



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

## **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 August 21, 2020 and should be read in conjunction with the unaudited consolidated financial statements and related notes for the three and six months ended June 30, 2020 and the annual consolidated financial statements and related notes for the year ended December 31, 2019. 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.

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.

## **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 has evolved to offer 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.

With its recent acquisition of Dronelogics, the Company has further broadened its scope to provide non-OEM products along with services that it did not typically offer before.

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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 42,638,356 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 incurred significant listing expenses to complete the process but is 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](http://www.draganfly.com).

## **2020 Q2 Highlights**

- **2020 Q2 Total Revenues of \$926,540 with contract engineering revenue of \$192,100**

2019 results showed the Company's business is now deep rooted in its engineering services. The company's move to engineering services work was to offset a reduction in manufactured goods due to industry pricing shifts created by Chinese competition, making services an important 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. Through its recent acquisition, some of these lower priced drones are now being sold at the Company. The Company continues to recognize 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. Some of the Company's US customers have been impacted by the COVID-19 pandemic which has materially slowed the Company's engineering services practice during the quarter. The second quarter of 2020 revenues increased by \$636,805 from \$289,735 in the second quarter of 2019 to \$926,540. Revenue from the sale of goods of \$734,440 made up the bulk of the revenues in the second quarter of 2020. Provision of services revenues of \$192,100 made up the balance of the revenues.

- **Gross Margins were down 43.9% in 2020 Q2 compared to 2019 Q2**

The acquisition of Dronelogs that occurred this quarter, produced high product sales, which resulted in higher cost of sales and lower gross margins. In the second quarter of 2020, the Company's total gross margin was 46.6% vs 83.0% in the same period in 2019, as engineering services which tend to have higher gross margins than hardware sales given lower material costs made up the majority of second quarter 2019.

- **Strong product sales in the quarter**

Although the Company has an impressive history and deep engineering talent allowing it to outsource in-house capabilities to customers, this quarter's sales was driven by non-OEM products.

• **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 may 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.

## 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.

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Total revenues	\$ 926,540	\$ 289,735	\$ 1,423,597	\$ 437,964
Gross Profit (as a % of revenues)	<b>46.6%</b>	83.0%	<b>61.0%</b>	75.9%
Net loss	<b>(968,519)</b>	(289,787)	<b>(2,072,627)</b>	(629,601)
Comprehensive loss	<b>(982,232)</b>	(289,787)	<b>(2,072,526)</b>	(629,601)
Net loss per share (\$)				
- Basic	<b>(0.01)</b>	(0.01)	<b>(0.03)</b>	(0.02)

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- Diluted		(0.01)	(0.01)	(0.03)	(0.02)
Change in cash and cash equivalents	\$	(402,257)	\$ (658)	\$ (934,046)	\$ (6,344)

As at		June 30, 2020		December 31, 2019
Total assets	\$	5,164,326	\$	3,221,783
Working capital	\$	1,705,798	\$	2,037,906
Total non-current liabilities	\$	96,867	\$	93,073
Shareholders' equity	\$	3,869,607	\$	2,191,353
Number of shares outstanding		77,734,051		69,670,613

## Results of Operations

### Revenue

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Product sales	\$ 734,440	\$ 41,829	\$ 756,796	\$ 93,604
Engineering services	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>

Total revenue for the three months ended June 30, 2020 increased by \$636,805 or 219.8% as compared to the same period in 2019. The increase in revenue is largely due to the acquisition of Dronelogics, which has added \$685,663 of revenue, largely in product sales, since its acquisition, partially offset by a decrease in engineering services due to the downturn caused by COVID-19.

Total revenue for the six months ended June 30, 2020 increased by \$985,633 or 225.0% as compared to the same period in 2019. The increase in revenue is largely due to the acquisition of Dronelogics, which has added \$685,663 of revenue, largely in product sales, since its acquisition, and includes higher engineering services while the same period last year represented a transition/completion of an existing engineering service contract.

The Company has already started retooling and redesigning its next generation product line to address the ongoing environment as a way to maintain its existing customer base and capture new market share. 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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cost of goods sold	\$ (495,193)	\$ (49,147)	\$ (554,979)	\$ (105,356)
Gross profit	431,347	240,588	868,618	332,608
Gross margin (%)	\$ 46.6%	\$ 83.0%	\$ 61.0%	\$ 75.9%

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.

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For the three months ended June 30, 2020, the Company's Gross Profit increased by \$190,759 or 79.3%. As a percentage of sales, gross margin decreased from 83.0% in 2019 to 46.6% in 2020. This is due to the increase in product sales, which has a lower gross margin compared to engineering services.

For the six months ended June 30, 2020 the Company's Gross Profit increased by \$536,010 or 161.2%. As a percentage of sales, gross margin decreased from 75.9% in 2019 to 61.0% in 2020. This is due to the increase in product sales, which has a lower gross margin compared to engineering services.

**Selling, General, and Administrative (SG&A)**

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
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 compensation	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>Total</b>	<b>\$ 2,360,163</b>	<b>\$ 483,013</b>	<b>\$ 4,002,431</b>	<b>\$ 823,535</b>

For the three months ended June 30, 2020, Selling, General, and Administrative expenses in 2020 increased by 388.6%, from \$483,013 in 2019 to \$2,360,163 in 2020. For the six months ended June 30, 2020, Selling, General, and Administrative expenses in 2020 increased by 385.8, from \$823,535 in 2019 to \$4,002,431 in 2020. The largest contributor to the increase is marketing and investor relations costs in the office and miscellaneous as well as share-based payments. Some of the other SG&A expenses such as professional fees increased due to increased accounting and legal work in relation to the Dronelogics acquisition.

**Net and Comprehensive Loss**

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Loss from operations	\$ (1,956,391)	\$ (243,567)	\$ (3,174,353)	\$ (500,290)
Finance and other costs	(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	-	-	67,493	-
Other income (loss)	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>
Cumulative translation differences	(13,713)	-	101	-
<b>Comprehensive loss</b>	<b>\$ (982,232)</b>	<b>\$ (289,787)</b>	<b>\$ (2,072,526)</b>	<b>\$ (629,601)</b>

For the three months ended June 30, 2020, the Company recorded a comprehensive loss of \$982,232 compared to \$289,787 in 2019. For the six months ended June 30, 2020, the Company recorded a comprehensive loss of \$2,072,526 compared to \$629,601 in 2019. The increased loss was due to the increased marketing and investor relations costs and share-based payments partially offset by increased revenues.

**Authorized share capital**

Unlimited number of common shares without par value.

**Issued share capital**

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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 Dronelogics 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.

## 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>
<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>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:



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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.

## 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.

At the time of the Transaction, the Company determined that Dronelogs 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 Dronelogs 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 Dronelogs. RSUs were awarded to certain directors and officers of Dronelogs 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>Fair value of the Company acquired, net of liabilities</b>		
Cash	\$	42,593
Amounts receivable		98,852

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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>

## 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 second quarter of 2020, the Company recorded revenues of \$926,540, an increase of \$636,805 or 219.8% compared to the same quarter in 2019. Most of the increase can be attributed to the acquisition of Dronelogics. Operating expenses increased compared to the prior quarter. The increase in operating costs is largely due to continued investor relations costs after going public and high accounting and legal fees related to the acquisition of Dronelogics.

	2020 Q2	2020 Q1	2019 Q4	2019 Q3
Revenue	\$ 926,540	\$ 497,057	\$ 491,520	\$ 450,943
Cost of goods sold	\$ (495,193)	\$ (59,786)	\$ (42,401)	\$ (71,043)
Gross profit	\$ 431,347	\$ 437,271	\$ 449,119	\$ 379,900
Gross margin – percentage	46.6%	88.0%	91.4%	84.2%
Operating expenses	\$ (2,387,738)	\$ (1,655,233)	\$ (2,983,115)	\$ (683,777)
Operating loss	\$ (1,956,391)	\$ (1,217,962)	\$ (2,533,996)	\$ (303,877)
Operating loss per share (basic and diluted)	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ (0.01)
Other income (expense)	\$ 987,872	\$ 113,854	\$ 506,080	\$ (8,133,663)
Other comprehensive income (loss)	\$ (13,713)	\$ 13,814	\$ -	\$ -
Comprehensive loss	\$ (982,232)	\$ (1,090,294)	\$ (2,027,916)	\$ (8,437,540)
Comprehensive loss per share (basic and diluted)	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.22)

	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Revenue	\$ 289,735	\$ 148,229	\$ 274,162	\$ 270,127
Cost of goods sold	\$ (49,147)	\$ (56,209)	\$ (127,014)	\$ (77,535)
Gross profit	\$ 240,588	\$ 92,020	\$ 147,148	\$ 192,592
Gross margin – percentage	83.0%	62.1%	53.7%	71.3%
Operating expenses	\$ (484,155)	\$ (348,743)	\$ (477,889)	\$ (329,744)
Operating loss	\$ (243,567)	\$ (256,723)	\$ (330,741)	\$ (137,152)
Operating loss per share (basic and diluted)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Other income (expense)	\$ (46,220)	\$ (83,091)	\$ (39,197)	\$ 58,467
Other comprehensive income	\$ -	\$ -	\$ -	\$ -
Comprehensive loss	\$ (289,787)	\$ (339,814)	\$ (369,938)	\$ (78,685)
Comprehensive loss per share (basic and diluted)	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.00)

## **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 June 30, 2020, the Company has working capital of \$1,705,798 and \$2,037,906 as at December 31, 2019.

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. Aside from the regular business operations of managing its liabilities, the Company does not have any contracted or committed capital expenditures as of the date of these financial statements. The Company utilizes its credit card facilities from time to time to make various purchases for their operations. The Company will need to raise additional capital during the next twelve months and beyond to support current operations and planned development. As part of the Company's capital raise planning, the Company has filed a Regulation A Offering Circular under the Securities Act of 1933.

Management intends to finance operating costs over the next twelve months with cash on hand and with the issuance of securities such as the private placement of common shares and convertible debentures. Further, in order to maintain or adjust its capital structure, the Company may issue new shares, new debt, or scale back the size and nature of its operations. The Company is not subject to externally imposed capital requirements. As at June 30, 2020, shareholders' equity was \$3,869,607 and at December 31, 2019, shareholder's equity was \$2,191,353.

While our management plans to generate increased revenues and to continue financing our Company through the issuances of additional equity securities or debt instruments, there can be no assurance that enough revenue or financing will occur to meet our cash needs for the next 12 months. The ability to achieve our projected future operating results is based on several assumptions which involve significant judgments and estimates, which cannot be assured. If we are unable to achieve our projected operating results, our liquidity could be adversely impacted, and we may need to seek additional sources of financing. Our operating results could adversely affect our ability to raise additional capital to fund our operations and there is no assurance that sufficient debt or equity financing will be available, on acceptable terms, or in a timely basis.

## **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 June 30, 2020, and as of the date of this MD&A, and in the normal course of business, the following is a summary of the Company's material obligations to make future payments, representing contracts, and other commitments that are known and committed.

On December 1, 2019, the Company entered into an amendment for the lease agreement, where the lease was amended with a change in annual payments. As a result of IFRS 16, the right of use asset and lease liability were setup and recorded as follows:

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**Right of Use Asset**

	<b>Total</b>
Cost	
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>\$ 242,967</b>
Accumulated depreciation	
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>\$ 54,921</b>
Net book value:	
December 31, 2019	\$ 129,994
<b>June 30, 2020</b>	<b>\$ 188,046</b>

**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>
Which consists of:	
Current lease liability	\$ 103,663
Non-current lease liability	96,867
<b>Balance at June 30, 2020</b>	<b>\$ 200,530</b>

**Related Party Transactions**

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

**Trade payables and accrued liabilities:**

On 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.

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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.

**Key management compensation**

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

	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
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	-
	<b>\$ 579,063</b>	<b>\$ 76,929</b>	<b>\$ 1,050,551</b>	<b>\$ 125,945</b>

**Share Capital**

***Common shares issued***

	<b>Number of Common Shares</b>	<b>Share Capital</b>
Balance, December 31, 2018	39,346,807	\$ 12,561,342
Shares issued for the settlement of notes payable	1,291,549	645,775
Shares issued as transactions fees	2,000,000	1,000,000
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	1,059,246
Shares issued for exercise of warrants	316,940	221,741
Shares issued on private placement	14,051,499	7,025,750
Balance, December 31, 2019	69,670,613	\$ 27,786,517
<b>Shares issued for exercise of warrants</b>	<b>4,638,000</b>	<b>2,364,193</b>
<b>Shares issued for acquisition of Dronelogics</b>	<b>3,225,438</b>	<b>1,612,719</b>
<b>Shares issued as finder's fees</b>	<b>200,000</b>	<b>100,000</b>
<b>Balance, June 30, 2020</b>	<b>77,734,051</b>	<b>\$ 31,863,429</b>

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**Stock options**

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

	Number of Options	Weighted Average Exercise Price
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>

**Restricted Share Units (RSUs)**

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

	Number of RSUs
Outstanding, December 31, 2018	-
Granted	3,175,000
Outstanding, December 31, 2019	3,175,000
Forfeited	(50,000)
Granted	375,000
<b>Outstanding, June 30, 2020</b>	<b>3,500,000</b>

**Warrants**

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2018	770,000	\$ 0.27
Warrants of the Company at time of Amalgamation	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>\$ 0.50</b>

Warrants outstanding at June 30, 2020 were as follows:

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).

## **Critical Accounting Policies and Estimates**

Note 2 of the audited consolidated financial statements for the year ended December 31, 2019 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**

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

## **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 market place, are not approved by regulatory authorities, or if products are not brought to market in a timely manner.

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

### **Resale of Shares**

There can be no assurance that the publicly-traded market price of the Company Shares will be high enough to create a positive return for the existing investors. Further, there can be no assurance that the Company Shares will be sufficiently liquid so as to permit investors to sell their position in the Company without adversely affecting the stock price. In such event, the probability of resale of the Company Shares would be diminished.

As well, the continued operation of the Company will be dependent upon its ability to procure additional financing in the short term and to generate operating revenues in the longer term. There can be no assurance that any such financing can be obtained or that revenues can be generated. If the Company is unable to obtain such additional financing or generate such revenues, investors may be unable to sell their Company Shares and any investment in the Company may be lost.

### **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.



### **Market for Securities**

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the Company Shares will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company Shares will be affected by such volatility.

### **Dilution and future sale of Common Shares**

We may issue additional Common Shares in the future, which may dilute a Shareholder's holding in the Company. Our articles will permit the issuance of an unlimited number of Common Shares, and Shareholders will have no pre-emptive rights in connection with such further issuances. The Directors of the Company have the discretion to determine if an issuance of Common Shares is warranted, the price at which such issuance is effected and the other terms of issue of Common Shares. Also, we may issue additional Common Shares upon the exercise of options to acquire Common Shares under the Option Plan, which will result in further dilution to the Shareholders. Potential future acquisitions may also divert Management's attention and result in further dilution to the Shareholders.

### **History of Losses**

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

### **Reliance on Management and Key Employees**

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

### **Risks Associated with Acquisitions**

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

### **Competitive Markets**

The Company faces competition and new competitors will continue to emerge throughout the world. Services offered by the Company's competitors may take a larger share of consumer spending than anticipated, which could cause revenue generated from the Company's products and services to fall below expectations. It is expected that competition in these markets will intensify.

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

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

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

#### **Uncertainty and adverse changes in the economy**

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

#### **Continuing impact from COVID-19**

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.

#### **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 June 30, 2020 (December 31, 2019 - \$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**

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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](http://www.draganfly.com)

**Approval**

This MD&A is authorized for issue by the Board on August 21, 2020.