



**Draganfly Inc.**

**Condensed Consolidated Interim Financial Statements - Unaudited**

**For the three and nine months ended September 30, 2019**

**(Expressed in Canadian Dollars)**

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

As at	Notes	September 30, 2019 (unaudited)	December 31, 2018
<b>ASSETS</b>			
Current Assets			
Cash		\$ 291,440	\$ 101,787
Accounts receivable	4	6,633,466	97,896
Inventory	5	44,155	61,185
Prepays		91,087	23,305
		<b>7,060,148</b>	<b>284,173</b>
Non-current Assets			
Subscriptions receivable	4	-	153,566
Equipment	6	36,155	55,178
Intellectual property	7	3,482	11,908
<b>TOTAL ASSETS</b>		<b>\$ 7,099,785</b>	<b>\$ 504,825</b>
<b>LIABILITIES</b>			
Current Liabilities			
Trade payables and accrued liabilities	8	\$ 2,901,675	\$ 2,586,087
Notes payable	9	685,479	844,304
Convertible debentures	10	374,167	1,207,043
Subscription receipts	11	7,025,750	-
<b>TOTAL LIABILITIES</b>		<b>10,987,071</b>	<b>4,637,434</b>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	11	20,827,137	12,561,342
Equity reserve	11	1,746,674	882,180
Accumulated deficit		(26,461,097)	(17,576,131)
<b>TOTAL SHAREHOLDERS' DEFICIENCY</b>		<b>(3,887,286)</b>	<b>(4,132,609)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		<b>\$ 7,099,785</b>	<b>\$ 504,825</b>

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

**Contingency** (Note 14)

**Subsequent Events** (Notes 1, 9, 10, 11, 17)

Approved and authorized for issuance by the Board of Directors on November 25, 2019

**"Scott Larson"**

Director

**"Cameron Chell"**

Director

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

**Draganfly Inc.**  
**Condensed Consolidated Interim Statements of Comprehensive Loss - Unaudited**  
**Expressed in Canadian Dollars**

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2019	2018	2019	2018
Revenue from sales of goods	12	\$ 96,009	\$ 47,000	\$ 189,613	\$ 318,999
Revenue from provision of services	12	354,934	223,227	699,294	793,952
<b>TOTAL REVENUE</b>		<b>450,943</b>	<b>270,227</b>	<b>888,907</b>	<b>1,112,951</b>
<b>COST OF SALES</b>		<b>(71,043)</b>	<b>(77,535)</b>	<b>(176,399)</b>	<b>(325,385)</b>
<b>GROSS PROFIT</b>		<b>379,900</b>	<b>192,692</b>	<b>712,508</b>	<b>787,566</b>
<b>OPERATING EXPENSES</b>					
Amortization	7	\$ 2,096	\$ 3,883	\$ 6,289	\$ 11,650
Depreciation	6	2,585	5,911	7,755	18,666
Office and miscellaneous		282,229	76,374	491,612	250,973
Professional fees		185,225	20,278	288,036	37,623
Research and development		1,775	1,753	11,602	1,884
Travel		8,971	365	14,657	5,994
Wages and salaries		200,896	221,180	696,724	710,853
		<b>(683,777)</b>	<b>(329,744)</b>	<b>(1,516,675)</b>	<b>(1,037,643)</b>
<b>OTHER INCOME (EXPENSE)</b>					
Finance and other costs	16	(50,808)	(33,668)	(142,616)	(89,241)
Foreign exchange gain		55,942	1,601	25,953	1,247
Listing expense		(8,147,964)	-	(8,147,964)	-
Other income (expense)	3	9,167	794	1,653	16,637
Scientific research and development credit		-	89,740	-	89,740
<b>NET AND COMPREHENSIVE LOSS</b>		<b>\$ (8,437,540)</b>	<b>\$ (78,585)</b>	<b>\$ (9,067,141)</b>	<b>\$ (231,694)</b>
<b>Loss per share</b>					
Basic/Diluted		\$ (0.22)	\$ (0.00)	\$ (0.33)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>		<b>38,744,283</b>	<b>21,932,454</b>	<b>27,597,979</b>	<b>21,930,725</b>

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

**Draganfly Inc.**  
**Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency - Unaudited**  
**Expressed in Canadian Dollars**

	Number of Shares	Share Capital	Equity Reserve	Deficit	Total Shareholders' Deficiency
Balance at December 31, 2017	21,924,454	\$ 12,550,942	\$ 1,215,206	\$ (17,297,428)	\$ (3,531,280)
Shares issued for exercise of warrants	8,000	10,400	(10,000)	-	400
Net loss	-	-	-	(231,794)	(231,794)
<b>Balance at September 30, 2018</b>	<b>21,932,454</b>	<b>12,561,342</b>	<b>1,205,206</b>	<b>(17,529,222)</b>	<b>(3,762,674)</b>
Expired options	-	-	(323,026)	323,026	-
Net loss	-	-	-	(448,620)	(448,620)
Balance at December 31, 2018	21,932,454	12,561,342	882,180	(17,576,131)	(4,132,609)
<b>Shares issued for settlement of notes payable</b>	<b>719,927</b>	<b>645,775</b>	-	-	<b>645,775</b>
<b>Shares issued as transactions fees</b>	<b>1,114,827</b>	<b>1,000,000</b>	-	-	<b>1,000,000</b>
<b>Reversal of Draganfly Innovations shares</b>	<b>(23,767,208)</b>	-	-	-	-
<b>Shares issued upon Amalgamation</b>	<b>42,638,356</b>	-	-	-	-
<b>Recapitalization of Draganfly Inc.</b>	<b>10,500,001</b>	<b>5,250,001</b>	<b>1,645,193</b>	-	<b>6,895,194</b>
<b>Shares issued of settlement of trades payable</b>	<b>45,325</b>	<b>22,662</b>	-	-	<b>22,662</b>
<b>Shares issued for settlement of convertible debentures and accrued interest</b>	<b>2,118,492</b>	<b>1,125,616</b>	<b>(385,616)</b>	-	<b>740,000</b>
<b>Share issued for exercise of warrants</b>	<b>316,940</b>	<b>221,741</b>	<b>(212,908)</b>	-	<b>8,833</b>
<b>Reclassification of unexercised conversion feature</b>	-	-	<b>(182,175)</b>	<b>182,175</b>	-
<b>Net loss</b>	-	-	-	<b>(9,067,141)</b>	<b>(9,067,141)</b>
<b>Balance at September 30, 2019</b>	<b>55,619,114</b>	<b>\$ 20,827,137</b>	<b>\$ 1,746,674</b>	<b>\$ (26,461,097)</b>	<b>\$ (3,887,286)</b>

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

**Draganfly Inc.**  
**Condensed Consolidated Interim Statements of Cash Flows - Unaudited**  
**Expressed in Canadian Dollars**

	Nine Months Ended September 30,	
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (9,067,141)	\$ (231,694)
Adjustments for:		
Amortization	6,289	11,650
Depreciation	7,755	18,666
Finance and other costs	142,616	89,241
Impairment	13,972	-
Listing expense	8,147,964	-
	<b>(748,545)</b>	<b>(112,137)</b>
Net changes in non-cash working capital items:		
Accounts receivable	15,283	(26,924)
Inventory	17,030	19,757
Prepaid expenses	(67,782)	(12,339)
Trade payables and accrued liabilities	321,971	21,194
Revaluation of equipment	-	(21,109)
Revaluation of intangible assets	-	(15)
<b>Funds used in operations activities</b>	<b>(462,043)</b>	<b>(131,573)</b>
<b>INVESTING ACTIVITIES</b>		
Cash assumed from the Amalgamation	28,538	-
Purchase of equipment	-	(12,095)
Disposal of equipment	(583)	9,806
Purchase of intellectual property	16	-
<b>Funds provided by (used in) investing activities</b>	<b>27,971</b>	<b>(2,289)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of notes payable	1,137,978	237,000
Repayment of notes payable	(405,873)	(136,584)
Repayment of convertible debentures	(100,833)	-
Proceeds from issuance of common shares	8,833	400
<b>Funds provided by financing activities</b>	<b>640,105</b>	<b>100,816</b>
Effects of exchange rate changes on cash	(16,380)	(2,083)
Change in cash	206,033	(33,046)
Cash, beginning of period	101,787	130,216
Cash, end of period	\$ 291,440	\$ 95,087

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

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
**Expressed in Canadian Dollars**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

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

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

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

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

**2. BASIS OF PREPARATION**

***Statement of Compliance***

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretation Committee ("IFRIC"). The principal accounting policies applied in the preparation of these interim financial statements, including International Accounting Standards ("IAS") 34 Interim Financial Reporting, are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The notes presented in these condensed consolidated interim financial statements include only significant events and transactions occurring since the Company's last fiscal year end and they do not include all of the information required in the Company's most recent annual financial statements. Except as noted below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company's annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2018, which were prepared in accordance with IFRS as issued by IASB. There have been no significant changes in judgement or estimates from those disclosed in the financial statements for the year ended December 31, 2018.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 25, 2019.

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
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**2. BASIS OF PREPARATION (CONT'D)**

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

***Basis of consolidation***

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

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

<b>Name of Subsidiary</b>	<b>Place of Incorporation</b>	<b>Ownership Interest</b>
Draganfly Innovations	Canada	100%
Merger Co.	Canada	100%

All intercompany balances and transactions were eliminated on consolidation.

***New accounting standard adopted***

The Company has adopted the new IFRS pronouncement as at January 1, 2019 in accordance with the transitional provisions of the standard and as described below. The adoption of this new IFRS pronouncement has not resulted in any adjustments to previously reported figures.

***IFRS 16 - Leases ("IFRS 16")***

On January 13, 2016, the IASB issued IFRS 16. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 - Leases ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. At January 1, 2019, the Company adopted this standard and there was no material impact on the Company's condensed consolidated interim financial statements as the Company has no material lease contracts that fall under IFRS 16.

**3. AMALGAMATION**

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

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

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
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**3. AMALGAMATION (CONT'D)**

Number of shares of Draganfly Inc.		10,500,001
Fair value of common shares in concurrent financing	\$	0.50
Fair value of shares of Draganfly Inc.	\$	5,250,001
Fair value of warrants		1,645,193
Fair value of shares issued for transaction fees		1,000,000
Net liabilities assumed	\$	252,770
Listing expense	\$	<b>8,147,964</b>
<b>Fair value of the Company acquired, net of liabilities</b>		
Cash	\$	28,538
Accounts receivable		6,652,465
Loans receivable		963,269
Accounts payable and accrued liabilities		(769,680)
Subscription receipts		(7,127,362)
	\$	<b>(252,770)</b>

The fair value of 10,500,001 issued common shares of the Company was estimated to be \$0.50 per share using the price of a subscription receipts financing that was completed concurrently (Note 11).

Prior to the closing of the Amalgamation, Draganfly Innovations issued 1,114,827 (pre-consolidation) common shares with a value of \$1,000,000 as transaction fees for the Amalgamation to related parties.

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

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

As at August 15, 2019, the Company received \$7,127,362 in proceeds to issue subscription receipts (the "Subscription Receipts") at a price of \$0.50 per Subscription Receipt. Each Subscription Receipt will automatically be converted or exchanged, without payment of additional consideration and without any further action on the part of the holder, into one unit of the Company (a "Unit"), subject to adjustment in certain circumstances, being the date the holder receives confirmation from the Company of the completion of the Amalgamation and the Company obtains a final receipt for a prospectus and becomes a reporting issuer in the Province of Saskatchewan and obtains a conditional approval of a listing of the common shares on a recognized stock exchange or quotation system in Canada (the "Transaction"). Each Unit consists of one common share and one warrant. Each warrant will entitle the holder to purchase one common share at a price of \$0.50 for a period of 12 months following the issuance of warrants. The proceeds of the private placement were held in escrow subject to completion of Listing, and were released to the Company on November 5, 2019.



**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
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**4. ACCOUNTS RECEIVABLE**

	<b>September 30, 2019</b>	December 31, 2018
Trade accounts receivable	\$ 139,621	\$ 66,295
GST input tax credits	26,986	7,985
SR&ED receivable	23,616	23,616
Subscription receipts (Note 11)	6,443,243	-
	<b>\$ 6,633,466</b>	<b>\$ 97,896</b>

***Subscription receipts***

In anticipation of the Company closing the Transaction, it had undergone financing through subscription receipts totalling \$7,025,750 which were converted to common shares of the Company when the Transaction was completed and the Company commences trading. As at September 30, 2019, \$6,443,243 of the proceeds received were held in trust. Effective November 5, 2019, the Company's shares began trading on the CSE and the proceeds were released to the Company.

***Subscriptions receivable***

As at September 30, 2019, the outstanding balance is \$nil (December 31, 2018 - \$153,566) in subscriptions receivable relating to shares issued during the year ended December 31, 2016. On August 15, 2019, the Company applied the subscriptions receivables to settlements of accounts payable.

**5. INVENTORY**

	<b>September 30, 2019</b>	December 31, 2018
Parts	\$ 44,155	\$ 61,185

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
**Expressed in Canadian Dollars**

**6. EQUIPMENT**

	Computer Equipment	Furniture and Equipment	Software	Total
Cost				
Balance at January 1, 2018	\$ 163,255	\$ 202,556	\$ 72,499	\$ 438,310
Additions	440	140	11,955	12,535
Disposals	(420)	(21,334)	(114)	(21,868)
Balance at December 31, 2018	\$ 163,275	\$ 181,362	\$ 84,340	\$ 428,977
Disposals	(1,056)	(124)	-	(1,180)
Impairment	(155,219)	(95,350)	(54,373)	(304,942)
<b>Balance at September 30, 2019</b>	<b>\$ 7,000</b>	<b>\$ 85,888</b>	<b>\$ 29,967</b>	<b>\$ 122,855</b>
Accumulated depreciation				
Balance at January 1, 2018	\$ 147,074	\$ 149,840	\$ 65,477	\$ 362,391
Charge for the period	3,341	14,854	4,326	22,521
Eliminated on disposal	(389)	(10,695)	(29)	(11,113)
Balance at December 31, 2018	\$ 150,026	\$ 153,999	\$ 69,774	\$ 373,799
Charge for the period	77	4,248	3,430	7,755
Eliminated on disposal	(1,654)	(109)	-	(1,763)
Impairment	(141,714)	(96,323)	(55,054)	(293,091)
<b>Balance at September 30, 2019</b>	<b>\$ 6,735</b>	<b>\$ 61,815</b>	<b>\$ 18,150</b>	<b>\$ 86,700</b>
<b>Net book value:</b>				
December 31, 2018	\$ 13,249	\$ 27,363	\$ 14,566	\$ 55,178
<b>September 30, 2019</b>	<b>\$ 265</b>	<b>\$ 24,073</b>	<b>\$ 11,816</b>	<b>\$ 36,155</b>

**7. INTELLECTUAL PROPERTY**

	Total
Cost	
Balance at January 1, 2018	\$ 71,805
Balance at December 31, 2018	\$ 71,805
Eliminated on disposal	(16)
Impairment	(29,858)
<b>Balance at September 30, 2019</b>	<b>\$ 41,931</b>
Accumulated depreciation	
Balance at January 1, 2018	\$ 44,363
Charge for the period	15,533
Balance at December 31, 2018	\$ 59,896
Charge for the period	6,289
Impairment	(27,736)
<b>Balance at September 30, 2019</b>	<b>\$ 38,449</b>
<b>Net book value:</b>	
December 31, 2018	\$ 11,908
<b>September 30, 2019</b>	<b>\$ 3,482</b>

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
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**8. TRADE PAYABLES AND ACCRUED LIABILITIES**

	September 30, 2019	December 31, 2018
Trade accounts payable	\$ 2,744,026	\$ 1,593,377
Accrued liabilities	60,067	106,220
Contingent liabilities (Note 14)	-	15,000
Due to related parties (Note 15)	63,873	837,781
Government grant payable (Note 13)	33,709	33,709
	<b>\$ 2,901,675</b>	<b>\$ 2,586,087</b>

**9. NOTES PAYABLE**

	September 30, 2019	December 31, 2018
Opening balance	\$ 844,304	\$ 571,675
Issuance of notes payable	1,137,978	373,243
Repayment of notes payable	(405,873)	(137,854)
Foreign exchange	(16,380)	(882)
Interest accrued	88,719	38,122
Eliminated on consolidation <sup>(1)</sup>	(963,269)	-
Ending balance	<b>\$ 685,479</b>	<b>\$ 844,304</b>

(1) The Amalgamation resulted in some of the previously issued notes being eliminated upon consolidation.

The Company's notes payable outstanding as at September 30, 2019 are as follows:

	Start Date	Maturity Date	Rate	Principal	Interest	Total
Note 1	2015-03-26	2015-07-17	0%	\$ 124,000	\$ -	\$ 124,000
Note 2	2015-07-17	2015-12-01	5%	278,570	98,932	377,502
Note 18	2019-07-01	2019-10-29	18%	163,978	19,999	183,977
Total				<b>\$ 566,548</b>	<b>\$ 118,931</b>	<b>\$ 685,479</b>

During the nine months ended September 30, 2019, the Company repaid Notes 3 through 13.

Note 1 was entered into with a shareholder of the Company, is non-interest bearing, unsecured, and the Company is in default for the payment.

Note 2 was entered into with the former owner of the Company, bears interest at 5% per annum, compounded monthly, and is secured against the intellectual property as at the effective date. As at September 30, 2019, the Company is in default for the payment.

Notes 14 through 17, the Loan Agreement, were entered into between the Company and Draganfly Innovations, bears interest at 10% per annum, calculated annually, and is due at the earlier of 30 days from the date the Amalgamation is completed and one year from the date of the advance. As the Company has completed the Amalgamation, Notes 14 through 17 were eliminated upon consolidation.

Note 18 was entered into with an individual for USD\$125,000, interest bearing at 18% per annum, and is unsecured. The notes had a maturity date of October 29, 2019 and was repaid subsequent to September 30, 2019. This note also bore a USD\$6,250 due diligence fee and a USD\$6,250 closing fee that are being recognized over the life of the note as additional interest.

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
**Expressed in Canadian Dollars**

**9. NOTES PAYABLE (CONT'D)**

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

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

**10. CONVERTIBLE DEBENTURES**

	<b>September 2015 (1)</b>	<b>August 2016 (2 and 3)</b>	<b>December 2016 (4)</b>	<b>January 2017 (5 and 6)</b>	<b>March 2017 (7)</b>	<b>Total</b>
Cost						
Balance at January 1, 2018	\$ 550,000	\$ 200,000	\$ 160,784	\$ 51,202	\$ 154,236	\$ 1,116,222
Accretion	-	-	39,216	13,047	38,558	90,821
Balance at December 31, 2018	\$ 550,000	\$ 200,000	\$ 200,000	\$ 64,249	\$ 192,794	\$ 1,207,043
<b>Repayments</b>	-	<b>(100,833)</b>	-	-	-	<b>(100,833)</b>
<b>Conversion to shares</b>	<b>(275,000)</b>	-	<b>(200,000)</b>	<b>(65,000)</b>	<b>(200,000)</b>	<b>(740,000)</b>
Accretion	-	-	-	751	7,206	7,957
<b>Balance at September 30, 2019</b>	<b>\$ 275,000</b>	<b>\$ 99,167</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 374,167</b>

The Company's convertible debentures outstanding as at September 30, 2019 are as follows:

	<b>Start Date</b>	<b>Maturity Date</b>	<b>Rate</b>		<b>Initial Liability Component</b>		<b>Accretion of Equity Component</b>		<b>Total</b>
Debenture 1 <sup>(1)</sup>	2015-09-15	2017-09-15	10%	\$	175,893	\$	99,107	\$	275,000
Debenture 2 <sup>(1)</sup>	2016-08-18	2017-08-18	10%		39,667		9,917		49,584
Debenture 3 <sup>(1)</sup>	2016-08-18	2017-08-18	10%		39,667		9,916		49,583
<b>Total</b>				\$	<b>255,227</b>	\$	<b>118,940</b>	\$	<b>374,167</b>

(1) As at September 30, 2019, these convertible debentures are in default.

During the nine months ended September 30, 2019, the Company repaid a portion of Debenture 2 totaling \$50,416.

During the nine months ended September 30, 2019, the Company repaid a portion of Debenture 3 totaling \$50,417.

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
**Expressed in Canadian Dollars**

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**10. CONVERTIBLE DEBENTURES (CONT'D)**

During the nine months ended September 30, 2019, the Company settled Debentures 4 through 7 by issuing 2,118,492 common shares of the Company (Note 11).

The initial liability component of the convertible debentures were calculated at the present value of interest payments and expected return of capital at a rate of 25% representing the interest rate that would have been charged for a nonconvertible debenture. The equity component was measured based on the residual value of the instrument taken as a whole after deducting the amount determined separately for the liability component. As at September 30, 2019, \$182,175 of the expired unexercised conversion option is reclassified to deficit.

The holder of Debenture 1 is entitled, at their sole discretion, to convert the unpaid principal balance into common shares at a conversion price of \$1.25 per share. The interest is convertible at a conversion price of \$1.25 per share.

The holders of Debentures 2 and 3 are entitled, at their sole discretion, to convert the unpaid principal balance into common shares at a conversion price of \$1 per share. The interest is convertible at a conversion price of \$1.25 per share.

Subsequent to September 30, 2019, Debentures 1 through 3 were repaid.

**11. SHARE CAPITAL**

***Authorized share capital***

Unlimited number of common shares without par value.

***Issued share capital***

During the nine months ended September 30, 2019,

- Prior to the closing of the Amalgamation (Note 3), Draganfly Innovations issued 719,927 (pre-consolidation) common shares to a company controlled by a director of the Company for settlement of \$799,341 in accounts payable and application of \$153,566 in subscription receivable (Note 4).
- Prior to the closing of the Amalgamation (Note 3), Draganfly Innovations issued 1,114,827 (pre-consolidation) common shares with a value of \$1,000,000 as transaction fees for the Amalgamation to related parties.
- On August 15, 2019, the Amalgamation (Note 3) was completed and the Company acquired, on a 1.794 for 1 basis, all issued and outstanding shares of Draganfly Innovations in exchange for 42,638,356 common shares of the Company.
- On August 15, 2019, the Company issued 45,325 common shares for settlement of \$22,662 in trades payables at a value of \$0.50 per share.
- On August 15, 2019, the Company issued 2,118,492 common shares for conversion of convertible debentures and interest. As a result of the conversion, an amount of \$385,616 was reclassified from equity reserve to share capital.
- On August 23, 2019, the Company issued 316,940 common shares for exercise of share purchase warrants of the Company for proceeds of \$8,833. As a result of the exercise, an amount of \$212,908 was reclassified from equity to share capital.

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
**Expressed in Canadian Dollars**

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

***Subscriptions receipts***

As at September 30, 2019, the Company received \$7,025,749.50 to issue an aggregate of 14,051,499 subscription receipts at a price of \$0.50 per subscription receipt. In the event of the occurrence of the escrow release condition (as defined below), each subscription will convert into one unit of the Company (a "Unit"). Each Unit consists of one share of our common stock and one common share purchase warrant (a "Warrant"), with each Warrant entitling the holder to acquire one additional common share at a price of \$0.50 per warrant with a life of one year from the closing of the private placement. The proceeds of the private placement are held in escrow subject to completion of Listing. The escrow release condition was the conditional approval to trade on the CSE. As at September 30, 2019, the Company has received \$582,507 of the funds held in escrow.

***Warrants***

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2017	784,232	\$ 0.30
Exercised	(14,352)	0.03
Outstanding, December 31, 2018	770,030	\$ 0.27
<b>Warrants of the Company at time of Amalgamation (Note 3)</b>	<b>4,000,000</b>	<b>0.10</b>
<b>Expired</b>	<b>(35,880)</b>	<b>0.03</b>
<b>Exercised</b>	<b>(316,940)</b>	<b>0.03</b>
<b>Outstanding, September 30, 2019</b>	<b>4,417,209</b>	<b>\$ 0.14</b>

As at September 30, 2019, the Company had the following warrants outstanding:

Date issued	Expiry date	Exercise price	Number of warrants outstanding
October 12, 2017	October 12, 2019	\$0.48	417,209
February 4, 2019	February 4, 2021	\$0.10	4,000,000
			<b>4,417,209</b>

During the nine months ended September 30, 2019, the 20,000 warrants with an expiration date of April 1, 2019 expired unexercised. Subsequent to September 30, 2019, the 417,209 warrants with an expiration date of October 12, 2019 expired unexercised.

The weighted average remaining contractual life of warrants outstanding as of September 30, 2019 was 1.23 years (December 31, 2018 - 0.84 years).

**12. REVENUE**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Product sales	\$ 96,009	\$ 47,000	\$ 189,613	\$ 318,999
Consulting	354,933	223,227	699,294	793,952
	<b>\$ 450,942</b>	<b>\$ 270,227</b>	<b>\$ 888,907</b>	<b>\$ 1,112,951</b>

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
**Expressed in Canadian Dollars**

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

*Consulting revenue:*

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Canada	\$ 6,034	\$ 34,358	\$ 95,228	\$ 277,710
United States	443,176	231,428	791,569	830,520
International	1,732	4,441	2,110	4,721
	\$ 450,942	\$ 270,227	\$ 888,907	\$ 1,112,951

The Company derives significant revenues from three customers, for the nine months ended September 30, 2019 at 92% of total revenues and the nine months ended September 30, 2018 at 86% of total revenues.

**13. GOVERNMENT ASSISTANCE**

During the nine months ended September 30, 2019, the Company received \$nil (December 31, 2018 – \$89,740) in government assistance for the purchase of research related to scientific research and experimental development tax credit, the entire amount is included in other income.

In February 2016, the Company and an Alberta-based government funded not-for-profit organization (the "Organization") entered into a funding agreement, whereby the Organization would fund 50% of the total costs, up to \$375,000 to the Company for the development of a new product. During the year ended December 31, 2016, the Company received \$75,000 in funding. On February 28, 2017, the Company and the Organization entered into a repayment agreement, where the Company would refund and repay a portion of the Organization's initial funding. The repayment agreement set out the terms and conditions upon which the Company was to pay \$41,292 over a 12-month repayment plan. In addition, the Company will pay the Organization \$33,709 if the Company ever sells a product that the Organization's funding contributed to. During the year ended December 31, 2018, the final repayment of \$13,764 was made and the contingent balance of \$33,709 remains in government grants payable (Note 8).

**14. CONTINGENCY**

On January 15, 2018, the Company entered into a settlement agreement with a vendor pursuant to an action filed under the Ontario Court. Per the agreement, the Company is to pay the settlement amount of \$75,000 in 15 equal installments on a monthly basis. During the nine months ended September 30, 2019, the Company repaid \$15,000 of the settlement amount. As at September 30, 2019, \$nil (December 31, 2018 - \$15,000) is recognized as contingent liability and included in trade payables (Note 8).

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
**Expressed in Canadian Dollars**

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**15. RELATED PARTY TRANSACTIONS**

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

**Loans:**

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

As at September 30, 2019, \$377,502 (December 31, 2018 - \$365,819) in notes payable is outstanding and in default. For the nine months ended September 30, 2019, the Company recognized interest expense of \$13,884.

- ii. During the nine months ended September 30, 2019, the Company entered into a promissory note of \$44,000 and multiple promissory notes during the year ended December 31, 2018 totaling \$273,500 with a company controlled by a director of the Company. The promissory notes are interest bearing at 12% per annum, unsecured and due within 60 days from the date of advance.

During the nine months ended September 30, 2019, the company repaid \$305,873. As at September 30, 2019, \$Nil (December 31, 2018 - \$253,995) in promissory notes plus accrued interest is outstanding. For the nine months ended September 30, 2019, the Company recorded interest expense of \$11,759.

**Trade payables and accrued liabilities:**

As at September 30, 2019, the Company had \$63,873 (December 31, 2018 - \$837,781) payable to related parties outstanding that were included in accounts payable. The balances outstanding are unsecured, non-interest bearing, and due on demand.

**Share capital**

Prior to the closing of the Amalgamation (Note 3), Draganfly Innovations issued 719,927 (pre-consolidation) common shares to a company controlled by a director of the Company for settlement of \$799,341 in accounts payable and application of \$153,566 in subscription receivable (Note 4).

Prior to the closing of the Amalgamation (Note 3), Draganfly Innovations issued 1,114,827 (pre-consolidation) common shares with a value of \$557,414 as transaction fees for the Amalgamation to related parties.

**16. FINANCE AND OTHER COSTS**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Accretion expense (note 10)	\$ -	\$ 23,728	\$ 7,957	\$ 66,689
Interest expense for notes payable (note 9)	48,683	8,098	88,719	20,363
Interest on outstanding trade payables	2,126	1,842	45,940	2,189
	\$ 50,809	\$ 33,668	\$ 142,616	\$ 89,241



**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2019**  
**Expressed in Canadian Dollars**

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**17. SUBSEQUENT EVENTS**

Subsequent to September 30, 2019, the Company met the escrow release condition of the private placement and, on October 25, 2019, issued 14,051,499 Units. Each Unit consists of one common share and one warrant, with each warrant entitling the holder to acquire one additional common share at a price of \$0.50 for one year.

Subsequent to September 30, 2019, on October 30, 2019, the Company granted 2,925,000 restricted shares and 2,925,000 stock options to directors, officers, and employees of the Company.

The restricted shares will vest over three years, commencing October 30, 2020. The stock options have an exercise price of \$0.50 per optioned share, have a life of 10 years and will vest over three years, commencing on October 30, 2019.