



Draganfly Inc.

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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, 2023 and 2022, the related consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2023, 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, 2023 and 2022, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred losses in developing its business, and further losses are anticipated. The Company requires additional funds to meet its obligations and the costs of its operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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.

Vancouver

1500 - 1140 West Pender St.
Vancouver, BC V6E 4G1
604.687.4747

Surrey

200 - 1688 152 St.
Surrey, BC V4A 4N2
604.531.1154

Tri-Cities

700 - 2755 Lougheed Hwy
Port Coquitlam, BC V3B 5Y9
604.941.8266

Victoria

320 - 730 View St.
Victoria, BC V8W 3Y7
250.800.4694

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.

/s/ DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

We have served as the Company's auditor since 2018
Vancouver, Canada
March 27, 2024

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

| As at | Notes | December 31, 2023 | December 31, 2022 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 4 | \$ 3,093,612 | \$ 7,894,781 |
| Receivables | 5 | 649,612 | 2,088,965 |
| Inventory | 6 | 1,596,536 | 1,055,942 |
| Notes receivable | 7 | - | 169,300 |
| Prepays | 8 | 1,342,215 | 2,307,724 |
| | | 6,681,975 | 13,516,712 |
| Non-current Assets | | | |
| Equipment | 10 | 680,801 | 404,691 |
| Intangible assets | 11 | 56,426 | 179,801 |
| Investments | 9 | 189,403 | 192,583 |
| Right of use assets | 12 | 721,687 | 344,746 |
| TOTAL ASSETS | | \$ 8,330,292 | \$ 14,638,533 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Trade payables and accrued liabilities | 14,20 | \$ 2,638,981 | \$ 2,816,676 |
| Customer deposits | | 104,715 | 194,758 |
| Deferred income | 15 | 12,112 | 63,690 |
| Loans payable | 16 | 85,058 | 81,512 |
| Derivative liability | 17 | 4,196,125 | 57,314 |
| Lease liabilities | 13 | 362,001 | 133,962 |
| | | 7,398,992 | 3,347,912 |
| Non-current Liabilities | | | |
| Loans payable | 16 | - | 5,059 |
| Deferred income | 15 | 95,562 | - |
| Lease liabilities | 13 | 428,022 | 244,681 |
| TOTAL LIABILITIES | | 7,922,576 | 3,597,652 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 17 | 97,070,976 | 83,600,089 |
| Reserves – share-based payments | 17 | 6,870,139 | 7,264,340 |
| Accumulated deficit | | (103,588,356) | (79,976,546) |
| Accumulated other comprehensive income (loss) | | 54,957 | 152,998 |
| TOTAL SHAREHOLDERS' EQUITY | | 407,716 | 11,040,881 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | \$ 8,330,292 | \$ 14,638,533 |

Nature and Continuance of Operations and Going Concern (Note 1)

Subsequent Events (Note 23)

Approved and authorized for issuance by the Board of Directors on March 27, 2024.

“Scott Larson”

“Cameron Chell”

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, | | |
|---|-------|----------------------------------|---------------------|---------------------|
| | | 2023 | 2022 | 2021 |
| REVENUE | | | | |
| Sales of goods | 18 | \$ 5,287,093 | \$ 5,550,432 | \$ 5,103,399 |
| Provision of services | 18 | 1,267,749 | 2,054,627 | 1,950,466 |
| TOTAL REVENUE | | 6,554,842 | 7,605,059 | 7,053,865 |
| COST OF SALES | | | | |
| | 6 | (4,490,728) | (6,814,384) | (4,410,777) |
| GROSS PROFIT | | 2,064,114 | 790,675 | 2,643,088 |
| OPERATING EXPENSES | | | | |
| Amortization | 11 | 35,960 | 179,482 | 135,966 |
| Depreciation | 10,12 | 510,677 | 593,277 | 175,098 |
| Director fees | 20 | 600,933 | 522,349 | 370,094 |
| Insurance | | 1,825,137 | 3,722,237 | 2,962,767 |
| Office and miscellaneous | 19 | 6,303,879 | 5,397,961 | 6,455,998 |
| Professional fees | 20 | 4,145,586 | 6,821,583 | 4,445,949 |
| Research and development | | 1,554,823 | 651,302 | 510,895 |
| Share-based payments | 17 | 2,021,664 | 3,311,024 | 3,952,595 |
| Travel | | 704,994 | 396,388 | 143,904 |
| Wages and salaries | 20 | 6,976,792 | 6,105,020 | 2,768,010 |
| | | (24,680,445) | (27,700,623) | (21,921,276) |
| OTHER INCOME (EXPENSE) | | | | |
| Change in fair value of derivative liability | 17 | 211,110 | 5,502,688 | 8,149,812 |
| Finance and other costs | | 83,280 | 44,345 | 5,074 |
| Foreign exchange gain | | (249,563) | 745,102 | 362,448 |
| Loss on disposal of assets | 10 | (944) | (10,755) | - |
| Loss on write-off of notes receivable | 7 | (101,351) | (309,385) | (891,471) |
| Government income | | 5,232 | 2,446 | 24,148 |
| Write down of deposit | 8 | - | (228,572) | - |
| Loss on impairment of goodwill and intangibles | 11 | - | (6,454,914) | (4,579,763) |
| Other income (expense) | 17 | (943,243) | (35,371) | 4,968 |
| NET LOSS FOR THE YEAR | | (23,611,810) | (27,654,364) | (16,202,972) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that may be reclassified to profit or loss | | | | |
| Foreign exchange translation | | (94,861) | 447,542 | 136,475 |
| Items that will not be reclassified to profit or loss | | | | |
| Change in fair value of equity investments at FVOCI | 9 | (3,180) | (98,483) | (332,640) |
| COMPREHENSIVE LOSS FOR THE YEAR | | (23,709,851) | (27,305,305) | (16,399,137) |
| Net loss per share | | | | |
| Basic & diluted | | \$ (0.56) | \$ (0.82) | \$ (0.59) |
| Weighted average number of common shares outstanding - basic & diluted | | | | |
| | | 42,192,384 | 33,556,969 | 27,787,348 |

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, 2020 | 17,218,695 | \$ 36,943,304 | \$ 3,024,007 | \$ (36,119,210) | \$ - | \$ 104 | \$ 3,848,205 | |
| Shares issued in the acquisitions of Vital | 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 RSU's | 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 | |
| Shares issued for the exercise of stock options | 12,500 | 51,875 | (25,000) | - | - | - | 26,875 | |
| Shares issued for the exercise of warrants | 16,538 | 87,170 | - | - | - | - | 87,170 | |
| Shares issued for the exercise of RSUs | 1,072,595 | 2,427,801 | (2,427,801) | - | - | - | - | |
| Shares issue costs | - | (5,122) | - | - | - | - | (5,122) | |
| Share-based payments | - | - | 3,311,024 | - | - | - | 3,311,024 | |
| Net loss | - | - | - | (27,654,364) | - | - | (27,654,364) | |
| Change in fair value of equity investments at FVOCI | - | - | - | - | (98,483) | - | (98,483) | |
| Translation of foreign operations | - | - | - | - | - | 447,542 | 447,542 | |
| Balance at December 31, 2022 | 34,270,579 | \$ 83,600,089 | \$ 7,264,340 | \$ (79,976,546) | \$ (431,123) | \$ 584,121 | \$ 11,040,881 | |
| Shares issued for financing – ATM (“At-the-market”) | 650,729 | 1,748,946 | - | - | - | - | 1,748,946 | |
| Share issue costs | - | (222,136) | - | - | - | - | (222,136) | |
| Shares issued for financing | 12,800,000 | 11,376,230 | - | - | - | - | 11,376,230 | |
| Share issue costs | - | (2,072,886) | 224,868 | - | - | - | (1,848,018) | |
| Shares issued for the exercise of RSUs | 1,508,255 | 2,640,733 | (2,640,733) | - | - | - | - | |
| Share-based payments | - | - | 2,021,664 | - | - | - | 2,021,664 | |
| Net loss | - | - | - | (23,611,810) | - | - | (23,611,810) | |
| Change in fair value of equity investments at FVOCI | - | - | - | - | (3,180) | - | (3,180) | |
| Translation of foreign operations | - | - | - | - | - | (94,861) | (94,861) | |
| Balance as of December 31, 2023 | 49,229,563 | \$ 97,070,976 | \$ 6,870,139 | \$ (103,588,356) | \$ (434,303) | \$ 489,260 | \$ 407,716 | |

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

Draganfly Inc.
Statement of Cashflows
Expressed in Canadian Dollars

| | For the years ended December 31, | | |
|---|----------------------------------|---------------------|----------------------|
| | 2023 | 2022 | 2021 |
| OPERATING ACTIVITIES | | | |
| Net loss for the year | \$ (23,611,810) | \$ (27,654,364) | \$ (16,202,972) |
| Adjustments for: | | | |
| Amortization | 35,960 | 179,482 | 135,966 |
| Depreciation | 510,677 | 593,277 | 175,098 |
| Bad debt | 216,238 | - | - |
| Change in fair value of derivative liability | (211,110) | (5,502,688) | (8,149,812) |
| Write down of inventory | 331,671 | 1,976,514 | - |
| Impairment of notes receivable | 101,351 | 309,385 | 891,471 |
| Impairment of goodwill and intangibles | 87,415 | 6,454,914 | 4,579,763 |
| Write down of deposit | - | 228,572 | - |
| Finance and other costs | 4,355,156 | (34,427) | (926) |
| (Gain) loss on sale of assets | 18,426 | - | (24,148) |
| Share-based payments | 2,021,664 | 3,311,024 | 3,952,595 |
| | (16,144,362) | (20,138,311) | (14,642,965) |
| Net changes in non-cash working capital items: | | | |
| Receivables | 1,223,112 | (681,838) | (596,336) |
| Inventory | (872,265) | (150,241) | (2,157,203) |
| Prepays | 965,509 | 2,958,581 | (3,401,868) |
| Trade payables and accrued liabilities | (170,782) | 1,661,697 | (1,044,133) |
| Customer deposits | (90,043) | 22,624 | (213,315) |
| Deferred income | 43,984 | (21,543) | 51,186 |
| Cash used in operating activities | (15,044,847) | (16,349,031) | (22,004,634) |
| INVESTING ACTIVITIES | | | |
| Cash paid for acquisition, net of cash received | - | - | (466,643) |
| Purchase of equipment | (490,391) | (79,713) | (212,579) |
| Disposal of equipment | 46,976 | 10,755 | - |
| Purchase of intangible assets | - | (4,684) | - |
| Purchase of investments | - | - | (623,706) |
| Repayment (Issuance) of notes receivable | 63,838 | 842,297 | (2,002,678) |
| Cash provided by (used in) investing activities | (379,577) | 768,655 | (3,305,606) |
| FINANCING ACTIVITIES | | | |
| Proceeds from issuance of common shares for financing | 13,125,176 | - | 44,255,651 |
| Share issue costs | (2,070,154) | (5,122) | (3,814,762) |
| Proceeds from issuance of common shares for warrants exercised | - | 87,170 | 4,929,790 |
| Proceeds from issuance of common shares for stock options exercised | - | 26,875 | 1,014,123 |
| Proceeds from issuance of loans | - | - | 60,000 |
| Repayment of loans | (6,747) | (6,746) | (48,747) |
| Repayment of lease liabilities | (330,159) | (150,275) | (128,996) |
| Cash provided by (used in) financing activities | 10,718,116 | (48,098) | 46,267,059 |
| Effects of exchange rate changes on cash | (94,861) | 447,542 | 136,478 |
| Change in cash | (4,706,308) | (15,628,474) | 20,956,819 |
| Cash and cash equivalents, beginning of year | 7,894,781 | 23,075,713 | 1,982,416 |
| Cash and cash equivalents, end of year | \$ 3,093,612 | \$ 7,894,781 | \$ 23,075,713 |
| The following are included in cash flow from operating activities: | | | |
| Interest paid in cash | \$ 57,041 | \$ 51,338 | \$ 31,010 |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN

Draganfly Inc. (the “Company”) was incorporated on June 1, 2018 under the Business Corporations Act (British Columbia). The Company creates quality, cutting-edge unmanned and remote data collection and analysis platforms and systems that are designed to revolutionize the way companies do business. 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 235 103rd St. E, Saskatoon, SK, S7N 1Y8 and its registered office is located at 2800 – 666 Burrard Street, Vancouver, BC, V6C 2Z7.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. To date, the Company has not been profitable and has an accumulated deficit of \$103,588,356. The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional financing and or achieve profitable operations in the future. These factors raise substantial doubt over the Company’s ability to continue as a going concern. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND 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 material accounting policy information set out below was consistently applied to all years presented unless otherwise noted.

These consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2024.

Basis of consolidation

Each subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues 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. (DII) | Canada | 100% |
| Draganfly Innovations USA, Inc. (DI USA) | US | 100% |
| Dronelogs Systems Inc. (“Dronelogs”) | Canada | 100% |

All intercompany balances and transactions were eliminated on consolidation.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

Foreign currency translation

Transactions in foreign currencies are translated into the functional currency 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. Gains and losses resulting from foreign exchange adjustments are included in profit or loss.

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

| | |
|---------------------------------|-----------------|
| Draganfly Inc. | Canadian Dollar |
| Draganfly Innovations Inc. | Canadian Dollar |
| Draganfly Innovations USA, Inc. | US Dollar |
| Dronelogs 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 revenue 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 translation of foreign operations in other comprehensive loss.

Share-based payments

The Company may grant stock options or restricted share units ("RSU's") to its directors, officers, employees and consultants. The Company records share-based compensation related to stock options using the Black-Scholes Option Pricing Model.

The RSU's granted entitle an employee, director or officer to either the issuance of common shares or cash payments payable upon vesting with terms determined by the Company's Board of Directors at the time of the grant. If on the grant date it is determined there is an obligation to settle in cash, the RSU's are accounted for as liabilities, with the fair value remeasured at the end of each reporting period and on the settlement date. Changes in fair value are recognized in profit and loss. Expense is recognized over the vesting period.

The Company has a present obligation to settle in cash if the choice of settlement in shares has no commercial substance, or the Company has a past practice or a stated policy of settling in cash, or generally settles in cash whenever the counterparty asks for cash settlement. If no such obligation exists, RSUs are accounted for as equity settled share-based payments and are valued using the share price on grant date. Upon settlement:

- a) If the Company elects to settle in cash, the cash payment is accounted for as the repurchase of an equity interest (i.e. as a deduction from equity), except as noted in (c) below.
- b) If the Company elects to settle by issuing shares, the value of RSUs initially recognized in reserves is reclassified to share capital, except as noted in (c) below.
- c) If the Company elects the settlement alternative with the higher fair value, as at the date of settlement, the Company recognizes an additional expense for the excess value given (i.e. the difference between the cash paid and the fair value of shares that would otherwise have been issued, or the difference between the fair value of the shares and the amount of cash that would otherwise have been paid, whichever is applicable).

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

The aggregate sales price or amount of common shares issued during any consecutive 12-month period will not exceed the greatest of the following: (i) USD \$1,000,000; (ii) 15% of the total assets of the Company, measured at the Company's most recent balance sheet date; or (iii) 15% of the outstanding amount of the common shares of the Company, measured at the Company's most recent balance sheet date. At the election of the Board of Directors, upon each vesting date, participants receive (a) the issuance of common shares from treasury equal to the number of RSUs vesting, or (b) a cash payment equal to the number of vested RSUs multiplied by the fair market value of a common share, calculated as the closing price of the common shares on the CSE for the trading day immediately preceding such payment date; or (c) a combination of (a) and (b).

In conjunction with private placements or brokered financings, the Company may issue compensatory warrants to agents as consideration for services provided. Awards of grants are accounted for in accordance with the fair value method of accounting and result in an increase in share issue costs and a credit to warrants within shareholders' equity when warrants are issued.

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 year.

Diluted income per share is calculated by dividing the profit attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares. The Company had 8,574,798 warrants, 897,158 options and 1,112,967 RSU's that would be potentially dilutive if the Company were not in a loss position and were to calculate diluted income per share.

Financial Instruments

Financial instruments are accounted for in accordance with IFRS 9 Financial Instruments: Classification and Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

| Financial assets/liabilities | Classification |
|-------------------------------------|---|
| Cash and cash equivalents | Fair value through profit or loss |
| Receivables | Amortized cost |
| Notes receivable | Fair value through profit or loss |
| Investments | Fair value through other comprehensive income |
| Trade payables | Amortized cost |
| Customer deposits | Amortized cost |
| Loans payable | Amortized cost |
| Derivative liability | Fair value through profit or loss |

a) *Financial assets*

Classification and measurement

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

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 cash flows are not solely principal and interest, 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.

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are recorded to profit or loss. Realized and unrealized gains and losses arising from changes in the fair value of financial assets held at FVTPL are included in the profit or loss in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Financial assets at FVTOCI

Financial assets carried 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 the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recorded to profit or loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

b) Financial liabilities

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

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 payable are included in this category.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

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 recognized in profit or loss.

Impairment of non-financial assets

The carrying amounts of the 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 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; and
- an intangible asset not yet available for use;

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.

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 amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU 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 taxes 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

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.

Inventory

Inventory consists of raw materials and finished goods for manufacturing of multi-rotor helicopters, industrial aerial 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. Cost is determined using the first-in-first-out method. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of purchase include the purchase price, import duties and non-recoverable taxes and transport, handling and other costs directly attributable to the acquisition of finished goods, materials or services. The costs of conversion include direct materials and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods. 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. The control transfer for Dronelogs Systems Inc. ("Dronelogs") and Draganfly Innovations USA, Inc. is when the products are shipped to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. At this point revenue is recognized. For Draganfly Innovations Inc. transfer occurs for sales outside of North America when shipped and for sales within North America on delivery which occurs in proximity to shipping. Revenue is recognized when the transfer of control has occurred.

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

Some contracts include multiple performance obligations, such as the sale of hardware and support or maintenance. Where support or maintenance is performed by another party and does not include an integration service it is accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on stand-alone selling price. Where the stand-alone selling price is not directly observable, the price is estimated based on expect cost plus margin. Where the support or maintenance is provided by the Company, the contract is analyzed to identify the performance obligations and transaction price. The price is then allocated across the obligations identified in the contract. Revenue is recognized when the Company satisfies a performance obligation.

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 over time as the services are rendered.

The Company provides rental of equipment which is measured based on rates through contracts or other written agreements with customers. Revenue is recognized in the period when services are performed and only when there is reasonable assurance that the revenue will be collected.

Deferred Income

A payment received is included as deferred revenue when products have yet be shipped to the customers as of the period end or there are unfulfilled obligations related to the revenue received. The amount to be recognized within twelve months following the year-end date is classified as current.

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, 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 arises 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, brands and software.

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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

| Class of intangible asset | Useful live |
|----------------------------------|--------------------|
| Customer relationship | 5 years |
| Brand | 5 years |
| Software | 5 years |
| Patents | 5 years |

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 consolidated 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 consolidated 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:

| Class of equipment | Depreciation rate |
|---------------------------|--------------------------|
| Computer equipment | 30% |
| Furniture and equipment | 20% |
| Leasehold improvements | Expected lease term |
| 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. The Company can also 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION AND BASIS OF PREPARATION (CONT'D)

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.

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 is 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 plus periods covered by an optional lease extension option if it is reasonably certain that 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 is 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.

New accounting standards issued not yet effective

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

3. MANAGEMENT JUDGEMENT AND ASSUMPTIONS

Significant estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires the Company to 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.

3. MANAGEMENT JUDGEMENT AND ASSUMPTIONS (CONT'D)

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.

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 less costs to sell. 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.

Investments in Private companies

Where the fair value of investments in private companies recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair value and this value may not be indicative of the eventual recoverable value.

Expected credit losses on trade receivables and notes receivable

When determining expected credit losses ("ECLs"), the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL's, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, informed credit assessment and forward-looking information.

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

3. MANAGEMENT JUDGEMENT AND ASSUMPTIONS (CONT'D)

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 applied to the Company's consolidated financial statements include:

- 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 determination of the functional currency of each entity in the group.

4. CASH AND CASH EQUIVALENTS

| | December 31, 2023 | December 31, 2022 |
|------------------------------------|--------------------------|---------------------|
| Cash held in banks | \$ 3,093,612 | \$ 7,500,607 |
| Guaranteed investment certificates | - | 394,174 |
| | \$ 3,093,612 | \$ 7,894,781 |

On March 27, 2022 the Company renewed a GIC for \$142,852 for 1 year at a rate of 1.00% per annum. On August 23, 2022 the Company redeemed the renewed GIC for \$143,436 and purchased a new GIC for \$143,436 for 1 year at a rate of 4.5% per annum.

On May 30, 2022 the Company renewed the GIC for \$140,493 for 1 year at a rate of 0.75% per annum. On August 23, 2022 the Company redeemed the renewed GIC for \$140,738 and purchased a new GIC for \$140,738 for 1 year at a rate of 4.5% per annum.

All GIC's were required to be maintained and renewed upon maturity until such time as the associated credit cards were cancelled. These credit cards were cancelled and all related GIC's were not renewed during the year ended December 31, 2023.

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

5. RECEIVABLES

| | December 31, 2023 | December 31, 2022 |
|---------------------------|--------------------------|-------------------|
| Trade accounts receivable | \$ 610,443 | \$ 1,343,795 |
| Taxes receivable | 39,169 | 745,170 |
| | \$ 649,612 | \$ 2,088,965 |

During the year ended December 31, 2023 the Company recorded a provision for doubtful accounts of \$216,238 (2022 - \$nil).

The Company applies a direct customer analysis approach to measure expected credit losses. The Company assesses collectability of receivables of each customer on an individual basis using quantitative and qualitative information available to management. The historical loss rates are adjusted to reflect the current and forward-looking information on economic factors affecting the ability of the customers to make regular monthly payments on the receivables.

Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include business closure and/or the failure to make monthly contractual payments.

6. INVENTORY

| | December 31, 2023 | December 31, 2022 |
|----------------|--------------------------|-------------------|
| Finished goods | \$ 904,858 | \$ 542,934 |
| Parts | 691,678 | 513,008 |
| | \$ 1,596,536 | \$ 1,055,942 |

During the year ended December 31, 2023, \$3,738,980 (2022 - \$6,048,348; 2021 - \$3,420,713) of inventory was recognized in cost of sales including an allowance for obsolete and slow-moving inventory of \$331,671 (2022 - \$1,976,514; 2021 - \$nil).

Cost of sales consist of the following:

| | December 31, 2023 | December 31, 2022 | December 31, 2021 |
|-------------------------|--------------------------|-------------------|-------------------|
| Inventory | \$ 3,738,980 | \$ 6,048,348 | \$ 3,420,713 |
| Consulting and services | 549,448 | 730,170 | 679,345 |
| Other | 202,300 | 35,866 | 310,719 |
| | \$ 4,490,728 | \$ 6,814,384 | \$ 4,410,777 |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

7. NOTES RECEIVABLE

| | Maturity Date | Rate | Principal | Interest | Accretion | (Impairment)/Recovery | Repayments | Balance December 31, 2023 |
|-----------------------|----------------------|-------------|---------------------|-----------------|------------------|------------------------------|--------------------|----------------------------------|
| Note 1 ⁽¹⁾ | 2023-12-15 | 0% | \$ 190,396 | \$ - | \$ - | \$ (101,351) | \$ (63,838) | \$ - |
| Note 2 ⁽¹⁾ | 2024-09-22 | 5% | 1,003,682 | - | - | - | - | - |
| Total | | | \$ 1,194,078 | \$ - | \$ - | \$ (101,351) | \$ (63,838) | \$ - |

| | Maturity Date | Rate | Principal | Interest | Accretion | (Impairment)/Recovery | Repayments | Balance December 31, 2022 |
|-----------------------|----------------------|-------------|---------------------|------------------|------------------|------------------------------|---------------------|----------------------------------|
| Note 1 ⁽¹⁾ | 2023-03-31 | 0% | \$ 190,396 | \$ - | \$ 12,764 | \$ - | \$ (33,860) | \$ 169,300 |
| Note 2 ⁽¹⁾ | 2024-09-22 | 5% | 1,003,682 | 48,992 | 27,971 | (1,080,645) | - | - |
| Note 3 | 2022-04-26 | 8% | - | 37,177 | - | 771,260 | (808,437) | - |
| Total | | | \$ 1,194,078 | \$ 86,169 | \$ 40,735 | \$ (309,385) | \$ (842,297) | \$ 169,300 |

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

Note 1 was issued on April 4, 2021, is non-interest bearing and is secured by intellectual property. This note is measured at fair value through profit or loss with an initial maturity date of October 31, 2022. During the year ended December 31, 2022 the parties agreed on an amended maturity date of January 31, 2023. During the year ended December 31, 2023 the parties agreed to extend the maturity date to December 15, 2023. As the borrower has not repaid the loan it was impaired to \$nil.

Note 2 was issued on September 9, 2021, 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. Management has determined that it is unlikely that the loan will be repaid and the loan was impaired to \$nil during the year ended December 31, 2022.

Note 3 was issued on November 17, 2021 bearing interest at 8% and was due April 26, 2022. At December 31, 2021, management determined that it was unlikely that the loan would be repaid and the loan was written down to \$nil. During the year ended December 31, 2022, the parties agreed on a repayment plan, with the loan and interest being repaid in the amount of \$808,437.

8. PREPAIDS

| | December 31, 2023 | December 31, 2022 |
|----------------------------|--------------------------|--------------------------|
| Insurance | \$ 838,445 | \$ 1,148,455 |
| Prepaid interest | 810 | 1,889 |
| Prepaid marketing services | 71,539 | 733,417 |
| Prepaid rent | 21,768 | 12,485 |
| Prepaid subscriptions | 48,007 | 29,194 |
| Deposits ⁽¹⁾ | 361,646 | 382,284 |
| | \$ 1,342,215 | \$ 2,307,724 |

(1) A deposit in the amount of \$228,572 related to the purchase of inventory related to the Vital Intelligence Inc. acquisition was written off during the year ended December 31, 2022 as there was uncertainty related to whether the Company would recover the value.

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

9. INVESTMENTS

| | | |
|-------------------------------------|-----------|----------------|
| Balance at December 30, 2021 | | 291,066 |
| Change in fair value | | (98,483) |
| Balance at December 31, 2022 | | 192,583 |
| Change in fair value | | (3,180) |
| Balance at December 31, 2023 | \$ | 189,403 |

Fair value of investments is comprised of:

| | | |
|-------------------------------------|-----------|----------------|
| Public company shares | \$ | 57,143 |
| Private company shares | | 132,260 |
| Balance at December 31, 2023 | \$ | 189,403 |
| Public company shares | \$ | 57,143 |
| Private company shares | | 135,440 |
| Balance at December 31, 2022 | \$ | 192,583 |

The Company holds 1,428,571 common shares (2022 – 1,428,571) and nil (2022 – 1,428,571) warrants of Windfall Geotek Inc. a publicly traded company. At December 31, 2023 the fair value of the shares was based on the quoted price of \$0.04 (2022 - \$0.04). As of the issue date of these consolidated financial statements the quoted price of the shares was \$0.03. The warrants expired on March 17, 2023. The fair values of the warrants as of December 31, 2022 were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

| | December 31, 2022 |
|-------------------------|--------------------------|
| Risk free interest rate | 4.07% |
| Expected volatility | 116.00% |
| Expected life | 0.21 years |
| Expected dividend yield | 0% |

On October 27, 2021, the Company purchased 50,000 common shares of a private company for USD\$100,000. In determining the fair value of the investment (classified at level 3 in the fair value hierarchy), the Company considers if observable market data exists on a quarterly basis to value the investment. Since inception, the Company has not had any adjustments to the fair value of the investment based on observable market data.

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

10. EQUIPMENT

| | Computer Equipment | Furniture and Equipment | Leasehold Improvements | Software | Vehicles | Total |
|-------------------------------------|-----------------------|----------------------------|---------------------------|-------------|------------------|---------------------|
| Cost | | | | | | |
| Balance at December 31, 2021 | \$ 54,110 | \$ 342,472 | \$ 4,352 | \$ 29,967 | \$ 36,033 | \$ 466,934 |
| Additions | 60,240 | 528,080 | - | - | - | 588,320 |
| Disposals | (18,688) | (36,099) | (4,352) | (29,967) | - | (89,106) |
| Balance at December 31, 2022 | \$ 95,662 | \$ 834,453 | \$ - | \$ - | \$ 36,033 | \$ 966,148 |
| Additions | 58,611 | 320,941 | 86,530 | - | 24,310 | 490,394 |
| Disposals | (21,000) | (115,204) | - | - | - | (136,204) |
| Balance at December 31, 2023 | \$ 133,273 | \$ 1,040,192 | \$ 86,530 | \$ - | \$ 60,343 | \$ 1,320,338 |
| Accumulated depreciation | | | | | | |
| Balance at December 31, 2021 | \$ 25,291 | \$ 102,277 | \$ 4,352 | \$ 24,737 | \$ 13,234 | \$ 169,891 |
| Charge for the year | 32,627 | 433,855 | - | - | 3,435 | 469,917 |
| Disposals | (15,920) | (33,342) | (4,352) | (24,737) | - | (78,351) |
| Balance at December 31, 2022 | \$ 41,998 | \$ 502,790 | \$ - | \$ - | \$ 16,669 | \$ 561,457 |
| Charge for the year | 22,762 | 112,361 | 6,790 | - | 12,497 | 154,410 |
| Disposals | (6,582) | (69,748) | - | - | - | (76,330) |
| Balance at December 31, 2023 | \$ 58,178 | \$ 545,403 | \$ 6,790 | \$ - | \$ 29,166 | \$ 639,537 |
| Net book value: | | | | | | |
| December 31, 2022 | \$ 53,664 | \$ 331,663 | \$ - | \$ - | \$ 19,364 | \$ 404,691 |
| December 31, 2023 | \$ 75,095 | \$ 494,789 | \$ 79,740 | \$ - | \$ 31,177 | \$ 680,801 |

During the year ended December 31, 2022 \$508,607 of inventory that was used for rental services was transferred to equipment.

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

11. INTANGIBLE ASSETS AND GOODWILL

| | | Customer | | | | | | |
|-------------------------------------|-----------|---------------|-------------------|-------------|-------------------|--------------|-----------|-----------------|
| | | Patents | Relationships | Brand | Software | Goodwill | | Total |
| Cost | | | | | | | | |
| Balance at December 31, 2021 | \$ | 41,931 | \$ 197,000 | \$ 23,000 | \$ 552,000 | \$ 5,940,409 | \$ | 6,754,340 |
| Additions | | - | - | - | 4,684 | - | | 4,684 |
| Foreign exchange translation | | - | - | 1,571 | 29,576 | 257,782 | | 288,929 |
| Impairment | | - | - | (24,571) | (462,577) | (6,198,191) | | (6,685,339) |
| Balance at December 31, 2022 | \$ | 41,931 | \$ 197,000 | \$ - | \$ 123,683 | \$ - | \$ | 362,614 |
| Impairment | | - | (87,415) | - | - | - | | (87,415) |
| Balance at December 31, 2023 | \$ | 41,931 | \$ 109,585 | \$ - | \$ 123,683 | \$ - | \$ | 275,199 |
| Accumulated amortization | | | | | | | | |
| Balance at December 31, 2021 | \$ | 41,931 | \$ 60,414 | \$ 3,450 | \$ 114,235 | \$ - | \$ | 220,030 |
| Charge for the year | | - | 27,317 | 4,719 | 147,446 | - | | 179,482 |
| Foreign exchange translation | | - | - | 431 | 13,295 | - | | 13,726 |
| Impairment | | - | - | (8,600) | (221,825) | - | | (230,425) |
| Balance at December 31, 2022 | | 41,931 | 87,731 | - | 53,151 | - | | 182,813 |
| Charge for the year | | - | 21,854 | - | 14,106 | - | | 35,960 |
| Balance at December 31, 2023 | \$ | 41,931 | \$ 109,585 | \$ - | \$ 67,257 | \$ - | \$ | 218,773 |
| Net book value: | | | | | | | | |
| December 31, 2022 | \$ | - | \$ 109,269 | \$ - | \$ 70,532 | \$ - | \$ | 179,801 |
| December 31, 2023 | \$ | - | \$ - | \$ - | \$ 56,426 | \$ - | \$ | 56,426 |

Goodwill

On December 31, 2022 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% (2021 – 2%).
- Budgeted cash flows calculated using a weighted average revenue EBITDA margin of 6.5% (2021 – 14%) for Dronelogics and 0% (2021 – 42%) for Vital Intelligence Inc. (“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 19% (2021 – 17%) for Dronelogics and 29% (2021 – 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 determined that the goodwill for Dronelogics and Vital required impairment, as such the Company recorded an impairment charge of \$2,166,563 (2021 – nil) for Dronelogics and \$4,031,628 (2021 - \$4,579,763) for Vital. In addition to the goodwill, the Company deemed that the brand and software for Vital required impairment, as such the Company recorded an impairment charge of \$15,971 and \$240,752 respectively.

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 \$104,248 for Dronelogics (2021 – \$597,100) and \$Nil for Vital (2021 - \$570,133).

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

12. RIGHT OF USE ASSETS

| | Total |
|---------------------------------------|---------------------|
| Cost | |
| Balance at December 31, 2021 and 2022 | \$ 683,117 |
| Additions | 740,355 |
| Lease adjustment | - |
| Balance at December 31, 2023 | \$ 1,423,472 |
| Accumulated depreciation | |
| Balance at December 31, 2021 | \$ 215,011 |
| Charge for the year | 123,360 |
| Balance at December 31, 2022 | \$ 338,371 |
| Charge for the year | 363,086 |
| Foreign exchange | 328 |
| Balance at December 31, 2023 | \$ 701,785 |
| Net book value: | |
| December 31, 2022 | \$ 344,746 |
| December 31, 2023 | \$ 721,687 |

The consolidated statement of financial position shows the following amounts related to leases:

| | December 31, 2023 | December 31, 2022 |
|-----------|------------------------------|----------------------|
| Buildings | \$ 721,687 | \$ 342,361 |
| Vehicles | - | 2,385 |
| | \$ 721,687 | \$ 344,746 |

Additions to the right of the assets during the 2023 financial year were \$740,355 (2022 - \$nil).

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

13. LEASE LIABILITIES

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 11.7% to 13.3%.

| | | Total |
|-------------------------------------|-----------|------------------|
| Balance at December 31, 2021 | \$ | 489,123 |
| Interest expense | | 39,795 |
| Lease payments | | (150,275) |
| Balance at December 31, 2022 | | 378,643 |
| Interest expense | | 96,423 |
| Additions | | 734,903 |
| Lease payments | | (423,410) |
| Foreign exchange | | 3,464 |
| Balance at December 31, 2023 | \$ | 790,023 |

Which consists of:

| | December 31, 2023 | | December 31, 2022 | |
|-----------------------------|-------------------|----------------|-------------------|----------------|
| Current lease liability | \$ | 362,001 | \$ | 133,962 |
| Non-current lease liability | | 428,022 | | 244,681 |
| Ending balance | \$ | 790,023 | \$ | 378,643 |

| Maturity analysis | December 31, 2023 | | December 31, 2022 | |
|--------------------------------------|-------------------|-----------|-------------------|----------|
| Less than one year | \$ | 429,948 | \$ | 147,340 |
| One to three years | | 355,879 | | 209,078 |
| Four to five years | | 141,519 | | 83,850 |
| Total undiscounted lease liabilities | | 927,346 | | 440,268 |
| Amount representing interest | | (137,323) | | (61,625) |
| | \$ | 790,023 | \$ | 378,643 |

Variable lease payments of \$43,542 (2022 - \$22,539) have been recognized in profit and loss.

14. TRADE PAYABLES AND ACCRUED LIABILITIES

| | December 31, 2023 | | December 31, 2022 | |
|--------------------------|-------------------|-----------|-------------------|-----------|
| Trade accounts payable | \$ | 1,259,623 | \$ | 751,422 |
| Accrued liabilities | | 1,345,649 | | 2,031,545 |
| Government grant payable | | 33,709 | | 33,709 |
| | \$ | 2,638,981 | \$ | 2,816,676 |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

15. 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, 2023 | December 31, 2022 |
|-----------------------------|--------------------------|-------------------|
| Deferred, revenue beginning | \$ 63,690 | \$ 5,233 |
| Revenue recognized | (64,816) | (4,939) |
| Unearned revenues received | 108,800 | 63,396 |
| | \$ 107,674 | \$ 63,690 |
| Current portion | \$ 12,112 | \$ 63,690 |
| Long term portion | 95,562 | - |
| | \$ 107,674 | \$ 63,690 |

Deferred revenue of \$12,112 as of December 31, 2023 is expected to be recognized as revenue within one year. The remaining is related to a long-term support and maintenance arrangement and will be recognized according to the terms of that arrangement over the next 5 years.

16. LOANS PAYABLE

| | December 31, 2023 | December 31, 2022 |
|----------------------------|--------------------------|-------------------|
| Opening balance | \$ 86,571 | \$ 93,317 |
| Issuance of loans payable | - | - |
| Fair value adjustment | - | (4,891) |
| Repayment of loans payable | (6,747) | (6,746) |
| Accretion expense | 5,234 | 4,891 |
| Ending balance | \$ 85,058 | \$ 86,571 |

| | | | | Carrying Value December 31, 2023 | Carrying Value December 31, 2022 |
|--------------|-------------------|----------------------|-------------|---|--|
| | Start Date | Maturity Date | Rate | | |
| CEBA | 2020-05-19 | 2024-03-28 | 0% | \$ 40,000 | \$ 37,383 |
| CEBA | 2021-04-23 | 2024-03-28 | 0% | 40,000 | 37,383 |
| Vehicle loan | 2019-08-30 | 2024-09-11 | 6.99% | 5,058 | 11,805 |
| Total | | | | \$ 85,058 | \$ 86,571 |

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 January 18, 2024. 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 entire loan is repaid on or before January 18, 2024. The repayment date was extended by the Government of Canada so the amount is now due March 28, 2024.

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 January 18, 2024. The repayment date was extended by the Government of Canada so the amount is now due March 28, 2024.

The CEBA loans are unsecured, and the vehicle loan is secured by the vehicle.

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

17. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the year ended December 31, 2023,

- The Company issued 1,508,255 common shares for the vesting of restricted share units.
- The Company issued 8,000,000 common shares in a financing for \$10,856,166 with share issuance costs of \$1,953,032 for net proceeds of \$8,903,134.
- The Company issued 650,729 common shares in an ATM (“At – the - market”) financing for \$1,748,946 with share issuance costs of \$222,136 for net proceeds of \$1,526,810.
- The Company issued 4,800,000 common shares in a financing for proceeds of \$4,858,995 with share issuance costs of \$889,623 for net proceeds of \$3,969,372. Of the total share issuance costs \$793,979 were expensed in other income (expense).

During the year ended December 31, 2022,

- The Company issued 16,538 common shares for the exercise of warrants for \$87,170.
- The Company issued 12,500 common shares for the exercise of stock options for \$26,875.
- The Company issued 1,072,595 common shares for the vesting of restricted share units.

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, 2023, 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 | 5.84 | 278,332 | 278,332 |
| November 19, 2019 | November 19, 2029 | \$ 2.50 | 5.89 | 50,000 | 50,000 |
| April 30, 2020 | April 30, 2030 | \$ 2.50 | 6.33 | 85,000 | 85,000 |
| April 30, 2020 | April 30, 2030 | \$ 3.85 | 6.33 | 110,000 | 110,000 |
| July 3, 2020 | July 3, 2025 | \$ 3.20 | 1.51 | 100,000 | 100,000 |
| November 24, 2020 | November 24, 2030 | \$ 2.50 | 6.90 | 32,000 | 32,000 |
| February 2, 2021 | February 2, 2031 | \$ 13.20 | 7.10 | 30,000 | 30,000 |
| March 8, 2021 | March 8, 2026 | \$ 13.90 | 2.19 | 10,000 | 10,000 |
| April 27, 2021 | April 27, 2031 | \$ 10.15 | 7.33 | 146,000 | 97,326 |
| September 9, 2021 | September 9, 2026 | \$ 4.84 | 2.69 | 25,826 | 17,217 |
| November 9, 2023 | November 9, 2033 | \$ 0.626 | 9.87 | 30,000 | 10,000 |
| | | | | 897,158 | 819,875 |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

17. SHARE CAPITAL (CONT'D)

| | Number of Options | Weighted Average Exercise Price |
|---------------------------------------|-------------------|------------------------------------|
| Outstanding, December 31, 2021 | 1,035,991 \$ | 4.60 |
| Exercised | (12,500) | 2.15 |
| Forfeited | (146,334) | 4.77 |
| Outstanding, December 31, 2022 | 877,157 \$ | 4.60 |
| Forfeited | (9,999) | 3.77 |
| Issued | 30,000 | 0.63 |
| Outstanding, December 31, 2023 | 897,158 \$ | 4.48 |

During the year ended December 31, 2023,

- The Company granted 30,000 options to an advisor to the board. Each option is exercisable at \$0.626 per share for 10 years.

No options were granted by the Company for the year ended December 31, 2022

During the year ended December 31, 2023, the Company recorded \$151,174 (2022- \$502,837) in stock-based compensation in relation to the vesting of stock options. The fair values of stock options granted were estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| Year ended December 31, | December 31, 2023 | December 31, 2022 |
|-------------------------|----------------------|----------------------|
| Risk free interest rate | 4.58% | - |
| Expected volatility | 115.1% | - |
| Expected life | 10 | - |
| Expected dividend yield | 0% | - |
| Exercise price | \$ 0.63 | \$ - |

Restricted Share Units

The Company has adopted an incentive share compensation plan, which provides that the Board of Directors of the Company 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). 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, 2023, the Company had the following RSUs outstanding:

| | Number of RSU's |
|---------------------------------------|--------------------|
| Outstanding, December 31, 2021 | 514,832 |
| Vested | (1,072,595) |
| Issued | 1,820,972 |
| Forfeited | (64,334) |
| Outstanding, December 31, 2022 | 1,198,875 |
| Vested | (1,508,255) |
| Issued | 1,685,316 |
| Forfeited | (262,969) |
| Outstanding, December 31, 2023 | 1,112,967 |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

17. SHARE CAPITAL (CONT'D)

During the year ended December 31, 2023, 1,508,255 RSU's fully vested according to the terms and the Company granted 1,687,014 RSUs to employees and consultants of the Company with each RSU exercisable into one common share of the Company upon the vesting conditions being met for a period of eighteen months from the grant date. In addition, 264,668 RSU's were forfeited by employees who have left the Company.

During the year ended December 31, 2022, 1,072,595 RSU's fully vested according to the terms and the Company granted 1,820,972 RSUs to employees and consultants of the Company with each RSU exercisable into one common share of the Company upon the vesting conditions being met for a period of eighteen months from the grant date. In addition, 64,334 RSU's were forfeited by employees who have left the Company.

During the year ended December 31, 2023, the Company recorded share-based payment expense of \$1,866,490 (2022: \$2,808,187) for RSU's, based on the fair values of RSU's granted which are calculated using the closing price of the Company's stock on the day prior to grant.

Warrants

During the year ended December 31, 2023, the Company issued 1,600,000 warrants for a purchase price of \$0.5499USD with an exercise price of \$0.0001USD per unit. The Company also issued 6,400,000 warrants at an exercise price \$0.6123USD. Being in a currency that is not the Company's functional currency these warrants are required to be recorded as a financial liability. As a financial liability, the portion of the warrants related to the future exercise price will be revalued at every reporting period to fair market value with the change in fair value being recorded in profit or loss. All of the above warrants have a 5 year term, expiring October 30, 2028 and vest immediately. 320,000 underwriter warrants were issued as part of the transaction with an exercise price of \$0.6875USD and a term of 3 years. These warrants were treated as share issue costs.

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. At the date of issue the warrants were valued with a risk free rate of 4.8%, volatility of 115.35%, expected life of 5 years and an expected dividend yield rate of 0%. The broker warrants were valued with a risk free rate of 4.87%, volatility of 138.83%, expected life of 3 years and an expected dividend yield of 0%.

Warrant Derivative Liability

| | | |
|---|-----------|------------------|
| Balance at December 31, 2021 | \$ | 4,865,772 |
| Change in fair value of warrants outstanding | | (4,865,772) |
| Balance at December 31, 2022 | \$ | - |
| Warrants issued | | 3,985,015 |
| Change in fair value of warrants outstanding | | 211,110 |
| Balance at December 31, 2023 | \$ | 4,196,125 |

| Derivative liability balance at | December 31, 2023 | | December 31, 2022 | |
|---------------------------------|-------------------|------------------|-------------------|---------------|
| Warrants | \$ | 4,196,125 | \$ | - |
| Contingent consideration | | - | | 57,314 |
| Ending balance | \$ | 4,196,125 | \$ | 57,314 |

The contingent liability is related to an acquisition on March 22, 2021, whereby 1,200,000 warrants were issued and 900,000 were held in escrow and classified as a contingent liability that were to be released upon completion of certain milestones. The milestones were related to the recognition of revenue on the related acquisition in range of \$2,000,000 to \$6,000,000 which was not met. The warrants expired on March 25, 2023.

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

17. SHARE CAPITAL (CONT'D)

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

| Issue Date | Exercise Price | Number of Warrants Outstanding at December 31, 2023 | Fair Value at December 31, 2023 | Number of Warrants Outstanding at December 31, 2022 | Fair Value at December 31, 2022 |
|----------------------|-----------------------|--|--|--|--|
| February 5, 2021 (1) | US\$ 3.55 | - | \$ - | 1,319,675 | \$ - |
| March 5, 2021 (2) | US\$ 3.55 | - | - | 5,142,324 | - |
| October 30, 2023 (3) | US\$ 0.6123 | 6,400,000 | 3,180,543 | - | - |
| October 30, 2023 (4) | US\$ 0.0001 | 1,600,000 | 1,015,582 | - | - |
| | | 8,000,000 | \$ 4,196,125 | 6,461,999 | \$ - |

- 1) The warrants expired on February 5, 2023.
- 2) The warrants expired on March 5, 2023.
- 3) The warrants expire October 30, 2028
- 4) The warrants have no expiry date

The fair values of these warrants were estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| | December 31, 2023 | December 31, 2022 |
|-------------------------|--------------------------|-------------------|
| Risk free interest rate | 3.84% | 4.07% |
| Expected volatility | 113.78% | 91.66%-93.48% |
| Expected life | 4.8 years | 0.10-0.18 years |
| Expected dividend yield | 0% | 0% |

| | Number of Warrants | Weighted Average Exercise Price |
|--------------------------------------|---------------------------|--|
| Outstanding, December 31, 2021 | 8,414,819 | \$ 4.99 |
| Exercised | (16,538) | 4.51 |
| Issued | (481,484) | 4.61 |
| Outstanding, December 31, 2022 | 7,916,797 | \$ 5.08 |
| Issued | 8,320,000 | 0.50 |
| Expired | (7,661,999) | 5.89 |
| Outstanding December 31, 2023 | 8,574,798 | \$ 0.63 |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

17. SHARE CAPITAL (CONT'D)

As at December 31, 2023, the Company had the following warrants outstanding:

| Date issued | Expiry date | Exercise price | Number of warrants outstanding |
|--------------------|--------------------|-----------------------|---------------------------------------|
| July 29, 2021 | July 29, 2024 | US\$ 5.00 | 250,000 |
| September 14, 2021 | September 14, 2024 | US\$ 5.00 | 4,798 |
| October 30, 2023 | October 30, 2026 | US\$ 0.6875 | 320,000 |
| October 30, 2023 | October 30, 2028 | US\$ 0.6123 | 6,400,000 |
| October 30, 2023 | No expiry date | US\$ 0.0001 | 1,600,000 |
| | | | 8,574,798 |

The weighted average remaining contractual life of warrants outstanding as of December 31, 2023, was 4.63 years (December 31, 2022 – 0.47 years).

18. SEGMENTED INFORMATION

The Company organizes its three segments based on product lines as well as a Corporate segment. The three segments are Drones, Vital (Vital Intelligence), and Corporate. The Drones segment derives its revenue from products and services related to the sale of unmanned aerial vehicles (UAV). The Vital segment derives its revenue from the sale of products that measure vitals to help detect symptoms from large groups of people from a distance. The Corporate segment includes all costs not directly associated with the Drone and Vital segments. The Company aggregates the information for the segments by analyzing the revenue stream and allocating direct costs to that respective segment. The Corporate segment is aggregated by relying on the entity that includes corporate costs (Draganfly Inc.)

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

18. SEGMENTED INFORMATION (CONT'D)

The board of the Company relies on executive management which assesses the financial performance and position of the group and makes strategic decisions. Executive management, which has been identified as being the chief operating decision maker, consists of the chief executive officer, lead director, chief operating officer and chief financial officer.

| December 31, 2023 | Drones | | Vital | | Corporate | | Total |
|--|---------------|-------------------|--------------|------------------|------------------|------------------|----------------------|
| Sales of goods | \$ | 4,905,417 | \$ | 381,676 | \$ | - | \$ 5,287,093 |
| Provision of services | | 1,267,749 | | - | | - | 1,267,749 |
| Total revenue | \$ | 6,173,166 | \$ | 381,676 | \$ | - | \$ 6,554,842 |
| Segment loss | \$ | 14,743,176 | \$ | (140,366) | \$ | 8,323,731 | \$ 22,926,541 |
| Finance and other costs | | (80,211) | | - | | (3,069) | (83,280) |
| Depreciation | | 499,530 | | - | | 11,148 | 510,677 |
| Amortization | | 35,960 | | - | | - | 35,960 |
| Change in fair value of derivative liability | | - | | - | | (211,110) | (211,110) |
| Loss (recovery) on write-off of notes receivable | | - | | - | | 101,351 | 101,351 |
| Loss on write down of inventory | | 331,671 | | - | | - | 331,671 |
| Net loss for the year | \$ | 15,530,126 | \$ | (140,366) | \$ | 8,222,051 | \$ 23,611,810 |

| December 31, 2022 | Drones | | Vital | | Corporate | | Total |
|--|---------------|-------------------|--------------|------------------|------------------|------------------|----------------------|
| Sales of goods | \$ | 5,388,262 | \$ | 162,170 | \$ | - | \$ 5,550,432 |
| Provision of services | | 2,054,627 | | - | | - | 2,054,627 |
| Total revenue | \$ | 7,442,889 | \$ | 162,170 | \$ | - | \$ 7,605,059 |
| Segment loss | \$ | 9,929,789 | \$ | 602,580 | \$ | 12,926,884 | \$ 23,459,253 |
| Finance and other costs | | (3,529) | | - | | (40,186) | (44,345) |
| Depreciation | | 586,185 | | - | | - | 593,277 |
| Amortization | | 179,482 | | - | | - | 179,482 |
| Impairment of goodwill and intangibles | | 2,166,563 | | 4,288,351 | | - | 6,454,914 |
| Change in fair value of derivative liability | | - | | - | | (5,502,688) | (5,502,688) |
| Loss on write-off of notes receivable | | 1,080,645 | | - | | (771,260) | 309,385 |
| Loss on write down of inventory | | 251,754 | | 1,724,760 | | - | 1,976,514 |
| Write down of deposit | | - | | 228,572 | | - | 228,572 |
| Net loss for the year | \$ | 14,190,889 | \$ | 6,844,263 | \$ | 6,619,212 | \$ 27,654,364 |

| December 31, 2021 | Drones | | Vital | | Corporate | | Total |
|--|---------------|------------------|--------------|------------------|------------------|------------------|----------------------|
| Sales of goods | | 4,957,134 | | 146,265 | | - | 5,103,399 |
| Provision of services | | 1,950,466 | | - | | - | 1,950,466 |
| Total revenue | \$ | 6,907,600 | \$ | 146,265 | \$ | - | \$ 7,053,865 |
| Segment loss | \$ | 7,819,739 | \$ | 257,656 | \$ | 10,498,164 | \$ 18,575,560 |
| Finance and other costs | | 16,272 | | - | | (21,346) | (5,074) |
| Depreciation | | 175,098 | | - | | - | 175,098 |
| Amortization | | 135,966 | | - | | - | 135,966 |
| Impairment of goodwill and intangibles | | - | | 4,579,763 | | - | 4,579,763 |
| Change in fair value of derivative liability | | - | | - | | (8,149,812) | (8,149,812) |
| Loss on write-off of notes receivable | | - | | - | | 891,471 | 891,471 |
| Net loss for the year | \$ | 8,147,075 | \$ | 4,837,419 | \$ | 3,218,477 | \$ 16,202,972 |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

18. SEGMENTED INFORMATION (CONT'D)

| Geographic segmentation is as follows: | For the years ended December 31, | | |
|--|----------------------------------|--------------|--------------|
| | 2023 | 2022 | 2021 |
| Non-current assets | | | |
| Canada | \$ 1,441,701 | \$ 1,121,821 | \$ 3,441,872 |
| United States | 206,616 | - | 5,112,659 |
| | \$ 1,648,317 | \$ 1,121,821 | \$ 8,554,531 |
| Revenue | | | |
| Canada | \$ 6,162,672 | \$ 6,919,038 | \$ 4,982,373 |
| United States | 392,170 | 686,021 | 2,071,492 |
| | \$ 6,554,842 | \$ 7,605,059 | \$ 7,053,865 |

Geographic revenue is measured by aggregating sales based on the country and the entity where the sale was made.

19. OFFICE AND MISCELLANEOUS

| | For the years ended December 31, | | |
|--|----------------------------------|--------------|--------------|
| | 2023 | 2022 | 2021 |
| Advertising, Marketing, and Investor Relations | \$ 4,243,432 | \$ 4,431,818 | \$ 5,165,791 |
| Compliance fees | 193,250 | 152,826 | 432,874 |
| Impairment of accounts receivable | 216,238 | - | - |
| Contract Work | 772,003 | 441,798 | 300,975 |
| Other | 878,956 | 371,519 | 556,358 |
| | \$ 6,303,879 | \$ 5,397,961 | \$ 6,455,998 |

20. RELATED PARTY TRANSACTIONS

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 at fees set out in the Agreement. For the year ended December 31, 2023, the Company incurred fees of \$429,766 (December 31, 2022 - \$442,485) which are included in professional fees. As at December 31, 2023, the Company was indebted to this company in the amount of \$3,780 (December 31, 2022 - \$30,804).

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 and all fees are set in the Consultant Agreement. For the year ended December 31, 2023, the Company incurred fees of \$592,500 (December 31, 2022 - \$566,487) included in professional fees. As at December 31, 2023, the Company was indebted to this company in the amount of \$35,417 (December 31, 2022 - \$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. On May 9, 2022, Scott Larson ceased to be President of the Company and entered into an agreement to provide executive consulting services to the Company and all fees are set in the consulting agreement. For the year ended December 31, 2023, the Company incurred fees of \$215,019 (December 31, 2022 - \$383,288) included in professional fees. As at December 31, 2023, the Company was indebted to this company in the amount of \$9,287 (December 31, 2022 - \$20,745).

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

20. RELATED PARTY TRANSACTIONS (CONT'D)

Trade receivables/payables and accrued receivables/payables:

As at December 31, 2023, the Company had \$190,664 (December 31, 2022 - \$51,549) payable to related parties that was included in accounts payable. The balances outstanding are unsecured, non-interest bearing and due on demand.

Key management compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Compensation awarded to key management for the year ended December 31, 2023 and 2022 included:

| | For the years ended December 31, | | |
|----------------------|---|---------------------|---------------------|
| | 2023 | 2022 | 2021 |
| Director fees | \$ 600,933 | \$ 522,349 | \$ 370,094 |
| Salaries | 979,154 | 843,917 | 722,068 |
| Share-based payments | 1,109,232 | 2,106,906 | 2,475,949 |
| | \$ 2,689,319 | \$ 3,473,172 | \$ 3,568,111 |

Other related party transactions

| | For the years ended December 31, | | |
|--|---|---------------------|-------------------|
| | 2023 | 2022 | 2021 |
| Management fees paid to a company controlled by CEO and director | \$ 592,500 | \$ 566,487 | \$ 290,225 |
| Management fees paid to a company that the CEO holds an economic interest in | 429,766 | 442,485 | 315,643 |
| Management fees paid to a company controlled by a director | 215,019 | 383,288 | 205,691 |
| | \$ 1,237,285 | \$ 1,392,260 | \$ 811,559 |

21. 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 of an unexpected loss if a customer or third party fails to meet its contractual obligations.

The Company is subject to credit risk on its cash and receivables. The Company limits its exposure to credit loss on cash by placing its cash with a high-quality financial institution. The Company performs credit evaluations of its customers.

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

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

Receivables

Receivables primarily consist of trade receivables, accrued receivables and taxes receivable. The Company provides credit in the normal course of business in the form of payment terms and has an established process for determining terms to offer customers to mitigate credit risk. Receivables are shown net of any provision made for impairment of the receivables. Due to this factor, the Company believes that no additional credit risk, beyond amounts provided for collection loss, is inherent in receivables.

Expected credit loss ("ECL") analysis is performed at each reporting date using an objective approach to measure expected credit losses. The provision amounts are based on direct management interface with the customer. The calculations reflect the probability-weighted outcome, the time value of money and reasonable supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, business failure, the failure of a debtor to engage in a repayment plan, and a failure to make contractual payments over the negotiated contract period.

The Company's aging of receivables was as follows:

| | December 31, 2023 | | December 31, 2022 | |
|--------------|--------------------------|----------------|-------------------|-----------|
| 0 – 30 days | \$ | 271,622 | \$ | 1,020,091 |
| 31 – 60 days | | 109,928 | | 116,378 |
| 61 – 90 days | | 64,259 | | 343,364 |
| 91 + days | | 203,803 | | 609,132 |
| | \$ | 649,612 | \$ | 2,088,965 |

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.

The following is an analysis of the contractual maturities of the Company's financial liabilities at December 31, 2023:

| | 1 year | | 1 – 5 years | | Total | |
|--|---------------|------------------|--------------------|---------|--------------|-----------|
| Trade payables and accrued liabilities | \$ | 2,638,981 | \$ | - | \$ | 2,638,981 |
| Customer deposits | | 104,715 | | - | | 104,715 |
| Deferred income | | 12,112 | | 95,562 | | 107,674 |
| Loans payable | | 85,058 | | - | | 85,058 |
| Derivative liability | | 4,196,125 | | - | | 4,196,125 |
| Lease liability | | 429,948 | | 497,398 | | 927,346 |
| | \$ | 7,466,939 | \$ | 592,960 | \$ | 8,059,899 |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

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

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 loss upon consolidation as follows:

| | December 31, 2023 | December 31, 2022 |
|-----------------------|--------------------------|-------------------|
| Foreign exchange rate | \$ 530,758 | \$ 969,977 |

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.

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

| December 31, 2023 | Level 1 | Level 2 | Level 3 | Total |
|---|------------------|-------------|---------------------|---------------------|
| Equity securities in investee companies | \$ 57,143 | \$ - | \$ 132,260 | \$ 189,403 |
| Derivative liability | - | - | 4,196,125 | 4,196,125 |
| Total | \$ 57,413 | \$ - | \$ 4,328,385 | \$ 4,385,528 |

| December 31, 2022 | Level 1 | Level 2 | Level 3 | Total |
|---|------------------|-------------|-------------------|-------------------|
| Equity securities in investee companies | \$ 57,143 | \$ - | \$ 135,440 | \$ 192,583 |
| Notes receivable | - | - | 169,300 | 169,300 |
| Derivative liability | - | - | 57,314 | 57,314 |
| Total | \$ 57,143 | \$ - | \$ 362,054 | \$ 419,197 |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

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

The following table shows the valuation techniques used in measuring Level 3 fair values for the derivative liability as well as the significant unobservable inputs used.

| Type | Valuation technique | Key inputs | Inter-relationship between significant inputs and fair value measurement |
|------------------------------|---|--|---|
| Warrant derivative liability | The fair value of the warrants derivative liability at initial recognition and at year end has been calculated using the Black Scholes Option Pricing Model | Key observable inputs <ul style="list-style-type: none"> • Share price • Risk free interest rate • Dividend yield Key unobservable inputs <ul style="list-style-type: none"> • Expected volatility | The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> • The price was higher (lower) • The risk-free rate was higher (lower) • The dividend yield was lower (higher) • The expected volatility was higher (lower) |

For the fair value of the derivative liability, reasonable possible changes to the expected volatility, the most significant unobservable input would have the following effects:

| Unobservable Inputs | Change | Impact on comprehensive loss | |
|---------------------|--------|------------------------------|------------------------------|
| | | Year ended December 31, 2023 | Year ended December 31, 2022 |
| Volatility | 20% | \$ 291,149 | \$ - |

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 shareholders' equity.

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, 2022.

22. 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, 2023 and 2022:

| | December 31, 2023 | December 31, 2022 | December 31, 2021 |
|---|-------------------|-------------------|-------------------|
| Loss before income taxes | \$ 23,611,810 | \$ 27,654,364 | \$ 16,202,972 |
| Canadian statutory rates | 27% | 27% | 27% |
| Expected income tax recovery | 6,330,400 | 7,338,900 | 4,196,600 |
| Impact of different foreign statutory tax rates | - | - | 34,900 |
| Non-deductible items | (509,800) | (1,214,400) | 116,400 |
| Share issue costs | 773,400 | 1,400 | 887,600 |
| Adjustments to prior years provision versus statutory tax returns | (87,600) | (742,400) | 376,500 |
| Differences between prior year provision and final tax return | (153,400) | 867,500 | (206,000) |
| Change in deferred tax asset not recognized | (6,353,000) | (6,251,000) | (5,406,000) |
| Income tax | \$ - | \$ - | \$ - |

Draganfly Inc.
Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2023
Expressed in Canadian Dollars

22. INCOME TAXES (CONT'D)

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, 2023 | December 31, 2022 | December 31, 2021 |
|--|-------------------|-------------------|-------------------|
| Deferred income tax assets (liabilities): | | | |
| Share issuance costs | \$ 995,000 | \$ 568,000 | \$ 728,000 |
| Non-capital losses | 20,377,000 | 14,602,000 | 7,043,000 |
| Property and equipment | 1,115,000 | 962,000 | 449,000 |
| Capital gain reserve | - | - | 74,000 |
| Scientific Research and Experimental Development | 365,000 | 367,000 | 291,000 |
| Total deferred income tax assets | \$ 22,852,000 | \$ 16,499,000 | 8,585,000 |
| Deferred income tax not recognized | (22,852,000) | (16,499,000) | (8,585,000) |
| Net deferred tax assets | \$ - | \$ - | \$ - |

The Company has non-capital loss carry forward of approximately \$67,701,122 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 2030 to 2043. The Company has non-capital loss carry forward of \$8,241,878 CAD (\$6,231,434 USD) which may be carried forward to apply against future year income tax for tax purposes in the United States, subject to the final determination by the tax authorities, expiring in the years 2040 to 2043.

23. SUBSEQUENT EVENTS

Warrant exercise

On February 6, 2024 1,600,000 pre-funded warrants were exercised for proceeds of \$160 USD (\$216 CAD) and an equal number of shares were issued at a value of \$578,200 USD (\$773,624 CAD).

Share issuance

On February 26, 2024, the Company announced that it completed an underwritten share placement of 11,200,000 units with each unit consisting of one common share and one warrant to purchase one common share and 2,200,000 units consisting of one pre-funded warrant to purchase one common share and one warrant to purchase one common share. Each unit was sold at a price of \$0.27 USD for gross proceeds of \$3.6 million (\$4.8 million CAD). Net proceeds of \$3.3 million USD (\$4.4 million CAD) was received after share issue costs of \$329,000 USD (\$442,000 CAD). The pre-funded warrants have an exercise price of \$0.0001 USD and were exercised on the date of issue. The remaining warrants have an exercise price of \$0.36 USD and are exercisable immediately with a term of 5 years. As part of this transaction 670,000 warrants were issued to the underwriter with an exercise price of \$0.3375 USD and will have a term of 3 years.