# DEVERON UAS CORP.
# (FORMERLY DEVERON RESOURCES LTD.)
# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
# THREE AND SIX MONTHS ENDED JUNE 30, 2017
# (EXPRESSED IN CANADIAN DOLLARS)
# (UNAUDITED)

**Notice to Reader**

The accompanying unaudited condensed interim consolidated financial statements of Deveron UAS Corp. (formerly Deveron Resources Ltd.) (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

## DEVERON UAS CORP. (Formerly Deveron Resources Ltd.)
**Condensed Interim Consolidated Statements of Financial Position**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | As at June 30, 2017 | As at December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | **$ 1,050,906** | $ 208,334 |
| Amounts receivable and other assets (note 4) | **479,419** | 156,922 |
| **Total current assets** | **1,530,325** | 365,256 |
| **Non-current assets** | | |
| Property, plant and equipment (note 5) | **206,375** | 84,081 |
| Long-term investments (note 6) | **1** | 1 |
| Goodwill (note 3) | **612,741** | 612,741 |
| **Total non-current assets** | **819,117** | 696,823 |
| **Total assets** | **$ 2,349,442** | $ 1,062,079 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Amounts payable and other liabilities (notes 7 and 13) | **$ 319,460** | $ 54,316 |
| Due to related party (note 13) | **500,000** | 500,000 |
| **Total liabilities** | **819,460** | 554,316 |
| **Shareholders' equity** | | |
| Share capital (note 8(a)(b)) | **2,937,963** | 1,822,930 |
| Shares to be issued (note 8(c)) | **-** | 240,000 |
| Reserves (notes 9 and 10) | **1,238,583** | 551,437 |
| Deficit | **(2,646,564)** | (2,106,604) |
| **Total shareholders' equity** | **1,529,982** | 507,763 |
| **Total liabilities and shareholders' equity** | **$ 2,349,442** | $ 1,062,079 |

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

**Nature of operations and going concern** (note 1)
**Events after the reporting period** (note 15)

# DEVERON UAS CORP. (Formerly Deveron Resources Ltd.)

**Condensed Interim Consolidated Statements of Comprehensive Loss**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Drone income | **$ 80,033** | $ - | **$ 80,033** | $ - |
| **Cost of services** | | | | |
| Cost of services (note 12) | **(42,557)** | - | **(54,445)** | - |
| **Gross margin** | **37,476** | - | **25,588** | - |
| **Operating expenses** | | | | |
| Salaries and benefits (note 13) | **124,427** | 84,346 | **171,054** | 84,346 |
| Shareholder relations | **161,306** | 62,286 | **196,967** | 79,857 |
| Professional fees (note 13) | **39,456** | 18,560 | **52,005** | 45,764 |
| Office and general | **43,623** | 37,316 | **59,986** | 39,288 |
| Interest expense (note 13) | **9,973** | 8,551 | **19,836** | 15,801 |
| Depreciation (note 5) | **36,334** | 13,925 | **52,602** | 13,925 |
| Travel | **18,644** | 5,333 | **29,182** | 8,166 |
| Consulting fees (note 13) | **175,000** | 180 | **175,000** | 180 |
| Business development | **48,916** | - | **48,916** | - |
| Gain on debt settlement (note 8(c)) | **-** | - | **(240,000)** | - |
| Other income | **-** | (200) | **-** | (200) |
| | **657,679** | 230,297 | **565,548** | 287,127 |
| **Total comprehensive loss for the period** | **$ (620,203)** | $ (230,297) | **$ (539,960)** | $ (287,127) |
| **Net loss per common share (note 11) - basic and diluted** | **$ (0.03)** | $ (0.02) | **$ (0.03)** | $ (0.02) |
| **Weighted average number of common shares outstanding - basic and diluted** | **21,305,763** | 12,069,269 | **19,601,672** | 11,934,158 |

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

## DEVERON UAS CORP. (Formerly Deveron Resources Ltd.)
**Condensed Interim Consolidated Statements of Cash Flows**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the period | **$ (539,960)** | $ (287,127) |
| Adjustments for: | | |
| Depreciation (note 5) | **52,602** | 13,925 |
| Interest expense accrued | **-** | 15,801 |
| Gain on debt settlement (note 8(c)) | **(240,000)** | - |
| Changes in non-cash working capital items: | | |
| Amounts receivable and other assets | **(322,497)** | (81,457) |
| Amounts payable and other liabilities | **265,144** | 73,449 |
| **Net cash used in operating activities** | **(784,711)** | (265,409) |
| **Investing activity** | | |
| Purchase of property, plant and equipment (note 5) | **(174,896)** | (117,417) |
| **Net cash used in investing activity** | **(174,896)** | (117,417) |
| **Financing activities** | | |
| Promissory notes | **-** | 100,000 |
| Due to related party | **-** | 169,000 |
| Issue of common shares for private placements (note 8(b)(i)(ii)) | **2,024,976** | 724,200 |
| Share issue costs | **(224,897)** | (42,831) |
| Exercise of warrants | **2,100** | - |
| **Net cash provided by financing activities** | **1,802,179** | 950,369 |
| **Net change in cash** | **842,572** | 567,543 |
| **Cash, beginning of period** | **208,334** | 36,486 |
| **Cash, end of period** | **$ 1,050,906** | $ 604,029 |

The accompanying notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

**DEVERON UAS CORP. (Formerly Deveron Resources Ltd.)**
**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Share capital | Shares to be issued | Reserves: Warrants | Reserves: Share-based payments | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2015** | **$ 640,421** | **$ -** | **$ 653,048** | **$ 245,438** | **$ (2,185,452)** | **$ (646,545)** |
| Common shares issued for private placement (note 8(b)(i)) | 724,200 | - | - | - | - | 724,200 |
| Warrants issued for private placement (note 8(b)(i)) | (162,583) | - | 162,583 | - | - | - |
| Share issue costs | (55,413) | - | 12,582 | - | - | (42,831) |
| Stock option expired | - | - | - | (10,300) | 10,300 | - |
| Net loss for the period | - | - | - | - | (287,127) | (287,127) |
| **Balance, June 30, 2016** | **$ 1,146,625** | **$ -** | **$ 828,213** | **$ 235,138** | **$ (2,462,279)** | **$ (252,303)** |
| | | | | | | |
| **Balance, December 31, 2016** | **$ 1,822,930** | **$ 240,000** | **$ 260,404** | **$ 291,033** | **$ (2,106,604)** | **$ 507,763** |
| Common shares issued for private placements (note 8(b)(ii)) | 2,024,976 | - | - | - | - | 2,024,976 |
| Warrants issued for private placements (note 8(b)(ii)) | (579,358) | - | 579,358 | - | - | - |
| Share issue costs | (333,622) | - | 108,725 | - | - | (224,897) |
| Change in shares to be issued (note 8(c)) | - | (240,000) | - | - | - | (240,000) |
| Exercise of warrants | 3,037 | - | (937) | - | - | 2,100 |
| Net loss for the period | - | - | - | - | (539,960) | (539,960) |
| **Balance, June 30, 2017** | **$ 2,937,963** | **$ -** | **$ 947,550** | **$ 291,033** | **$ (2,646,564)** | **$ 1,529,982** |

The accompanying notes to the  unaudited condensed interim consolidated financial statements are an integral part of these statements.

## 1. Nature of operations and going concern

Deveron UAS Corp. (formerly Deveron Resources Ltd.) (“Deveron” or the "Company”) was incorporated under the laws of the Province of Ontario on March 28, 2011. On November 27, 2012, Deveron's common shares started trading on the TSX Venture Exchange ("TSXV") under the symbol "DVR". The primary office is located at The Canadian Venture Building, 82 Richmond Street East, Toronto, Ontario, M5C 1P1.

As at June 30, 2017, 33.94% of the Company's issued and outstanding shares are owned by Greencastle Resources Ltd. ("Greencastle") which controls the Company. As such, Deveron is a subsidiary of Greencastle. Further details of Greencastle's share holding interest is disclosed in note 13.

On March 24, 2016, Deveron obtained its Special Flight Operations Certificate (“SFOC”) from Transport Canada. The SFOC permits Deveron to operate small unmanned aerial systems ("UAS", "UAV" or, more commonly, "drones") for the purpose of surveying agricultural land in rural areas of Ontario. Deveron is operating under a standing SFOC which allows Deveron to operate on an annual basis rather than a per flight basis. To use a UAV for work or research in Canada, companies are legally required to hold an SFOC.

On April 13, 2016, Deveron commenced commercial UAS flying for the 2016 agricultural season in Ontario. Deveron also hired additional licensed pilots to operate its fleet of drones.

On July 14, 2016, the Company changed its name from Deveron Resources Ltd. to Deveron UAS Corp., completed the acquisition of 2487473 Ontario Inc. (operating as Eagle Scout Imaging) ("Eagle Scout") (refer to note 3) and the Company's common shares were delisted from the TSXV. On July 19, 2016, the Company's common shares were accepted for listing on the Canadian Securities Exchange ("CSE"), and its common shares commenced trading on the CSE under its existing symbol "DVR".

On July 26, 2016, the Company received authority to operate under a SFOC, for its UAS in Alberta, Saskatchewan and Manitoba as a Restricted Operator - Complex Operations. The SFOC has been issued under the authority of Transport Canada pursuant to the Aeronautics Act. Under its SFOC, Deveron received approvals to expand into Western Canada with up to four different pieces of hardware.

A Standing SFOC is issued to allow operations within a defined geographical boundary (e.g. province) and removes the requirement to submit individual sites for prior approval, subject to certain conditions. A Standing SFOC is not issued until the UAV operator has gained sufficient experience and demonstrates a history of safe operations.

On March 7, 2017, the Company announced a multi-year commitment to working with Thompson Ltd. to provide leading-edge remote sensing data solutions to its growers. The contract is expected to run through 2018.

On May 29, 2017, the Company announced that it was granted approval as a Compliant Operator under its SFOC for the operation of drone within visual line-of-sight, issued under the authority of the Minister, Transport Canada, pursuant to the Aeronautics Act. The certificate is valid for aerial data collection and surveying throughout Canada, and meets the highest level of approvals under Transport Canada's regulatory environment related to UAV activities.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. Certain principal conditions and events are prevalent which indicate that there could be significant doubt about the Company’s ability to continue as a going concern for a reasonable period of time. These include: (i) recurring operating losses and (ii) inability to obtain additional financing. The ability of the Company to fund its potential operations and commitments is dependent upon the ability of the Company to obtain additional financing.

## 2. Significant accounting policies

*(a) Statement of compliance*

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 9, 2017, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2016. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2017 could result in restatement of these unaudited condensed interim consolidated financial statements.

*(b) Recent accounting pronouncements*

(i) IFRS 9 - Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 and will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In October 2010, the IASB added requirements for financial liabilities to IFRS 9. These requirements were largely carried forward from the existing requirements in IAS 39, however, fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

In November 2013, the IASB amended IFRS 9 to include a new general hedge accounting model.

In July 2014, the IASB issued the final version IFRS 9 that supersedes the requirements of earlier versions of the standard. The new standard will replace both IAS 39 and IFRIC 9 - Reassessment of Embedded Derivatives. The standard will retain the classification and measurements requirements and new hedge accounting model introduced by the previous versions while introducing a single forward-looking expected credit loss impairment model. The final version of this new standard is effective for annual periods beginning on or after January 1, 2018. The Company is still in the process of assessing the impact of this pronouncement.

(ii) In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") to replace IAS 18 - Revenue and IAS 11 - Construction Contracts and the related interpretations on revenue recognition. The new revenue standard introduces a single, principles based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The five steps are identify the contract(s) with the customer, identify the performance obligations in the contract, determine transaction price, allocate the transaction price and recognize revenue when the performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers and improves the comparability of revenue from contracts with customers. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

**(Expressed in Canadian Dollars)**

## 2. Significant accounting policies (continued)

*(b) Recent accounting pronouncements (continued)*

(iii) IFRS 16 - Leases ("IFRS 16") was issued on January 13, 2016 to require lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 - Leases.

The IASB issued its standard as part of a joint project with the Financial Accounting Standards Board ("FASB"). The FASB has not yet issued its new standard, but it is also expected to require lessees to recognize most leases on their statement of financial position.

The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16.

## 3. Acquisition of Eagle Scout

On February 19, 2016, Deveron entered into a definitive arm's length share exchange agreement (the "SEA") to acquire all of the issued and outstanding shares of Eagle Scout, a private company existing under the laws of the Province of Ontario. Eagle Scout uses the advanced UAV along with hardware, camera, sensor and software technologies to collect crop data and provide solutions to farmers.

On July 14, 2016, the Company acquired all of the issued and outstanding shares of Eagle Scout pursuant to the term of the SEA (the "Acquisition"). As a result, Eagle Scout is a wholly-owned subsidiary of the Company and Deveron owns 100% of the Eagle Scout shares and its assets. In connection with completion of the Acquisition, Eagle Scout shareholders received (a) 1,700,001 common shares of Deveron valued at $0.24 per common share; and (ii) 850,000 common share purchase warrants of the Company (the "Payment Warrants"). Each Payment Warrant entitles the holder thereof to acquire one common share at a price of $0.40 for a period of two years from the date of issuance. As additional consideration, Deveron may issue one (1) common share (each, an "Additional Payment Share") for each $1.00 of gross revenue earned during each of the four fiscal years ending after the date hereof (each, an "Earn-out Period"), to a maximum of 1,000,000 common shares in the aggregate. The Additional Payment Shares will be issued in up to four installments on each date that is no later than five (5) business days following the date on which Deveron files its audited annual consolidated financial statements for the applicable Earn-out Period.

The allocation of the purchase price is as follows:

| **Purchase price allocation** | | |
|---|---|---|
| Issuance of common shares (i) | $ | 408,000 |
| Issuance of Payment Warrants (ii) | | 85,239 |
| Additional Payment Shares (iii) | | 240,000 |
| **Total consideration** | $ | 733,239 |

| **Allocation of purchase price** | | |
|---|---|---|
| Cash | $ | 8,801 |
| Amounts receivable and other assets | | 2,664 |
| Promissory notes receivable (iv) | | 101,243 |
| Property, plant and equipment | | 8,450 |
| Goodwill | | 612,741 |
| Amounts payable and other liabilities | | (660) |
| **Eagle Scout net assets received** | $ | 733,239 |

**(Expressed in Canadian Dollars)**

## 3. Acquisition of Eagle Scout (continued)

(i) For the purpose of determining the value of the purchase price consideration, the 1,700,001 common shares were valued at $0.24 per share based on Deveron's closing price as of July 14, 2016.

(ii) The fair value of Deveron's 850,000 Payment Warrants was estimated to be $85,239 using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - $0.24; exercise price of $0.40; dividend yield - 0%; expected volatility (based on historical price data of the Company's common share) - 103.38%; risk-free interest rate - 0.54%; and an expected life - 2 years.

(iii) Management estimated that the Additional Payment Shares of 1,000,000 common shares will be issued and were valued at $0.24 (based on Deveron close price at July 14, 2016) per share, for a total contingent consideration of $240,000 which was determined by estimating the probability of future gross revenue during the Earn-out Period. This contingent consideration is included in the purchase price consideration. Refer to note 8(c).

(iv) The promissory notes receivable was due from Deveron.

## 4. Amounts receivable and other assets

| | As at June 30, 2017 | As at December 31, 2016 |
|---|---|---|
| Sales tax receivable - (Canada) (i) | **$ 68,171** | $ 34,746 |
| Account receivable - drone income | **75,493** | 8,830 |
| Account receivable - sale of Boreal Agrominerals Inc. ("Boreal") (note 6) | **-** | 90,000 |
| Prepaids | **335,755** | 23,346 |
| | **$ 479,419** | $ 156,922 |

(i) Sales tax receivable is not past due.

## 5. Property, plant and equipment

| COST | Computer equipment | Drones | Total |
|---|---|---|---|
| **Balance, December 31, 2016** | **$ 15,048** | **$ 113,612** | **$ 128,660** |
| Additions | 17,145 | 157,751 | 174,896 |
| **Balance, June 30, 2017** | **$ 32,193** | **$ 271,363** | **$ 303,556** |

| ACCUMULATED DEPRECIATION | Computer equipment | Drones | Total |
|---|---|---|---|
| **Balance, December 31, 2016** | **$ 3,386** | **$ 41,193** | **$ 44,579** |
| Depreciation | 3,543 | 49,059 | 52,602 |
| **Balance, June 30, 2017** | **$ 6,929** | **$ 90,252** | **$ 97,181** |

| CARRYING AMOUNT | Computer equipment | Drones | Total |
|---|---|---|---|
| **Balance, December 31, 2016** | **$ 11,662** | **$ 72,419** | **$ 84,081** |
| **Balance, June 30, 2017** | **$ 25,264** | **$ 181,111** | **$ 206,375** |

## 6. Long-term investments

On April 4, 2013, and May 27, 2013, Deveron acquired 1,000,000 and 2,000,000 common shares respectively, for a total of 3,000,000 common shares of Boreal for $600,000. The investment represents a 13.6% interest in Boreal.

Boreal is a private company that owns and operates a carbonatite quarry near Sudbury, Ontario.

This investment has been categorized as a long-term investment under the category of available-for-sale and was originally measured at cost because there is no active market for Boreal's shares.

During the year ended December 31, 2015, management had decided to record an impairment of $599,999 and as a result the long-term investments carrying value decreased to $1 due to Boreal's inability to advance the project and liquidity issues.

In December 2016, the Company tendered 100% of its shareholdings in Boreal, by exercising their Dissent Rights, to an offer from a third party to acquire 100% of Boreal by Plan of Arrangement. The obligations of Boreal and the purchaser (together the "Parties") to complete the arrangement are subject to the fulfillment of certain mutual conditions precedent, including: (a) the arrangement shall have been duly approved by the Boreal shareholders; (b) the court shall have approved the arrangement by granting the interim order and final order; (c) the Ministry Consent will have been received; (d) no person has filed or communicated to the Parties that they intend to file an appeal of the final order; (e) no governmental entity shall have enacted, issued, promulgated, enforced or entered any law which is then in effect and has the effect of making the arrangement illegal or otherwise preventing or prohibiting consummation of the arrangement; and (f) the arrangement agreement shall not have been terminated in accordance with its terms. There are additional obligations of the Parties to complete the arrangement. However such additional conditions may be waived in whole or in part by the Parties.

The purchaser will pay a total cash purchase price of $0.32 per Boreal share after the payment of certain obligations of Boreal. Such amounts are to be paid in three tranches over a 12 month period, which could be extended by the purchaser to a 24 month period as follows:

- $0.03 per share immediately after December 30, 2016 ("Effective Date")(received in January 2017);
- $0.12 per share on or before the six-month anniversary of the Effective Date (1);
- $0.17 per share on or before the one-year anniversary of the Effective Date, which could be extended to the second anniversary of the Effective Date.

The arrangement agreement calls for total cash consideration to Deveron of $960,000.

During the year ended December 31, 2016, Deveron recorded a gain on long-term investment of $90,000 in the consolidated statements of comprehensive loss, being the amount of consideration for the first tranche of $0.03 per Boreal share.

In January 2017, the Company received $90,000 from the sale of Boreal.

(1) In June 2017, the new owners of Boreal were granted an extension period of three months on the second payment by the Shareholder Representatives of Boreal. Payment #2 was due on June 30, 2017 and now must be paid by September 30, 2017.

**(Expressed in Canadian Dollars)**

## 7. Amounts payable and other liabilities

Amounts payable and other liabilities of the Company are principally comprised of amounts outstanding for purchases relating to general operating activities.

| | | As at June 30, 2017 | | As at December 31, 2016 |
|---|---|---|---|---|
| Amounts payable | **$** | **177,611** | $ | 33,627 |
| Accrued liabilities | | **141,849** | | 20,689 |
| Total amounts payable and other liabilities | **$** | **319,460** | $ | 54,316 |

The following is an aged analysis of the amounts payable and other liabilities:

| | | As at June 30, 2017 | | As at December 31, 2016 |
|---|---|---|---|---|
| Less than 1 month | **$** | **285,760** | $ | 30,836 |
| 1 to 3 months | | **10,218** | | 22,820 |
| greater than 3 months | | **23,482** | | 660 |
| Total amounts payable and other liabilities | **$** | **319,460** | $ | 54,316 |

## 8. Share capital

a) Authorized share capital

The authorized share capital consisted of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued

| | Number of common shares | | Amount |
|---|---|---|---|
| **Balance, December 31, 2015** | **11,794,505** | **$** | **640,421** |
| Private placement (i) | 3,621,000 | | 724,200 |
| Warrant valuation (i) | - | | (162,583) |
| Broker warrant valuation (i) | - | | (12,582) |
| Share issue costs | - | | (42,831) |
| **Balance, June 30, 2016** | **15,415,505** | **$** | **1,146,625** |
| | | | |
| **Balance, December 31, 2016** | **17,837,506** | **$** | **1,822,930** |
| Private placements (ii) | 5,785,644 | | 2,024,976 |
| Warrant valuation (ii) | - | | (579,358) |
| Broker warrant valuation (ii) | - | | (108,725) |
| Share issue costs | - | | (224,897) |
| Exercise of warrants | 10,500 | | 3,037 |
| **Balance, June 30, 2017** | **23,633,650** | **$** | **2,937,963** |

## 8. Share capital (continued)

b) Common shares issued (continued)

(i) On June 23, 2016, Deveron completed a non-brokered private placement financing of 3,621,000 units at a price of $0.20 per unit for gross proceeds of $724,200 (the "Offering").

Each unit is comprised of one common share and one-half of a common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of $0.30 per common share for a period of 24 months from the date of closing of the Offering. The 1,810,500 warrants were valued at $162,583 using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - $0.20; dividend yield - 0%; expected volatility (based on historical price data of the Company's common share) - 104.61%; risk-free interest rate - 0.62%; and an expected life - 2 years.

In connection with the closing of the Offering, the Company paid finder's fees of $28,210 in cash and issued 141,050 non-transferable finder's warrants. Each finder warrant entitles the holder thereof to purchase one share at a price of $0.20 for a period of 18 months from the date of closing of the Offering. The 141,050 finder warrants were valued at $12,582 using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - $0.20; dividend yield - 0%; expected volatility (based on historical price data of the Company's common share) - 95.96%; risk-free interest rate - 0.62%; and an expected life - 1.5 years.

(ii) On April 21, 2017, the Company completed the first tranche of a brokered private placement of 3,739,288 units at a price of $0.35 per unit, for aggregate gross proceeds of $1,308,751. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of $0.50 per warrant for a period of 18 months after the closing of this first tranche. The 1,869,642 warrants were valued at $378,517 using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - $0.35; dividend yield - 0%; expected volatility (based on historical price data of the Company's common share) - 150.13%; risk-free interest rate - 0.70%; and an expected life - 1.5 years.

As consideration for the services provided for the first tranche, the agents received a cash commission equal to in the aggregate $117,788 and an aggregate of 336,535 compensation warrants. Each compensation warrant entitles the holder thereof to purchase one common share at an exercise price of $0.35 for a period of 18 months after the closing of the first tranche. The 336,535 compensation warrants were valued at $75,876 using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - $0.35; dividend yield - 0%; expected volatility (based on historical price data of the Company's common share) - 150.13%; risk-free interest rate - 0.70%; and an expected life - 1.5 years.

On June 2, 2017, the Company completed its second and final tranche of the brokered private placement of 2,046,356 units for gross proceeds of $716,225. 1,023,176 warrants were issued and valued at $200,841 using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - $0.35; dividend yield - 0%; expected volatility (based on historical price data of the Company's common share) - 145.49%; risk-free interest rate - 0.69%; and an expected life - 1.5 years.

As consideration for the services provided for the second and final tranche, the agents received cash commissions equal to the aggregate of $52,210 and an aggregate of 149,172 compensation warrants. The 149,172 Compensation Warrants were valued at $32,849 using the Black-Scholes option pricing model. The following weighted average assumptions were used: share price - $0.35; dividend yield - 0%; expected volatility (based on historical price data of the Company's common share) - 145.49%; risk-free interest rate - 0.69%; and an expected life - 1.5 years.

All securities issued in connection with the first and second tranche of the brokered private placement are subject to a hold period until four months and a day from the date of closing.

**(Expressed in Canadian Dollars)**

## 8. Share capital (continued)

(c) Shares to be issued

As at June 30, 2017, the Company is committed to issue nil common shares (December 31, 2016 - 44,097 common shares) as Additional Payment Shares according to the Acquisition. During the six months ended June 30, 2017, the agreement was amended to remove the Additional Payment Shares consideration which resulted in a gain on debt settlement of $240,000 recorded in the unaudited condensed interim consolidated statement of comprehensive loss. Refer to note 3.

## 9. Stock options

The following table reflects the continuity of options for the periods ended June 30, 2017 and 2016:

| | Number of options | Weighted average exercise price ($) |
|---|---|---|
| **Balance, December 31, 2015** | **1,175,000** | **0.25** |
| Expired | (50,000) | 0.25 |
| **Balance, June 30, 2016** | **1,125,000** | **0.25** |
| | | |
| **Balance, December 31, 2016 and June 30, 2017** | **1,500,000** | **0.25** |

Details of the stock options outstanding as at June 30, 2017 are as follows:

| Fair value ($) | Weighted average remaining contractual life (years) | Exercisable options | Number of options | Weighted average exercise price ($) | Expiry date |
|---|---|---|---|---|---|
| 10,451 | 0.25 | 50,000 | 50,000 | 0.25 | September 28, 2017 |
| 219,462 | 0.42 | 1,050,000 | 1,050,000 | 0.25 | November 29, 2017 |
| 61,120 | 2.04 | 400,000 | 400,000 | 0.25 | July 14, 2019 |
| 291,033 | 0.84 | 1,500,000 | 1,500,000 | 0.25 | |

## 10. Warrants

The following table reflects the continuity of warrants for the periods ended June 30, 2017 and 2016:

| | Number of warrants | Weighted average exercise price ($) |
|---|---|---|
| **Balance, December 31, 2015** | **7,256,090** | **0.30** |
| Issued (note 8(b)(i)) | 1,951,550 | 0.29 |
| **Balance, June 30, 2016** | **9,207,640** | **0.30** |
| | | |
| **Balance, December 31, 2016** | **2,801,550** | **0.33** |
| Issued for private placement (note 8(b)(ii)) | 3,378,525 | 0.48 |
| Exercised | (10,500) | 0.20 |
| **Balance, June 30, 2017** | **6,169,575** | **0.41** |

**(Expressed in Canadian Dollars)**

### 10. Warrants (continued)

The following table reflects the warrants issued and outstanding as of June 30, 2017:

| Number of warrants outstanding | Fair value ($) | Exercise price ($) | Expiry date |
|---|---|---|---|
| 130,550 | 11,645 | 0.20 | December 23, 2017 |
| 1,810,500 | 162,583 | 0.30 | June 23, 2018 |
| 850,000 | 85,239 | 0.40 | July 14, 2018 |
| 1,869,642 | 378,517 | 0.50 | October 21, 2018 |
| 336,535 | 75,876 | 0.35 | October 21, 2018 |
| 1,023,176 | 200,841 | 0.50 | December 2, 2018 |
| 149,172 | 32,849 | 0.35 | December 2, 2018 |
| 6,169,575 | 947,550 | | |

### 11. Net loss per common share

The calculation of basic and diluted loss per share for the three and six months ended June 30, 2017 was based on the loss attributable to common shareholders of $620,203 and $539,960, respectively (three and six months ended June 30, 2016 - $230,297 and $287,127, respectively) and the weighted average number of common shares outstanding of 21,305,763 and 19,601,672, respectively (three and six months ended June 30, 2016 - 12,069,269 and 11,934,158, respectively). Diluted loss per share for the periods presented did not include the effect of 6,169,575 warrants (three and six months ended June 30, 2016 - 9,207,640 warrants) and 1,500,000 stock options (three and six months ended June 30, 2016 - 1,125,000 stock options) as they are anti-dilutive.

### 12. Cost of services

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Salaries and benefits | **$ 21,544** | $ - | **$ 31,544** | $ - |
| Travel | **6,384** | - | **8,272** | - |
| Consulting fees | **6,489** | - | **6,489** | - |
| Office and general | **5,801** | - | **5,801** | - |
| Drone data collection | **2,339** | - | **2,339** | - |
| Cost of services | **$ 42,557** | $ - | **$ 54,445** | $ - |

### 13. Major shareholder and related party transactions

**Major shareholder**

The Company is controlled by Greencastle. At June 30, 2017, Greencastle owned and/or exercised control over 8,021,005 common shares (December 31, 2016 - 9,228,005 common shares) of Deveron, representing approximately 33.94% (December 31, 2016 - 51.73%) of the issued and outstanding common shares of the Company. The remaining 66.06% (December 31, 2016 - 48.27%) of the shares are widely held, which includes various small holdings which are owned by directors of Deveron. These holdings can change at any time at the discretion of the owner.

The Company's major shareholder does not have different voting rights than other holders of the Company's common shares.

## 13. Major shareholder and related party transactions (continued)

### Major shareholder (continued)

The Company is not aware of any arrangements that may at a subsequent date result in a change in control of the Company. To the knowledge of the Company, other than Greencastle, which owns or controls, directly or indirectly, approximately 33.94% (December 31, 2016 - 51.73%) of the issued and outstanding shares of the Company, the Company is not directly or indirectly owned or controlled by another corporation, by any government or by any natural or legal person severally or jointly.

### Related party transactions

During the three and six months ended June 30, 2017, the Company incurred professional fees of $8,021 and $15,389, respectively (three and six months ended June 30, 2016 - $7,313 and $14,836, respectively) to Marrelli Support Services Inc. (“Marrelli Support”), an organization of which Carmelo Marrelli is president. Mr. Marrelli is the Chief Financial Officer ("CFO") of Deveron. These services were incurred in the normal course of operations for general accounting and financial reporting matters. Marrelli Support also provides bookkeeping services to the Company. All services were made on terms equivalent to those that prevail with arm's length transactions. As at June 30, 2017, Marrelli Support is owed $2,700 (December 31, 2016 - $8,834) and this amount is included in amounts payable and other liabilities.

During the three and six months ended June 30, 2017, the Company incurred professional fees of $3,561 and $6,772, respectively (three and six months ended June 30, 2016 - $2,843 and $6,289, respectively) to DSA Corporate Services Inc. ("DSA"), an organization of which Mr. Marrelli controls. Mr. Marrelli is also the corporate secretary and sole director of DSA. These services were incurred in the normal course of operations for corporate secretarial matters. All services were made on terms equivalent to those that prevail with arm's length transactions. As at June 30, 2017, DSA is owed $875 (December 31, 2016 - $748) and this amount is included in amounts payable and other liabilities.

During the three and six months ended June 30, 2017, the Company also incurred legal fees of $38,328 (three and six months ended June 30, 2016 - $17,205 and $32,205, respectively) to Irwin Lowy LLP for legal services. Chris Irwin is the controlling party of Irwin Lowy LLP and a director of Deveron. Included in the June 30, 2017 amounts payable and other liabilities is $61,149 due to Irwin Lowy LLP (December 31, 2016 - $28,241).

During the three and six months ended June 30, 2017, salaries and benefits of $47,500 and $75,000, respectively (three and six months ended June 30, 2016 - $55,000) were paid to the Chief Executive Officer ("CEO") and director of the Company. Included in the June 30, 2017 amounts payable and other liabilities is $27,310 due to the CEO and director of the Company (December 31, 2016 - $2,025).

In connection with the Offering completed on June 23, 2016 (refer to note 8(b)(i)), the following transactions occurred:

- C. Marrelli Services Limited, an entity controlled by Carmelo Marrelli, the CFO of the Company, subscribed for 25,000 units of the Company; and
- Greencastle subscribed for 875,000 units of the Company.

In connection with the second tranche completed on June 2, 2017 (refer to note 8(b)(ii)), the following transaction occurred:

- Greencastle subscribed for 500,000 units of the Company.

## 13. Major shareholder and related party transactions (continued)

### Related party transactions (continued)

Greencastle loaned Deveron $500,000 which bears interest at prime plus 5.3% and is due on demand. As security for the loans, Deveron granted Greencastle a security interest over all assets of the Company. The carrying value of all the assets are $2,349,442, being the value of cash, amounts receivable and other assets, property, plant and equipment, long-term investments and goodwill. Included in due to related party as at June 30, 2017 is $500,000 due to Greencastle (December 31, 2016 - $500,000). For the three and six months ended June 30, 2017, interest of $9,973 and $19,836, respectively (three and six months ended June 30, 2016 - $7,669 and $14,700, respectively) was recorded and included in interest expense in the unaudited condensed interim consolidated statements of comprehensive loss.

During the three and six months ended June 30, 2017, the Company incurred rent expense of $7,500 and $15,000, respectively (three and six months ended June 30, 2016 - $30,000) to Greencastle which is included in office and general in the unaudited condensed interim consolidated statements of comprehensive loss.

During the three and six months ended June 30, 2017, the Company incurred consulting expense of $175,000 (three and six months ended June 30, 2016 - $nil) to Greencastle which is included in consulting fees in the unaudited condensed interim consolidated statements of comprehensive loss. These fees are related to Greencastle providing an option to purchase one million shares of the Company at $0.30 to the Head - UAS Agriculture of the Company.

During the three and six months ended June 30, 2017, the Company reimbursed salaries and benefits of $nil (three and six months ended June 30, 2016 - $39,000) to Greencastle which is included in salaries and benefits in the condensed interim consolidated statements of comprehensive loss.

## 14. Segmented information

As at June 30, 2017, the Company's operations comprise one reporting operating segment: drone data services in Canada. As the operation comprise a single reporting segment, amounts disclosed in the unaudited condensed interim consolidated financial statements also represent segmented amounts.

## 15. Events after the reporting period

(i) On July 4, 2017, the Company announced that it will be flying more farm acres with drones in collaboration with FS PARTNERS ("FSP"), a division of GROWMARK, Inc. FSP is a leading agronomy service provider in Ontario with six hubs that span across the province. FSP will now offer Deveron's on-demand drone data service to its customers across Ontario.

(ii) On July 20, 2017, the Company announced that it begun working with a global leader in the crop protection industry using drones to support their production activities. The project has commenced in Ontario using the Company's growing network of standardized drones and sensors. The study pilot will run through to the completion of the 2017 grow season. The goal of the pilot study is to continue to validate the positive applications of drone data in farming. Deveron is handling all data collection, processing and logistics for the pilot study.