6. The Employee hereby releases the Company from any and all claims he has or may have arising in any way out of the terms of this Amending Agreement or the changes to his employment as set out herein, specifically

includes any claims under any applicable human rights, workers' compensation, employment standards, employment or labour legislation including but not limited to the *Employment Standards Act, 2000*, the *Human Rights Code*, the *Workplace Safety and Insurance Act, 1997* and the *Pay Equity Act.*

7. This Amending Agreement amends the Employment Agreement. This Amending Agreement and the Employment Agreement shall be read together and constitute one agreement. The Parties agree that the terms of the Amending Agreement will be effective on the Effective Date.

8. This Amending Agreement enures to the benefit of and binds the parties hereto and their respective heirs, executors, legal personal representatives, successors and permitted assigns.

9. If there is a conflict between any provision of this Amending Agreement and any provision of the Employment Agreement, the relevant provision(s) of this Amending Agreement are to prevail.

10. This Amending Agreement is governed by, and is to be construed and interpreted in accordance with the laws of Ontario. The Parties irrevocably attorn to the jurisdiction to the Ontario Superior Court of Justice in Toronto.

[*signature page follows*]



TO EVIDENCE THEIR AGREEMENT the parties have executed the Amending Agreement this _____ day of _____ 2021:

| | |
|---|---|
| **DRAGANFLY INC.** | **PAUL SUN** |
| *Authorized Signatory*<br>I have authority to bind the Corporation | (*Consultant Signature*) |

**Exhibit 4.9**

April 30, 2020

**Personal & Confidential**
**Delivered by E-mail**

Justin Hannewyk
304—1126 Barclay Street

Dear Mr. Hannewyk,

**RE: Employment Agreement**

Further to our recent discussions, Dronelogics Systems Inc. ("Dronelogics") is pleased to offer you this new employment contract ("Agreement"), which will supersede your existing employment agreement with Dronelogics.

1. **Effective Date; Location** This Agreement is contingent and conditional upon Draganfly Inc. ("Draganfly") completing its share purchase acquisition of Dronelogics (the "Transaction") by April 30, 2020, or such other date as may be subsequently agreed to by the parties in writing ("Deadline"). If Draganfly does not complete

the Transaction by the Deadline, this Agreement (and any schedules, attachments and enclosures thereto) is null and void. If Dronelogics completes the Transaction by the Deadline, this Agreement (and any schedules, attachments and enclosures thereto) will take effect on the date of such completion.

2. **Existing Employee; Fresh Consideration** The parties acknowledge that you have been employed with Dronelogics since January 13, 2009. Dronelogics wishes to continue your employment subject to the terms and conditions of this Agreement, and you wish to continue your employment with Dronelogics on such terms and conditions. Subject to the terms and conditions of this Agreement, your seniority of employment with Dronelogics will be recognized for all purposes. The parties acknowledge and agree that you will be provided with sufficient consideration in exchange for your execution of this Agreement, including but not necessarily limited to compensation, benefits, Options and RSUs set out herein.

3. **Duration** Your employment under this Agreement will be indefinite, subject to the termination provisions set out herein. As you will be living and working primarily in British Columbia in respect of this employment, the British Columbia *Employment Standards Act* and the regulations thereunder, as may be amended from time to time, ("ESA") will apply to this employment.

4. **Conditions** You may be required to undertake occasional business travel (both domestic and international). Accordingly, you will be required to maintain an up-to-date passport and remain legally able to travel for business internationally.



5. **Position and Responsibilities** You will continue to be employed in the position of President of Dronelogics. You will be expected to faithfully perform the duties and functions which are consistent with the duties of this position and such other duties as may be prescribed or specified from time to time by Dronelogics. You will also act as a director on Draganfly's board of directors (the "Draganfly Board"). You will resign from this position as director immediately upon cessation of your employment with Dronelogics, except as may be agreed otherwise by the parties in writing.

   In addition to the compensation and benefits that you are eligible for as a President of Dronelogics, which is set out in Section 6 of this Agreement, your compensation as a director on the Draganfly Board is set out in Schedule "A" of this Agreement. Dronelogics represents that it has authority from the Draganfly Board and Draganfly to offer the compensation in Schedule "A" to you.

   You will be employed on a full-time basis for Dronelogics and you understand and agree that you will work a minimum of 40 hours per week. You acknowledge and agree that you will be required to work such other hours as may reasonably be necessary for the proper performance of the duties of your position, subject to compliance with the minimum requirements of the ESA.

   Due to the managerial nature position of your position as President of Dronelogics, you will not be entitled to any form of overtime compensation.

   You agree to carry out all lawful instructions given to you by Dronelogics. You also acknowledge and hereby agree to observe all rules and policies of Dronelogics. Dronelogics reserves the right to revise, revoke, or introduce new rules and policies, as Dronelogics may deem necessary from time to time, and you will also be required to abide by any new or revised rules and policies, once you are advised of them and they come into effect.

   You are expected to devote your full time and attention during your working hours to promoting the business and interests of Dronelogics. While working for Dronelogics, you may participate in charitable organizations or other similar organizations, subject to the reasonable objection of Dronelogics and provided that such participation does not interfere with the proper discharge of your duties to Dronelogics. However, you must not carry out any other work or be involved in any other business for yourself or any other person, firm or

company (whether for compensation or not) without first obtaining written permission from the Draganfly Board. You acknowledge that you do not currently have any involvements for which such permission must be sought. Notwithstanding the foregoing, nothing in this paragraph shall prohibit you from having an interest in, being employed by, or working in the business of: (i) providing cinematography, scanning services related to cinematography and virtual reality and game design related solely to cinematography in Canada, including by using drones, and (ii) development and sale of associated hardware world-wide (including the VersaArm and other camera arms) and accessories, other than drones; and in each case, related services carried on by Dronelogics prior to completion of the Transaction, and which, for greater certainty, has not been acquired by Draganfly under the Transaction. Additionally, you shall not be in default under this paragraph by virtue of your holding, strictly for portfolio purposes and as a passive investor, no more than five percent (5%) of the issued and outstanding shares of, or any other interest in, any body corporate which is listed on any recognized stock exchange, the business of which body corporate is in competition, in whole or in part, with Dronelogics.



6. **Compensation and Benefits**

(a) Base Salary Your annual base salary under this Agreement will be $120,000, payable in accordance with our regular payroll schedule, as may be increased by Dronelogics from time to time in its sole discretion ("Base Salary").

(b) Stock Options As President of Dronelogics, you will be eligible for the stock options as set out in Schedule "B".

(c) Incentive In addition to your Base Salary, you will be eligible to participate in any incentive plans Dronelogics' board of directors ("Dronelogics Board") may implement, or amend, from time to time in consultation with Draganfly Board ("Incentive Plan"). For emphasis, the Dronelogics Board has full discretion in respect of any Incentive Plan, including but not limited to, targets, amending the plan from year-to-year, assessing performance and payouts. Such discretion will be exercised in good faith. Subject to the Dronelogics Board, confirming that the following Incentive Plan targets have been met and subsequent verification by the Draganfly Board, you will be eligible to receive the following:

(i) $20,000 Milestones bonus if the annual Dronelogics budget is achieved; and

(ii) 2% of revenues exceeding the annual Dronelogics budget, subject to the revenues having a minimum 25% margin.

Except as expressly stated otherwise elsewhere in this Agreement, if you resign from your employment with Dronelogics or Dronelogics terminates your employment for cause, any Incentive Plan payment for the calendar year in which the date of termination of employment occurs shall be cancelled, and you will not be entitled to any Incentive Plan payment for any period following the termination date, but any unpaid Incentive Plan payment payable to you in respect of a calendar year that has ended prior to the date of your termination of employment will be paid to you.

Except as expressly stated otherwise elsewhere in this Agreement, if your employment with Dronelogics ends for any reason other than your resignation or for cause, any Incentive Plan payment payable to you for the calendar year in which the date of termination of employment occurs shall be prorated based on the number of days of your employment with Dronelogics in the calendar year in which the date of termination occurs, and any unpaid Incentive Plan payment payable to you in respect of a calendar year that has ended prior to the date of termination of your employment will be paid to you, but you will not be entitled to any Incentive Plan payment for any period following the termination date.

(d) Health Benefits You will be eligible to participate in any group benefits Dronelogics may implement from time to time in its sole discretion ("Group Benefits"). Your participation in any Group Benefit plan is subject to the terms and conditions of any applicable benefit carriers. Furthermore, Dronelogics reserves the right to amend benefits and/or to switch to a different carrier or plan, and you will not have any right to compensation as a consequence.

(e) Vacation Subject to future increases based on existing practices for Dronelogics' senior executives, during each year of employment you will be entitled to four (4) weeks of paid vacation per calendar year, pro rata for any part calendar years. The vacation year is a calendar year and you will immediately become entitled to your full vacation entitlement commencing on January 1 of each calendar year. You are required to use all paid vacation within one (1) year following the calendar year of accrual. Failure to do so will result in you forfeiting the paid vacation time in question, subject to any minimum requirements of the ESA being honoured.

During any statutory leave provided for by the ESA or any other leave that is more extensive than casual sick leave of short duration, vacation entitlement and/or vacation pay shall only accrue in accordance with the minimum requirements of the ESA.

At the cessation of your employment with Dronelogics, any paid vacation time not taken by you, and which has not been forfeited, will be paid out to you as part of final wages.

(f) Expenses You will be reimbursed for reasonable and customary business expenses incurred in the course of performing your duties hereunder, in accordance with Dronelogics' policies and practices (as amended from time to time) and conditional upon submission of receipts and details satisfactory to Dronelogics.

(g) Equipment During the course of your employment, Dronelogics may supply you with equipment, devices or other property to carry out your responsibilities hereunder. You agree that during the term of your employment and thereafter any and all equipment, devices or other property provided to you by Dronelogics shall remain the property of Dronelogics ("Dronelogics Property"). The foregoing shall include all property (whether in electronic or hard copy form), including without limitation computers, peripherals, software, cellular phones, keys, door passes and any other equipment. You understand and agree that you will not be entitled to use any Dronelogics Property for any period after the last day of your active employment, and you will not be entitled to compensation for the loss of use of Dronelogics Property.

(h) Mileage Allowance Dronelogics will reimburse you for all mileage accumulated on your personal vehicle that was incurred solely for completing Dronelogics business and only for travel to and from Dronelogics' premises and its customers. Such reimbursement will be paid monthly and conditional upon submission of receipts and details satisfactory to Dronelogics.



(i) Cell Phone Reimbursement Dronelogics will reimburse you for 50% of your monthly cellular telephone bill.

(j) Directors and Officers Liability Insurance Dronelogics will maintain directors and officers' insurance for your benefit in your capacity as a director or officer of Dronelogics and any of its subsidiaries or affiliates.

7. **Cessation of Employment**

(a) Resignation You must give thirty (30) days' prior written notice if you wish to resign ("Resignation Notice Period"). Once you give Dronelogics notice of resignation, Dronelogics reserves the right to waive all or part of any resignation notice exceeding the Resignation Notice Period, in which case your resignation will take effect and your employment will cease at the end of the reduced period, with no further obligation to you, except as otherwise necessary to comply with the minimum requirements of the ESA. Dronelogics also reserves the right to, at any point during the Resignation Notice Period, (i) require you to immediately return all Dronelogics Property; and/or (ii) require you to refrain from being present at any Dronelogics worksites. You acknowledge and agree that if Dronelogics exercises the foregoing right, it shall not constitute a termination of your employment, a breach of this Agreement or constructive dismissal.

(b) Termination for Cause Subject to strict compliance with the minimum requirements of the ESA, Dronelogics may terminate your employment at any time for cause, upon providing written notification to you. For these purposes, "cause" means any grounds at law for which an employer is entitled to dismiss an employee summarily without notice or compensation in lieu of notice.

(c) Termination without Cause in the Absence of a Change of Control Other than during the six (6) month period following a Change of Control, Dronelogics may terminate your employment at any time without cause, and you will be entitled to terminate your employment with Dronelogics at any time for Good Reason. Upon either of the immediately foregoing events, Dronelogics will provide you with the following:

(i) such notice, or in Dronelogics' sole discretion, payment in lieu of all or any part thereof, as is necessary to meet the minimum requirements under the ESA, together with any other minimum statutorily prescribed payments, entitlements and benefits, and

(ii) twelve (12) months' notice *less* the minimum amount of notice to which you are entitled under the ESA, or in Dronelogics' sole discretion payment of Base Salary plus Dronelogic's cost of paying your Group Benefits in lieu of all or any part of the notice set out in this subsection,

(the "Severance Amount").



In addition to the Severance Amount, if your employment with Dronelogics ends under section 7(c) of this Agreement, any Incentive Plan payment payable to you for the calendar year in which the date of termination of employment occurs shall be prorated based on the number of days of your employment with Dronelogics in the calendar year in which the date of termination occurs, and any unpaid Incentive Plan payment payable to you in respect of a calendar year that has ended prior to the date of termination of your employment will be paid to you, but you will not be entitled to any Incentive Plan payment for any period following your termination date. Furthermore, any paid vacation time not taken by you, and which has not been forfeited, will be paid out to you as part of final wages. There is no duty to mitigate in respect of Section 7(c) of this Agreement. If you are entitled to the amounts set out in Section 7(c) of this Agreement, you will not be entitled to any payment under Section 7(d) of this Agreement.

In consideration of and as a condition precedent to receiving any entitlement under Section 7(c)(ii) of this Agreement, within fifteen (15) days after receiving notice of termination from Dronelogics, you must sign and deliver to Dronelogics a release in favour of Dronelogics and affiliates, based on the standard form employment release then in use by Dronelogics.

(d) Change of Control Termination Dronelogics may terminate your employment at any time without cause during the six (6) months following a Change of Control, and you will be entitled to terminate your employment with Dronelogics for Good Reason during the six (6) months following a Change of Control (and you must provide written notice to Dronelogics of the Good Reason within this six (6) month period). Upon either of the immediately foregoing events, Dronelogics will provide you with the following:

(i) payment in lieu as is necessary to meet the minimum requirements under the ESA, together with any other statutory prescribed minimum payments, entitlements and benefits; and

(ii) payment of Base Salary plus Dronelogic's cost of paying for your Group Benefits, for the following period: twelve (12) months *less* the minimum amount of notice to which you are entitled under the ESA for the cessation of employment,

(the "Change of Control Severance").

In addition to the Change of Control Severance, if your employment with Dronelogics ends under section 7(d) of this Agreement, any Incentive Plan payment payable to you for the calendar year in which the date of termination of employment occurs shall be prorated based on the number of days of your employment with Dronelogics in the calendar year in which the date of termination occurs, and any unpaid Incentive Plan payment payable to you in respect of a calendar year that has ended prior to the date of termination of your employment will be paid to you, but you will not be entitled to any Incentive Plan payment for any period following your termination date. Furthermore, any paid vacation time not taken by you, and which has not been forfeited, will be paid out to you as part of final wages. There is no duty to mitigate in respect of Section 7(d) of this Agreement. If you are entitled to the amounts set out in Section 7(d) of this Agreement, you will not be entitled to any payment under Section 7(c) of this Agreement.



In consideration of and as a condition precedent to receiving any entitlement under Section 7(d)(ii) of this Agreement, within fifteen (15) days after receiving notice of termination from Dronelogics, you must sign and deliver to Dronelogics a release in favour of Dronelogics and affiliates, based on the standard form employment release then in use by Dronelogics.

(e) Change of Control "Change of Control" means:

(i) the occurrence of:

(A) an amalgamation, arrangement, merger or other consolidation of Dronelogics or its parent with another issuer entity pursuant to which the shareholders of Dronelogics or its parent immediately prior thereto do not immediately thereafter own shares (or other securities) of the successor continuing corporation (or other issuer entity) which entitle them to cast more than 50% of the votes attaching to all shares in the capital of the successor or continuing corporation (or other issuer entity) which may be cast to elect directors of that corporation (or the equivalent of such other issuer entity) (unless such transaction relates to an issuer with tax attributes and the shareholders of Dronelogics or its parent retain more than 50% of the equity of the successor continuing entity);

(B) a liquidation, dissolution or winding-up of Dronelogics or its parent; or

(C) a sale, lease or other disposition of all or substantially all of the assets of Dronelogics or its parent;

provided that, a Change of Control does not include: (i) an initial public offering of Dronelogics or its parent; (ii) a reverse takeover following which the shareholders of Dronelogics or its parent immediately prior thereto own shares of the successor or continuing corporation which would entitle them to cast more than 50% of the votes attaching to all shares in the capital of the successor or continuing corporation which may be cast to elect directors of such corporation; (iii) any other internal reorganization where beneficial ownership of the issued and outstanding shares of Dronelogics or its parent remains unchanged; or (iv) Draganfly's acquisition of Dronelogics by the Deadline.

(f) For the purposes of this Agreement, "Good Reason" means the occurrence of any of the following, unless consented to in writing by you:

(i) a material decrease in your title, position, or responsibilities;



(ii) a reduction of more than fifteen percent (15%) in your then current base salary;

(iii) any material breach of this Agreement by Dronelogics;

(iv) the relocation of your principal place of employment to a location more than one hundred (100) kilometers from Dronelogics office at which you are located as at the Deadline, or

(v) anything else that would constitute a constructive dismissal of your employment with Dronelogics at common law.

(g) Termination by Death This Agreement and your employment hereunder shall be automatically terminated by death. All compensation to you shall cease at your death, subject to compliance with the minimum requirements of the ESA.

(h) General If your employment with Dronelogics ceases for any reason whatsoever, then:

(i) Group Benefit coverage will end on the earliest day strictly permitted under the ESA. No further Group Benefit coverage will be provided. However, notwithstanding the cancellation of Group Benefit coverage, you will be entitled to be compensated for the costs of your Group Benefits in accordance with sections 7(c) and 7(d) as outlined above.

(ii) Any paid vacation time not taken by you, and which has not been forfeited, will be paid out to you as part of final wages

(iii) Where applicable, if a court of competent jurisdiction finds that you have been constructively dismissed by Dronelogics or that Dronelogics did not have cause to terminate your employment, and such termination occurred at any time other than in the period of six (6) months following a Change of Control, your entitlements will still be limited to those detailed in Section 7(c) of this Agreement.

(iv) Where applicable, if a court of competent jurisdiction finds that you have been constructively dismissed by Dronelogics or that Dronelogics did not have cause to terminate your employment, and such termination occurred in the period of six (6) months following a Change of Control, your entitlements will still be limited to those detailed in Section 7(d) of this Agreement.

(v) It is intended that the provisions set out above in this Section 7 of this Agreement are in satisfaction of and substitution for any and all statutory rights and common law rights, including without limitation, any right to reasonable notice of termination. To be clear, in no case will the total payments and entitlements provided to you in respect of the termination of your employment be less than your minimum entitlements pursuant to the ESA. In the event that your minimum entitlement under the ESA exceeds these contractual provisions, then those entitlements shall replace these provisions and no further entitlements or payments are due to you pursuant to the ESA or at common law.



(vi) Except as otherwise set out above in this Agreement, or as otherwise may be strictly required under the ESA, you will not be entitled to notice or severance or compensation in lieu of notice or any other compensation or benefits or entitlements of any nature whatsoever upon cessation of your employment with Dronelogics.

8. **Confidentiality, Ownership of Property, Non-Compete and Non-Solicitation** In order to accept this Agreement, you must also sign and abide by the Confidentiality, Ownership of Property, Non-Compete and Non-Solicitation Agreement attached to this offer.

9. **General Terms**

(a) Governing Law This Agreement shall be governed and construed in accordance with the laws of British Columbia and the laws of Canada applicable therein. You and Dronelogics hereby irrevocably submit and attorn to the exclusive jurisdiction of the courts of British Columbia. Notwithstanding the foregoing, Dronelogics may enforce this Agreement anywhere in the world, should there be a breach of the Agreement that occurs outside of British Columbia.

(b) ESA Notwithstanding anything to the contrary in this Agreement, Dronelogics intends to fully comply with the strict requirements of the ESA. Therefore, where the minimum requirements of the ESA provide you with any greater entitlements than those set out in this Agreement, Dronelogics will provide you with such minimum entitlements in substitution for any relevant entitlements set out in this Agreement, and no further entitlements or payments are due to you pursuant to the ESA, or at common law.

(c) Severability Each of the covenants and obligations set out in this Agreement will be construed as constituting obligations independent of each other and of any other obligations in the Agreement. If any provision of this Agreement is held by a court of competent jurisdiction to be overly broad, that provision is to be construed to afford Dronelogics the maximum protection permitted by law. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, that provision is to be deleted in such jurisdiction only, and the other provisions remain in effect and are valid and enforceable to the fullest extent permitted by law.



(d) Survival and Enforceability If your employment with Dronelogics ceases for any reason whatsoever, the provisions set out in Section 8 of this Agreement, the Confidentiality, Ownership of Property, Non-Compete and Non-Solicitation Agreement and Section 9 of this Agreement will each survive and remain enforceable by Dronelogics in a court of competent jurisdiction, notwithstanding the existence of any claim or cause of action you may assert against Dronelogics, whether predicated on this Agreement or otherwise. You also acknowledge that it would be difficult to compute the monetary loss to Dronelogics arising from your breach or threatened breach of your obligations

under Section 8 of this Agreement and the Confidentiality, Ownership of Property, Non-Compete and Non-Solicitation Agreement and accordingly, Dronelogics will be entitled, in addition to any other rights and remedies that it may have at law or equity, to a temporary or permanent injunction restraining you from engaging in or continuing any such breach.

(e) Entire Agreement This Agreement (and any references to other agreements or obligations under this Agreement) constitutes the entire agreement between Dronelogics and yourself with respect to the subject matter herein, and supersedes any prior agreements between the parties regarding the subject matter herein. No other representations, negotiations or conditions, either verbal or written, shall be of any force or effect except as expressly agreed upon in writing by us. Both you and Dronelogics hereby release and forever discharge the other of and from all manner of actions, causes of action, claims and demands whatsoever under or in respect of any prior agreements and representations.

(f) Amendment No amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both of the parties hereto. No waiver of any breach of any provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

(g) Assignment You may not assign, pledge or encumber any interest in this Agreement without the prior written consent of Dronelogics. Dronelogics may assign this Agreement to another entity controlled by Dronelogics, to any affiliate of Dronelogics or to any entity with which Dronelogics may merge or consolidate or to which it may transfer substantially all of its assets.

(h) Authority to Work in Canada You verify that you are legally authorized to work in Canada for Dronelogics.

(i) Currency/Withholdings All dollar amounts herein are expressed in Canadian dollars, unless otherwise stated. All payments and other remuneration made by Dronelogics to you will be subject to statutory deductions and withholdings required by any applicable law or regulation.

(j) Acknowledgment/Waiver You acknowledge that you will receive actual and valuable consideration including but not limited to the compensation and benefits set out in Section 6 herein, in exchange for signing this Agreement and the attached Confidentiality, Ownership of Property, Non-Compete, and Non-Solicitation Agreement. You further acknowledge that it is our mutual intention that your obligations under Section 8 and the Confidentiality, Ownership of Property, Non-Compete and Non-Solicitation Agreement shall be deemed to have been in effect since your commencement of employment with Dronelogics and you acknowledge that, to date, you have fully complied with those obligations.



(k) Execution in Counterparts This Agreement and any attachments may be executed by the parties in separate counterparts each of which, when executed, will be considered to be an original and all of which will constitute the same agreement. Delivery, acceptance and execution of this Agreement or counterparts of it, by facsimile, e-mail or other functionally equivalent electronic means of signature and transmission, constitutes valid and effective delivery, acceptance and execution and shall be legally effective to create a valid and binding agreement between the parties.

Please review this letter carefully and indicate your acceptance of this Agreement and the terms and conditions contained herein, by signing your name where indicated below and returning a signed copy of the letter to me on or before April 30, 2020. You must also sign and return, at the same time, the enclosed Confidentiality, Ownership of Property, Non-Compete and Non-Solicitation Agreement.

Sincerely,

**Dronelogics Systems Inc.**

Per: */s/ Cameron Chell*
Name:Cameron Chell
Title: Director



**Confirmation, Acceptance and Consent**. I am not relying on any representation other than those set out in this offer. I have had the opportunity to confer with an independent legal advisor, if I so wished, in advance of signing below and I have either obtained such advice or declined to do so.

I understand that from time to time, Dronelogics will collect, use and disclose my personal information to establish, manage, terminate and administer the employment relationship. For these purposes, "personal information" means any information about me as an identifiable individual, but does not include my name, title, business address or telephone number at Dronelogics. I also understand that Dronelogics will disclose my personal information to third parties where required (1) for payroll/direct deposit; (2) to manage and promote Dronelogics' business; (3) to sell, acquire, finance and transfer businesses; (4) for any other purposes that a reasonable person would consider appropriate in the circumstances of an employment relationship, and (5) where required or permitted by law to do so. For these purposes I acknowledge that some of my personal information may be retained or used in countries, including the United States, where privacy laws may offer different levels of protection from those in Canada and while Dronelogics takes all reasonable measures to protect personal information, it may be subject to access by and disclosure to law enforcement agencies in those foreign jurisdictions. I hereby consent to Dronelogics' collection, use, disclosure, and retention of my personal information for these purposes.

I have read and understood this offer, and I accept and agree to be bound by its terms.

Signed:*/s/ Justin Hannewyk* Date:April 30, 2020



**SCHEDULE "A"**

**This is Schedule "A" to an Employment Agreement dated April 30, 2020 between Dronelogics Systems Inc. ("Dronelogics") and Justin Hannewyk**

Subject to the receipt of all necessary regulatory approvals, Draganfly Inc. ("Draganfly") shall grant to you, the following as compensation for you serving as a director on the board of directors of Draganfly ("Draganfly Board"):

(i) 125,000 stock options in Draganfly, which shall vest (and be governed) in accordance with Draganfly's stock option plan; and

(ii) 125,000 restricted share units in Draganfly ("RSU"), which shall vest (and be governed) in accordance with Draganfly's RSU plan.

**SCHEDULE "B"**

**This is Schedule "B" to an Employment Agreement dated April 30, 2020 between Dronelogics Systems Inc. ("Dronelogics") and Justin Hannewyk**

Subject to the receipt of all necessary regulatory approvals, you shall be granted the following as compensation for you serving as President of Dronelogics:

(iii) 125,000 stock options in Draganfly Inc.("Draganfly"), which shall vest (and be governed) in accordance with Draganfly's stock option plan; and

(iv) 125,000 restricted share units in Draganfly ("RSU"), which shall vest (and be governed) in accordance with Draganfly's RSU plan.



**Exhibit 4.10**

**EMPLOYMENT AGREEMENT AMENDING AGREEMENT**

**THIS AGREEMENT, effective as of _____, 2021 (the "Effective Date") is between:**

**DRAGANFLY INC.,**

a company duly incorporated under the laws of the Province of British Columbia with a business address at 2108 St. George Avenue, Saskatoon, Saskatchewan S7M 0K7,

(Hereinafter referred to as the "**Company**")

OF THE FIRST PART.

-and-

**JUSTIN HANNEWYK,**

(Hereinafter referred to as the **"Employee**" or "**you**")

OF THE SECOND PART.

(collectively, the "**Parties**")

**WHEREAS:**

A. The Company and the Employee entered into an Employment Agreement dated April 30, 2020 (the **"Employment Agreement")** setting out the terms and conditions of the Employee's employment;

B. The Company wishes to continue to engage the services of the Employee and the Employee desires to continue to be employed by the Company upon the terms and subject to the conditions of the Employment Agreement as amended by the terms of this Employment Agreement Amending Agreement hereinafter set forth;

**NOW THEREFORE** in consideration of the promises and the mutual covenants and agreements contained in this Employment Agreement Amending Agreement (this "**Amending Agreement**"), including the increase to the

Employee's base salary and the grant of restricted share units, and in exchange for the Employee's continued employment, the Parties agree to amend the Employment Agreement as follows:

1. Provision 6.(a) entitled "Base Salary" in the Employment Agreement will be replaced with the following:

   Your annual base salary under this Agreement will be CDN$180,000, payable in accordance with our regular payroll schedule, as may be increased by the Company from time to time in its sole discretion ("**Base Salary**").



2. Provision 6.(b) entitled "Stock Options" in the Employment Agreement will be replaced with the following:

   As President of Dronelogics, you will be eligible for the stock options as set out in Schedule "B". In addition, as of the Effective Date the Company will grant to you 25,000 restricted share units ("RSU") in Draganfly Inc., which shall vest and be governed in accordance with the Company's RSU plan.

3. Provision 6.(c) entitled "Incentive" in the Employment Agreement will be replaced with the following:

   In addition to your Base Salary, you will be eligible to participate in any incentive plans the Company may implement, or amend, from time to time in consultation with Dronelogics' board of directors ("**Incentive Plan**"). Your compensation under the Incentive Plan, if any, will be determined following the completion of the Company's financial year each year, based on performance metrics to be determined by the Company's compensation committee in consultation with Dronelogics' board of directors at their sole discretion.

   Subject to your attainment of the Incentive Plan targets, as determined by the Company's compensation committee and the Dronelogics' board of directors, your annual target compensation under the Incentive Plan will be CDN$180,000, pro-rated to the date of this Amending Agreement for 2021.

   Except as expressly stated otherwise elsewhere in this Agreement, if you resign from your employment with Dronelogics or Dronelogics terminates your employment for cause, any Incentive Plan payment for the calendar year in which the date of termination of employment occurs shall be cancelled, and you will not be entitled to any Incentive Plan payment for any period following the termination date, but any unpaid Incentive Plan payment payable to you in respect of a calendar year that has ended prior to the date of your termination of employment will be paid to you.

   Except as expressly stated otherwise elsewhere in this Agreement, if your employment with Dronelogics ends for any reason other than your resignation or for cause, any Incentive Plan payment payable to you for the calendar year in which the date of termination of employment occurs shall be prorated based on the number of days of your employment with Dronelogics in the calendar year in which the date of termination occurs, and any unpaid Incentive Plan payment payable to you in respect of a calendar year that has ended prior to the date of termination of your employment will be paid to you, but you will not be entitled to any Incentive Plan payment for any period following the termination date.

4. All other terms and conditions of employment set out in the Employment Agreement will remain unchanged and in effect.

5. The Employee hereby releases the Company from any and all claims he has or may have arising in any way out of the terms of this Amending Agreement or the changes to his employment as set out herein, specifically includes any claims under any applicable human rights, workers' compensation, employment standards, employment or labour legislation including but not limited to the *Employment Standards Act,* the *Human Rights Code,* the *Workers Compensation Act,* and the *Personal Information Protection Act.*

6. This Amending Agreement amends the Employment Agreement. This Amending Agreement and the Employment Agreement shall be read together and constitute one agreement. The Parties agree that the terms of the Amending Agreement will be effective on the Effective Date.

7. This Amending Agreement enures to the benefit of and binds the parties hereto and their respective heirs, executors, legal personal representatives, successors and permitted assigns.

8. If there is a conflict between any provision of this Amending Agreement and any provision of the Employment Agreement, the relevant provision(s) of this Amending Agreement are to prevail.

9. This Amending Agreement is governed by, and is to be construed and interpreted in accordance with the laws of British Columbia. The Parties irrevocably attorn to the jurisdiction of the Courts in the Province of British Columbia.

*[signature page follows]*



TO EVIDENCE THEIR AGREEMENT the parties have executed the Amending Agreement this _____ day of _____2021:

| | |
|---|---|
| */s/ Scott Larson* | */s/ Justin Hannewyk* |
| **DRAGANFLY INC.** | **JUSTIN HANNEWYK** |
| *Authorized Signatory*<br>I have authority to bind the Corporation | *(Consultant Signature)* |

**Exhibit 8.1**

**List of Significant Subsidiaries**

Innovations Inc., a company incorporated under the laws of the Province of British Columbia, all of the shares of which are beneficially owned by the Company.

Systems Inc., a company incorporated under the laws of the Province of British Columbia, all of the shares of which are beneficially owned by the Company.

Draganfly Innovations USA Inc., a company incorporated under the laws of Delaware, all of the shares of which are beneficially owned by the Company.

**Exhibit 11.1**

**DRAGANFLY INC.**

**CODE OF BUSINESS CONDUCT AND ETHICS**

**PURPOSE OF THIS CODE**

Draganfly Inc. (the "**Company**") has adopted this Code of Business Conduct and Ethics (the "**Code**") in order to document the principles of conduct and ethics to be adhered to by the Company's directors, officers and employees, and to establish mechanisms for the reporting of unethical conduct.

The Company is committed to:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- operating in a responsible manner that complies with applicable laws, rules and regulations;
- promoting the avoidance of conflicts of interest;
- promoting the prompt internal reporting of violations of this Code and other policies applicable to the Company;
- providing a safe and healthy workplace
- providing accountability for adherence to the Code; and
- providing full, fair, accurate, timely and understandable disclosure in reports and documents filed with any governing body or which are publicly disclosed;

and the Company requires its directors and officers to provide leadership and direction with respect to these principles and standards.

When used herein, the "**Company**" shall refer to the Company and to its subsidiaries.

## 1. COMPLIANCE WITH THE CODE

This Code is a reflection of the Company's commitment to the highest standards of governance and ethics. As such, all directors, officers and employees of the Company are required to:

(a) Comply with the Code.

(b) Assist and co-operate with audits and investigations related to the Code and other policies of the Company.

(c) Promptly report violations of the Code.

Directors, officers or employees of the Company who are found to have violated the Code will be subject to disciplinary measures. Such measures may include but are not limited to, taking corrective actions with respect to the violation, suspension, demotion and possible termination of their employment or relationship with the Company. In addition, the Company may, where appropriate, refer the matter to relevant government authorities.



## 2. COMPLIANCE WITH LAWS

The Company expects everyone to comply with all applicable laws, rules and regulations in performing work for the Company, including without limitation, those dealing with public disclosure, insider trading, discrimination and harassment, and health and safety. Violations of laws, rules or regulations can lead to disciplinary measures under the Code and may result in civil or criminal liability for the Company and the person or persons involved.

As such, directors, officers and employees will:

(a) Comply with all laws, rules and regulations in connection with their work for the Company.

(b) Seek clarification and advice if they are unsure about any law, rule or regulation or if they have questions related to any law, rule or regulation.

(c) Never commit or condone an illegal act in any way related to or during the course of their work for the Company, nor authorize or encourage others to act in an illegal manner.

(d) Avoid conduct that could bring the reputation and integrity of the Company into question.

The Company is committed to ensuring that its business operations are not used by others to facilitate illegal activity. In particular, the Company will strive to prevent its operations from being used in any manner to launder money or further the interests of terrorism.

## 3. RECORD KEEPING AND CONTROL SYSTEMS

The Company's record keeping and control systems are critical components of its business and the integrity of such systems must be maintained at all times. As such, directors, officers and employees will:

(a) Strive to ensure that the Company's records (including financial and bookkeeping records, public disclosure documents, reports, presentations, safety documents, monitoring data and correspondence) are complete, true, accurate and understandable, and provide assistance and information necessary to maintain them as such.

(b) Never use, authorize or encourage improper or deceptive accounting practices, such as falsification of books and records, that could, among other things, result in the Company's operating results or performance being fallacious or misleading, or be intended to hide violations of this Code or any applicable law.

(c) Never destroy, alter, or render unreadable Company records for an improper or illicit purpose and comply with the Company's records management processes, with special care being given to financial, bookkeeping and other accounting records.

(d) Retain the Company records as required by law and as otherwise notified by the Company's legal personnel.

(e) Return the Company records to the Company and notify the appropriate management member as to the location of such records upon changing roles or ceasing employment with the Company.



Information, data, records, documents and communications (in any format) created or received in the ordinary course of business or in connection with a director's, officer's or employee's job function, are the property of the Company.

## 4. EMPLOYEE RELATIONS

The Company believes that a strong, enthusiastic workforce is critical to its success. The Company strives to ensure that all employees and contractors are treated fairly and recognizes that the work conditions of its employees, their wages and their job satisfaction have deep impacts not only on the employees themselves, but also on their families, the communities in which they live and on the environment. As such, the Company believes that it is in the best interest of all parties to work together in a respectful and understanding manner and is committed to providing an environment that is frank and open and provides equal opportunities to its employees.

Directors, officers and employees will:

(a) Treat each other and members of the community in which the Company operates with respect and courtesy.

(b) Strive to keep the workplace free from harassment.

The Company does not condone the use of factors such as race, religion, colour, sex, sexual orientation or ethnicity as the basis for decisions related to hiring, promotions, pay or terminations, nor should directors, officers or employees allow physical disabilities to form the basis of work-related decisions, unless the disability interferes with a person's ability to perform a job in a safe and effective manner and the disability cannot reasonably be accommodated.

## 5. USE OF COMPANY ASSETS AND PROPERTY

Directors, officers and employees must safeguard and not use corporate property to pursue private interests or the interests of a spouse, family members or a private corporation controlled by any of these individuals. Company property includes real and tangible items such as land, buildings, furniture, fixtures, equipment, supplies, and vehicles and also includes intangible items such as data, computer systems, reports, information, patents, trademarks, copyrights, logos, name and reputation.

Directors, officers and employees will:

(a) Except for the limited exception provided in (b) below, always use the Company's assets and resources only for Company related business purposes unless the Company provides its prior written approval for the director, officer or employee to use Company property for their personal interest in circumstances where doing so would:

(i) not result in additional cost to the Company;



(ii) not interfere with the performance of the person's duties to the Company; and

(iii) not result in material personal gain to the person or to their spouse, family member or private corporation.

(b) Limit personal use of the Company's computers and software, e-mail, telephones, mobile devices, internet and other electronic systems to incidental, reasonable amounts (i.e. personal use must not interfere with the proper performance of job duties), and follow other provisions of this Code and other Company policies as they relate to use of Company assets and resources.

(c) Exercise prudence and good judgment when incurring and approving business expenses and ensure that such expenses are reasonable, bona fide and appropriate and serve the Company's business interests.

(d) Never steal, damage, misuse or waste the Company assets.

(e) Never use the Company assets in an illegal or improper manner or for an illegal or improper purpose.

## 6. CONFLICTS OF INTEREST

Directors, officers and employees shall avoid situations where their individual personal interests could conflict with, or appear to conflict with, the interests of the Company and its stakeholders, and shall perform the responsibilities of their positions on the basis of what is in the best interests of the Company, free from the influence of personal considerations and relationships.

A conflict of interest may be real or apparent:

(a) A "real conflict of interest" occurs when directors, officers or employees exercise their corporate duties, official powers or perform official duties or functions and at the same time know that in doing so there is the opportunity for personal gain.

(b) An "apparent conflict of interest" occurs when a reasonably well-informed person could have a perception that a director's, officer's or employee's ability to exercise their corporate duty, an official power or perform an official duty or function was or will be affected by that individual's private interest.

Directors and officers have a duty to act honestly, in good faith, and in the best interests of the Company and must exercise the degree of skill and diligence reasonably expected from an ordinary person of his or her knowledge and experience.

Conflicts of interest can include the following:

(a) Furthering Private Interests

(i) Directors, officers and employees should avoid outside financial interests that might influence their corporate decisions or actions, and should not engage in such activities or transactions where the activity or transaction may be detrimental to the Company or where the activity may be in conflict with the proper discharge of their duties to the Company.



(ii) If a director, officer or employee is directly or indirectly personally interested in a proposed activity or transaction which involves the Company, or if the director or officer has discretionary decision-making power which could bring about direct or indirect financial benefit to the director, officer or employee due to his or her financial holdings, business and property interests or other relationships, there is potential for a conflict of interest. In these instances, at a minimum, these circumstances and these holdings should be fully disclosed in advance to the Chief Financial Officer of the Company. If it is determined there is a conflict of interest, the conflict must be fully disclosed in advance to the Audit Committee.

(b) Corporate Opportunities

(i) Directors, officers and employees cannot divert to a third party, themselves, their spouses, their children or a private corporation controlled by any of these individuals, a business opportunity that the Company is pursuing.

(ii) A director, officer or employee of the Company whose corporate duties bring them into business dealings with a business in which they or a member of their family has a financial interest or to which they or a member of their family has an indebtedness, or a business employing a relative or close friend, must immediately:

(A) in respect of a director or officer, notify the Audit Committee; and

(B) in respect of an employee, notify his or her immediate supervisor, who will then notify the Audit Committee;

and such business dealings may not be pursued unless properly authorized by the Audit Committee.

(c) Preferential Treatment

Directors, officers and employees must not assist others in their dealings with the Company if this may result in preferential treatment. A director, officer or employee who exercises regulatory, inspection or other discretionary authority over others, must disqualify themselves from dealing with individuals where the director's, officer's or employee's relationship with the individual could bring their impartiality into question.

(d) Workplace Relationships

Directors, officers, employees and individuals who are direct relatives or who permanently reside together may not be employed or hold office in situations where:

(i) A reporting relationship exists where a director, officer or employee has influence, input or decision-making power over the relative or cohabitant's performance evaluation, salary, special permissions, conditions of work or similar matters; and



(ii) The working relationship affords an opportunity for collusion between the individuals that could have a detrimental effect on the Company's interest.

This restriction may be waived if the Audit Committee is satisfied that sufficient safeguards are in place to ensure that the interests of the Company are not compromised.

## 7. ACCEPTING GIFTS, BENEFITS AND ENTERTAINMENT

Directors, officers and employees:

(a) May generally accept gifts, hospitality or other similar benefits (other than cash or cash equivalents which must never be accepted) associated with their official duties and responsibilities if such gifts, hospitality or other benefits:

(i) are within the bounds of propriety, a normal expression of courtesy or within reasonable standards of hospitality;

(ii) are advertising and promotional materials, clearly marked with the company or brand name;

(iii) would not bring suspicion on the director's, officer's or employee's objectivity and impartiality; or

(iv) would not compromise the integrity and reputation of the Company.

(b) Notwithstanding (a) above, will never solicit or accept gifts, benefits or entertainment in exchange for, or as a condition of, the exercise of duties or as an inducement for performing an act associated with the director's, officer's or employee's duties or responsibilities to the Company and will never solicit or accept a gift of cash or cash equivalent from a business partner or anyone else with whom the Company does business in connection with that director's, officer's or employee's position, duties or responsibilities within the Company.

(c) Will return any improper gift or benefit to the person offering it as soon as practicable or, if there is no opportunity to return an improper gift or benefit, or where the return may be perceived as offensive or inappropriate for cultural or other reasons, immediately disclose and turn over the gift or benefit to the Chief Financial Officer who will attend to a suitable disposition of the item.

## 8. FRAUD OR BRIBERY

The Company is committed to the highest level of honesty and integrity and therefore does not tolerate fraud or bribery. Fraud can include a wide range of activities, such as falsifying books, records or timesheets, embezzlement, skimming and misappropriating Company assets (including such things as proprietary information and corporate opportunities) for personal gain.



Bribery of government officials, government entities and commercial customers is illegal in most countries. It can take different forms, such as cash payments, gifts, employment opportunities, quid pro quo transactions, directing business to a particular individual or business, excessive hospitality or providing services or other benefits or things of value to a person, organization, or company or to those related to a particular person, organization, or company.

There are serious criminal and civil consequences for fraud and bribery, including fines and imprisonment, and the Company considers fraud and the payment of bribes or other corrupt activity serious misconduct and grounds for dismissal.

## 9. POLITICAL AND CHARITABLE DONATIONS

Laws in many jurisdictions prohibit or regulate corporate donations to governments, political parties, politicians, and candidates for public office. The Company's policy is that all corporate contributions to governments, political parties, politicians, or candidates for public office are prohibited unless they are approved in advance by the Chief Executive Officer of the Company. The Company may also donate to certain charities.

## 10. COMMUNICATING WITH THE MEDIA AND OTHER MEMBERS OF THE PUBLIC

The Company is committed to ensuring that disclosure made by the Company to its shareholders and to the public in general, and in reports and documents it files with appropriate securities commissions is made in a timely manner, is full, fair, accurate and understandable, and is broadly disseminated in accordance with all applicable legal and regulatory requirements.

Directors, officers and employees will:

(a) Always comply with the Company's Disclosure Policy and Stock Transaction Policy which set out the Company's policies regarding public disclosure, identify spokespersons for the Company, and establish rules for directors, officers and employees relating to trading securities of the Company.

(b) Not respond under any circumstances to inquiries from external parties unless they are a designated spokesperson for the Company, or are specifically asked to respond by such a Company spokesperson or are otherwise expressly authorized to do so by the Chief Executive Officer.

## 11. CONFIDENTIALITY AND MISUSE OF UNDISCLOSED MATERIAL INFORMATION

Directors, officers and employees of the Company are required to maintain and protect the confidentiality of all information and materials relating to the Company which are entrusted to them, or which they receive by virtue of their position or employment with the Company. Such information may only be divulged to persons authorized to receive the information. For greater certainty, confidential information should not be divulged to spouses, associates, immediate family, friends, or persons with whom the director, officer or employee is connected by frequent or close association.

In addition, directors, officers and employees must not engage in any transactions for personal benefit which results or may result from confidential or non-public information which the director, officer or employee gains by reason of

their position or authority. In addition to the foregoing prohibition under the Code, directors, officers and employees should be aware that securities laws make it illegal to use material non-public information when buying, selling or otherwise trading shares ("**insider trading**") and passing on this information to others for their use when buying, selling or otherwise trading shares ("**tipping**").



## 12. AGENTS, CONSULTANTS AND SERVICE PROVIDERS

The Company requires its agents, consultants and service providers to act in a manner consistent with this Code in providing services to the Company. As such, persons retaining or hiring such service providers must consider and be satisfied that the reputations and business practices of such agents, consultants and contractors are in alignment with this Code. Where appropriate, background and reference checks on service providers should be performed.

If reasonable and appropriate, efforts should be made to draft agreements with agents, consultants and service providers that include terms requiring compliance with this Code and providing for remedies, including termination, for failure to comply. Where such provisions exist and there is a breach of the Code, the appropriate remedies should be enforced against the agent, consultant or service provider.

## 13. DUTIES WITH RESPECT TO REPORTING

Directors, officers and employees have a duty to immediately report to management any activity that:

(a) he or she believes contravenes the law;

(b) represents a breach of this Code or a real or apparent conflict of interest;

(c) represents a misuse of the Company's funds or assets; or

(d) represents a danger to the health and safety of our employees, contractors or public, or to the environment; and

(e) are also responsible for helping to identify and raise potential issues before they lead to Code violations.

If a director, officer or employee finds him or herself in a conflict or potential conflict of interest, or in violation of the Code, their duties are as follows:

(a) If the individual involved is an officer or an employee:

  (i) The individual must immediately notify his or her immediate superior.

  (ii) If the conflict or violation cannot be avoided or resolved by the individual and his or her respective superior, the individual must advise the Audit Committee.

(b) If the individual involved is a director:

  (i) The individual must immediately notify the Chairman of the Board of Directors.



  (ii) If the conflict or potential conflict cannot be avoided or resolved, the director must disclose the conflict or potential conflict to all of the directors of the Company and abstain or recuse

themselves, as the case may be, from any vote or meeting in connection with the subject of the conflict.

Directors, officers and employees shall act in good faith in reporting a suspected Code violation or a situation that may create a potential for a Code violation and shall not take or tolerate any act of reprisal or retaliation against:

(i) a person who in good faith reports a suspected Code violation or a situation that may create a potential for a Code violation; or

(ii) a person who cooperates with the investigation of a suspected Code violation or a situation that may create a potential for a Code violation.

## 14. REPORTING

The Company promotes an open and honest environment and encourages directors, officers and employees to address any questions they may have regarding a particular situation or concerns about a possible violation of a law, regulation or the Code promptly with management. Except with respect to self-reporting referred to in Article 13 above, if for some reason an individual is not comfortable doing so or if management does not resolve the matter, reports of potential or actual violations of law or this Code may be made in confidence using the following methods:

(a) By e-mail to the Audit Committee Chair

(b) By mail, addressed to the Audit Committee Chair at address of the Company

While we encourage all individuals to identify themselves to facilitate a proper investigation, it is not required to do so and an individual may make a report anonymously.

## 15. INTERNAL AUDITS AND INVESTIGATING REPORTS OF SUSPECTED CODE VIOLATIONS

All suspected Code violations, or potential Code violations, will be investigated. The Audit Committee Chairperson and the Chief Executive Officer will decide on the most appropriate method of investigation in each instance and may seek the assistance of external legal advisors, accountants, or other advisors. To the extent possible, investigators will keep information and reports related to investigations confidential, subject to the need to conduct a full and impartial investigation, to comply with law and to remedy Code violations and monitor compliance.

Directors, officers and employees have a duty to cooperate with these investigations.

## 16. WAIVER OF THE CODE

Any waiver of this Code for the benefit of a director or executive officer may be granted only by the Board of Directors of the Company, or a committee of the Board duly authorized to do so. For non-executive officers, the Chief Executive Officer may, in appropriate circumstances as he or she determines using best judgment, waive a conflict or violation of the Code, however any such waivers must be reported to the Audit Committee at its next meeting.



Any waivers granted to a member of the Board of Directors or to an executive officer that relates to any element of the "code of ethics" set forth in Section 406(c) of the Sarbanes-Oxley Act of 2002, will be disclosed as required by law or stock exchange regulations applicable to the Company. Those who fail to cooperate with investigations will be subject to discipline, which may include termination of employment.

## 17. VERIFICATION OF THE CODE

The Company will make the most current version of the Code available to new directors, officers and employees at or about their time of hire and require such persons to verify they have read and understand the Code. In addition, the Company may require directors, officers and employees to periodically review the current version of the Code and verify their compliance with and understanding of the Code. Any director, officer or employee who fails or refuses to review the Code and to respond to a verification request by the Company may be subject to disciplinary measures up to and including termination.

The Code will be publicly available on the Company's website at www.draganfly.com.

Adopted by the Board on October 30, 2019, and amended on April 14, 2021.

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**Exhibit 12.1**

**CERTIFICATION**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Cameron Chell, certify that:

1. I have reviewed this annual report on Form 20-F of Draganfly Inc.;

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

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

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

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

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

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

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

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

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

Date: April 3, 2022

*/s/ Cameron Chell*
Name: Cameron Chell
Title: Chief Executive Officer
(principal executive officer)

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**Exhibit 12.2**

**CERTIFICATION**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul Sun, certify that:

1. I have reviewed this annual report on Form 20-F of Draganfly Inc.;

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

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

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

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

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

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

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

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

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

Date: April 3, 2022

*/s/ Paul Sun*
Name: Paul Sun
Title: Chief Financial Officer
(principal financial officer)

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**Exhibit 13.1**

**CERTIFICATION**
**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, as the Chief Executive Officer of Draganfly Inc. certifies that, to the best of his knowledge and belief, the annual report on Form 20-F for the fiscal year ended December 31, 2021, which accompanies this certification, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and the information contained in the annual report on Form 20-F for the fiscal year ended December 31, 2021 fairly presents, in all material respects, the financial condition and results of operations of Draganfly Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose. The undersigned expressly disclaims any obligation to update the foregoing certification except as required by law.

Date: April 3, 2022

*/s/ Cameron Chell*
Cameron Chell
Chief Executive Officer
(principal executive officer)

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**Exhibit 13.2**

**CERTIFICATION**
**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, as the Chief Financial Officer of Draganfly Inc. certifies that, to the best of his knowledge and belief, the annual report on Form 20-F for the fiscal year ended December 31, 2021, which accompanies this certification, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and the information contained in the annual report on Form 20-F for the fiscal year ended December 31, 2021 fairly presents, in all material respects, the financial condition and results of operations of Draganfly Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose. The undersigned expressly disclaims any obligation to update the foregoing certification except as required by law.

Date: April 3, 2022

*/s/ Paul Sun*
Paul Sun

Chief Financial Officer
(principal executive officer)

**Exhibit 15.1**

**Management Discussion and Analysis**
**For the year ended December 31, 2021**



This Management's Discussion and Analysis ("MD&A) is presented and dated as of April 3, 2022 and should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2021. The Company's audited consolidated financial statements have been prepared on a "going concern" basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

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

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

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

The outbreak of the coronavirus, also known as "COVID-19," spread across the globe and is impacting worldwide economic activity. 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. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The Company will continue to monitor the impact of the COVID-19 pandemic, the duration and impact of which is unknown at this time which may include further disruptions to global supply chains and the manufacturing and delivery of parts that the Company relies on for its products. Although it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods, such impacts are not expected to be significant going forward. Aside from the acquisition

of Dronelogics and being opportunistic on other partnerships or acquisitions, the Company has expanded its products and services offered to include health and telehealth applications relating to COVID-19, as a way to mitigate the effects of COVID-19.

**Special Note Regarding Forward Looking Information**

This Management Discussion & Analysis ("MD&A") is intended to provide readers with the information that management believes is required to gain an understanding of the current results of Draganfly Inc. (the "Company" or "Draganfly") and to assess the Company's future prospects. Accordingly, certain sections of this report, other than statements of historical fact, may contain forward-looking statements that are based on current plans and expectations and are subject to certain risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. In some cases, you can identify forward-looking statements by terminology such as "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "potential," or the negative of these terms or other similar expressions.

The statements we make regarding the following matters are forward-looking by their nature and are based on certain of the assumptions noted below:

- the intentions, plans and future actions of the Company;
- statements relating to the business and future activities of the Company;
- anticipated developments in operations of the Company;
- market position, ability to compete and future financial or operating performance of the Company;
- the timing and amount of funding required to execute the Company's business plans;
- capital expenditures;
- the effect on the Company of any changes to existing or new legislation or policy or government regulation;





- the availability of labor;
- requirements for additional capital;
- goals, strategies and future growth;
- the adequacy of financial resources;
- expectations regarding revenues, expenses and anticipated cash needs;
- the impact of the COVID-19 pandemic on the business and operations of the Company; and
- general market conditions and macroeconomic trends driven by the COVID-19 pandemic and/or geopolitical conflicts, including supply chain disruptions, market volatility, inflation, and labor challenges, among other factors.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date hereof, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, changes or otherwise, except as required by law.

These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, levels of activity, performance or achievements to differ

materially from the results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. These include, without limitation, the Company's current and planned operations and the expected results of new operations and new clients. These risks and uncertainties include, but are not restricted to:

- The Company's history of losses;
- The dilution of holdings in the Company's securities;
- Research and development costs;
- The failure of new business models to produce financial returns;
- Operational risks for which the Company may not be adequately insured;
- The Company operates in an evolving market that makes it difficult to evaluate business and future prospects;
- Competitive market conditions and challenges from competitors;
- The pace of technological change and the Company's ability to stay on top of market and technology changes;
- The failure to obtain necessary regulatory approvals and permits or limitations placed on the development, operation, and sale of unmanned aerial vehicles ("UAVs") by governments;
- Risks associated with any particular future acquisitions that would allow the company to provide additional product or service offerings;
- The Company's ability to retain key employees and personnel and the Company's ability to manage growth;
- Adverse economic changes;
- The impact of the COVID-19 pandemic on the Company's business, operations, and future financial performance;
- Negative macroeconomic and geopolitical trends that could restrict the Company's ability to access capital;
- Uncertainties associated with operations in foreign countries;
- Adverse tax policies;
- An inability to access critical components or raw materials used to manufacture the Company's products and supply chain disruptions;
- Weather and other natural outdoor conditions that can imperil the use of UAVs;
- The Company's products may be subject to recalls or returns or defective products or services that could negatively effect the Company's operating results;
- An inability to secure adequate funding for research and development;
- Export controls or restrictions on the Company's ability to deliver its product outside of Canada;
- Consumer perception regarding the use and safety of UAVs;
- A failure to successfully market the Company's products;
- Security risks associated with electronic communications and IT infrastructure;
- Inadequate consumer protection and data privacy practices;





- An inability of our business partners to fulfill their obligations to us or to secure company information;
- A failure to protect the Company's intellectual property, proprietary rights, and trade secrets, including through a failure to adequately apply for or seek such protections;
- Failure to adhere to financial reporting obligations and mandates associated with being a public company;
- The Company's limited experience operating as publicly traded corporation;
- Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters;
- Write-downs of goodwill or other intangible assets;
- Legal proceedings in which the Company may become involved;
- Conflicts of interests among our directors and officers;
- Volatility related to our share price;
- A failure to maintain an active trading market for our common shares;

- The Company may never pay dividends and a return on an investment in the Company will depend upon an appreciation in the price of our shares after purchase;
- The Company may be classified as a "passive foreign investment company" for U.S. federal income tax purposes;
- United States investors may not be able to obtain an enforcement of civil liabilities against the Company
- The Company's status as an "emerging growth company";
- Increased costs and compliance matters related to our status as a public company in the United States; and
- The Company's status as a "foreign private issuer."

Readers are cautioned to read more about the potential risks the Company faces under the heading "Business Risks" beginning on page 29 of this MD&A.

**Non-GAAP Measures and Additional GAAP Measures**

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

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

**Core Business and Strategy**

Draganfly creates quality, cutting-edge unmanned and remote data collection and analysis platforms and systems that are designed to revolutionize the way companies do business. The Company is incorporated under the British Columbia Business Corporations Act and has its registered office located at 2800 – 666 Burrard Street, Vancouver, BC, V6C 2Z75 with a head office at 2108 St. George Avenue, Saskatoon, SK, S7M 0K7.

Recognized as being at the forefront of UAV (unmanned aerial vehicles) technology for two decades, Draganfly is an award-winning, industry-leading manufacturer, contract engineering, and product development company within the commercial UAV space serving the public safety, agriculture, industrial inspections, and mapping and surveying markets. More recently, the Company's offering expanded to include the health/telehealth field providing illness detection, social monitoring solutions, and sanitary spraying services relating to the ongoing COVID-19 pandemic. Draganfly is a company driven by passion, ingenuity, and the need to provide efficient solutions and first-class services to its customers around the world with the goal of saving time, money, and lives.





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

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

With 23 issued and one pending fundamental UAV patents in the portfolio, Draganfly will continue to expand and grow its intellectual property portfolio.

In addition, Draganfly has launched a health/telehealth platform. The initial focus is a COVID-19 screening set of technologies that remotely detect a number of key underlying respiratory symptoms. Further, Draganfly offers sanitary spraying services to any indoor or outdoor public gathering space such as sports auditoriums and fields to provide an additional level of protection against the spread of contagious viruses such as COVID-19.

Historically, the main business of the Company was as a manufacturing company offering commercial UAVs directly to its customer base across various industry verticals. The Company has evolved to offer engineering procurement for certain customers in a vertical that it did not previously serve, such as military applications. The rationale is three-fold: engage in long term contracts that tend to be recurring in nature, gain exposure to an industry that the Company otherwise did not have access to, and leverage our innovation learnings into other products that can be sold in other industries.

Draganfly works with its customers to customize a product or platform from idea to research and development (R&D) to completion and testing. A work plan is created with timelines and budgets which includes materials, travel, testing, and engineering time. The work plan is approved by the customer before work begins. To date, the majority of this work is considered proprietary in nature and is protected by trade secrets and other intellectual property protections.

With its acquisition of Dronelogics in April 2020, the Company has further broadened its scope to provide custom built parts, accessories, drone services, and the ability to sell third-party manufactured UAVs along with support services that it did not typically offer before.

On March 9, 2021, the Company announced that it completed the final closing of its Regulation A+ Offering of units sold pursuant to the Company's Regulation A+ offering circular (the "Offering Document") filed with the U.S. Securities and Exchange Commission. The Company issued 5,154,293 units for gross proceeds in the amount of $15,504,135 (US$12,112,606) in the final closing. Each unit is comprised of one common share of the Company and one common share purchase warrant, with each warrant entitling the holder to acquire one common share at a price of US$3.55 per common share for period of two years from the date of issuance. The common shares and warrants issued in connection with the offering are subject to a nine month hold period. In total, the Company issued 7,000,000 units under its Offering Document for aggregate gross proceeds of US$16,450,000.

On July 30, 2021, the Company's shares began trading on the Nasdaq Capital Market (the "Nasdaq") under the symbol "DPRO". The Company's shares continue to trade on the Canadian Stock Exchange (the "CSE"), however, as of July 30, 2021 they now trade under the symbol "DPRO" on that exchange as well. The Company's shares also trade on the Frankfurt Stock Exchange under the Symbol "3UB".

In order to become compliant with Nasdaq regulations, the company also underwent a stock consolidation. Effective July 29, 2021, the Company consolidated its issued and outstanding common shares on a 5 to 1 basis, which resulted in 27,045,909 common shares outstanding post-consolidation.

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

**2021 Highlights**

- **2021 Total Revenues of $7,053,865 with Product Sales of $5,103,399**

Although, the Company's products are still well regarded in the industry, the commercial UAV space as a whole has been impacted by lower priced consumer drones that can now offer similar functionality. The Company recognized an opportunity to address this market by acquiring Dronelogics, a company that among other things, resells lower priced, third party drones as well as other third party products such as LiDAR sensors. 2021 revenues increased by $2,690,354 from $4,363,511 in 2020 to $7,053,865 with the bulk of this revenue coming from product sales. Engineering services revenue of $645,667 was down slightly over 2020 while drone services sales of $1,304,799 was up 107% over the same period in 2020 due to the gradual shift towards providing more services revenue.

- **Gross Profit was up 50.2% with Gross Margins down 6.9% in 2021 Compared to 2020**

In 2021, the Company's total gross margin was 37.5% vs 40.3% in 2020. This is due to higher revenues from product sales which have lower profit margins compared to the Company's services.

- **Company Diversified its Product and Services Offering with Acquisition**

Given the Company's deep engineering talent, a natural evolution was to outsource in-house capabilities to customers. Doing this leverages the Company's core skill set of innovation that tends to lead to future projects, bringing in more consistent revenue. With its recent acquisition of Dronelogics, the Company has increased its scope of products and services to include the sale of third-party manufactured UAVs and drone-as-a-service type work. This has proved beneficial during the current pandemic as not all services are impacted the same way so having a larger breadth of products and services, in part mitigates some risk for the Company.

- **Company Broadens its Services to Include Health Vertical in the Face of Global Pandemic**

Through its recently purchased Vital Intelligence assets and Varigard partnership, the Company recently added health monitoring and prevention to its product and service offering. Securing some key clients in this business line was key to proving out this new vertical. These clients were important for validation of this relatively new technology, but more importantly demonstrates the Company's ability to evolve and offer products and services that have global applicability.

- **Risks Related to Operations**

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

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

For further and more detailed risk disclosure, please reference "Business Risks" at the end of this MD&A.

## Outlook and Guidance

### General

The Company believes that drone regulations are gradually loosening which should lead to more revenue opportunities from a greater pool of customers. With the Company more capitalized and having easier access to funds in the public markets on both sides of the border, the Company will increasingly focus on some of its growth initiatives in the US, Canada, and abroad. Operationally, having more capital will help the Company expand and diversify its engineering, drone, and health services businesses. This will require more human resources from an oversight, sales, and engineering perspective and the Company anticipates adding additional staff to accommodate these plans. Further, the Company will continue to focus on innovation, product development, and expanding its hardware offerings opportunistically into niche segments of the UAV and related sectors. Finally, the Company has considered providing various other non-engineering services and it may make more sense to buy an existing industry player than to build out this offering. With the Company now also listed on the Nasdaq, it will open up further opportunities to use its Common Shares as a currency for potential acquisitions. The Company expects to be active in this regard reviewing partnerships, investments, and acquisitions in the current fiscal year and the near future.

### Selected Financial Information

The following selected financial data has been extracted from the audited condensed consolidated financial statements, prepared in accordance with International Financial Reporting Standards, for the fiscal years indicated and should be read in conjunction with the audited condensed consolidated financial statements. All earnings per share calculations are shown post-consolidation.

| **For the year ended December 31,** | **2021** | 2020 | 2019 |
|---|---|---|---|
| Total revenues | $ **7,053,865** | $ 4,363,511 | $ 1,380,427 |
| Gross Profit (as a % of revenues) | **37.5%** | 40.3% | 84.1% |
| Net income (loss) | **(16,202,972)** | (8,015,813) | (11,095,057) |
| Net income (loss) per share ($) | | | |
| - Basic | **(0.59)** | (0.48) | (0.23) |
| - Diluted | **(0.59)** | (0.48) | (0.23) |
| Comprehensive income (loss) | **(16,399,137)** | (8,015,709) | (11,095,057) |
| Comprehensive income (loss) per share ($) | | | |
| - Basic (post-consolidation) | **(0.59)** | (0.48) | (0.23) |
| - Diluted (post-consolidation) | **(0.59)** | (0.48) | (0.23) |
| Change in cash and cash equivalents | $ **20,956,819** | $ (447,063) | $ 2,349,954 |

The net loss and comprehensive loss for the year ended December 31, 2021, include a change in fair value of derivative liability of $8,149,812 and an expense for goodwill impairment of $4,579,763, and would otherwise been a loss of $19,773,021 for the net loss, and $19,969,186 for the comprehensive loss, respectively.

| **As at** | **December 31, 2021** | December 31, 2020 |
|---|---|---|
| Total assets | **$ 42,113,240** | $ 7,100,567 |
| Working capital | **26,836,922** | 1,214,371 |
| Total non-current liabilities | **465,214** | 104,885 |
| Shareholders' equity | **$ 34,926,239** | $ 3,848,205 |

| | | |
|---|---|---|
| Number of shares outstanding | **33,168,946** | 17,218,694 |





Shareholders' equity and working capital as at December 31, 2021 includes a fair value of derivative liability of $5,560,002 and would otherwise be $40,486,241 and working capital of $32,396,924 respectively.

**Results of Operations**

**Revenue**

| **For the year ended December 31,** | **2021** | 2020 |
|---|---|---|
| Product sales | **$ 5,103,399** | $ 3,087,223 |
| Drone services | **1,304,799** | 630,532 |
| Custom engineering services | **645,667** | 645,756 |
| **Total revenue** | **$ 7,053,865** | $ 4,363,511 |

Total revenue for the year ended December 31, 2021 increased by $2,690,354 or 61.7% as compared to 2020. The increase in revenue is largely due to the Company's acquisition of Dronelogics and the retail sales and services business that it brought to the Company's offering. Product sales increased $2,016,176 or 65.3% in 2021 as compared to 2020 primarily due to third party product sales generated from Dronelogics.

Draganfly Innovations Inc.'s ("Draganfly Innovations") primary custom engineering customer was domiciled in the US and was shut down and reduced a number of its projects due to the COVID-19 pandemic in 2020. Although, there was no contribution from this customer after March 2020, there was an increase in other engineering services work for 2021.

As at April 30, 2020, the Issuer completed its acquisition of Dronelogics. Therefore, the December 31, 2020 results only include eight months of contributions from Dronelogics.

**Cost of Goods Sold / Gross Margin**

| **For the year ended December 31,** | **2021** | 2020 |
|---|---|---|
| Cost of goods sold | **$ (4,410,777)** | $ (2,603,911) |
| Gross profit | **$ 2,643,088** | $ 1,759,600 |
| Gross margin (%) | **37.5%** | 40.3% |

Gross profit is the difference between the revenue received and the direct cost of that revenue. Gross margin is gross profit divided by revenue and is often presented as a percent.

For the year ended December 31, 2021, the Company's Gross Profit increased by $883,488 or 50.2%. As a percentage of sales, gross margin decreased from 40.3% in 2020 to 37.5% in 2021.

Engineering service work consists of the design and customization of various UAV type products for the Company's clients. Further, this service work tends to have higher gross margins than straight product sales. With this business line currently impacted by the pandemic, gross profit margins were down as this shift in gross margin is due to the lower margin product sales that the Company acquired with Dronelogics.

**Selling, General, and Administrative (SG&A)**

| For the year ended December 31, | 2021 | 2020 |
|---|---|---|
| Insurance | **$ 2,962,767** | $ 39,988 |
| Office and Miscellaneous | **6,455,998** | 3,387,865 |
| Professional Fees | **4,445,949** | 1,762,594 |
| Research and development | **510,895** | 567,999 |
| Share-based payments | **3,952,595** | 2,668,464 |
| Travel | **143,904** | 25,617 |
| Wages and salaries | **2,768,010** | 1,649,329 |
| **Total** | **$ 21,240,118** | $ 10,101,856 |

For the year ended December 31, 2021, SG&A expenses in 2021 increased by 110.3%, from $10,101,856 in 2020 to $21,240,118 in 2021. The largest contributor to the increase is marketing and investor relations costs in the office and miscellaneous line as well as Directors and Officers insurance cost and share-based payments. Some of the other SG&A expenses such as professional fees increased due to increased accounting and legal work around preparation for the Nasdaq listing along with increases in wages and salaries due to the Company's growth.

**Net and Comprehensive Income (Loss)**

| For the year ended December 31, | 2021 | 2020 |
|---|---|---|
| Loss from operations | **$ (19,278,188)** | $ (8,494,882) |
| Change in fair value of derivative liability | **8,149,812** | (748,634) |
| Finance and other costs | **5,074** | (23,117) |
| Foreign exchange gain (loss) | **362,448** | (87,104) |
| Gain (loss) on settlement of debt | **-** | (38,879) |
| Impairment of notes receivable | **(891,471)** | - |
| Impairment of goodwill | **(4,579,763)** | - |
| Income from government assistance | **24,148** | 51,627 |
| Other income (loss) | **4,968** | 1,197,465 |
| **Net income (loss)** | **(16,202,972)** | (8,015,813) |
| Cumulative translation differences | **136,475** | 104 |
| Unrealized gain on investments available for sale | **(332,640)** | - |
| **Comprehensive income (loss)** | **$ (16,399,137)** | $ (8,015,709) |

For the year ended December 31, 2021, the Company recorded a comprehensive loss of $16,399,137 compared to $8,015,709 in 2020. The net loss and comprehensive loss for the year ended December 31, 2021, include a gain in fair value of derivative liability of $8,149,812 and an expense for goodwill impairment of $4,579,763 and would otherwise be $19,773,021 and $19,969,186, respectively. The other largest contributors to the year over year increase is the increased insurance, marketing and investor relations costs, share-based payments, and professional fees relating to the Regulation A+ and Nasdaq financings partially offset by increased revenues.

**Authorized share capital**

Unlimited number of common shares without par value.

**Issued share capital**

During the year ended December 31, 2021:

- The Company issued 1,580,525 common shares for the exercise of warrants for $3,951,312.
- The Company issued 149,999 common shares for the vesting of Restricted Share Units.
- The Company issued 392,999 common shares for the exercise of stock options for $987,248.
- The Company issued 15,000 common shares in lieu of cash.
- The Company issued 6,488,691 units for the Regulation A+ financing in the United States. Each unit is comprised of one common share and one share purchase warrant. These warrants have an exercise price of $3.55 USD per warrant, each convert to one common share, and have a life of two years.
- The Company issued 1,200,000 units for the acquisition of Vital Intelligence. Each unit is comprised of one common share and one warrant. These warrants have an exercise price of $13.35 per warrant, each convert to one common share, and have a life of two years.
- The Company consolidated shares in a 5:1 share consolidation transaction.
- The Company issued 5,095,966 common shares in a private placement for $25,538,213.
- The Company issued 359,009 common shares for the exercise of warrants for $978,478.
- The Company issued 298,661 common shares for the vesting of Restricted Share Units.
- The Company issued 12,500 common shares for the exercise of stock options for $26,875.
- The Company issued 356,901 common shares in lieu of cash.

For the year ended December 31, 2020:

- The Company issued 24,000 common shares for the exercise of warrants for $60,000.
- The Company issued 20,000 common shares for the exercise of warrants for $50,000.
- The Company issued 210,320 common shares for the exercise of warrants for $105,160.
- The Company issued 73,000 common shares for the exercise of warrants for $36,500.
- The Company issued 294,840 common shares for the exercise of warrants for $147,420.
- The Company issued 121,840 common shares for the exercise of warrants for $60,920.
- The Company issued 126,000 common shares for the exercise of warrants for $115,000.
- The Company issued 645,088 common shares for the acquisition of Dronelogics and an additional 200,000 common shares as finder's fees.
- The Company issued 12,000 common shares for the exercise of warrants for $30,000.
- The Company issued 45,600 common shares for the exercise of warrants for $114,000.
- The company issued 192,308 common shares for $500,000.
- The Company issued 111,082 common shares for debt settlement of $344,354, and recognized a loss of $38,879 in the statement of comprehensive loss
- The Company issued 2,000 common shares for the exercise of warrants for $5,000.
- The Company issued 637,975 common shares for the exercise of warrants for $1,594,938.
- The Company issued 7,117 common shares for the vesting of Restricted Share Units.
- The Company issued 511,299 units for the Regulation A+ financing in the United States. Each unit is comprised of one common share and one share purchase warrant. These warrants have an exercise price of $3.55 USD per warrant, each convert to one common share, and have a life of two years, expiring on November 30, 2022.
- The Company issued 2,040 common shares for the vesting of Restricted Share Units.
- The Company issued 2,647 common shares for the vesting of Restricted Share Units.
- The Company issued 188,194 common shares for the vesting of Restricted Share Units.
- The Company issued 15,000 common shares for the exercise of warrants for $37,500.

**Dronelogics Acquisition**

On April 30, 2020, the Company closed the share purchase agreement with the shareholders of Dronelogics, whereby the Company acquired all 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 was paid $500,000 in cash, subject to working capital adjustment and 645,088 common shares in the capital of the Company at a deemed price of $2.50 per share. In addition, the Company welcomed Mr. Hannewyk as a member of the Board.

In connection with the Transaction, the Company paid fees of $160,000 to certain advisors; consisting of $100,000 by way of 40,000 in shares at a deemed price of $2.50 per share and as to $60,000 in cash or shares at a deemed price of $2.50 per share. At closing, the Company (i) granted 89,000 incentive stock options to certain employees of Dronelogics pursuant to the Company's share compensation plan, exercisable at $2.50. The options shall have a term of 10 years with 75,000 vesting in three equal tranches on the grant date and first and second anniversaries of the date of grant while the additional 14,000 vested on the first anniversary of the grant date, and (ii) awarded 75,000 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.

The purchase price allocation ("PPA") is as follows:

| | | |
|---|---|---|
| Number of shares of Draganfly Inc. | | 645,088 |
| Fair value of common shares | $ | 4.15 |
| Fair value of shares of Draganfly Inc. | $ | 2,677,114 |
| Present value of the fair value of shares of Draganfly Inc. | | 2,178,960 |
| Cash portion of purchase price | | 500,000 |
| Total | $ | 2,678,960 |
| | | |
| **Tangible assets acquired** | | |
| Cash | $ | 42,593 |
| Accounts receivable | | 98,852 |
| Inventory | | 629,684 |
| Prepaids and deposits | | 93,997 |
| Other current assets | | 3,014 |
| Capital assets | | 54,946 |
| Right-of-use assets | | 83,428 |
| Accounts payable and accrued liabilities | | (222,766) |
| Customer deposits | | (245,959) |
| Loans | | (245,752) |
| Other current liabilities | | (8,437) |
| Lease liabilities | | (87,203) |
| | | 196,397 |
| | | |
| **Identifiable intangible assets** | | |
| Customer relationships | | 197,000 |
| Website | | 119,000 |

| | |
|---|---|
| | 316,000 |
| **Goodwill** | 2,166,563 |
| **Total consideration** | $ 2,678,960 |





**Vital Intelligence Acquisition**

On March 25, 2021, the Company acquired the assets of Vital Intelligence Inc. ("Vital") for consideration of: (a) a cash payment of $500,000 with $50,000 paid upon execution of the asset purchase agreement, $200,000 to be paid at closing and $250,000 to be paid on the six-month anniversary date of closing; and (b) 1,200,000 units of the Company with each unit being comprised of one common share of the Company and one common share purchase warrant (the "Acquisition"). Each warrant will entitle the holder to acquire one common share for a period of 24 months following closing at an exercise price of $13.35 per common share and the Company will be able to accelerate the expiry date of the warrants after one year in the event the underlying common shares have a value of at least 30% greater than the exercise price of the warrants. The units will be held in escrow following closing with 300,000 units being released at closing and the remainder to be released upon the Company reaching certain revenue milestones received from the purchased assets. On August 19, 2021, the parties agreed to reduce the final payment from $250,000 to $227,984 as certain assets listed in the purchase agreement had not been delivered by Vital.

The units of the Company are to be released from escrow in accordance with the terms and conditions of the Escrow Agreement, as follows:

a) 300,000 units shall be released on the closing date;
b) 300,000 units shall be released from escrow upon the Vital assets earning revenue in the aggregate amount of $2,000,000;
c) 300,000 units shall be released from escrow upon the Vital assets earning revenue in the aggregate amount of $4,000,000; and
d) 300,000 units shall be released from escrow upon the Vital assets earning revenue in the aggregate amount of $6,000,000.

Upon acquisition, the 900,000 shares held in escrow were classified as a derivative liability and were valued based upon:

- A weighted average probability of achieving the milestones necessary to release the shares held in escrow
- Discounted due to the lack of liquidity.

On acquisition, the fair value of the derivative liability was $4,797,900. At December 31, 2021, the liability was revalued based upon new weighted average probabilities of achieving the revenue milestones. As a result, the fair value was adjusted to $3,470,995, with the difference flowing through the consolidated statement of loss.

The 900,000 units will be forfeited and cancelled within two years of the closing if the Company does not meet the revenue milestones.

The Vital Intelligence product platform is a combination of proprietary Intellectual Property along with external technology. The base technology is computer vision signal processing that incorporates learning algorithms that can detect heart rate, breathing/respiratory rate, coughs, mask usage, social distancing, temperature, oxygen saturation of

blood, and blood pressure. Combined, all these data points provide and deliver an analysis of health and better accuracy in determining infection with various respiratory related issues.

Vital Intelligence has developed a suite of products designed to maximize the use of its technology by serving a variety of different market segments and sectors:

- Drone Vital Sign Detection: Video from a drone is analyzed and can provide an individuals' heart rate, respiratory rate, and also detect coughing. The data is processed via either a local or cloud storage service in real or near-real time.
- Drone Social Distancing Detection: Video cameras attached to drones collect data which is then used to determine social distancing. The data is processed via either a local or cloud storage service in real or near-real time.
- Thermography Kiosk: This product, also branded as Safe Set Solution, is a moveable kiosk (consisting of a thermal detection camera, laptop and stand) to provide thermal detection and reporting systems. The Kiosk is able to be placed in entryways or throughways to capture temperature readouts of passers-by.
- Thermography Detection Camera System: This group of products is a stationary camera system, or systems of networked cameras aimed at critical entryways or locations designed to capture core-body temperature of individuals entering a space. Algorithms read video feeds and allow for company or facility use decisions to be made. An example would be capturing temperature readouts from individuals and then integrating that data into a company's employee badge systems for compliance and monitoring as well as door locking systems to grant access to a space.
- Social Distancing Camera System: This product is a stationary camera system, or system of networked cameras aimed at high traffic areas in order to capture data on social distancing. Information is provided via overlay on capture footage. The technology can be used on archived or real-time video footage to assist community health workers in predicting outbreaks of infections.





The PPA is as follows:

| | | |
|---|---|---|
| Number of units of Draganfly Inc. | | 578,248 |
| Fair value of units | $ | 14.43 |
| Fair value of units of Draganfly Inc. | $ | 8,342,966 |
| Fair value of cash portion of purchase price | | 488,659 |
| Cash discount for inventory not received | | (22,016) |
| Total | $ | 8,809,609 |
| | | |
| **Identifiable intangible assets** | | |
| Brand | $ | 23,000 |
| Software | | 433,000 |
| | | 456,000 |
| **Goodwill** | | 8,375,625 |
| **Goodwill adjustment for inventory not received** | | (22,016) |
| **Total consideration** | $ | 8,809,609 |

Significant estimates are as follows:

- Number of units issued based upon a weighted average calculation for the Company achieving revenue targets.

- Brand based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 1.0% and discount rate of 40% per annum.
- Software based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 5.0% and discount rate of 40% per annum.

**Summary of Quarterly Results**

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

Total revenue for the three months ended December 31, 2021 increased by $149,256 or 10.0% as compared to the same period in 2020. The increase in revenue is largely due to the increase in services and custom engineering work due to continued adoption of businesses using drones for commercial purposes. Product sales decreased by $86,409 or 7.1% in the fourth quarter of 2021 as compared to the same period in 2020 primarily due to delayed timing of certain product orders.

SG&A expenses increased 88.2% compared to the same period in 2020 due to higher insurance, R&D, marketing, investor relations costs, professional fees, and share-based payments after going public. The other income and comprehensive income for the fourth quarter of 2021 include a recovery in fair value of the derivative liability of $23,428,117, and an expense for goodwill impairment of $4,579,763 and would otherwise be an expense of $1,036,914 and loss of $6,212,888, respectively.

Total revenue for the three months ended December 31, 2021 decreased by $261,727 or 13.8% as compared to the three months ended September 30, 2021. The decrease in revenue is due to the decrease in product sales and services partially offset by an increase in custom engineering work. Product sales decreased by $216,925 or 16.1% in the fourth quarter of 2021 as compared to the third quarter of 2021 primarily due to delayed timing of certain product orders.

SG&A expenses decreased 11.0% compared to the third quarter of 2021 due to reduced professional fees and share based payments as well as a recovery of amortization expense due to the revaluation of the software and brand acquired in the Vital Intelligence acquisition.





The table below summarizes the quarterly results over the past eight fiscal quarters. All earnings per share calculations are shown post-consolidation.

| | **2021 Q4** | 2021 Q3 | 2021 Q2 | 2021 Q1 |
|---|---|---|---|---|
| Revenue | **$ 1,635,265** | $ 1,896,992 | $ 1,981,872 | $ 1,539,736 |
| Cost of goods sold | **$ (1,008,827)** | $ (1,123,942) | $ (1,253,279) | $ (1,024,729) |
| Gross profit | **$ 626,438** | $ 773,050 | $ 728,593 | $ 515,007 |
| Gross margin – percentage | **38.3%** | 40.8% | 36.8% | 33.4% |
| Operating expenses | **$ (5,733,767)** | $ (8,006,957) | $ (3,340,952) | $ (4,839,600) |
| Operating income (loss) | **$ (5,107,329)** | $ (7,233,907) | $ (2,612,359) | $ (4,324,593) |
| Operating loss per share - basic | **$ (0.16)** | $ (0.24) | $ (0.10) | $ (0.23) |
| Operating loss per share - diluted | **$ (0.15)** | $ (0.24) | $ (0.10) | $ (0.23) |
| Other income (expense) | **$ 17,811,440** | $ 31,135,835 | $ (4,955,575) | $ (40,599,341) |
| Other comprehensive income (loss) | **$ (151,465)** | $ 73,472 | $ (404,602) | $ 286,430 |
| Comprehensive income (loss) | **$ 12,635,466** | $ 23,975,400 | $ (8,095,356) | $ (44,914,647) |

| | | | | |
|---|---|---|---|---|
| Comprehensive income (loss) per share - basic | **$ 0.39** | $ 0.79 | $ (0.30) | $ (2.40) |
| Comprehensive income (loss) per share - diluted | **$ 0.39** | $ 0.75 | $ (0.30) | $ (2.40) |

| | 2020 Q4 | 2020 Q3 | 2020 Q2 | 2020 Q1 |
|---|---|---|---|---|
| Revenue | $ 1,486,009 | $ 1,453,905 | $ 926,540 | $ 497,057 |
| Cost of goods sold | $ (1,155,491) | $ (893,441) | $ (495,193) | $ (59,786) |
| Gross profit | $ 330,518 | $ 560,464 | $ 431,347 | $ 437,271 |
| Gross margin – percentage | 22.2% | 38.5% | 46.6% | 88.0% |
| Operating expenses | $ (3,109,508) | $ (3,102,003) | $ (2,387,738) | $ (1,655,233) |
| Operating loss | $ (2,778,990) | $ (2,541,539) | $ (1,956,391) | $ (1,217,962) |
| Operating loss per share - basic | $ (0.17) | $ (0.15) | $ (0.13) | $ (0.09) |
| Operating loss per share - diluted | $ (0.17) | $ (0.15) | $ (0.13) | $ (0.09) |
| Other income (expense) | $ (713,885) | $ 91,228 | $ 987,872 | $ 113,854 |
| Other comprehensive income (loss) | $ 1,235 | $ (1,232) | $ (13,713) | $ 13,814 |
| Comprehensive loss | $ (3,491,640) | $ (2,451,453) | $ (982,232) | $ (1,090,294) |
| Comprehensive loss per share - basic | $ (0.21) | $ (0.15) | $ (0.06) | $ (0.08) |
| Comprehensive loss per share - diluted | $ (0.21) | $ (0.15) | $ (0.06) | $ (0.08) |

**Liquidity and Capital Resources**

The Company's liquidity risk is derived from its loans, accounts payable, and accrued liabilities, as it may encounter difficulty discharging those obligations, but the Company endeavors to mitigate that risk through the careful management of its debt holders and the assertive pursuit of capital inflow for its operations. The Company's working capital of $26,836,922 as at December 31, 2021, would be increased to $32,396,924, if the non-cash derivative liability was excluded. The Company's working capital as at December 31, 2020 was $1,214,371.

The Company considers the items included in capital to include shareholders' equity. The Company manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, financing environment, and the risk characteristics of the underlying assets. The Company does not have any contracted or committed capital expenditures as of the date of this MD&A. The Company utilizes its credit card facilities from time to time to make various purchases for their operations. Based on the Company's existing operations, the Company has sufficient funds for the next twelve months. However, the Company may need to raise additional capital during the next twelve months and beyond to support potential acquisitions, new initiatives or a change in business plan.

Management intends to finance operating costs over the next twelve months predominantly with cash on hand and with the potential issuance of securities such as the private placement of common shares and convertible debentures. Further, in order to maintain or adjust its capital structure, the Company may issue new shares, new debt, or scale back the size and nature of its operations. The Company is not subject to externally imposed capital requirements. As at December 31, 2021, shareholders' equity was $34,926,239 and at December 31, 2020, shareholder's equity was $3,848,205. The Company's shareholder's equity would be $40,486,241 if the non-cash derivative liability was excluded.





On February 5, 2021, the Company closed a second tranche of its Regulation A+ Offering for gross proceeds in the amount of $4,003,195 (US$3,135,838). On March 9, 2021, the Company announced that it completed the final closing of its Regulation A+ offering of units sold pursuant to the Company's Regulation A+ offering circular (the "Offering

Document") filed with the U.S. Securities and Exchange Commission. The Company issued 5,154,293 units at the offering price set out in the Offering Document for gross proceeds in the amount of $15,504,135 (US$12,112,606) in the final closing. Each unit is comprised of one common share of the Company and one common share purchase warrant, with each warrant entitling the holder to acquire one common share at a price of US$3.55 per common share for period of two years from the date of issuance. The common shares and warrants issued in connection with the offering are subject to a nine month hold period. In total, the Company issued 7,000,000 units under its Offering Document for aggregate gross proceeds of US$16,450,000.

On August 3, 2021, the Company announced that it closed on gross proceeds of a US$20,000,000 share offering that was filed with the U.S. Securities and Exchange Commission as part of its successful Nasdaq listing. The Company issued 5,000,000 shares at US$4.00.

We expect, from time to time, to evaluate the acquisition of businesses, intellectual property, products and technologies for which a portion of the net proceeds may be used. There is always the potential that any acquisition or investment in a company or product has a negative impact on future cash flows of the Company.

Our plan of operations for the next year includes the following: (i) hiring engineers to perform more engineering service work, to complete contracts on a timelier basis, and to perform R&D for the Company's next generation of products; (ii) hiring sales/marketing employees for our product lines and engineering services work; (iii) hiring sales/marketing employees for further expansion into services (e.g. drone as a service); (iv) diversifying and expanding business lines organically and by potential acquisitions; (v) updating machinery used for manufacturing and production; (vi) continuing to patent innovative ideas for new products; and (vii) developing and increasing current product offering to various niche industries that are not currently being served.

This expected use of the net proceeds from the Regulation A+ Offering and Nasdaq financing represents our intentions based upon our current financial condition, results of operations, and conditions. As of the date of this MD&A, we cannot predict with certainty all of the particular uses for the net proceeds received from the closing of the Regulation A+ Offering and Nasdaq financing. The amounts and timing of our actual expenditures may vary significantly depending on numerous factors.

**Off-Balance Sheet Arrangements**

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

**Contractual Obligations**

As of December 31, 2021, and as of the date of this MD&A, and in the normal course of business, the following is a summary of the Company's material obligations to make future payments, representing contracts, and other commitments that are known and committed.

On December 1, 2020 and October 6, 2021, the Company entered into 2 separate amendments for the lease agreements, where the leases were amended with a change in annual payments. As a result of IFRS 16, the right of use asset and lease liability were setup and recorded. The total right of use assets and lease liabilities for the Company are as follows:



**Right of Use Asset**

| | | Total |
|---|---|---|
| Cost | | |
| Balance at January 1, 2020 | $ | 159,539 |
| Lease acquired in the Acquisition | | 83,428 |
| Balance at December 31, 2020 | $ | 242,967 |
| **Additions** | | **447,242** |
| **Lease removal** | | **(7,092)** |
| **Balance at December 31, 2021** | **$** | **683,117** |
| | | |
| Accumulated depreciation | | |
| Balance at January 1, 2020 | $ | 29,545 |
| Charge for the period | | 69,003 |
| Balance at December 31, 2020 | $ | 98,548 |
| **Historical correction** | | **7,152** |
| **Charge for the period** | | **109,311** |
| **Balance at December 31, 2021** | **$** | **215,011** |
| | | |
| Net book value: | | |
| December 31, 2020 | $ | 144,419 |
| **December 31, 2021** | **$** | **468,106** |

**Lease Liability**

| | | Total |
|---|---|---|
| Balance at January 1, 2020 | $ | 136,073 |
| Leases acquired in the Acquisition | | 87,203 |
| Interest expense | | 18,290 |
| Lease Payments | | (83,442) |
| Balance at December 31, 2020 | $ | 158,124 |
| **Addition** | | **418,632** |
| **Historical correction** | | **22,043** |
| **Interest expense** | | **26,964** |
| **Lease payments** | | **(128,995)** |
| **Lease removal** | | **(7,645)** |
| **Balance at December 31, 2021** | | **489,123** |
| | | |
| Which consists of: | | |
| Current lease liability | $ | 110,481 |
| Non-current lease liability | | 378,642 |
| **Balance at December 31, 2021** | **$** | **489,123** |

**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.

**Trade payables and accrued liabilities:**

On Aug 1, 2019, the Company entered in a business services agreement (the "Agreement") with Business Instincts Group ("BIG"), a company that Cameron Chell, CEO and director has a material interest in that he previously controlled, to provide: corporate development and governance, strategic facilitation and management, general business services, office space, corporate business development video content, website redesign and management, and online visibility management. The services are provided by a team of up to six consultants and the costs of all charges are

based on the fees set in the Agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the company incurred fees of $315,643 compared to $177,000 in 2020. As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $nil).





On October 1, 2019, the Company entered into an independent consultant agreement ("Consultant Agreement") with 1502372 Alberta Ltd, a company controlled by Cameron Chell, CEO and director, to provide executive consulting services to the Company. The costs of all charges are based on the fees set in the Consultant Agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the Company incurred fees of $290,225 compared to $525,164 in 2020. As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $321,741).

On July 3, 2020, the Company entered into an executive consultant agreement ("Executive Agreement") with Scott Larson, a director of the Company, to provide executive consulting services, as President, to the Company. The costs of all charges are based on the fees set in the Executive Agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the Company incurred fees of $205,191 (December 31, 2020 – 227,524). As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $153,887).

As at December 31, 2021, the Company had $nil (December 31, 2020 - $475,628) 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, 2021 and 2020 included:

| **For the year ended December 31,** | **2021** | 2020 |
|---|---|---|
| Director fees | **$ 370,094** | $ - |
| Management fees paid to a company controlled by CEO and director | **290,225** | 737,164 |
| Management fees paid to a company controlled by the President and director | **205,691** | 227,524 |
| Management fees paid to a company controlled by a former director | **500,074** | 165,000 |
| Salaries | **722,068** | 655,799 |
| Salaries paid to the former owner of the Company | **-** | 86,097 |
| Share-based payments | **2,475,949** | 1,614,158 |
| | **$ 4,564,102** | $ 3,485,742 |





**Share Capital**

**Common shares issued**

| | Number of Common Shares | | Share Capital |
|---|---|---|---|
| Balance, December 31, 2019 | 13,934,145 | $ | 27,786,517 |
| Shares issued for exercise of warrants | 1,584,775 | | 4,007,130 |
| Shares issued for acquisition | 645,088 | | 2,178,961 |
| Shares issued as finder's fees | 40,000 | | 100,000 |
| Shares issued for debt settlement | 111,082 | | 344,354 |
| Shares issued for financing | 703,607 | | 2,018,845 |
| Shares issued for exercise of RSUs | 199,998 | | 507,497 |
| Balance, December 31, 2020 | 17,218,695 | $ | 36,943,304 |
| **Shares issued for exercise of warrants** | **1,580,525** | | **3,951,312** |
| **Shares issued for acquisition** | **1,200,000** | | **2,303,999** |
| **Shares issued for exercise of RSUs** | **149,999** | | **396,249** |
| **Shares issued for exercise of stock options** | **392,999** | | **1,910,991** |
| **Shares issued for financing** | **6,488,691** | | **18,717,438** |
| **Share issue costs** | **-** | | **(273,169)** |
| **Shares issued in lieu of cash** | **15,000** | | **198,000** |
| **Shares issued for financing** | **5,095,966** | | **17,374,749** |
| **Share issue costs** | **-** | | **(4,393,420)** |
| **Shares issued for exercise of warrants** | **359,009** | | **978,478** |
| **Share issue costs** | **-** | | **(12,232)** |
| **Shares issued for exercise of RSUs** | **298,661** | | **1,355,803** |
| **Shares issued for exercise of stock options** | **12,500** | | **26,875** |
| **Shares issued in lieu of cash** | **356,901** | | **1,559,988** |
| **Balance, December 31, 2021** | **33,168,946** | **$** | **81,038,365** |

**Stock options**

The following is the summary of the Company's stock option activity. Number of options and weighted average exercise prices in the table below are shown as they were outstanding, forfeited, granted, and exercised:

| | Number of Options | | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding, December 31, 2019 | 744,993 | $ | 2.50 |
| Forfeited | (43,334) | | 2.50 |
| Granted | 492,000 | | 3.08 |
| Outstanding, December 31, 2020 | 1,193,659 | $ | 2.75 |
| **Exercised** | **(405,494)** | | **2.50** |
| **Granted** | **247,826** | | **10.12** |
| **Outstanding, December 31, 2021** | **1,035,991** | **$** | **4.60** |



**Restricted Share Units (RSUs)**

The following is the summary of the Company's RSU activity. Number of RSUs in the table below are shown as they were outstanding, exercised, forfeited, and granted:

| | Number of RSUs |
|---|---|
| Outstanding, December 31, 2019 | 634,997 |
| Exercised | (199,998) |
| Forfeited | (68,333) |
| Granted | 248,000 |
| Outstanding, December 31, 2020 | 614,666 |
| **Exercised** | **(448,660)** |
| **Granted** | **348,826** |
| **Outstanding, December 31, 2021** | **514,832** |

**Warrants**

During the years ended December 31, 2020 and 2021, the Company issued warrants ("USD Warrants") with a USD exercise price. Being in a foreign currency that is not the Company's functional currency, these USD Warrants are required to be recorded as a financial liability and not as equity. As a financial liability, these USD Warrants are revalued on a quarterly basis to fair market value with the change in fair value being recorded through the Consolidated Statement of Comprehensive Loss. The initial fair value of these USD Warrants was parsed out from equity and recorded as a financial liability.

To reach a fair value of the USD Warrants, a Black Scholes calculation is used, calculated in USD as the Company also trades on the OTCQB. The Black Scholes value per USD Warrant is then multiplied by the number of outstanding warrants and then multiplied by the foreign exchange rate at the end of the period from the Bank of Canada.

Warrant Derivative Liability

| | |
|---|---|
| Balance at January 1, 2020 | $ - |
| Change in fair value of warrants outstanding | 748,634 |
| Balance at December 31, 2020 | $ 748,634 |
| **Change in fair value of warrants outstanding** | **4,202,449** |
| **Balance at December 31, 2021** | **$ 4,865,772** |

The derivative financial liability consists of the fair value of the non-compensatory share purchase warrants that have exercise prices that differ from the functional currency of the Company and are within the scope of IAS 32 "Financial Instruments: Presentation". Details of these warrants and their fair values are as follows:

| Issue Date | Exercise Price | Number of Warrants Outstanding at July 29, 2021 | Fair Value at July 29, 2021 | Number of Warrants Outstanding at December 31, 2020 | Fair Value at December 31, 2020 |
|---|---|---|---|---|---|
| November 30, 2020 | US$ 0.71 | 2,556,496 | $ 3,402,992 | 2,556,496 | $ 748,634 |
| February 5, 2021 | US$ 0.71 | 6,671,992 | 8,881,192 | - | - |
| March 5, 2021 | US$ 0.71 | 25,771,465 | 34,304,799 | - | - |
| | | **34,999,953** | **$ 46,588,983** | 2,556,496 | $ 748,634 |

On July 29, 2021, the Company underwent a share consolidation at which time the warrants were consolidated on a 5:1 basis. Results of the consolidation are as follows:

| Issue Date | Exercise Price (Post-consolidation) | Number of Warrants Outstanding at July 29, 2021 (Post-consolidation) | Number of Warrants Outstanding at December 31, 2020 (Post-consolidation) |
|---|---|---|---|
| November 30, 2020 | US$ 3.55 | 511,299 | 511,299 |
| February 5, 2021 | US$ 3.55 | 1,334,398 | - |
| March 5, 2021 | US$ 3.55 | 5,154,294 | - |
| | | **6,999,991** | 511,299 |

| Issue Date | Exercise Price | Number of Warrants Outstanding at December 31, 2021 | Fair Value at December 31, 2021 | Number of Warrants Outstanding at December 31, 2020 | Fair Value at December 31, 2020 |
|---|---|---|---|---|---|
| November 30, 2020 | US$ 3.55 | 482,425 | $ 182,262 | 511,299 | $ 748,634 |
| February 5, 2021 | US$ 3.55 | 1,323,275 | 951,226 | - | - |
| March 5, 2021 | US$ 3.55 | 5,154,321 | 3,731,284 | - | - |
| July 29, 2021 | US$ 5.00 | 250,000 | 84,626 | - | - |
| September 14, 2021 | US$ 5.00 | 4,798 | 1,685 | - | - |
| | | **7,214,819** | **$ 4,865,772** | 511,299 | $ 748,634 |

During the year ended December 31, 2020, the Company extended the life of the November 5, 2019 warrants from expiring on November 5, 2020 to expiring on November 5, 2021. To do this, it was required that 25% of the remaining November 5, 2019 warrants needed to be exercised by October 21, 2020 and 25% needed to be exercised by May 5, 2021 which was completed.

The following is the summary of the Company's warrant activity. Number of warrants and weighted average exercise prices in the table below are shown as they were outstanding, exercised, forfeited, and granted:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, December 31, 2019 | 3,610,340 | $ 2.05 |
| Expired | (1,584,775) | 1.50 |
| Exercised | (120,000) | 2.50 |
| Issued | 511,299 | 3.55 |
| Outstanding, December 31, 2020 | 2,416,864 | $ 2.95 |
| **Exercised** | **(1,939,534)** | **2.54** |
| **Granted** | **7,943,489** | **5.10** |
| **Forfeited** | **(6,000)** | **2.50** |
| **Outstanding, December 31, 2021** | **8,414,819** | **4.99** |

As at December 31, 2021, the Company had the following warrants outstanding:

| Date issued | Expiry date | Exercise price | Number of warrants outstanding |
|---|---|---|---|
| November 30, 2020 | November 30, 2022 | US$ 3.55 | 482,425 |

| | | | |
|---|---|---|---|
| February 5, 2021 | February 5, 2023 | US$ 3.55 | 1,323,275 |
| March 5, 2021 | March 5, 2023 | US$ 3.55 | 5,154,321 |
| March 22, 2021 | March 22, 2023 | CDN$ 13.35 | 1,200,000 |
| July 29, 2021 | July 29, 2024 | US$ 5.00 | 250,000 |
| September 14, 2021 | September 14, 2024 | US$ 5.00 | 4,798 |
| | | | **8,414,819** |





The weighted average remaining contractual life of warrants outstanding as of December 31, 2021 was 1.20 years (December 31, 2020 – 1.07 years).

Of the 1,200,000 warrants issued on March 22, 2021 with regards to the Vital Intelligence Acquisition, 900,000 of the warrants are currently held in escrow, to be released only upon completion of the milestones.

**Critical Accounting Policies and Estimates**

**Measurement Uncertainty (Use of Estimates)**

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

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

***SR&ED tax credits***

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

***Allowance for uncollectible trade and other receivables***

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

***Share-based payment transactions***

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires

determining and making assumptions about the most appropriate inputs to the valuation model including the expected lives and forfeiture rates of the share options and volatility of the market value of the underlying shares.

**Significant estimates and assumptions**

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





***Share-based payments***

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

***Income taxes***

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

***Inventories***

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

***Contingencies***

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

***Useful lives of equipment and intangible assets***

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

**Other Significant judgments**

The preparation of 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 Company's functional currency is the Canadian dollar and transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at reporting period rate of exchange. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses denominated in a foreign currency are translated at the monthly average exchange rate. Gains and losses resulting from the translation adjustments are included in income.

The functional currencies for the parent company and each subsidiary are as follows:

| | |
|---|---|
| Draganfly Inc. | Canadian Dollar |
| Draganfly Innovations Inc. | Canadian Dollar |
| Draganfly Innovations USA, Inc. | U.S. Dollar |
| Dronelogics Systems Inc. | Canadian Dollar |

Financial statements of subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollars as follows: all asset and liability accounts are translated at the year-end exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the year. The resulting translation gains and losses are recorded as exchange differences on translating foreign operations in accumulated other comprehensive income ("AOCI").

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.





***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.

***Financial assets***

*Classification and measurement*

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

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

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





*Financial assets at FVTPL*

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

*Financial assets at FVTOCI*

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

*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.

***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.

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 aerial 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.

**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, investigation, and solution services on a project by project basis under fixed-price and variable price contracts. Revenue from services provided 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 spent relative to the total expected labour hours. If contracts include the manufacturing of hardware, revenue for the hardware is recognized 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.



***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 by a declining balance at a 20% rate 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.

Goodwill represents the excess of the value of the consideration transferred over the fair value of the net identifiable assets and liabilities acquired. Goodwill is allocated to the cash generating unit to which it relates.

***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 generally calculated on a declining balance method to write off the cost of the assets to their residual values over their estimated useful lives. Depreciation for leasehold improvements is fully expensed over the expected term of the lease. The depreciation rates applicable to each category of equipment are as follows:

| Class of equipment | Depreciation rate |
|---|---|
| Computer equipment | 30% |
| Furniture and equipment | 20% |
| Leasehold improvements | Over expected life of lease |
| Software | 30% |
| Vehicles | 30% |

***Research and development expenditures***

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

***Government Assistance***

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

***SR&ED Investment tax credits***

The Company claims federal investment tax credits as a result of incurring 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 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 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 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.

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.





**Business Risks**

The Company does engage in significant transactions and activities in currencies other than its functional currency. Depending on the timing of the transactions and the applicable currency exchange rates such conversions may positively or negatively impact the Company.

An investment in the Company's Common Shares is highly speculative and involves significant risks. **In addition to the other information contained in this MD&A and the documents incorporated by reference herein and therein, you should review and carefully consider the risks described herein.** The risks described herein are not the only risk factors facing us and should not be considered exhaustive. Additional risks and uncertainties not currently known to us, or that we currently consider immaterial, may also materially and adversely affect our business, operations and condition, financial or otherwise.

**Risks Related to the Company, its Business and Industry**

***The Company has a history of losses.***

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

***A shareholder's holding in the Company may be diluted if the Company issues additional Common Shares or other securities in the future.***

The Company may issue additional Common Shares or other securities in the future, which may dilute a shareholder's holding in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders have no pre-emptive rights in connection with further issuances of any securities. The directors of the Company have the discretion to determine if an issuance of Common Shares or other securities is warranted, the price at which any such securities are issued and the other terms of issue of Common Shares or securities. In addition, the Company may issue additional Common Shares upon the exercise of incentive stock options to acquire Common Shares under its share compensation plan or upon the exercise or conversion of other outstanding convertible securities of the Company, which will result in further dilution to shareholders. In addition, the issuance of Common Shares or other securities in any potential future acquisitions, if any, may also result in further dilution to shareholder interests.

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

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

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

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





***The Company will be affected by operational risks and may not be adequately insured for certain risks.***

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

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

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

- generate sufficient revenue to reach and maintain profitability;
- acquire and maintain market share;
- achieve or manage growth in operations;
- develop and renew contracts;
- attract and retain additional engineers and other highly qualified personnel;

- successfully develop and commercially market new products;
- adapt to new or changing policies and spending priorities of governments and government agencies; and
- access additional capital when required and on reasonable terms.

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

***The Company operates in a competitive market.***

The Company faces competition and new competitors will continue to emerge throughout the world. Services offered by the Company's competitors may take a larger share of consumer spending than anticipated, which could cause revenue generated from the Company's products and services to fall below expectations. It is expected that competition in these markets will intensify. Some of the other publicly traded companies we may compete with include Alpine 4 Tech, Inc., Aerovironment Inc., EHang Holdings Limited, AgEagle, Drone Delivery Canada, Inc., and Red Cat Holdings, Inc.

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

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

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





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

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

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

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

Transport Canada is responsible for establishing, managing, and developing safety and security standards and regulations for civil aviation in Canada, and includes unmanned civil aviation (drones). Civil operations include law enforcement, scientific research, or use by private sector companies for commercial purposes. The Canadian Aviation Regulations ("**CARs**") govern civil aviation safety and security in Canada, and by extension govern operation of drones in Canada to an acceptable level of safety.

While Transport Canada has been a leader in the development of regulations for the commercial use of remotely piloted aircraft systems ("**RPAS**"), and continues to move forward rapidly with its regulatory development, it has acknowledged the challenge of regulations keeping pace with the rapid development in technology and the growing demand for commercial RPAS use, particularly in the beyond visual line-of-sight environment. In 2012, the Canadian Aviation Regulation Advisory Council UAS working group released its Phase 2 report which outlined a proposed set of revision to the CARs to permit Beyond Visual Line of Sight ("**BVLOS**") operations. This report was the basis for the recently released Notice of Proposed Amendment ("**NPA**") by Transport Canada on lower risk beyond visual line-of-sight.

Failure to obtain necessary regulatory approvals from Transport Canada or other governmental agencies, including the granting of certain Special Flight Operations Certificates ("**SFOCs**"), or limitations put on the use of RPAS in response to public safety concerns, may prevent the Company from testing or operating its aircraft and/or expanding its sales which could have an adverse impact on the Company's business, prospects, results of operations and financial condition.

***There are risks associated with the regulatory regime and permitting requirements of the Company's business.***

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





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

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

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

***The Company may be subject to the risks associated with future acquisitions.***

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

***The Company's inability to retain management and key employees could impair the future success of the Company.***

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

***A significant growth in the number of personnel would place a strain upon the Company's management and resources.***

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

***The Company faces uncertainty and adverse changes in the economy.***

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



***The Company is subject to certain market-based financial risks associated with its operations.***

The Company could be subject to interest rate risks, which is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities, however market fluctuations could increase the costs at which the Company can access capital and its ability to obtain financing and the Company's cash balances carry a floating rate of interest. In addition, the Company engages in transactions in currencies other than its functional currency. Depending on the timing of these transactions and the applicable currency exchange rates, conversions to the Company's functional currency may positively or negatively impact the Company.

***The COVID-19 pandemic could negatively affect our business, operations and future financial performance.***

In March 2020, the World Health Organization designated the outbreak of a novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. This resulted in governments, companies, and individuals worldwide enacting emergency measures to combat the spread of the virus, including the implementation of travel bans, mandated and self-imposed quarantine periods and physical distancing, that have caused a material disruption to businesses globally. Throughout the course of the pandemic, the impact of COVID-19 has varied significantly due to both global and localized infection rates, notwithstanding widespread vaccine availability within Canada and the United States beginning in spring 2020.

As a result of the pandemic, 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. Such volatility has led to significant challenges to the global supply chain, disrupted labor markets and has recently contributed to rising levels of inflation. The Company has experienced material pandemic related impacts, including the loss of its primary customer engineering customer in 2020 due to mandated stay-at-home orders. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. As such, the Company cannot predict with any certainty what the future impacts the pandemic may have on its business.

Company management has and continues to closely monitor the impact of the COVID-19 global pandemic, with a focus on the health and safety of the Company's employees, customers, and business continuity. Since the outbreak of the pandemic, the Company has taken various steps to mitigate the impact of COVID-19, including following government or health authority guidelines and restrictions at its facilities to ensure the safety of its staff and product consumers. The Company will continue to follow government or health authority guidelines and restrictions and has experienced minimal disruption to its operations and supply chain. However, there is no guarantee that the company's mitigation efforts will prove successful in combating the spread of the virus or that supply chain disruptions will not occur in the future. As the Company reintegrates its personnel to its workplace, it may incur additional costs to adapt the workplace to meet applicable health and safety requirements. The occurrence of additional waves of the virus or its variants, or insufficient vaccination levels may require the Company to revise or delay such plans. To the extent that it is unable to effectively protect its workforce against the transmission of the virus, the Company may be forced to slow or reverse its reintegration efforts and could face allegations of liability.

Given the uncertainties associated with the ongoing COVID-19 pandemic, including the uncertainty surrounding the remaining duration and outcome, COVID-19 variants and vaccine efficacy, the Company is unable to estimate the full impact of the COVID-19 pandemic on its business, financial condition, results of operations, and/or cash flows; however, the impact could be material. The Company cannot accurately predict the future impact COVID-19 may have on, among others, the: (i) demand for drone delivery services, (ii) severity and the length of potential measures taken by governments to manage the spread of the virus and their effect on labour availability and supply lines, (iii) availability of essential supplies, (iv) purchasing power of the Canadian dollar, or (v) ability of the Company to obtain necessary financing. Despite global vaccination efforts, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in the future.

***The conflict between Russia and Ukraine could destabilize global markets and threatens global peace.***

On February 24, 2022, Russian military forces launched a full-scale military invasion of Ukraine. In response, Ukrainian military personal and civilians are actively resisting the invasion. Many countries throughout the world have provided aid to the Ukraine in the form of financial aid and in some cases military equipment and weapons to assist in their resistance to the Russian invasion. The North Atlantic Treaty Organization ("**NATO**") has also mobilized forces to NATO member countries that are close to the conflict as deterrence to further Russian aggression in the region. The outcome of the conflict is uncertain and is likely to have wide ranging consequences on the peace and stability of the region and the world economy. Certain countries including Canada and the United States, have imposed strict financial and trade sanctions against Russia and such sanctions may have far reaching effects on the global economy. The long-term impacts of the conflict and the sanctions imposed on Russia remain uncertain.

***Negative macroeconomic and geopolitical trends could affect the Company's ability to access sources of capital.***

The COVID-19 pandemic and the Russian invasion of Ukraine could negatively impact the Company's ability to obtain financing and access sources of capital. Both events have led to significant market volatility as governments undertake measures to prevent the spread of COVID-19 and discourage political conflict. These events have contributed to significant uncertainty in global markets, increased inflationary pressures, and could lead to a tightening of credit markets and a decline in economic activity. These impacts could have a material adverse effect on the Company's liquidity and ability to obtain financing in the future. As the Company's history of losses and present revenues do not allow it to sustain its operations, an inability to access credit or capital markets could undermine the Company's ability to continue as a going concern.

***The Company may be subject to the risks associated with foreign operations in other countries.***

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

If the Company expands its business to foreign markets, it will need to respond to rapid changes in market conditions, including differing legal, regulatory, economic, social and political conditions in these countries. If the Company is not able to develop and implement policies and strategies that are effective in each location in which it does business, then the Company's business, prospects, results of operations and financial condition could be materially and adversely affected.

***There are tax risks the Company may be subject to in carrying on business in Canada.***

The Company is a resident of Canada for purposes of the *Income Tax Act* (Canada) (the "**Tax Act**"). Since the Company is operating in a new and developing industry there is a risk that foreign governments may look to increase their tax revenues or levy additional taxes to level the playing field for perceived disadvantages to traditional brick and mortar businesses. There is no guarantee that governments will not impose such additional adverse taxes in the future.

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

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

components, subsystems, or systems of sufficient quality, will increase prices for the components, subsystems or systems and will perform their obligations on a timely basis.





Recently, the global supply chain has experienced significant disruptions caused by the COVID-19 pandemic and by geopolitical conflict, including the war in Ukraine. These disruptions have impacted a variety of products and goods and have had various downstream effects, making it more difficult to reliably and timely source and supply goods and has also resulted in shortages of labor and equipment. The macroeconomic impacts of the COVID-19 pandemic and global conflicts have contributed to inflationary pressure and increased market volatility, adding additional pricing uncertainty. These conditions, if not mitigated or remedied in a timely manner, could delay or preclude delivery of raw materials needed to manufacture our products or delivery of the Company's products to customers, particularly in international markets. If the Company is unable to obtain components from third-party suppliers in the quantities and of the quality that it requires, on a timely basis and at acceptable prices, then it may not be able to deliver its products on a timely or cost-effective basis to its customers, or at all, which could cause customers to terminate their contracts with the Company, increase the Company's costs and seriously harm its business, results of operations and financial condition. Moreover, if any of the Company's suppliers become financially unstable, then it may have to find new suppliers. It may take several months to locate alternative suppliers, if required, or to redesign the Company's products to accommodate components from different suppliers. The Company may experience significant delays in manufacturing and shipping its products to customers and incur additional development, manufacturing, and other costs to establish alternative sources of supply if the Company loses any of these sources or is required to redesign its products. The Company cannot predict if it will be able to obtain replacement components within the time frames that it requires at an affordable cost, if at all.

***Natural outdoor elements such as wind and precipitation may have a material adverse effect on the use and effectiveness of the Company's products.***

The Company's business will involve the operation and flying of UAVs, a technology-based product used outside. As such, the business is subject to various risks inherent in a technology-based businesses operated in outdoor conditions, including faulty parts, breakdowns, and crashes. Although the Company anticipates the use of its UAVs in good climactic conditions and that adequate flying conditions will be monitored by trained personnel, there can be no assurance that unpredictable natural outdoor elements will not have a material adverse effect on the use and effectiveness of its products.

***The Company's products may be subject to the recall or return.***

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, safety concerns, packaging issues and inadequate or inaccurate labeling disclosure. If any of the Company's equipment were to be recalled due to an alleged product defect, safety concern or for any other reason, the Company could be required to incur unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management time and attention. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Transport Canada or other regulatory agencies, requiring further management time and attention and potential legal fees, costs and other expenses.

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

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

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

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





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

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

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

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

could be reduced. Any reductions in available research and development funding could harm the Company's business, financial condition and operating results.

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

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

***Negative consumer perception regarding the Company's products could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company.***

The Company believes the UAV industry is highly dependent upon consumer perception regarding the safety, efficacy, and quality of the UAV used. Consumer perception of these products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, and other publicity regarding the use of UAV. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention, or other research findings or publicity will be favourable to the UAV market. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, the efficacy, and quality of UAV based surveys in general, or the Company's products specifically, could have a material adverse effect.





***If the Company fails to successfully promote its product brand, this could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.***

The Company believes that brand recognition is an important factor to its success. If the Company fails to promote its brands successfully, or if the expenses of doing so are disproportionate to any increased net sales it achieves, it would have a material adverse effect on the Company's business, prospects, financial condition and results of operations. This will depend largely on the Company's ability to maintain trust, be a technology leader, and continue to provide high-quality and secure technologies, products and services. Any negative publicity about the Company or its industry, the quality and reliability of the Company's technologies, products and services, the Company's risk management processes, changes to the Company's technologies, products and services, its ability to effectively manage and resolve customer complaints, its privacy and security practices, litigation, regulatory activity, and the experience of sellers and buyers with the Company's products or services, could adversely affect the Company's reputation and the

confidence in and use of the Company's technologies, products and services. Harm to the Company's brand can arise from many sources, including; failure by the Company or its partners to satisfy expectations of service and quality; inadequate protection of sensitive information; compliance failures and claims; litigation and other claims; employee misconduct; and misconduct by the Company's partners, service providers, or other counterparties. If the Company does not successfully maintain a strong and trusted brand, its business could be materially and adversely affected.

***The Company may be subject to electronic communication security risks.***

A significant potential vulnerability of electronic communications is the security of transmission of confidential information over public networks. Cyberattacks could result in unauthorized access to the Company's computer systems or its third-party IT service provider's systems and, if successful, misappropriate personal or confidential information. Anyone who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in its operations. The Company may be required to expend capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

Since the outset of the COVID-19 pandemic, there has been an increase in the volume and sophistication of targeted cyber-attacks. Pandemic-adjusted operations, such as work from home arrangements and remote access to the Company's systems, may pose heightened risk of cyber security and privacy breaches and may put additional stress on the Company's IT infrastructure. A failure of such infrastructure could severely limit the Company's ability to conduct ordinary operations or expose the Company to liability. To date, the Company's systems have functioned capably, and it has not experienced a material impact to its operations as a result of an IT infrastructure issue. In addition, the outbreak of hostilities between Russia and Ukraine and the response of the global community to such aggression is widely seen as increasing the risk of state-sponsored cyberattacks.

Even the most well-protected IT networks, systems and facilities remain potentially vulnerable because the techniques used in attempted security breaches are continually evolving and generally are not recognized until launched against a target or, in some cases, are designed not to be detected and, in fact, may not be detected. Any such compromise of the Company's or its third party's IT service providers' data security and access, public disclosure, or loss of personal or confidential business information, could result in legal claims and proceedings, liability under laws to protect privacy of personal information, and regulatory penalties, and could disrupt our operations, require significant management attention and resources to remedy any damages that result, and damage our reputation and customers willingness to transact business with us, any of which could adversely affect our business.





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

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

***The Company relies on its business partners, and they may be given access to sensitive and proprietary information in order to provide services and support to the Company's teams.***

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

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

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

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





***Obtaining and maintaining the Company's patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and its patent protection could be reduced or eliminated for non-compliance with these requirements.***

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

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

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

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

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

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

***The Company may not be able to protect its intellectual property rights throughout the world.***

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

***Failure to adhere to the Company's financial reporting obligations and other public company requirements could adversely affect the market price of the Common Shares.***

The Company is subject to reporting and other obligations under applicable securities laws in Canada and the United States, and the rules of the CSE, Nasdaq and the Frankfurt Stock Exchange. These reporting and other obligations place significant demands on the Company's management, administrative, operational and accounting resources. If the Company is unable to meet such demands in a timely and effective manner, its ability to comply with its financial reporting obligations and other rules applicable to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause the Company to fail to satisfy its reporting obligations or result in material misstatements in its financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely affected which could also cause investors to lose confidence in its reported financial information, which could result in a reduction in the trading price of the Common Shares.

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

***We have limited operating experience as a publicly traded company in the U.S.***

We have limited operating experience as a publicly traded company in the U.S. Although our management team have experience managing a publicly-traded company, there is no assurance that the past experience of our management team will be sufficient to operate the Company as a publicly traded company in the United States, including timely compliance with the disclosure requirements of the U.S. Securities and Exchange Commission (the "**SEC"**). We are required to develop and implement internal control systems and procedures in order to satisfy the periodic and current reporting requirements under applicable SEC regulations and comply with the listing standards of the Nasdaq. These requirements place significant strain on our management team, infrastructure and other resources. In addition, our management team may not be able to successfully or efficiently manage the Company as a U.S. public reporting company that is subject to significant regulatory oversight and reporting obligations.

***If the Company is required to write down goodwill and other intangible assets, the Company's financial condition and results could be negatively affected.***

Goodwill impairment arises when there is deterioration in the capabilities of acquired assets to generate cash flows, and the fair value of the goodwill dips below its book value. The Company is required to review its goodwill for impairment at least annually. Events that may trigger goodwill impairment include deterioration in economic conditions, increased competition, loss of key personnel, and regulatory action. Should any of these occur, an impairment of goodwill relating to the acquisition of Dronelogics Systems Inc. could have a negative effect on the assets of the Company.

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

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

***The Company's directors and officers may have conflicts of interest in conducting their duties.***

Because directors and officers of the Company are or may become directors or officers of other reporting companies or have significant shareholdings in other technology companies, the directors and officers of the Company may have conflicts of interest in conducting their duties. The Company and its directors and officers will attempt to minimize such conflicts. In the event that such a conflict of interest arises at a meeting of the directors of the Company, a director who has such a conflict will abstain from voting for or against a particular matter in which the director has the conflict. In appropriate cases, the Company will establish a special committee of independent directors to review a particular matter in which several directors, or officers, may have a conflict. In determining whether the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time. Other than as indicated, the Company has no other procedures or mechanisms to deal with conflicts of interest.

Our Articles provide that the Company must indemnify a director or former director against all judgments, penalties or fines to which such person is or may be liable by reason of such person being or having been a director of the Company and the executive officers and directors may also have rights to indemnification from the Company, including pursuant to directors' and officers' liability insurance policies, that will survive termination of their agreements.

**Risks Related to Our Common Shares**

***The market price of the Common Shares may be highly volatile.***

The market price of the Common Shares may be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including but not limited to

- revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- actual or anticipated changes or fluctuations in our results of operations;
- announcements by us or our competitors of new products or new or terminated significant contracts, commercial relationships or capital commitments;
- rumors and market speculation involving us or other companies in our industry;
- changes in our executive management team or the composition of the board of directors of the Company (the "**Board**");
- fluctuations in the share prices of other companies in the technology and emerging growth sectors;
- general market conditions and macroeconomic trends driven by factors outside our control, such as the COVID-19 pandemic and/or geopolitical conflicts, including supply chain disruptions, market volatility, inflation, and labor challenges, among other factors;

- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of competitors;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- shareholder activism and related publicity;
- foreign exchange rates; and
- other risk factors as set out in this MD&A and in the documents incorporated by reference into this MD&A.

If the market price of our Common Shares drops significantly, shareholders could institute securities class action lawsuits against us, regardless of the merits of such claims. Such a lawsuit could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business. This could harm our business, results of operations and financial condition.





***There is no guarantee that an active trading market for our Common Shares will be maintained on the CSE, the Nasdaq, and/or the Frankfurt Stock Exchange. Investors may not be able to sell their Common Shares quickly or at the latest market price if the trading in our Common Shares is not active.***

Our Common Shares are currently listed on the CSE, Nasdaq, and the Frankfurt Stock Exchange, however, our shareholders may be unable to sell significant quantities of Common Shares into the public trading markets without a significant reduction in the price of their Common Shares, or at all and there can be no guarantee that an active trading market for the Common Shares may be maintained. There can be no assurance that there will be sufficient liquidity of our Common Shares on the trading market, and that we will continue to meet the listing requirements of the CSE, the Nasdaq or any other public listing exchange.

***Future issuances of equity securities by us or sales by our existing shareholders may cause the price of our Common Shares to fall.***

The market price of our Common Shares could decline as a result of issuances of securities or sales by our existing shareholders in the market, including by our directors, executive officers and significant shareholders, or the perception that these sales could occur. Sales of our Common Shares by shareholders might also make it more difficult for us to sell Common Shares at a time and price that we deem appropriate. We also expect to issue Common Shares in the future. Future issuances of Common Shares, or the perception that such issuances are likely to occur, could affect the prevailing trading prices of the Common Shares.

***We may never pay dividends over the foreseeable future.***

Investors should not rely on an investment in our Common Shares to provide dividend income. The Company does not anticipate that it will pay any cash dividends to holders of its Common Shares in the foreseeable future. Instead, the Company plans to retain any earnings to maintain and expand its operations. In addition, any future debt financing arrangement may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on its Common Shares. Accordingly, investors must rely on sales of their Common Shares after price appreciation, which may never occur, as the only way to realize any return on their investment. As a result, investors seeking cash dividends should not purchase the Company's Common Shares.

***The Company may be classified as a "passive foreign investment company" for U.S. federal income tax purposes, which would subject U.S. investors that hold the Company's Common Shares to potentially significant adverse U.S. federal income tax consequences.***

If the Company is classified as a passive foreign investment company ("**PFIC**") for U.S. federal income tax purposes in any taxable year, U.S. investors holding Common Shares generally will be subject, in that taxable year and all subsequent taxable years (whether or not the Company continued to be a PFIC), to certain adverse US federal income tax consequences. The Company will be classified as a PFIC in respect of any taxable year in which, after taking into account its income and gross assets (including the income and assets of 25% or more owned subsidiaries), either (i) 75% or more of its gross income consists of certain types of "passive income" or (ii) 50% or more of the average quarterly value of its assets is attributable to "passive assets" (assets that produce or are held for the production of passive income). Based upon the current and expected composition of the Company's income and assets, the Company believes that it was not a PFIC for the taxable year ended December 31, 2021 and expects that it will not be a PFIC for the current taxable year. Nevertheless, because the Company's PFIC status must be determined annually with respect to each taxable year and will depend on the composition and character of the Company's assets and income, and the value of the Company's assets (which may be determined, in part, by reference to the market value of Common Shares, which may be volatile) over the course of such taxable year, the Company may be a PFIC in any taxable year. The determination of whether the Company will be or become a PFIC may also depend, in part, on how, and how quickly, the Company uses its liquid assets and the cash raised in an offering. If the Company determines not to deploy significant amounts of cash for active purposes, the Company's risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, there can be no assurance that the Company will not be a PFIC for any future taxable year. In addition, it is possible that the U.S. Internal Revenue Service may challenge the Company's classification of certain income and assets as non-passive, which may result in the Company being or becoming a PFIC in the current or subsequent years.





If the Company is a PFIC for any year during a U.S. holder's holding period, then such U.S. holder generally will be required to treat any gain realized upon a disposition of Common Shares, or any "excess distribution" received on its Common Shares, as ordinary income, and to pay an interest charge on a portion of such gain or distribution, unless the U.S. holder makes a timely and effective "qualified electing fund" election ("**QEF Election**") or a "mark-to-market" election with respect to its Common Shares. A U.S. holder who makes a QEF Election generally must report on a current basis its share of the Company's net capital gain and ordinary earnings for any year in which the Company is a PFIC, whether or not the Company distributes any amounts to its shareholders. However, U.S. holders should be aware that there can be no assurance that the Company will satisfy the record keeping requirements that apply to a QEF, or that the Company will supply U.S. holders with information that such U.S. holders require to report under the QEF Election rules, in the event that the Company is a PFIC and a U.S. holder wishes to make a QEF Election. Thus, U.S. holders may not be able to make a QEF Election with respect to their Common Shares. A U.S. holder who makes a mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the Common Shares over the taxpayer's basis therein. Each U.S. holder should consult its own tax advisors regarding the PFIC rules and the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

***United States investors may not be able to obtain enforcement of civil liabilities against us.***

The Company is incorporated under the laws of British Columbia, Canada, and its principal executive offices are located in Canada. Most of the Company's directors and officers and most of the experts named in this MD&A or in our annual report for the fiscal year ended December 31, 2021 reside outside of the United States and all or a substantial portion of the Company's assets and the assets of these persons are located outside the United States. Consequently,

it may not be possible for an investor to effect service of process within the United States on the Company or those persons. Furthermore, it may not be possible for an investor to enforce judgments obtained in United States courts based upon the civil liability provisions of United States federal securities laws or other laws of the United States against those persons or the Company. There is doubt as to the enforceability, in original actions in Canadian courts, of liabilities based upon United States federal securities laws and as to the enforceability in Canadian courts of judgments of United States courts obtained in actions based upon the civil liability provisions of the United States federal securities laws. Therefore, it may not be possible to enforce those actions against the Company, certain of the Company's directors and officers or the experts named in this MD&A or in our annual report for the fiscal year ended December 31, 2021.

***We are an emerging growth company and intend to take advantage of reduced disclosure requirements applicable to emerging growth companies, which could make our Common Shares less attractive to investors.***

We are an "emerging growth company" as defined in the JOBS Act. We will remain an emerging growth company until the earliest to occur of (i) the last day of the fiscal year in which we have total annual gross revenue of $1.07 billion or more; (ii) December 31, 2026 (the last day of the fiscal year ending after the fifth anniversary of the date of the completion of the first sales of its common equity pursuant to an effective registration statement under the United States Securities Act of 1933, as amended (the "**Securities Act**")); (iii) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period; or (iv) the date we qualify as a "large accelerated filer" under the rules of the SEC, which means the market value of our Common Shares held by non-affiliates exceeds $700 million as of the last business day of its most recently completed second fiscal quarter after we have been a reporting company in the United States for at least 12 months. For so long as we remain an emerging growth company, we are permitted to and intend to rely upon exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include not being required to comply with the auditor attestation requirements of Section 404 ("**Section 404**") of the Sarbanes-Oxley Act (2002), as amended (the "**Sarbanes-Oxley Act**").

We may take advantage of some, but not all, of the available exemptions available to emerging growth companies. We cannot predict whether investors will find our Common Shares less attractive if we rely on these exemptions. If some investors find our Common Shares less attractive as a result, there may be a less active trading market for our Common Shares and the price of our Common Shares may be more volatile.





***We will incur increased costs as a result of operating as a public company in the United States and our management will be required to devote substantial time to new compliance initiatives.***

As a U.S. public company, particularly if or when we are no longer an "emerging growth company" as defined under the JOBS Act, we will incur significant legal, accounting and other expenses, in addition to those we currently incur as a Canadian public company, that we did not incur prior to being listed in the United States. In addition, the Sarbanes-Oxley Act, and rules implemented by the SEC and Nasdaq impose various other requirements on public companies, and we will need to spend time and resources to ensure compliance with our reporting obligations in both Canada and the United States.

For example, pursuant to Section 404, we will be required to furnish a report by our management on our internal control over financial reporting ("**ICFR**"), which, if or when we are no longer an emerging growth company, must be accompanied by an attestation report on ICFR issued by our independent registered public accounting firm. To achieve compliance with Section 404 within the prescribed period, we will document and evaluate our ICFR, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of our ICFR, continue steps

to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for ICFR. Despite our efforts, there is a risk that neither we nor our independent registered public accounting firm will be able to conclude within the prescribed timeframe that our ICFR is effective as required by Section 404. This could result in a determination that there are one or more material weaknesses in our ICFR, which could cause an adverse reaction in the financial markets due to a loss of confidence in the reliability of our consolidated financial statements.

In addition, becoming a public company in the United States will increase legal and financial compliance as well as regulatory costs, such as additional Nasdaq fees, and will make some of our public company obligations more time consuming. We intend to invest resources to comply with evolving laws, regulations and standards in both Canada and the United States, and this investment may result in increased general and administrative expenses and increased diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with public company laws, regulations and standards in the United States are insufficient, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

We also expect that being a public company in the United States and complying with applicable rules and regulations will make it more expensive for us to obtain sufficient levels of director and officer liability insurance coverage. This factor could also make it more difficult for us to attract and retain qualified executive officers and members of our Board of Directors.

***As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic U.S. issuer, which may limit the information publicly available to our U.S. shareholders.***

We currently qualify as a "foreign private issuer" under applicable U.S. federal securities laws and, therefore, are not required to comply with all the periodic disclosure and current reporting requirements of the Exchange Act and related rules and regulations. As a result, we do not file the same reports that a U.S. domestic issuer would file with the SEC, although we will be required to file with or furnish to the SEC the continuous disclosure documents that we are required to file in Canada under Canadian securities laws. In addition, our officers, directors and principal shareholders are exempt from the reporting and "short swing" profit recovery provisions of Section 16 of the Exchange Act. Therefore, our shareholders may not know on as timely a basis when our officers, directors and principal shareholders purchase or sell our securities as the reporting periods under the corresponding Canadian insider reporting requirements are longer. In addition, as a foreign private issuer, we are exempt from the proxy rules under the Exchange Act. We are also exempt from Regulation FD, which prohibits issuers from making selective disclosures of material non-public information. While we expect to comply with the corresponding requirements relating to proxy statements and disclosure of material non-public information under Canadian securities laws, these requirements differ from those under the Exchange Act and Regulation FD and shareholders should not expect to receive in every case the same information at the same time as such information is provided by U.S. domestic issuers.





In addition, as a foreign private issuer, we have the option to follow certain Canadian corporate governance practices, except to the extent that such laws would be contrary to U.S. federal securities laws and Nasdaq listing rules and provided that we disclose the requirements we are not following and describe the Canadian practices we follow instead. We plan to rely on this exemption in part. As a result, our shareholders may not have the same protections afforded to shareholders of U.S. domestic issuers that are subject to all U.S. corporate governance requirements.

At some point in the future, we may cease to qualify as a foreign private issuer. If we cease to qualify, we will be subject to the same reporting requirements and corporate governance requirements as a U.S. domestic issuer, which may increase our costs of being a public company in the United States.

## REGULATORY POLICIES

### *Disclosure Controls and Procedures*

Disclosure Controls and Procedures ("DC&P") are designed to provide reasonable assurance that all material information is gathered and reported on a timely basis to senior management so that appropriate decisions can be made regarding public disclosure and that information required to be disclosed by the issuer under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), along with other members of management, have designed, or caused to be designed under the CEO and CFO's supervision, DC&P and have assessed the design and operating effectiveness of the Company's DC&P as at December 31, 2021. Based on this assessment, it was concluded that the design and operation of the Company's DC&P are effective as at December 31, 2021.

### *Internal Controls over Financial Reporting*

The CEO and CFO, along with participation from other members of management, are responsible for establishing and maintaining adequate Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with IFRS. The Company's CEO and CFO, with support of management have assessed the design and operating effectiveness of the Company's ICFR as at December 31, 2021 based on criteria described in "Internal Control - Integrated Framework" issued in 2013 by the Committee of Sponsoring Organization of the Treadway Commission. Based on this assessment, it was concluded that the design and operation of the Company's ICFR are effective as at December 31, 2021. During the three months ended December 31, 2021, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

### *Limitations of Controls and Procedures*

The Company's management, including its CEO and CFO, believe that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Other Information

Additional information about the Company is available at www.draganfly.com

## Approval

This MD&A is authorized for issue by the Board on April 3, 2022



**Exhibit 15.2**

**DRAGANFLY INC.**

## AUDIT COMMITTEE CHARTER

### PURPOSE

Senior management of Draganfly Inc. (the "**Company**"), as overseen by its Board of Directors (the "**Board**"), has primary responsibility for the Company's financial reporting, accounting systems and internal controls. The Audit Committee (the "**Committee**") is a standing committee of the Board established for the purposes of overseeing:

(a) the quality and integrity of the Company's financial and accounting reporting processes, audits of the financial statements of the Company, and internal accounting and financial control systems of the Company;

(b) the external auditor's qualifications and independence;

(c) management's responsibility for assessing the effectiveness of internal controls;

(d) the Company's compliance with legal and regulatory requirements in connection with financial and accounting matters; and

### COMPOSITION AND OPERATION

1. The Committee shall be composed of at least three members, each of whom:

   (a) must be an "**Independent Director**" (as defined in the Definitions section of this Charter), taking into account the rules and regulations of any securities regulatory authorities and/or stock exchanges that may be applicable to the Company;

   (b) must not accept any consulting, advisory, or other compensatory fee from the Company (or any subsidiary) other than for board or committee service;

   (c) must not be an "**Affiliated Person**" (as defined in the Definitions section of this Charter) of the Company or any of its subsidiaries;

   (d) must not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years;

   (e) must be Financially Literate.

   In addition, at least one member will be a "**Committee Financial Expert**" (as defined in the Definitions section of this Charter).

   The foregoing requirements are subject to any exemptions, exceptions, cure periods or phase-in accommodations that may be available to the Company under applicable securities laws and stock exchange rules.

2. The members of the Committee shall be appointed by the Board to serve one-year terms and are permitted to serve an unlimited number of consecutive terms.



3. The Committee shall appoint a chair (the "**Chair**") from among its members who shall be an independent director. If the Chair is not present at any meeting of the Committee, one of the other Committee members present at the meeting shall be chosen to preside at the meeting.

4. The Committee will make every effort to meet at least four times per year and each member is entitled to request that an additional meeting be called, which will be held within two weeks of the request for such meeting. A quorum at meetings of the Committee shall be two members present in person or by telephone. The Committee may also act by unanimous written consent of its members as described under the heading "**Authority**" in this Charter.

5. The external auditor may request the Chair to call a meeting of the Committee to consider any matter that the auditor believes should be brought to the attention of the directors or the shareholders of the Company. In addition to the external auditor, each committee chair, members of board, as well as the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**") shall be entitled to request the Chair to call a meeting, which meeting shall be held within two weeks of the request.

6. Notice of the time and place of every meeting shall be given in writing or by email communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting.

7. The Committee shall fix its own procedure at meetings, keep records of its proceedings and provide a verbal report to the Board routinely at the next regularly scheduled Board meeting and shall provide copies of finalized minutes of meetings to the Corporate Secretary to be kept with the official minute books of the Company.

8. The Committee will review and approve its minutes of meetings and copies will be made available to the external auditor or its members as requested.

9. In camera sessions will be scheduled for each regularly scheduled quarterly Committee meeting, and as needed from time to time.

10. On an ad-hoc basis, the Committee may also meet separately with the Chief Executive Officer and the Chief Financial Officer and such other members of management as they may deem necessary.

**RESPONSIBILITIES AND DUTIES**

**Overall Committee:**

To fulfill its responsibilities and duties the Committee will:

(a) review this Charter periodically, but at least once per annum, and recommend to the Board any necessary amendments;

(b) review and, where necessary, recommend revisions to the Company's disclosure in the Company's public disclosures and securities filings (including its Management Information Circular) regarding Committee's composition and responsibilities and how they are discharged;



(c) assist the Board in the discharge of its responsibilities relating to the quality, acceptability and integrity of the Company's accounting policies and principles, reporting practices and internal controls;

(d) review and recommend approval by the Board of all significant and material financial disclosure documents to be released by the Company, including but not limited to, quarterly and annual financial statements and management discussion and analysis, annual reports, Form 40-F, annual information forms, and prospectuses containing material information of a financial nature; and

(e) oversee the relationship and maintain a direct line of communication with the Company's internal and external auditors and assess their respective performance.

**Public Filings, Policies and Procedures:**

The Committee is responsible for:

(a) ensuring adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the Company's disclosure controls and procedures, and management's evaluation thereof, to ensure that financial information is recorded, processed, summarized and reported within the time periods required by law;

(b) reviewing disclosures made to the Committee by the CEO and the CFO during their certification process for any significant deficiencies in the design or operation of internal controls or material weakness therein and any fraud involving management or other employees who have a significant role in internal controls;

(c) reviewing with management and the external auditor any correspondence with securities regulators or other regulatory or government agencies which raise material issues regarding the Company's financial reporting or accounting policies.

**External Auditors**

The responsibilities and duties of the Committee as they relate to the external auditor are to:

(a) consider and make recommendations to the Board with respect to the appointment, compensation, and retention of the external auditor to be nominated for appointment by shareholders at each annual general meeting of the Company;

(b) review the performance of the external auditor and, where appropriate, recommend to the Board the removal of the external auditor;

(c) confirm the independence and effectiveness of the external auditor, which will require receipt from the external auditor of a formal written statement delineating all relationships between the auditor and the Company and any other factors that might affect the independence of the auditor;



(d) oversee the work of the external auditor generally, and review and report to the Board on the planning and results of external audit work, including:

(i) the external auditor's engagement letter or other reports of the auditor;

(ii) the reasonableness of the estimated fees and other compensation to be paid to the external auditor;

(iii) the form and content of the quarterly and annual audit report, which should include, *inter alia*:

(A) a summary of the Company's internal controls and procedures;

(B) any material issues raised in the most recent meeting of the Committee; and

(C) any other related audit, review or attestation services performed for the Company by the external auditors.

(e) actively engage in dialogue with the external auditor with respect to any disclosed relationships or services that may affect the independence and objectivity of the external auditor and take, or recommend the Board take, appropriate actions to oversee the independence of the external auditor;

(f) monitor the relationship between management and the external auditor and resolve any disagreements between them regarding financial reporting;

(g) engage the external auditor in discussions regarding any amendments to critical accounting policies and practices; alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, including any potential ramifications and the preferred treatment by the independent auditor; and lastly, written communication between management and the independent auditor, including but not limited to, the management letter and schedule of adjusted differences.

**Internal Controls and Financial Reporting**

The Committee will:

(a) obtain reasonable assurance from discussions with (and/or reports from) management, and reports from the external auditors that the Company's financial and accounting systems are reliable and that the prescribed internal controls are operating effectively;

(b) in consultation with the external auditor, the CEO, the CFO, and where necessary, other members of management, review the integrity of the Company's financial reporting process and the internal control structure;

(c) review the acceptability of the Company's accounting principles and direct the auditors' examinations to particular areas of question or concern, as required;



(d) request the auditors to undertake special examinations (e.g., review compliance with conflict of interest policies) when it deems necessary;

(e) together with management, review control weaknesses identified by the external and internal auditors;

(f) review the appointments of the CFO and other key financial executives;

(g) during the annual audit process, consider if any significant matters regarding the Company's internal controls and procedures over financial reporting, including any significant deficiencies or material weaknesses in their design or operation, need to be discussed with the external auditor, and review whether internal control recommendations made by the auditor have been implemented by management.

**Ethical and Legal Compliance**

The responsibilities and duties of the Committee as they relate to compliance and risk management are to:

(a) obtain reasonable assurances as to the integrity of the CEO and other senior management and that the CEO and other senior management strive to create a culture of integrity throughout the Company;

(b) review the adequacy, appropriateness and effectiveness of the Company's policies and business practices which impact on the integrity, financial and otherwise, of the Company, including those relating to hedging, insurance, accounting, information services and systems and financial controls, and management reporting;

(c) receive a report from management on tax issues and planning, including compliance with the Company's source deduction obligations and other remittances under applicable tax or other legislation;

(d) review annually the adequacy and quality of the Company's financial and accounting staffing, including the need for and scope of internal audit reviews (if any);

(e) establish procedures for a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls, or auditing matters; and b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

(f) review any complaints and concerns received regarding accounting, internal controls, or auditing matters or with respect to the Company's Code of Ethical Conduct, and the investigation and resolution thereof, and provide all relevant information relating to such complaints and concerns to the Nominating and Governance Committee;

(g) review and monitor the Company's compliance with applicable legal and regulatory requirements related to financial reporting and disclosure;



(h) review all "related party transactions" (as such term is defined under applicable securities laws and stock exchange rules) for any potential conflicts of interest; and

(i) carry the responsibility for reviewing reports from management, external auditors with respect to the Company's compliance with the laws and regulations having a material impact on financial reporting and disclosure, including: tax and financial reporting laws and regulations; legal withholding requirements; environmental; and any other laws and regulations which expose directors to liability.

**AUTHORITY**

1. The Committee shall have the authority to:

(a) engage independent counsel and other advisors as it determines necessary to carry out its duties;

(b) set and pay the compensation for the external auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;

(c) set and pay the compensation for any independent counsel and other advisors employed by the Committee;

(d) incur ordinary administrative expenses that are necessary or appropriate in carrying out its duties; and

(e) communicate directly with the external auditors.

2. The Committee shall have the power, authority and discretion delegated to it by the Board which shall not include the power to change the membership of or fill vacancies in the Committee.

3. A resolution approved in writing by the members of the Committee shall be valid and effective as if it had been passed at a duly called meeting. Such resolution shall be filed with the minutes of the proceedings of the Committee and shall be effective on the date stated thereon or on the latest date stated in any counterpart.

4. The Board shall have the power at any time to revoke or override the authority given to or acts done by the Committee except as to acts done before such revocation or act of overriding and to terminate the appointment or change the membership of the Committee or fill vacancies in it as it shall see fit.

5. The Committee shall have unrestricted and unfettered access to all Company personnel and documents and shall be provided with the resources necessary to carry out its responsibilities.

6. At the invitation of the Chair, one or more officers or employees of the Company may, and if required by the Committee, shall attend a meeting of the Committee.

7. The Committee shall have the authority to obtain advice and assistance from outside legal, accounting or financials advisors in its sole discretion.



**DEFINITIONS**

Capitalized terms used in this Charter and not otherwise defined have the meaning attributed to them below:

"**Affiliated Person**" means an "affiliate" of, or a person "affiliated" with, a specified person, which is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

"**Committee Financial Expert**" means a person who has the following attributes:

(a) past employment experience in finance or accounting;

(b) requisite professional certification in accounting; or

(c) or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

"**Executive Officer**" means the Company's president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company.

"**Family Member**" means a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home.

"**Financially Literate**" means the ability to read and understand a set of fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement, that present a breadth and level of

complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised in the Company's financial statements.

**"Independent Director"** means a director that is "independent" as the term is defined in both National Instrument 52-110 - *Audit Committees* ("**NI 52-110**") and Nasdaq Rule 5605(a)(2), as each may be amended from time to time, and being a person other than an Executive Officer or employee of the Company or any other individual having a relationship which, in the opinion of the Company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons shall not be considered independent:

(a) a director who is, or at any time during the past three years was, employed by the Company;

(b) a director who accepted or who has a Family Member who accepted any compensation from the Company in excess of $120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:



(i) compensation for board or board committee service;

(ii) compensation paid to a Family Member who is an employee (other than an Executive Officer) of the Company; or

(iii) benefits under a tax-qualified retirement plan, or non-discretionary compensation

Provided, however, that in addition to the requirements contained in this paragraph (B), audit committee members are also subject to additional, more stringent requirements under Rule 5605(c)(2).

(c) a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the Company as an Executive Officer;

(d) a director who is, or has a Family Member who is, a partner in, or a controlling Shareholder or an Executive Officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or $200,000, whichever is more, other than the following:

(i) payments arising solely from investments in the Company's securities; or

(ii) payments under non-discretionary charitable contribution matching programs.

(e) a director of the Company who is, or has a Family Member who is, employed as an Executive Officer of another entity where at any time during the past three years any of the Executive Officers of the Company serve on the compensation committee of such other entity; or

(f) a director who is, or has a Family Member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

Adopted by the Board on August 19, 2019, and amended April 14, 2021.

**Exhibit 15.3**

**CONSENT OF REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Annual Report on Form 20-F of our report dated April 3, 2022, with respect to the consolidated financial statements of Draganfly Inc. as at and for the years ended December 31, 2021 and 2020 included in this Annual Report on Form 20-F of Draganfly Inc.

We also consent to the incorporation by reference in the Registration Statements on Form F-10 (No. 333-258074), as amended, and Form S-8 (No. 333-259459) of Draganfly Inc. of our report dated April 3, 2022 referred to above.

*/s/ DMCL LLP*

Chartered Professional Accountants
Vancouver, Canada

April 3, 2022