



**Draganfly Inc.**

**Condensed Consolidated Interim Financial Statements - Unaudited**

**For the Three and Six Months Ended June 30, 2020**

**(Expressed in Canadian Dollars)**

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

As at	Notes	June 30, 2020 (unaudited)	December 31, 2019
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	5	\$ 1,495,329	\$ 2,429,375
Amounts receivable	6	167,580	224,695
Inventory	7	1,035,329	48,563
Prepays and deposits	8	205,412	272,630
		<b>2,903,650</b>	<b>2,975,263</b>
Non-current Assets			
Goodwill	4	1,916,322	-
Equipment	9	156,308	115,141
Intellectual property	10	-	1,385
Right of use assets	11	188,046	129,994
<b>TOTAL ASSETS</b>		<b>\$ 5,164,326</b>	<b>\$ 3,221,783</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities			
Trade payables and accrued liabilities	13	\$ 927,990	\$ 894,357
Customer deposits	14	51,524	-
Notes payable	15	61,007	-
Short-term loans	16	53,668	-
Lease liability	12	103,663	43,000
		<b>1,197,852</b>	<b>937,357</b>
Non-current Liabilities			
Lease liability	12	96,867	93,073
<b>TOTAL LIABILITIES</b>		<b>1,356,187</b>	<b>1,030,430</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	17	31,863,429	27,786,517
Equity reserve	17	2,182,101	2,508,233
Accumulated deficit		(30,176,024)	(28,103,397)
Accumulated other comprehensive loss		101	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>3,869,607</b>	<b>2,191,353</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 5,164,326</b>	<b>\$ 3,221,783</b>

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

**Subsequent Event** (Notes 24)

Approved and authorized for issuance by the Board of Directors on August 21, 2020

"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	For the three months ended		For the six months ended	
		June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenue from sales of goods	18	\$ 734,440	\$ 41,829	\$ 756,796	\$ 93,604
Revenue from provision of services	18	192,100	247,906	666,801	344,360
<b>TOTAL REVENUE</b>		<b>926,540</b>	<b>289,735</b>	<b>1,423,597</b>	<b>437,964</b>
<b>COST OF SALES</b>		<b>(495,193)</b>	<b>(49,147)</b>	<b>(554,979)</b>	<b>(105,356)</b>
<b>GROSS PROFIT</b>		<b>431,347</b>	<b>240,588</b>	<b>868,618</b>	<b>332,608</b>
<b>OPERATING EXPENSES</b>					
Amortization	10	\$ 503	\$ 310	\$ 1,385	\$ 4,193
Depreciation	9,11	27,072	832	39,155	5,170
Office and miscellaneous		591,271	146,526	1,243,638	209,383
Professional fees		644,104	69,988	736,529	102,811
Research and development		26,969	4,201	30,938	9,827
Share-based payments	17	799,677	-	1,319,061	-
Travel		9,434	4,393	17,054	5,686
Wages and salaries		288,708	257,905	655,211	495,828
		<b>(2,387,738)</b>	<b>(484,155)</b>	<b>(4,042,971)</b>	<b>(832,898)</b>
<b>OTHER INCOME (EXPENSE)</b>					
Finance and other costs	21	(6,851)	(50,549)	(10,857)	(91,808)
Foreign exchange gain (loss)		3,750	13,803	54,595	(29,989)
Gain on settlement of debt	22	-	-	67,493	-
Other income (loss)	23	990,973	(9,474)	990,495	(7,514)
<b>NET LOSS</b>		<b>(968,519)</b>	<b>(289,787)</b>	<b>(2,072,627)</b>	<b>(629,601)</b>
<b>OTHER COMPREHENSIVE LOSS</b>					
Foreign exchange translation		(13,713)	-	101	-
<b>COMPREHENSIVE LOSS</b>		<b>\$ (982,232)</b>	<b>\$ (289,787)</b>	<b>\$ (2,072,526)</b>	<b>\$ (629,601)</b>
<b>Loss per share</b>					
Basic/Diluted		\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.02)
<b>Weighted average number of common shares outstanding</b>		<b>76,192,416</b>	<b>39,346,807</b>	<b>73,185,449</b>	<b>39,346,807</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' Equity (Deficiency) - Unaudited  
Expressed in Canadian Dollars**

	Number of Shares	Share Capital	Equity Reserve	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity (Deficiency)
Balance at December 31, 2018	39,346,807	\$ 12,561,342	\$ 882,180	\$ (17,576,131)	\$ -	\$ (4,132,609)
Net loss	-	-	-	(629,601)	-	(629,601)
Balance at June 30, 2019	39,346,807	12,561,342	882,180	(18,205,732)	-	(4,762,210)
Shares issued for settlement of notes payable	1,291,549	645,775	-	-	-	645,775
Shares issued as transaction fees	2,000,000	1,000,000	-	-	-	1,000,000
Recapitalization of Draganfly Inc.	10,500,001	5,250,001	1,645,193	-	-	6,895,194
Shares issued for settlement of trades payable	45,325	22,662	-	-	-	22,662
Shares issued for settlement of convertible debentures	2,118,492	1,059,246	-	-	-	1,059,246
Shares issued for exercise of warrants	316,940	221,741	(212,908)	-	-	8,833
Reclassification of unexercised conversion feature	-	-	(567,791)	567,791	-	-
Shares and warrants issued on private placement	14,051,499	7,025,750	-	-	-	7,025,750
Share-based payments	-	-	761,559	-	-	761,559
Net loss	-	-	-	(10,465,456)	-	(10,465,456)
Balance at December 31, 2019	69,670,613	27,786,517	2,508,233	(28,103,397)	-	2,191,353
Shares issued for exercise of warrants	4,638,000	2,364,193	(1,645,193)	-	-	719,000
Shares issued for acquisition	3,225,438	1,612,719	-	-	-	1,612,719
Shares issued as finder's fees	200,000	100,000	-	-	-	100,000
Share-based payments	-	-	1,319,061	-	-	1,319,061
Net loss	-	-	-	(2,072,627)	-	(2,072,627)
Translation of foreign operations	-	-	-	-	101	101
<b>Balance at June 30, 2020</b>	<b>77,734,051</b>	<b>\$ 31,863,429</b>	<b>\$ 2,182,101</b>	<b>\$ (30,176,024)</b>	<b>\$ 101</b>	<b>\$ 3,869,607</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**

	For the six months ended	
	June 30, 2020	June 30, 2019
<b>OPERATING ACTIVITIES</b>		
Comprehensive loss	\$ (2,072,627)	\$ (629,601)
Adjustments for:		
Amortization	1,385	4,193
Depreciation	39,155	5,170
Finance and other costs	10,857	91,808
Gain on settlement of debt	(67,493)	-
Impairment of equipment	-	2,115
Impairment of intangibles	-	11,852
Share-based payments	1,319,061	-
Net changes in non-cash working capital items:		
Amounts receivable	158,981	(14,405)
Inventory	(357,082)	12,462
Prepays and deposits	161,215	(4,915)
Trade payables and accrued liabilities	(263,147)	46,998
Customer deposits	(194,435)	-
<b>Funds used in operations activities</b>	<b>(1,264,130)</b>	<b>(474,323)</b>
<b>INVESTING ACTIVITIES</b>		
Cash paid for acquisition, net of cash acquired	(457,407)	-
Disposal of equipment	-	(583)
Disposal of intellectual property	-	16
<b>Funds used in investing activities</b>	<b>(457,407)</b>	<b>(567)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common shares	819,000	-
Proceeds from issuance of notes payable	-	974,000
Repayment of notes payable	-	(404,621)
Repayment of convertible debentures	-	(100,833)
Repayment of lease liability	(31,610)	-
<b>Funds provided by financing activities</b>	<b>787,390</b>	<b>468,546</b>
Effects of exchange rate changes on cash	101	(5,880)
Change in cash	(934,147)	(6,344)
Cash, beginning of period	2,429,375	101,787
Cash, end of period	\$ 1,495,329	\$ 89,563
<b>Cash and cash equivalents consist of the following:</b>		
Cash held in banks	\$ 1,353,142	\$ 89,563
Guaranteed investment certificate	142,187	-
	\$ 1,495,329	\$ 89,563

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

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited**  
**For the Three and Six Months Ended June 30, 2020**  
**Expressed in Canadian Dollars**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Draganfly Inc. (the “Company”) was incorporated on June 1, 2018 under the Business Corporations Act (British Columbia). The Company’s shares 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.”.

On January 28, 2020, the Company incorporated a new Delaware subsidiary, Draganfly Innovations USA, Inc. (“Draganfly USA”).

In early 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. As a result, global equity markets have experienced significant volatility and weakness. At this time, the outbreak and the related mitigation measures have had the following impacts on the Company’s operations, among others: temporary closure of business locations, supply chain issues, and decrease in sales. These uncertainties arise from the inability to predict the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

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.

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited**  
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**Expressed in Canadian Dollars**

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**2. BASIS OF PREPARATION (CONT'D)**

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, 2019, which were prepared in accordance with IFRS as issued by IASB.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 21, 2020.

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 Inc.	Canada	100%
Draganfly Innovations USA, Inc.	US	100%
Dronelogs Systems Inc.	Canada	100%

All intercompany balances and transactions were eliminated on consolidation.

**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.

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

**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited**  
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**3. AMALGAMATION (CONT'D)**

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

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

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

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

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

**4. ACQUISITION**

On April 30, 2020, the Company closed a share purchase agreement with the shareholders of Dronelogs Systems Inc. ("Dronelogs"), whereby the Company acquired all of the issued and outstanding shares in the capital of Dronelogs, excluding the cinematography division, for a consideration of \$2,000,000, plus the amount, if any, by which the estimated closing date working capital exceeds the target closing working capital (the "Transaction"). The consideration was paid \$500,000 in cash, subject to a working capital adjustment and 3,225,438 common shares in the capital of the Company at a deemed price of \$0.50 per share. Dronelogs' principal activity is the provision of services with unmanned aerial vehicle ("UAV") and remotely piloted aircraft ("RPA"), together known as drones, sales of drones, repairs and training related to drones in North America.



**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited**  
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**4. ACQUISITION (CONT'D)**

At the time of the Transaction, the Company determined that Dronelogics constituted a business as defined under IFRS 3, Business Combinations.

In connection with the Transaction, the Company paid fees of \$160,000 to certain advisors; consisting of \$100,000 by way of 200,000 in shares at a deemed price of \$0.50 per share and \$60,000 in cash or shares at a deemed price of \$0.50 per share. At closing, the Company (i) granted 445,000 incentive stock options to certain employees of Dronelogics pursuant to the Company's share compensation plan, exercisable at a price equal to closing price of the shares on the CSE on January 31, 2020. The options shall have a term of 10 years and vest in three equal tranches, on the first, second and third anniversaries of the date of grant, and (ii) awarded 375,000 RSUs to certain directors and officers of Dronelogics. RSUs were awarded to certain directors and officers of Dronelogics pursuant to the Company's share compensation plan. The RSUs shall vest in three equal tranches, on the first, second and third anniversaries of the date of award.

The purchase price allocation ("PPA") is as follows. The PPA determined at the Transaction date is preliminary and subject to change up to a period of one year from the Acquisition date upon finalization of fair value determination. The Company is in the process of identifying and determining the acquisition date fair value of any identifiable intangible assets acquired. In this provisional PPA, the excess of the consideration paid over the fair value of the identifiable assets (liabilities) acquired has been recognized as goodwill, which primarily consisted of the assembled workforce.

Number of shares of Draganfly Inc.		3,225,438
Fair value of common shares	\$	0.50
Fair value of shares of Draganfly Inc.	\$	1,612,719
Cash portion of purchase price		500,000
Net assets acquired	\$	(196,397)
Goodwill	\$	<b>1,916,322</b>
<b>Provisional fair value of the identifiable assets acquired, net of liabilities</b>		
Cash	\$	42,593
Amounts receivable		98,852
Inventory		629,684
Prepays and deposits		93,997
Other current assets		3,014
Equipment		54,946
Right-of-use assets		83,428
Accounts payable and accrued liabilities		(222,766)
Customer deposits		(245,959)
Loans		(245,752)
Other current liabilities		(8,437)
Lease liabilities		(87,203)
	\$	<b>196,397</b>

**Draganfly Inc.****Notes to the Condensed Consolidated Interim Financial Statements - Unaudited****For the Three and Six Months Ended June 30, 2020****Expressed in Canadian Dollars****5. CASH AND CASH EQUIVALENTS**

	<b>June 30, 2020</b>	December 31, 2019
Cash held in banks	\$ 1,353,142	\$ 2,429,375
Guaranteed investment certificate	142,187	-
	<b>\$ 1,495,329</b>	<b>\$ 2,429,375</b>

On March 27, 2020, the Company purchased \$142,000 in a guaranteed investment certificate ("GIC") to secure its credit cards. The terms of the GIC are for 1 year at a rate of 0.50% per annum. During the six months ended June 30, 2020, the Company accrued interest of \$187 on this GIC.

**6. AMOUNTS RECEIVABLE**

	<b>June 30, 2020</b>	December 31, 2019
Trade accounts receivable	\$ 167,580	\$ 169,810
GST input tax credits	-	54,885
	<b>\$ 167,580</b>	<b>\$ 224,695</b>

**7. INVENTORY**

	<b>June 30, 2020</b>	December 31, 2019
Finished goods	\$ 955,893	\$ -
Parts	79,436	48,563
	<b>\$ 1,035,329</b>	<b>\$ 48,563</b>

During the six months ended June 30, 2020, the Company recorded a provision of \$22,393 for its obsolete and slow-moving inventory.

During the six months ended June 30, 2020, \$445,958 (2019: \$49,070) of inventory was sold and recognized in cost of sales.

**8. PREPAID EXPENSES AND DEPOSITS**

	<b>June 30, 2020</b>	December 31, 2019
Insurance	\$ 5,348	\$ 35,703
Prepaid marketing services	68,858	227,459
Prepaid rent	3,583	-
Prepaid subscriptions	1,310	1,583
WCB Premiums	-	916
Deposits	126,313	6,969
	<b>\$ 205,412</b>	<b>\$ 272,630</b>

Draganfly Inc.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

For the Three and Six Months Ended June 30, 2020

Expressed in Canadian Dollars

9. EQUIPMENT

	Computer Equipment	Furniture and Equipment	Leasehold Improvements	Software	Vehicles	Total
Cost						
Balance at January 1, 2019	\$ 163,275	\$ 181,362	\$ -	\$ 84,340	\$ -	\$ 428,977
Additions	-	87,785	-	-	-	87,785
Disposals	(1,056)	(31,647)	-	-	-	(32,703)
Impairment	(155,219)	(95,327)	-	(54,373)	-	(304,919)
Balance at December 31, 2019	\$ 7,000	\$ 142,173	\$ -	\$ 29,967	\$ -	\$ 179,140
<b>Assets acquired in the Acquisition</b>	<b>35,991</b>	<b>16,199</b>	<b>12,367</b>	<b>-</b>	<b>32,636</b>	<b>97,193</b>
<b>Balance at June 30, 2020</b>	<b>\$ 42,991</b>	<b>\$ 158,372</b>	<b>\$ 12,367</b>	<b>\$ 29,967</b>	<b>\$ 32,636</b>	<b>\$ 276,333</b>
Accumulated depreciation						
Balance at January 1, 2019	\$ 150,026	\$ 153,999	\$ -	\$ 69,774	\$ -	\$ 373,799
Charge for the period	103	7,028	-	4,574	-	11,705
Eliminated on disposal	(1,654)	(26,770)	-	-	-	(28,424)
Impairment	(141,714)	(96,313)	-	(55,054)	-	(293,081)
Balance at December 31, 2019	\$ 6,761	\$ 37,944	\$ -	\$ 19,294	\$ -	\$ 63,999
<b>Depreciation acquired in the Acquisition</b>	<b>20,622</b>	<b>8,626</b>	<b>8,015</b>	<b>-</b>	<b>4,984</b>	<b>42,247</b>
<b>Charge for the period</b>	<b>1,425</b>	<b>8,483</b>	<b>805</b>	<b>1,601</b>	<b>1,465</b>	<b>13,779</b>
<b>Balance at June 30, 2020</b>	<b>\$ 28,808</b>	<b>\$ 55,053</b>	<b>\$ 8,820</b>	<b>\$ 20,895</b>	<b>\$ 6,449</b>	<b>\$ 120,025</b>
<b>Net book value:</b>						
December 31, 2019	\$ 239	\$ 104,229	\$ -	\$ 10,673	\$ -	\$ 115,141
<b>June 30, 2020</b>	<b>\$ 14,183</b>	<b>\$ 103,319</b>	<b>\$ 3,547</b>	<b>\$ 9,072</b>	<b>\$ 26,187</b>	<b>\$ 156,308</b>

10. INTELLECTUAL PROPERTY

	Total
Cost	
Balance at January 1, 2019	\$ 71,805
Impairment	(29,874)
Balance at December 31, 2019	\$ 41,931
<b>Balance at June 30, 2020</b>	<b>\$ 41,931</b>
Accumulated depreciation	
Balance at January 1, 2019	\$ 59,896
Charge for the period	8,386
Impairment	(27,736)
Balance at December 31, 2019	\$ 40,546
<b>Charge for the period</b>	<b>1,385</b>
<b>Balance at June 30, 2020</b>	<b>\$ 41,931</b>
<b>Net book value:</b>	
December 31, 2019	\$ 1,385
<b>June 30, 2020</b>	<b>\$ -</b>

**Draganfly Inc.**

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**Expressed in Canadian Dollars**

**11. RIGHT OF USE ASSETS**

		<b>Total</b>
<b>Cost</b>		
Balance at January 1, 2019, on adoption of IFRS 16	\$	131,634
Lease modification		27,905
Balance at December 31, 2019	\$	159,539
Leases acquired in the Acquisition		83,428
<b>Balance at June 30, 2020</b>	<b>\$</b>	<b>242,967</b>
<b>Accumulated depreciation</b>		
Balance at January 1, 2019, on adoption of IFRS 16	\$	-
Charge for the period		29,545
Balance at December 31, 2019	\$	29,545
<b>Charge for the period</b>		<b>25,376</b>
<b>Balance at June 30, 2020</b>	<b>\$</b>	<b>54,921</b>
<b>Net book value:</b>		
December 31, 2019	\$	129,994
<b>June 30, 2020</b>	<b>\$</b>	<b>188,046</b>

**12. LEASE LIABILITY**

		<b>Total</b>
Balance at January 1, 2019, on adoption of IFRS 16	\$	131,634
Interest expense		14,534
Lease payments		(38,000)
Lease modification		27,905
Balance at December 31, 2019	\$	136,073
<b>Leases acquired in the Acquisition</b>		<b>87,203</b>
<b>Interest expense</b>		<b>8,864</b>
<b>Lease payments</b>		<b>(31,610)</b>
<b>Balance at June 30, 2020</b>		<b>200,530</b>
<b>Which consists of:</b>		
Current lease liability	\$	103,663
Non-current lease liability		96,867
<b>Balance at June 30, 2020</b>	<b>\$</b>	<b>200,530</b>

**13. TRADE PAYABLES AND ACCRUED LIABILITIES**

	<b>June 30, 2020</b>	December 31, 2019
Trade accounts payable	\$ <b>737,984</b>	\$ 688,309
Accrued liabilities	<b>99,636</b>	162,658
Due to related parties (Note 17)	-	9,681
Government grant payable (Note 16)	<b>33,709</b>	33,709
GST/HST Payable	<b>56,661</b>	-
	<b>\$ 927,990</b>	\$ 894,357

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**14. CUSTOMER DEPOSITS**

At times, the Company's subsidiary, Dronelogs, may take a customer deposit as it orders specific items in. These amounts are held and applied against the final purchase.

	<b>June 30, 2020</b>	December 31, 2019
Customer deposits	\$ <b>51,524</b>	\$ -

**15. NOTES PAYABLE**

	<b>June 30, 2020</b>	December 31, 2019
Opening balance	\$ -	\$ 844,304
Issuance of notes payable	<b>60,000</b>	1,137,978
Repayment of notes payable	-	(1,036,336)
Settlement of notes payable	-	(62,000)
Foreign exchange	-	(22,366)
Interest accrued	<b>1,007</b>	101,689
Eliminated on consolidation	-	(963,269)
Ending balance	\$ <b>61,007</b>	\$ -

	<b>Start Date</b>	<b>Maturity Date</b>	<b>Rate</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Note 1	2020-04-30	2021-04-29	10%	\$ 60,000	\$ 1,007	\$ 61,007
Total				\$ 60,000	\$ 1,007	\$ 61,007

Note 1 was issued in lieu of cash as a finder's fee for the acquisition of Dronelogs. It bears an interest rate of 10% per annum, compounded monthly, and is unsecured.

**16. LOANS**

With the acquisition of Dronelogs, the Company took ownership of two loans held by the subsidiary.

	<b>Start Date</b>	<b>Maturity Date</b>	<b>Rate</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
CEBA	2020-05-19	2022-12-31	0%	\$ 25,000	\$ -	\$ 25,000
Vehicle loan	2019-08-30	2024-09-11	6.99%	24,080	4,588	28,668
Total				\$ 49,080	\$ 4,588	\$ 53,668

On May 19, 2020, Dronelogs received a Canada Emergency Business Account (CEBA) loan of \$40,000, of which \$15,000 has been repaid. This loan is currently interest-free and 25% of the loan, up to \$10,000, is forgivable if the loan is repaid on or before December 31, 2022. If the loan is not repaid by that date, the loan can be converted to a three-year term loan at an interest rate of 5%.

On August 30, 2019, Dronelogs entered into a loan agreement to purchase a vehicle. Interest of 6.99% was calculated on the principal amount of \$28,330 and the aggregate amount of \$33,727 was borrowed. Starting October 11, 2019, monthly payments of \$562 will be made for the next 60 months.

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**17. SHARE CAPITAL**

***Authorized share capital***

Unlimited number of common shares without par value.

***Issued share capital***

During the six months ended June 30, 2020,

- On February 18, 2020, the Company issued 120,000 common shares for the exercise of warrants for \$60,000.
- On February 25, 2020, the Company issued 100,000 common shares for the exercise of warrants for \$50,000.
- On March 6, 2020, the Company issued 1,051,600 common shares for the exercise of warrants for \$105,160.
- On March 20, 2020, the Company issued 365,000 common shares for the exercise of warrants for \$36,500.
- On March 26, 2020, the Company issued 1,474,200 common shares for the exercise of warrants for \$147,420.
- On April 8, 2020, the Company issued 609,200 common shares for the exercise warrants for \$60,920.
- On April 16, 2020, the Company issued 630,000 common shares for the exercise warrants for \$115,000.
- On April 30, 2020, the Company issued 3,225,438 common shares for the acquisition of Dronelogs and an additional 200,000 common shares as finder's fees.
- On May 27, 2020, the Company issued 60,000 common shares for the exercise warrants for \$30,000.
- On June 23, 2020, the Company issued 228,000 common shares for the exercise warrants for \$114,000.

During the six months ended June 30, 2019, no common shares were issued.

***Stock Options***

The Company has adopted an incentive share compensation plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the CSE requirements, grant to directors, officers, employees, and technical consultants to the Company, non-transferable stock options to purchase common shares. The total number of common shares reserved and available for grant and issuance pursuant to this plan shall not exceed 20% (in the aggregate) of the issued and outstanding common shares from time to time. The number of options awarded and underlying vesting conditions are determined by the Board of Directors in its discretion.

As at June 30, 2020, the Company had the following options outstanding and exercisable:

<b>Grant Date</b>	<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Remaining Contractual Life (years)</b>	<b>Number of Options Outstanding</b>	<b>Number of Options Exercisable</b>
October 30, 2019	October 30, 2029	\$ 0.50	9.34	3,041,666	1,024,992
November 19, 2019	November 19, 2029	\$ 0.50	9.39	650,000	283,333
April 30, 2020	April 30, 2030	\$ 0.66	9.84	1,045,000	324,999
				<b>4,736,666</b>	<b>1,633,324</b>

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding, December 31, 2018	-	\$ -
Granted	3,725,000	0.50
Outstanding, December 31, 2019	3,725,000	\$ 0.50
Forfeited	(33,334)	0.50
Granted	1,045,000	0.66
<b>Outstanding, June 30, 2020</b>	<b>4,736,666</b>	<b>\$ 0.53</b>

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

During the six months ended June 30, 2020,

- The Company granted 445,000 options to employees of the newly acquired subsidiary, Dronelogics. Each option is exercisable at \$0.50 per share for a period of 10 years from the grant date.
- The Company granted 600,000 options to advisors of the Company. Each option is exercisable at \$0.77 per share for a period of 10 years from the grant date.

During the year ended December 31, 2019,

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

During the six months ended June 30, 2020, the Company recorded share-based payment expense of \$832,591 (2019: \$nil) related to the expense of stock options granted during the year ended December 31, 2019, over their vesting period. The weighted average grant date fair value of options granted during the year ended December 31, 2019 was \$0.46 per option.

***Restricted Share Units***

The Company has adopted an incentive share compensation plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees, and technical consultants to the Company, restricted stock units (RSUs). The number of RSUs awarded and underlying vesting conditions are determined by the Board of Directors in its discretion. RSUs will have a 3-year vesting period following the award date. The total number of common shares reserved and available for grant and issuance pursuant to this plan, and the total number of Restricted Share Units that may be awarded pursuant to this plan, shall not exceed 20% (in the aggregate) of the issued and outstanding common shares from time to time.

As at June 30, 2020, the Company had the following RSUs outstanding:

<b>Grant Date</b>	<b>Number of RSUs Outstanding</b>
October 30, 2019	2,875,000
November 19, 2019	250,000
April 30, 2020	375,000
	<b>3,500,000</b>

During the six months ended June 30, 2020, the Company granted 375,000 RSUs to employees of the newly acquired subsidiary of the Company, Dronelogics, with each RSU exercisable into one common share of the Company or the cash equivalent thereof upon the vesting conditions being met for a period of three years from the grant date.

During the year ended December 31, 2019, the Company granted 3,175,000 RSUs to employees and consultants of the Company with each RSU exercisable into one common share of the Company or the cash equivalent thereof upon the vesting conditions being met for a period of three years from the grant date.

During the six months ended June 30, 2020, the Company recorded share-based payment expense of \$486,470 in stock-based compensation for RSUs, based on the fair values of RSUs granted which were calculated using the closing price of the Company's stock on the day prior to grant.

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

**Warrants**

	Number of Warrants		Weighted Average Exercise Price
Outstanding, December 31, 2018	770,000	\$	0.27
Warrants of the Company at time of Amalgamation (Note 3)	4,000,000		0.10
Expired	(453,090)		0.03
Exercised	(316,940)		0.03
Issued	14,051,499		0.50
Outstanding, December 31, 2019	18,051,499	\$	0.41
<b>Exercised</b>	<b>(4,638,000)</b>		<b>0.15</b>
<b>Outstanding, June 30, 2020</b>	<b>13,413,499</b>	<b>\$</b>	<b>0.50</b>

As at June 30, 2020, the Company had the following warrants outstanding:

Date issued	Expiry date	Exercise price	Number of warrants outstanding
November 5, 2019	November 5, 2020	\$0.50	13,413,499
			<b>13,413,499</b>

The weighted average remaining contractual life of warrants outstanding as of June 30, 2020 was 0.35 years (December 31, 2019 - 0.84 years).

**18. 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.

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Product sales	\$ 734,440	\$ 41,829	\$ 756,796	\$ 93,604
Consulting	192,100	247,906	666,801	344,360
	<b>\$ 926,540</b>	<b>\$ 289,735</b>	<b>\$ 1,423,597</b>	<b>\$ 437,964</b>

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Canada	\$ 776,567	\$ 53,565	\$ 784,498	\$ 89,194
United States	149,973	235,792	639,099	348,392
International	-	378	-	378
	<b>\$ 926,540</b>	<b>\$ 289,735</b>	<b>\$ 1,423,597</b>	<b>\$ 437,964</b>



**Draganfly Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited**  
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**18. REVENUE (CONT'D)**

The Company derives significant revenues from certain customers, for the six months ended June 30, 2020 one customer provided at 33% of total revenues and for the six months ended June 30, 2019, three customers provided at 89% of total revenues.

**19. GOVERNMENT ASSISTANCE**

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, 2019, the final repayment of \$13,764 was made and the contingent balance of \$33,709 remains in government grants payable.

**20. RELATED PARTY TRANSACTIONS**

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

**Trade payables and accrued liabilities:**

On Aug 1, 2019, the Company entered in a business services agreement (the "Agreement") with Business Instincts Group ("BIG"), a company controlled by Cameron Chell, CEO and director, to provide: corporate development and governance, strategic facilitation and management, general business services, office space, corporate business development video content, website redesign and management, and online visibility management. The costs of all charges are based on the fees set in the Agreement and are settled on a monthly basis. The Company records these charges under Office and Miscellaneous. For the six months ended June 30, 2020, the company incurred fees of \$113,000 compared to \$nil in 2019. As at June 30, 2020, the Company was indebted to this company in the amount of \$nil (December 31, 2019 - \$nil).

As at June 30, 2020, the Company had \$nil (December 31, 2019 – \$9,681) payable to related parties outstanding that were included in accounts payable. The balances are unsecured, non-interest bearing, and due on demand.

**Draganfly Inc.****Notes to the Condensed Consolidated Interim Financial Statements - Unaudited****For the Three and Six Months Ended June 30, 2020****Expressed in Canadian Dollars****20. RELATED PARTY TRANSACTIONS (CONT'D)****Key management compensation**

Key management includes the Company's directors and members of the executive management team. Compensation awarded to key management for the three and six months ended June 30, 2020 and 2019 included:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Management fees paid to a company controlled by CEO and director	\$ 42,650	\$ -	\$ 113,000	\$ -
Management fees paid to a company controlled by a former director	45,000	-	75,000	-
Salaries	78,984	33,923	160,066	73,431
Salaries paid to the former owner of the Company	29,631	43,006	63,046	82,514
Share-based payments	367,798	-	639,439	-
	\$ 579,063	\$ 76,929	\$ 1,050,551	\$ 125,945

**21. FINANCE AND OTHER COSTS**

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Accretion expense	\$ -	\$ -	\$ -	7,957
Interest expense for notes payable	1,007	28,238	1,007	40,036
Interest on trade payables and bank charges	5,844	22,311	9,850	43,815
	\$ 6,851	\$ 50,549	\$ 10,857	\$ 91,808

**22. GAIN ON SETTLEMENT OF DEBT**

During the six months ended June 30, 2020, as a result of the transactions relating to the private placement and ensuing debt repayments, a gain of \$67,493 was recognized on the settlement of outstanding debt.

**23. OTHER INCOME**

The Company had previously written off an investment in a UK-based company. On April 27, 2020, this company was sold and the Company received US\$709,544 and an estimated US\$145,294 will be received in 18 months.

**24. SUBSEQUENT EVENT**

Subsequent to June 30, 2020, on July 3, 2020, the Company issued 1,000,000 options to officers of the Company. An officer received 500,000 options that vest: 1/3 on the grant date, 1/3 on the first anniversary, and 1/3 on the second anniversary. The options have an exercise price of \$0.64 per option and expire on July 3, 2025. An officer received 500,000 options that vest in 9 months from the grant date provided that the officer is still a member of the management team of the Company. The options have an exercise price of \$0.64 per option and expire on July 3, 2025.