Draganfly Inc.

Consolidated Financial Statements

Years Ended December 31, 2024 and 2023

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

dmcl.ca

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, 2024 and 2023, the related consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2024, 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, 2024 and 2023, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2024, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred losses in developing its business, and further losses are anticipated. The Company requires additional funds to meet its obligations and the costs of its operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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.

Vancouver	Surrey	Tri-Cities	Victoria
1500 - 1140 West Pender St. Vancouver, BC V6E 4G1 604.687.4747	200 - 1688 152 St. Surrey, BC V4A 4N2 604.531.1154	700 - 2755 Lougheed Hwy Port Coquitlam, BC V3B 5Y9 604.941.8266	320 - 730 View St. Victoria, BC V8W 3Y7 250.800.4694

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.

/s/ DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

We have served as the Company’s auditor since 2018
Vancouver, Canada

March 27, 2025

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

As at	Notes		**December 31, 2024**		December 31, 2023
ASSETS					
Current Assets					
Cash and cash equivalents		**$**	**6,252,409**	$	3,093,612
Receivables	4		**573,390**		649,612
Inventory	5		**1,532,263**		1,596,536
Prepaids and deposits	6		**724,513**		1,342,215
			9,082,575		6,681,975
Non-current Assets					
Equipment	8		**529,542**		680,801
Intangible assets	9		**45,141**		56,426
Investments	7		**14,286**		189,403
Receivable	4		**156,200**		-
Right of use assets	10		**372,344**		721,687
TOTAL ASSETS		**$**	**10,200,088**	$	8,330,292
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade payables and accrued liabilities	12,19	**$**	**2,399,187**	$	2,638,981
Customer deposits			**466,295**		104,715
Deferred income	13		**18,542**		12,112
Loans payable	14		**-**		85,058
Derivative liability	15		**2,198,121**		4,196,125
Lease liabilities	11		**154,147**		362,001
			5,236,292		7,398,992
Non-current Liabilities					
Deferred income	13		**68,139**		95,562
Lease liabilities	11		**273,874**		428,022
TOTAL LIABILITIES			**5,578,305**		7,922,576
SHAREHOLDERS' EQUITY					
Share capital	15		**110,742,984**		97,070,976
Reserves – share-based payments	15		**7,698,304**		6,870,139
Reserves - Warrants	15		**3,776,428**		-
Accumulated deficit			**(117,465,829)**		(103,588,356)
Accumulated other comprehensive income (loss)			**(130,104)**		54,957
TOTAL SHAREHOLDERS' EQUITY			**4,621,783**		407,716
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**10,200,088**	$	8,330,292

Nature and Continuance of Operations and Going Concern (Note 1)

Approved and authorized for issuance by the Board of Directors on March 27, 2025.

"Scott Larson" *"Cameron Chell"*

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

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

	Notes	For the years ended December 31, 2024	2023	2022
REVENUE				
Sales of goods	16	**$ 5,368,476**	$ 5,287,093	$ 5,550,432
Provision of services	16	**1,192,579**	1,267,749	2,054,627
TOTAL REVENUE		**6,561,055**	6,554,842	7,605,059
COST OF SALES	5	**(5,162,851)**	(4,490,728)	(6,814,384)
GROSS PROFIT		**1,398,204**	2,064,114	790,675
OPERATING EXPENSES				
Amortization	9	**11,285**	35,960	179,482
Depreciation	8,10	**565,806**	510,677	593,277
Director fees	19	**504,620**	600,933	522,349
Insurance		**1,111,052**	1,825,137	3,722,237
Office and miscellaneous	17	**1,853,578**	6,303,879	5,397,961
Professional fees	19	**3,016,594**	4,145,586	6,821,583
Research and development		**927,412**	1,554,823	651,302
Share-based payments	15,19	**1,182,618**	2,021,664	3,311,024
Travel		**231,432**	704,994	396,388
Wages and salaries	19	**6,733,303**	6,976,792	6,105,020
		(16,137,700)	(24,680,445)	(27,700,623)
OTHER INCOME (EXPENSE)				
Change in fair value of derivative liability	15	**1,842,618**	211,110	5,502,688
Finance and other costs		**107,225**	83,280	44,345
Foreign exchange gain		**268,537**	(249,563)	745,102
Gain (loss) on disposal of assets		**11,432**	(944)	(10,755)
Gain (loss) on write-off of notes receivable		**40,020**	(101,351)	(309,385)
Government income		**-**	5,232	2,446
Write down of deposit		**-**	-	(228,572)
Loss on impairment of goodwill and intangibles		**-**	-	(6,454,914)
Other income (expense)	18	**(1,407,809)**	(943,243)	(35,371)
NET LOSS FOR THE YEAR		**(13,877,473)**	(23,611,810)	(27,654,364)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified to profit or loss				
Foreign exchange translation		**(9,944)**	(94,861)	447,542
Items that will not be reclassified to profit or loss				
Change in fair value of equity investments at FVOCI	7	**(175,117)**	(3,180)	(98,483)
COMPREHENSIVE LOSS FOR THE YEAR		**(14,062,534)**	(23,709,851)	(27,305,305)
Net loss per share				
Basic & diluted		**$ (4.40)**	$ (14.58)	$ (20.34)
Weighted average number of common shares outstanding - basic & diluted		**3,156,891**	1,619,343	1,342,279

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**	**Reserves - Warrants**	**Accumulated Deficit**	**Change in Fair Value of Investments at FVTOCI**	**Exchange Differences on Translation of Foreign Operations**	**Total Shareholders' Equity**
Balance at December 31, 2021	**1,326,938**	**$ 81,038,365**	**$ 6,406,117**	**$ -**	**$ (52,322,182)**	**$ (332,640)**	**$ 136,579**	**$ 34,926,239**
Shares issued for the exercise of stock options	500	51,875	(25,000)	-	-	-	-	26,875
Shares issued for the exercise of warrants	662	87,170	-	-	-	-	-	87,170
Shares issued for the exercise of RSUs	43,104	2,427,801	(2,427,801)	-	-	-	-	-
Shares issue costs	-	(5,122)	-	-	-	-	-	(5,122)
Share-based payments	-	-	3,311,024	-	-	-	-	3,311,024
Net loss	-	-	-	-	(27,654,364)	-	-	(27,654,364)
Change in fair value of equity investments at FVOCI	-	-	-	-	-	(98,483)	-	(98,483)
Translation of foreign operations	-	-	-	-	-	-	447,542	447,542
Balance at December 31, 2022	**1,371,204**	**$ 83,600,089**	**$ 7,264,340**	**$ -**	**$ (79,976,546)**	**$ (431,123)**	**$ 584,121**	**$ 11,040,881**
Shares issued for financing – ATM ("At-the-market")	26,030	1,748,946	-	-	-	-	-	1,748,946
Share issue costs	-	(222,136)	-	-	-	-	-	(222,136)
Shares issued for financing	512,000	11,376,230	-	-	-	-	-	11,376,230
Share issue costs	-	(2,072,886)	224,868	-	-	-	-	(1,848,018)
Shares issued for the exercise of RSUs	60,332	2,640,733	(2,640,733)	-	-	-	-	-
Share-based payments	-	-	2,021,664					2,021,664
Net loss	-	-	-	-	(23,611,810)	-	-	(23,611,810)
Change in fair value of equity investments at FVOCI	-	-	-	-	-	(3,180)	-	(3,180)
Translation of foreign operations	-	-	-	-	-	-	(94,861)	(94,861)
Balance at December 31, 2023	**1,969,566**	**$ 97,070,976**	**$ 6,870,139**	**$ -**	**$ (103,588,356)**	**$ (434,303)**	**$ 489,260**	**$ 407,716**
Shares issued for financing	1,477,208	10,384,145	-	-	-	-	-	10,384,145
Share issue costs	-	(1,632,871)	509,454	-	-	-	-	(1,123,417)
Shares issued for the exercise of warrants	1,991,668	4,056,827	-	-	-	-	-	4,056,827
Shares returned to treasury	(36,000)	-	-	-	-	-	-	-
Shares issued for the exercise of RSUs	25,353	863,907	(863,907)	-	-	-	-	-
Warrants – equity treatment	-	-	-	3,776,428				3,776,428
Share-based payments	-	-	1,182,618	-	-	-	-	1,182,618
Net loss	-	-	-	-	(13,877,473)	-	-	(13,877,473)
Change in fair value of equity investments at FVOCI	-	-	-	-	-	(175,117)	-	(175,117)
Translation of foreign operations	-	-	-	-	-	-	(9,944)	(9,944)
Balance as of December 31, 2024	5,427,795	$ 110,742,984	$ 7,698,304	**$ 3,776,428**	$ (117,465,829)	$ (609,420)	$ 479,316	$ 4,621,783

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

Draganfly Inc.
Statement of Cash Flows
Expressed in Canadian Dollars

	For the years ended December 31, 2024	2023	2022
OPERATING ACTIVITIES			
Net loss for the year	**$ (13,877,473)**	$ (23,611,810)	$ (27,654,364)
Adjustments for:			
Amortization	**11,285**	35,960	179,482
Depreciation	**565,806**	510,677	593,277
Bad debt	**186,627**	216,238	-
Change in fair value of derivative liability	**(1,842,618)**	(211,110)	(5,502,688)
Write down of inventory	**627,106**	331,671	1,976,514
(Recovery) impairment of notes receivable	**(40,020)**	101,351	309,385
Impairment of goodwill and intangibles	**-**	87,415	6,454,914
Write down of deposit	**-**	-	228,572
Finance and other costs	**1,443,740**	920,008	(34,427)
(Gain) loss on sale of assets	**11,432**	18,426	-
Share-based payments	**1,182,618**	2,021,664	3,311,024
	(11,731,497)	(19,579,510)	(20,138,311)
Net changes in non-cash working capital items:			
Receivables	**(266,418)**	1,223,112	(681,838)
Inventory	**(562,833)**	(872,265)	(150,241)
Prepaids	**617,702**	965,509	2,958,581
Trade payables and accrued liabilities	**(231,812)**	(464,441)	1,661,697
Customer deposits	**361,580**	(90,043)	22,624
Deferred income	**(20,993)**	43,984	(21,543)
Cash used in operating activities	**(11,834,271)**	(18,773,654)	(16,349,031)
INVESTING ACTIVITIES			
Purchase of equipment	**(167,257)**	(490,391)	(79,713)
Disposal of equipment	**103,923**	46,976	10,755
Purchase of intangible assets	**-**	-	(4,684)
Repayment (Issuance) of notes receivable	**40,020**	63,838	842,297
Cash provided by (used in) investing activities	**(23,314)**	(379,577)	768,655
FINANCING ACTIVITIES			
Proceeds from issuance of common shares for financing	**17,751,927**	17,474,107	-
Share issue costs	**(2,656,180)**	(2,690,278)	(5,122)
Proceeds from issuance of common shares for warrants exercised	**373,415**	-	87,170
Proceeds from issuance of common shares for stock options exercised	**-**	-	26,875
Repayment of loans	**(85,058)**	(6,747)	(6,746)
Repayment of lease liabilities	**(357,778)**	(330,159)	(150,275)
Cash provided by (used in) financing activities	**15,026,326**	14,446,923	(48,098)
Effects of exchange rate changes on cash	**(9,944)**	(94,861)	447,542
Change in cash	**3,168,741**	(4,706,308)	(15,628,474)
Cash and cash equivalents, beginning of year	**3,093,612**	7,894,781	23,075,713
Cash and cash equivalents, end of year	**$ 6,252,409**	$ 3,093,612	$ 7,894,781

The following are included in cash flow from operating activities:			
Interest paid in cash	**$ 67,856**	$ 57,041	$ 51,338
Share issue costs in accounts payable	**25,695**	293,661	-

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

Expressed in Canadian Dollars

1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN

Draganfly Inc. (the "Company") was incorporated on June 1, 2018 under the Business Corporations Act (British Columbia). The Company 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'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 "3U8A". The Company's head office is located at 235 103rd St. E, Saskatoon, SK, S7N 1Y8 and its registered office is located at 2800 – 666 Burrard Street, Vancouver, BC, V6C 2Z7.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. To date, the Company has not been profitable and has an accumulated deficit of $117,465,829. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and or achieve profitable operations in the future. These factors raise substantial doubt over the Company's ability to continue as a going concern. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretation Committee ("IFRIC"). The material accounting policy information set out below was consistently applied to all years presented unless otherwise noted.

These consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2025.

Basis of consolidation

Each subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues 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. ("DII")	Canada	100%
Draganfly Innovations USA, Inc. ("DI USA")	US	100%
Dronelogics Systems Inc. ("Dronelogics")	Canada	100%

All intercompany balances and transactions were eliminated on consolidation.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

Adoption of new policy

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units for equity treatment warrants, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the common shares. If the proceeds from the offering are less than or equal to the estimated fair market value of common shares issued, no value is assigned to the warrants. Warrants that are issued as payment to a finder or other transaction costs are accounted for as share-based payments.

Foreign currency translation

Transactions in foreign currencies are translated into the functional currency 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. Gains and losses resulting from foreign exchange adjustments are included in profit or loss.

The functional currencies of 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 revenue 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 translation of foreign operations in other comprehensive loss.

Share-based payments

The Company may grant stock options or restricted share units ("RSU's") to its directors, officers, employees and consultants. The Company records share-based compensation related to stock options using the Black-Scholes Option Pricing Model.

The RSU's granted entitle an employee, director or officer to either the issuance of common shares or cash payments payable upon vesting with terms determined by the Company's Board of Directors at the time of the grant. If on the grant date it is determined there is an obligation to settle in cash, the RSU's are accounted for as liabilities, with the fair value remeasured at the end of each reporting period and on the settlement date. Changes in fair value are recognized in profit and loss. Expense is recognized over the vesting period.

The Company has a present obligation to settle in cash if the choice of settlement in shares has no commercial substance, or the Company has a past practice or a stated policy of setting in cash, or generally settles in cash whenever the counterparty asks for cash settlement. If no such obligation exists, RSUs are accounted for as equity settled share-based payments and are valued using the share price on grant date. Upon settlement:

a) If the Company elects to settle in cash, the cash payment is accounted for as the repurchase of an equity interest (i.e. as a deduction from equity), except as noted in (c) below.
b) If the Company elects to settle by issuing shares, the value of RSUs initially recognized in reserves is reclassified to share capital, except as noted in (c) below.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

c) If the Company elects the settlement alternative with the higher fair value, as at the date of settlement, the Company recognizes an additional expense for the excess value given (i.e. the difference between the cash paid and the fair value of shares that would otherwise have been issued, or the difference between the fair value of the shares and the amount of cash that would otherwise have been paid, whichever is applicable).

The aggregate sales price or amount of common shares issued during any consecutive 12-month period will not exceed the greatest of the following: (i) USD $1,000,000; (ii) 15% of the total assets of the Company, measured at the Company's most recent balance sheet date; or (iii) 15% of the outstanding amount of the common shares of the Company, measured at the Company's most recent balance sheet date. At the election of the Board of Directors, upon each vesting date, participants receive (a) the issuance of common shares from treasury equal to the number of RSUs vesting, or (b) a cash payment equal to the number of vested RSUs multiplied by the fair market value of a common share, calculated as the closing price of the common shares on the CSE for the trading day immediately preceding such payment date; or (c) a combination of (a) and (b).

In conjunction with private placements or brokered financings, the Company may issue compensatory warrants to agents as consideration for services provided. Awards of grants are accounted for in accordance with the fair value method of accounting and result in an increase in share issue costs and a credit to warrants within shareholders' equity when warrants are issued.

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 year.

Diluted income per share is calculated by dividing the profit attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares. The Company had 3,717,502 warrants, 31,204 options and 188,100 RSU's that would be potentially dilutive if the Company were not in a loss position and were to calculate diluted income per share.

Financial Instruments

Financial instruments are accounted for in accordance with IFRS 9 Financial Instruments: Classification and Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets/liabilities	Classification
Cash and cash equivalents	Fair value through profit or loss
Receivables	Amortized cost
Notes receivable	Fair value through profit or loss
Investments	Fair value through other comprehensive income
Trade payables	Amortized cost
Customer deposits	Amortized cost
Loans payable	Amortized cost
Derivative liability	Fair value through profit or loss

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

a) *Financial assets*

Classification and measurement

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

The classification of debt instruments is driven by the business model for managing the financial assets and their contractual cash flow characteristics. Debt instruments are measured at amortized cost if the business model is to hold the instrument for collection of contractual cash flows and those cash flows are solely principal and interest. If the cash flows are not solely principal and interest, 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 recorded to profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of financial assets held at FVTPL are included in the profit or loss in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Financial assets at FVTOCI

Financial assets carried 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 the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recorded to profit or loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

b) Financial liabilities

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

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 payable are included in this category.

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 recognized in profit or loss.

Impairment of non-financial assets

The carrying amounts of the 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; and
- an intangible asset not yet available for use;

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.

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 profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

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 taxes 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.

Inventory

Inventory consists of raw materials and finished goods 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. Cost is determined using the first-in-first-out method. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of purchase include the purchase price, import duties and non-recoverable taxes and transport, handling and other costs directly attributable to the acquisition of finished goods, materials or services. The costs of conversion include direct materials and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods. 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. The control transfer occurs in proximity to shipping. Revenue is recognized when the transfer of control has occurred.

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 to 60 days, which is consistent with market practice.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

Some contracts include multiple performance obligations, such as the sale of hardware and support or maintenance. Where support or maintenance is performed by another party and does not include an integration service it is accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on stand-alone selling price. Where the stand-alone selling price is not directly observable, the price is estimated based on expect cost plus margin. Where the support or maintenance is provided by the Company, the contract is analyzed to identify the performance obligations and transaction price. The price is then allocated across the obligations identified in the contract. Revenue is recognized when the Company satisfies a performance obligation.

<u>Services</u>
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 over time as the services are rendered.

The Company provides rental of equipment which is measured based on rates through contracts or other written agreements with customers. Revenue is recognized in the period when services are performed and only when there is reasonable assurance that the revenue will be collected.

Deferred Income

A payment received is included as deferred revenue when products have yet be shipped to the customers as of the period end or there are unfulfilled obligations related to the revenue received. The amount to be recognized within twelve months following the year-end date is classified as current.

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, 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 include intellectual property, which consists of patent and trademark applications, brands and software.

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

Class of intangible asset	**Useful live**
Customer relationships	5 years
Software	5 years
Patents	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 in a business combination. Goodwill is allocated to the cash generating unit to which it relates.

Equipment

On January 1, 2024, there was change in estimate related to the useful lives of computer equipment and furniture and equipment with the depreciation changing from 30% declining balance to 3 year straight line for computer equipment and from 20% declining balance to 5 year straight line for furniture and equipment. The impact of this change in estimate in 2024 resulted in an increase in depreciation of $54, 220. It is not practical to quantify the impact on future years, but the change in estimate will result in the assets currently on the books related to this change in estimate depreciating faster over a shorter time frame.

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 consolidated 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 consolidated statement of comprehensive loss.

Depreciation is generally calculated on a straight-line balance method with the exception of vehicles that are 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	3 years – straight line
Furniture and equipment	5 years – straight line
Leasehold improvements	Expected lease term
Vehicles	30% - declining balance

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

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. The Company can also 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.

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 is 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 plus periods covered by an optional lease extension option if it is reasonably certain that 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 is 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.

Newly adopted accounting standards

On January 1, 2024 the Company adopted amendments to IAS 1, *Presentation of Financial Statements,* issued by IASB. The amendment is to clarify the classification of a liability as either current or non-current based on the Company's right at the end of the reporting period. There is no material impact on the disclosures or amounts reported in the consolidated financial statements.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

New accounting standards issued not yet effective

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosures in Financial Statements*, to replace IAS 1, *Presentation of Financial Statements*, effective January 1, 2027, with early adoption permitted. The new standard is aimed to set out overall requirements for presentation and disclosures in the financial statements. Management is reviewing the impact the standard will have on the consolidated financial statements.

In May 2024, the IASB issued amendments to IFRS 9, *Financial Instruments*, and IFRS 7, *Financial Instruments: Disclosures* to address the classification and measurement of financial instruments, with an emphasis to clarify the date of recognition and derecognition of financial asset and liabilities, effective January 1, 2026, with early adoption permitted. Management is reviewing the impact of these amendments, but they are not expected to have a material impact on the consolidated financial statements.

3. MANAGEMENT JUDGEMENT AND ASSUMPTIONS

Significant estimates and assumptions

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

Share-based payments

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

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 less costs to sell. 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.

3. MANAGEMENT JUDGEMENT AND ASSUMPTIONS (CONT'D)

Investments in Private companies

Where the fair value of investments in private companies recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair value and this value may not be indicative of the eventual recoverable value.

Expected credit losses on trade receivables and notes receivable

When determining expected credit losses ("ECLs"), the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL's, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, informed credit assessment and forward-looking information.

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 applied to 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 determination of the functional currency of each entity in the group.

Expressed in Canadian Dollars

4. RECEIVABLES

As at		**December 31, 2024**		December 31, 2023
Trade accounts receivable	**$**	**674,998**	$	610,443
Sales tax receivable		**54,592**		39,169
	$	**729,590**	$	649,612
Current portion	**$**	**573,390**	$	649,612
Long term portion		**156,200**		-
	$	**729,590**	$	649,612

Provision for doubtful accounts

Balance at December 31, 2022		73,257
Increase during the year		216,238
Balance at December 31, 2023		**289,495**
Increase during the year		140,011
Balance at December 31, 2024	**$**	**429,506**

During the year ended December 31, 2024 the Company recorded a provision for doubtful accounts of $140,011 (2023 - $216,238).

The long-term receivable represents a refundable deposit that the Company has asked to have returned. The agreement allows for a two-year repayment term once the request has been made. Funds were requested in April of 2024.

The Company applies a direct customer analysis approach to measure expected credit losses. The Company assesses collectability of receivables of each customer on an individual basis using quantitative and qualitative information available to management. The historical loss rates are adjusted to reflect the current and forward-looking information on economic factors affecting the ability of the customers to make regular monthly payments on the receivables.

Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include business closure and/or the failure to make monthly contractual payments.

5. INVENTORY

		December 31, 2024		December 31, 2023
Finished goods	**$**	**954,453**	$	904,858
Parts		**577,810**		691,678
	$	**1,532,263**	$	1,596,536

During the year ended December 31, 2024, $4,529,655 (2023 - $3,738,980; 2022 – $6,048,348) of inventory was recognized in cost of sales including an allowance for obsolete and slow-moving inventory of $627,106 (2023 - $331,671; 2022 - $1,976,514).

Expressed in Canadian Dollars

5. INVENTORY (CONT'D)

Cost of sales consist of the following:

		December 31, 2024		December 31, 2023		December 31, 2022
Inventory	**$**	**4,529,655**	$	3,738,980	$	6,048,348
Consulting and services		**451,984**		549,448		730,170
Other		**181,212**		202,300		35,866
	$	**5,162,851**	$	4,490,728	$	6,814,384

6. PREPAIDS AND DEPOSITS

		December 31, 2024		December 31, 2023
Insurance	**$**	**370,609**	$	838,445
Prepaid other		**112,439**		142,124
Deposits		**241,465**		361,646
	$	**724,513**	$	1,342,215

7. INVESTMENTS

Balance at December 31, 2022		192,583
Change in fair value		(3,180)
Balance at December 31, 2023		**189,403**
Change in fair value		(175,117)
Balance at December 31, 2024	**$**	**14,286**

Fair value of investments is comprised of:

Public company shares	$	14,286
Private company shares		-
Balance at December 31, 2024	**$**	**14,286**
Public company shares	$	57,143
Private company shares		132,260
Balance at December 31, 2023	**$**	**189,403**

Expressed in Canadian Dollars

7. INVESTMENTS (CONT'D)

The Company holds 1,428,571 common shares (2023 – 1,428,571) and nil (2023 – 1,428,571) warrants of Windfall Geotek Inc. a publicly traded company. At December 31, 2024 the fair value of the shares was based on the quoted price of $0.01 (2023 - $0.04). As of the issue date of these consolidated financial statements the quoted price of the shares was $0.015. The warrants expired on March 17, 2023. The fair values of the warrants as of December 31, 2022 were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	December 31, 2022
Risk free interest rate	**4.07%**
Expected volatility	**116.00%**
Expected life	**0.21 years**
Expected dividend yield	**0%**

On October 27, 2021, the Company purchased 50,000 common shares of a private company for USD$100,000. In determining the fair value of the investment (classified at level 3 in the fair value hierarchy), the Company considers if observable market data exists on a quarterly basis to value the investment. In September 2024 the state of Pennsylvania filed a law suit against this private company for non-performance at a value that would bring into question any future value of the investment. The Company determined the fair value of the investment was $nil at December 31, 2024.

8. EQUIPMENT

	Computer Equipment	Furniture and Equipment	Leasehold Improvements	Software	Vehicles	Total
Cost						
Balance at December 31, 2022	$ 95,662	$ 834,453	$ -	$ -	$ 36,033	$ 966,148
Additions	58,611	320,943	86,530	-	24,310	490,394
Disposals	(21,000)	(115,204)	-	-	-	(136,204)
Balance at December 31, 2023	$ 133,273	$ 1,040,192	$ 86,530	$ -	$ 60,343	$ 1,320,338
Additions	**6,876**	**137,562**	**2,359**	**-**	**-**	**146,797**
Disposals	**(9,821)**	**(180,338)**	**-**	**-**	**-**	**(190,159)**
Balance at December 31, 2024	**$ 130,328**	**$ 997,416**	**$ 88,889**	**$ -**	**$ 60,343**	**$ 1,276,976**
Accumulated depreciation						
Balance at December 31, 2022	$ 41,998	$ 502,790	$ -	$ -	$ 16,669	$ 561,457
Charge for the year	22,762	112,361	6,790	-	12,497	154,410
Disposals	(6,582)	(69,748)	-	-	-	(76,330)
Balance at December 31, 2023	$ 58,178	$ 545,403	$ 6,790	$ -	$ 29,166	$ 639,537
Charge for the year	**37,881**	**143,885**	**17,845**	**-**	**9,354**	**208,965**
Disposals	**(3,383)**	**(97,685)**		**-**	**-**	**(101,068)**
Balance at December 31, 2024	**$ 92,676**	**$ 591,603**	**$ 24,635**	**$ -**	**$ 38,520**	**$ 747,434**
Net book value:						
December 31, 2023	$ 75,095	$ 494,789	$ 79,740	$ -	$ 31,177	$ 680,801
December 31, 2024	**$ 37,652**	**$ 405,813**	**$ 64,254**	**$ -**	**$ 21,823**	**$ 529,542**

Expressed in Canadian Dollars

9. INTANGIBLE ASSETS

	Patents	Customer Relationships	Software	Total
Cost				
Balance at December 31, 2022	$ 41,931	$ 197,000	$ 123,683	$ 362,614
Impairment	-	(87,415)	-	(87,415)
Balance at December 31, 2023	$ 41,931	$ 109,585	$ 123,683	$ 275,199
Impairment	**-**	**-**	**-**	**-**
Balance at December 31, 2024	**$ 41,931**	**$ 109,585**	**$ 123,683**	**$ 275,199**
Accumulated amortization				
Balance at December 31, 2022	$ 41,931	$ 87,731	$ 53,151	$ 182,813
Charge for the year	-	21,854	14,106	35,960
Balance at December 31, 2023	$ 41,931	$ 109,585	$ 67,257	$ 218,773
Charge for the year	-	-	11,285	11,285
Balance at December 31, 2024	**$ 41,931**	**$ 109,585**	**$ 78,542**	**$ 230,058**
Net book value:				
December 31, 2023	$ -	$ -	$ 56,426	$ 56,426
December 31, 2024	**$ -**	**$ -**	$ 45,141	**$ 45,141**

10. RIGHT OF USE ASSETS

	Total
Cost	
Balance at 2022	$ 683,117
Additions	740,355
Balance at December 31, 2023	$ 1,423,472
Foreign exchange	**31,567**
Balance at December 31, 2024	$ **1,455,039**
Accumulated depreciation	
Balance at December 31, 2022	$ 338,371
Charge for the year	363,086
Foreign exchange	328
Balance at December 31, 2023	$ 701,785
Charge for the year	**356,841**
Foreign exchange	**24,069**
Balance at December 31, 2024	**$ 1,082,695**
Net book value:	
December 31, 2023	$ 721,687
December 31, 2024	**$ 372,344**

Expressed in Canadian Dollars

10. RIGHT OF USE ASSETS (CONT'D)

The consolidated statement of financial position shows the following amounts related to leases:

		December 31, 2024		December 31, 2023
Buildings	$	**372,344**	$	721,687

Additions to the right of the assets during the 2024 financial year were $nil (2023 - $740,355).

11. LEASE LIABILITES

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 11.7% to 13.3%.

		Total
Balance at December 31, 2022	$	378,643
Additions		734,903
Interest expense		96,423
Lease payments		(423,410)
Foreign exchange		3,464
Balance at December 31, 2023	$	790,023
Interest expense		**65,378**
Lease payments		**(423,157)**
Foreign exchange		**(4,223)**
Balance at December 31, 2024	**$**	**428,021**

Which consists of:

		December 31, 2024		December 31, 2023
Current lease liability	$	**154,147**	$	362,001
Non-current lease liability		**273,874**		428,022
Ending balance	$	**428,021**	$	790,023

Maturity analysis		**December 31, 2024**		December 31, 2023
Less than one year	$	**190,856**	$	429,948
One to three years		**282,419**		355,879
Four to five years		**71,836**		141,519
Total undiscounted lease liabilities		**545,111**		927,346
Amount representing interest		**(117,090)**		(137,323)
	$	**428,021**	$	790,023

Variable lease payments of $77,626 (2023 - $43,542) have been recognized in profit and loss.

Expressed in Canadian Dollars

12. TRADE PAYABLES AND ACCRUED LIABILITIES

		December 31, 2024		December 31, 2023
Trade accounts payable	$	**609,869**	$	1,259,623
Accrued liabilities		**1,789,318**		1,345,649
Government grant payable		**-**		33,709
	$	**2,399,187**	$	2,638,981

13. DEFERRED INCOME

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

		December 31, 2024		December 31, 2023
Deferred, revenue beginning	$	**107,674**	$	63,690
Revenue recognized		**(21,852)**		(64,816)
Unearned revenues received		**1,744**		108,800
Foreign exchange		**(885)**		-
	$	**86,681**	$	107,674
Current portion	$	**18,542**	$	12,112
Long term portion		**68,139**		95,562
	$	**86,681**	$	107,674

Deferred revenue of $18,542 as of December 31, 2024 is expected to be recognized as revenue within one year. The remaining is related to a long-term support and maintenance arrangement and will be recognized according to the terms of that arrangement over the next 5 years.

14. LOANS PAYABLE

		December 31, 2024		December 31, 2023
Opening balance	$	**85,058**	$	86,571
Repayment of loans payable		**(85,058)**		(6,747)
Accretion expense		**-**		5,234
Ending balance	$	**-**	$	85,058

	Start Date	Maturity Date	Rate		Carrying Value December 31, 2024		Carrying Value December 31, 2023
CEBA	2020-05-19	2024-03-28	0%	$	-	$	40,000
CEBA	2021-04-23	2024-03-28	0%		-		40,000
Vehicle loan	2019-08-30	2024-09-11	6.99%		-		5,058
Total				$	**-**	$	85,058

14. LOANS PAYABLE (CONT'D)

On May 19, 2020, Dronelogics received a $40,000 CEBA loan. This loan was interest-free and 25% of the loan, up to $10,000, was forgivable if the loan was repaid on or before January 18, 2024. The repayment date was extended by the Government of Canada to March 28, 2024 and was fully repaid by the due date.

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 January 18, 2024. The repayment date was extended by the Government of Canada to March 28, 2024 and was fully repaid by the due date.

The CEBA loans were unsecured, and the vehicle loan was secured by the vehicle.

15. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the year ended December 31, 2024,

- The Company issued 25,353 common shares for the vesting of restricted share units.
- The Company issued 1,991,668 common shares for the exercise of warrants
- On February 26, 2024, the Company issued 448,000 units consisting of one common share and one warrant and 88,000 units consisting of one prefunded warrant and one warrant in a financing for $4,877,475 with share issuance costs of $752,498 for net proceeds of $4,124,977. Of the total share issuance costs $441,166 was expensed in other income (expense). The value of the issuance was allocated $2,017,966 to the shares, and $2,859,509 to the warrants, including $431,084 allocated to prefunded warrants. The prefunded warrants were exercised on the date of issue. On March 27, 2024, the exercise price of the warrants was amended to US$0.1761 from the original exercise price of USD $0.36 due to a one time exercise price reset Post share consolidation, the new exercise price is US$4.4025.
- 36,000 shares were returned to treasury that were held in escrow related to the Vital Intelligence Inc. acquisition for failure to meet required milestones. The shares had a carrying value of $nil on cancellation.
- On April 29, 2024, the Company issued 282,541 units consisting of one common share and one warrant and 258,000 units consisting of one prefunded warrant and one warrant in a financing for $4,882,168 with share issuance costs of $779,615 for net proceeds of $4,102,553. Of the total share issuance costs $671,747 was expensed in other income (expense). The value of the issuance was allocated $396,137 to the shares, and $4,422,815 to the warrants, including $1,248,343 allocated to prefunded warrants.
- On August 21, 2024, the Company issued 346,667 units consisting of one common share and one warrant, and 320,000 units consisting of one prefunded warrant and one warrant in a financing for $2,720,050 with share issue costs of $343,676 for net proceeds of $2,376,374. The value of the issuance was allocated $160,076 to the shares, and $2,559,974 to the warrants including $591,265 allocated to prefunded warrants.
- On November 19, 2024 the Company issued 400,000 units consisting of one common share and one warrant and 1,200,000 units consisting of one prefunded warrant and one warrant in a financing for $5,272,234 with share issue costs of $755,387 for net proceeds of $4,516,837. The value of the issuance was allocated $329,515 to the shares and $4,942,719 to the warrants including $1,977,088 allocated to the prefunded warrants.

Expressed in Canadian Dollars

15. SHARE CAPITAL (CONT'D)

During the year ended December 31, 2023,

- The Company issued 60,332 common shares for the vesting of restricted share units.
- The Company issued 320,000 common shares in a financing for $10,856,166 with share issuance costs of $1,953,032 for net proceeds of $8,903,134.
- The Company issued 26,030 common shares in an ATM ("At – the - market") financing for $1,748,946 with share issuance costs of $222,136 for net proceeds of $1,526,810.
- The Company issued 192,000 common shares in a financing for proceeds of $4,858,995 with share issuance costs of $913,833 for net proceeds of $3,945,162. Of the total share issuance costs $793,979 were expensed in other income (expense). Value of the issuance was allocated $520,064 to the shares and $4,338,931 to derivative liability

Share consolidation

On September 5, 2024 the Company effected a 25:1 share consolidation. All share, warrant, option and RSU numbers in these financial statements are shown post consolidation, including exercise prices, unless otherwise noted.

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 15% (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, 2024, 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	$	62.50	4.82	11,130	11,130
November 19, 2019	November 19, 2029	$	62.50	4.87	2,000	2,000
April 30, 2020	April 30, 2030	$	62.50	5.32	320	320
April 30, 2020	April 30, 2030	$	96.25	5.32	4,400	4,400
July 3, 2020	July 3, 2025	$	80.00	0.50	4,000	4,000
November 24, 2020	November 24, 2030	$	62.50	5.89	1,280	1,280
February 2, 2021	February 2, 2031	$	330.00	6.08	1,200	1,200
March 8, 2021	March 8, 2026	$	347.50	1.18	400	400
April 27, 2021	April 27, 2031	$	253.75	6.31	4,640	4,640
September 9, 2021	September 9, 2026	$	121.00	1.69	1,034	1,034
November 9, 2023	November 9, 2033	$	15.75	8.84	1,200	800
					31,604	**31,204**

Expressed in Canadian Dollars

15. SHARE CAPITAL (CONT'D)

	Number of Options		Weighted Average Exercise Price
Outstanding, December 31, 2022	35,154	$	115.00
Exercised	(400)		53.75
Issued	1,200		15.65
Outstanding, December 31, 2023	35,954	$	112.00
Forfeited	**(4,350)**		**106.83**
Outstanding, December 31, 2024	**31,604**	**$**	**112.05**

No options were granted by the Company for the year ended December 31, 2024.

During the year ended December 31, 2023,

- The Company granted 1,200 options to an advisor to the board. Each option is exercisable at $15.75 per share for 10 years.

During the year ended December 31, 2024, the Company recorded $60,803 (2023- $151,174) in stock-based compensation in relation to the vesting of stock options. The fair values of stock options granted were estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Year ended December 31,		**December 31, 2024**		December 31, 2023
Risk free interest rate		-		4.58%
Expected volatility		-		115.1%
Expected life		-		10
Expected dividend yield		-		0%
Exercise price	**$**	-	$	15.75

Restricted Share Units

The Company has adopted an incentive share compensation plan, which provides that the Board of Directors of the Company 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). 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, 2024, the Company had the following RSUs outstanding:

	Number of RSU's
Outstanding, December 31, 2022	47,982
Vested	(60,331)
Issued	67,413
Forfeited	(10,519)
Outstanding, December 31, 2023	44,545
Vested	**(25,353)**
Issued	**185,240**
Forfeited	**(16,332)**
Outstanding, December 31, 2024	**188,100**

15. SHARE CAPITAL (CONT'D)

During the year ended December 31, 2024, 25,353 RSU's fully vested according to the terms and the Company granted 185,240 RSUs to employees and consultants of the Company with each RSU exercisable into one common share of the Company upon the vesting conditions being met for a period of eighteen months to 3 years from the grant date. In addition, 16,326 RSU's were forfeited by employees who have left the Company.

During the year ended December 31, 2023, 60,331 RSU's fully vested according to the terms and the Company granted 72,839 RSUs to employees and consultants of the Company with each RSU exercisable into one common share of the Company upon the vesting conditions being met for a period of eighteen months from the grant date. In addition, 10,519 RSU's were forfeited by employees who have left the Company.

During the year ended December 31, 2024, the Company recorded share-based payment expense of $1,121,815 (2023: $1,866,490) for RSU's, based on the fair values of RSU's granted which are calculated using the closing price of the Company's stock on the day prior to grant.

Warrants

During the year ended December 31, 2024 and the year ended December 31, 2023, the Company issued pre-funded warrants ("USD pre-funded Warrants") where a portion of the funds related to the eventual exercise have already been received with the remaining exercise price in USD. As part of these same issuances, shares with warrants attached were issued. Being in a foreign currency that is not the Company's functional currency and these pre-funded warrants were not issued in exchange for services, the value related to the future exercise price of the USD pre-funded Warrants are required to be recorded as a financial liability and not as equity. As a financial liability, the portion of the USD pre-funded Warrants related to the future exercise price will be revalued on a quarterly basis to fair market value with the change in fair value being recorded in profit or loss. The warrants issued with the shares are also in USD so are also accounted for as a liability. In addition, the Company also issued pre-funded warrants with an exercise price in Canadian dollars ("Pre-funded Warrants"). These are also treated as a liability as the agreement contains clauses that do not meet the fixed for fixed test. As a financial liability, the portion of the Pre-funded Warrants related to the future exercise price will be revalued on a quarterly basis to fair market value with the change in fair value being recorded in profit or loss. The warrants issued with the shares are also accounted for as a liability as these also contain clauses that do not meet the fixed for fixed test.

On August 7, 2024, the exercise price of the April 29, 2024 warrants were amended to CAD $0.2250 or CAD $5.625 on a post share consolidation basis. The exercise price of the October Warrants was reduced twice and converted to Canadian dollars for a new exercise price of CAD $5.6925. For the October 2023 issuance and the April 2024 issuance, the warrant agreements were further amended as of August 7, 2024 to remove the cashless exercise feature and any anti-dilution clauses that would lead to variability in settlement so they now meet the requirement for equity classification. The warrants were fair valued on August 7, 2024 and transferred to equity.

On November 19, 2024 the exercise prices of the April 2024 warrants and the October 2023 warrants were amended to CAD$3.3086 from CAD$5.625 and CAD$5.6925 respectively.

The warrants issued as part of the August 2024 issuance and the November 2024 issuance were issued with a CAD exercise price, no cashless exercise feature and no anti-dilution clauses that would lead to variability in settlement.

To determine the a fair value of the warrants, a Black Scholes calculation is used, calculated in USD for those with a USD exercise price and in CAD for those with a Canadian exercise price. The Black Scholes value per warrant is then multiplied by the number of outstanding warrants and then multiplied by the foreign exchange rate at the end of the period for those denominated in USD.

Expressed in Canadian Dollars

15. SHARE CAPITAL (CONT'D)

	February Issuance		April Issuance		August Issuance	November Issuance
	Warrants	Broker	Warrants	Broker	Broker	Broker
Volatility	119.23%	107.8%	119.80%	108.67%	118.87%	115.27%
Risk free rate	4.33%	4.48%	4.65%	4.62%	3.74%	4.24%
Expected life	5 years	3 years	5 years	3 years	3 years	3 years
Expected dividend yield	0%	0%	0%	0%	0%	0%

Warrant Derivative Liability

Balance at December 31, 2022	$	-
Warrants issued		3,985,015
Change in fair value of warrants outstanding		211,110
Balance at December 31, 2023	$	4,196,125
Warrants issued		**7,282,325**
Exercised		**(3,661,283)**
Change in fair value of warrants outstanding		**(1,842,618)**
Reclassify to equity		**(3,776,428)**
Balance at December 31, 2024	**$**	**2,198,121**

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

Issue Date	Exercise Price	Number of Warrants Outstanding at December 31, 2024		Fair Value at December 31, 2024	Number of Warrants Outstanding at December 31, 2023		Fair Value at December 31, 2023
Derivative Liability							
February 26, 2024 (1)	US$ 4.4025	474,332	$	2,198,121	-	$	-
October 30, 2023 (2)	CAD$ 5.6925	-		-	256,000		3,180,543
October 30, 2023 (3)	US$ 0.003	-		-	64,000		1,015,582
		474,332	**$**	**2,198,121**	320,000	$	4,196,125

1) The warrants expire February 26, 2029.
2) The warrant terms were amended and warrants were reclassified to equity August 7,2024
3) The warrants have no expiry date. They were exercised January 5, 2024.

Expressed in Canadian Dollars

15. SHARE CAPITAL (CONT'D)

Warrants	Exercise Price	Number of Warrants Outstanding at December 31, 2024	Number of Warrants Outstanding at December 31, 2023
October 30, 2023 (1)	CAD$ 3.3086	256,000	-
April 29, 2024 (2)	CAD$ 3.3086	540,541	-
August 21, 2024 (3)	CAD$ 5.12	666,667	-
November 19, 2024 (4)	CAD$ 3.3086	1,600,000	-
		3,063,208	-

1) The warrants expire October 30, 2028. These were moved from derivative liability August 7, 2024.
2) The warrants expire April 29, 2029. These were moved from derivative liability August 7, 2024.
3) The warrants expire August 21, 2029.
4) The warrants expire November 19, 2029

The fair values of the derivative warrants were estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	December 31, 2024	December 31, 2023
Risk free interest rate	**4.38%**	3.84%
Expected volatility	**124.06%**	113.78%
Expected life	**4.16 years**	4.8 years
Expected dividend yield	**0%**	0%

	Number of Warrants	**Weighted Average Exercise Price**
Outstanding, December 31, 2022	316,672 $	147.53
Exercised	(306,480)	20.66
Issued	332,800	153.52
Outstanding, December 31, 2023	342,992 $	15.75
Issued	**5,376,370**	**3.35**
Exercised	**(1,991,668)**	**0.9596**
Expired	**(10,192)**	**125.00**
Outstanding December 31, 2024	**3,717,502 $**	**5.16**

Expressed in Canadian Dollars

15. SHARE CAPITAL (CONT'D)

As at December 31, 2024, the Company had the following warrants outstanding:

Date issued	Expiry date	Exercise price		Number of warrants outstanding
October 30, 2023	October 30, 2026	CAD$	23.20	12,800
October 30, 2023	October 30, 2028	CAD$	3.3086	256,000
February 26, 2024	February 26, 2027	US$	8.44	26,800
February 26, 2024	February 26, 2029	US$	4.4025	474,332
April 29, 2024	April 29, 2029	CAD$	3.3086	540,541
April 29, 2024	April 29, 2024	CAD$	11.06	27,028
August 21, 2024	August 21, 2027	CAD$	5.12	33,334
August 21, 2024	August 21, 2029	CAD$	5.12	666,667
November 19, 2024	November 19, 2029	CAD$	3.3086	1,600,000
November 19, 2024	November 19, 2027	CAD$	4.1357	80,000
				3,717,502

The weighted average remaining contractual life of warrants outstanding as of December 31, 2024, was 4.50 years (December 31, 2023 – 4.63 years).

16. SEGMENTED INFORMATION

As at and for the year ended December 31, 2024 the Company operates in 2 reportable segments (as at and for the year ended December 21, 2023 – 3). The Company organizes its two segments based on its product line as well as a corporate segment. The two segments are Drones and Corporate. The Drones segment derives its revenue from products and services related to the sale of unmanned aerial vehicles (UAV) while the Corporate segment includes all costs not directly associated with the Drone segment. The Company aggregates the information for the segments by analyzing the revenue stream and allocating direct costs to that respective segment. The Corporate segment is aggregated by relying on the entity that includes corporate costs (Draganfly Inc.). The Vital segment derived its revenue from the sale of products that measure vitals to help detect symptoms from large groups of people from a distance and will no longer be an operating segment going forward. The Vital product was developed to address COVID-19 during the pandemic which has since waned and as a result, is no longer a core focus of the Company.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of the Company relies on executive management which assesses the financial performance and position of the group and makes strategic decisions. Executive management, which has been identified as being the chief operating decision maker, consists of the chief executive officer, chief operating officer and chief financial officer.

Expressed in Canadian Dollars

16. SEGMENTED INFORMATION (CONT'D)

December 31, 2024	**Drones**	**Vital**	**Corporate**	**Total**
Sales of goods	$ 5,368,476	$ -	$ -	$ 5,368,476
Provision of services	1,171,861	20,718	-	1,192,579
Total revenue	**$ 6,540,337**	**$ 20,718**	**$ -**	**$ 6,561,055**
Segment loss	$ 5,975,503	$ (20,718)	$ 4,728,628	$ 10,683,413
Finance and other costs	107,225	-	-	107,225
Depreciation	551,117	-	14,689	565,806
Amortization	11,285	-	-	11,285
Change in fair value of derivative liability	-	-	1,842,618	1,842,618
Loss (recovery) on write-off of notes receivable	-	-	40,020	40,020
Loss on write down of inventory	627,106	-	-	627,106
Net loss for the year	**$ 7,272,236**	**$ (20,718)**	**$ 6,625,955**	**$ 13,877,473**

December 31, 2023	**Drones**	**Vital**	**Corporate**	**Total**
Sales of goods	$ 4,905,417	$ 381,676	$ -	$ 5,287,093
Provision of services	1,267,749	-	-	1,267,749
Total revenue	**$ 6,173,166**	**$ 381,676**	**$ -**	**$ 6,554,842**
Segment loss	$ 14,743,176	$ (140,366)	$ 8,323,731	$ 22,926,541
Finance and other costs	(80,211)	-	(3,069)	(83,280)
Depreciation	499,530	-	11,147	510,677
Amortization	35,960	-	-	35,960
Change in fair value of derivative liability	-	-	(211,110)	(211,110)
Loss on write-off of notes receivable	-	-	101,351	101,351
Loss on write down of inventory	331,671	-	-	331,671
Net loss for the year	**$ 15,530,126**	**$ (140,366)**	**$ 8,222,050**	**$ 23,611,810**

December 31, 2022	**Drones**	**Vital**	**Corporate**	**Total**
Sales of goods	$ 5,388,262	$ 162,170	$ -	$ 5,550,432
Provision of services	2,054,627	-	-	2,054,627
Total revenue	**$ 7,442,889**	**$ 162,170**	**$ -**	**$ 7,605,059**
Segment loss	$ 9,929,789	$ 602,580	$ 12,926,884	$ 23,459,253
Finance and other costs	(3,529)	-	(40,816)	(44,345)
Depreciation	586,185	-	7,092	593,277
Amortization	179,482	-	-	179,482
Impairment of goodwill and intangibles	2,166,563	4,288,351	-	6,454,914
Change in fair value of derivative liability	-	-	(5,502,688)	(5,502,688)
Loss on write-off of notes receivable	1,080,645	-	(771,260)	309,385
Loss on write down of inventory	251,754	1,724,760	-	1,976,514
Write down of deposit	-	228,572	-	228,572
Net loss for the year	**$ 14,190,889**	**$ 6,844,263**	**$ 6,619,212**	**$ 27,654,364**

Expressed in Canadian Dollars

16. SEGMENTED INFORMATION (CONT'D)

Geographic segmentation is as follows:		**For the years ended December 31,**	
	2024	2023	2022
Non-current assets			
Canada	**$ 1,117,513**	$ 1,441,701	$ 1,121,821
United States	**-**	206,616	-
	$ 1,117,513	$ 1,648,317	$ 1,121,821
Revenue			
Canada	**$ 6,523,341**	$ 6,162,672	$ 6,919,038
United States	**37,714**	392,170	686,021
	$ 6,561,055	$ 6,554,842	$ 7,605,059

Geographic revenue is measured by aggregating sales based on the country and the entity where the sale was made.

17. OFFICE AND MISCELLANEOUS

		For the years ended December 31,	
	2024	**2023**	2022
Advertising, Marketing, and Investor Relations	**$ 710,821**	**$** 4,243,432	**$** 4,431,818
Compliance fees	**286,472**	193,250	152,826
Contract Work	**-**	772,003	441,798
Other	**856,285**	1,095,194	371,519
	$ 1,853,578	**$** 6,303,879	**$** 5,397,961

18. OTHER EXPENSE

		For the years ended December 31,	
	2024	**2023**	2022
Share issue costs	**$ 1,254,629**	$ 793,979	$ -
Write off of accounts receivable	**140,011**	187,942	-
Gain on settlement of debt	**-**	(33,004)	
Other	**13,169**	(5,674)	35,371
	$ 1,407,809	$ 943,243	$ 35,371

19. RELATED PARTY TRANSACTIONS

On August 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 at fees set out in the Agreement. For the year ended December 31, 2024, the Company incurred fees of $273,475 (December 31, 2023 - $429,766) which are included in professional fees. As at December 31, 2024, the Company was indebted to this company in the amount of $nil (December 31, 2023 - $3,780).

Expressed in Canadian Dollars

19. RELATED PARTY TRANSACTIONS (CONT'D)

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 and all fees are set in the Consultant Agreement. For the year ended December 31, 2024, the Company incurred fees of $487,688 (December 31, 2023 - $592,500) included in professional fees. As at December 31, 2024, the Company was indebted to this company in the amount of $nil (December 31, 2023 - $35,417).

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. On May 9, 2022, Scott Larson ceased to be President of the Company and entered into an agreement to provide executive consulting services to the Company and all fees are set in the consulting agreement. For the year ended December 31, 2024, the Company incurred fees of $116,266 (December 31, 2023 - $215,019) included in professional fees. As at December 31, 2024, the Company was indebted to this company in the amount of $23,931 (December 31, 2023 - $9,287).

Trade receivables/payables and accrued receivables/payables:

As at December 31, 2024, the Company had $208,963 (December 31, 2023 - $190,664) payable to related parties that was included in accounts payable. The balances outstanding are unsecured, non-interest bearing and due on demand.

Key management compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Compensation awarded to key management for the year ended December 31, 2024 and 2023 included:

	For the years ended December 31,		
	2024	2023	2022
Director fees	**$ 504,619**	$ 600,933	$ 522,349
Salaries	**998,951**	979,154	843,917
Share-based payments	**768,228**	1,109,232	2,106,906
	$ 2,271,798	$ 2,689,319	$ 3,473,172

Other related party transactions

	For the years ended December 31,		
	2024	2023	2022
Management fees paid to a company controlled by CEO and director	**$ 487,688**	$ 592,500	$ 566,487
Management fees paid to a company that the CEO holds an economic interest in	**273,475**	429,766	442,485
Management fees paid to a company controlled by a director	**116,266**	215,019	383,288
	$ 877,429	$ 1,237,285	$ 1,392,260

20. 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:

Expressed in Canadian Dollars

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

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party fails to meet its contractual obligations.

The Company is subject to credit risk on its cash and receivables. The Company limits its exposure to credit loss on cash by placing its cash with a high-quality financial institution. The Company performs credit evaluations of its customers.

Receivables

Receivables primarily consist of trade receivables, accrued receivables and taxes receivable. The Company provides credit in the normal course of business in the form of payment terms and has an established process for determining terms to offer customers to mitigate credit risk. Receivables are shown net of any provision made for impairment of the receivables. Due to this factor, the Company believes that no additional credit risk, beyond amounts provided for collection loss, is inherent in receivables.

Expected credit loss ("ECL") analysis is performed at each reporting date using an objective approach to measure expected credit losses. The provision amounts are based on direct management interface with the customer. The calculations reflect the probability-weighted outcome, the time value of money and reasonable supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, business failure, the failure of a debtor to engage in a repayment plan, and a failure to make contractual payments over the negotiated contract period.

The Company's aging of receivables was as follows:

		December 31, 2024		December 31, 2023
0 – 30 days	**$**	**346,979**	$	271,622
31 – 60 days		**150,575**		109,928
61 – 90 days		**32,002**		64,259
91 + days		**197,153**		203,803
	$	**726,709**	$	649,612

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.

Expressed in Canadian Dollars

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

The following is an analysis of the contractual maturities of the Company's financial liabilities at December 31, 2024:

	1 year	1 – 5 years	Total
Trade payables and accrued liabilities	$ **2,399,187**	$ -	$ 2,399,187
Customer deposits	**466,295**	-	466,295
Deferred income	**18,542**	68,139	86,681
Derivative liability	**2,198,121**	-	2,198,121
Lease liability	**154,147**	273,874	428,021
	$ 5,236,292	$ 342,013	$ 5,578,305

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.

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 loss upon consolidation as follows:

	December 31, 2024	December 31, 2023
Effect of a 10% change in USD	**$ 429,160**	$ 530,758

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

December 31, 2024	Level 1	Level 2	Level 3	Total
Equity securities in investee companies	$ 14,286	$ -	$ -	$ 14,286
Derivative liability	-	-	(2,198,121)	(2,198,121)
Total	**$ 14,286**	**$ -**	**$ (2,198,121)**	**$ (2,183,835)**

December 31, 2023	Level 1	Level 2	Level 3	Total
Equity securities in investee companies	$ 57,143	$ -	$ 132,260	$ 189,403
Derivative liability	-	-	(4,196,125)	(4,196,125)
Total	**$ 57,143**	**$ -**	**$ (4,063,865)**	**$ (4,006,722)**

Expressed in Canadian Dollars

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

The following table shows the valuation techniques used in measuring Level 3 fair values for the derivative liability as well as the significant unobservable inputs used.

Type	**Valuation technique**	**Key inputs**	**Inter-relationship between significant inputs and fair value measurement**
Warrant derivative liability	The fair value of the warrants derivative liability at initial recognition and at year end has been calculated using the Black Scholes Option Pricing Model	Key observable inputs • Share price • Risk free interest rate • Dividend yield Key unobservable inputs • Expected volatility	The estimated fair value would increase (decrease) if: • The price was higher (lower) • The risk-free rate was higher (lower) • The dividend yield was lower (higher) • The expected volatility was higher (lower)

For the fair value of the derivative liability, reasonable possible changes to the expected volatility, the most significant unobservable input would have the following effects:

Unobservable Inputs	Change	Impact on comprehensive loss	
		Year ended December 31, 2024	Year ended December 31, 2023
Volatility	20%	$ 201,109	$ 291,149

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 shareholders' equity.

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, 2023.

21. INCOME TAXES

The following table reconciles the expected income taxes at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of comprehensive loss for the years ended December 31, 2024, 2023 and 2021:

	December 31, 2024	December 31,2023	December 31, 2022
Loss before income taxes	**$ 13,877,473**	$ 23,611,810	$ 27,654,364
Canadian statutory rates	**27%**	27%	27%
Expected income tax recovery	**3,725,300**	6,330,400	7,338,900
Impact of different foreign statutory tax rates	**-**	-	-
Non-deductible items	**(99,400)**	(509,800)	(1,214,400)
Share issue costs	**779,600**	773,400	1,400
Adjustments to prior years provision versus statutory tax returns	**258,200**	(87,600)	(742,400)
Differences between prior year provision and final tax return	**-**	(153,400)	867,500
Change in deferred tax asset not recognized	**(4,663,700)**	(6,353,000)	(6,251,000)
Income tax	**$ -**	$ -	$ -

Expressed in Canadian Dollars

20. 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, 2024	December 31, 2023	December 31, 2022
Deferred income tax assets (liabilities):			
Share issuance costs	**$ 1,736,000**	$ 995,000	$ 568,000
Non-capital losses	**24,055,000**	20,377,000	14,602,000
Property and equipment	**457,000**	1,115,000	962,000
Capital gain reserve	**-**	-	-
Scientific Research and Experimental Development	**377,000**	365,000	367,000
Total deferred income tax assets	**$ 26,625,000**	$ 22,852,000	16,499,000
Deferred income tax not recognized	**(26,625,000)**	(22,852,000)	(16,499,000)
Net deferred tax assets	**$ -**	$ -	$ -

The Company has non-capital loss carry forward of approximately $80,922,670 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 2030 to 2044. The Company has non-capital loss carry forward of $8,662,723 CAD ($6,468,141 USD) which may be carried forward to apply against future year income tax for tax purposes in the United States, subject to the final determination by the tax authorities, expiring in the years 2040 to 2044.