



GLOBAL UAV
TECHNOLOGIES

(A Technology Company)

Condensed Consolidated Interim Financial Statements

For the Six Months Ended April 30, 2019 and 2018

(UNAUDITED - Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

This notice is being provided in accordance with National Instrument 51-102 – Continuous Disclosure Obligations.

GLOBAL UAV TECHNOLOGIES LTD.

Condensed Consolidated Interim Statements of operations and Comprehensive Loss

As At

(Unaudited - Expressed in Canadian Dollars)

	April 30, 2019	October 31, 2018
ASSETS		
Current		
Cash	\$ 167,984	\$ 178,450
Amounts receivable (Note 3)	112,401	196,461
Prepaid expenses	55,264	75,436
Inventory	30,117	27,767
	<u>365,766</u>	<u>478,114</u>
Non-current		
Equipment (Notes 4)	860,980	998,185
Intangible assets (Notes 5 and 10)	152,564	179,440
Goodwill (Note 10)	368,505	368,505
TOTAL ASSETS	<u>\$ 1,747,815</u>	<u>\$ 2,024,244</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 1,587,235	\$ 821,227
Deferred revenue	99,904	7,015
Current portion of contingent consideration (Note 11)	128,893	91,927
	<u>1,816,032</u>	<u>920,169</u>
Non-current		
Contingent consideration payable (Note 11)	159,051	164,847
Deferred income tax liability	18,290	18,290
	<u>177,341</u>	<u>183,137</u>
TOTAL LIABILITIES	<u>1,993,373</u>	<u>1,103,306</u>
SHAREHOLDERS' EQUITY (DEFICIT)		
Share capital (Note 8)	25,025,124	25,025,124
Reserves	2,969,058	2,969,058
Accumulated deficit	(28,239,740)	(27,073,244)
	<u>(245,558)</u>	<u>920,938</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	<u>\$ 1,747,815</u>	<u>\$ 2,024,244</u>

Nature of operations and going concern (Note 1)

Approved and authorized by the Board on June 28, 2019

"James Rogers" (signed)

..... Director

"Michael Burns" (signed)

..... Director

GLOBAL UAV TECHNOLOGIES LTD.

Condensed Consolidated Interim Statements of operations and Comprehensive Loss

For the Three and Six Months Ended April 30, 2019 and 2018

(Unaudited - Expressed in Canadian Dollars)

	For the Three Months Ended April 30, 2019	For the Three Months Ended April 30, 2018	For the Six Months Ended April 30, 2019	For the Six Months Ended April 30, 2018
Revenues				
Services	\$ 372,280	\$ 530,347	\$ 859,972	\$ 848,420
Sales	-	6,806	-	38,483
	<u>372,280</u>	<u>537,153</u>	<u>859,972</u>	<u>886,903</u>
Cost of Sales	<u>225,793</u>	<u>205,083</u>	<u>524,181</u>	<u>313,690</u>
Gross Margin	<u>146,487</u>	<u>332,070</u>	<u>335,791</u>	<u>573,213</u>
Operating Expenses				
Accounting, audit and legal	111,900	72,583	192,150	88,648
Accretion (Note 11)	15,585	-	31,170	-
Automotive	752	10,513	4,317	20,080
Conferences and tradeshows	-	-	23,052	-
Consultants' fees (Note 12)	167,318	146,360	351,409	222,160
Depreciation (Notes 4 and 5)	76,188	19,168	155,316	43,021
Exploration expenditures (Note 6)	-	6,555	-	6,896
Insurance	28,477	7,055	34,544	9,243
Investor relations and promotion	72,504	61,477	109,865	96,762
Office and miscellaneous	81,633	57,502	127,532	96,595
Regulatory, listing, transfer agent fees	4,618	10,463	10,094	16,594
Rent	25,574	15,425	48,307	37,775
Repairs and maintenance	8,481	2,460	38,867	6,867
Research and development	48,902	-	175,363	-
Salaries and wages	24,833	138,702	118,422	185,181
Share-based payment (Note 8(e))	-	-	-	379,890
Success fees	-	6,927	-	6,927
Travel	41,730	36,570	82,827	99,915
	<u>(708,495)</u>	<u>(591,760)</u>	<u>(1,503,235)</u>	<u>(1,316,554)</u>
Other Items				
Foreign exchange gain (loss)	1,992	(6,361)	1,771	7,020
Gain on disposal of equipment	(35,949)	(62,482)	5,597	(62,482)
Gain on settlement of debt	(6,420)	-	(6,420)	-
Impairment loss	-	(7,064)	-	(7,064)
Gain on disposal of asset	-	6,927	-	6,927
	<u>(748,872)</u>	<u>(660,740)</u>	<u>(1,502,287)</u>	<u>(1,372,153)</u>
Net Loss and Comprehensive Loss for the Period	<u>\$ (602,385)</u>	<u>\$ (328,670)</u>	<u>\$ (1,166,496)</u>	<u>\$ (798,940)</u>
<i>Loss per Share, Basic and Diluted</i>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
<i>Weighted Average Number of Common Shares Outstanding</i>	<u>136,755,634</u>	<u>102,172,677</u>	<u>136,755,634</u>	<u>97,116,401</u>

See notes to the condensed consolidated interim financial statements.

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

	Number of Shares	Share Capital	Reserves			Accumulated Deficit	Total Shareholders' Equity
			Equity Settled Share-based Payments	Warrants	Total		
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 period	-	-	-	-	-	(798,940)	(798,940)
Exercise of options	4,400,000	515,000	-	-	-	-	515,000
Exercise of warrants	11,171,000	1,117,100	-	-	-	-	1,117,100
Share-based compensation	-	-	-	379,890	379,890	-	379,890
Balance – April 30, 2018	105,074,180	\$ 21,893,837	\$ 2,073,115	\$ 862,179	\$ 2,935,294	\$ (23,156,088)	\$ 1,673,043
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 period	-	-	-	-	-	(1,166,496)	(1,166,496)
Balance – April 30, 2019	136,755,634	\$ 25,025,124	\$ 2,389,800	\$ 579,258	\$ 2,969,058	\$ (28,239,740)	\$ (245,558)

GLOBAL UAV TECHNOLOGIES LTD.
Condensed Consolidated Interim Statements of Cash Flows
For the Six Months Ended
(Unaudited - Expressed in Canadian Dollars)

	April 30, 2019	April 30, 2018
Operating Activities		
Net loss	\$ (1,166,496)	\$ (798,940)
Items not affecting cash:		
Depreciation	155,316	43,021
Share-based compensation	-	379,890
Loss (gain) on disposal of equipment	(5,597)	-
Gain on settlement of accounts payable	(6,420)	-
Accretion of contingent consideration	31,170	-
Changes in non-cash working capital:		
Amounts receivable	84,060	(140,603)
Prepaid expenses	20,172	(760)
Inventory	(2,350)	(57,891)
Accounts payable and accrued liabilities	772,428	2,455
Deferred revenue	92,889	(65,444)
Cash Used in Operating Activities	(24,828)	(638,272)
Investing Activities		
Purchase of property, plant and equipment, net	(28,273)	(126,388)
Proceeds on sale of equipment	42,635	-
Cash Used in Investing Activities	14,362	(126,388)
Financing Activities		
Proceeds from exercise of warrants	-	1,117,100
Proceeds from exercise of options	-	515,000
Loan payable	-	8,343
Cash Provided by Financing Activities	-	1,640,443
Change in Cash	(10,466)	875,783
Cash, Beginning of Period	178,450	130,936
Cash, End of Period	\$ 167,984	\$ 1,006,719

Supplemental Cash Flow Information – Note 11

GLOBAL UAV TECHNOLOGIES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended April 30, 2019 and 2018
(Expressed in Canadian Dollars)

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 459 – 409 Granville Street, Vancouver, British Columbia, Canada, V6C 1T2. The Company’s stock is listed on the Canadian Securities Exchange under the symbol “UAV”.

During the year ended October 31, 2017, 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”), and acquired a 100% interest in UAV Regulatory Services Ltd. (“UAV Regulatory”) (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.

On June 19, 2018 the Company closed the acquisition of Aerial Imaging Resources Inc. (“AIR”) and issued 12,000,000 common shares of the Company and is required to make payments totaling \$600,000, of which \$475,000 was paid during the year and \$125,000 is due subsequent to period end (Note 12).

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 April 30, 2019, the Company had cash of \$67,984 (October 31, 2018 - \$178,450), working capital deficit of \$1,450,266 (October 31, 2018 – deficit of \$371,139) and an accumulated deficit of \$28,239,740 (October 31, 2018 - \$27,002,328). 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 condensed 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 condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

2. BASIS OF PRESENTATION (CONTINUED)

b) Basis of presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed consolidated interim financial statements of the Company are presented in Canadian dollars, which is the functional currency of the parent company and its subsidiaries.

The accounting policies applied in preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended October 31, 2018, except for the following:

Financial instruments

On November 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 summarizes the significant changes in IFRS 9 compared to the current standard:

- IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. The change did not impact the carrying amounts of any of the Company's financial assets on the transition date. Prior periods were not restated and no material changes resulted from adopting this new standard.
- The adoption of the new “expected credit loss” impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had no impact on the carrying amounts of our financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

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 is evaluating the effect of this standard 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.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2. BASIS OF PRESENTATION (CONTINUED)

c) 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 8.

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.

GLOBAL UAV TECHNOLOGIES LTD.
Notes to the Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended April 30, 2019 and 2018
(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (CONTINUED)

e) Significant accounting judgments and estimates (continued)

Critical accounting estimates (continued)

Impairment of assets (continued)

For the year ended October 31, 2017, management determined that there were indicators of impairment for its acquisitions in Pioneer Exploration Consultants and High Eye and recorded a write-down of \$1,540,703 on the assets of the acquired subsidiaries.

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. AMOUNTS RECEIVABLE

Amounts receivable are comprised of the following:

	April 30, 2019	October 31, 2018
Trade receivable	\$ 104,901	\$ 177,515
Sales tax receivable	-	18,946
Other amounts receivable	7,500	-
Total amounts receivable	\$ 112,401	\$ 196,461

GLOBAL UAV TECHNOLOGIES LTD.
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4. 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	-	23,172	4,571	531	-	-	28,274
Disposals	-	-	(8,172)	-	(39,956)	-	(48,128)
Balance, April 30, 2019	\$ 266,951	\$ 472,879	\$ 88,039	\$ 134,552	\$ 326,358	\$ -	\$ 1,288,779
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	13,591	48,867	3,779	18,158	44,045	-	128,440
Disposals	-	-	(7,082)	-	(4,007)	-	(11,089)
Balance, April 30, 2019	\$ 44,979	\$ 174,968	\$ 40,008	\$ 91,175	\$ 76,669	\$ -	\$ 427,799
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 April 30, 2019	\$ 221,972	\$ 297,911	\$ 48,031	\$ 43,377	\$ 249,689	\$ -	\$ 860,980

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5. 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 and April 30, 2019	\$ 250	\$ 115,000	\$ 49,500	\$ 71,000	\$ 235,750
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	26	11,500	8,250	7,100	26,876
Balance, April 30, 2019	\$ 80	\$ 39,730	\$ 28,502	\$ 14,874	\$ 83,186
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 April 30, 2019	\$ 170	\$ 75,270	\$ 20,998	\$ 56,126	\$ 152,564

6. MINERAL PROPERTY INTERESTS

During the six months ended April 30, 2019, the Company incurred \$nil (2018 - \$6,896) in exploration expenditures relating to camp and exploration support costs on its properties held in Mexico. 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, 2017, the Company sold its interests in the Orofino property located in Mexico to a private Mexican company for net proceeds of 1,200,000 Mexican Pesos (\$85,524). The carrying value of the property was \$nil prior to the sale and, accordingly, \$85,524 was recorded as a gain on disposal of assets.

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.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	April 30, 2019	October 31, 2018
Trade payables *	\$ 1,320,807	\$ 570,124
Accrued liabilities	96,000	96,000
Other payables	30,652	4,187
AIR Acquisition	125,000	125,000
Total accounts payable and accrued liabilities	\$ 1,572,459	\$ 795,311

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For the Three and Six Months Ended April 30, 2019 and 2018
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7. 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, 2017 - \$108,064) owed to the Mexican Government for withholding taxes on salaries that were not remitted in prior years.

8. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.

b) Issued

The Company did not issue any shares during the six month period ended April 30, 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 10 for additional details on the acquisition.

c) Share purchase warrants

A continuity schedule of outstanding common share purchase warrants for the six months ended April 30, 2019 and year ended October 31, 2018 is as follows:

	April 30, 2019		October 31, 2018	
	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
Outstanding, beginning of year	24,581,862	\$ 0.146	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	\$ 0.146	24,581,862	\$ 0.146

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For the Three and Six Months Ended April 30, 2019 and 2018
(Expressed in Canadian Dollars)

8. SHARE CAPITAL (cont'd...)

c) Share purchase warrants

At April 30, 2019 the Company had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Outstanding at April 30, 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)		1.89	2.14

d) Share options

A continuity schedule of outstanding share options for the six months ended April 30, 2019 and year ended October 31, 2018 is as follows:

	April 30, 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	-	-	(750,000)	0.10
Expired	(550,000)	0.10	(757,500)	0.11
Exercised	-	-	(4,400,000)	0.14
Outstanding and exercisable, end of year	9,450,000	\$ 0.12	10,000,000	\$ 0.12

As at April 30, 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 April 30, 2019	Outstanding at October 31, 2018
\$ 0.140	December 29, 2018	-	550,000
\$ 0.100	July 15, 2019	500,000	500,000
\$ 0.100	August 29, 2019	550,000	550,000
\$ 0.100	September 21, 2019	200,000	200,000
\$ 0.100	March 23, 2020	1,400,000	1,400,000
\$ 0.100	August 2, 2020	250,000	250,000
\$ 0.100	October 4, 2020	3,150,000	3,150,000
\$ 0.120	January 2, 2021	600,000	600,000
\$ 0.125	January 9, 2021	550,000	550,000
\$ 0.180	February 13, 2021	2,250,000	2,250,000
		9,450,000	10,000,000
Weighted average remaining contractual life (in years)		1.56	1.72

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8. SHARE CAPITAL (cont'd...)

e) Share-based compensation

The fair value of share options granted and vested during the six months ended April 30, 2019 and 2018 was recognized as share-based compensation in the consolidated statements of operations and comprehensive loss, and was allocated as follows:

	April 30, 2019	April 30, 2018
Total share-based compensation	\$ -	\$ 379,890

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:

	April 30, 2019	April 30, 2018
Risk free interest rate	-	1.72%
Expected annual volatility*	-	243.99%
Expected life	-	3 years
Expected dividend yield	-	0.00%
Forfeiture rate	-	0.00%
Exercise price	-	\$0.122
Fair value price	-	\$0.093

9. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended April 30, 2019 and April 30, 2018, the Company did not enter into any material non-cash transactions.

10. ACQUISITIONS

The following table summarizes movements in goodwill for the six months ended April 30, 2019 and the year ended October 31, 2018

	April 30, 2019	October 31, 2018
Opening balance	\$ 368,505	\$ 728,033
Acquisitions	-	1,423,600
Impairment	-	(1,783,128)
Closing balance	\$ 368,505	\$ 368,505

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-MAGTM system. 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. Management has estimated the fair value of the royalty stream which has been included as contingent consideration in the total consideration.

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10. ACQUISITIONS (cont'd...)

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 the Company recognized an impairment on goodwill of \$159,204 (2017 - \$66,000)

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, 2018 the Company recognized an impairment on goodwill of \$52,444 (2017 - \$nil)

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. 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, 2018 the Company recognized an impairment on goodwill of \$516,385 (2017 - \$nil).

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 will be settled via an asset disposition and the balance was extended to May 31, 2018.

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.

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10. ACQUISITIONS (cont'd...)

e) *Aerial Imaging Resources Inc.*

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, 2018 the Company recognized an impairment on goodwill of \$1,055,095.

11. CONTINGENT CONSIDERATION

	April 30, 2019	October 31, 2018
Opening balance	\$ 256,774	\$ 540,000
Accretion	31,170	146,989
Change in estimate	-	(430,215)
Closing balance	\$ 287,944	\$ 256,774
Current	\$ 128,893	\$ 91,927
Non-current	\$ 143,466	\$ 164,847

The Company estimates its contingent consideration payable relating to the royalty will be \$427,144 (2018 - \$427,144). The Company discounted the estimated royalty payable using a discount rate of 30% (2017 - 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 10(a)). Mr. Burns joined the Company as CEO subsequent to completion of the asset purchase.

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12. RELATED PARTY TRANSACTIONS

Transactions with management and related parties during the six months ended April 30, 2019 and 2018 were as follows:

Supplier	Nature of Transaction	2019	2018
101252103 Saskatchewan Ltd. ⁽ⁱ⁾	Consulting Fees \$	90,000 \$	67,200
Longford Capital Corporation ⁽ⁱⁱ⁾	Consulting Fees \$	75,000 \$	46,725
Westridge Management International Ltd ⁽ⁱⁱⁱ⁾	Consulting Fees \$	75,000 \$	-
Stewart Baillie ^(iv)	Consulting Fees \$	- \$	8,085
BridgeMark Financial Corporation ^(v)	Consulting Fees \$	- \$	22,050
Robert Lefebvre ^(vi)	Wages \$	- \$	19,487
Red Fern Consulting Ltd ^(vii)	Professional Services \$	53,057 \$	-
Share based compensation	\$	- \$	-

- 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 CFO, Jonathan Richards.

Accounts payable to related parties

Included in accounts payable and accrued liabilities is \$561,691 (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 10(a)). Mr. Burns joined the Company as CEO subsequent to completion of the asset purchase.

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	April 30, 2019	October 31, 2018
Financial assets		
Fair value through profit or loss		
Cash	\$ 167,984	\$ 178,450
Loans and receivables		
Amounts receivable	112,401	196,461
Total financial assets	\$ 280,385	\$ 374,911
Financial liabilities		
Other financial liabilities		
Accounts payable and accrued liabilities	\$ 1,587,235	\$ 821,227
Deferred Revenue	99,904	7,015
Contingent consideration*	287,944	256,774
Deferred income tax liability	18,290	18,290
Total financial liabilities	\$ 1,993,373	\$ 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 11).

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 April 30, 2019, the Company had cash in the amount of \$167,984 (October 31, 2018 - \$178,450) and accounts payable and accrued liabilities of \$1,587,235 (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.

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13. 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:

	April 30, 2019		October 31, 2018	
	MXN	US	MXN	US
Accounts receivable	-	\$ -	-	\$ -
Accounts payable and accrued liabilities	(3,383,411)	-	(3,383,411)	-
Rate to convert \$1 CAD	0.065	1.3120	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.

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14. 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 three months ended April 30, 2019.

15. 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.