



Draganfly Inc.

Condensed Consolidated Interim Financial Statements - Unaudited

For the Three and nine Months Ended September 30, 2020

(Expressed in Canadian Dollars)

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

As at	Notes	September 30, 2020	December 31, 2019
		(unaudited)	
ASSETS			
Current Assets			
Cash	5	\$ 649,188	\$ 2,429,375
Accounts receivable	6	417,068	224,695
Inventory	7	1,166,631	48,563
Prepays and deposits	8	126,109	272,630
		2,358,996	2,975,263
Non-current Assets			
Accounts receivable	6, 22	193,808	-
Goodwill	4	1,916,322	-
Equipment	9	160,349	115,141
Intellectual property	10	-	1,385
Right of use assets	11	166,230	129,994
TOTAL ASSETS		\$ 4,795,705	\$ 3,221,783
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade payables and accrued liabilities	13	\$ 1,273,790	\$ 894,357
Customer deposits	14	112,128	-
Notes payable	15	62,558	-
Short-term loans	16	103,739	-
Lease liability	12	103,663	43,000
		1,655,878	937,357
Non-current Liabilities			
Loans payable	16	30,000	-
Lease liability	12	75,899	93,073
TOTAL LIABILITIES		1,761,777	1,030,430
SHAREHOLDERS' EQUITY			
Share capital	17	32,712,783	27,786,517
Equity reserve	17	2,948,611	2,508,233
Accumulated deficit		(32,626,335)	(28,103,397)
Accumulated other comprehensive loss		(1,131)	-
TOTAL SHAREHOLDERS' EQUITY		3,033,928	2,191,353
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 4,795,705	\$ 3,221,783

Nature and Continuance of Operations (Note 1)
Subsequent Events (Notes 23)

Approved and authorized for issuance by the Board of Directors on November 24, 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

		For the three months ended		For the nine months ended	
	Note	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue from sales of goods	18	\$ 1,109,426	\$ 96,009	\$ 1,866,222	\$ 189,613
Revenue from provision of services	18	344,479	354,934	1,011,280	699,294
TOTAL REVENUE		1,453,905	450,943	2,877,502	888,907
COST OF SALES		(893,441)	(71,043)	(1,448,420)	(176,399)
GROSS PROFIT		560,464	379,900	1,429,082	712,508
OPERATING EXPENSES					
Amortization	10	-	2,096	1,385	6,289
Depreciation	9,11	36,901	2,585	76,056	7,755
Office and miscellaneous		945,403	282,229	2,189,041	491,612
Professional fees		767,376	185,225	1,503,905	288,036
Research and development		283,823	1,775	314,761	11,602
Share-based payments	17	766,510	-	2,085,571	-
Travel		1,121	8,971	18,175	14,657
Wages and salaries		300,869	200,896	956,080	696,724
		(3,102,003)	(683,777)	(7,144,974)	(1,516,675)
OTHER INCOME (EXPENSE)					
Finance and other costs	21	(10,298)	(50,808)	(21,155)	(142,616)
Foreign exchange gain (loss)		(88,874)	55,942	(34,279)	25,953
Gain (loss) on settlement of debt	13,17	(38,879)	-	28,614	-
Listing expense	3	-	(7,804,859)	-	(7,804,859)
Gain on sale of investment	22	193,808	-	1,191,522	-
Other income (loss)		4,934	9,167	(2,285)	1,653
Scientific research and development tax credit		30,537	-	30,537	-
NET LOSS		(2,450,311)	(8,094,435)	(4,522,938)	(8,724,036)
OTHER COMPREHENSIVE LOSS					
Foreign exchange translation		(1,232)	-	(1,131)	-
COMPREHENSIVE LOSS		\$ (2,451,453)	\$ (8,094,435)	\$ (4,524,069)	\$ (8,724,036)
Loss per share					
Basic/Diluted		\$ (0.03)	\$ (0.21)	\$ (0.06)	\$ (0.32)
Weighted average number of common shares outstanding		76,192,416	38,744,283	73,185,449	27,597,979

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 - 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)
Shares issued for settlement of notes payable	1,291,549	645,775	-	-	-	645,775
Shares issued as transactions 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 of settlement of trades payable	45,325	22,662	-	-	-	22,662
Shares issued for settlement of convertible debentures and accrued interest	2,118,492	1,059,246	-	-	-	1,059,246
Share issued for exercise of warrants	316,940	221,741	(212,908)	-	-	8,833
Reclassification of unexercised conversion feature	-	-	(182,175)	182,175	-	-
Net loss	-	-	-	(8,724,036)	-	(8,724,036)
Balance at September 30, 2019	55,619,114	20,760,767	2,132,290	(26,117,992)	-	(3,224,935)
Units issued on private placement	14,051,499	7,025,750	-	-	-	7,025,750
Reclassification of unexercised conversion feature	-	-	(385,616)	385,616	-	-
Net loss	-	-	-	(2,371,021)	-	(2,371,021)
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	4,648,000	2,369,193	(1,645,193)	-	-	724,000
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
Shares issued for debt settlement	555,409	344,354	-	-	-	344,354
Shares issued for financing	961,538	500,000	-	-	-	500,000
Share-based payments	-	-	2,085,571	-	-	2,085,571
Net loss	-	-	-	(4,522,938)	-	(4,522,938)
Translation of foreign operations	-	-	-	-	(1,131)	(1,131)
Balance at September 30, 2020	79,260,998	\$ 32,712,783	\$ 2,948,611	\$ (32,626,335)	\$ (1,131)	\$ 3,033,928

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 nine months ended	
	September 30,	September 30,
	2020	2019
OPERATING ACTIVITIES		
Comprehensive loss	\$ (4,522,938)	\$ (8,724,036)
Adjustments for:		
Amortization	1,385	6,289
Depreciation	76,056	7,755
Finance and other costs	21,155	142,616
Gain on settlement of debt	(28,614)	-
Shares issued as acquisition cost	100,000	-
Impairment	-	13,972
Listing expense	-	7,804,859
Share-based payments	2,085,571	-
	(2,267,385)	(748,545)
Net changes in non-cash working capital items:		
Accounts receivable	(1,282,029)	15,283
Inventory	(488,384)	17,030
Prepays and deposits	240,518	(67,782)
Trade payables and accrued liabilities	486,976	321,971
Customer deposits	(133,831)	-
Funds used in operating activities	(3,444,135)	(462,043)
INVESTING ACTIVITIES		
Cash paid for acquisition, net	(457,407)	28,538
Disposal of equipment	-	(583)
Disposal of intellectual property	-	16
Proceeds received from sale of investment	997,714	-
Funds provided by investing activities	540,307	27,971
FINANCING ACTIVITIES		
Proceeds from issuance of common shares for financing	500,000	-
Proceeds from issuance of common shares for warrants exercised	724,000	-
Proceeds from issuance of notes payable	123,000	1,137,978
Repayment of notes payable	(164,701)	(405,873)
Repayment of convertible debentures	-	(100,833)
Repayment of lease liability	(57,527)	8,833
Funds provided by financing activities	1,124,772	640,105
Effects of exchange rate changes on cash	(1,131)	(16,380)
Change in cash	(1,779,056)	206,033
Cash, beginning of period	2,429,375	101,787
Cash, end of period	\$ 649,188	\$ 291,440

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 Nine Months Ended September 30, 2020
Expressed in Canadian Dollars

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") to provide better access and service to our US market.

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.

The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. There are significant uncertainties with respect to future developments and impact to the Company related to the COVID-19 pandemic, including the duration, severity and scope of the outbreak and the measures taken by governments and businesses to contain the pandemic. The ultimate impact of COVID-19 on the Company's business operations cannot be reasonably estimated at this time. As at the financial statement approval date, the outbreak and the related mitigation measures have had the following impacts on the Company's operations, among others: temporary closure of business locations, and supply chain issues. The extent to which these events may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine the ultimate financial impacts at this time. Any deterioration in the current situation could have an adverse impact on our business, results of operations, financial position and cash flows in 2020 and beyond.

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

2. BASIS OF PREPARATION

Statement of Compliance

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

The notes presented in these condensed consolidated interim financial statements include only significant events and transactions occurring since the Company’s last fiscal year end and they do not include all of the information required in the Company’s most recent annual financial statements. Except as noted below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company’s annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2019, which were prepared in accordance with IFRS as issued by IASB. There have been no significant changes in judgement or estimates from those disclosed in the financial statements for the year ended December 31, 2019.

2. BASIS OF PREPARATION (CONT’D)

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 24, 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:

Name of Subsidiary	Place of Incorporation	Ownership Interest
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.

Draganfly Inc.**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited****For the Three and Nine Months Ended September 30, 2020****Expressed in Canadian Dollars****3. AMALGAMATION (CONT'D)**

Number of shares of Draganfly Inc.		10,500,001
Fair value of common shares in concurrent financing	\$	0.50
Fair value of shares of Draganfly Inc.	\$	5,250,001
Fair value of warrants		1,645,193
Fair value of shares issued for transaction fees		1,000,000
Net assets acquired	\$	(90,335)
Listing expense	\$	7,804,859
Fair value of the Company acquired, net of liabilities		
Cash	\$	28,538
Accounts receivable		4,991
Loans receivable		963,269
Accounts payable and accrued liabilities		(406,463)
Subscription receipts		(500,000)
	\$	90,335

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.

Draganfly Inc.**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited****For the Three and Nine Months Ended September 30, 2020****Expressed in Canadian Dollars****4. ACQUISITION**

On April 30, 2020, the Company closed the share purchase agreement with the shareholders of Dronelogics Systems Inc. ("Dronelogics"), whereby the Company acquired all of the issued and outstanding shares in the capital of Dronelogics, 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 working capital adjustment and 3,225,438 common shares in the capital of the Company.

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 with a fair value 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.

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	\$	1,916,322
Fair value of the Company acquired, net of liabilities		
Cash	\$	42,593
Accounts receivable		98,852
Inventory		629,684
Prepays and deposits		93,997
Other current assets		3,014
Capital assets		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)
	\$	196,397

From the date of the acquisition to September 30, 2020, the acquired business contributed \$1,733,811 of revenue and a net income of \$335,724.

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

	September 30, 2020	December 31, 2019
Cash held in banks	\$ 506,645	\$ 2,429,375
Guaranteed investment certificate	142,543	-
	\$ 649,188	\$ 2,429,375

On March 27, 2020, the Company invested \$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 nine months ended September 30, 2020, the Company accrued interest of \$543 on this GIC.

6. ACCOUNTS RECEIVABLE

	September 30, 2020	December 31, 2019
Trade accounts receivable	\$ 610,876	\$ 169,810
GST input tax credits	-	54,885
	\$ 610,876	\$ 224,695

7. INVENTORY

	September 30, 2020	December 31, 2019
Finished goods	\$ 811,603	\$ -
Parts	355,028	48,563
	\$ 1,166,631	\$ 48,563

During the nine months ended September 30, 2020, the Company recorded a provision for its obsolete and slow-moving inventory of \$17,553.

8. PREPAID EXPENSES AND DEPOSITS

	September 30, 2020	December 31, 2019
Insurance	\$ 20,144	\$ 35,703
Prepaid marketing services	34,316	227,459
Prepaid rent	6,565	-
Prepaid subscriptions	327	1,583
WCB Premiums	-	916
Deposits	64,757	6,969
	\$ 126,109	\$ 272,630

Draganfly Inc.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

For the Three and Nine Months Ended September 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
Additions	2,028	17,098	-	-	-	19,126
Assets acquired in the Acquisition	15,369	7,573	4,352	-	27,652	54,946
Balance at September 30, 2020	\$ 24,397	\$ 166,844	\$ 4,352	\$ 29,967	\$ 27,652	\$ 253,212
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
Charge for the period	3,667	15,553	2,013	2,402	5,229	28,864
Balance at September 30, 2020	\$ 10,428	\$ 53,497	\$ 2,013	\$ 21,696	\$ 5,229	\$ 92,863
Net book value:						
December 31, 2019	\$ 239	\$ 104,229	\$ -	\$ 10,673	\$ -	\$ 115,141
September 30, 2020	\$ 13,969	\$ 113,347	\$ 2,339	\$ 8,271	\$ 22,423	\$ 160,349

10. INTELLECTUAL PROPERTY

	Total
Cost	
Balance at January 1, 2019	\$ 71,805
Impairment	(29,874)
Balance at December 31, 2019	\$ 41,931
Balance at September 30, 2020	\$ 41,931
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
Charge for the period	1,385
Balance at September 30, 2020	\$ 41,931
Net book value:	
December 31, 2019	\$ 1,385
September 30, 2020	\$ -

Draganfly Inc.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

For the Three and Nine Months Ended September 30, 2020

Expressed in Canadian Dollars

11. RIGHT OF USE ASSETS

		Total
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
Balance at September 30, 2020	\$	242,967
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
Charge for the period		47,192
Balance at September 30, 2020	\$	76,737
Net book value:		
December 31, 2019	\$	129,994
September 30, 2020	\$	166,230

12. LEASE LIABILITY

		Total
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
Leases acquired in the Acquisition		87,203
Interest expense		13,813
Lease payments		(57,527)
Balance at September 30, 2020		179,562
Which consists of:		
Current lease liability	\$	103,663
Non-current lease liability		75,899
Balance at September 30, 2020	\$	179,562

13. TRADE PAYABLES AND ACCRUED LIABILITIES

	September 30, 2020	December 31, 2019
Trade accounts payable	\$ 863,190	\$ 688,309
Accrued liabilities	349,019	162,658
Due to related parties (Note 20)	-	9,681
Government grant payable (note 19)	33,709	33,709
GST/HST Payable	27,872	-
	\$ 1,273,790	\$ 894,357

During the nine months ended September 30, 2020, the Company's vendor forgave an outstanding amount, and the Company recognized \$67,493 (September 30, 2019 - \$nil) as gain on settlement of debt.

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

	September 30, 2020	December 31, 2019
Customer deposits	\$ 112,128	\$ -

15. NOTES PAYABLE

	September 30, 2020	December 31, 2019
Opening balance	\$ -	\$ 844,304
Issuance of notes payable	60,000	1,137,978
Repayment of notes payable	-	(1,036,336)
Settlement of notes payable	-	(62,000)
Foreign exchange	-	(22,366)
Interest accrued	2,558	101,689
Eliminated on consolidation	-	(963,269)
Ending balance	\$ 62,558	\$ -

	Start Date	Maturity Date	Rate	Principal	Interest	Total
Note 1	2020-04-30	2021-04-29	10%	\$ 60,000	\$ 2,558	\$ 62,558
Total				\$ 60,000	\$ 2,558	\$ 62,558

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.

	Start Date	Maturity Date	Rate	Principal	Interest	Total
CEBA	2020-05-19	2022-12-31	0%	\$ 40,000	\$ -	\$ 40,000
Vehicle loan	2019-08-30	2024-09-11	6.99%	22,664	4,318	26,982
Shopify loan	2020-08-05		7.00%	60,947	5,810	66,757
Total				\$ 123,611	\$ 10,128	\$ 133,739

Which consists of:

Current loans payable	\$ 103,739
Non-current loans payable	30,000
Balance at September 30, 2020	\$ 133,739

On May 19, 2020, Dronelogs received a Canada Emergency Business Account (CEBA) loan. 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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16. LOANS (CONT'D)

On August 5, 2020, Dronelogics entered into a working capital loan agreement with Shopify of \$83,000. Interest of 7% is calculated on the loan. There is no maturity date for the loan as it is used as part of Dronelogics working capital agreement with Shopify. During the nine months ended September 30, 2020, \$16,243 in repayment was repaid.

17. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the nine months ended September 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.
- On July 3, 2020, the company issued 961,538 common shares for proceeds of \$500,000.
- On July 16, 2020, the Company issued 555,409 common shares for debt settlement of \$344,354, and recognized a loss of \$38,879 in the statement of comprehensive loss
- On September 21, 2020, the Company issued 10,000 common shares for the exercise warrants for \$5,000.

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 September 30, 2020, the Company had the following options outstanding and exercisable:

Grant Date	Expiry Date	Exercise Price	Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Exercisable
October 30, 2019	October 30, 2029	\$ 0.50	9.34	2,941,666	1,008,333
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	325,000
July 3, 2020	July 3, 2025	\$ 0.64	4.76	1,000,000	166,666
				5,636,666	1,783,332

Draganfly Inc.**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited****For the Three and Nine Months Ended September 30, 2020****Expressed in Canadian Dollars****17. SHARE CAPITAL (CONT'D)**

	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	(133,334)	0.50
Granted	2,045,000	0.66
Outstanding, September 30, 2020	5,636,666	\$ 0.55

During the nine months ended September 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.
- The Company granted 500,000 options to a director. Each option is exercisable at \$0.64 per share for a period of 10 years from the grant date.
- The Company granted 500,000 options to a director. Each option is exercisable at \$0.64 per share for a period of 5 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 nine months ended September 30, 2020, the Company recorded share-based payment expense of \$2,085,571 (2019: \$nil) related to the expense of stock options, 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 September 30, 2020, the Company had the following RSUs outstanding:

Grant Date	Number of RSUs Outstanding
October 30, 2019	2,750,000
November 19, 2019	250,000
April 30, 2020	375,000
	3,375,000

During the nine months ended September 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.

Draganfly Inc.**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited****For the Three and Nine Months Ended September 30, 2020****Expressed in Canadian Dollars****17. SHARE CAPITAL (CONT'D)**

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 nine months ended September 30, 2020, the Company recorded share-based payment expense of \$761,934 (2019: \$nil) 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.

Warrants

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2018	770,030	\$ 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
Exercised	(4,648,000)	0.15
Outstanding, September 30, 2020	13,403,499	\$ 0.50

As at September 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	13,403,499
			13,403,499

The weighted average remaining contractual life of warrants outstanding as of September 30, 2020 was 0.10 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 September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Product sales	\$ 1,109,426	\$ 96,009	\$ 1,866,222	\$ 189,613
Consulting	344,479	354,934	1,011,280	699,294
	\$ 1,453,905	\$ 450,943	\$ 2,877,502	\$ 888,907

Draganfly Inc.**Notes to the Condensed Consolidated Interim Financial Statements - Unaudited****For the Three and Nine Months Ended September 30, 2020****Expressed in Canadian Dollars****19. REVENUE (CONT'D)**

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Canada	\$ 1,055,168	\$ 6,034	\$ 1,811,280	\$ 95,228
United States	390,623	443,177	1,042,183	791,569
International	8,114	1,732	24,039	2,110
	\$ 1,453,905	\$ 450,943	\$ 2,877,502	\$ 888,907

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 (Note 13).

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 nine months ended September 30, 2020, the company incurred fees of \$119,750 compared to \$nil in 2019.

On October 1, 2019, the Company entered into an independent consultant agreement ("Consultant Agreement") with 1502372 Alberta Ltd, a company controlled by Cameron Chell, CEO and director, to provide executive consulting services to the Company. 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 nine months ended September 30, 2020, the company incurred fees of \$84,150 compared to \$9,000 in 2019.

As at September 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 Nine Months Ended September 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 nine months ended September 30, 2020 and 2019 included:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Management fees paid to a company controlled by CEO and director	\$ 73,500	\$ -	\$ 203,900	\$ -
Management fees paid to a company controlled by a former director	45,000	-	120,000	-
Salaries	111,292	32,712	245,006	106,143
Salaries paid to the former owner of the Company	23,051	32,554	86,097	115,068
Share-based payments	505,702	-	1,145,141	-
	\$ 758,545	\$ 65,266	\$ 1,800,144	\$ 221,211

21. FINANCE AND OTHER COSTS

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Accretion expense	\$ -	\$ -	\$ -	7,957
Interest expense for notes payable	1,551	48,682	2,558	88,719
Interest on trade payables and bank charges	8,747	2,126	18,597	45,940
	\$ 10,298	\$ 50,808	\$ 21,155	\$ 142,616

22. 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 \$997,714 (US\$709,544) and an estimated \$193,808 (US\$145,294) will be received by the end of October 2021, which has been accounted for in amounts receivable.

Draganfly Inc.

Notes to the Condensed Consolidated Interim Financial Statements - Unaudited

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23. SUBSEQUENT EVENTS

On November 10, 2020, Dronelogics entered into lease agreements with the wholly-owned subsidiaries of Global UAV Technologies: Pioneer Aerial Surveys Ltd. ("Pioneer") and High Eye Aerial Imaging Inc. ("High Eye", together with Pioneer the "Global UAV Subsidiaries") (the "Lease Agreements"), pursuant to which Dronelogics will lease all of the assets of the Global UAV Subsidiaries (the "Assets") with an exclusive option to purchase the Assets at any time during the term of the Lease Agreements (the "Option").

Pursuant to the Lease Agreements, Dronelogics paid an initial deposit of \$50,000 (the "Deposit") upon signing and will pay four quarterly lease payments to each of the Global UAV Subsidiaries for an aggregate amount of \$31,500 per quarter (for a total amount of \$126,000 (the "Lease Payments") during the term of the Lease Agreements.

Should Dronelogics choose to exercise the Option, Dronelogics is required to pay the remainder of the Lease Payments outstanding as well as \$220,000 in common shares of the Company based on a 30 day volume weighted average price per common share of the Company following the execution of the Lease Agreements (the "Option Price"), for aggregate consideration of \$396,000 (consisting of the Deposit, Lease Payment, and the Option Price).

Closing is subject to the approval from the shareholders of Global UAV and a number of closing conditions customary for a transaction of this nature, including the filing of required forms with and the approval of the CSE.