Draganfly Inc.

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT (PCAOB ID1173)

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of Draganfly Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of Draganfly Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years ended December 31, 2021, 2020, and 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company *as of* December 31, 2021 and 2020, and its financial performance and its cash flows for the years ended December 31, 2021, 2020 and 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

/s/ DMCL

We have served as the Company's auditor since 2019.
Vancouver, Canada
April 3, 2022

An independent firm
associated with Moore
Global Network Limited

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

As at	Notes		December 31, 2021		December 31, 2020
ASSETS					
Current Assets					
Cash and cash equivalents	6	$	**23,075,713**	$	1,982,416
Receivables	7		**1,407,127**		810,791
Inventory	8		**3,390,822**		1,233,619
Notes receivable	9		**190,170**		-
Prepaids	10		**5,494,877**		335,022
			33,558,709		4,361,848
Non-current Assets					
Goodwill	13		**5,940,409**		2,166,563
Equipment	12		**297,043**		153,870
Intangible assets	13		**593,901**		273,867
Investments	11		**291,066**		-
Notes receivable	9		**964,006**		-
Right of use asset	14		**468,106**		144,419
TOTAL ASSETS		$	**42,113,240**	$	7,100,567
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Trade payables and accrued liabilities	16	$	**799,139**	$	1,857,177
Customer deposits	17		**172,134**		385,449
Deferred income	18		**73,286**		-
Loans payable	19		**6,745**		62,978
Derivative liability	20		**5,560,002**		748,634
Lease liability	15		**110,481**		93,239
			6,721,787		3,147,477
Non-current Liabilities					
Deferred income	18		**-**		5,062
Loans payable	19		**86,572**		34,938
Lease liability	15		**378,642**		64,885
TOTAL LIABILITIES			**7,187,001**		3,252,362
SHAREHOLDERS' EQUITY					
Share capital	20		**81,038,365**		36,943,304
Reserves – share-based payments	20		**6,406,117**		3,024,007
Accumulated deficit			**(52,322,182)**		(36,119,210)
Accumulated other comprehensive income (loss)			**(196,061)**		104
TOTAL SHAREHOLDERS' EQUITY			**34,926,239**		3,848,205
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	**42,113,240**	$	7,100,567

Nature and Continuance of Operations (Note 1)

Approved and authorized for issuance by the Board of Directors on April 3, 2022.

"Scott Larson"	*"Cameron Chell"*
Director	*Director*

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

Draganfly Inc.
Consolidated Statements of Comprehensive Loss
Expressed in Canadian Dollars

	Note	For the years ended December 31, **2021**	2020	2019
REVENUE				
Revenue from sales of goods	21	**$ 5,103,399**	$ 3,087,223	$ 248,939
Revenue from provision of services	21	**1,950,466**	1,276,288	1,131,488
TOTAL REVENUE		**7,053,865**	4,363,511	1,380,427
COST OF SALES	8	**(4,410,777)**	(2,603,911)	(218,800)
GROSS PROFIT		**2,643,088**	1,759,600	1,161,627
OPERATING EXPENSES				
Amortization	13	**$ 135,966**	$ 43,518	$ 8,386
Depreciation	12,14	**175,098**	109,108	41,250
Director fees	23	**370,094**	-	-
Insurance		**2,962,767**	39,988	23,900
Office and miscellaneous	22	**6,455,998**	3,387,865	2,103,732
Professional fees	23	**4,445,949**	1,762,594	524,101
Research and development		**510,895**	567,999	16,883
Share-based payments	20,23	**3,952,595**	2,668,464	761,559
Travel		**143,904**	25,617	30,896
Wages and salaries	23	**2,768,010**	1,649,329	989,083
		(21,921,276)	(10,254,482)	(4,499,790)
OTHER INCOME (EXPENSE)				
Change in fair value of derivative liability	4,20	**8,149,812**	(748,634)	-
Finance and other costs		**5,074**	(23,117)	(171,905)
Foreign exchange gain (loss)		**362,448**	(87,104)	5,803
Gain on disposal of assets		**-**	-	28,651
Gain (loss) on settlement of debt		**-**	(38,879)	198,976
Gain on forgiveness of debt		**-**	127,711	-
Government income	26	**24,148**	51,627	-
Listing expense	5	**-**	-	(7,804,859)
Loss on write-off of loan receivable		**-**	-	(13,560)
Loss on write-off of notes receivable	9	**(891,471)**	-	-
Loss on impairment of goodwill	13	**(4,579,763)**	-	-
Other income	26	**4,968**	1,197,465	-
NET LOSS		**(16,202,972)**	(8,015,813)	(11,095,057)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified to profit or loss				
Foreign exchange translation		**136,475**	104	-
Items that will not be reclassified to profit or loss				
Change in fair value of equity investments at FVOCI	11	**(332,640)**	-	-
COMPREHENSIVE LOSS		$ **(16,399,137)**	$ (8,015,709)	$ (11,095,057)
Net loss per share				
Basic & diluted		**$ (0.61)**	$ (0.48)	$ (1.16)
Weighted average number of common shares outstanding - basic & diluted		**27,787,348**	16,558,184	9,529,595

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

Draganfly Inc.
Consolidated Statements of Changes in Shareholders' Equity
Expressed in Canadian Dollars

					Accumulated Other Comprehensive Income (Loss)		
	Number of Shares	Share Capital	Reserves – Share-Based Payments	Accumulated Deficit	Change in Fair Value of Investments at FVTOCI	Exchange Differences on Translation of Foreign Operations	Total Shareholders' Equity
Balance at December 31, 2018	**7,869,384**	**$ 12,561,342**	**$ 882,180**	**$ (17,576,131)**	**$ -**	**$ -**	**$ (4,132,609)**
Shares issued for settlement of notes payable	258,310	645,775	-	-	-	-	645,775
Shares issued as transactions fees	400,000	1,000,000	-	-	-	-	1,000,000
Recapitalization of Draganfly Inc.	2,100,000	5,250,001	1,645,193	-	-	-	6,895,194
Shares issued of settlement of trades payable	9,065	22,662	-	-	-	-	22,662
Shares issued for settlement of convertible debentures and accrued interest	423,698	1,059,246	-	-	-	-	1,059,246
Shares issued for exercise of warrants	63,388	221,741	(212,908)	-	-	-	8,833
Reclassification of unexercised conversion feature	-	-	(567,791)	567,791	-	-	-
Shares and warrants issued on private placement	2,810,300	7,025,750	-	-	-	-	7,025,750
Stock-based compensation	-	-	761,559	-	-	-	761,559
Net loss	-	-	-	(11,095,057)	-	-	(11,095,057)
Balance at December 31, 2019	**13,934,145**	**$ 27,786,517**	**$ 2,508,233**	**$ (28,103,397)**	**$ -**	**$ -**	**$ 2,191,353**
Shares issued for exercise of warrants	1,584,775	4,007,130	(1,645,193)	-	-	-	2,361,937
Shares issued for acquisition	645,088	2,178,961	-	-	-	-	2,178,961
Shares issued as finder's fees	40,000	100,000	-	-	-	-	100,000
Shares issued for debt settlement	111,082	344,354	-	-	-	-	344,354
Shares issued for financing	703,607	2,018,845	-	-	-	-	2,018,845
Shares issued for exercise of RSU's	199,998	507,497	(507,497)	-	-	-	-
Share-based payments	-	-	2,668,464	-	-	-	2,668,464
Net loss	-	-	-	(8,015,813)	-	-	(8,015,813)
Translation of foreign operations	-	-	-	-	-	104	104
Balance at December 31, 2020	**17,218,695**	**$ 36,943,304**	**$ 3,024,007**	**$ (36,119,210)**	**$ -**	**$ 104**	**$ 3,848,205**

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

Draganfly Inc.
Consolidated Statements of Changes in Shareholders' Equity
Expressed in Canadian Dollars

					Accumulated Other Comprehensive Loss		
	Number of Shares	Share Capital	Reserves – Share-Based Payments	Accumulated Deficit	Change in Fair Value of Investments at FVOCI	Exchange Differences on Translation of Foreign Operations	Total Shareholders' Equity
Balance at December 31, 2020	**17,218,695**	**$ 36,943,304**	**$ 3,024,007**	**$ (36,119,210)**	**$ -**	**$ 104**	**$ 3,848,205**
Shares issued for acquisition	1,200,000	2,303,999	1,241,250	-	-	-	3,545,249
Shares issued for financing	11,584,657	36,092,187	-	-	-	-	36,092,187
Share issue costs	-	(4,678,821)	864,060	-	-	-	(3,814,761)
Shares issued for exercise of RSUs	448,660	1,752,052	(1,752,052)	-	-	-	-
Shares issued for exercise of warrants	1,939,534	4,929,790	-	-	-	-	4,929,790
Shares issued for exercise of stock options	405,499	1,937,866	(923,743)	-	-	-	1,014,123
Shares issued in lieu of cash	371,901	1,757,988	-	-	-	-	1,757,988
Share-based payments	-	-	3,952,595	-	-	-	3,952,595
Net loss	-	-	-	(16,202,972)	-	-	(16,202,972)
Change in fair value of equity investments at FVOCI	-	-	-	-	(332,640)	-	(332,640)
Translation of foreign operations	-	-	-	-	-	136,475	136,475
Balance at December 31, 2021	**33,168,946**	**$ 81,038,365**	**$ 6,406,117**	**$ (52,322,182)**	**$ (332,640)**	**$ 136,579**	**$ 34,926,239**

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

Draganfly Inc.
Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

	For the year ended December 31, 2021	2020	2019
OPERATING ACTIVITIES			
Net loss	$ **(16,202,972)**	$ (8,015,813)	$ (11,095,057)
Adjustments for:			
Amortization	**135,966**	43,518	8,386
Depreciation	**175,098**	109,108	41,250
Change in fair value of derivative liability	**(8,149,812)**	748,634	-
Impairment of notes receivable	**891,471**	-	-
Impairment of goodwill	**4,579,763**	-	-
Finance and other costs	**(926)**	23,117	171,905
Gain on settlement of debt	**-**	38,879	(198,976)
Gain on forgiveness of debt	**-**	(127,711)	-
Gain on disposal of assets	**-**	-	(28,651)
Income from government assistance	**(24,148)**	(21,090)	-
Expense of non-financial asset	**-**	-	15,389
Listing expense	**-**	-	7,804,859
Shares Issued as acquisition cost	**-**	100,000	-
Share-based payments	**3,952,595**	2,568,464	761,559
	(14,642,965)	(4,532,894)	(2,519,336)
Net changes in non-cash working capital items:			
Receivables	**(596,336)**	(1,481,944)	(126,799)
Inventory	**(2,157,203)**	(555,371)	12,622
Prepaids	**(3,401,868)**	31,605	(249,325)
Trade payables and accrued liabilities	**(1,044,133)**	1,261,066	(1,005,121)
Customer deposits	**(213,315)**	139,490	-
Deferred income	**51,186**	5,062	-
Funds used in operating activities	**(22,004,634)**	(5,132,986)	(3,887,959)
INVESTING ACTIVITIES			
Cash paid for acquisition, net of cash received	**(466,643)**	(457,407)	28,538
Purchase of equipment	**(212,579)**	(23,888)	(87,785)
Disposal of equipment	**-**	-	31,500
Purchase of investments	**(623,706)**	-	-
Issuance of notes receivable	**(2,002,678)**	-	-
Proceeds from sales of investments	**-**	997,714	-
Funds provided by (used in) investing activities	**(3,305,606)**	516,419	(27,747)

Draganfly Inc.
Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

		For the year ended December 31,				
		2021		2020		2019
FINANCING ACTIVITIES						
Proceeds from issuance of common shares for financing		**44,255,651**		2,018,845		6,534,583
Share issue costs		**(3,814,762)**		-		-
Proceeds from issuance of common shares for warrants exercised		**4,929,790**		2,361,937		-
Proceeds from issuance of common shares for stock options exercised		**1,014,123**		-		-
Proceeds from issuance of loans		**60,000**		129,310		-
Loans repayments		**(4,319)**		(5,062)		-
Proceeds from issuance of notes payable		**-**		123,000		1,137,978
Repayment of convertible debentures		**-**		-		(486,131)
Repayment of notes payable		**-**		(183,000)		(882,770)
Repayment of loans		**(44,428)**		(192,084)		-
Repayment of lease liability		**(128,996)**		(83,442)		(38,000)
Funds provided by financing activities		**46,267,059**		4,169,504		6,265,660
Effects of exchange rate changes on cash		**136,478**		104		(22,366)
Change in cash		**20,956,819**		(447,063)		2,349,954
Cash, beginning of year		**1,982,416**		2,429,375		101,787
Cash, end of year	**$**	**23,075,713**	$	1,982,416	$	2,429,375
Cash and cash equivalents consist of the following:						
Cash held in banks	**$**	**22,729,212**	$	1,839,871	$	2,429,375
Guaranteed investment certificate		**346,501**		142,545		-
	$	**23,075,713**	$	1,982,416	$	2,429,375

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

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 trade on the Canadian Securities Exchange (the "CSE")," on the Nasdaq Capital Market (the "Nasdaq") under the symbol "DPRO" and on the Frankfurt Stock Exchange under the symbol "3U8". The Company's head office is located at 2108 St. George Avenue, Saskatoon, SK, S7M 0K7 and its registered office is located at 2800 – 666 Burrard Street, Vancouver, BC, V6C 2Z7.

COVID-19

The outbreak of the coronavirus, also known as "COVID-19," spread across the globe and is impacting worldwide economic activity. 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. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The Company will continue to monitor the impact of the COVID-19 pandemic, the duration and impact of which is unknown at this time which may include further disruptions to global supply chains and the manufacturing and delivery of parts that the Company relies on for its products. Although it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods, such impacts are not expected to be significant going forward. Aside from the acquisition of Dronelogics and being opportunistic on other partnerships or acquisitions, the Company has expanded its products and services offered to include health and telehealth applications relating to COVID-19, as a way to mitigate the effects of COVID-19.

Share consolidation

During the year ended December 31, 2021 in conjunction with its Regulation A financing, the Company underwent a share consolidation at a 5-1 ratio. All reference to share, per share amounts, warrants, RSU's and stock options in these financial statements have been retroactively restated to reflect the consolidation.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated 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 consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These consolidated financial statements were authorized for issue by the Board of Directors on April 3, 2022.

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%
Dronelogics Systems Inc.	Canada	100%

All intercompany balances and transactions were eliminated on consolidation.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to use judgment in applying its accounting policies and make estimates and assumptions about reported amounts at the date of the consolidated financial statements and in the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Impairment of Non-financial assets

The CGU's recoverable amount is evaluated using the higher of the value in use and fair value less costs to sell calculations. In calculating the recoverable amount, the Company utilizes discounted cash flow techniques. Management calculates the discounted cash flows based upon its best estimate of a number of economic, operating, engineering, environmental, political and social assumptions. Any changes in the assumptions due to changing circumstances may affect the calculation of the recoverable amount.

Share-based payments

The cost of share-based payment transactions with directors, officers and employees are measured 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 life, volatility, risk-free interest rate, expected forfeiture rate and dividend yield of the stock option.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these income tax provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by tax authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made. Deferred tax assets are recognized when it is determined that the company is likely to recognize their recovery from the generation of taxable income.

Inventory

Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined with reference to the estimated selling price. The Company estimates selling price based upon assumptions about future demand and current and anticipated retail market conditions. The future realization of these inventories may be affected by future technology or other market- driven changes that may reduce future selling prices.

Contingencies

The assessment of contingencies involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against the Company and that may result in regulatory or government actions that may negatively impact the Company's business or operations, the Company and its legal counsel evaluate the perceived merits of the legal proceeding or unasserted claim or action as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or when assessing the impact on the carrying value of the Company's assets. Contingent assets are not recognized in the consolidated financial statements.

Useful lives of equipment and intangible assets

Estimates of the useful lives of equipment and intangible assets are based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of the relevant assets may be based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the equipment would increase the recorded expenses and decrease the non-current assets.

Significant judgments

The preparation of consolidated financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's consolidated financial statements include:

Business combinations

The definition of whether a set of assets acquired and liabilities assumed constitute a business may require the company to make certain judgements taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or economic benefits.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Business combination versus asset acquisition

The Company considered the applicability of IFRS 3 – Business Combinations ("IFRS 3") with respect to the Acquisitions (Notes 3,4, and 5). IFRS 3 defines a business as having a system where inputs enter a process to produce outputs. The Company has determined that the acquisition of Dronelogics Systems Inc. and Vital Intelligence Inc. are business combinations and, accordingly, have accounted for as such.

Other significant judgments

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification of financial instruments;
- the assessment of revenue recognition using the five-step approach under IFRS 15 and the collectability of amounts receivable;
- the determination of whether a set of assets acquired and liabilities assumed constitute a business; and
- the determination of the functional currency of the company.

Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at the reporting period rate of exchange. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses denominated in a foreign currency are translated at the monthly average exchange rate. Gains and losses resulting from the translation adjustments are included in income.

The functional currencies for the parent company and each subsidiary are as follows:

Draganfly Inc.	Canadian Dollar
Draganfly Innovations Inc.	Canadian Dollar
Draganfly Innovations USA, Inc.	US Dollar
Dronelogics Systems Inc.	Canadian Dollar

Financial statements of subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollars as follows: all asset and liability accounts are translated at the year-end exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the year. The resulting translation gains and losses are recorded as exchange differences on translating foreign operations in other comprehensive income

Share-based payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry. Amounts recorded for forfeited unvested options are reversed in the period the forfeiture occurs.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Share-based payment expense relating to cash-settled awards, including restricted share units is accrued over the vesting period of the units based on the quoted market value of Company's common shares. As these awards will be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

Restricted Share Units

The restricted share units ("RSUs") entitle employees, directors, or officers to cash payments payable upon vesting based on vesting terms determined by the Company's Board of Directors at the time of the grant. RSUs are measured at the fair value of awards on the grant date using the prior days closing price. Amounts recorded for forfeited unvested RSUs are reversed in the period the forfeiture occurs. The expense is recognized on a graded vesting basis over the vesting period, with a corresponding charge to profit or loss.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted income per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. For the periods presented, the Company incurred a loss and therefore basic loss per share equals diluted loss per share.

a) Financial assets

<u>Classification and measurement</u>

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The classification of debt instruments is driven by the business model for managing the financial assets and their contractual cash flow characteristics. Debt instruments are measured at amortized cost if the business model is to hold the instrument for collection of contractual cash flows and those cash flows are solely principal and interest. If the business model is not to hold the debt instrument, it is classified as FVTPL. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL, for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument by-instrument basis) to designate them as at FVTOCI.

<u>Financial assets at FVTPL</u>
Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the income statement in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Financial assets at FVTOCI

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income.

There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

Derecognition of financial assets

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the income statement. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

b) Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss (FVTPL) - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method. Trade payables, customer deposits and loans are included in this category. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Derecognition of financial liabilities

Financial liabilities are derecognized when its contractual obligations are discharged, cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in profit or loss.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indicators exist, then the asset's recoverable amount is estimated. The recoverable amounts

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

of the following types of intangible assets are measured annually, whether or not there is any indication that it may be impaired:

- an intangible asset with an indefinite useful life;
- an intangible asset not yet available for use; and
- goodwill recognized in a business combination.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable a mount. Impairment losses are recognized in the statement of comprehensive loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets other than goodwill and intangible assets that have indefinite useful lives, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed in a subsequent period when there has been an increase in the recoverable amount of a previously impaired asset or CGU. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Income taxes

Current income tax:
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:
Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Inventory

Inventory consists of raw materials for manufacturing of multi-rotor helicopters, industrial areal video systems, civilian small unmanned aerial systems or vehicles, health monitoring equipment, and wireless video systems. Inventory is initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value.

Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and consulting services in the ordinary course of the Company's business. Revenue is shown net of return allowances and discounts.

Sales of goods
The Company manufactures and sells a range of multi-rotor helicopters, industrial aerial video systems, and civilian small unmanned aerial systems or vehicles. Sales are recognized at a point-in-time when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location or picked up by the customer, the risks of obsolescence and loss have been transferred to the customer.

Revenue from these sales is recognized based on the price specified in the contract, net of the estimated discounts and returns. Accumulated experience is used to estimate and provide for the discounts and returns, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. To date, returns have not been significant. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

Some contracts include multiple deliverables, such as the manufacturing of hardware and support. Support is performed by another party and does not include an integration service. It is therefore accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expect cost plus margin.

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Services
The Company provides consulting, custom engineering, drones as a service, and investigating and solving on a project-by-project basis under fixed-price and variable price contracts. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual labour hours spend relative to the total expected labour hours. If contracts include the manufacturing of hardware, revenue for the hardware is recognized at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Company exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized. If the contract includes an hourly fee, revenue is recognized in the amount to which the Company has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

Cost of Goods Sold

Cost of sales includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight costs, as well as provisions for reserves related to product shrinkage, excess or obsolete inventory, or lower of cost and net realizable value adjustments as required.

Intangible Assets and Goodwill

An intangible asset is an identifiable asset without physical substance. An asset is identifiable if it is separable, or aris es from contractual or legal rights, regardless of whether those rights are transferrable or separable from the Company or from other rights and obligations. Intangible assets include intellectual property, which consists of patent and trademark applications.

Intangible assets acquired externally are measured at cost less accumulated amortization and impairment losses. The cost of a group of intangible assets acquired is allocated to the individual intangible assets based on their relative fair values. The cost of intangible assets acquired externally comprises its purchase price and any directly attributable cost of preparing the asset for its intended use. Research and development costs incurred subsequent to the acquisition of externally acquired intangible assets and on internally generated intangible assets are accounted for as research and development costs.

Intangible assets with finite useful lives are amortized on a straight line basis over the expected life of each intellectual property to write off the cost of the assets from the date they are available for use.

Goodwill represents the excess of the value of the consideration transferred over the fair value of the net identifiable assets and liabilities acquired in a business combination. Goodwill is allocated to the cash generating unit to which it relates.

Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Depreciation is generally calculated on a declining balance method to write off the cost of the assets to their residual values over their estimated useful lives. Depreciation for leasehold improvements is fully expensed over the expected term of the lease. The depreciation rates applicable to each category of equipment are as follows:

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Class of equipment	Depreciation rate
Computer equipment	30%
Furniture and equipment	20%
Leasehold improvements	Over expected life of lease
Software	30%
Vehicles	30%

Research and development expenditures

Expenditures on research are expensed as incurred. Research activities include formulation, design, evaluation and final selection of possible alternatives, products, processes, systems or services. Development expenditures are expensed as incurred unless the Company can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) its intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Government Assistance

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the period that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, the cost of the asset is reduced by the amount of the grant and the grant is recognized as income in equal amounts over the expected useful life of the asset.

SR&ED Investment tax credits

The Company claims federal investment tax credits as a result of incurring scientific research and experimental development ("SR&ED") expenditures. Federal investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Federal investment tax credits are accounted for as a reduction of research and development expense for items of a period expense nature or as a reduction of property and equipment for items of a capital nature. Management has made a number of estimates and assumptions in determining the expenditures eligible for the federal investment tax credit claim. It is possible that the allowed amount of the federal investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency.

The Company claims provincial investment tax credits as a result of incurring SR&ED expenditures. Provincial investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the provincial investment tax credit claim. The provincial investment tax credits are refundable and have been recorded as a SR&ED tax credit receivable, and as a reduction in research and development expenses on the statement of comprehensive loss. It is possible that the allowed amount of the provincial investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency and the Alberta Tax and Revenue Administration.

Expressed in Canadian Dollars

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONT'D)

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement date, the lease liability is recognized at the present value of the future lease payments and discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate. A corresponding right-of-use ("ROU") asset will be recognized at the amount of the lease liability, adjusted for any lease incentives received and initial direct costs incurred. Over the term of the lease, financing expense is recognized on the lease liability using the effective interest rate method and charged to net income, lease payments are applied against the lease liability and depreciation on the ROU asset is recorded by class of underlying asset.

The lease term is the non-cancellable period of a lease and includes periods covered by an optional lease extension option if reasonably certain the Company will exercise the option to extend. Conversely, periods covered by an option to terminate are included if the Company does not expect to end the lease during that time frame. Leases with a term of less than twelve months or leases for underlying low value assets are recognized as an expense in net income on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if it materially changes the scope of the lease. For a modification that is not a separate lease, on the effective date of the lease modification, the Company will remeasure the lease liability and corresponding ROU asset using the interest rate implicit in the lease or the Company's incremental borrowing rate. Any variance between the remeasured ROU asset and lease liability will be recognized as a gain or loss in net income to reflect the change in scope.

3. DRONELOGICS ACQUISITION

On April 30, 2020, the Company acquired all of the issued and outstanding shares of Dronelogics Systems Inc. ("Dronelogics"), excluding the cinematography division, a leading drone reseller and services company based in Burnaby, BC. The purpose of the acquisition was to increase the Company's scope of products and services to include the sale of third-party manufactured UAVs and drone-as-a-service type work while adding immediate revenue to the business, for consideration of $500,000 cash and 645,088 common shares (the "Transaction").

In connection with the Transaction, the Company paid fees of $160,000 to certain advisors consisting of $100,000 by way of 40,000 in shares at a price of $2.50 per share and $60,000 in cash. At closing, the Company (i) granted 89,000 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 have a term of 10 years and 14,000 vest in three equal tranches, on the grant date and first and second anniversaries of the date of grant while 70,000 vest on the first anniversary of the grant date, and (ii) awarded 75,000 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 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:

Number of shares of Draganfly Inc.		645,088
Fair value of common shares	$	4.15
Fair value of shares of Draganfly Inc.	$	2,178,960
Cash portion of purchase price		500,000
Total	$	2,678,960

Expressed in Canadian Dollars

3. DRONELOGICS ACQUISITION (CONT'D)

Tangible assets acquired		
Cash	$	42,593
Accounts receivable		98,852
Inventory		629,684
Prepaids 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
Identifiable intangible assets		
Customer relationships		197,000
Website		119,000
		316,000
Goodwill		2,166,563
Total consideration	$	2,678,960

The Company estimated the fair value as follows:

- Customer relationships based on an income approach, specifically multi-period excess earnings method, by identifying key customers, applying attribution rate of 15% per annum and discount rate of 18% per annum; and
- Website based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 0.5% and discount rate of 17% per annum.

Furthermore, the excess of the consideration paid over the fair value of the identifiable assets (liabilities) acquired was recognized as goodwill, which primarily consisted of the assembled workforce.

From the date of the acquisition to December 31, 2020, the acquired business contributed $4,086,350 of revenue and a net income of $434,528.

Expressed in Canadian Dollars

4. VITAL INTELLIGENCE ACQUISITION

On March 25, 2021, the Company acquired the assets of Vital Intelligence Inc. ("Vital"), a company that had developed a health/telehealth platform that could detect a number of key underlying respiratory symptoms. The Company acquired it to diversify it's existing product line as well as recognized opportunities that an initial focus on COVID-19 screening set of technologies would most likely lead to other facets within the healthcare field creating revenue growth from a new vertical, for consideration of: (a) a cash payment of $500,000 and (b) 1,200,000 units of the Company with each unit being comprised of one common share and one warrant (the "Acquisition"). Each warrant will entitle the holder to acquire one common share for a period of 24 months following closing for $13.35 and the Company will be able to accelerate the expiry date of the warrants after one year in the event the underlying common shares have a value of at least 30% greater than the exercise price of the warrants. The units will be held in escrow with 300,000 units being released at closing and the remainder to be released upon the Company reaching certain revenue milestones received from the purchased assets. The units were issued on March 22, 2021. On August 19, 2021 the parties agreed to reduce the final payment from $250,000 to $227,984 due to certain assets listed in the purchase agreement had not been delivered by Vital.

The units of the Company are to be releasable from escrow in accordance with the terms and conditions of the agreement, as follows:

a) 300,000 units shall be released on the closing date;
b) 300,000 units shall be released from escrow upon the Vital assets earning revenue in the aggregate amount of $2,000,000;
c) 300,000 units shall be released from escrow upon the Vital assets earning revenue in the aggregate amount of $4,000,000; and
d) 300,000 units shall be released from escrow upon the Vital assets earning revenue in the aggregate amount of $6,000,000.

Upon acquisition, the 900,000 shares held in escrow were classified as a derivative liability and were valued based upon:

- A weighted average probability of achieving the milestones necessary to release the shares held in escrow, and
- Discounted due to the lack of liquidity.

On acquisition, the fair value of the derivative liability (note 20) was $4,797,717. At December 31, 2021, the liability was revalued based upon new weighted average probabilities of achieving the revenue milestones. As a result, the fair value was adjusted to $694,230, with the difference flowing through the consolidated statement of loss.

Contingent consideration		
Fair value of contingent consideration	**$**	**4,797,717**
Change in fair value of contingent consideration		**(4,103,487)**
Contingent consideration at December 31, 2021 (note 20)	**$**	**694,230**

Expressed in Canadian Dollars

4. VITAL INTELLIGENCE ACQUISITION (CONT'D)

The PPA is as follows:

Number of units of Draganfly Inc.		578,248
Fair value of units	$	14.43
Fair value of units of Draganfly Inc.	$	8,342,966
Cash portion of purchase price		466,643
Total	$	8,809,609
Identifiable intangible assets		
Brand	$	23,000
Software		433,000
		456,000
Goodwill		8,353,609
Total consideration	$	8,809,609

Significant estimates are as follows:

- Number of units issued based upon a weighted average calculation for the Company achieving the revenue targets.
- Brand fair value based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 0.25% and discount rate of 14.4% per annum.
- Software fair value based on an income approach, specifically relief from royalty methodology, using a reasonable royalty rate of 5.0% and discount rate of 14.4% per annum.

Furthermore, the excess of the consideration paid over the fair value of the identifiable assets (liabilities) acquired was recognized as goodwill, which primarily consisted of continued development of the technology platform integrating the latest technological developments.

From the date of the acquisition to December 31, 2021, Vital contributed $115,369 of revenue and a net loss of $203,231.

5. 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 Draganfly Innovations shares (the "Draganfly Innovations Shares") in exchange for 8,527,671 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 consolidated financial statements present the historical financial information of Draganfly Innovations up to the date of the Amalgamation.

Expressed in Canadian Dollars

5. AMALGAMATION (CONT'D)

Number of shares of Draganfly Inc.		2,100,000
Fair value of common shares in concurrent financing	$	2.50
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 $2.50 per share using the price of a subscription receipts financing that was completed concurrently.

Prior to the closing of the Amalgamation, Draganfly Innovations issued 222,965 common shares with a value of $1,000,000 as transaction fees for the Amalgamation to related parties.

The Company assumed 800,000 share purchase warrants exercisable at a price of $0.50 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 $2.50 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 $2.50 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.

Expressed in Canadian Dollars

6. CASH AND CASH EQUIVALENTS

		December 31, 2021		December 31, 2020
Cash held in banks	$	22,729,212	$	1,839,871
Guaranteed investment certificates		346,501		142,545
	$	23,075,713	$	1,982,416

On March 27, 2020, the Company purchased a $142,000 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. On March 27, 2021 the company renewed the GIC for $142,710 for 1 year at a rate of 0.10% per annum.

On May 28, 2021, the Company purchased an additional $140,000 GIC to further secure its credit cards. The terms of the GIC are for 1 year at a rate of 0.35% per annum.

On December 21, 2021, the Company purchased an additional $50,000 USD GIC to further secure its credit cards. The terms of the GIC are for 1 year at 0.05% per annum.

All GIC's must be maintained and renewed upon maturity until such time as the associated credit cards are cancelled.

7. RECEIVABLES

		December 31, 2021		December 31, 2020
Trade accounts receivable	$	951,314	$	780,254
Corporate taxes receivable		182,820		-
GST receivable		272,993	$	-
SR&ED receivable		-		30,537
	$	1,407,127	$	810,791

8. INVENTORY

		December 31, 2021		December 31, 2020		December 31, 2019
Finished goods	$	3,017,363	$	1,155,871	$	-
Parts		373,459		77,748		48,653
	$	3,390,822	$	1,233,619	$	48,653

During the year ended December 31, 2021, $3,420,713 (2020: $2,257,797, 2019: $118,826) of inventory was sold and recognized in cost of sales. During the year ended December 31, 2021, the Company recorded an allowance to value its inventory for obsolete and slow-moving inventory, recognizing an expense in cost of sales of $nil (2020: $23,955, 2019: $nil).

		December 31, 2021		December 31, 2020		December 31, 2019
Inventory	$	3,420,713	$	2,257,797	$	118,626
Consulting and services		679,345		164,119		86,280
Other		310,719		181,995		13,894
	$	4,410,777	$	2,603,911	$	218,800

9. NOTES RECEIVABLE

	Start Date	Maturity Date	Rate		Principal		Interest		Accretion		Impairment		Total
Note 1[(1)]	2021-04-21	2022-10-21	0%	$	180,597	$	-	$	9,573	$	-	$	190,170
Note 2[(1)]	2021-06-01	2023-06-01	8%		114,833		5,378		-		(120,211)		-
Note 3[(1)]	2021-09-22	2024-09-22	5%		943,385		13,156		7,465		-		964,006
Note 4	2021-11-17	2022-04-26	8%		750,000		21,260		-		(771,260)		-
Total				$	1,988,815	$	39,794	$	17,038	$	(891,471)	$	1,154,176

(1) These notes are denominated in US dollars and are converted to Canadian dollars at the reporting date.

Note 1 is non-interest bearing and is secured by intellectual property. This note is measured at fair value through profit or loss. The fair value was determined based on the price the company paid for this loan which was the investee's most recent financing.

Note 2 bears interest at 8% and is secured by a general security agreement. Management has determined that it is unlikely that either the loan will be repaid or the Company will receive some other type of return. Therefore, the loan has been written down to $Nil.

Note 3 bears interest at 5%, is unsecured, and contains a conversion feature upon sale of the recipient. This note is measured at fair value through profit or loss. The fair value was determined based on the price the company paid for this convertible loan which was the investee's most recent financing.

Note 4 was issued pursuant to letter of intent on an acquisition that the Company is no longer pursuing. The loan is interest bearing at 8% and is due April 26, 2022. Management has determined that it is unlikely that either the loan will be repaid or the Company will receive some other type of return. Therefore, the loan has been written down to $Nil.

10. PREPAIDS

		December 31, 2021		December 31, 2020
Insurance	**$**	**2,938,246**	$	992
Prepaid director fees		**107,763**		-
Prepaid interest		**6,969**		-
Prepaid marketing services		**1,638,179**		187,826
Prepaid rent		**-**		3,583
Prepaid subscriptions		**35,687**		5,953
Deposits		**768,033**		136,668
	$	**5,494,877**	$	335,022

Expressed in Canadian Dollars

11. INVESTMENTS

Balance at December 31, 2020	$	-
Investments		**623,706**
Change in fair value		**(332,640)**
Balance at December 31, 2021	**$**	**291,066**

Fair value of investments is comprised of:

Public company shares	$	142,857
Public company warrants		21,429
Private company shares		126,780
Balance at December 31, 2021	**$**	**291,066**

On March 10, 2021, the Company purchased 1,428,571 units of a publicly listed company for $500,000. Each unit is comprised of one common share and one warrant. The warrants have an exercise price of $0.50 each and convert to one common share, and expire on March 17, 2023.

The fair values of these warrants were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2021	March 10, 2021
Risk free interest rate	**0.91%**	0.28%
Expected volatility	**124.09%**	150.88%
Expected life	**2 years**	2 years
Expected dividend yield	**0%**	0%

Volatility is calculated using the historical volatility method

On October 27, 2021, the Company purchased 50,000 common shares of a private company for USD$100,000. These assets have been recorded at the price of the company's most recent private placement, and converted to Canadian dollars at the reporting date.

Expressed in Canadian Dollars

12. EQUIPMENT

	Computer Equipment	Furniture and Equipment	Leasehold Improvements	Software	Vehicles	Total
Cost						
Balance at January 1, 2020	$ 7,000	$ 142,173	$ -	$ 29,967	$ -	$ 179,140
Additions	2,028	21,860	-	-	-	23,888
Net assets acquired in the Transaction	15,369	7,573	4,352	-	27,652	54,946
Balance at December 31, 2020	$ 24,397	$ 171,606	$ 4,352	$ 29,967	$ 27,652	$ 257,974
Additions	**29,713**	**170,866**	**-**	**-**	**12,000**	**212,579**
Revaluation	**-**	**-**	**-**	**-**	**(3,619)**	**(3,619)**
Balance at December 31, 2021	**$ 54,110**	**$ 342,472**	**$ 4,352**	**$ 29,967**	**$ 36,033**	**$ 466,934**
Accumulated depreciation						
Balance at January 1, 2020	$ 6,761	$ 37,944	$ -	$ 19,294	$ -	$ 63,999
Charge for the year	5,631	22,019	3,220	3,202	6,033	40,105
Balance at December 31, 2020	$ 12,392	$ 59,963	$ 3,220	$ 22,496	$ 6,033	$ 104,104
Charge for the year	**12,899**	**42,314**	**1,132**	**2,241**	**7,201**	**65,787**
Balance at December 31, 2021	**$ 25,291**	**$ 102,277**	**$ 4,352**	**$ 24,737**	**$ 13,234**	**$ 169,891**
Net book value:						
December 31, 2020	$ 12,005	$ 111,643	$ 1,132	$ 7,471	$ 21,619	$ 153,870
December 31, 2021	**$ 28,819**	**$ 240,195**	**$ -**	**$ 5,230**	**$ 22,799**	**$ 297,043**

Expressed in Canadian Dollars

13. INTANGIBLE ASSETS AND GOODWILL

	Patents	Customer Relationships	Brand	Software	Goodwill	Total
Cost						
Balance at December 31, 2019	$ 41,931	$ -	$ -	$ -	$ -	$ 41,931
Intangible assets acquired in the Transaction	-	197,000	-	119,000	2,166,563	2,482,563
Balance at December 31, 2020	$ 41,931	$ 197,000	$ -	$ 119,000	$ 2,166,563	$ 2,524,494
Intangible assets acquired in the Acquisition	**-**	**-**	**23,000**	**433,000**	**8,353,609**	**8,809,609**
Impairment of goodwill	**-**	**-**	**-**	**-**	**(4,579,763)**	**(4,579,763)**
Balance at December 31, 2021	**$ 41,931**	**$ 197,000**	**$ 23,000**	**$ 552,000**	**$ 5,940,409**	**$ 6,754,340**
Accumulated amortization						
Balance at December 31, 2019	$ 40,546	$ -	$ -	**$**	$ -	$ 40,546
Change for the year	1,385	26,267	-	15,866	-	43,518
Balance at December 31, 2020	41,931	26,267	-	15,866	-	84,064
Change for the year	**-**	**34,147**	**3,450**	**98,369**	**-**	**135,966**
Balance at December 31, 2021	**$ 41,931**	**$ 60,414**	**$ 3,450**	**$ 114,235**	**$ -**	**$ 220,030**
Net book value:						
December 31, 2020	$ -	$ 170,733	$ -	**$** 103,134	$ 2,166,563	$ 2,440,430
December 31, 2021	**$ -**	**$ 136,586**	**$ 19,550**	$ **437,765**	**$ 5,940,409**	**$ 6,534,310**

Customer relationships

On April 30, 2020, the Company acquired a 100% interest in Dronelogics (note 3) and assigned $197,000 to the fair value of customer relationships.

Brand

On April 30, 2020, the Company acquired a 100% interest in Dronelogics and assigned $119,000 to the fa ir value of the website/domain name.

On March 25, 2021, the Company acquired the assets of Vital (note 4) and assigned $23,000 to the fair value of the brand.

Software

On March 25, 2021, the Company acquired the assets of Vital and assigned $433,000 to the fair value of the software.

Goodwill

On April 30, 2020, the Company acquired a 100% interest in Dronelogics, which included goodwill. Goodwill was valued at $2,166,563.

On March 25, 2021, the Company acquired the assets of Vital, which included goodwill. Goodwill was valued at $8,353,609.

Expressed in Canadian Dollars

13. INTELLECTUAL PROPERTIES AND GOODWILL (CONT'D)

On December 31, 2021 the Company performed its annual goodwill impairment test on Vital and Dronelogics. The Company determined the recoverable amount based on a value in use calculation using the following key assumptions:

- 5 year post tax cash flow projections expected to be generated based on a financial forecast with a terminal growth rate of 2%
- Budgeted cash flows calculated using a weighted average revenue EBITDA margin of 14% for Drone and 42% for Vital respectively were estimated by management based on the past performance and future growth prospects as well as observed trends among comparable companies.
- Cash flows were discounted at the weighted average cost of capital of 17% for Dronelogics and 24% for Vital based on peer group averages and adjusted for the Company's risk factors.

Based on the annual goodwill impairment test, the Company deemed that the goodwill for Vital required impairment, as such the Company recorded an impairment of $4,579,763.

The most sensitive inputs to the value in use model are the growth and discount rates. All else being equal:

- A 10% reduction in the Value in use for the discounted cash flow model would result in a reduction of $597,100 for Dronelogics and $570,133 for Vital.

Changing the above assumption would result in an impairment for Dronelogics, and would result in additional impairment for Vital.

The key assumptions used in the calculations of the recoverable amounts include sales growth per year, changes in cost of sales and capital expenditures based on internal forecasts.

14. RIGHT OF USE ASSETS

		Total
Cost		
Balance at December 31, 2019	$	159,539
Leases acquired in the Acquisition		83,428
Balance at December 31, 2020	$	242,967
Additions		**447,242**
Lease removal		**(7,092)**
Balance at December 31, 2021	**$**	**683,117**
Accumulated depreciation		
Balance at December 31, 2019	$	29,545
Charge for the year		69,003
Balance at December 31, 2020	$	98,548
Historical correction		7,152
Charge for the year		**109,311**
Balance at December 31, 2021	**$**	**215,011**
Net book value:		
December 31, 2020	$	144,419
December 31, 2021	**$**	**468,106**

Expressed in Canadian Dollars

15. LEASE LIABILITY

The Company leases certain assets under lease agreements. The lease liabilities consist of leases of facilities and vehicles with terms ranging from one to five years. The leases are calculated using incremental borrowing rates ranging from 7.5% to 10.5%

		Total
Balance at December 31, 2019	$	136,073
Leases acquired in the Acquisition		87,203
Interest expense		18,290
Lease Payments		(83,442)
Balance at December 31, 2020	$	158,124
Addition		**440,675**
Interest expenses		**26,964**
Lease payments		**(128,995)**
Lease removal		**(7,645)**
Balance at December 31, 2021	**$**	**489,123**
Which consists of:		
Current lease liability	$	110,481
Non-current lease liability		378,642
Balance at December 31, 2021	**$**	**489,123**

Maturity analysis		**Total**
Less than one year	$	150,276
One to three years		251,765
Four to five years		183,473
Greater than five years		5,030
Total undiscounted lease liabilities		590,544
Amount representing implicit interest		(101,421)
Lease liability	**$**	**489,123**

16. TRADE PAYABLES AND ACCRUED LIABILITIES

		December 31, 2021		December 31, 2020
Trade accounts payable	**$**	**362,890**	$	813,881
Accrued liabilities		**402,540**		512,205
Due to related parties (Note 23)		**-**		475,628
Government grant payable		**33,709**		33,709
GST/PST Payable		**-**		21,754
	$	**799,139**	$	1,857,177

17. CUSTOMER DEPOSITS

		December 31, 2021		December 31, 2020
Customer deposits	**$**	**172,134**	$	385,449

Expressed in Canadian Dollars

18. DEFERRED INCOME

At times, the Company may take payment in advance for services to be rendered. These amounts are held and recognized as services are rendered.

		December 31, 2021		December 31, 2020
Deferred income from customers	$	80,000	$	-
Deferred income from government		5,233		5,062
Deferred income from note receivable accretion		(11,947)		-
		73,286		5,062

19. LOANS PAYABLE

		December 31, 2021		December 31, 2020
Opening balance	$	97,916	$	-
Acquisition of loans		-		120,851
Issuance of loans payable		60,000		60,000
Fair value adjustment		(24,576)		(26,152)
Repayment of loans payable		(44,428)		(57,873)
Accretion expense		4,405		1,090
Ending balance	$	93,317	$	97,916

	Start Date	Maturity Date	Rate		Carrying Value December 31, 2021		Carrying Value December 31, 2020
CEBA	2020-05-19	2022-12-31	0%	$	37,384	$	34,938
CEBA	2021-04-23	2022-12-31	0%		37,383		-
Vehicle loan	2019-08-30	2024-09-11	6.99%		18,550		25,295
Shopify loan	2020-08-05		7.00%		-		37,683
Total				$	93,317	$	97,916

On May 19, 2020, Dronelogics received a $40,000 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 December 4, 2020, the Government of Canada allowed for an expansion of the CEBA loan by $20,000, of which, an additional $10,000 is forgivable if the loan is repaid on or before December 31, 2022.

On April 23, 2021, Draganfly Innovations Inc. received a $60,000 CEBA loan. This loan is currently interest free and up to $20,000 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%.

The CEBA loans are unsecured and the vehicle loan is secured by the vehicle and the Shopify loan is secured by the Company's accounts receivable.

20. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the year ended December 31, 2021,

- The Company issued 1,580,525 common shares for the exercise of warrants for $3,951,312.
- The Company issued 149,999 common shares for the vesting of Restricted Share Units.
- The Company issued 392,999 common shares for the exercise of stock options for $987,248.
- The Company issued 15,000 common shares in lieu of cash.
- The Company issued 6,488,691 units for the Regulation A+ financing in the United States for proceeds of $18,815,485. Each unit is comprised of one common share and one share purchase warrant. These warrants had a fair value of $0.57 USD allocated to them, have an exercise price of $3.55 USD per warrant, each convert to one common share, and have a life of two years. The fair value of $8,261,511 was allocated to the warrant derivative liability.
- The Company issued 1,200,000 units for the acquisition of Vital Intelligence. Each unit is comprised of one common share and one warrant. These warrants have an exercise price of $13.35 per warrant, each convert to one common share, and have a life of two years.
- The Company issued 5,095,966 common shares in a private placement for $25,538,213.
- The Company issued 359,009 common shares for the exercise of warrants for $978,478.
- The Company issued 298,661 common shares for the vesting of Restricted Share Units.
- The Company issued 12,500 common shares for the exercise of stock options for $26,875.
- The Company issued 356,901 common shares in lieu of cash.

For the year ended December 31, 2020,

- The Company issued 24,000 common shares for the exercise of warrants for $60,000.
- The Company issued 20,000 common shares for the exercise of warrants for $50,000.
- The Company issued 210,320 common shares for the exercise of warrants for $105,160.
- The Company issued 73,000 common shares for the exercise of warrants for $36,500.
- The Company issued 294,840 common shares for the exercise of warrants for $147,420.
- The Company issued 121,840 common shares for the exercise of warrants for $60,920.
- The Company issued 126,000 common shares for the exercise of warrants for $115,000.
- The Company issued 645,088 common shares for the acquisition of Dronelogics and an additional 40,000 common shares as finder's fees.
- The Company issued 12,000 common shares for the exercise of warrants for $30,000.
- The Company issued 45,600 common shares for the exercise of warrants for $114,000.
- The Company issued 192,308 common shares for cash proceeds of $500,000.
- The Company issued 111,082 common shares for debt settlement of $344,354 and recognized a loss of $38,879 in the statement of comprehensive loss.
- The Company issued 2,000 common shares for the exercise of warrants for $5,000. The Company issued 2,200 common shares for the exercise of warrants for $5,500.
- The Company issued 637,975 common shares for the exercise of warrants for $1,594,938.
- The Company issued 7,117 common shares for the vesting of Restricted Share Units.
- The Company issued 511,299 units for the Regulation A+ financing in the United States for proceeds of $1,518,845. Each unit is comprised of one common share and one share purchase warrant. These warrants have an exercise price of $3.55 USD per warrant, each convert to one common share, and have a life of two years, expiring on November 30, 2022.
- The Company issued 2,040 common shares for the vesting of Restricted Share Units.
- The Company issued 2,647 common shares for the vesting of Restricted Share Units.
- The Company issued 188,194 common shares for the vesting of Restricted Share Units.
- The Company issued 15,000 common shares for the exercise of warrants for $37,500.

Expressed in Canadian Dollars

20. SHARE CAPITAL (CONT'D)

For the year ended December 31, 2019,

- The Company issued 143,985 common shares to a company controlled by a former director of the Company for settlement of $799,341 in accounts payable and application of $153,566 in subscription receivable.
- The Company issued 222,965 common shares with a value of $1,000,000 as transaction fees for the Draganfly Innovations amalgamation to related parties.
- The Company issued 8,517,671 common shares for the amalgamation with Draganfly Innovations.
- The Company issued 9,065 common shares for settlement of $22,662 in trades payables at a value of $2.50 per share.
- The Company issued 423,698 common shares for settlement of $740,000 in convertible debentures and interest. As a result of the settlement, the Company recognized loss on settlement of debt of $319,246 in the statement of loss and comprehensive loss.
- The Company issued 63,388 common shares for exercise of share purchase warrants of the Company for proceeds of $8,833. As a result of the exercise, $212,908 from reserve was reclassification to share capital.
- The Company issued 2,810,300 units in a private placement. Each unit consists of one common share and one warrant. These warrants have an exercise price of $2.50 per warrant, each convert to one common share, and have a life of one year, expiring on October 25, 2020.

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 December 31, 2021, 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	$	2.50	7.84	296,665	296,665
November 19, 2019	November 19, 2029	$	2.50	7.89	50,000	50,000
April 30, 2020	April 30, 2030	$	2.50	8.33	87,000	78,666
April 30, 2020	April 30, 2030	$	3.85	8.33	110,000	70,000
July 3, 2020	July 3, 2025	$	3.20	3.51	200,000	166,666
November 24, 2020	November 24, 2030	$	2.50	8.90	32,000	21,000
December 11, 2020	December 11, 2030	$	2.15	8.95	12,500	12,500
February 2, 2021	February 2, 2031	$	13.20	9.09	30,000	10,000
March 8, 2021	March 8, 2026	$	13.90	4.19	10,000	5,000
April 27, 2021	April 27, 2031	$	10.15	9.23	182,000	-
September 9, 2021	September 9, 2026	$	4.84	4.69	25,826	-
					1,035,991	**710,497**

Expressed in Canadian Dollars

20. SHARE CAPITAL (CONT'D)

Stock options (cont'd)

	Number of Options		Weighted Average Exercise Price
Outstanding, December 31, 2019	744,993	$	2.50
Forfeited	(43,334)		2.50
Granted	492,000		3.08
Outstanding, December 31, 2020	1,193,659	$	2.75
Exercised	**(405,494)**		**2.50**
Granted	**247,826**		**10.12**
Outstanding, December 31, 2021	**1,035,991**	**$**	**4.60**

During the year ended December 31, 2021,

- The Company granted 30,000 options to an employee. Each option is exercisable at $13.20 per share for 10 years.
- The Company granted 10,000 options to a consultant. Each option is exercisable at $13.90 per share for 5 years.
- The Company granted 182,000 options to employees and a consultant. Each option is exercisable at $10.15 per share for 10 years.
- The Company granted 25,826 options to an employee. Each option is exercisable at $4.84 per share for 5 years.

During the year ended December 31, 2020,

- The Company granted 89,000 options to employees. Each option is exercisable at $2.50 per share for a period of 10 years from the grant date.
- The Company granted 120,000 options to consultants. Each option is exercisable at $3.85 per share for a period of 10 years from the grant date.
- The Company granted 200,000 options to employees. Each option is exercisable at $3.20 per share for a period of 5 years from the grant date.
- The Company granted 33,000 options to employees. Each option is exercisable at $2.50 per share for a period of 10 years from the grant date.
- The Company granted 50,000 options to a consultant. Each option is exercisable at $2.15 per share for a period of 10 years from the grant date.

During the year ended December 31, 2021, the Company recorded $1,660,894 (2020 - $1,724,853 and 2019 – $599,701) in stock-based compensation for stock options, based on the fair values of stock options granted which were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Year ended December 31,		**2021**		2020		2019
Risk free interest rate		**0.69%-1.40%**		0.43%-0.66%		1.45%-1.46%
Expected volatility		**62.84%-113.16%**		113.53%-119.03%		100%
Expected life		**5 years**		5-10 years		7.5 years
Expected dividend yield		**0%**		0%		0%
Exercise price	**$**	**4.84-13.90**	**$**	2.15-3.85	$	2.50

Volatility is calculated using the historical volatility method based on a comparative company's stock price.

Expressed in Canadian Dollars

20. SHARE CAPITAL (CONT'D)

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 December 31, 2021, the Company had the following RSUs outstanding:

	Number of RSUs
Outstanding, December 31, 2019	634,997
Vested	(199,998)
Forfeited	(68,333)
Issued	248,000
Outstanding, December 31, 2020	614,666
Vested	**(448,660)**
Issued	**348,826**
Outstanding, December 31, 2021	**514,832**

During the year ended December 31, 2021, 323,661 RSUs fully vested according to the terms and the Company accelerated the vesting of 124,999 RSUs. The Company issued 348,826 RSUs to employees 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 year ended December 31, 2020, the Company committed to grant 248,000 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 year ended December 31, 2021, the Company recorded share-based payment expense of $2,291,701 (2020: $943,611, 2019: $161,858) 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

During the years ended December 31, 2021 and 2020, the Company issued warrants ("USD Warrants") with a USD exercise price. Being in a foreign currency that is not the Company's functional currency, these USD Warrants are required to be recorded as a financial liability and not as equity. As a financial liability, these USD Warrants are revalued on a quarterly basis to fair market value with the change in fair value being recorded profit or loss. The initial fair value of these USD Warrants was parsed out from equity and recorded as a financial liability.

To reach a fair value of the USD Warrants, a Black Scholes calculation is used, calculated in USD as the Company also trades on the Nasdaq. The Black Scholes value per USD Warrant is then multiplied by the number of outstanding warrants and then multiplied by the foreign exchange rate at the end of the period from the Bank of Canada.

Expressed in Canadian Dollars

20. SHARE CAPITAL (CONT'D)

Warrants (cont'd)

Warrant Derivative Liability

Balance at January 1, 2020	$	-
Warrant issuance		281,732
Change in fair value of warrants outstanding		466,902
Balance at December 31, 2020	$	748,634
Warrant issuance		**8,261,511**
Exercised		**(98,048)**
Change in fair value of warrants outstanding		**(4,046,325)**
Warrant Balance at December 31, 2021		**4,865,772**

Derivative liability		
Warrants	**$**	**4,865,772**
Contingent consideration (note 4)		**694,230**
Contingent consideration at December 31, 2021	**$**	**5,560,002**

Details of these warrants and their fair values are as follows:

Issue Date	Exercise Price	Number of Warrants Outstanding at December 31, 2021	Fair Value at December 31, 2021	Number of Warrants Outstanding at December 31, 2020	Fair Value at December 31, 2020
November 30, 2020	US$ 3.55	482,425	$ 182,262	511,299	$ 748,634
February 5, 2021	US$ 3.55	1,323,275	951,226	-	-
March 5, 2021	US$ 3.55	5,154,321	3,731,285	-	-
July 29, 2021	US$ 5.00	250,000	84,625	-	-
September 14, 2021	US$ 5.00	4,798	1,685	-	-
		7,214,819	**$ 4,865,772**	511,299	$ 748,634

The fair values of these warrants were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Year ended December 31,	**2021**	2020
Risk free interest rate	**0.23%-0.95%**	0.20%-0.24%
Expected volatility	**70.95%-144.59%**	72.76%-74.10%
Expected life	**2-3 years**	2 years
Expected dividend yield	**0%**	0%

Volatility is calculated using the historical volatility method.

During the year ended December 31, 2020, the Company amended the expiry date of the November 5, 2019 warrants from November 5, 2020 to November 5, 2021 provided that 25% of the warrants were exercised by October 21, 2020 and 25% were exercised by May 5, 2021.

Expressed in Canadian Dollars

20. SHARE CAPITAL (CONT'D)

Warrants (cont'd)

	Number of Warrants		Weighted Average Exercise Price
Outstanding, December 31, 2019	3,610,340	$	2.05
Exercised	(1,584,775)		1.50
Forfeited	(120,000)		2.50
Issued	511,299		3.55
Outstanding, December 31, 2020	2,416,864	$	2.95
Exercised	**(1,939,534)**		**2.54**
Forfeited	**(6,000)**		**2.50**
Issued	**7,943,489**		**5.10**
Outstanding, December 31, 2021	**8,414,819**	**$**	**4.99**

As at December 31, 2021, the Company had the following warrants outstanding:

Date issued	Expiry date	Exercise price		Number of warrants outstanding
November 30, 2020	November 30, 2022	US$	3.55	482,425
February 5, 2021	February 5, 2023	US$	3.55	1,323,275
March 5, 2021	March 5, 2023	US$	3.55	5,154,321
March 22, 2021	March 22, 2023	CDN$	13.35	1,200,000
July 29, 2021	July 29, 2024	US$	5.00	250,000
September 14, 2021	September 14, 2024	US$	5.00	4,798
				8,414,819

The weighted average remaining contractual life of warrants outstanding as of December 31, 2021, was 1.20 years (December 31, 2020 – 1.07 years).

Of 1,200,000 warrants issued on March 22, 2021 to acquire Vital, 900,000 of the warrants are currently held in escrow, to be released upon completion of the milestones (note 4).

21. REVENUE

The Company sub-classifies revenue within the following components: product revenue and services 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. Services revenue consists of fees charged for custom engineering, drone as a service work, and training and simulation consulting.

			For the years ended December 31,		
		2021		2020	2019
Product sales	**$**	**5,103,399**	**$**	3,087,223 $	248,939
Drone service		**1,304,799**		630,532	-
Services		**645,667**		645,756	1,131,488
	$	**7,053,865**	**$**	4,363,511 $	1,380,427

The Company does not derive significant revenue from any (2020 – 1) customers, which exceed 10% of total revenues for the year ended December 31, 2021 (2020 – $474,701 of custom engineering services revenue).

Expressed in Canadian Dollars

21. REVENUE (CONT'D)

Consulting revenue:

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

Geographic revenue segmentation is as follows:

	For the years ended December 31,		
	2021	2020	2019
Canada	**$ 4,937,935**	$ 2,270,862	$ 127,118
United States	**2,071,492**	1,982,404	1,251,199
International	**44,438**	110,245	2,110
	$ 7,053,865	$ 4,363,511	$ 1,380,427

Non current assets for each geographic segment are as follows:

	For the years ended December 31,		
	Canada	United States	International
Goodwill	**$ 2,166,564**	$ 3,773,845	$ -
Property and equipment	**297,043**	-	-
Intangible assets	**219,093**	374,808	-
Investments	**291,066**	-	-
Notes receivable	**-**	964,006	-
Right of use assets	**468,106**	-	-
	$ 3,441,872	$ 5,112,659	$ -

22. OFFICE AND MISCELLANEOUS

	For the years ended December 31,		
	2021	2020	2019
Advertising, Marketing, and Investor Relations	**$ 5,165,791**	$ 2,610,930	$ 1,356,174
Compliance fees	**432,874**	122,916	80,525
Contract Work	**300,975**	399,546	438,601
Other	**556,358**	254,473	228,432
	$ 6,455,998	$ 3,387,865	$ 2,103,732

23. 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.

Expressed in Canadian Dollars

23. RELATED PARTY TRANSACTIONS (CONT'D)

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 that Cameron Chell, CEO and director has a material interest in that he previously controlled, 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 services are provided by a team of up to six consultants and 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 Professional Fees. For the year ended December 31, 2021, the company incurred fees of $315,643 compared to $177,000 in 2020, and $80,000 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 Consultant Agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the Company incurred fees of $290,225 compared to $525,164 in 2020, and $9,000 in 2019. As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $321,741, December 31, 2019 $9,450).

On July 3, 2020, the Company entered into an executive consultant agreement ("Executive Agreement") with Scott Larson, a director of the Company, to provide executive consulting services, as President, to the Company. The costs of all charges are based on the fees set in the Executive Agreement and are settled on a monthly basis. The Company records these charges under Professional Fees. For the year ended December 31, 2021, the Company incurred fees of $205,191 (December 31, 2020 – 227,524). As at December 31, 2021, the Company was indebted to this company in the amount of $nil (December 31, 2020 - $153,887).

As at December 31, 2021, the Company had $nil (December 31, 2020 - $475,628, December 31, 2019 $9,681) payable to related parties outstanding that were included in accounts payable. The balances outstanding 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 year ended December 31, 2021 and 2020 included:

For the years ended December 31,	**2021**	2020	2019
Director fees	**$ 370,094**	$ -	$ -
Management fees paid to a company controlled by CEO and director	**290,225**	737,164	186,000
Management fees paid to a company controlled by the President and director	**205,691**	227,524	-
Management fees paid to a company controlled by a former director	**500,074**	165,000	195,000
Salaries	**722,068**	655,799	179,429
Salaries paid to the former owner of the Company	**-**	86,097	149,060
Share-based payments	**2,475,949**	1,614,158	480,158
	$ 4,564,102	$ 3,485,742	1,189,647

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts and trade receivables. The majority of cash is deposited in bank accounts held with major bank in Canada and the United States. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company does not have any past due outstanding receivables and the expected loss rate for undue balance is estimated to be nominal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

The following table summarizes the sensitivity of the fair value of the Company's risk to foreign exchange rates, with all other variables held constant. Fluctuations of 10 percent in the foreign exchange rate between US dollars and Canadian dollars could have resulted in a change impacting net income upon consolidation as follows:

	December 31, 2021	December 31, 2020
Foreign exchange rate	**$ 150,715**	$ 27,018

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents as these instruments have original maturities of three months or less and are therefore exposed to interest rate fluctuations on renewal.

Fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities. The Company has established a control framework with respect to the measurement of fair values. Fair values are categorized into different levels of a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Expressed in Canadian Dollars

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONT'D)

Equity securities in investee companies and warrants are measured at fair value. The financial assets measured at fair value by hierarchy are shown in the table below. The amounts shown are based on the amounts recognized in the statements of financial position. These financial assets are measured at fair value through profit and loss.

December 31, 2021	Level 1	Level 2	Level 3	Total
Equity securities in investee companies	$ 164,286	$ 126,780	$ -	$ 291,066
Notes receivable	-	1,154,176	-	1,154,176
Derivative liability	-	-	5,560,002	5,560,002
Total	**$ 164,286**	**$ 1,280,956**	**$ 5,560,002**	**$ 7,005,244**

December 31, 2021	Level 1	Level 2	Level 3	Total
Derivative liability	-	-	748,634	748,634
Total	**$ -**	**$ -**	**$ 748,634**	**$ 748,634**

Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash, debt, and equity comprised of issued share capital, and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its board of directors, will balance its overall capital structure through new equity issuances or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2020.

The breakdown of the Company's capital is as follows:

	December 31, 2021	December 31, 2020
Cash	**$ 23,075,713**	$ 1,982,416
Debt	**93,317**	97,916
Equity	**$ 34,926,239**	$ 3,848,205

Expressed in Canadian Dollars

25. INCOME TAXES

The following table reconciles the expected income taxes at the Canadian statutory income tax rates to the amounts recognized in the statements of comprehensive loss for the years ended December 31, 2021, 2020 and 2019:

	December 31, 2021	December 31, 2020	December 31, 2019
Loss before income taxes	**$ 16,202,972**	$ 8,015,813	$ 11,095,507
Canadian statutory rates	**27%**	27%	27%
Expected income tax recovery	**4,196,600**	2,164,000	2,996,000
Impact of different foreign statutory tax rates	**34,900**	-	-
Non-deductible items	**116,400**	(687,000)	(2,043,000)
Share issue costs	**887,600**	-	-
Adjustments to prior years provision versus statutory tax returns	**376,500**	189,000	(388,000)
Differences between prior year provision and final tax return	**(206,000)**	(535,000)	(18,000)
Change in deferred tax asset not recognized	**(5,406,000)**	(1,131,000)	(547,000)
Income tax	**$ -**	$ -	$ -

The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31, 2021	December 31, 2020	December 31, 2019
Deferred income tax assets (liabilities):			
Share issuance costs	**$ 728,000**	$ 30,000	$ -
Non-capital losses	**7,043,000**	3,656,000	2,439,000
Property and equipment	**449,000**	457,000	581,000
Capital gain reserve	**74,000**	-	-
Scientific Research and Experimental Development	**291,000**	57,000	49,000
Total deferred income tax assets	**$ 8,585,000**	$ 4,200,000	$ 3,069,000
Deferred income tax not recognized	**(8,585,000)**	(4,200,000)	(3,069,000)
Net deferred tax assets	**$ -**	$ -	$ -

The Company has non-capital loss carry forward of approximately $25,487,000 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the years 2036 to 2040.

26. 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 $1,179,513 (US$854,838).

27. SUPPLEMENTAL CASH FLOW DISCLOSURES

During the year ended December 31, 2021:

- The Company issued 15,000 common shares in lieu of cash.
- The Company issued 1,200,000 units for the acquisition of Vital Intelligence. Each unit is comprised of one common share and one warrant. These warrants have an exercise price of $13.35 per warrant, each convert to one common share, and have a life of two years.
- The Company issued 356,901 common shares in lieu of cash.
- The Company recorded a change in fair value of investments of $332,640 to other comprehensive loss.

During the year ended December 31, 2020, the Company settled debt of $344,354 with the issuance of 111,082 common shares and recognized a gain on settlement of debt of $28,614.

During the year ended December 31, 2019:

- Settlement of $822,003 in accounts payable and application of $153,566 in subscription receivable through issuance of shares;
- Issuance of 400,000 common shares at $2.50 per shares as finders' fees, and;
- Settlement of $740,000 of convertible debentures.

28. GOVERNMENT ASSISTANCE

In response to COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") program in April 2020. CEWS provides a wage subsidy on eligible remuneration, subject to a maximum per employee, to eligible employers based on meeting certain eligibility criteria. The Company determined that it qualified for this subsidy. The Company has recognized the government assistance as a reduction to expenses as it has complied with the eligibility criteria and the subsidy has been received. Included in the statement of comprehensive loss for the year ended December 31, 2021 is - $250,756 (2020 - $490,748) relating to the CEWS program of which was recorded as a reduction of wages and salaries included in operating expenses.

In September 2020, the Government of Canada announced the Canada Emergency Rent Subsidy ("CERS") to provide a rent subsidy to eligible businesses based on meeting certain eligibility criteria. The Company determined that it qualified for this subsidy as well. The Company has recognized the government assistance as a reduction to expenses as it has complied with the eligibility criteria and the subsidy has been received. The amount included in the statement of comprehensive loss for the year ended December 31, 2021 is - $22,668 (2020 - $nil) relating to the CERS program of which was recorded as a reduction of rent included in operating expenses. As at December 31, 2021, the Company had - $nil (2020 - $nil) included in amounts receivables for CERS subsidies receivable.

In October 2021 the Government of Canada announced the Hardest Hit Business Recovery Program ("HHBRP") to provide continued wage and rent subsidies to business' severely affected by COVID-19, based on meeting certain eligibility criteria. The Company determined that it qualified for this subsidy. The Company has recognized the government grant as a reduction to expenses as it has complied with the eligibility criteria and the subsidy has been received. The amount included in the statement of comprehensive loss for the year ended December 31, 2021 is - $50,756 in wage subsidies and $3,791 in rent subsidies (2020 - $nil, and - $nil respectively) relating to the HHBRP program of which were recorded as a reduction wages and salaries and rent expense respectively. As at December 31, 2021, the Company had - $54,548 (2020 - $nil) included in amounts receivables for HHBRP subsidies receivable.