



Draganfly Inc.

Condensed Consolidated Interim Financial Statements - Unaudited

For the Three and Six Months Ended June 30, 2024

(Expressed in Canadian Dollars)

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

As at	Notes	June 30, 2024	December 31, 2023
ASSETS			
Current Assets			
Cash	4	\$ 5,290,547	\$ 3,093,612
Receivables	5	878,389	649,612
Inventory	6	1,576,129	1,596,536
Prepays and Deposits	7	645,618	1,342,215
		8,390,683	6,681,975
Equipment	9	572,529	680,801
Intangible assets		50,783	56,426
Investments	8	179,727	189,403
Receivable	5	156,200	-
Right of use assets	10	550,617	721,687
TOTAL ASSETS		\$ 9,900,539	\$ 8,330,292
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade payables and accrued liabilities	12,19	\$ 2,312,709	\$ 2,638,981
Customer deposits		110,993	104,715
Deferred income	13	9,239	12,112
Loans payable	14	1,686	85,058
Derivative liability	15	9,382,960	4,196,125
Lease liabilities	11	264,036	362,001
		12,081,623	7,398,992
Non-current Liabilities			
Deferred Income	13	86,567	95,562
Lease liabilities	11	354,486	428,022
TOTAL LIABILITIES		12,522,676	7,922,576
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	15	102,448,909	97,070,976
Reserve – share-based payments	15	7,444,407	6,870,139
Accumulated deficit		(112,543,713)	(103,588,356)
Accumulated other comprehensive income		28,260	54,957
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)		(2,622,137)	407,716
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		\$ 9,900,539	\$ 8,330,292

Nature and Continuance of Operations (Note 1)

Subsequent event (Note 21)

Approved and authorized for issuance by the Board of Directors on August 13, 2024.

"Scott Larson"

Director

"Cameron Chell"

Director

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

		For the three months ended		For the six months ended	
		June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023
Sales of goods	16	\$ 1,387,350	\$ 1,581,358	\$ 2,625,298	\$ 2,962,174
Provision of services	16	345,640	317,681	437,273	538,351
TOTAL REVENUE		1,732,990	1,899,039	3,062,571	3,500,525
COST OF SALES	6	(1,271,317)	(1,431,922)	(2,320,886)	(2,589,974)
GROSS PROFIT		461,673	467,117	741,685	910,551
OPERATING EXPENSES					
Amortization		\$ 2,821	\$ 8,990	\$ 5,643	\$ 17,979
Depreciation	9,10	141,559	166,737	284,681	224,243
Director fees	19	91,463	151,577	243,900	303,240
Insurance		355,705	508,424	719,980	1,006,430
Office and miscellaneous	17	521,161	1,437,404	867,430	4,238,056
Professional fees		888,480	1,573,887	1,468,740	2,421,074
Research and development		191,068	555,460	312,459	1,348,684
Share-based payments	15,19	305,147	478,915	504,054	1,019,478
Travel		76,911	204,324	116,931	293,586
Wages and salaries	19	1,821,608	2,148,317	3,403,039	3,969,398
		(4,395,923)	(7,234,035)	(7,926,857)	(14,842,168)
OTHER INCOME (EXPENSE)					
Change in fair value of derivative liability	15	(2,604,394)	-	(786,825)	57,314
Finance and other gain		41,980	10,891	46,805	46,752
Foreign exchange gain (loss)		7,823	(174,919)	74,560	(193,075)
Gain (loss) on disposal of assets		(19,226)	(5,508)	24,302	15,695
Gain (loss) on recovery (impairment) of notes receivable		4,110	-	10,861	-
Government income		-	1,297	-	2,572
Other income (expense)	18	(587,592)	26,193	(1,139,888)	25,769
		\$ (3,157,299)	\$ (142,046)	\$ (1,770,185)	\$ (44,973)
NET INCOME (LOSS)		\$ (7,091,549)	\$ (6,908,964)	\$ (8,955,357)	\$ (13,976,590)
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that may be reclassified to profit or loss					
Foreign exchange translation		(7,459)	(21,775)	(17,021)	(108,177)
Items that will not be reclassified to profit or loss					
Change in fair value of equity investments at FVOCI	8	1,370	39,927	(9,676)	96,960
COMPREHENSIVE INCOME (LOSS)		(7,097,638)	(6,890,812)	(8,982,054)	(13,987,807)
Net Income (Loss) per share – Basic & diluted		\$ (0.10)	\$ (0.16)	\$ (0.14)	\$ (0.36)
Weighted average number of common shares outstanding					
– Basic & diluted		70,654,779	43,195,602	62,794,276	38,965,859

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

					Accumulated Other Comprehensive Income (Loss)			
	Number of Shares	Share Capital	Reserve – Share- Based Payments	Accumulated Deficit	Change in Fair Value of Investments at FVTOCI	Exchange Differences on Translation of Foreign Operations	Total Shareholders' Equity (Deficit)	
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	8,000,000	10,856,166	-	-	-	-	10,856,166	
Share issue costs	-	(1,707,128)	-	-	-	-	(1,707,128)	
Shares issued for the exercise of RSUs	418,654	545,677	(545,677)	-	-	-	-	
Share-based payments	-	-	1,019,478	-	-	-	1,019,478	
Net loss	-	-	-	(13,976,590)	-	-	(13,976,590)	
Change in fair value of equity investments at FVOCI	-	-	-	-	96,960	-	96,960	
Translation of foreign operations	-	-	-	-	-	(108,177)	(108,177)	
Balance at June 30, 2023	43,339,962	\$ 94,821,614	\$ 7,738,141	\$ (93,953,136)	\$ (334,163)	\$ 475,944	\$ 8,748,400	
Shares issued for financing	4,800,000	520,064	-	-	-	-	520,064	
Share issue costs	-	(365,758)	224,868	-	-	-	(140,890)	
Shares issued for the exercise of RSUs	1,089,601	2,095,056	(2,095,056)	-	-	-	-	
Share-based payments	-	-	1,002,186	-	-	-	1,002,186	
Net loss	-	-	-	(9,635,220)	-	-	(9,635,220)	
Change in fair value of equity investments at FVOCI	-	-	-	-	(100,140)	-	(100,140)	
Translation of foreign operations	-	-	-	-	-	13,316	13,316	
Balance at December 31, 2023	49,229,563	\$ 97,070,976	\$ 6,870,139	\$ (103,588,356)	\$ (434,303)	\$ 489,260	\$ 407,716	
Shares issued for financing	18,263,514	2,414,103	-	-	-	-	2,414,103	
Share issue costs	-	(446,705)	227,045	-	-	-	(219,660)	
Shares issued for the exercise of warrants	8,691,700	3,253,704	-	-	-	-	3,253,704	
Shares issued for the exercise of RSUs	114,992	156,831	(156,831)	-	-	-	-	
Shares returned to treasury	(900,000)	-	-	-	-	-	-	
Share-based payments	-	-	504,054	-	-	-	504,054	
Net loss	-	-	-	(8,955,357)	-	-	(8,955,357)	
Change in fair value of equity investments at FVOCI	-	-	-	-	(9,676)	-	(9,676)	
Translation of foreign operations	-	-	-	-	-	(17,021)	(17,021)	
Balance at June 30, 2024	75,399,769	\$ 102,448,909	\$ 7,444,407	\$ (112,543,713)	\$ (443,979)	\$ 472,239	\$ (2,622,137)	

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

	For the six months ended June 30,	
	2024	2023
OPERATING ACTIVITIES		
Net loss	\$ (8,955,357)	\$ (13,976,590)
Adjustments for:		
Amortization	5,643	17,979
Depreciation	284,681	224,243
Impairment of accounts receivable	-	198,513
Change in fair value of derivative liability	786,825	(57,314)
Impairment of inventory	148,760	199,647
Impairment (Gain) on recovery of notes receivable	(10,861)	-
Finance and other costs	839,374	2,573
Gain on disposal of assets	(24,302)	(15,695)
Share-based payments	504,054	1,019,478
	(6,421,183)	(12,387,166)
Net changes in non-cash working capital items:		
Receivables	(384,977)	882,164
Inventory	(128,353)	(787,690)
Prepays	696,597	959,434
Trade payables and accrued liabilities	(157,841)	(208,099)
Customer deposits	6,278	(82,354)
Deferred income	(11,868)	(47,802)
Cash used in operating activities	(6,401,347)	(11,671,513)
INVESTING ACTIVITIES		
Purchase of equipment	(47,891)	(134,605)
Disposal of equipment	73,366	45,774
Repayment of notes receivable	10,861	50,307
Cash provided by (used in) investing activities	36,336	(38,524)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares for financing	9,759,643	12,605,112
Share issue costs	(1,298,367)	(1,929,264)
Proceeds from issuance of common shares for warrants exercised	371,500	-
Repayment of loans	(83,372)	(3,373)
Repayment of lease liabilities	(170,437)	(27,918)
Cash provided by (used in) financing activities	8,578,967	10,644,557
Effects of exchange rate changes on cash	(17,021)	(108,177)
Change in cash	2,213,956	(1,065,480)
Cash and cash equivalents, beginning of period	3,093,612	7,894,781
Cash and cash equivalents, end of period	\$ 5,290,547	\$ 6,721,124
SUPPLEMENTARY CASH FLOW DISCLOSURE		
Interest paid	\$ 18,730	\$ 49,021
Share issue costs in accounts payable	114,432	246,836

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2024
Expressed in Canadian Dollars (unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

Draganfly Inc. (the “Company”) was incorporated on June 1, 2018 under the Business Corporations Act (British Columbia). The Company 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 “3U8A”. 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 condensed consolidated interim 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 \$112,543,713. 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 condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These condensed consolidated interim financial statements include all necessary disclosures required for interim financial statements but do not include all disclosures required for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2023.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 13, 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 condensed consolidated interim 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.

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2024
Expressed in Canadian Dollars (unaudited)

3. MATERIAL ACCOUNTING POLICY INFORMATION, ESTIMATES, AND JUDGEMENTS

These condensed consolidated interim financial statements have been prepared following the same accounting principles and methods of computation as in outlined in the Company's consolidated financial statements for the year ended December 31, 2023. A description of the accounting standards and interpretations that have been adopted by the Company can be found in the notes of the annual financial statements for the year ended December 31, 2023.

The preparation of the condensed consolidated interim financial statements requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. These condensed consolidated interim financial statements include estimates, which by their nature, are uncertain. These assumptions and associated estimates are based on historical experience and other factors that are considered to be relevant. As such, actual results may differ from estimates and the effect of such differences may be material. Significant estimates and judgements used in the preparation of these condensed consolidated interim financial statements remained unchanged from those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2023.

4. CASH

As at		June 30, 2024		December 31, 2023
Cash held in banks	\$	5,290,547	\$	3,093,612

5. RECEIVABLES

As at		June 30, 2024		December 31, 2023
Trade accounts receivable	\$	961,348	\$	610,443
Sales tax receivable		73,241		39,169
	\$	1,034,589	\$	649,612
Current portion	\$	878,389	\$	649,612
Long term portion		156,200		-
	\$	1,034,589	\$	649,612

During the six months ended June 30, 2024, the Company recorded a provision for doubtful accounts of \$nil (2023 – \$198,513).

The long-term receivable represents a refundable deposit that the Company has asked to have returned. The agreement allows for a two-year repayment term once the request has been made.

6. INVENTORY

As at		June 30, 2024		December 31, 2023
Finished goods	\$	1,399,719	\$	904,858
Parts		176,410		691,678
	\$	1,576,129	\$	1,596,536

During the three and six months ended June 30, 2024, \$1,177,811 (2023 - \$1,259,183) and \$2,144,150 (2023 – \$2,272,064) of inventory was recognized in cost of sales respectively including an allowance to value its inventory for obsolete and slow-moving inventory of \$134,410 (2023 -\$77,047) and \$283,169 (2023 - \$199,647) respectively.

Cost of sales consist of the following:

For the six months ended		June 30, 2024		June 30, 2023
Inventory	\$	2,144,150	\$	2,272,064
Consulting and services		138,437		215,801
Other		38,299		102,109
	\$	2,320,886	\$	2,589,974

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2024
Expressed in Canadian Dollars (unaudited)

7. PREPAIDS AND DEPOSITS

As at	June 30, 2024	December 31, 2023
Insurance	\$ 144,526	\$ 838,445
Prepaid other	121,326	142,124
Deposits	379,766	361,646
	\$ 645,618	\$ 1,342,215

8. INVESTMENTS

Balance at December 31, 2023	\$ 189,403
Change in fair value	(9,676)
Balance at June 30, 2024	\$ 179,727

Fair value of investments is comprised of:

Public company shares	\$ 42,857
Private company shares	136,780
Balance at June 30, 2024	\$ 179,727

The Company holds 1,428,571 shares of a publicly listed company with an initial cost of \$500,000.

The Company holds 50,000 common shares of a private company with an initial value of USD\$100,000. 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.

9. EQUIPMENT

	Computer Equipment	Furniture and Equipment	Leasehold Improvements	Vehicles	Total
Cost					
Balance at December 31, 2022	\$ 95,662	\$ 834,453	\$ -	\$ 36,033	\$ 966,148
Additions	58,611	320,943	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
Additions	2,567	42,965	2,358	-	47,890
Disposals	-	(128,615)	-	-	(128,615)
Balance at June 30, 2024	\$ 135,840	\$ 954,542	\$ 88,888	\$ 60,343	\$ 1,239,613
Accumulated depreciation					
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
Charge for the period	20,432	73,087	8,902	4,677	107,098
Disposals	-	(79,551)	-	-	(79,551)
Balance at June 30, 2024	\$ 78,610	\$ 538,939	\$ 15,692	\$ 33,843	\$ 667,084
Net book value:					
December 31, 2023	\$ 75,095	\$ 494,789	\$ 79,740	\$ 31,177	\$ 680,801
June 30, 2024	\$ 57,230	\$ 415,603	\$ 73,196	\$ 26,500	\$ 572,529

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2024
Expressed in Canadian Dollars (unaudited)

10. RIGHT OF USE ASSETS

	Vehicles	Buildings	Land	Total
Balance at December 31, 2022	\$ 2,385	\$ 342,361	\$ -	344,746
Additions	-	322,354	418,001	740,355
Depreciation	(2,385)	(149,644)	(211,057)	(363,086)
Foreign exchange translation	-	-	(328)	(328)
Balance at December 31, 2023	\$ -	\$ 515,071	\$ 206,616	\$ 721,687
Depreciation	\$ -	\$ (71,364)	\$ (106,219)	\$ (177,583)
Foreign exchange translation	-	-	6,513	6,513
Balance at June 30, 2024	\$ -	\$ 443,707	\$ 106,910	\$ 550,617

The Company added two new leases during the year ended December 31, 2023. A lease for land in the amount of \$418,001 with an expiration date of December 31, 2024, and another lease for a facility in the amount of \$322,354 with an expiration date of September 30, 2028. The Company has four leases with expiration dates of December 31, 2024, May 31, 2026, January 31, 2027, and September 30, 2028.

11. 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 7.5% to 13.25%. Extension options are included in a majority of the leases with options that are only exercisable by the Company and not the other party.

As at	Total
Balance at December 31, 2022	\$ 378,643
Interest expense	96,423
Additions	734,903
Lease payments	(423,410)
Foreign exchange translation	3,464
Balance at December 31, 2023	790,023
Interest expense	38,057
Lease payments	(205,746)
Foreign exchange translation	(3,812)
Balance at June 30, 2024	\$ 618,522

Which consists of:

	June 30, 2024	December 31, 2023
Current lease liability	\$ 264,036	\$ 362,001
Non-current lease liability	354,486	428,022
Ending balance	\$ 618,522	\$ 790,023

Maturity analysis	Total
Less than one year	\$ 313,080
One to three years	308,582
Four to five years	93,387
Total undiscounted lease liabilities	715,049
Amount representing interest	(96,527)
	\$ 618,522

Draganfly Inc.
Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2024
Expressed in Canadian Dollars (unaudited)

12. TRADE PAYABLES AND ACCRUED LIABILITIES

As at	June 30, 2024		December 31, 2023	
Trade accounts payable	\$	1,317,921	\$	1,259,623
Accrued liabilities		961,079		1,345,649
Government grant payable		33,709		33,709
	\$	2,312,709	\$	2,638,981

13. 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.

As at	June 30, 2024		December 31, 2023	
Deferred income from customers	\$	-	\$	12,112
Deferred income from government		95,806		95,562
	\$	95,806	\$	107,674
Current portion	\$	9,239	\$	12,112
Long-term portion		86,567		95,562
	\$	95,806	\$	107,674

Deferred revenue of \$9,239 as of June 30, 2024 is expected to be recognized as revenue within one year. The remaining is related to a long-term support and maintenance arrangements and will be recognized according to the terms of these arrangements over the next 4.0 years.

14. LOANS PAYABLE

As at	June 30, 2024		December 31, 2023	
Opening balance	\$	85,058	\$	86,571
Repayment of loans payable		(83,372)		(6,747)
Accretion expense		-		5,234
Ending balance	\$	1,686	\$	85,058

	Start Date	Maturity Date	Rate	Carrying Value	
				June 30, 2024	December 31, 2023
CEBA	2020-05-19	2024-03-28	0%	\$ -	\$ 40,000
CEBA	2021-04-23	2024-03-28	0%	-	40,000
Vehicle loan	2019-08-30	2024-09-11	6.99%	1,686	5,058
Total				\$ 1,686	\$ 85,058

The CEBA loans are unsecured, and the vehicle loan is secured by the vehicle. The CEBA loans were repaid March 25, 2024.

15. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the six months ended June 30, 2024,

- The Company issued 114,992 common shares for the vesting of restricted share units.
- The Company issued 8,691,700 common shares for the exercise of warrants
- The Company issued 11,200,000 units consisting of one common share and one warrant and 2,200,000 units consisting of one prefunded warrant and one warrant in a financing for \$4,877,475 with share issuance costs of \$752,498 for net proceeds of \$4,124,977. Of the total share issuance costs \$441,166 was expensed in other income (expense). The value of the issuance was allocated \$2,017,966 to the shares, and \$2,859,509 to the warrants, including \$431,084 allocated to prefunded warrants. The prefunded warrants were exercised on the date of issue. May 1, 2024 the exercise price of the warrants was amended to CAD \$0.3583 from the original exercise price of USD \$0.6123 and the cashless exercise provision was removed. This amended exercise price is the Canadian equivalent of the USD trading price on October 30, 2024 of USD\$ 0.259, the date of issue of these warrants.
- 900,000 shares were returned to treasury that were held in escrow related to the Vital Intelligence Inc. acquisition for failure to meet required milestones. All value that had been recorded related to these shares had been previously written off.
- The Company issued 7,063,514 units consisting of one common share and one warrant and 6,450,000 units consisting of one prefunded warrant and one warrant in a financing for \$4,818,952 with share issuance costs of \$779,615 for net proceeds of \$4,039,337. Of the total share issuance costs \$671,747 was expensed in other income (expense). The value of the issuance was allocated \$396,137 to the shares, and \$4,422,815 to the warrants, including \$1,248,343 allocated to prefunded warrants.

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). Value of the issuance was allocated \$520,064 to the shares and \$4,338,931 to derivative liability.

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.

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15. SHARE CAPITAL (CONT'D)

As at June 30, 2024, 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	5.57	278,332	278,332
November 19, 2019	November 19, 2029	\$ 2.50	5.63	50,000	50,000
April 30, 2020	April 30, 2030	\$ 2.50	6.07	10,000	10,000
April 30, 2020	April 30, 2030	\$ 3.85	6.07	110,000	110,000
July 3, 2020	July 3, 2025	\$ 3.20	1.25	100,000	100,000
November 24, 2020	November 24, 2030	\$ 2.50	6.64	32,000	32,000
February 2, 2021	February 2, 2031	\$ 13.20	6.83	30,000	30,000
March 8, 2021	March 8, 2026	\$ 13.90	1.93	10,000	10,000
April 27, 2021	April 27, 2031	\$ 10.15	7.06	132,665	132,665
September 9, 2021	September 9, 2026	\$ 4.84	2.44	25,826	17,217
November 9, 2023	November 9, 2033	\$ 0.626	9.59	30,000	10,000
				808,823	780,214

	Number of Options	Weighted Average Exercise Price
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
Forfeited	(88,335)	3.65
Outstanding, June 30, 2024	808,823	\$ 4.57

No options were granted by the Company during the six months ended June 30, 2024.

During the three and six months ended June 30, 2024, the Company recorded \$26,690 (2023 – \$27,425) and \$53,379 (2023 - \$130,437) respectively 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.

Restricted Share Units

During the three and six months ended June 30, 2024, the Company recorded share-based payment expense of \$278,457 (2023 - \$451,490) and \$420,340 (2023 - \$889,041) for RSUs, based on the fair values of RSUs granted which were calculated using the closing price of the Company's stock on the day prior to grant.

The Company has adopted an incentive share compensation plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, restricted stock units (RSUs). The number of RSUs awarded and underlying vesting conditions are determined by the Board of Directors in its discretion. RSUs will have a 3-year vesting period following the award date. The total number of common shares reserved and available for grant and issuance pursuant to this plan, and the total number of Restricted Share Units that may be awarded pursuant to this plan, shall not exceed 15% (in the aggregate) of the issued and outstanding common shares from time to time.

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15. SHARE CAPITAL (CONT'D)

As at June 30, 2024, the Company had the following RSUs outstanding:

	Number of RSUs
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
Vested	(114,992)
Issued	4,630,443
Forfeited	(64,237)
Outstanding, June 30, 2024	5,564,181

Warrants

During the six months ended June 30, 2024 and the year ended December 31, 2023, the Company issued pre-funded warrants ("USD pre-funded Warrants") where a portion of the funds related to the eventual exercise have already been received with the remaining exercise price in USD. As part of these same issuances, shares with warrants attached were issued. Being in a foreign currency that is not the Company's functional currency and these pre-funded warrants were not issued in exchange for services, the value related to the future exercise price of the USD pre-funded Warrants are required to be recorded as a financial liability and not as equity. As a financial liability, the portion of the USD pre-funded Warrants related to the future exercise price will be revalued on a quarterly basis to fair market value with the change in fair value being recorded in profit or loss. The warrants issued with the shares are also in USD so are also accounted for as a liability. In addition, the Company also issued pre-funded warrants with an exercise price in Canadian dollars ("Pre-funded Warrants"). These are also treated as a liability as the agreement contains clauses that do not meet the fixed for fixed test. As a financial liability, the portion of the Pre-funded Warrants related to the future exercise price will be revalued on a quarterly basis to fair market value with the change in fair value being recorded in profit or loss. The warrants issued with the shares are also accounted for as a liability as these also contain clauses that do not meet the fixed for fixed test.

To reach a fair value of the warrants, a Black Scholes calculation is used, calculated in USD for those with a USD exercise price and in CAD for those with a Canadian exercise price. The Black Scholes value per warrant is then multiplied by the number of outstanding warrants and then multiplied by the foreign exchange rate at the end of the period for those denominated in USD. At the dates of issue the warrants were valued with a risk free rate of 4.33% and 4.65% (2023 – 4.8%), volatility of 119.23% and 119.80% (2023 – 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 4.48% and 4.62% (2023 – 4.87%), volatility of 107.8% and 108.67% (2023 – 138.83%), expected life of 3 years and an expected dividend yield of 0%.

Warrant Derivative Liability

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
Warrants issued		7,282,325
Warrants exercised		(2,882,315)
Change in fair value of warrants outstanding		786,825
Balance at June 30, 2024	\$	9,382,960

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15. SHARE CAPITAL (CONT'D)

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

Issue Date	Exercise Price	Number of Warrants Outstanding at June 30, 2024	Fair Value at June 30, 2024	Number of Warrants	Fair Value at December 31, 2023
				Outstanding at December 31, 2023 ⁽⁵⁾	
October 30, 2023 (1)	CAD\$ 0.3583	6,400,000	1,622,425	6,400,000	3,180,543
October 30, 2023 (2)	US\$ 0.0001	-	-	1,600,000	1,015,582
February 26, 2024 (3)	US\$ 0.1761	11,859,300	3,216,492	-	-
February 26, 2024 (4)	US\$ 0.0001	-	-	-	-
April 29, 2024 (5)	CAD\$ 0.354	13,513,514	3,551,850	-	-
April 29, 2024 (6)	CAD\$0.00014	3,099,000	992,193	-	-
		34,871,814	\$ 9,382,960	8,000,000	\$ 4,196,125

- 1) The warrants expire October 30, 2028.
- 2) The warrants have no expiry date. They were exercised January 5, 2024.
- 3) The warrants expire February 26, 2029.
- 4) The warrants have no expiry date. They were exercised February 26, 2024.
- 5) The warrants expire April 29, 2029
- 6) The warrants have no expiry date. 3,351,000 of the total issue of 6,450,000 were exercised May 21, 2024 and 3,099,000 were exercised subsequent to June 30, 2024 on July 23, 2024.

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

	June 30, 2024	December 31, 2023
Risk free interest rate	4.44%	3.84%
Expected volatility	119.23%	113.78%
Expected life	4.3 – 4.8 years	4.8 years
Expected dividend yield	0%	0%

	Number of Warrants	Weighted Average Exercise Price
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
Issued	36,909,190	0.23
Exercised	(8,691,700)	0.0428
Outstanding June 30, 2024	36,792,288 \$	0.39

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15. SHARE CAPITAL (CONT'D)

As at June 30, 2024, 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	CAD\$ 0.3583	6,400,000
February 26, 2024	February 26, 2027	US\$ 0.3375	670,000
February 26, 2024	February 26, 2029	US\$ 0.1761	11,859,300
April 29, 2024	April 29, 2029	CAD\$ 0.354	13,513,514
April 29, 2024	April 29, 2024	CAD\$ 0.00014	3,099,000
April 29, 2024	April 29, 2024	CAD\$ 0.4425	675,676
			36,792,288

The weighted average remaining contractual life of warrants outstanding as of June 30, 2024, was 4.43 years (December 31, 2023 – 4.63 years).

16. 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.).

June 30, 2024	Drones	Vital	Corporate	Total
Sales of goods	\$ 2,625,298	\$ -	\$ -	2,625,298
Provision of services	437,273	-	-	437,273
Total revenue	3,062,571	-	-	3,062,571
Segment loss (income)	2,866,980	-	6,392,802	9,259,782
Finance and other costs	46,805	-	-	46,805
Depreciation	276,655	-	8,026	284,681
Amortization	5,643	-	-	5,643
Change in fair value of derivative liability	-	-	(786,825)	(786,825)
Loss on write-off of notes receivable	-	-	10,861	10,861
Loss on write down of inventory	134,410	-	-	134,410
Net loss for the period	\$ 3,330,493	\$ -	\$ 5,624,864	\$ 8,955,357

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16. SEGMENTED INFORMATION (CONT'D)

June 30, 2023	Drones		Vital		Corporate		Total
Sales of goods	\$	2,962,174	\$	-	\$	-	2,962,174
Provision of services		538,351		-		-	538,351
Total revenue		3,500,525		-		-	3,500,525
Segment loss		8,972,201		153,641		4,512,945	13,638,787
Finance and other costs		(43,689)		-		(3,063)	(46,752)
Depreciation		219,422		-		4,821	224,243
Amortization		17,979		-		-	17,979
Change in fair value of derivative liability		-		-		(57,314)	(57,314)
Loss on write-off of notes receivable		199,647		-		-	199,647
Net loss for the period	\$	9,365,560	\$	153,641	\$	4,457,389	\$ 13,976,590

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

Geographic segmentation is as follows:	As of	
	2024	December 31, 2023
Non-current assets		
Canada	\$ 1,402,947	\$ 1,441,701
United States	106,909	206,616
	\$ 1,509,856	\$ 1,648,317

Geographic segmentation is as follows:	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Revenue				
Canada	\$ 1,726,160	\$ 1,899,039	\$ 3,053,493	\$ 3,491,133
United States	6,830	-	9,078	9,392
	\$ 1,732,990	\$ 1,899,039	\$ 3,062,571	\$ 3,500,525

17. OFFICE AND MISCELLANEOUS

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Advertising, Marketing, and Investor Relations	\$ 232,685	\$ 951,659	\$ 342,758	\$ 3,287,712
Compliance fees	74,967	108,328	138,999	135,635
Impairment of accounts receivable	-	-	-	198,513
Contract Work	-	47,082	-	114,429
Other	213,509	330,335	385,673	501,767
	\$ 521,161	\$ 1,437,404	\$ 867,430	\$ 4,238,056

18. OTHER EXPENSE

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Share issue costs	\$ 595,921	\$ -	\$ 1,194,450	\$ -
Write off of accounts (payable) receivable	-	-	(48,833)	-
Gain on settlement of debt	-	(26,193)	-	(26,193)
Other	(8,329)	-	(5,729)	424
	\$ 587,592	\$ (26,193)	\$ 1,139,888	\$ (25,769)

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19. RELATED PARTY TRANSACTIONS

Trade receivables/payables and accrued receivables/payables:

As at June 30, 2024, the Company had \$18,000 (2023 - \$95,345) 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 three and six months ended June 30, 2024 and 2023 included:

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Director fees	\$ 91,463	\$ 151,577	\$ 243,900	\$ 303,240
Salaries	127,518	431,407	269,586	533,522
Share-based payments	181,749	267,638	303,861	530,880
	\$ 400,730	\$ 850,622	\$ 817,347	\$ 1,367,642

During the three months ended June 30, 2024, the directors agreed to a 20% reduction in their fees for the first and second quarter resulting in an adjustment of \$30,488 to the first quarter directors' fees which flowed through the second quarter.

Other related party transactions

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Management fees paid to a company controlled by CEO and director	\$ 65,702	\$ 280,000	\$ 125,702	\$ 380,000
Management fees paid to a company that the CEO holds an economic interest in	109,437	123,153	215,687	226,782
Management fees paid to a company controlled by the former President and director	36,991	86,754	77,424	145,152
	\$ 212,130	\$ 489,907	\$ 418,813	\$ 751,934

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

Credit risk

Credit risk is the risk that 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 majority of cash is deposited in bank accounts held with a major bank in Canada and the United States. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

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

Receivables

Receivables primarily consist of trade 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 where 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.

Trade receivables include balances of \$229,077 that are past due with no corresponding allowance recorded. However, upon review of these balances, the expected credit loss rate for overdue balances is estimated to be nominal. A total of \$126,027 of past due balances without allowances booked against them has been collected subsequent to period end and \$106,521 is being pursued by legal means for collection.

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 condensed consolidated interim statements of financial position. These financial assets are measured at fair value through profit and loss.

June 30, 2024	Level 1	Level 3	Total
Cash and cash equivalents	\$ 5,290,547	\$ -	\$ 5,290,547
Equity securities in investee companies	42,857	136,870	179,727
Derivative liability	-	9,382,960	9,382,960
Total	\$ 5,333,404	\$ 9,519,830	\$ 14,853,234

December 31, 2023	Level 1	Level 3	Total
Cash and cash equivalents	\$ 3,093,612	\$ -	\$ 3,093,612
Equity securities in investee companies	\$ 57,143	\$ 132,260	\$ 189,403
Derivative liability	-	4,196,125	4,196,125
Total	\$ 3,150,755	\$ 4,328,385	\$ 7,479,140

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20. 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	
		Six months ended June 30, 2024	Year ended December 31, 2023
Volatility	20%	\$ 589,059	\$ 291,149

21. SUBSEQUENT EVENT

August 7, 2024 the terms of the remaining outstanding warrants from the October 2023 issuance of 6,400,000 and the remaining outstanding warrants from the April issuance of 13,513,514 were all amended such that they will be moved to equity presentation from the current liability presentation. The amendment updated the terms such that they are all now fixed-for-fixed.