



Management Discussion and Analysis
For the three and nine months ended September 30, 2019

Special Note Regarding Forward Looking Information

This Management Discussion & Analysis ("MD&A") is intended to provide readers with the information that management believes is required to gain an understanding of the current results of Draganfly Inc. (the "Company" or "Draganfly") and to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document and that could have a material impact on future prospects. Readers are cautioned that actual events and results will vary.

In this MD&A we describe certain income and expense items that are unusual or non-recurring. There are terms not defined by International Financial Reporting Standards (IFRS). Our usage of these terms may vary from the usage adopted by other companies. Specifically, *Gross profit*, *Gross margin* and *Cash flow from operations* are undefined terms by IFRS. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results.

Certain statements in the MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. These include, without limitation, the Company's current and planned operations in the technology sector and the expected results of new operations and new clients. These statements are based on current expectations involving a number of risks and uncertainties related to all aspects of the technology sector. These risks and uncertainties include, but are not restricted to, continued increased demand for the Company's products, the Company's ability to maintain its technological and competitive advantages, the Company's ability to attract and retain key employees, the ability of the Company to take advantage of its intellectual property, the Company's ability to raise capital on acceptable terms when needed and the availability of key suppliers and contractors. These uncertainties may cause actual results to differ from information contained herein. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. These forward-looking statements are based on the estimates and opinions of Management on the dates they are made and are expressly qualified in their entirety by this notice. The reader is cautioned not to rely on these forward-looking statements. The Company assumes no obligation to update forward-looking statements should circumstances or Management's estimates or opinions change except as required by securities laws.

The following MD&A is presented and dated as of November 25, 2019 and should be read in conjunction with the unaudited consolidated financial statements and related notes for the three months and nine months ended September 30, 2019 and the annual consolidated financial statements and related notes for the year ended December 31, 2018. The Company's audited consolidated financial statements have been prepared on the "going concern" basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The operations of the Company have been primarily funded through internally generated cashflow and private placements of equity and convertible debentures. The continued operations of the Company are dependent on the Company's ability to generate profitable operations in the future, develop and execute a sufficient financing plan for future operations and receive continued financial support from shareholders and other providers of finance.

The consolidated financial statements do not reflect the adjustments, if any, or changes in presentation that may be necessary should the Company not be able to continue on a going concern basis.

All currency amounts in the accompanying financial statements and this management discussion and analysis are in Canadian dollars unless otherwise noted.

Non-GAAP Measures and Additional GAAP Measures

Throughout this document, reference is made to “gross margin” and “working capital”, which are non-IFRS measures. Management believes that gross margin, defined as revenue less operating expenses, is a useful supplemental measure of operations. Management believes that working capital, defined as current assets less current liabilities, is an indicator of the Corporation’s liquidity and its ability to meet its current obligations. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance with International Financial Reporting Standards (“IFRS”).

Core Business and Strategy

Draganfly creates quality, cutting-edge unmanned vehicle systems and software that revolutionize the way people do business. The Company is incorporated under the British Columbia Business Corporations Act and has its head office at 2108 St. George Avenue, Saskatoon, SK, S7M 0K7 and its registered office is located at 2300 – 550 Burrard Street, Vancouver, BC, V6C 2B5.

Recognized as being at the forefront of technology for two decades, Draganfly is an award-winning, industry-leading manufacturer, contract engineering, and product development company within the commercial UAV (unmanned aerial vehicles) space, serving the public safety, agriculture, industrial inspections, and mapping and surveying markets. Draganfly is a company driven by passion, ingenuity, and the need to provide efficient solutions and first-class services to its customers around the world with the goal of saving time, money, and lives.

Founded in 1998, Draganfly is recognized as the first commercial multi-rotor manufacturer and has a legacy for its innovation and superior customer service. The company has sold products and services to over 50 countries.

Draganfly can provide its customers with an entire suite of products and services that include: quad-copters, fixed-wing aircrafts, ground based robots, hand held controllers, flight training, and software used for tracking, live streaming, and data collection. The integrated UAV system is equipped for automated take-offs and landings with altitude and return to home functions as well as in-house created survey software. Draganfly’s standard features combined with custom fit camera payloads ranging from multi-spectral, hyper-spectral, LIDAR, thermal, and infrared allows Draganfly to offer a truly unique solution to clients. Draganfly has also partnered with companies such as Waterloo based, Dejero, who provide a live streaming solution that the Company can offer to its customers and share in monthly usage fees.

With 18 fundamental UAV patents in the portfolio, Draganfly will continue to expand and grow their intellectual property docket.

Historically, the main business of the Company was to operate as a manufacturing company offering commercial UAVs directly to its customer base across various industry verticals. The Company is now doing more engineering procurement for certain customers in a vertical that is not currently served, such as military applications. The rationale is three-fold: engage in long term contracts that tend to be recurring in nature, gain exposure to an industry that the Company otherwise did not have access to, and leverage our innovation learnings into other products that can be sold in other industries.

Draganfly works with its customers to customize a product or platform from idea research and development (R&D) to completion and testing. A work plan is created with timelines and budget which includes materials, travel, testing, and engineering time. This plan is signed off on by the customer before work begins. To date, the majority of this work is considered proprietary and secret in nature.

The Company had done very little outbound sales and marketing promotional activities and yet customers around the world were reaching out to the Company through its website which is still is primary method of selling. It became evident to Management that resources needed to be raised to execute a carefully designed sales and marketing strategy to capitalize on industry demand for its product and services.

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Management determined in mid-2018 the best course of action to secure additional capital, grow its brand and expand its reach was to secure a public listing on a reputable exchange. On January 31, 2019, the Company and PrivCo entered into a Business Combination Agreement (the "BCA") providing for a three-cornered amalgamation (the "Amalgamation") among the Company, PrivCo, and a wholly-owned subsidiary of the Company (the "Subco"). As of August 15, 2019, the Amalgamation closed and the Company acquired all of the issued and outstanding common shares of the PrivCo (the "PrivCo Shares"). It was a condition of closing that the Company complete a private placement of 10,000,000 units (a "Unit") at a price of \$0.50 per Unit, with each Unit consisting of one common share and one common share purchase warrant (a "Warrant"). Each Warrant will be exercisable into one common share of the resulting issuer at a price of \$0.50 for 12 months. The Company completed a private placement of 14,051,499 units raising \$7,025,749.50. It is a post-closing covenant of the BCA that the resulting issuer from the Amalgamation obtains a listing for its common shares (the "Listing") on the Canadian Securities Exchange (the "CSE"). The Company has changed its name from Drone Acquisition Corp. to Draganfly Inc. and is the parent company of the wholly owned subsidiary, Draganfly Innovations Inc., which is the amalgamated company with Subco.

Under the Amalgamation, PrivCo Shares were exchanged for ordinary shares of the Company ("Company Shares") on the basis of 1.794 Company Shares for each PrivCo Share held resulting in approximately 42,000,000 PrivCo Shares to be issued. Upon completion of the Amalgamation, holders of PrivCo warrants ("PrivCo Warrants") will be entitled to receive Company Shares in lieu of shares otherwise issuable prior to the effective date of the Amalgamation (the "Effective Date"), adjusted in accordance with the terms of the various agreements and certificates representing the said warrants.

Following the Amalgamation and pursuant to completion of certain conditions precedent, including receipt of all necessary director, shareholder, regulatory and Canadian Stock Exchange (CSE) approvals, the Company was listed on the CSE on November 5, 2019. The Company will incur significant listing expenses to complete the process but will be well positioned to execute on its business plan.

Additional information relating to the Company may be found at the Company's website, www.draganfly.com.

2019 Q3 Highlights

- **2019 Q3 Total Revenues of \$450,943 with contract engineering revenue of \$354,934**

2018 was a milestone year for Draganfly. The company solidified its engineering services business to not only offset a reduction in manufactured goods due to industry pricing shifts created by Chinese competition but to make this its primary business. Although, the Company's products are still well regarded in the industry, the commercial UAV space as a whole has been impacted by lower priced consumer drones that can now offer similar functionality. The Company recognized their opportunity of engineering procurement for those customers that either choose not to buy Chinese UAVs or are restricted from doing so due to information sensitivity concerns. The third quarter of 2019 revenues increased by \$180,716 from \$270,227 in the third quarter of 2018 to \$450,943. Engineering services revenue of \$354,934 continued to be the bulk of the revenues in the third quarter of 2019. Hardware sales and training of \$96,009 made up the balance of the revenues.

- **Gross Margins were up 18% year over year for Q3**

Engineering services tend to have higher gross margins than hardware sales given lower material costs. In the third quarter of 2019, the Company's total gross margin for the third quarter of 2019 was 84.2% vs 71.3% in the same period in 2018.

- **Continued Company Focus Shifted from Pure Play Manufacturer to Offering Customized Solutions**

Given the Company's impressive history and deep engineering talent, a natural evolution was to outsource in-house capabilities to customers. Doing this leverages the Company's core skill set of innovation that tends to lead to future projects, bringing in more consistent revenue.

- **Risks related to operations**

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

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

Outlook and Guidance

This Outlook and Guidance contains forward-looking statements that the Company does not intend, and does not assume any obligation, to update, except as required by law. The forward-looking information and statements include:

- The current economic climate and its effect on the Company's client base business;
- The Company's ability to successfully acquire new customers;
- The Company's ability to successfully implement its technology;
- Management's assumptions regarding the sustainability of recurring revenue streams and the Company's expected profitability; and
- Management's outlook and guidance contains forward looking statements of the Company's ability to penetrate the US and international client base with its products and services and continue its penetration in the Canadian market.

The Company believes that being listed on the CSE will open up further opportunities to access capital as well as allow it to use its Common Shares as a currency for potential acquisitions. Operationally, having access to more capital will help the Company expand and diversify its engineering services business. Doing this requires more human resources both from a sales and engineering perspective. Further, the Company has a number of innovative ideas for new products that it would like to develop and increase its current product offering to various niche industries that aren't being served by the dominant player in the UAV space. Finally, the Company has considered offering various other non-engineering services and it may make more sense to buy an existing industry player than to build out this offering. This isn't something the Company has to do but it will be opportunistic to learn about potential opportunities in the existing fiscal year and the near future.

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Selected Financial Information

The following selected financial data has been extracted from the unaudited condensed consolidated interim financial statements, prepared in accordance with International Financial Reporting Standards, for the periods indicated and should be read in conjunction with the unaudited condensed consolidated interim financial statements.

For the periods ended September 30,	Three Months Ended		Nine Months Ended	
	2019	2018	2019	2018
Total revenues	\$ 450,943	\$ 270,227	\$ 888,907	\$ 1,112,951
Gross Profit (as a % of revenues)	84.2%	71.3%	80.2%	70.8%
Net loss and comprehensive loss	(8,437,540)	(78,585)	(9,067,141)	(231,694)
Net loss per share (\$)				
- Basic	(0.22)	(0.00)	(0.33)	(0.01)
- Diluted	(0.22)	(0.00)	(0.33)	(0.01)
Change in cash and cash equivalents	\$ (5,891,953)	\$ 17,880	\$ (5,898,297)	\$ (33,046)

As at	September 30, 2019	December 31, 2018
Total assets	\$ 7,099,785	\$ 504,825
Working capital (deficit)	(3,926,923)	(4,353,261)
Total non-current liabilities	-	-
Shareholders' equity (deficiency)	\$ (3,887,286)	\$ (4,132,609)
Number of shares outstanding	55,619,114	21,932,454

Results of Operations

Revenue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Product sales	\$ 96,009	\$ 47,000	\$ 189,613	\$ 318,999
Engineering services	354,934	223,227	699,294	793,952
Total revenue	\$ 450,943	\$ 270,227	\$ 888,907	\$ 1,112,951

Total revenue for the three months ended September 30, 2019 increased by \$180,716 or 66.9% as compared to the same period in 2018. The increase in revenue is due to the continued work in engineering services while the same period last year represented a transition/completion of an existing engineering service contract. Product hardware sales increased 104.3% or \$49,009 in the third quarter of 2019 as compared to the same period in 2018 primarily due to a large order from a US client. Engineering service work consists of the design and customization of various UAV type products for the Company's clients. Further, this service work tends to have higher gross margins than straight product sales. The Company has also introduced customization work as part of their product sales offering.

Total revenue for the nine months ended September 30, 2019 decreased by \$224,044 or 20.1% as compared to the same period in 2018. The decrease in revenue is due to the continued competitive challenges in the industry as it relates to product hardware sales and the transition/completion of an existing engineering service contract that carried over through the beginning of the year. Product hardware sales decreased 40.6% or \$129,386 in the nine months ended September 30, 2019 as compared to the same period in 2018 primarily due to pricing pressures from the global drone incumbent. Although the first nine months of 2019 was a transition period from the end of one contract to the delayed start of another contract by the same customer, the Company has achieved its goal of earning recurring revenues from its engineering

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clients. Engineering service work consists of the design and customization of various UAV type products for the Company's clients. Further, this service work tends to have higher gross margins than straight product sales. The Company has also introduced customization work as part of their product sales offering.

Cost of Goods Sold / Gross Margin

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cost of goods sold	\$ (71,043)	\$ (77,535)	\$ (176,399)	\$ (325,385)
Gross profit	\$ 379,900	\$ 192,692	\$ 712,508	\$ 787,566
Gross margin (%)	84.2%	71.3%	80.2%	70.8%

Gross profit is the difference between the revenue received and the direct cost of that revenue. Gross margin is gross profit divided by revenue and is often presented as a percent. For the three months ended September 30, 2019, the Company's Gross Profit increased by \$187,208 or 97.2%. As a percentage of sales, gross margin increased from 71.3% in 2018 to 84.2% in 2019.

For the nine months ended September 30, 2019, the Company's Gross Profit decreased by \$75,058 or 9.5%. As a percentage of sales, gross margin increased from 70.8% in 2018 to 80.2% in 2019.

Selling, General, and Administrative (SG&A)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
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
Total	\$ 679,096	\$ 319,950	\$ 1,502,631	\$ 1,007,327

For the three months ended September 30, 2019, Selling, General, and Administrative expenses in 2019 increased by 112.3%, from \$319,950 in 2018 to \$679,096 in 2019. The largest contributor to the increase is office related costs. Some of the other SG&A expenses such as professional fees increased due to increased accounting and legal work in preparation for going public.

For the nine months ended September 30, 2019, Selling, General, and Administrative expenses in 2019 increased by 49.2%, from \$1,007,327 in 2018 to \$1,502,631 in 2019. The largest contributor to the increase is office related costs. Some of the other SG&A expenses such as professional fees increased due to increased accounting and legal work in preparation for going public.

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Net and Comprehensive Loss

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Loss from operations	\$ (303,877)	\$ (137,052)	\$ (804,167)	\$ (250,077)
Finance and other costs	(50,808)	(33,668)	(142,616)	(89,241)
Foreign exchange gain (loss)	55,942	1,601	25,953	1,247
Listing expense	(8,147,964)	-	(8,147,964)	-
Other income (expense)	9,167	794	1,653	16,637
Scientific research and development tax credit	-	89,740	-	89,740
Net and comprehensive loss	\$ (8,437,540)	\$ (78,585)	\$ (9,067,141)	\$ (231,694)

For the three months ended September 30, 2019, the Company recorded a comprehensive loss of \$8,437,540 compared to \$75,585 in 2018. The increased loss was due to the listing expense from the Amalgamation and lower revenues while operating expenses remained very similar year over year for the same period.

For the nine months ended September 30, 2019, the Company recorded a comprehensive loss of \$9,067,141 compared to a comprehensive loss of \$231,694 in 2018. The increased loss was due to the listing expense from the Amalgamation and lower revenues while operating expenses remained very similar year over year for the same period.

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the year ended December 31, 2018, the Company issued 8,000 shares for \$400 for exercise of warrants. In relation, \$10,000 in equity reserve was reclassified to share capital.

During the nine months ended September 30, 2019,

- Prior to the closing of the Amalgamation, Draganfly Innovations issued 719,927 (pre-consolidation) common shares to a company controlled by a director of the Company for settlement of \$847,399 in accounts payable and application of \$153,566 in subscription receivable. As a result, the Company recognized a gain on settlement of debt of \$333,869.
- Prior to the closing of the Amalgamation, 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.
- On August 15, 2019, the Amalgamation 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.

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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.

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	\$	8,147,964
Fair value of the Company acquired, net of liabilities		
Cash	\$	28,538
Accounts receivable		6,652,465
Loans receivable		963,269
Accounts payable and accrued liabilities		(769,680)
Subscription receipts		(7,127,362)
	\$	(252,770)

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.

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

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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.

Summary of Quarterly Results

The following selected quarterly financial data has been extracted from the financial statements, prepared in accordance with International Financial Reporting Standards.

In the third quarter of 2019, the Company recorded revenues of \$450,942, an increase of \$180,815 or 66.9% compared to the same quarter in 2018. Most of the increase can be attributed to increased billings from the contract engineering business. Operating expenses increased quarter over quarter from the third quarter of 2019 from the second quarter of 2019 but remained in a similar range over the last four quarters. The increase in operating costs in the third quarter of 2019 compared to the second quarter of 2019, were primarily due to higher professional fees and office expenses.

	2019 Q3		2019 Q2		2019 Q1		2018 Q4	
Revenue	\$	450,943	\$	289,735	\$	148,229	\$	274,162
Cost of goods sold	\$	(71,043)	\$	(49,147)	\$	(56,209)	\$	(127,014)
Gross profit	\$	379,900	\$	240,588	\$	92,020	\$	147,148
Gross margin – percentage		84.2%		83.0%		62.1%		53.7%
Operating expenses	\$	(683,777)	\$	(484,155)	\$	(348,743)	\$	(477,889)
Operating loss	\$	(303,877)	\$	(243,567)	\$	(256,723)	\$	(330,738)
Operating loss per share (basic and diluted)	\$	(0.01)	\$	(0.01)	\$	(0.01)	\$	(0.02)
Other income (expense)	\$	(8,133,663)	\$	(46,220)	\$	(83,091)	\$	(39,197)
Comprehensive loss	\$	(8,437,540)	\$	(289,787)	\$	(339,814)	\$	(369,935)
Comprehensive loss per share (basic and diluted)	\$	(0.22)	\$	(0.01)	\$	(0.02)	\$	(0.03)

	2018 Q3		2018 Q2		2018 Q1		2017 Q4	
Revenue	\$	270,127	\$	440,346	\$	402,378	\$	133,282
Cost of goods sold	\$	(77,535)	\$	(92,586)	\$	(155,264)	\$	(98,269)
Gross profit	\$	192,592	\$	347,760	\$	247,114	\$	35,013
Gross margin – percentage		71.3%		79.0%		61.4%		26.3%
Operating expenses	\$	(329,744)	\$	(374,274)	\$	(333,625)	\$	(466,672)
Operating loss	\$	(137,152)	\$	(26,514)	\$	(86,511)	\$	(431,659)
Operating loss per share (basic and diluted)	\$	(0.01)	\$	(0.00)	\$	(0.00)	\$	(0.02)
Other income (expense)	\$	58,467	\$	(47,521)	\$	7,437	\$	807,323
Comprehensive income (loss)	\$	(78,685)	\$	(74,035)	\$	(79,074)	\$	375,664
Comprehensive income (loss) per share (basic and diluted)	\$	(0.00)	\$	(0.00)	\$	(0.00)	\$	0.02

Liquidity and Capital Resources

The Company's liquidity risk is on its loans, accounts payable and accrued liabilities, as it may encounter difficulty discharging its obligations. The Company attempts to mitigate this risk by managing its debt holders as well as ensuring there is capital coming into the Company for its operations. As at September 30, 2019, the Company has a working capital deficit of \$3,926,923 and of \$4,353,261 as at December 31, 2018.

The Company considers the items included in capital to include shareholders' equity. The Company manages its capital structure and makes adjustments to it in light of changes in economic and business conditions, financing environment, and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue

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new shares, new debt, or scale back the size and nature of its operations. The Company is not subject to externally imposed capital requirements. As at September 30, 2019, shareholders' deficit was \$3,887,286 and at December 31, 2018, shareholder's deficit was \$4,132,609.

Off-Balance Sheet Arrangements

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations, financial condition, revenues or expenses, liquidity, capital expenditures or capital resources.

Contractual Obligations

As of September 30, 2019, and as of the date of this MD&A, and in the normal course of business, the following is a summary of the Company's material obligations to make future payments, representing contracts, and other commitments that are known and committed.

Notes Payable

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

	Start Date	Maturity Date	Rate	Principal	Interest	Total
Note 1 ⁽¹⁾	2015-03-26	2015-07-17	0%	\$ 124,000	\$ -	\$ 124,000
Note 2 ⁽¹⁾	2015-07-17	2015-12-01	5%	278,570	98,932	377,502
Note 14	2019-02-08	2020-02-08	10%	-	-	-
Note 15	2019-04-25	2020-04-25	10%	-	-	-
Note 16	2019-05-22	2020-05-22	10%	-	-	-
Note 17	2019-06-27	2020-06-27	10%	-	-	-
Note 18	2019-07-01	2019-10-29	18%	163,978	19,999	183,977
Total				\$ 566,548	\$ 118,931	\$ 685,479

(1) As at September 30, 2019, these notes payable are in default.

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 and is unsecured.

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 start date.

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 \$125,000 USD, bears interest 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 \$6,250 USD due diligence fee and a \$6,250 USD closing fee that are being recognized over the life of the Note as additional interest.

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Convertible Debentures

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

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

(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.

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.

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.

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:

- a) 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 the intellectual property as at the effective date.

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.

- b) During the six months ended June 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.

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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.

Key management compensation

Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management for the three and nine months ended September 30, 2019 and 2018 included:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Salaries	\$ 47,083	\$ 70,000	\$ 187,083	\$ 210,000
Total	\$ 47,083	\$ 70,000	\$ 187,083	\$ 210,000

Share Capital

Common shares issued

	Number of Common Shares	Share Capital
Balance, December 31, 2017	21,924,454	\$ 12,550,942
Shares issued for exercise of warrants	8,000	10,400
Balance, December 31, 2018	21,932,454	\$ 12,561,342
Shares issued for the settlement of notes payable	719,927	645,775
Shares issued as transactions fees	1,114,827	1,000,000
Reversal of Draganfly Innovations shares	(23,767,208)	-
Shares issued upon Amalgamation	42,638,356	-
Recapitalization of Draganfly Inc.	10,500,001	5,250,001
Shares issued of settlement of trades payable	45,325	22,662
Shares issued for settlement of convertible debentures and accrued interest	2,118,492	1,125,616
Share issued for exercise of warrants	316,940	221,741
Balance, September 30, 2019	55,619,114	\$ 20,827,137

Stock options

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

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2017	300,000	\$ 1.25
Expired	(300,000)	1.25
Outstanding, December 31, 2018	-	\$ -
Outstanding, September 30, 2019	-	\$ -

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

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Warrants

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

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

Warrants outstanding at September 30, 2019 were as follows:

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
			4,417,209

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 0.03 years (December 31, 2018 - 0.84 years).

Critical Accounting Policies and Estimates

Note 2 of the audited consolidated financial statements for the year ended December 31, 2018 describe fully the significant accounting policies used in preparing the financial statements.

Measurement Uncertainty (Use of Estimates)

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

a. SR&ED tax credits

The determination of the amount of the Saskatchewan SR&ED tax credit receivable requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near-term dependent on the review and audit by the government agency.

b. Allowance for uncollectible trade and other receivables

The Company makes use of estimates when making allowances for uncollectible trade and other receivables. The Company evaluates each receivable at year end using factors such as age of receivable, payment history, and credit risk to estimate when determining if an allowance is required, and the amount of the allowance.

c. Share-based payment transactions

The Company measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected lives and forfeiture rates of the share options and volatility of the market value of the underlying shares.

New Policies Adopted

New standards issued and now effective at the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company has now implemented.

1. IFRS 9, Financial Instruments

In July 2014, the IASB completed the final elements of IFRS 9. The standard supersedes earlier version of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, as single 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The impact of the standard has been determined to not be material.

2. IFRS 15, Revenue from Contract with Customers

The IASB issued the standard to replace IAS 18 which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for the annual periods beginning on January 1, 2018, with the required retrospective application and earlier adoption permitted. The impact of the standard has been determined to not be material.

3. IFRS 16, Leases

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments. IFRS 16 is effective for fiscal periods beginning on or after January 1, 2019. The impact of the standard has been determined to not be material.

Business Risks

In the normal course of business the Company's operations are influenced by a number of internal and external factors and are exposed to risks and uncertainties that can affect its business, financial condition and operating results. The activities of the Company are subject to ongoing operational risks including the performance of key suppliers, product performance, and government and other industry regulations and reliance on information systems, all of which may affect the ability of the Company to meet its obligations. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the marketplace, are not approved by regulatory authorities, or if products are not brought to market in a timely manner.

Ability to Manage Future Growth

Future growth, if any, may cause a significant strain on the Company's management and its operational, financial, human and other resources. The Company's ability to manage growth effectively will require it to implement and improve operational, financial, software development and management information systems and to expand, train, manage and motivate employees. These demands may require the addition of management and other personnel and the development of additional expertise. Any increase in resources devoted to research, product development and marketing and sales efforts without a corresponding increase in operational, financial, product development and management information systems could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth. The Company is exposed to a variety of financial risks by virtue of its activities, including currency risk, credit risk, and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Credit risk

Credit and liquidity risk associated with cash and the marketable security is managed by ensuring assets are placed with major financial institutions with strong investment grade ratings.

Credit risk on trade and other receivables reflects the risk that the Company may be unable to recover them. The Company manages its credit risk by closely monitoring the granting of credit. Trade and other receivables that are greater than 30 days are considered past due. Based on the status of trade and other receivables, no allowance for doubtful accounts has been recorded as at September 30, 2019 (December 31, 2018 - \$nil).

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to minimal interest rate risk on its cash balances as they carry a floating rate of interest.

Foreign currency risk

The Company does engage in significant transactions and activities in currencies other than its functional currency. Depending on the timing of the transactions and the applicable currency exchange rates such conversions may positively or negatively impact the Company.

Other Information

Additional information about the Company is available at www.draganfly.com

Approval

This MD&A is authorized for issue by the Board on November 25, 2019.