GLOBAL UAV TECHNOLOGIES

(A Technology Company)

Consolidated Financial Statements

For the Year Ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Global UAV Technologies Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Global UAV Technologies Ltd. (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, cash flows and changes in shareholders' equity (deficit) for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had a working capital deficit of $1,191,834 and an accumulated deficiency of $28,587,100. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Peter Maloff.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

February 26, 2020

GLOBAL UAV TECHNOLOGIES LTD.
Consolidated Statements of Financial Position
As at October 31
(Expressed in Canadian Dollars)

		2019		2018
ASSETS				
Current				
Cash	$	14,744	$	178,450
Amounts receivable (Note 4)		362,571		196,461
Prepaid expenses		-		75,436
Marketable securities (Note 5)		18,946		-
Inventory		-		27,767
		396,261		478,114
Non-current				
Equipment (Notes 6)		656,321		998,185
Intangible assets (Notes 7 and 12)		-		179,440
Goodwill (Note 12)		-		368,505
TOTAL ASSETS	$	1,052,582	$	2,024,244
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 9)	$	1,498,476	$	821,227
Deferred revenue		50,249		7,015
Current portion of contingent consideration (Note 13)		39,370		91,927
		1,588,095		920,169
Non-current				
Contingent consideration payable (Note 13)		57,405		164,847
Deferred income tax liability (Note 17)		-		18,290
		57,405		183,137
TOTAL LIABILITIES		1,645,500		1,103,306
SHAREHOLDERS' EQUITY (DEFICIT)				
Share capital (Note 10)		25,025,124		25,025,124
Reserves		2,969,058		2,969,058
Accumulated deficit		(28,587,100)		(27,073,244)
		(592,918)		920,938
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$	1,052,582	$	2,024,244

Nature of operations and going concern (Note 1)

Approved and authorized by the Board on February 26, 2020

"James Rogers" (signed)
…………………………………...… Director
"Michael Burns" (signed)
…………………………………...…… Director

See notes to the consolidated financial statements

GLOBAL UAV TECHNOLOGIES LTD.
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended October 31
(Expressed in Canadian Dollars)

	2019	2018
Revenues		
Services	$ 1,909,537	$ 1,809,454
Sales	26,964	6,550
	1,936,501	1,816,004
Cost of Sales	(1,039,922)	(968,104)
Gross Margin	896,579	847,900
Operating Expenses		
Accounting, audit and legal	235,155	220,613
Accretion (Note 13)	57,175	146,989
Automotive	22,259	55,910
Conferences and tradeshows	7,830	52,443
Consultants' fees (Note 14)	571,336	605,053
Depreciation (Notes 6 and 7)	282,111	303,457
Insurance	55,875	21,829
Investor relations and promotion	121,988	303,335
Office and miscellaneous	211,868	292,988
Regulatory, listing, transfer agent fees	17,400	49,632
Rent	68,993	64,039
Repairs and maintenance	25,876	97,334
Research and development	218,928	516,045
Salaries and wages	233,021	210,312
Share-based payment (Note 10(e))	-	769,785
Travel	32,459	317,835
	(2,162,274)	(4,027,599)
Other Items		
Foreign exchange gain (loss)	8,273	(21,827)
Gain on settlement of debt	11,954	24,152
Loss on fair value of marketable securities (Note 5)	(4,737)	(1,341)
Loss on disposal of assets	(49,168)	(33,416)
Change of estimate – contingent consideration	217,174	430,215
Impairment loss – intangibles (Note 7)	(125,690)	(198,073)
Impairment loss – goodwill (Note 12)	(368,505)	(1,783,128)
Interest and miscellaneous income	336	297
	(2,472,637)	(5,610,720)
Net Loss before taxes	$ (1,576,058)	$ (4,762,820)
Income tax recovery	43,912	-
Deferred income tax recovery	18,290	46,724
Net Loss and Comprehensive Loss for the Year	$ (1,513,856)	$ (4,716,096)
Loss per Share, Basic and Diluted	$ (0.01)	$ (0.04)
Weighted Average Number of Common Shares Outstanding	136,755,634	112,861,652

See notes to the consolidated financial statements

GLOBAL UAV TECHNOLOGIES LTD.
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
(Expressed in Canadian Dollars)

			Reserves				
	Number of Shares	**Share Capital**	**Equity Settled Share-based Payments**	**Warrants**	**Total**	**Accumulated Deficit**	**Total Shareholders' Equity**
Balance – October 31, 2017	**89,503,180**	**$ 20,261,737**	**$ 2,073,115**	**$ 482,289**	**$ 2,555,404**	**$ (22,357,148)**	**$ 459,993**
Net loss for the year	-	-	-	-	-	(4,716,096)	(4,716,096)
Common shares issued in private placements	19,681,454	1,771,331	-	-	-	-	1,771,331
Share issue costs	-	(240,697)	-	104,522	104,522	-	(136,175)
Exercise of options	4,400,000	968,100	(453,100)	-	(453,100)	-	515,000
Exercise of warrants	11,171,000	1,124,653	-	(7,553)	(7,553)	-	1,117,100
Common shares issued for acquisition in AIR	12,000,000	1,140,000	-	-	-	-	1,140,000
Share-based compensation	-	-	769,785	-	769,785	-	769,785
Balance – October 31, 2018	**136,755,634**	**$ 25,025,124**	**2,389,800**	**$ 579,258**	**2,969,058**	**(27,073,244)**	**920,938**
Net loss for the year	-	-	-	-	-	(1,513,856)	(1,513,856)
Balance – October 31, 2019	**136,755,634**	**$ 25,025,124**	**$ 2,389,800**	**$ 579,258**	**$ 2,969,058**	**$ (28,587,100)**	**$ (592,918)**

GLOBAL UAV TECHNOLOGIES LTD.
Consolidated Statements of Cash Flows
For the Years Ended October 31
(Expressed in Canadian Dollars)

		2019		2018
Operating Activities				
Net loss	$	(1,513,856)	$	(4,716,096)
Items not affecting cash:				
Depreciation		282,111		303,457
Share-based compensation		-		769,785
Deferred income tax recovery		(18,290)		(46,724)
Loss on disposal of equipment		49,168		33,416
Gain on settlement of accounts payable		11,954		24,152
Loss on write-down of marketable securities		4,737		1,341
Accretion of contingent consideration		57,175		146,989
Change in estimate of contingent consideration		(217,174)		(430,215)
Impairment loss – intangibles and goodwill		494,195		1,981,201
Changes in non-cash working capital:				
Amounts receivable		(147,730)		(78,549)
Prepaid expenses		75,436		(65,995)
Inventory		27,767		7,134
Accounts payable and accrued liabilities		709,505		(137,386)
Deferred revenue		43,234		(58,429)
Cash Used in Operating Activities		(141,768)		(2,265,919)
Investing Activities				
Purchase of property, plant and equipment		(86,147)		(603,823)
Acquisition of AIR		-		(350,000)
Proceeds on sale of equipment		64,209		-
Cash Used in Investing Activities		(21,938)		(953,823)
Financing Activities				
Proceeds from issuance of common shares, net of share issue costs		-		1,635,156
Proceeds from exercise of warrants		-		1,117,100
Proceeds from exercise of options		-		515,000
Cash Provided by Financing Activities		-		3,267,256
Change in Cash		(163,706)		47,514
Cash, Beginning of Year		178,450		130,936
Cash, End of Year	$	14,744	$	178,450

Supplemental Cash Flow Information – Note 11

1. NATURE OF OPERATIONS AND GOING CONCERN

Global UAV Technologies Ltd. (the "Company") was incorporated under the laws of British Columbia. The Company's principal and registered place of business is located at 488 – 1090 West Georgia St., Vancouver, British Columbia, Canada, V6E 3V7. The Company's stock is listed on the Canadian Securities Exchange under the symbol "UAV".

During the years ended October 31, 2017 and 2018, the Company acquired a 100% interest in High Eye Aerial Imaging Inc. ("High Eye"), acquired assets of Pioneer Explorations Consultants Inc. ("Pioneer"), acquired a 100% interest in NOVAerial Robotics Ltd. ("NOVAerial"), acquired a 100% interest in UAV Regulatory Services Ltd. ("UAV Regulatory") and acquired a 100% interest in Aerial Imaging Resources ("AIR") (Note 12). As a result of these acquisitions the Company entered into the unmanned aerial vehicle ("UAV") business and completed a change of business to a technology company.

As a result of the Company's previous business of mineral exploration, the Company has sustained recurring losses and negative cash flows from its operations. As at October 31, 2019, the Company had cash of $14,744 (October 31, 2018 - $178,450), working capital deficit of $1,191,834 (October 31, 2018 – deficit of $371,139) and an accumulated deficit of $28,587,100 (October 31, 2018 - $27,073,244). The Company will need to raise additional capital to accomplish its business plan over the next several years. The Company expects to seek additional funding through equity financing or the exercise of existing warrants. There can be no assurance as to the availability or terms upon which such financing might be available.

The ability of the Company to continue as a going concern and meet its commitments as they become due is dependent on the success of the Company's wholly owned subsidiaries and/or the Company's ability to obtain the necessary financing. If the Company is unable to obtain additional financing, the Company will be unable to finance itself to continue operations. There can be no assurance that management's plans will be successful.

These matters indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PRESENTATION

a) Statement of Compliance

These consolidated financial statements have been prepared and are presented in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and interpretations of the International Financial Reporting Interpretations Committee.

(Expressed in Canadian Dollars)

b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL") or available-for-sale ("AFS"), which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and the following subsidiaries:

		Percentage owned*	
Subsidiary		**October 31, 2019**	**October 31, 2018**
Minera Alta Vista SA de CV	**Mexico**	100%	100%
Pioneer Aerial Surveys Ltd.	**Saskatchewan, Canada**	100%	100%
High Eye Aerial Imaging Inc.	**Ontario, Canada**	100%	100%
UAV Regulatory Services Ltd.	**BC, Canada**	100%	100%
NOVAerial Robotics Ltd.	**Ontario, Canada**	100%	100%
Aerial Imaging Resources Inc.	**Manitoba, Canada**	100%	100%

*Percentage of voting power is proportion to ownership.

Subsidiaries are entities that the Company controls, either directly or indirectly. Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when we have existing rights that give us the ability to direct the activities that significantly affect the investee's returns. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. All inter-company balances and transactions, including unrealized profits and losses arising from intra-group transactions, have been eliminated upon consolidation. Where necessary, adjustments are made to the results of the subsidiaries and entities to bring their accounting policies in line with those used by the Company.

d) Foreign currencies

i) Presentation and functional currency

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar.

ii) Foreign currency transactions

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the consolidated statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses arising on foreign currency translations are included in net loss for the year.

2. BASIS OF PRESENTATION (cont'd…)

e) Significant accounting judgments and estimates

The preparation of the consolidated financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of the consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies.

Critical accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year:

Allowances for doubtful accounts
The Company must make an assessment of whether trade receivables are collectible from customers. Accordingly, management establishes an allowance for estimated losses arising from non-payment, taking into consideration customer credit, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected.

Share-based payments
Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based payment expense for the year along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in Note 10.

Income taxes
Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the consolidated financial statements and their tax basis using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. These differences could materially impact earnings.

Useful life of equipment and intangible assets
Depreciation and amortization of the Company's equipment and intangible assets incorporate estimates of useful lives and residual values. These estimates may change as market conditions change and the future economic benefits from the use of the asset changes, thereby impacting the useful life and residual value of the equipment or intangible asset. Any revisions to useful life are accounted for prospectively.

Critical judgments used in applying accounting policies

In the preparation of these consolidated financial statements management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements.

Impairment of assets
When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

2. BASIS OF PRESENTATION (cont'd…)

e) Significant accounting judgments and estimates (cont'd…)

Critical accounting estimates (continued)

Impairment of assets (continued)

For the year ended October 31, 2019, management determined that there were indicators of impairment for its acquisitions in Aerial Imaging Resources and NOVAerial Robotics and recorded a write-down of $494,195 on the assets of the acquired subsidiaries (note 12).

For the year ended October 31, 2018, management determined that there were indicators of impairment for its acquisitions in Aerial Imaging Resources, High Eye Aerial Imaging, NOVAerial Robotics, and UAV Regulatory and recorded a write-down of $1,981,201 on the assets of the acquired subsidiaries (note 12).

Utilization of deferred income tax assets
In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

Assessment of the transactions as an asset acquisition or business combination
Management has had to apply judgment relating to the acquisitions of High Eye, Pioneer, NOVAerial, UAV Regulatory and AIR with respect to whether the acquisitions were business combinations or an asset acquisitions. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of each acquisition in order to reach a conclusion.

Determination of purchase price allocations and contingent consideration
Estimates are made in determining the fair value of assets and liabilities, including the valuation of separately identifiable intangibles acquired as part of an acquisition. Further, estimates are made in determining the value of contingent consideration payments that should be recorded as part of the consideration on the date of acquisition and changes in contingent consideration payable in subsequent reporting periods. Contingent consideration payments are generally based on acquired businesses achieving certain performance targets. The estimates are based on management's best assessment of the related inputs used in the valuation models, such as future cash flows and discount rates. Future performance results that differ from management's estimates could result in changes to liabilities recorded, which are recorded as they arise through profit or loss.

Going concern
The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

On January 1, 2018, the Company adopted IFRS 9 *Financial Instruments* ("IFRS 9") which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The Company adopted the standard retrospectively. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities. The following accounting policies with respect to financial instruments reflect the adoption of IFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

a) Financial instruments (cont'd…)

Financial assets

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded in profit or loss.

Financials assets recorded at FVTPL include marketable securities, which comprise shares held in public companies.

Amortized cost

Financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not classified or designated as at fair value through profit and loss: 1) the Company's objective for these financial assets is to collect their contractual cash flows and 2) the asset's contractual cash flows represent 'solely payments of principal and interest'. The Company's cash and cash equivalents, and receivables are recorded at amortized cost as they meet the required criteria.

Fair value through other comprehensive income ("OCI")

For financial assets that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this new FVOCI category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. On disposal of the investment the cumulative change in fair value is not recycled to profit or loss, rather transferred to deficit. The Company does not have any financial assets designated as FVOCI.

Financial liabilities

Financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – Inputs for the asset or liability that are not based on observable market data.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

b) Equipment

Equipment is carried at cost, less accumulated depreciation.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Material residual value estimates and estimates of useful life are updated annually.

An item equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statements of operations and comprehensive loss.

The Company compares the carrying value of equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

Depreciation is recorded on a declining basis at the following annual rates:

Vehicles	15%
Unmanned Aerial Vehicles	20%
Office equipment	20%
Sensors	30%
Computer software and equipment	55%

Leasehold improvements are depreciated on a straight-line basis over the term of the lease term of 5 years.

c) Intangible assets

Intangible assets consist mainly of trademarks, customer lists, domain name and similar intangibles, including certain intellectual property, acquired by the Company. Acquired trademarks, customer lists, domain name and similar assets are carried at cost less accumulated amortization and impairment. Intangible assets with indefinite lives are not amortized but are reviewed annually for impairment. Any impairment of intangible assets is recognized in the statement of operation and comprehensive loss but increases in intangible asset values are not recognized. Client list is amortized straight line over 10 years.

Estimated useful lives of intangible assets with finite lives are the shorter of the economic life and the period the right is legally enforceable. The assets' useful lives are reviewed, and adjusted if appropriate, at each financial reporting date. At each financial position reporting date, the carrying amounts of the Company's long-lived assets, including property and equipment and intangible assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

d) Impairment of assets

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

d) Impairment of assets (cont'd…)

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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 the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of operations and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

e) Share capital

Common shares
Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares and share options are recognized as a deduction from equity.

Equity units
Proceeds received on the issuance of units, comprised of common shares and warrants, are allocated on the residual value method; proceeds are allocated to the common shares up to their fair value, as determined by the current quoted trading price, and the balance, if any, to the reserve for warrants.

e) Revenue recognition

The Company recognizes the revenues from the sale of UAV equipment when the Company can measure the amount of revenue and costs in respect of the transaction reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the risks and rewards of ownership of the goods have been transferred to the buyer and the Company no longer retains control over the goods sold.

Revenue from provision of UAV-based services is recognized upon completion of the service based on terms of the contract and collectability is reasonably assured. Payments received from customers in advance of meeting all of the recognition criteria are recorded as deferred revenue and subsequently recognized as these criteria are met.

g) Share-based compensation

From time to time, the Company grants share-based awards to directors, officers, employees and consultants. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value of employee options is measured at the option's grant date, and the fair value of non-employee options is measured at the date or over the period during which goods or services are received. Options granted to nonemployees are recorded at the fair value of goods or services received in profit or loss. The fair value of the options granted to employees is measured using the Black- Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

g) Share-based compensation (cont'd…)

The fair value of each tranche of options granted, which do not vest immediately on grant, is recognized using the graded vesting method over the period during which the options vest. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Share-based compensation expense is credited to the equity-settled share-based payment reserve. Their fair value is transferred from the reserve to share capital when the options are later exercised.

h) Earnings Income (loss) per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the net loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, excluding shares held in escrow. Diluted loss per share is determined by adjusting the net loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares; the effect of any anti-dilutive potential common shares are not taken into account in this calculation.

i) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for on the initial recognition of assets or liabilities that affect neither accounting nor taxable loss. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

j) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to the passage of time is recognized as a finance cost.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

k) Accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the year ended October 31, 2019 and have not been applied in preparing these financial statements. The new and revised standards are as follows:

- IFRS 16 – Leases: On January 13, 2016, the IASB issued the final version of IFRS 16 Leases. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short term leases (i.e. leases of 12 months or less) and leases of low-value assets. The Company does not expect this standard to have a material effect on the Company's financial statements.

- IFRIC 23 – Uncertainty Over Income Tax Treatments: clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

4. AMOUNTS RECEIVABLE

Amounts receivable are comprised of the following:

	October 31, 2019	October 31, 2018
Trade receivable	$ 290,334	$ 177,515
Sales tax receivable	72,237	18,946
Total amounts receivable	$ 362,571	$ 196,461

5. MARKETABLE SECURITIES

As at October 31, 2019, marketable securities included investment in shares of a publicly traded company. The Company received marketable securities with a fair value of $23,683 for services performed. Marketable securities are measured at fair value by reference to quoted stock prices on established exchanges. During the year ended October 31, 2019, the Company recorded an unrealized loss of $4,737 (2018 – $1,341).

(Expressed in Canadian Dollars)

6. EQUIPMENT

	Vehicles	Unmanned Aerial Vehicles	Office Equipment	Computer Software and Equipment	Sensors	Leasehold Improvements	Total
COST							
Balance, October 31, 2017	$ 170,169	$ 224,719	$ 61,007	$ 42,067	$ -	$ 2,310	$ 500,272
Additions from acquisition	96,782	106,400	13,765	55,653	-	-	272,600
Additions	-	215,157	17,468	40,888	366,314	-	639,827
Disposals	-	(96,569)	(600)	(4,587)	-	(2,310)	(104,066)
Balance, October 31, 2018	266,951	449,707	91,640	134,021	366,314	-	1,308,633
Additions	-	81,045	4,570	531	-	-	86,146
Disposals	(114,190)	(80,945)	(8,172)	(23,200)	(39,956)	-	(266,463)
Balance, October 31, 2019	**$ 152,761**	**$ 449,807**	**$ 88,038**	**$ 111,352**	**$ 326,358**	**$ -**	**$ 1,128,316**
ACCUMULATED DEPRECIATION							
Balance, October 31, 2017	$ 15,802	$ 70,924	$ 36,952	$ 34,620	$ -	$ 676	$ 158,974
Depreciation	15,586	89,148	6,359	38,397	36,631	-	186,121
Disposals	-	(33,971)	-	-	-	(676)	(34,647)
Balance, October 31, 2018	31,388	126,101	43,311	73,017	36,631	-	310,448
Depreciation	16,442	86,309	7,793	29,727	88,090	-	228,361
Disposals	(24,158)	(23,156)	(7,070)	(8,423)	(4,007)	-	(66,814)
Balance, October 31, 2019	**$ 23,672**	**$ 189,254**	**$ 44,034**	**$ 94,321**	**$ 120,714**	**$ -**	**$ 471,995**
CARRYING AMOUNTS							
At October 31, 2017	$ 154,367	$ 153,795	$ 24,055	$ 7,447	$ -	$ 1,634	$ 341,298
At October 31, 2018	$ 235,563	$ 323,606	$ 48,329	$ 61,004	$ 329,683	$ -	$ 998,185
At October 31, 2019	**$ 129,089**	**$ 260,553**	**$ 44,004**	**$ 17,031**	**$ 205,644**	**$ -**	**$ 656,321**

(Expressed in Canadian Dollars)

7. INTANGIBLE ASSETS

	Trademark	Intellectual Property	Website	Client List	Total
COST					
Balance, October 31, 2017	**$ 250**	**$ 152,000**	**$ 49,500**	**$ 259,000**	**$ 460,750**
Additions from acquisitions	-	-	-	60,000	60,000
Impairment	-	(37,000)	-	(248,000)	(285,000)
Balance, October 31, 2018	250	115,000	49,500	71,000	235,750
Impairment	(250)	(115,000)	(49,500)	(71,000)	(235,750)
Balance, October 31, 2019	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
ACCUMULATED DEPRECIATION					
Balance, October 31, 2017	**$ -**	**$ -**	**$ -**	**$ 25,900**	**$ 25,900**
Depreciation	54	41,672	20,252	55,359	117,337
Impairment	-	(13,442)	-	(73,485)	(86,927)
Balance, October 31, 2018	54	28,230	20,252	7,774	56,310
Depreciation	50	23,000	16,500	14,200	53,750
Impairment	(104)	(51,230)	(36,752)	(21,974)	(110,060)
Balance, October 31, 2019	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
CARRYING AMOUNTS					
At October 31, 2017	$ 250	$ 152,000	$ 49,500	$ 233,100	$ 434,850
At October 31, 2018	$ 196	$ 86,770	$ 29,248	$ 63,226	$ 179,440
At October 31, 2019	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

8. MINERAL PROPERTY INTERESTS

During the year ended October 31, 2019, the Company incurred $nil (2018 - $nil). The Company has completed a change of business to a technology company and is in the process of selling its mineral property interests and settling its liabilities.

During the year ended October 31, 2018, the Company sold its interests in the Carol property, located in Sonora State, Mexico to a private Mexican Company for net proceeds of 100,000 Mexican Pesos ($6,927). The book value of the property was $nil prior to the sale and after costs of $6,896 the Company recorded a gain of $nil on disposal of the property. This sale removes any potential liabilities related to the property from the Company.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	October 31, 2019	October 31, 2018
Trade payables *	$ 1,299,359	$ 583,540
Accrued liabilities	35,000	96,000
Due to directors	-	12,500
Other payables	56,325	4,187
AIR Acquisition	104,168	125,000
Total accounts payable and accrued liabilities	$ 1,494,852	$ 821,227

(Expressed in Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (cont'd…)

*Included in trade payables is $219,972 related to the inactive Mexican subsidiary, of which $110,169 (October 31, 2018 - $110,169) owed to the Mexican Government for withholding taxes on salaries that were not remitted in prior years.

10. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.

b) Issued

The Company did not issue any shares during the year ended October 31, 2019.

Year Ended October 31, 2018

On June 25, 2018, the Company completed a non-brokered private placement and issued 19,681,454 units at a price of $0.09 per unit for total proceeds of $1,771,330. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder, on exercise, to purchase one additional common share of the Company until June 24, 2020 at a price of $0.15 per share. The Company issued a total of 2,368,762 agent warrants with a fair value of $104,522 and paid cash finder's fees and other share issuance costs of $136,175. The warrants were valued using the Black-Scholes option pricing model with a volatility of 117%, expected life of 2 year, risk free rate of 1.77% and dividend rate of 0%. Each warrant has terms consistent with the warrant described above.

During the year ended October 31, 2018:

i. 11,171,000 warrants were exercised for total proceeds of $1,117,100; and
ii. 4,400,000 options were exercised for total proceeds of $515,000.

On June 19, 2018, the Company acquired a 100% interest in Aerial Imaging Resources Inc. On closing, the Company issued 12,000,000 common shares to the vendors for a fair value of $1,140,000. Refer to Note 12 for additional details on the acquisition.

c) Share purchase warrants

A continuity schedule of outstanding common share purchase warrants for the nine months ended October 31, 2019 and year ended October 31, 2018 is as follows:

	October 31, 2019		October 31, 2018	
	Number outstanding	**Weighted average exercise price**	**Number outstanding**	**Weighted average exercise price**
Outstanding, beginning of year	24,581,862	$ 0.190	16,943,646	$ 0.080
Issued	-	-	22,050,216	0.150
Exercised	-	-	(11,171,000)	0.100
Expired	-	-	(3,241,000)	0.076
Outstanding, end of year	24,581,862	$ 0.190	24,581,862	$ 0.190

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (cont'd…)

c) Share purchase warrants

At October 31, 2019 the Company had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding at October 31, 2019	Outstanding at October 31, 2018
$0.12	October 4, 2022	2,531,646	2,531,646
$0.15	June 24, 2020	22,050,216	22,050,216
		24,581,862	24,581,862
Weighted average remaining contractual life (in years)		0.89	2.14

d) Share options

A continuity schedule of outstanding share options for the year ended October 31, 2019 and year ended October 31, 2018 is as follows:

	October 31, 2019		**October 31, 2018**	
	Number outstanding	**Weighted average exercise price**	**Number outstanding**	**Weighted average exercise price**
Outstanding, beginning of year	10,000,000	$ 0.12	9,507,500	$ 0.10
Granted	-	-	6,400,000	0.12
Cancelled	(2,800,000)	0.11	(750,000)	0.10
Expired	(1,800,000)	0.11	(757,500)	0.11
Exercised	-	-	(4,400,000)	0.14
Outstanding and exercisable, end of year	5,400,000	$ 0.13	10,000,000	$ 0.12

As at October 31, 2019 and October 31, 2018 the Company had share options outstanding and exercisable to acquire common shares of the Company as follows:

Exercise Price	**Expiry Date**	**Outstanding at October 31, 2019**	**Outstanding at October 31, 2018**
$ 0.140	December 29, 2018	-	550,000
$ 0.100	July 15, 2019	-	500,000
$ 0.100	August 29, 2019	-	550,000
$ 0.100	September 21, 2019	-	200,000
$ 0.100	March 23, 2020	800,000	1,400,000
$ 0.100	August 2, 2020	-	250,000
$ 0.100	October 4, 2020	2,250,000	3,150,000
$ 0.120	January 2, 2021	100,000	600,000
$ 0.125	January 9, 2021	-	550,000
$ 0.180	February 13, 2021	2,250,000	2,250,000
		5,400,000	10,000,000
Weighted average remaining contractual life (in years)		1.00	1.72

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (cont'd…)

e) Share-based compensation

The fair value of share options granted and vested during the year ended October 31, 2019 and 2018 was recognized as share-based compensation in the consolidated statements of operations and comprehensive loss, and was allocated as follows:

	October 31, 2019	October 31, 2018
Total share-based compensation	$ -	$ 769,785

The fair value of the options granted and agent warrants issued was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

	October 31, 2019	October 31, 2018
Risk free interest rate	-	1.81%
Expected annual volatility*	-	201.49%
Expected life	-	3 years
Expected dividend yield	-	0.00%
Forfeiture rate	-	0.00%
Exercise price	-	$0.14
Fair value price	-	$0.120

11. SUPPLEMENTAL CASH FLOW INFORMATION

During the year ended October 31, 2019, the Company did not enter into any material non-cash transactions.

i) The Company received marketable securities with a fair value of $23,683 in exchange of services performed.

ii) The Company settled debt of $44,210 via the disposition of equipment, of which $20,825 related to the AIR acquisition (note 12).

iii) The Company received $33,563 from the disposition of a defective UAV which was recorded in accounts receivable and received subsequent to October 31, 2019

During the year ended October 31, 2018, the Company entered into the following non-cash transactions:

i) The Company issued 12,000,000 common shares as part of the consideration to acquire Aerial Imaging Resources Inc., which were fair valued at $1,140,000.

12. ACQUISITIONS

The following table summarizes movements in goodwill for the year ended October 31, 2019 and 2018.

	October 31, 2019	October 31, 2018
Opening balance	$ 368,505	$ 728,033
Acquisitions	-	1,423,600
Impairment	(368,505)	(1,783,128)
Closing balance	$ -	$ 368,505

12. ACQUISITIONS (cont'd…)

a) Pioneer Aerial Surveys Ltd.

On October 4, 2017, the Company completed the asset purchase agreement to acquire a 100% interest in the UAV assets of Pioneer Exploration Consultants Ltd. ("Pioneer"), a company that provides UAV based aeromagnetic surveys through its trademarked UAV-MAG^{TM} system an. As consideration, the Company made a cash payment of $300,000 and issued 9,000,000 common shares with a fair value of $495,000. The Company and Pioneer settled the final cash payment of $200,000 through the issuance of 2,531,646 units ("Units") of the Company. Each Unit consists of one common share of the Company and one share purchase warrant exercisable into one common share of the Company at a price of $0.12 per share for a period of five years. The fair value of the Units issued is $265,234, resulting in a loss on settlement of debts of $65,234 recorded in profit and loss. The Company also issued 276,582 shares with a fair value of $15,212 as finder's fees that was allocated to the fair value of assets acquired at initial recognition and then subsequently impaired as impairment loss.

The asset purchase agreement also includes a 10% royalty on future earnings before income taxes, depreciation, and amortization expenses of Pioneer Aerial Surveys Ltd., for five years from the date of acquisition. Management has estimated the fair value of the royalty stream which has been included as contingent consideration in the total consideration.

During the year ended October 31, 2019, the Company recognized an impairment on intangible assets of $146 (2018 - $Nil)

b) High Eye Aerial Imaging Inc.

On January 6, 2017, the Company acquired a 100% interest in High Eye Aerial Imaging Inc. ("High Eye Aerial"), a company providing UAV surveying services including LiDAR (Light Detection and Ranging) surveys, in exchange for a cash payment of $100,000 and the issuance of 4,500,000 common shares with a fair value of $247,500.

For accounting purposes, the acquisition of High Eye Aerial was considered a business combination and accounted for using the acquisition method. The results of operations from High Eye Aerial are included in the consolidated financial statements since the date of acquisition. Finder's fees of 525,000 common shares with a fair value of $31,500 were issued and recorded in profit and loss during the year ended October 31, 2018

During the year ended October 31, 2019, the Company recognized an impairment of intangibles of $nil (2018 - $91,686) and goodwill of $nil (2018 - $159,204)

b) UAV Regulatory Services Ltd.

On July 11, 2017, the Company completed the purchase of UAV Regulatory Services Ltd. ("UAV Regulatory"), a regulatory consulting company that assists clients with the preparation of Special Flight Operation Certificates (SFOCs) for UAV operations in Canada. The Company made a cash payment of $70,000 and issued 329,670 common shares with a fair value of $26,374.

For accounting purposes, the acquisition of UAV Regulatory was considered a business combination and accounted for using the acquisition method. The results of operations from UAV Regulatory are included in the consolidated financial statements since the date of acquisition.

During the year ended October 31, 2019 the Company recognized an impairment of intangible assets of $18,673 (2018 - $nil) and goodwill of $nil (2018 - $52,444)

d) NOVAerial Robotics Ltd.

On August 9, 2017, the Company acquired a 100% interest in NOVAerial Robotics Ltd. ("NOVAerial"), a manufacturer of high-performance UAV with a particular emphasis on single rotor helicopter-style UAVs. The Company made a cash payment of $300,000 and issued 4,584,527 common shares with a fair value of $366,762.

(Expressed in Canadian Dollars)

12. ACQUISITIONS (cont'd…)

d) NOVAerial Robotics Ltd. (cont'd…)

The shares will be subject to a voluntary escrow release with the first set of shares (10 per cent of the total) issued immediately but subject to a hold period of four months and one day, and the balance issued over the next three years.

For accounting purposes, the acquisition of NOVAerial was considered a business combination and accounted for using the acquisition method. The results of operations from NOVAerial are included in the consolidated financial statements since the date of acquisition.

During the year ended October 31, 2019, the Company recognized an impairment of intangibles of $63,770 (2018 - $106,387) and goodwill of $nil (2018 - $516,385).

e) Aerial Imaging Resources Inc.

On June 19, 2018, the Company acquired a 100% interest in Aerial Imaging Resources Inc. ("AIR"). The Company issued 12,000,000 common shares with a fair value of $1,140,000, made payments totaling $475,000 cash, and was required to make one further cash payment of $125,000 on or before December 14, 2018. Subsequent to October 31, 2018 the final $125,000 was renegotiated such that $20,825 was settled via an asset disposition and the balance was extended to May 31, 2019. During the year ended October 31, 2019, $nil was paid towards the outstanding balance. Subsequent to the year ended October 31, 2019, $24,000 was paid and the remaining $80,175 has been renegotiated such that $4,000 will be paid on the first of every month until the balance has been extinguished.

For accounting purposes, the acquisition of AIR was considered a business acquisition. The results of operations from AIR are included in the consolidated financial statements since the date of acquisition.

From the date of acquisition on June 19, 2018 until October 31, 2018 the Company recognized revenue of $127,651 and a net loss of $2,805 from AIR.

Cash paid or accrued	$	600,000
Common shares issued		1,140,000
Total consideration paid	**$**	**1,740,000**
Customer list	$	60,000
Equipment		272,600
Deferred income tax liability		(16,200)
Total value of net assets acquired	**$**	**316,400**
Goodwill	**$**	**1,423,600**

During the year ended October 31, 2019, the Company recognized an impairment on intangible assets of $43,101 (2018 - $Nil) and goodwill of $368,505 (2018 - $1,055,095).

(Expressed in Canadian Dollars)

13. CONTINGENT CONSIDERATION

	October 31, 2019	October 31, 2018
Opening balance	$ 256,774	$ 540,000
Accretion	57,175	146,989
Change in estimate	(217,174)	(430,215)
Closing balance	$ 96,775	$ 256,774
Current	$ 39,370	$ 91,927
Non-current	$ 57,405	$ 164,847

The Company estimates its contingent consideration payable relating to the royalty will be $96,775 (2018 - $427,144). The Company discounted the estimated royalty payable using a discount rate of 30% (2018 – 30%).

Mr. Burns, a director of the Company, is a shareholder of Pioneer, which sold its assets to the Company and retained a 10% royalty on future earnings before income taxes, depreciation, and amortization expenses of Pioneer (note 12(a)). Mr. Burns joined the Company as CEO subsequent to completion of the asset purchase.

14. RELATED PARTY TRANSACTIONS

Transactions with management and related parties during the years ended October 31, 2019 and 2018 were as follows:

Supplier	Nature of Transaction	2019	2018
101252103 Saskatchewan Ltd. (i)	Consulting Fees	$ 180,000	$ 203,675
Longford Capital Corporation (ii)	Consulting Fees	$ 150,000	$ 136,375
Westridge Management International Ltd (iii)	Consulting Fees	$ 150,000	$ 57,000
Stewart Baillie (iv)	Consulting Fees	$ -	$ 8,085
BridgeMark Financial Corporation (v)	Consulting Fees	$ -	$ 28,700
Robert Lefebvre (vi)	Wages	$ -	$ 112,000
Red Fern Consulting Ltd (vii)	Professional Services	$ 107,013	$ 13,197
Share based compensation		$ -	$ 399,290

I. 101252103 Saskatchewan Ltd. is a private enterprise controlled by the Company's current CEO, Michael Burns.
II. Longford Capital Corporation is a private enterprise controlled by the Company's current president, James Rogers.
III. Westridge Management International Ltd is a private enterprise controlled by the Company's current COO, Andrew Male
IV. Stewart Baillie is a former director of the Company.
V. BridgeMark Financial is a private enterprises controlled by the Company's former CFO, Anthony Jackson.
VI. Robert Lefebvre is a former director of the Company.
VII. Red Fern Consulting Ltd is a private company controlled by the Company's former CFO, Jonathan Richards.

Accounts payable to related parties

Included in accounts payable and accrued liabilities is $825,443 (October 31, 2018 - $225,312) due to officers, former officers and directors of the Company.

Other

Mr. Burns is a shareholder of Pioneer, which sold its assets to the Company and retained a 10% royalty on future earnings before income taxes, depreciation, and amortization expenses of Pioneer (note 12(a)). Mr. Burns joined the Company as CEO subsequent to completion of the asset purchase.

(Expressed in Canadian Dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and liabilities were categorized as follows:

		October 31, 2019		October 31, 2018
Financial assets				
Fair value through profit or loss				
Cash	$	14,744	$	178,450
Marketable securities		18,946		-
Loans and receivables				
Amounts receivable		362,571		196,461
Total financial assets	$	396,261	$	374,911
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	$	1,498,476	$	821,227
Deferred Revenue		50,249		7,015
Contingent consideration*		96,775		256,774
Deferred income tax liability		-		18,290
Total financial liabilities	$	1,645,500	$	1,103,306

*Estimated fair value of the 10% royalty payments on future earnings before income taxes, depreciation, and amortization expenses of Pioneer Aerial Surveys Ltd., to be paid out over a five-year term (Note 12).

The fair values of the Company's amounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments. Marketable securities are recorded at market value based on quoted market prices. Contingent consideration is recorded at fair value based on estimated future performance and discount rates.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk with respect to its cash and amounts receivable.

The Company deposits substantially all of its cash at a Canadian chartered bank. The Company's amounts receivable consist primarily of trade receivables, and Goods and Services Tax receivable from the Canadian government a. Management considers the risk of non-performance related to cash and amounts receivable to be minimal.

b) Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

At October 31, 2019, the Company had cash in the amount of $14,744 (October 31, 2018 - $178,450) and accounts payable and accrued liabilities of $1,498,476 (October 31, 2018 - $821,227).

The Company ensures, as far as reasonably possible, that there is sufficient capital in order to meet short-term financial obligations, after taking into account the Company's holdings of cash.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

c) Market risk

Market risk consists of interest rate risk, foreign currency risk and other price risk. These are discussed below:

Interest rate risk
Interest rate risk consists of two components:

i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company is not exposed to significant interest rate risk.

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company is exposed to foreign currency risk with respect to cash, amounts receivable, and accounts payable and accrued liabilities, as a portion of these amounts are denominated in MXN pesos and US dollars as follows:

	October 31, 2019		October 31, 2018	
	MXN	US	MXN	US
Accounts receivable	-	$ 122,484	-	$ -
Accounts payable and accrued liabilities	(3,383,411)	43,129	(3,383,411)	-
Rate to convert $1 CAD	0.068	1.3160	0.065	1.3120

Based on the Company's net exposure, a 23% change (October 31, 2018 - 23%) in the Canadian/Mexican peso exchange rate and a 12% change (October 31, 2018 - 12%) in the Canadian/US exchange rate (based on prior year fluctuations in the relative exchange rates) would not have a material impact on earnings.

Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant market risk.

d) Fair value of financial instruments

IFRS 7 *Financial Instruments: Disclosure* establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and marketable securities are classified at Level 1 of the fair value hierarchy. Contingent consideration is classified as Level 3 of the fair value hierarchy.

(Expressed in Canadian Dollars)

16. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue development of the Company's UAV business, and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk.

The Company's capital consists of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares or debt or acquire or dispose of assets.

To effectively manage its resources and minimize risk, the Company maintains the majority of its capital at the parent company level and funds activities in its operating subsidiaries through a cash call process.

The Company's investment policy is to invest any excess cash in liquid short-term interest-bearing instruments callable at any time.

There have been no changes to the Company's approach to capital management during the year ended October 31, 2019.

17. INCOME TAXES

As at October 31, 2019, the Company has non-capital losses of approximately $10,201,000 and capital losses of $88,000; $1,930,596 of non-capital losses and all of the capital losses may be applied against future income for Mexican income tax purposes.

The potential future tax benefits of these losses have not been recorded in these financial statements. The capital losses may be carried forward indefinitely. The non-capital losses of $10,201,000 expire through 2039.

The reconciliation of income taxes computed at statutory rates to the reported income tax provision is as follows:

		2019		2018
Loss before income taxes	$	1,576,058	$	4,762,820
Income tax at statutory rates		27.00%		27.00%
Expected income tax recovery		425,536		1,285,961
Permanent differences		(115,380)		(507,910)
Change in statutory, foreign tax, foreign exchange rates and other		(45,372)		98,579
Losses expired		-		-
Adjustment to prior years provision versus statutory tax returns		97,085		9,354
Share issuance costs		-		36,767
Change in unrecognized deductible temporary differences		(299,667)		(876,027)
Total income tax expense (recovery)	**$**	**(62,202)**	**$**	**(46,724)**
Current income tax	$	(43,912)	$	70,916
Deferred tax expense (recovery)	$	(18,290)	$	(117,640)
	$	(62,202)	$	(46,724)

(Expressed in Canadian Dollars)

17. INCOME TAXES (cont'd…)

The tax effected items that give rise to significant portions of deferred income tax liabilities as at October 31, 2019 and 2018 are presented below:

		2019		2018
Deferred tax liabilities:				
Intangible assets	$	-	$	(18,290)
Deferred tax liabilities, net	$	-	$	(18,290)

The following are the deductible temporary differences for which no deferred tax assets are recognized in the consolidated financial statements:

		2019		2018
Non-capital losses carried forward	$	10,201,000	$	9,050,000
Capital losses carried forward		88,000		56,000
Mineral property interests		3,718,000		3,718,000
Marketable securities		-		-
Investment in oil and gas interests		74,000		74,000
Share issuance costs		111,000		162,000
Intangible assets and contingent consideration		97,000		257,000
Equipment		680,000		834,000

18. SEGMENT REPORTING

The Company has one reportable operating segment, being sales of UAV equipment and providing UAV related services in Canada. The Company's assets are located in Canada.