



Draganfly Inc.

Condensed Consolidated Interim Financial Statements - Unaudited

For the Three Months Ended March 31, 2022

(Expressed in Canadian Dollars)

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

| As at | Notes | March 31, 2022 | December 31, 2021 |
|---|-------|----------------------|----------------------|
| | | (unaudited) | |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 5 | \$ 19,576,902 | \$ 23,075,713 |
| Receivables | 6 | 1,951,445 | 1,407,127 |
| Inventory | 7 | 3,365,173 | 3,390,822 |
| Notes receivable | 8 | 967,766 | 190,170 |
| Prepays | 9 | 3,352,552 | 5,494,877 |
| | | 29,213,838 | 33,558,709 |
| Non-current Assets | | | |
| Goodwill | 12 | 5,886,233 | 5,940,409 |
| Equipment | 11 | 293,179 | 297,043 |
| Intangible assets | 12 | 544,424 | 593,901 |
| Investments | 10 | 257,817 | 291,066 |
| Notes receivable | 8 | 961,721 | 964,006 |
| Right of use asset | 13 | 437,266 | 468,106 |
| TOTAL ASSETS | | \$ 37,594,478 | \$ 42,113,240 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Trade payables and accrued liabilities | 15 | \$ 668,988 | \$ 799,139 |
| Customer deposits | | 209,535 | 172,134 |
| Deferred income | | (4,330) | 73,286 |
| Loans payable | 16 | 6,745 | 6,745 |
| Derivative liability | 17 | 6,790,862 | 5,560,002 |
| Lease liability | 14 | 115,269 | 110,481 |
| | | 7,787,069 | 6,721,787 |
| Non-current Liabilities | | | |
| Loans payable | 16 | 86,161 | 86,572 |
| Lease liability | 14 | 348,198 | 378,642 |
| TOTAL LIABILITIES | | 8,221,428 | 7,187,001 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 17 | 81,159,345 | 81,038,365 |
| Reserves – share-based payments | 17 | 7,024,442 | 6,406,117 |
| Accumulated deficit | | (58,526,517) | (52,322,182) |
| Accumulated other comprehensive (loss) | | (284,220) | (196,061) |
| TOTAL SHAREHOLDERS' EQUITY | | 29,373,050 | 34,926,239 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | \$ 37,594,478 | \$ 42,113,240 |

Nature and Continuance of Operations (Note 1)

Subsequent event (Notes 3, 8, 22)

Approved and authorized for issuance by the Board of Directors on May 10, 2022.

"Scott Larson"

Director

"Cameron Chell"

Director

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

Draganfly Inc.
Condensed Consolidated Interim Statements of Comprehensive Loss - Unaudited
Expressed in Canadian Dollars

| For the three months ended March 31, | Note | 2022 | 2021 (restated - note 3) |
|---|-------|-----------------------|-----------------------------|
| REVENUE | | | |
| Revenue from sales of goods | 18 | \$ 1,637,716 | \$ 1,129,307 |
| Revenue from provision of services | 18 | 406,846 | 410,429 |
| TOTAL REVENUE | | 2,044,562 | 1,539,736 |
| COST OF SALES | 7 | (1,228,412) | (1,024,729) |
| GROSS PROFIT | | 816,150 | 515,007 |
| OPERATING EXPENSES | | | |
| Amortization | 12 | \$ 44,540 | \$ 13,694 |
| Depreciation | 11,13 | 47,147 | 35,302 |
| Director fees | 20 | 107,446 | 86,691 |
| Insurance | | 1,458,765 | 13,615 |
| Office and miscellaneous | 19 | 1,607,837 | 2,325,786 |
| Professional fees | 20 | 873,640 | 868,479 |
| Research and development | | 314,440 | 15,048 |
| Share-based payments | 17,20 | 643,325 | 1,049,866 |
| Travel | | 76,472 | 28,758 |
| Wages and salaries | 20 | 1,000,207 | 402,361 |
| | | (6,173,819) | (4,839,600) |
| OTHER INCOME (EXPENSE) | | | |
| Change in fair value of derivative liability | 5,17 | (1,230,860) | (41,019,172) |
| Finance and other costs | | 14,148 | (6,405) |
| Foreign exchange gain (loss) | | (386,940) | 145,095 |
| loss on disposal of assets | | (10,755) | - |
| Government income | | 1,275 | 20,706 |
| Gain on recovery of notes receivable | 8 | 771,260 | - |
| Other loss | | (4,794) | (16,708) |
| NET LOSS | | (6,204,335) | (45,201,077) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Items that may be reclassified to profit or loss | | | |
| Foreign exchange translation | | (54,910) | 9,287 |
| Items that will not be reclassified to profit or loss | | | |
| Change in fair value of equity investments at FVOCI | 10 | (33,249) | 277,143 |
| COMPREHENSIVE LOSS | | \$ (6,292,494) | \$ (44,914,647) |
| Net loss per share | | | |
| Basic & diluted | | \$ (0.19) | \$ (2.15) |
| Weighted average number of common shares outstanding - basic & diluted | | 33,185,860 | 20,980,046 |

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

Draganfly Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity - Unaudited
Expressed in Canadian Dollars

| | Number of Shares | Share Capital | Reserves – Share-Based Payments | Accumulated Deficit | Change in Fair Value of Investments at FVTOCI | Accumulated Other Comprehensive Income (Loss) 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 | 6,488,669 | 18,717,438 | - | - | - | - | 18,717,438 |
| Share issue costs | - | (273,169) | - | - | - | - | (273,169) |
| Shares issued for exercise of RSUs | 125,000 | 300,000 | (300,000) | - | - | - | - |
| Shares issued for exercise of warrants | 1,403,025 | 3,507,562 | - | - | - | - | 3,507,562 |
| Shares issued for exercise of stock options | 378,499 | 1,846,776 | (891,403) | - | - | - | 955,373 |
| Shares issued in lieu of cash | 15,000 | 198,000 | - | - | - | - | 198,000 |
| Share-based payments | - | - | 1,049,866 | - | - | - | 1,049,866 |
| Net loss | - | - | - | (45,201,077) | - | - | (45,201,077) |
| Change in fair value of equity investments at FVOCI | - | - | - | - | 277,143 | - | 277,143 |
| Translation of foreign operations | - | - | - | - | - | 9,287 | 9,287 |
| Balance at March 31, 2021 (restated – note 3) | 26,828,887 | \$ 63,543,910 | \$ 4,123,720 | \$ (81,320,287) | \$ 277,143 | \$ 9,287 | \$ (13,366,123) |
| Shares issued for financing | 5,095,988 | 17,374,749 | - | - | - | - | 17,374,749 |
| Share issue costs | - | (4,405,652) | 864,000 | - | - | - | (3,541,592) |
| Shares issued for exercise of RSUs | 323,660 | 1,452,052 | (1,452,052) | - | - | - | - |
| Shares issued for exercise of warrants | 536,509 | 1,422,228 | - | - | - | - | 1,422,228 |
| Shares issued for exercise of stock options | 27,000 | 91,090 | (32,340) | - | - | - | 58,750 |
| Shares issued in lieu of cash | 356,901 | 1,559,988 | - | - | - | - | 1,559,988 |
| Share-based payments | - | - | 2,902,729 | - | - | - | 2,902,729 |
| Net loss | - | - | - | 28,998,105 | - | - | 28,998,105 |
| Change in fair value of equity investments at FVOCI | - | - | - | - | (609,783) | - | (609,783) |
| Translation of foreign operations | - | - | - | - | - | 127,188 | 127,188 |
| 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.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity - Unaudited
Expressed in Canadian Dollars

| | | | | | | Accumulated Other Comprehensive Income (Loss) Exchange | | |
|---|---------------------|----------------------|---------------------------------------|------------------------|--|--|----------------------------------|--|
| | Number of Shares | Share Capital | Reserves – Share-Based Payments | Accumulated Deficit | Change in Fair Value of Investments at FVTOCI | Differences on Translation of Foreign Operations | Total Shareholders' Equity | |
| Shares issued for exercise of stock options | 12,500 | 51,875 | (25,000) | - | - | - | 26,875 | |
| Shares issued for exercise of warrants | 16,538 | 74,227 | - | - | - | - | 74,227 | |
| Share issue costs | - | (5,122) | - | - | - | - | (5,122) | |
| Share-based payments | - | - | 643,325 | - | - | - | 643,325 | |
| Net loss | - | - | - | (6,204,335) | - | - | (6,204,335) | |
| Change in fair value of equity investments at FVOCI | - | - | - | - | (33,249) | - | (33,249) | |
| Translation of foreign operations | - | - | - | - | - | (54,910) | (54,910) | |
| Balance at March 31, 2022 | 33,197,984 | \$ 81,159,345 | \$ 7,024,442 | \$ (58,526,517) | \$ (365,889) | \$ 81,669 | \$ 29,373,050 | |

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

Draganfly Inc.
Condensed Consolidated Interim Statements of Cash Flows - Unaudited
Expressed in Canadian Dollars

| For the three months ended March 31, | 2022 | 2021 |
|---|----------------------|----------------------|
| OPERATING ACTIVITIES | | |
| Net loss | \$ (6,204,335) | \$ (45,201,077) |
| Adjustments for: | | |
| Amortization | 44,540 | 13,694 |
| Depreciation | 47,147 | 35,302 |
| Change in fair value of derivative liability | 1,230,860 | 41,019,172 |
| Impairment of notes receivable | (771,260) | - |
| Finance and other costs | (140) | 6,405 |
| Income from government assistance | (1,275) | (20,706) |
| Share-based payments | 643,325 | 1,049,866 |
| | (5,011,138) | (3,097,344) |
| Net changes in non-cash working capital items: | | |
| Receivables | (544,318) | (136,170) |
| Inventory | 25,649 | (143,786) |
| Prepays | 2,142,325 | 33,881 |
| Right of use asset | - | (14,365) |
| Trade payables and accrued liabilities | (47,704) | (188,645) |
| Customer deposits | 37,401 | (95,646) |
| Deferred income | (91,385) | (3,870) |
| Funds used in operating activities | (3,489,170) | (3,645,945) |
| INVESTING ACTIVITIES | | |
| Cash paid for acquisition, net of cash received | - | (250,000) |
| Purchase of equipment | (23,197) | (99,655) |
| Disposal of equipment | 10,755 | - |
| Purchase of investments | - | (500,000) |
| Funds used in investing activities | (12,442) | (849,655) |
| FINANCING ACTIVITIES | | |
| Proceeds from issuance of common shares for financing | - | 18,717,438 |
| Share issue costs | (5,122) | (273,169) |
| Proceeds from issuance of common shares for warrants exercised | 74,227 | 3,507,562 |
| Proceeds from issuance of common shares for stock options exercised | 26,875 | 955,373 |
| Proceeds from issuance of common shares in lieu of cash | - | 198,000 |
| Proceeds from issuance of loans | - | 503,870 |
| Loans repayments | (1,686) | (24,513) |
| Repayment of lease liability | (36,583) | (12,741) |
| Funds provided by financing activities | 57,711 | 23,571,820 |
| Effects of exchange rate changes on cash | (54,910) | 9,287 |
| Change in cash | (3,443,901) | 19,076,220 |
| Cash, beginning of year | 23,075,713 | 1,982,416 |
| Cash, end of year | \$ 19,576,902 | \$ 21,067,923 |
| Cash and cash equivalents consist of the following: | | |
| Cash held in banks | \$ 19,231,149 | \$ 20,925,211 |
| Guaranteed investment certificate | 345,753 | 142,712 |
| | \$ 19,576,902 | \$ 21,067,923 |

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

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For The Three Months Ended March 31, 2022
Expressed in Canadian Dollars (unaudited)

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 coronavirus, also known as "COVID-19," spread across the globe and is impacting worldwide economic activity. Government authorities in many jurisdictions have implemented 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 disruption to business globally.

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.

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 interim financial statements, including International Accounting Standards ("IAS") 34 Interim Financial Reporting, are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The notes presented in these condensed consolidated interim financial statements include only significant events and transactions occurring since the Company's last fiscal year end and they do not include all of the information required in the Company's most recent annual financial statements. Except as noted below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company's annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2021, which were prepared in accordance with IFRS as issued by IASB. There have been no significant changes in judgement or estimates from those disclosed in the financial statements for the year ended December 31, 2021.

These consolidated financial statements were authorized for issue by the Board of Directors on May 10, 2022.

The financial statements of the Company have been prepared on a historical cost basis, modified where applicable. In addition, the financial statements have been prepared using the accrual basis of accounting except for cash flow information

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For The Three Months Ended March 31, 2022
Expressed in Canadian Dollars (unaudited)

2. BASIS OF PREPARATION (CONT'D)

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.

3. RESTATEMENT TO PREVIOUS PERIODS

The comparative financial information of the Company as at March 31, 2021 has been adjusted as follows:

Vital Intelligence Inc. ("Vital") acquisition

In the prior period financial statements as at March 31, 2021, the Company recorded the contingent consideration with respect to the Vital acquisition (note 4) as equity. Upon management's review at December 31, 2021, management determined that the contingent consideration did not meet the criteria to recognize it as an asset and thus reclassified it as a contingent liability. This change also resulted in the removal of the contingent shares from the weighted average number of shares calculation.

As a result of the change, the following adjustments were made to the comparative financial information:

| As at March 31, 2021 | Amounts before restatement | Restatement | Amounts restated |
|--|-----------------------------------|--------------------|-------------------------|
| Condensed consolidated interim statement of loss | | | |
| Weighted average number of shares outstanding – basic & diluted | 21,070,046 | (90,000) | 20,980,046 |
| Net loss per share – basic and diluted | \$ (2.15) | \$ - | \$ (2.15) |
| For the three months ended March 31, 2021 | | | |
| Condensed consolidated interim statement of changes in shareholders' equity | | | |
| Share capital | 75,459,911 | (11,916,001) | 63,543,910 |
| Equity reserve | 5,955,327 | (1,831,607) | 4,123,720 |
| Balance at March 31, 2021 | 381,485 | (13,747,308) | (13,366,123) |

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For The Three Months Ended March 31, 2022
Expressed in Canadian Dollars (unaudited)

4. VITAL ACQUISITION

On March 25, 2021, the Company acquired the assets of 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 its 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 released from escrow, as follows:

- a) 300,000 units shall be released on the closing date (released);
- 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.

The 900,000 shares held in escrow are classified as a derivative liability and are valued based upon the weighted average probability of achieving the milestones necessary to release the shares held in escrow, discounted for liquidity. The 900,000 units will be forfeited and cancelled within two years of the closing if the Company does not meet the revenue milestones.

On acquisition, the fair value of the derivative liability (note 17) was \$4,797,717. At March 31, 2022, the liability was revalued based upon new weighted average probabilities of achieving the revenue milestones. As a result, the fair value was adjusted to \$976,816, with the difference flowing through the condensed consolidated interim 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 | 694,230 |
| Change in fair value of contingent consideration | 282,587 |
| Contingent consideration at March 31, 2022 (note 17) | \$ 976,816 |

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For The Three Months Ended March 31, 2022
Expressed in Canadian Dollars (unaudited)

4. VITAL ACQUISITION (CONT'D)

The purchase price allocation ("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 acquired was recognized as goodwill.

5. CASH AND CASH EQUIVALENTS

| | March 31, 2022 | December 31, 2021 |
|------------------------------------|-----------------------|-------------------|
| Cash held in banks | \$ 19,231,149 | \$ 22,729,212 |
| Guaranteed investment certificates | 345,753 | 346,501 |
| | \$ 19,576,902 | \$ 23,075,713 |

6. RECEIVABLES

| | March 31, 2022 | December 31, 2021 |
|----------------------------|-----------------------|-------------------|
| Trade accounts receivable | \$ 1,458,502 | \$ 951,314 |
| Corporate taxes receivable | 182,820 | 182,820 |
| GST receivable | 310,123 | \$ 272,993 |
| | \$ 1,951,445 | \$ 1,407,127 |

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For The Three Months Ended March 31, 2022
Expressed in Canadian Dollars (unaudited)

7. INVENTORY

| | March 31, 2022 | December 31, 2021 |
|----------------|-----------------------|---------------------|
| Finished goods | \$ 2,997,812 | \$ 3,017,363 |
| Parts | 367,361 | 373,459 |
| | \$ 3,365,173 | \$ 3,390,822 |

During the three months ended March 31, 2022, \$1,161,511 (2021: \$784,095) of inventory was recognized in cost of sales. Cost of assets sold consist of the following:

| | March 31, 2022 | March 31, 2021 |
|-------------------------|-----------------------|---------------------|
| Inventory | \$ 1,161,511 | \$ 784,095 |
| Consulting and services | 64,833 | 162,393 |
| Other | 2,068 | 78,241 |
| | \$ 1,228,412 | \$ 1,024,729 |

8. NOTES RECEIVABLE

| | Start Date | Maturity Date | Rate | Principal | Interest | Accretion | Impairment recovery | Total |
|-----------------------|-------------------|----------------------|-------------|---------------------|------------------|------------------|----------------------------|---------------------|
| Note 1 ⁽¹⁾ | 2021-04-21 | 2022-10-21 | 0% | \$ 178,223 | \$ - | \$ 3,488 | \$ - | \$ 181,711 |
| Note 2 ⁽¹⁾ | 2021-09-22 | 2024-09-22 | 5% | 943,544 | 11,555 | 6,622 | - | 961,721 |
| Note 3 | 2021-11-17 | 2022-04-26 | 8% | - | 14,795 | - | 771,260 | 786,055 |
| Total | | | | \$ 1,121,767 | \$ 26,350 | \$ 10,110 | \$ 771,260 | \$ 1,929,487 |

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

| | Current assets | Non-Current assets |
|--------|-------------------|--------------------|
| Note 1 | \$ 181,711 | \$ - |
| Note 2 | - | 961,721 |
| Note 3 | 786,055 | - |
| | \$ 967,766 | \$ 961,721 |

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 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 3 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. At December 31, 2021, management determined that it was unlikely that either the loan will be repaid or the Company will receive some other type of return, therefore, the loan was written down to \$nil. During the three months ended March 31, 2022, the parties agreed on a repayment plan, with \$450,000 to be paid upon execution of the agreement, and the remaining balance to be paid within 90 days of the signed agreement. Subsequent to March 31, 2022 the \$450,000 payment was received (note 22).

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For The Three Months Ended March 31, 2022
Expressed in Canadian Dollars (unaudited)

9. PREPAIDS

| | March 31, 2022 | December 31, 2021 |
|----------------------------|-----------------------|---------------------|
| Insurance | \$ 1,464,830 | \$ 2,938,246 |
| Prepaid director fees | 107,778 | 107,763 |
| Prepaid interest | 2,699 | 6,969 |
| Prepaid marketing services | 1,173,062 | 1,638,179 |
| Prepaid rent | 10,255 | - |
| Prepaid subscriptions | 6,611 | 35,687 |
| Deposits | 587,317 | 768,033 |
| | \$ 3,352,552 | \$ 5,494,877 |

10. INVESTMENTS

| | |
|-------------------------------------|-------------------|
| Balance at December 31, 2021 | \$ 291,066 |
| Change in fair value | (33,249) |
| Balance at December 31, 2021 | \$ 257,817 |

Fair value of investments is comprised of:

| | |
|-------------------------------------|-------------------|
| Public company shares | \$ 128,571 |
| Public company warrants | 4,286 |
| Private company shares | 124,960 |
| Balance at December 31, 2021 | \$ 257,817 |

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:

| | March 31, 2022 | March 10, 2021 |
|-------------------------|-----------------------|----------------|
| Risk free interest rate | 2.17% | 0.28% |
| Expected volatility | 98.41% | 150.88% |
| Expected life | 0.96 years | 2 years |
| Expected dividend yield | 0% | 0% |

On October 27, 2021, the Company purchased 50,000 common shares of a private company for USD\$100,000.

Draganfly Inc.
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11. EQUIPMENT

| | Computer Equipment | Furniture and Equipment | Leasehold Improvements | Software | Vehicles | Total |
|----------------------------------|-----------------------|-------------------------------|---------------------------|-----------------|------------------|-------------------|
| Cost | | | | | | |
| Balance at January 1, 2021 | \$ 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 |
| Additions | 21,517 | 1,681 | - | - | - | 23,198 |
| Disposals | (18,688) | (36,100) | (4,352) | (29,967) | - | (89,107) |
| Balance at March 31, 2022 | \$ 56,939 | \$ 308,053 | \$ - | \$ - | \$ 36,033 | \$ 401,025 |
| Accumulated depreciation | | | | | | |
| Balance at January 1, 2021 | \$ 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 |
| Charge for the period | 8,614 | 6,838 | - | - | 854 | 16,306 |
| Disposals | (15,920) | (33,342) | (4,352) | (24,737) | - | (78,351) |
| Balance at March 31, 2022 | \$ 17,985 | \$ 75,773 | \$ - | \$ - | \$ 14,088 | \$ 107,846 |
| Net book value: | | | | | | |
| December 31, 2021 | \$ 28,819 | \$ 240,195 | \$ - | \$ 5,230 | \$ 22,799 | \$ 297,043 |
| March 31, 2022 | \$ 38,954 | \$ 232,280 | \$ - | \$ - | \$ 21,945 | \$ 293,179 |

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12. INTANGIBLE ASSETS AND GOODWILL

| | | Customer | | | | | | |
|---|-----------|---------------|-------------------|------------------|-------------------|---------------------|-----------|------------------|
| | | Patents | Relationships | Brand | Software | Goodwill | | Total |
| Cost | | | | | | | | |
| Balance at January 1, 2021 | \$ | 41,931 | \$ 197,000 | \$ - | \$ 119,000 | \$ 2,166,563 | \$ | 2,524,494 |
| Intangible assets acquired in the Transaction | | - | - | 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 |
| Foreign exchange translation | | - | - | (330) | (6,216) | (54,176) | | (60,722) |
| Balance at December 31, 2021 | \$ | 41,931 | \$ 197,000 | \$ 22,670 | \$ 545,784 | \$ 5,886,233 | \$ | 6,693,618 |
| Accumulated amortization | | | | | | | | |
| Balance at January 1, 2021 | \$ | 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 |
| Change for the period | | - | 6,289 | 1,149 | 36,562 | - | | 44,540 |
| Foreign exchange translation | | - | - | (65) | (1,544) | - | | (1,609) |
| Balance at December 31, 2021 | \$ | 41,931 | \$ 67,243 | \$ 4,534 | \$ 149,253 | \$ - | \$ | 262,961 |
| Net book value: | | | | | | | | |
| December 31, 2021 | \$ | - | \$ 136,586 | \$ 19,550 | \$ 437,765 | \$ 5,940,409 | \$ | 6,534,310 |
| March 31, 2022 | \$ | - | \$ 129,757 | \$ 18,136 | \$ 396,531 | \$ 5,886,233 | \$ | 6,430,657 |

Brand

On March 25, 2021, the Company acquired the assets of Vital (note 5) 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 Dronelogs, 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.

On December 31, 2021 the Company performed its annual goodwill impairment test on Vital and Dronelogs. 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 Dronelogs 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.

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12. INTANGIBLE ASSETS AND GOODWILL (CONT'D)

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.

13. RIGHT OF USE ASSETS

| | Total |
|----------------------------------|-------------------|
| Cost | |
| Balance at December 31, 2020 | \$ 242,967 |
| Additions | 447,242 |
| Lease removal | (7,092) |
| Balance at December 31, 2021 | \$ 683,117 |
| Additions | - |
| Balance at March 31, 2022 | \$ 683,117 |
| Accumulated depreciation | |
| Balance at December 31, 2020 | \$ 98,548 |
| Charge for the year | 109,311 |
| Historical correction | 7,152 |
| Balance at December 31, 2021 | \$ 215,011 |
| Charge for the period | 30,840 |
| Balance at March 31, 2022 | \$ 245,851 |
| Net book value: | |
| December 31, 2021 | \$ 468,106 |
| March 31, 2022 | \$ 437,266 |

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14. 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, 2020 | \$ 158,124 |
| Additions | 440,675 |
| Interest expense | 26,964 |
| Lease payments | (128,995) |
| Lease removal | (7,645) |
| Balance at December 31, 2021 | \$ 489,123 |
| Interest expense | 10,927 |
| Lease payments | (36,583) |
| Balance at March 31, 2022 | \$ 463,467 |

Which consists of:

| | |
|----------------------------------|-------------------|
| Current lease liability | \$ 115,269 |
| Non-current lease liability | 348,198 |
| Balance at March 31, 2022 | \$ 463,467 |

| Maturity analysis | Total |
|---------------------------------------|-------------------|
| Less than one year | \$ 150,276 |
| One to three years | 238,347 |
| Four to five years | 162,340 |
| Greater than five years | - |
| Total undiscounted lease liabilities | 550,963 |
| Amount representing implicit interest | (87,496) |
| Lease liability | \$ 463,467 |

15. TRADE PAYABLES AND ACCRUED LIABILITIES

| | March 31, 2022 | December 31, 2021 |
|--------------------------|-----------------------|-------------------|
| Trade accounts payable | \$ 415,814 | \$ 362,890 |
| Accrued liabilities | 219,465 | 402,540 |
| Government grant payable | 33,709 | 33,709 |
| | \$ 668,988 | \$ 799,139 |

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16. LOANS PAYABLE

| | March 31, 2022 | December 31, 2021 |
|----------------------------|-----------------------|-------------------|
| Opening balance | \$ 93,317 | \$ 97,916 |
| Issuance of loans payable | - | 60,000 |
| Fair value adjustment | - | (24,576) |
| Repayment of loans payable | (1,687) | (44,428) |
| Accretion expense | 1,276 | 4,405 |
| Ending balance | \$ 92,906 | \$ 93,317 |

| | Start Date | Maturity Date | Rate | | Carrying Value March 31, 2022 | | Carrying Value December 31, 2021 |
|--------------|-------------------|----------------------|-------------|----|--|----|---|
| CEBA | 2020-05-19 | 2022-12-31 | 0% | \$ | 38,021 | \$ | 37,384 |
| CEBA | 2021-04-23 | 2022-12-31 | 0% | | 38,021 | | 37,383 |
| Vehicle loan | 2019-08-30 | 2024-09-11 | 6.99% | | 16,864 | | 18,550 |
| Total | | | | \$ | 92,906 | \$ | 93,317 |

On May 19, 2020, Dronelogs 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.

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17. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the three months ended March 31, 2022,

- The Company issued 16,538 common shares for the exercise of warrants for \$74,227.
- The Company issued 12,500 common shares for the exercise of stock options for \$26,875.

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 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.

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 March 31, 2022, 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 | 7.59 | 296,665 | 296,665 |
| November 19, 2019 | November 19, 2029 | \$ 2.50 | 7.64 | 50,000 | 50,000 |
| April 30, 2020 | April 30, 2030 | \$ 2.50 | 8.09 | 87,000 | 78,666 |
| April 30, 2020 | April 30, 2030 | \$ 3.85 | 8.09 | 110,000 | 70,000 |
| July 3, 2020 | July 3, 2025 | \$ 3.20 | 3.26 | 200,000 | 166,666 |
| November 24, 2020 | November 24, 2030 | \$ 2.50 | 8.66 | 32,000 | 21,000 |
| February 2, 2021 | February 2, 2031 | \$ 13.20 | 8.85 | 30,000 | 20,000 |
| March 8, 2021 | March 8, 2026 | \$ 13.90 | 3.94 | 10,000 | 7,500 |
| April 27, 2021 | April 27, 2031 | \$ 10.15 | 8.98 | 182,000 | - |
| September 9, 2021 | September 9, 2026 | \$ 4.84 | 4.44 | 25,826 | - |
| | | | | 1,023,491 | 710,497 |

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17. SHARE CAPITAL (CONT'D)

Stock options (cont'd)

| | Number of Options | Weighted Average Exercise Price |
|------------------------------------|--------------------------|--|
| Outstanding, December 31, 2020 | 1,193,659 | \$ 2.75 |
| Forfeited | (405,494) | 2.50 |
| Granted | 247,826 | 10.12 |
| Outstanding, December 31, 2021 | 1,035,991 | \$ 4.60 |
| Exercised | (12,500) | 2.50 |
| Outstanding, March 31, 2022 | 1,023,491 | \$ 3.22 |

No options were granted by the Company for the three months ended March 31, 2022

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 three months ended March 31, 2022, the Company recorded \$297,566 (2021- \$516,351) 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:

| Three months ended March 31, | 2022 | 2021 |
|-------------------------------------|-----------------|-----------------|
| Risk free interest rate | 2.38% | 0.69%-1.40% |
| Expected volatility | 69.83% | 111.87%-113.16% |
| Expected life | 5 years | 5 years |
| Expected dividend yield | 0% | 0% |
| Exercise price | \$ 13.90 | \$ 13.20-13.90 |

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

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.

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17. SHARE CAPITAL (CONT'D)

As at March 31, 2022, the Company had the following RSUs outstanding:

| | Number of RSUs |
|------------------------------------|-----------------------|
| Outstanding, December 31, 2020 | 614,666 |
| Vested | (448,660) |
| Issued | 348,826 |
| Outstanding, December 31, 2021 | 514,832 |
| Issued | - |
| Outstanding, March 31, 2022 | 514,832 |

The Company did not issue any RSU's for the three months ended March 31, 2022.

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 three months ended March 31, 2022, the Company recorded share-based payment expense of \$345,759 (2020: \$533,515) 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.

Warrant Derivative Liability

| | | |
|---|-----------|------------------|
| Balance at January 1, 2021 | \$ | 748,634 |
| Warrant issuance | | 8,261,511 |
| Exercised | | (98,048) |
| Change in fair value of warrants outstanding | | (4,046,325) |
| Balance at December 31, 2021 | \$ | 4,865,772 |
| Exercised | | (74,227) |
| Change in fair value of warrants outstanding | | 1,022,501 |
| Warrant Balance at March 31, 2022 | \$ | 5,814,046 |
| Derivative liability | | |
| Warrants | \$ | 5,814,046 |
| Contingent consideration (note 5) | | 976,816 |
| Derivative liability at March 31, 2022 | \$ | 6,790,862 |

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

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17. SHARE CAPITAL (CONT'D)

Warrants (cont'd)

| Issue Date | Exercise Price | Number of Warrants Outstanding at March 31, 2022 | Fair Value at March 31, 2022 | Number of Warrants Outstanding at December 31, 2021 | Fair Value at December 31, 2021 |
|-------------------|----------------|--|------------------------------|---|---------------------------------|
| November 30, 2020 | US\$ 3.55 | 481,484 | \$ 353,777 | 482,425 | \$ 182,262 |
| February 5, 2021 | US\$ 3.55 | 1,319,675 | 1,076,840 | 1,323,275 | 951,226 |
| March 5, 2021 | US\$ 3.55 | 5,142,324 | 4,383,429 | 5,154,321 | 3,731,284 |
| | | 6,943,483 | \$ 5,814,046 | 6,960,021 | \$ 4,864,772 |

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

| | March 31, 2022 | December 31, 2021 |
|-------------------------|-----------------|-------------------|
| Risk free interest rate | 2.17% | 0.23%-0.95% |
| Expected volatility | 72.74%-126.97% | 70.95%-144.59% |
| Expected life | 0.67-2.46 years | 2-3 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.

| | Number of Warrants | Weighted Average Exercise Price |
|------------------------------------|--------------------|---------------------------------|
| 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 |
| Exercised | (16,538) | 4.44 |
| Outstanding, March 31, 2022 | 8,398,281 | \$ 4.99 |

As at March 31, 2022, 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 | 481,484 |
| February 5, 2021 | February 5, 2023 | US\$ 3.55 | 1,319,675 |
| March 5, 2021 | March 5, 2023 | US\$ 3.55 | 5,142,324 |
| 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 |
| | | | 8,398,281 |

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17. SHARE CAPITAL (CONT'D)

Warrants (cont'd)

The weighted average remaining contractual life of warrants outstanding as of March 31, 2022, was 0.96 years (December 31, 2021 – 1.20 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 5).

18. 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 period ended March 31, | | 2022 | | 2021 |
|--------------------------------|----|------------------|----|-----------|
| Product sales | \$ | 1,637,716 | \$ | 1,129,307 |
| Drone service | | 406,096 | | 409,963 |
| Services | | 750 | | 466 |
| | \$ | 2,044,562 | \$ | 1,539,736 |

Geographic revenue segmentation is as follows:

| For the three months ended March 31, | | 2022 | | 2021 |
|--------------------------------------|----|------------------|----|-----------|
| Canada | \$ | 1,467,830 | \$ | 769,380 |
| United States | | 576,732 | | 770,356 |
| | \$ | 2,044,562 | \$ | 1,539,736 |

Non-current assets for each geographic segment are as follows:

| As at March 31, 2022 | | Canada | | United States |
|-----------------------------|----|---------------|----|----------------------|
| Goodwill | \$ | 2,166,564 | \$ | 3,719,669 |
| Property and equipment | | 293,179 | | - |
| Intangible assets | | 208,139 | | 336,285 |
| Investments | | 257,817 | | - |
| Notes receivable | | 786,055 | | 1,143,432 |
| Right of use assets | | 437,266 | | - |
| | \$ | 4,149,020 | \$ | 5,199,386 |

19. OFFICE AND MISCELLANEOUS

| For the three months ended March 31, | | 2022 | | 2021 |
|--|----|------------------|----|-----------|
| Advertising, Marketing, and Investor Relations | \$ | 1,159,773 | \$ | 2,095,092 |
| Compliance fees | | 47,380 | | 115,734 |
| Contract Work | | 214,848 | | 34,077 |
| Other | | 185,836 | | 80,883 |
| | \$ | 1,607,837 | \$ | 2,325,786 |

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20. RELATED PARTY TRANSACTIONS

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

On August 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 three months ended March 31, 2022, the company incurred fees of \$125,732 compared to \$43,500 in 2021. As at March 31, 2022, the Company was indebted to this company in the amount of \$nil (December 31, 2021 - \$nil).

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 three months ended March 31, 2022, the Company incurred fees of \$100,000 compared to \$53,764 in 2021. As at March 31, 2022, the Company was indebted to this company in the amount of \$nil (December 31, 2021 - \$nil).

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 three months ended March 31, 2022, the Company incurred fees of \$62,500 (March 31, 2021 - \$44,123). As at March 31, 2022, the Company was indebted to this company in the amount of \$nil (December 31, 2021 - \$nil).

Trade payables and accrued liabilities:

As at March 31, 2022, the Company had \$nil (December 31, 2021 - \$nil) 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 three months ended March 31, 2022 and 2021 included:

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Notes to the Condensed Consolidated Interim Financial Statements
For The Three Months Ended March 31, 2022
Expressed in Canadian Dollars (unaudited)

20. RELATED PARTY TRANSACTIONS (CONT'D)

| For the three months ended March 31, | 2022 | 2021 |
|--|-------------------|------------------|
| Director fees | \$ 107,446 | \$ 86,691 |
| Management fees paid to a company controlled by CEO and director | 100,000 | 53,764 |
| Management fees paid to a company controlled by the President and director | 62,500 | 44,123 |
| Management fees paid to a company controlled by a former director | 82,993 | 45,000 |
| Salaries | 127,565 | 122,976 |
| Share-based payments | 322,083 | 680,097 |
| | \$ 802,587 | 1,032,651 |

21. 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.

22. SUBSEQUENT EVENT

Subsequent to the three months ending March 31, 2022, the Company signed a forbearance agreement with one of the holders of notes receivable (note 8) to bring the note out of default. Terms of the agreement required the recipient to repay \$450,000 upon signing of the agreement, with the balance to be repaid within 90 days of the agreement. As a result, the Company recorded an impairment recovery of \$771,260 on the note which was recorded in the condensed consolidated statement of comprehensive loss. Subsequent to March 31, 2022, the \$450,000 payment was received.