



**URTHECAST CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
For the years ended December 31, 2017 and 2016



April 2, 2018

## **Independent Auditor's Report**

### **To the Shareholders of UrtheCast Corp.**

We have audited the accompanying consolidated financial statements of UrtheCast Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of UrtheCast Corp. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of UrtheCast Corp. to continue as a going concern.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Professional Accountants**

**UrtheCast Corp.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
As at December 31, 2017 and 2016  
(in thousands of Canadian dollars)

	2017	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 23,206	\$ 8,107
Restricted term deposits (Note 6)	9,774	7,495
Trade and other receivables (Note 7)	27,303	38,233
Prepaid expenses and deposits (Note 8)	1,981	1,310
<b>Total current assets</b>	<b>62,264</b>	<b>55,145</b>
<b>Non-current assets</b>		
Property and equipment (Note 9)	43,373	59,415
Intangible assets (Note 10)	57,946	54,713
Goodwill (Note 11)	5,927	5,555
Deferred income tax assets (Note 21(b))	4,764	1,362
<b>Total assets</b>	<b>\$ 174,274</b>	<b>\$ 176,190</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Trade and other payables	\$ 16,780	\$ 17,754
Income taxes payable	584	495
Other financial liabilities (Note 12)	247	1,654
Bank loans (Note 13)	10,771	-
Current portion of long-term debt (Note 14)	12,095	5,586
Deferred revenue (Note 15)	2,043	10,761
<b>Total current liabilities</b>	<b>42,520</b>	<b>36,250</b>
<b>Non-current liabilities</b>		
Other financial liabilities (Note 12)	5,749	5,480
Long-term debt (Note 14)	23,533	25,277
Deferred revenue (Note 15)	279	2,008
<b>Total liabilities</b>	<b>72,081</b>	<b>69,015</b>
<b>Shareholders' equity</b>		
Share capital (Note 16(a))	216,633	193,918
Contributed surplus and other reserves	9,634	9,372
Accumulated other comprehensive income	6,536	2,748
Accumulated deficit	(130,610)	(98,863)
<b>Total shareholders' equity</b>	<b>102,193</b>	<b>107,175</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 174,274</b>	<b>\$ 176,190</b>

Corporate Information and Going Concern (Note 1)  
Commitments (Note 27)

Approved on behalf of the Board:

"SIGNED"

James Topham, Director

"SIGNED"

Greg Nordal, Director

The accompanying notes form an integral part of these consolidated financial statements

**UrtheCast Corp.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
For the years ended December 31, 2017 and 2016  
(in thousands of Canadian dollars, except for per share amounts)

	2017	2016
<b>Revenue</b> (Note 18(a))	<b>\$ 40,393</b>	<b>\$ 111,252</b>
<b>Other operating income</b> (Note 19)	<b>338</b>	<b>985</b>
	<b>40,731</b>	<b>112,237</b>
<b>Operating costs</b> (Note 22)		
Direct costs, selling, general and administrative expenses	42,957	56,021
Research expenditures	927	4,915
Depreciation and amortization	17,045	66,128
Asset impairment (Note 9(a))	9,399	10,865
Share-based payments (Note 17)	2,643	2,594
	<b>72,971</b>	<b>140,523</b>
<b>Operating loss</b>	<b>(32,240)</b>	<b>(28,286)</b>
<b>Other income (expenses)</b>		
Finance income	127	126
Finance costs	(2,209)	(2,115)
Gain (loss) on derivative financial instruments (Note 23(e))	1,561	(1,578)
Foreign exchange (loss) gain	(2,053)	400
<b>Loss before income taxes</b>	<b>(34,814)</b>	<b>(31,453)</b>
Income tax recovery (Note 21(a))	3,067	2,141
<b>Net loss</b>	<b>(31,747)</b>	<b>(29,312)</b>
<b>Other comprehensive income (loss):</b>		
Items that may subsequently be reclassified to net loss:		
Foreign currency translation gain (loss)	3,788	(4,486)
<b>Comprehensive loss</b>	<b>\$ (27,959)</b>	<b>\$ (33,798)</b>
<b>Loss per common share, basic and diluted</b> (Note 25)	<b>\$ (0.27)</b>	<b>\$ (0.28)</b>

The accompanying notes form an integral part of these consolidated financial statements

**UrtheCast Corp.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the years ended December 31, 2017 and 2016  
(in thousands of Canadian dollars)

2017	Share capital (Note 16(a))	Reserves		Accumulated other comprehensive income	Accumulated deficit	Total
		Warrants (Note 16(b))	Contributed surplus			
<b>December 31, 2016</b>	<b>\$ 193,918</b>	<b>\$ 165</b>	<b>\$ 9,207</b>	<b>\$ 2,748</b>	<b>\$ (98,863)</b>	<b>\$ 107,175</b>
Net loss for the year	-	-	-	-	(31,747)	(31,747)
Share capital issued	19,550	-	-	-	-	19,550
Share issue costs	(1,555)	-	-	-	-	(1,555)
Share-based payments (Note 17)	-	-	3,298	-	-	3,298
Stock options exercised	2,543	-	(859)	-	-	1,684
Shares issued for vested restricted share units	2,177	-	(2,177)	-	-	-
Foreign currency translation	-	-	-	3,788	-	3,788
<b>December 31, 2017</b>	<b>\$ 216,633</b>	<b>\$ 165</b>	<b>\$ 9,469</b>	<b>\$ 6,536</b>	<b>\$ (130,610)</b>	<b>\$ 102,193</b>

2016	Share capital (Note 16(a))	Reserves		Accumulated other comprehensive income	Accumulated deficit	Total
		Warrants (Note 16(b))	Contributed surplus			
December 31, 2015	\$ 190,862	\$ 269	\$ 8,847	\$ 7,234	\$ (69,551)	\$ 137,661
Net loss for the year	-	-	-	-	(29,312)	(29,312)
Share-based payments (Note 17)	-	-	3,290	-	-	3,290
Stock options exercised	34	-	(12)	-	-	22
Shares issued for vested restricted share units	3,022	-	(3,022)	-	-	-
Warrants expired	-	(104)	104	-	-	-
Foreign currency translation	-	-	-	(4,486)	-	(4,486)
December 31, 2016	\$ 193,918	\$ 165	\$ 9,207	\$ 2,748	\$ (98,863)	\$ 107,175

The accompanying notes form an integral part of these consolidated financial statements

**UrtheCast Corp.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2017 and 2016  
(in thousands of Canadian dollars)

	2017	2016
<b>Cash flows from (used in) operating activities</b>		
Net loss for the year	\$ (31,747)	\$ (29,312)
Items not affecting operating cash flows		
Non-cash revenue (Note 9(a))	-	(61,344)
Non-cash operating expenses (Note 9(a))	-	15,680
Depreciation of property and equipment (Note 9)	11,856	59,409
Amortization of intangible assets (Note 10)	5,189	6,719
Asset impairment (Note 9(a))	9,399	10,865
Share-based payments (Note 17)	2,643	2,594
Finance income	(127)	(126)
Finance costs	2,209	2,115
Unrealized (gain) loss on derivative financial instruments	(1,430)	1,578
Loss on disposal of property and equipment	40	-
Unrealized foreign exchange loss	417	652
Income tax recovery	(3,067)	(2,141)
Income taxes and interest paid, net (Note 26(b))	(798)	(997)
Changes in operating assets and liabilities (Note 26(a))	7,100	(25,585)
<b>Net cash from (used in) operating activities</b>	<b>1,684</b>	<b>(19,893)</b>
<b>Cash flows used in investing activities</b>		
Acquisition of property and equipment (Note 9)	(230)	(663)
Disposals of property and equipment (Note 9)	20	-
Expenditures on intangible assets (Note 10)	(21,420)	(12,239)
Proceeds from government grants (Note 10(a))	5,893	1,640
Proceeds from insurance claim	-	7,307
<b>Net cash used in investing activities</b>	<b>(15,737)</b>	<b>(3,955)</b>
<b>Cash flows (used in) from financing activities</b>		
Proceeds from share issuance, net (Note 16(a))	17,994	-
Proceeds from bank loans (Note 13)	10,749	-
Proceeds from long-term debt (Note 14)	2,514	618
Repayment of long-term debt (Note 14)	(38)	(5,662)
Interest paid on bank loans and long-term debt	(1,107)	(1,029)
Reduction in other financial liabilities (Note 12)	(439)	(642)
Proceeds from stock options exercised (Note 16(a))	1,684	22
(Purchase) redemption of restricted term deposits, net (Note 6)	(1,805)	4,327
<b>Net cash generated from (used in) financing activities</b>	<b>29,552</b>	<b>(2,366)</b>
<b>Net increase (decrease) in cash during the year</b>	<b>15,499</b>	<b>(26,214)</b>
<b>Cash at beginning of year</b>	<b>8,107</b>	<b>34,984</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(400)</b>	<b>(663)</b>
<b>Cash at end of year</b>	<b>\$ 23,206</b>	<b>\$ 8,107</b>

The accompanying notes form an integral part of these consolidated financial statements

## **1. CORPORATE INFORMATION AND GOING CONCERN**

UrtheCast Corp. (the "Company") is a Vancouver-based technology company that serves the rapidly evolving geospatial and geoanalytics markets with a wide range of information-rich products and services. The Company operates Earth Observation ("EO") sensors in space, through its subsidiary Deimos Imaging, including two satellites, Deimos-1 and Deimos-2, to produce imagery data for partners and customers in multiple markets. UrtheCast processes and distributes imagery data and value-added products on behalf of the PanGeo Alliance, a network of seven satellite operators with a combined 13 medium and high resolution EO sensors. UrtheCast is also developing and expects to launch two EO satellite constellations: the world's first fully-integrated constellation of 16 multispectral optical and synthetic aperture radar ("SAR") satellites, called OptiSAR™; and a six-satellite constellation designed to capture high-quality, medium-resolution optical imagery of the Earth's landmass, excluding Antarctica, every day, called UrtheDaily™.

Common shares of UrtheCast trade on the Toronto Stock Exchange ("TSX") under the symbol "UR".

The Company's office and principal place of business is located at #33 - 1055 Canada Place, Vancouver, BC, V6C 0C3.

These 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. In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, management must estimate future cash flows for a period of at least, but not limited to, twelve months following the end of the reporting period by considering relevant information about the future.

The Company has a history of operating losses (2017 - \$32,240, 2016 - \$28,236) and generating insufficient cash flows from operations to fund its activities (2017 - inflows of \$1,684, 2016 - outflow of \$19,893). Based on the Company's forecasted cash flows for the next twelve months, given an ongoing delay to secure a major contract award and the required principal repayments of its long-term debt in 2018, the Company's current cash flow from operations may not be sufficient to cover its commitments, obligations and operating costs for at least the next twelve months.

The Company's ability to continue as a going concern is dependent upon its ability to generate cash flows from operations and to complete the negotiations to obtain and successfully close additional funding from the debt financing, equity financings or through other arrangements. While the Company has been successful in arranging financing in the past, there can be no assurance the debt financing or any equity offering will be completed on the terms currently being negotiated or at all. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

The Company is continuing the negotiations with the previously selected institutional investor to close the previously announced US\$142,000 debt financing for the UrtheDaily Constellation. Securing the financing is subject to obtaining subordinated capital or equity financing in the amount of US\$25,000, approval by the Company's Board of Directors, the completion of final documentation and other customary closing conditions. The Company is in the process of negotiating a private placement of securities to satisfy the initial US\$25,000 of subordinated capital required. The Company intends to apply for the financial hardship exemption with the TSX in respect of this offering. Certain conditions will need to be met prior to the first drawdown of the debt financing. The Company has not, as of the date of the financial statements, secured the required level of subordinated capital or equity financing to secure the financing or the minimum amount of binding annual revenue commitments to complete the first drawdown. If successful in securing the UrtheDaily financing, a portion of the financing is expected to be available for general working capital purposes.

## **2. BASIS OF PREPARATION**

### **a) Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Certain prior year financial information has been reclassified to conform with the presentation in the current year.

These consolidated financial statements were authorized for issue by the Board of the Directors on April 2, 2018.



**UrtheCast Corp.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars, except number of shares and per share amounts)

**b) Basis of Measurement**

These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and certain items of property and equipment and intangible assets, which are recorded at fair value, as explained in Note 3.

**c) Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Canadian dollar is the predominant currency of the parent Company's transactions and cash flows.

The Company and its subsidiaries use the Canadian dollar, Euro and the United States dollar, respectively, as their functional currency, based on the predominant currency of each entity's transactions and cash flows, which are then translated into the Canadian dollar presentation currency.

**d) Use of Estimates and Judgments**

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to the years presented in these consolidated financial statements.

**a) Basis of consolidation**

The following entities have been consolidated within the Company's financial statements:

<b>Entity</b>	<b>Registered</b>	<b>Holding</b>	<b>Status</b>
UrtheCast Corp.	Ontario, Canada	Parent	Active
UrtheCast USA Inc.	Delaware, United States	100% owned	Active
UrtheCast International Corp.	British Columbia, Canada	100% owned	Active
UrtheCast Imaging, S.L.U.	Spain	100% owned	Active
Deimos Imaging, S.L.U.	Spain	100% owned	Active
DOT Imaging, S.L.U.	Spain	100% owned	Active
UrtheCast Holdings (Malta) Limited	Malta	100% owned	Active
UrtheCast Investments (Malta) Limited	Malta	100% owned	Active
Space Video Company LLC	Federation of Russia	100% owned	Inactive
UrtheCast (Barbados) Holding Inc.	Barbados	100% owned	Inactive
Holland Operating Corp.	Alabama, United States	100% owned	Inactive

The subsidiaries are controlled by the Company. Control exists when the Company is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

**b) Cash**

Cash is comprised of unrestricted balances on deposit with financial institutions.

**c) Foreign Currency Transactions**

In preparing the individual financial statements, transactions in currencies other than the entity's functional currency are recorded at the exchange rate at the date of the transaction. At each statement of financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the exchange rate prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisitions, are translated into Canadian dollars at the exchange rate prevailing at the end of the reporting date. Income and expenses of foreign operations are translated at average exchange rates for the period. Exchange differences recognized in the profit/(loss) of the Company's separate entity level financial statements on the translation of monetary items forming part of the Company's net investment in the foreign operation are reclassified on consolidation to other comprehensive income/(loss) in the cumulative foreign currency translation difference.

**d) Business Combinations**

Business combinations are accounted for using the acquisition method when control is transferred to the Company. The fair value of the consideration transferred in the acquisition is allocated to the net identifiable assets acquired. The fair value of the net identifiable assets acquired is determined using valuation techniques that require estimation of replacement costs, future net cash flows and discount rates. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred except for costs related to the issuance of Common Shares, which are recorded in Share Capital.

**e) Property and Equipment**

On initial recognition, property and equipment are valued at cost, which is the purchase price or the cost of construction and the costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management. These directly attributable costs include transportation, insurance, installation and assembly, testing to confirm that the asset is functioning properly, appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing the assets. Computer software that is an integral part of the related hardware of the camera equipment is included in the cost of the property and equipment. Property and equipment acquired in a business acquisition are initially recognized at their fair value at the acquisition date.

Premiums associated with the insurance coverage for the launch and in-orbit commissioning of cameras and satellites are capitalized as part of the cost of the equipment and are amortized over their estimated useful lives. If the equipment were to be damaged during the launch or in-orbit commissioning phase, the resulting loss would be charged to the statement of comprehensive loss in the period in which it is determined that the satellite is not recoverable. The amount of any such loss would be reduced to the extent of any insurance proceeds received. In the event of a partial loss claim, the asset is assessed for impairment and any resulting loss would be reduced by the insurance proceeds.

Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. Subsequent costs, including replacement of parts and major maintenance and repairs, are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are charged to profit or loss as incurred.

When costs of certain components of an item of property and equipment are significant in relation to the total cost of the item and the components have different useful lives, they are accounted for and depreciated separately.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains or losses arising on disposal of an asset, determined as the difference between the net proceeds and the carrying account, are recognized within other income in the consolidated statement of loss and comprehensive loss.

Depreciation commences when an asset is available for use and is recognized using rates intended to write off the cost of assets over their estimated useful lives as follows:

Cameras, satellites	Straight line over 7 - 9 years
Antenna and other ground segment equipment	Straight line over 4 - 12 years

**UrtheCast Corp.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars, except number of shares and per share amounts)

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Computer equipment	Straight line over 3 - 4 years
Furniture and fixtures	Straight line over 5 - 10 years
Leasehold improvements	Straight line over the initial term of the lease

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if necessary, as described in (f) below.

**f) Non-Cash Costs**

The Company incurred certain non-cash costs for the launch, installation and ongoing operation and maintenance of the camera equipment onboard the ISS. These services were provided by S.P. Korolev Rocket and Space Company Energia ("Energia"), which is Russia's prime contractor for the ISS, pursuant to a joint project agreement between the Company and Energia, in which Energia agreed to launch, install, operate and maintain the Company's two cameras on the ISS. In return for these contributions to the project, the Company provided Energia with certain rights to the imagery, for use by Russian Government agencies, over the life of the project, which was expected to correspond to the life of the ISS, or 2024.

The Company accounted for this transaction as an exchange of dissimilar services in which revenue is generated. The value of the launch and installation services provided to the Company by Energia, as well as the value of the operating and maintenance costs during the commissioning phase, was capitalized as property and equipment and is being amortized over the life of the camera equipment. A corresponding amount was recorded as deferred revenue, which the Company began recognizing into income over the term of the agreement once commercial operations commenced in the third quarter of 2015. In addition, the value of ongoing operating and maintenance services was recognized as an operating cost in the period in which the services were provided, with a corresponding amount recognized as revenue. As described in Note 9(a), the agreement with Energia was terminated on December 31, 2016. As a result, the Company accelerated the recognition of deferred revenue and accelerated depreciation on the capitalized launch, installation and commissioning costs in 2016.

**g) Intangible Assets**

Intangible assets with finite lives consist of acquired and internally developed technologies, software and licenses and are capitalized in accordance with the accounting policy in Note 3(e). Development expenditures are capitalized as intangible assets only if the costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete and to use or sell the asset. Development costs are amortized over their estimated useful lives once the assets are available for use.

Intangible assets acquired in a business acquisition that meet the specified criteria for recognition apart from goodwill are initially recognized at their fair value at the acquisition date and are subsequently measured at cost less accumulated amortization and impairment losses. Intangible assets with indefinite useful lives, such as trade names, are subsequently measured at cost less accumulated impairment losses. The cost of a group of intangible assets acquired in a business combination is allocated to the individual assets acquired based on their relative fair values.

Amortization of intangible assets with finite lives commences when an intangible asset is available for use and is recognized using rates intended to write off the cost of these assets over their estimated useful lives as follows.

Technologies and software in use	Straight line over 4-9 years
Customer relationships	Straight line over 7 years
Imagery Archive	Straight line over 3 years

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if necessary.

**h) Goodwill**

Goodwill arising from business acquisitions is initially recognized at the excess of the fair value of the consideration paid over the fair value of the identifiable assets acquired. Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized and is tested annually for impairment or whenever there is an indicator of impairment.

**i) Impairment of Non-Financial Assets**

Property and equipment and intangible assets with finite lives subject to depreciation are reviewed for impairment annually, or more frequently whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management assesses at each reporting date whether there is any indication that an asset may be impaired. In assessing whether an asset is impaired, management considers both internal and external information, such as whether the

asset's market value has declined from the passage of time or use, significant adverse changes have taken place in technology, or in the market, economic or legal environment related to the asset, market rates of return on investment have increased and the carrying amount of net assets is more than the Company's market capitalization.

Goodwill, intangible assets with indefinite lives and intangible assets not yet available for use are reviewed for impairment annually irrespective of whether there is any indication of impairment.

When there are indicators of impairment, or for the annual test required for goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use, management estimates the recoverable amount of the asset, or, if the asset does not generate independent cash flows, of the cash-generating unit ("CGU") to which the asset belongs, in order to determine the extent of any impairment. An impairment loss is recognized in profit or loss when the carrying amount of the asset, or its cash-generating unit, exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. When assessing value in use, the Company estimates the present value of future cash inflows from the continuing use of the asset less cash outflows incurred to generate the cash outflows from continuing use of the asset, discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Discounted cash flow models are used to determine the recoverable amount of the assets. These models are prepared internally. When market transactions for comparable assets are available, these are considered in determining the recoverable amount of assets. Significant assumptions used in preparing discounted cash flow models include prices for imagery products, operating costs, discount rates, foreign exchange rates, tax assumptions, market growth rates and inflation rates. Changes in these inputs may alter the results of impairment testing, the amount of the impairment charges recorded in the income statement and the resulting carrying values of the assets.

#### **j) Leases**

At the inception of an arrangement, the Company determines whether it is or contains a lease, which requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys the right to use the asset.

The Company classifies as finance leases all contracts that, upon their inception, substantially transfer the risks and rewards inherent to ownership of the leased assets. Otherwise they are classified as operating leases and are not recognized in the Company's statement of financial position. Operating leases are recorded as expenditures as they are incurred.

#### **k) Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable, net of discounts. The Company recognizes revenue when the amount of revenue can be measured reliably, when it is probable that future economic benefits will flow to the Company, and when the stage of completion of the transaction and the costs incurred can be measured reliably. The Company's contracts with customers may include multiple deliverables, in which case the consideration received is applied to each separate component based on the applicable revenue recognition criteria.

The Company's revenue is primarily generated from the provision of engineering and value-added services and the sale or licensing of Earth imagery data to customers in the EO industry. Revenue recognition for each type of revenue is described below. Advance payments received from customers are recorded as deferred revenue and are recognized into income on a proportionate basis when the associated services and/or products are provided.

#### **ENGINEERING AND VALUE-ADDED SERVICES**

When engineering and value-added services are provided by an indeterminate number of acts over a specified period of time, the Company recognizes revenue on a straight-line basis over the specified period, which approximates the stage of completion of the project. Other engineering service contracts involving the provision of space hardware are accounted for in accordance with IAS 11, "Construction Contracts", in which revenue is recognized on a percentage of completion basis over the term of the contract. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for the contract. Costs incurred in the current period in connection with future activity on the contract are excluded from contract costs in determining the stage of completion.

**EARTH IMAGERY DATA**

The Company generally recognizes revenue on its Earth imagery data when the order is fulfilled and delivered to the customer. Certain contracts include terms and conditions related to customer acceptance, in which case revenue is recorded upon customer acceptance, or, where acceptance terms are objective, revenue is recognized upon delivery provided that all other revenue recognition criteria have been met. Certain long-term contracts are recognized on a percentage of completion basis, in which revenue is recognized upon the fulfillment of milestones based on the proportion of costs incurred over the total estimated cost to complete the contract. Revenue associated with license extensions is recognized on a straight-line basis over the term of the extension.

**l) Government Grants and Low-Interest Loans**

Government grants from public entities are recognized when there is a reasonable certainty that the conditions for their granting and repayment will be met. Capital grants paid in the form of monetary assets are recognized as deferred revenue in the statement of financial position and are recognized as other income when the corresponding assets are depreciated. Operating grants are recognized directly to other income on the statement of loss and comprehensive loss, or are offset against capitalized development costs, as applicable.

The Company recognizes government contributions when there is reasonable assurance that the contributions will be received and that the Company will comply with all attached conditions. Repayable government contributions are accounted for as interest-bearing long-term debt when the proceeds are received. The Company recognizes the benefit of a government loan at a below-market rate of interest as a government grant. The initial measurement of the accounting liability is discounted using the prevailing market interest rate at the time for an instrument with similar features, such as similar currency, term, type of interest rate, guarantees and credit rating. The difference between the face value and the discounted value of the long-term obligation is accounted for as a government grant, which is recorded as a reduction of the associated internally developed intangible asset.

**m) Equity-settled Share-based Payments**

The Company has a stock option plan and a restricted share unit ("RSU") plan, which are described in Note 17. Share-based awards are measured at fair value on the date of the grant, which for stock options is determined using the Black-Scholes option pricing model and for RSUs is the greater of the closing market price of the Common Shares on the day prior to the grant and the volume weighted average price of the shares for the five trading days prior to the grant date. Management uses judgment to determine the inputs to the Black-Scholes option pricing model, including the expected plan lives, underlying share price volatility and forfeiture rates. The fair value of each tranche is expensed on a straight-line basis over the vesting period. When the terms and conditions of options or RSUs are modified before they vest, any increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

When equity-settled share-based payments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of loss and comprehensive loss, unless they are related to the issuance of shares. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured using the Black-Scholes option pricing model for stock options and for RSUs is the greater of the closing market price of the Common Shares on the day prior to the grant and the volume weighted average price of the shares for the five trading days prior to the grant date.

All equity-settled share options are recorded in contributed surplus until exercised. Upon exercise, shares are issued from treasury and the amount recorded in contributed surplus is credited to share capital, adjusted for any consideration received.

**n) Research Expenditures**

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in loss and comprehensive loss as incurred.

**o) Investment Tax Credits**

The Company is entitled to certain Canadian federal and provincial tax incentives for qualified scientific research and experimental development activities. Investment tax credits are available to the Company to reduce actual income taxes payable and will be recorded in the financial statements when it is probable that such credits will be utilized, which is dependent upon the generation of future taxable income.

**p) Income Taxes**

Income tax expense is comprised of current and deferred taxes. Current and deferred taxes are recognized in the consolidated statement of loss and comprehensive loss except to the extent that they relate to items recognized directly in equity.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets and recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**q) Loss per Share**

Basic loss per share has been calculated using the weighted-average number of common shares outstanding during the period.

Diluted loss per share is calculated by adjusting the loss applicable to common shareholders and the weighted-average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise stock options, restricted share units, share purchase warrants and performance shares issuable to a consultant.

**r) Financial Instruments**

Financial assets and liabilities are classified into one of the following categories based on the purpose for which the asset or liability was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

**FINANCIAL ASSETS**

**Loans and Receivables**

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Company's loans and receivables include cash, restricted term deposits and trade and other receivables.

**Held to Maturity ("HTM")**

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Company has the intention and ability to hold to maturity. They are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method, less any impairment losses. HTM investments are recorded as current assets when the investment matures within twelve months of the end of the reporting period. The Company does not have any HTM instruments.

**Impairment on Financial Assets**

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

## FINANCIAL LIABILITIES

### Financial Liabilities at Fair Value Through Profit and Loss

Financial liabilities at fair value through profit and loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. The Company designates certain liabilities at fair value through profit and loss. Financial instruments included in this category include financial instrument embedded derivatives and derivatives, such as interest rate swaps and foreign exchange forward contracts, entered into by the Company that are not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in the Consolidated Statement of Loss and Comprehensive Loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

### Other Financial Liabilities

Other financial liabilities are non-derivative financial liabilities, which includes finance lease liabilities, that are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Consolidated Statements of Financial Position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

## 4. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

The following is an overview of accounting standard changes that the Company will be required to adopt in 2018 and 2019. The Company will adopt these new accounting standards on their effective dates and is currently in the process of assessing the impact of these standards on its consolidated financial statements.

### a) IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014 and effective for annual periods beginning on or after January 1, 2018, replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. The core principle of the new standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard introduces a five-step model to determine when to recognize revenue and at what amount. Depending on whether certain criteria are met, revenue is recognized either over time, in a manner that depicts the entity's performance, or at a point in time, when control of the goods or services is transferred to the customer. The new standard requires enhanced disclosures, which are intended to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company will adopt IFRS 15 using the modified retrospective approach in its consolidated financial statements for the annual period beginning on January 1, 2018. Under this approach, the Company will recognize any transitional adjustments, if necessary, in retained earnings on the date of initial application of January 1, 2018, without restating prior year comparatives.

Furthermore, the Company will apply the optional practical expedients available for completed contracts and contract modifications. This allows the Company to apply IFRS 15 retrospectively only to contracts that are not considered completed at the date of initial application. A completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. Contracts that were modified before the date of the initial application also do not need to be retrospectively restated for those modifications but need to reflect the aggregate effect of the modifications that occur before the date of initial application.

The Company has completed a review of existing contracts with customers and an assessment of the impact of the adoption of IFRS 15 on its consolidated financial statements, including whether there will be a change in timing and amount of revenue recognition relating to the identification of performance obligations in multiple element arrangements, contract modifications

and financing components. The adoption of the new standard is not expected to result in any transitional adjustments on January 1, 2018. The impact on the timing and amount of revenue recognition for existing revenue contracts on the date of transition is summarized as follows:

- Revenue from the provision of engineering and value-added services, where the pattern of transfer of control to the customer is satisfied over time, will remain largely unchanged;
- Revenue from the sale or licensing of EO data, where the pattern of transfer of control to the customer is satisfied at points in time upon delivery or customer acceptance, will remain largely unchanged;
- Revenue from long-term EO contracts, where the pattern of transfer of control to the customer is satisfied over time on a pattern that reflects the completion of performance obligations, will remain largely unchanged;
- No significant financing elements were identified in existing contracts; however, future long-term contracts where the period between payment and performance exceeds one year will be considered for potential financing elements;
- The treatment of costs incurred in acquiring and fulfilling customer contracts may be impacted as IFRS 15 requires certain incremental costs incurred in obtaining and fulfilling a contract to be recorded as an asset and amortized into expenses over time. Previously, such costs were expensed as incurred; however, the change is not expected to result in a transitional adjustment on January 1, 2018 as the prior amounts that would have been capitalized under the new standard would have been fully amortized by December 31, 2017.

**b) IFRS 9 Financial Instruments**

IFRS 9 is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 was amended in November 2013 to (i) include guidance on hedge accounting, and (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9). IFRS 9 also includes a new general hedge accounting standard which will better align hedge accounting and risk management. The final version of IFRS 9 was issued in July 2014 and includes (i) a third measurement category for financial assets - fair value through other comprehensive income, (ii) a single, forward-looking expected loss impairment model, and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company plans to adopt IFRS 9 for the annual period beginning on January 1, 2018 and does not expect that the adoption of this standard will result in any significant changes to its consolidated financial statements.

**c) IFRS 16 Leases**

IFRS 16 replaces IAS 17 Leases and eliminates the current distinction between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 requires that nearly all leases be capitalized by the lessee, with an exemption for leases of very low value or of a short-term duration, resulting in an accounting treatment similar to finance leases under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and the Company is in the process of completing an assessment of the impact of the adoption of the standard on its consolidated financial statements.

## **5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

### **Assumption and Estimation Uncertainties**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.



**a) Estimated Impairment of Property and Equipment and Intangible Assets with Finite Lives**

The Company assesses whether property and equipment and intangible assets with finite lives are impaired in accordance with the accounting policy described in Note 3(i). As described in Note 9(a), management identified impairment indicators related to the Company's cameras installed aboard the ISS, resulting from the termination of the arrangement with its ISS partner on December 31, 2016. At that time, the Company determined that the recoverable amount of the assets was the estimated proceeds to be realized from a sale, which was based on preliminary discussions with interested parties. However, at December 31, 2017 the estimated recoverable amount was reduced to nil due to the uncertainty over whether the Company will be able to monetize the assets through an asset sale or other alternative means.

**b) Impairment of Goodwill and Intangible Assets with Indefinite Lives**

The Company assesses goodwill and intangible assets with indefinite lives for impairment on an annual basis, or more frequently when circumstances exist which indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped at the lowest level, or CGU, for which there are separately identifiable cash flows that are largely independent of the cash flows from other assets or groups of assets. The recoverable amount is the higher of an asset or CGU's fair value less cost of disposal and its value in use. An impairment loss is recognized for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. The key assumptions underlying the recoverable amount involve a significant degree of estimation, including management's expectations of revenue growth rates, cash flow projections, the inputs used to calculate the discount rate, and the expected cash flows from third party sales and the UrtheDaily Constellation.

**c) Benefit of Government Loans at Below-Market Interest Rate**

The Company uses a prevailing market interest rate for an instrument with similar features, such as similar currency, term, type of interest rate, guarantees and credit rating, to discount the initial accounting liability in order to measure the benefit of government loans at below-market rates of interest. The interest rate involves a high degree of estimation, which can have a material impact on the respective values recorded for the government grant and the long-term liability.

**d) Income Taxes**

The Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability to satisfy certain tests at the time the losses are recouped. Management's estimation of the probability of utilizing tax loss carry forwards takes into account the lack of expiry of tax losses in Spain, the expectation of future revenues from the EO business including the ongoing delay in the award of a major contract in 2018 and the development of the UrtheDaily project.

**Judgments**

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below.

**a) Functional Currency**

As described in Note 2(d), the Company and its subsidiaries use the Canadian dollar, Euro and United States dollar, respectively, as their functional currency, based on the predominant currency of each entity's transactions and cash flows. Management uses judgment in determining the primary economic environment in which a subsidiary operates in assessing a subsidiary's functional currency, as well as the functional currency to be used for presentation purposes in the consolidated financial statements.

**b) Capitalization of Internally Developed Intangible Assets**

As described in Note 3(g), the Company capitalizes internally developed intangible assets when certain criteria are met. In particular, the Company uses judgment in making determinations about the technical and commercial feasibility of the technologies under development and of the future economic benefits to be derived from them.

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**c) UrtheDaily Project**

Management used its judgment in determining that UrtheDaily will be successfully developed and commence operations in 2020 and to include future cash flows from the UrtheDaily project in the annual goodwill impairment test (Note 11) and considered in the analysis of impairment indicators for long-lived assets and the recoverability of the deferred income tax assets. At December 31, 2017, the Company was in the process of negotiating financing for the UrtheDaily Constellation described in Note 1.

**6. RESTRICTED TERM DEPOSITS**

	2017	2016
Collateral for bank guarantees associated with a Spanish government subsidy	\$ 7,543	\$ 7,069
Collateral for a \$10,000 revolving demand credit facility (Note 13)	1,958	-
Collateral for letters of credit for office lease obligations and corporate credit cards	273	426
	<b>\$ 9,774</b>	<b>\$ 7,495</b>

These term deposits have maturities of one year or less.

**7. TRADE AND OTHER RECEIVABLES**

	2017	2016
Unbilled revenue (a)	\$ 20,216	\$ 27,629
Trade accounts receivable	3,631	8,456
Government funding receivable (Note 10(a))	2,309	776
Sales tax and other receivables	1,147	1,372
	<b>\$ 27,303</b>	<b>\$ 38,233</b>

(a) Unbilled revenue includes amounts recognized as revenue under Earth Observation imagery and engineering and value-added service contracts (Note 15(a)) on a straight-line or percentage of completion basis. Invoicing to the customers is based on the achievement of pre-determined contractual milestones.

**8. PREPAID EXPENSES AND DEPOSITS**

	2017	2016
Advance payments to subcontractors	\$ 506	\$ 73
Software licenses and cloud storage	473	581
Financing costs (a)	421	-
Prepaid travel, tradeshow and other expenses	221	258
Insurance premiums	142	247
Bank guarantees and letters of credit fees	139	59
Prepaid office rent and security deposits	79	92
	<b>\$ 1,981</b>	<b>\$ 1,310</b>

(a) At December 31, 2017, the Company was in the process of negotiating financing for the UrtheDaily Constellation described in Note 1 and incurred professional fees of \$421. The financing is expected to close in the second quarter of 2018. As the funds are drawn, these transaction costs will be accounted for, on a proportionate basis, as deferred debt issue costs and deducted from the carrying value of the related financial liability.

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## 9. PROPERTY AND EQUIPMENT

	Cameras, Satellites and Related Equipment	Computer Equipment	Furniture and Fixtures	Total
<b>Year ended December 31, 2016</b>				
<b>Opening net book value</b>	\$ 124,751	\$ 1,279	\$ 1,376	\$ 127,406
Additions	115	225	323	663
Depreciation	(58,351)	(663)	(395)	(59,409)
Impairment (a)	(5,216)	-	-	(5,216)
Foreign exchange rate changes	(3,975)	(28)	(26)	(4,029)
<b>Closing net book value</b>	<b>\$ 57,324</b>	<b>\$ 813</b>	<b>\$ 1,278</b>	<b>\$ 59,415</b>
<b>At December 31, 2016</b>				
Cost	\$ 129,704	\$ 1,821	\$ 2,074	\$ 133,599
Accumulated depreciation	(72,380)	(1,008)	(796)	(74,184)
<b>Net book value</b>	<b>\$ 57,324</b>	<b>\$ 813</b>	<b>\$ 1,278</b>	<b>\$ 59,415</b>
<b>Year ended December 31, 2017</b>				
<b>Opening net book value</b>	<b>\$ 57,324</b>	<b>\$ 813</b>	<b>\$ 1,278</b>	<b>\$ 59,415</b>
Additions	-	197	33	230
Disposals	-	(27)	(33)	(60)
Depreciation	(10,964)	(473)	(419)	(11,856)
Impairment (a)	(7,385)	-	-	(7,385)
Foreign exchange rate changes	3,017	16	(4)	3,029
<b>Closing net book value</b>	<b>\$ 41,992</b>	<b>\$ 526</b>	<b>\$ 855</b>	<b>\$ 43,373</b>
<b>At December 31, 2017</b>				
Cost	\$ 134,081	\$ 1,930	\$ 2,025	\$ 138,036
Accumulated depreciation	(92,089)	(1,404)	(1,170)	(94,663)
<b>Net book value</b>	<b>\$ 41,992</b>	<b>\$ 526</b>	<b>\$ 855</b>	<b>\$ 43,373</b>

Cameras, satellites and other equipment includes the Company's two cameras installed aboard the International Space Station ("ISS"), discussed in (a) below, the Deimos-1 and Deimos-2 satellites acquired in July 2015, and associated ground station and data handling and receiving equipment.

### a) Asset Impairment

The Company assesses whether property and equipment and intangible assets are impaired in accordance with the accounting policy described in Note 3(i) of its Annual Financial Statements.

In 2012, the Company entered into a joint project agreement with Russia's prime contractor for the ISS ("Energia"), in which Energia agreed to launch, install, operate and maintain the Company's two cameras on the ISS. In return for these contributions to the project, the Company agreed to provide Energia with certain rights to the imagery, for use by Russian Government agencies, over the life of the project.

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Prior to achieving initial commercial operations, the Company capitalized \$48,810 of non-cash costs associated with the launch, installation and operation of the camera equipment aboard the ISS, with a corresponding amount recorded as Deferred Revenue. These amounts were to have been recognized into income over the remaining term of the agreement with Energia, which was originally intended to correspond to the life of the ISS, to 2024. However, Energia terminated the agreement on December 31, 2016. As a result, the Company recorded accelerated depreciation of \$40,590 and accelerated revenue recognition of \$40,590 in the fourth quarter of 2016 to reflect the reduced useful life of these non-cash assets.

As the capitalized non-cash costs and deferred revenue were fully written off at December 31, 2016, no further non-cash amounts were recorded in 2017. During the year ended December 31, 2016, the Company recorded non-cash revenue of \$61,344 (Note 18(a)), depreciation expense of \$45,664 and non-cash operating expenses of \$15,680.

Due to the termination of the agreement with Energia on December 31, 2016, the Company was seeking to monetize the assets through alternative means, including licensing arrangements or an asset sale. As a result, the carrying value of the assets was written down at December 31, 2016 to their estimated fair value less costs of disposal, which was the amount expected to be realized from the proceeds of a sale of the assets, based on preliminary discussions with interested parties. This amount was lower than the carrying value of the CGU, resulting in an impairment allowance of \$10,865 being recorded in 2016, of which \$5,216 was credited to Property and Equipment and \$5,649 was credited to Intangible Assets (Note 10). The assets were not classified as held-for-sale at December 31, 2016 as, due to the highly specialized nature of the assets and their location aboard the ISS, management assessed that it was not highly probable that a sale would be completed within one year.

At December 31, 2017, due to the significant uncertainty over whether the Company would be able to monetize the assets, either through a sale or alternative means, management determined that the remaining carrying value of the assets should be written down to nil. As a result, an additional impairment loss of \$9,399 was recorded in 2017, of which \$7,385 was credited to Property and Equipment and \$2,014 was credited to Intangible Assets (Note 10).

## 10. INTANGIBLE ASSETS

	Technologies and Software in Development	Technologies and Software in Use	Imagery Archive	Customer Relationships	Trade Names and Patents	Total
<b>Balance at January 1, 2016</b>	\$ 1,973	\$ 42,040	\$ 700	\$ 4,957	\$ 1,970	\$ 51,640
Additions (transfers)	26,056	(6,422)	-	-	276	19,910
Government funding (a)	(2,416)	-	-	-	-	(2,416)
Amortization for the period	-	(5,753)	(234)	(732)	-	(6,719)
Impairment (Note 9(a))	-	(5,649)	-	-	-	(5,649)
Foreign exchange rate changes	-	(1,614)	-	(307)	(132)	(2,053)
<b>Balance at December 31, 2016</b>	\$ 25,613	\$ 22,602	\$ 466	\$ 3,918	\$ 2,114	\$ 54,713
Additions	15,944	5	-	-	188	16,137
Government funding (a)	(7,324)	-	-	-	-	(7,324)
Amortization for the period	-	(3,991)	(466)	(732)	-	(5,189)
Impairment (Note 9(a))	-	(2,014)	-	-	-	(2,014)
Foreign exchange rate changes	-	1,260	-	240	123	1,623
<b>Balance at December 31, 2017</b>	\$ 34,233	\$ 17,862	\$ -	\$ 3,426	\$ 2,425	\$ 57,946

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Intangible assets are comprised of technologies and software in development associated with the Company's OptiSAR constellation and related SAR technology described in Note 1. Technologies and software in use include the ground segment infrastructure and software related to the Deimos-1 and Deimos-2 satellites. Additionally, technologies and software in use include the original cost of the ground segment infrastructure for the ISS cameras, which was fully written off at December 31, 2017 (Note 9(a)). Intangible assets also include an imagery archive, customer relationships and trade names acquired in 2015. The imagery archive was fully amortized during 2017 due to a change in its expected useful life.

The Company assessed development costs that were not yet in use for impairment at December 31, 2017 and determined that there was no impairment. This assessment took into account that the product or process remains technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete and to use, sell or otherwise monetize the assets. Customer relationships and trade names associated with the business acquisition in 2015 were included in the annual goodwill impairment test described in Note 11.

During the year ended December 31, 2017, the Company capitalized \$321 (2016 - \$153) of interest on specific borrowings as well as general borrowings associated with costs incurred on qualifying internally developed technologies and software, using an annualized capitalization rate of 3.34% of qualifying expenditures (2016 - 2.98%).

**a) Government funding**

In February 2017, the Company was awarded approximately \$17,600 in funding from Innovation, Science and Economic Development Canada's Industrial Technologies Office as part of its Strategic Aerospace & Defence Initiative ("SADI"), which will provide significant financial support for the ongoing development of the OptiSAR Constellation. The funding is structured as a repayable contribution that will be disbursed on a cost-reimbursement basis in quarterly instalments through March 2021, or when the funding limit is reached if earlier. The funding will be repayable in annual instalments over 15 years beginning in April 2023. The maximum amount to be repaid by the Company is 1.65 times the amount contributed by SADI, or approximately \$29,000.

The interest rate used to discount the initial accounting liability is 10% and involves a high degree of estimation, which can have a material impact on the respective values recorded for the government grant and the long-term liability.

In 2017, the Company filed claims totalling \$7,257 for the reimbursement of eligible costs incurred from April 2016 to December 2017 and received proceeds of \$5,162 in 2017. At December 31, 2017, the Company recognized the grant portion of the eligible costs, amounting to \$3,682, as a reduction of the intangible asset, of which \$1,034 is included in trade and other receivables (Note 7). At December 31, 2017, the Company recognized \$2,514 as a long-term repayable government loan (Note 14).

In January 2017, the Company was awarded three non-repayable grants from the Government of Canada's Defense Innovation Research Program ("DIRP") to reimburse up to approximately \$2,200 of eligible OptiSAR development costs. The Company filed claims of \$1,659 for eligible costs incurred in 2017, of which \$1,639 was credited to intangible assets and \$20 was recognized as other operating income (Note 19).

In May 2016, the Company was awarded \$5,000 from the Government of Canada's Technology Development Program ("TDP") to support the development of its OptiSAR Constellation. The Company filed claims totalling \$1,485 in 2017, which was credited to technologies and software in development. The Company filed claims totalling \$1,558 in 2016, of which \$867 was credited against technologies and software in development and the remaining claim amount of \$691 was recognized as other operating income (Note 19).

In 2015 and 2016, the Company was awarded three non-repayable grants from the Canadian Space Agency's Space Technologies Development Program ("STDP") to reimburse up to \$3,200 of eligible OptiSAR development costs. The Company made claims of \$518 for eligible costs incurred in 2017 (2016 - \$1,549), which were credited to technologies and software in development.

## 11. GOODWILL

### a) Reconciliation of Carrying Amount

	2017	2016
Balance, beginning of year	\$ 5,555	\$ 5,955
Foreign exchange rate changes	372	(400)
Balance, end of year	\$ 5,927	\$ 5,555

### b) Impairment Testing of Goodwill

The Company performs a goodwill impairment test annually, or more frequently when circumstances indicate that the carrying value may not be recoverable.

For the purposes of impairment testing, goodwill acquired in the acquisition of Deimos Imaging in 2015 has been allocated to a group of CGUs comprising the Deimos-1 and Deimos-2 satellites and related equipment and intangible assets. The recoverable amount of the CGU was based on its fair value less costs of disposal, which is the price that would be received in an orderly transaction between market participants in current market conditions at the measurement date. The fair value less costs of disposal was determined based on an income approach by discounting the future after-tax cash flows and terminal value of the CGU using level 3 inputs in the fair value hierarchy (Note 23(f)). The recoverable amount includes the expected cash flows related to the Deimos-1 and Deimos-2 satellites, revenues from third party data sales commencing in 2018, and from the expected UrtheDaily Constellation described in Note 1, which is expected to begin operating in 2020. The cash flows were projected over a 10-year period based on past experience, management's best estimates of future revenue streams and actual operating results. The terminal value was based on a multiple of eight times the expected free cash flows in the final year of the cash flow projections.

The Company performed its annual goodwill impairment test as at December 31, 2017 and no impairment was indicated for the period tested as the recoverable amount of the CGU was estimated to significantly exceed the carrying amount of the CGU.

The key assumptions used in the estimation of the recoverable amount of the CGU at December 31, 2017 are described below.

- The impairment testing was based on a 10-year cash flow projection, beginning with budgeted amounts for 2018, which were based on existing sales contracts, the current probability-weighted sales pipeline, and internal management forecasts for operating expenses. The cash flows include those from the operation of the Deimos-1 and Deimos-2 satellites until the end of their estimated useful lives and sales of third party data from the Company's participation in the PanGeo Alliance, described in Note 1, and other partnerships. Cash flows from the UrtheDaily Constellation include revenues from the previously announced agreements with anchor customers as well as its probability-weighted sales pipeline, and represent a significant portion of the recoverable amount of the CGU. The successful financing, completion and commercial operation of the UrtheDaily Constellation is key to the recoverability of the underlying goodwill, as described in Note 5. The recoverable amount is also sensitive to changes in revenue forecasts, terminal value multiples, and the discount rate.
- An after-tax blended discount rate of 13.5% was used to discount the cash flow projections in the fair value less costs of disposal calculations for Deimos-1, Deimos-2 and UrtheDaily. The rate reflects the increased operational risks and other risk factors associated with the UrtheDaily project. The discount rates were based on the weighted average cost of capital that a market participant would use, which was calculated with reference to current market information and adjusted for market risk and specific risks that were not reflected in the underlying cash flows.

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## 12. OTHER FINANCIAL LIABILITIES

	2017	2016
Finance lease liability (a)	\$ 5,851	\$ 5,569
Derivative financial instruments (Note 23(e))	145	1,565
Total other financial liabilities	5,996	7,134
Current portion	(247)	(1,654)
Non-current portion	\$ 5,749	\$ 5,480

(a) The Company has commitments under a Service Level Agreement ("SLA") and Option agreement for the purchase of assets, pursuant to the original share purchase and sale agreement for the acquisition of Deimos Imaging in 2015. These commitments are being accounted for as a finance lease as they confer the right to use the assets with an option to purchase in 2020. The share purchase and sale agreement provided for a contingent increase of the purchase price of €3,200 should the Company not exercise the option to purchase the assets in 2020.

The assets are included in property and equipment (Note 9) with a carrying amount of \$3,979 at December 31, 2017 (2016 - \$4,543).

Annual minimum lease payments as at December 31, 2017 are as follows:

	EURO	CAD
2018	€ 300	\$ 453
2019	300	453
2020	3,850	5,807
Total future minimum lease payments	4,450	6,713
Less: Imputed interest	(571)	(862)
Present value of minimum lease payments	€ 3,879	\$ 5,851

## 13. BANK LOANS

In 2017 the Company renewed and amended its credit agreement with the Royal Bank of Canada ("RBC") to include a new \$10,000 revolving demand credit facility, which is secured by a combination of cash collateral and qualifying accounts receivable totalling \$10,000. The interest rate on this facility is RBC's prime rate plus 2.00% per annum and borrowings are repayable on demand. The facility has a covenant requiring the Company to maintain consolidated working capital of not less than \$10,000, to be measured prior to each borrowing under the facility. The principal amount outstanding under this facility as at December 31, 2017 was \$10,000.

On April 7, 2017, the Company's subsidiary, UrtheCast Imaging S.L.U, obtained a €1,000 unsecured credit facility with a Spanish Bank, which will be used to finance trade accounts receivable in advance of their due dates. Amounts drawn under this facility are repayable to the Bank on the original due date of the receivable, or in 60 days, whichever is earlier, with interest charged at 1.2%. The principal amount outstanding at December 31, 2017 was €511, or \$771.

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## 14. LONG-TERM DEBT

	2017	2016
Term loan (a)	\$ 31,679	\$ 29,690
Financing fees	(333)	(419)
Government loans (b)	4,282	1,592
Total long-term debt	35,628	30,863
Current portion	(12,095)	(5,586)
Non-current portion	\$ 23,533	\$ 25,277

(a) On December 11, 2015, the Company's wholly-owned Spanish subsidiary, UrtheCast Imaging, S.L.U. ("UrtheCast Imaging"), obtained a loan of €25,000 from a Spanish bank. The loan, which is secured by the shares of UrtheCast Imaging and its subsidiaries, has a five-year term and will accrue interest, payable twice per year, at the 6-month Euro Interbank Offered Rate (EURIBOR), which shall be deemed to be no less than 0%, plus 2.6% per annum. During 2016, UrtheCast Imaging entered into an interest rate swap with the lender, which effectively fixed the EURIBOR rate at 0.19%. The fair value of the interest rate swap at December 31, 2017 of \$113 (2016 - \$173) is included in Other Financial Liabilities (Note 12).

The loan is repayable in annual instalments of €4,000 over the first four years and €9,000 is repayable on the maturity date.

Under the loan agreement, UrtheCast Imaging, at a consolidated level, is required to meet certain financial covenants consisting of a leverage ratio and a debt coverage ratio. In addition, under the loan agreement, UrtheCast Imaging is required to fund a Debt Service Reserve Account ("DSRA") up to a maximum of €1,000 per year when EBITDA falls within certain thresholds. No DSRA funding was required with respect to 2016 or 2017.

UrtheCast Imaging was in compliance with the debt coverage ratio at December 31, 2017 and received a waiver from the lender in respect of compliance with the leverage ratio covenant. The lender also agreed to a six-month deferral of the €4,000 principal payment which was due on December 11, 2017.

(b) Government loans are interest-free or low-interest loans provided by Spanish government agencies, which are recorded at amortized cost and the SADl loan described in Note 10(a). The loans are repayable in semi-annual or annual instalments, ending in 2037.

Annual principal repayments of long-term debt as at December 31, 2017 are as follows:

	CAD
2018	\$ 12,209
2019	6,275
2020	13,818
2021	241
2022	241
Thereafter	9,103
	\$ 41,887



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## 15. DEFERRED REVENUE

	Engineering and Value-Added Services (a)	Earth Imagery Data (b)	Government Funding (c)	Total
Balance at December 31, 2017	\$ 1,555	\$ 695	\$ 72	\$ 2,322
Less: current portion	(1,555)	(416)	(72)	(2,043)
Non-current portion	\$ -	\$ 279	\$ -	\$ 279
Balance at December 31, 2016	\$ 10,949	\$ 1,532	\$ 288	\$ 12,769
Less: current portion	(9,333)	(1,140)	(288)	(10,761)
Non-current portion	\$ 1,616	\$ 392	\$ -	\$ 2,008

### a) Engineering and value-added services

During 2014, the Company entered into a contract with a customer for the provision of engineering services, value-added services and Earth imagery data valued at US \$65,050. The terms of the contract provided for the payment of an advance by the customer of 20% of the total contract value and a letter of credit for the balance of payments. The advance was recorded as deferred revenue and is being recognized as revenue on a proportionate basis as the services and imagery are provided. During 2016, the contract was amended to reallocate a significant portion of the funds previously earmarked for future data purchases towards engineering services. During the year ended December 31, 2017, the Company recognized \$27,878 (2016 - \$30,998) of revenue from this contract, including \$762 (2016 - \$1,839) from the provision of Earth imagery data.

During the year ended December 31, 2015, the Company received an advance payment of US \$6,305 from a customer with respect to a US \$9,007 contract for the provision of space hardware and engineering services commencing in April 2015. The remainder of the contract value is receivable after delivery of the equipment to the customer. The contract was accounted for in accordance with IAS 11, "Construction Contracts", with revenue recognized on a percentage of completion basis over the term of the contract. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for the contract. Costs incurred in the current period in connection with future activity on the contract are excluded from contract costs in determining the stage of completion. Work on the project was completed in 2017 and revenue of \$1,249 was recognized during the year (2016 - \$5,523).

In December 2016, the Company signed an additional contract with the same customer to provide engineering services and space hardware for US \$3,900. The Company received an advance payment of 70% of the contract price from the customer in the first quarter of 2017, which was recorded in trade accounts receivable and deferred revenue at December 31, 2016. Work on the project commenced in the second quarter of 2017 and revenue of \$4,256 was recognized during the year ended December 31, 2017 based on the percentage of completion method described above.

### b) Earth imagery data

Advance payments from customers of earth imagery data are recognized as revenue when the order is delivered to the customer, or, in the case of license extensions, over the term of the extension.

### c) Government funding

During the year ended December 31, 2016, the Company received government funding of \$409 with respect to certain research activities to be completed by 2018. The amounts are being recognized in income as the costs are incurred, of which \$318 was recorded in the year ended December 31, 2017 (Note 19) (2016 - \$121).

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## 16. SHARE CAPITAL AND RESERVES

### a) Common Shares

The authorized share capital of UrtheCast Corp. consists of an unlimited number of Common Shares with no par value. The holders of Common Shares are entitled to receive dividends and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The following is a summary of changes in the Company's share capital from January 1, 2016 to December 31, 2017:

	Number of Shares		Amount
<b>Balance at January 1, 2016</b>	102,752,217	\$	190,862
Shares issued upon vesting of Restricted Share Units (Note 17(b))	1,896,860		3,022
Options exercised (Note 17(a))	30,000		34
<b>Balance at December 31, 2016</b>	104,679,077	\$	193,918
Shares issued in public offering (b)	<b>13,033,341</b>		<b>19,550</b>
Share issue costs (b)	-		(1,555)
Shares issued upon vesting of Restricted Share Units (Note 17(b))	<b>1,666,250</b>		<b>2,177</b>
Options exercised (Note 17(a))	<b>1,887,265</b>		<b>2,543</b>
<b>Balance at December 31, 2017</b>	<b>121,265,933</b>	<b>\$</b>	<b>216,633</b>

### b) Shares Issued in Public Offerings

On March 6, 2017, the Company entered into an agreement with Clarus Securities Inc., on behalf of a syndicate of underwriters (collectively, the "Underwriters"), for the purchase, on a "bought deal" basis, of 11,333,340 Common Shares of the Company (the "Common Shares") at a price of \$1.50 per Common Share (the "Offering Price") for aggregate gross proceeds of \$17,000 (the "Offering"). The Company also granted the Underwriters an over-allotment option to purchase up to an additional 15% of the offered Common Shares at the Offering Price, exercisable in whole or in part at any time for a period ending 30 days from the closing of the Offering.

The Offering closed on March 22, 2017, including the exercise-in-full of the over-allotment option. The Company issued 13,033,341 Common Shares for aggregate gross proceeds of \$19,550 and received net proceeds of \$18,245 from the Underwriters after deducting a 6% commission, or \$1,173, of the gross proceeds and \$132 of legal fees and other expenses of the Underwriters, which were recorded as share issue costs. In addition, the Company incurred \$250 of legal and other share issue costs in connection with the Offering. The net proceeds from the Offering will be used for general working capital purposes. To the extent that the proceeds are not required to fund negative and/or variable cash flows, the funds may be allocated to the development of infrastructure.

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**b) Warrants**

The following table reflects the continuity of warrants for the years ended December 31, 2017 and 2016:

	2017		2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Opening	124,842	\$ 1.77	483,286	\$ 1.94
Expired	-	-	(358,444)	2.00
Closing	124,842	\$ 1.77	124,842	\$ 1.77

At December 31, 2017 and 2016, the outstanding share purchase warrants had a grant date fair value of \$165 and expiry date of June 21, 2018. No warrants were issued or exercised during the years ended December 31, 2017 and 2016.

## 17. SHARE-BASED PAYMENTS

The Company has an equity incentive plan that enables it to grant stock options and restricted share units to its directors, employees, consultants and members of the Company's Advisory Board up to a maximum of 20% of the issued and outstanding Common Shares on the date of the grant.

The total expense arising from share-based payment transactions in 2017 was \$2,643 (2016 - \$2,594). In addition, \$655 of share-based payment costs associated with internal engineering staff involved in development activities were capitalized in 2017 (2016 - \$696) (Note 10).

**a) Stock Options**

The exercise price of stock options granted is determined based on the greater of the closing market price of the Common Shares on the day prior to the grant and the volume weighted average price of the shares for the five trading days prior to the grant date. Stock options vest equally over three years and expire after five years.

The following table reflects the continuity of stock options for the years ended December 31, 2017 and 2016:

	2017		2016	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise price
Outstanding, beginning of year	6,807,834	\$ 1.32	6,864,168	\$ 1.43
Granted	2,534,000	1.32	1,172,000	0.96
Exercised	(1,887,265)	0.89	(30,000)	0.75
Forfeited	(1,270,001)	1.50	(1,198,334)	1.65
Expired	(317,400)	1.12	-	-
Outstanding, end of year	5,867,168	\$ 1.43	6,807,834	\$ 1.32
Vested, end of year	2,604,827	\$ 1.57	4,657,666	\$ 1.28

1,887,265 stock options were exercised in 2017 (Note 16(a)) at a weighted average exercise price of \$0.89 (2016 - 30,000 stock options were exercised at a weighted average price of \$0.75). The weighted average Common Share price at the time the options were exercised was \$1.36 (2016 - \$1.05).

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The following table reflects the stock options issued and outstanding at December 31, 2017 and 2016:

Expiry Date	2017				2016		
	Exercise Price	Weighted Average Remaining Contractual Life in Years	Number of Options Outstanding	Vested and Exercisable	Weighted Average Remaining Contractual Life in Years	Number of Options Outstanding	Vested and Exercisable
January 31, 2017	\$0.75	-	-	-	0.08	1,200,000	1,200,000
June 1, 2017	\$1.12	-	-	-	0.42	735,000	735,000
August 15, 2017	\$1.12	-	-	-	0.62	100,000	100,000
September 17, 2017	\$1.12	-	-	-	0.71	300,000	300,000
December 5, 2017	\$1.12	-	-	-	0.93	40,000	40,000
August 28, 2018	\$1.77	<b>0.66</b>	<b>729,334</b>	<b>729,334</b>	1.66	729,334	729,334
November 19, 2018	\$1.93	<b>0.88</b>	<b>146,000</b>	<b>146,000</b>	1.88	316,000	316,000
May 14, 2019	\$1.35	<b>1.37</b>	<b>92,500</b>	<b>92,500</b>	2.37	135,000	86,666
August 14, 2019	\$1.20	<b>1.62</b>	<b>890,000</b>	<b>890,000</b>	2.62	1,242,500	828,332
December 16, 2019	\$1.38	<b>1.96</b>	<b>28,667</b>	<b>28,667</b>	2.96	62,000	41,333
March 29, 2020	\$2.09	<b>2.24</b>	<b>96,000</b>	<b>64,000</b>	3.24	96,000	32,000
June 25, 2020	\$4.57	<b>2.48</b>	<b>78,000</b>	<b>51,999</b>	3.48	114,000	38,001
August 23, 2020	\$2.16	<b>2.65</b>	<b>411,000</b>	<b>274,001</b>	3.64	588,000	196,000
April 5, 2021	\$1.17	<b>3.26</b>	<b>20,000</b>	<b>13,333</b>	4.26	45,000	15,000
June 27, 2021	\$0.97	<b>3.49</b>	<b>736,667</b>	<b>243,326</b>	4.49	860,000	-
November 21, 2021	\$0.87	<b>3.89</b>	<b>225,000</b>	<b>71,667</b>	4.89	245,000	-
May 21, 2022	\$1.32	<b>4.39</b>	<b>2,414,000</b>	-	-	-	-
	<b>\$1.43</b>	<b>3.04</b>	<b>5,867,168</b>	<b>2,604,827</b>	2.11	6,807,834	4,657,666

**Fair Value Assumptions**

2,534,000 stock options were granted to employees and consultants in 2017 at a weighted average exercise price of \$1.32 (2016 - 1,172,000 stock options granted at a weighted average exercise price of \$0.96). These options vest over three years and expire in 2022. The weighted average grant date fair value of options granted during 2017 was estimated at \$0.64 per stock option (2016 - \$0.48) using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	2017	2016
Risk-free interest rate	<b>0.79%</b>	0.58%
Expected lives (years)	<b>3.5</b>	3.5
Expected volatility	<b>73%</b>	73%
Dividend per share	<b>NIL</b>	NIL
Share price fair value	<b>\$1.27</b>	\$0.94

The expected volatility rate in 2017 and 2016 was based on analysis of the Company's historic daily share price from June 27, 2013, which is when UrtheCast's Common Shares began trading.

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**b) Restricted Share Units**

The Company has a restricted share unit ("RSU") plan, which entitles participants to receive, for each vested share unit, one Common Share of the Company. RSUs vest over a two-year period, on the 6, 12, 18 and 24-month anniversaries of the grant date, except for 200,000 RSUs granted to an officer which vest in one-third increments over an 18-month period, and RSUs granted to directors and certain consultants, which vest immediately. RSUs are valued at the greater of the closing market price of the Common Shares on the day prior to the grant and the volume weighted average price of the shares for the five trading days prior to the grant date.

The following table reflects the continuity of RSUs for the years ended December 31, 2017 and 2016:

	2017		2016	
	Number of RSUs	Weighted Average Grant Date Fair Value	Number of RSUs	Weighted Average Grant Date Fair Value
<b>Outstanding, beginning of year</b>	<b>3,328,748</b>	<b>\$ 1.25</b>	2,864,193	\$ 1.71
Granted	1,951,425	1.41	2,426,415	0.99
Released	(1,666,250)	1.31	(1,896,860)	1.59
Forfeited	(401,250)	1.14	(65,000)	1.97
<b>Outstanding, end of year</b>	<b>3,212,673</b>	<b>\$ 1.33</b>	3,328,748	\$ 1.25
<b>Vested, end of year</b>	<b>1,609,340</b>	<b>\$ 1.39</b>	1,259,998	\$ 1.28

During 2017, the Company granted 1,951,425 RSUs (2016 - 2,426,415) to employees, officers, directors and a consultant at a weighted average grant date fair value of \$1.41 (2016 - \$0.99). This includes 1,580,000 RSUs granted to employees, officers and a consultant (2016 - 2,170,000) which vest equally every 6 months over a two-year period, and 200,000 RSUs granted to an officer which vest equally every 6 months over an 18-month period, all of which are being expensed on a graded vesting basis. The remaining 171,425 RSUs were granted to directors of the Company (2016 - 256,415) and are issuable as Common Shares upon the directors ceasing to be directors of the Company. As the RSUs granted to the directors vested immediately and are not subject to performance conditions or forfeiture, the fair value was recognized as an expense on the grant date.

During 2017, 1,666,250 Common Shares were issued to employees, officers, a former officer, and a consultant upon the vesting of RSUs (2016 - 1,896,860 Common Shares were issued to employees, officers, a former officer, consultants, and members of the Company's Advisory Board) (Note 16(a)).

## 18. REVENUE AND GEOGRAPHIC INFORMATION

The Company has one reportable operating segment involving the provision of the Earth observation imagery and engineering and value-added services described in Notes 1 and 15(a).

**a) Revenue**

The Company's primary sources of revenue are as follows:

	2017	2016
Engineering and value-added services	\$ 32,621	\$ 34,682
Earth observation imagery	7,772	15,226
Non-cash revenue (Note 9(a))	-	61,344
	<b>\$ 40,393</b>	<b>\$ 111,252</b>

Revenues from engineering and value-added services were derived from two major customers, as described in Note 15(a), which individually accounted for more than 10% of the Company's revenues in 2017 and 2016.

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Revenue based on the geographic location of customers is as follows:

	2017	2016
Middle East, Africa and South Asia	\$ 28,989	\$ 32,493
Europe and Russia	10,831	76,901
Americas	573	1,858
	<b>\$ 40,393</b>	<b>\$ 111,252</b>

**b) Non-current assets**

The Company's non-current non-financial assets, comprised of property and equipment, intangible assets, goodwill, and deferred income tax assets, are geographically located as follows:

	Property and Equipment	Intangible Assets	Goodwill	Deferred Income Tax Assets	Total
Spain	\$ 42,482	\$ 23,249	\$ 5,927	\$ 4,764	\$ 76,422
Canada	718	34,697	-	-	35,415
United States	173	-	-	-	173
<b>Balance at December 31, 2017</b>	<b>\$ 43,373</b>	<b>\$ 57,946</b>	<b>\$ 5,927</b>	<b>\$ 4,764</b>	<b>\$ 112,010</b>
Spain	\$ 50,393	\$ 26,343	\$ 5,555	\$ 1,362	\$ 83,653
Canada	8,652	28,370	-	-	37,022
United States	370	-	-	-	370
<b>Balance at December 31, 2016</b>	<b>\$ 59,415</b>	<b>\$ 54,713</b>	<b>\$ 5,555</b>	<b>\$ 1,362</b>	<b>\$ 121,045</b>

## 19. OTHER OPERATING INCOME

In 2017, the Company recognized grant income of \$318 from a Canadian government research program (Note 15(c)) and \$20 from a government program described in Note 10(a). In 2016, the Company recognized grant income of \$121 from a Canadian research program, \$173 from operating grants received from Spanish government agencies, and \$691 from a government program described in Note 10(a)).

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## 20. EXPENSES BY NATURE

	2017	2016
Depreciation, amortization and impairment (Notes 9, 10)	\$ 26,444	\$ 76,993
Salaries and benefits	17,252	21,498
Subcontractors and other suppliers	13,819	9,705
Professional fees	3,028	1,983
Office and other expenses	2,419	3,226
Computer software and cloud storage	2,367	3,485
Travel expenses	1,968	2,236
Contractors and consultants	1,705	1,737
Marketing, sales commissions, public relations and shareholder expenses	1,682	2,014
Insurance	1,116	1,383
Bad debts	607	24
Directors' fees	564	559
Non-cash services provided (Note 9(a))	-	15,680
	\$ 72,971	\$ 140,523

## 21. INCOME TAXES

### a) Reconciliation of Effective Tax Rate

The income tax recovery is calculated using the combined federal and provincial statutory income tax rate. The reconciliation of the expected income tax recovery and the recovery reported in the consolidated financial statements is as follows:

	2017	2016
Loss before income taxes	\$ (34,814)	\$ (31,453)
Canadian combined federal and provincial income tax rate	26%	26%
Expected income tax recovery	(9,052)	(8,178)
Permanent differences	717	660
Change in deferred tax assets not recognized	5,860	5,383
Tax rate changes	(224)	-
Share issuance costs	(418)	-
Effects of different tax rates in foreign jurisdictions	427	304
Other differences	(494)	(430)
Change in prior year estimates	117	120
<b>Income tax recovery recorded at December 31</b>	<b>\$ (3,067)</b>	<b>\$ (2,141)</b>

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**b) Movement in Deferred Income Tax Balances**

		Opening Balance	Recognized in Net Loss	Foreign Exchange Translation	Net Deferred Income Tax Asset (Liability)
<b>Balance at December 31, 2017</b>					
Loss carry forwards	\$	2,270	\$ 2,395	\$ 224	\$ 4,889
Property and equipment		(549)	493	(24)	(80)
Intangible assets and goodwill		(743)	(74)	(50)	(867)
Other		384	400	38	822
	\$	1,362	\$ 3,214	\$ 188	\$ 4,764
<b>Balance at December 31, 2016</b>					
Loss carry forwards	\$	1,301	\$ 1,087	\$ (118)	\$ 2,270
Property and equipment		(1,286)	651	86	(549)
Intangible assets and goodwill		(909)	107	59	(743)
Other		214	184	(14)	384
	\$	(680)	\$ 2,029	\$ 13	\$ 1,362

**c) Unrecognized Deferred Income Tax Assets**

Deferred income tax assets and liabilities have not been recognized in respect of the following items, because it is not probable that future taxable income will be available against which the Company can use the benefits.

	2017	2016
Loss carry forwards	\$ 25,125	\$ 18,514
Property and equipment	9,650	9,571
Intangible assets	(834)	(2,326)
Share issuance costs	1,226	1,497
Deferred revenue	(12,329)	(11,873)
Long-term debt	(694)	-
SRED expenditures carry forward	2,235	2,152
Investment tax credits	1,471	1,471
Other	(14)	871
	\$ 25,836	\$ 19,877

**d) Tax Losses**

The Company has non-capital loss carry forwards in the amount of \$76,028, which expire in various amounts from 2030 to 2037. In addition, subsidiaries of the Company have non-capital losses of \$12,011 which may be carried forward indefinitely.

**e) Investment Tax Credits**

The Company has Canadian federal and British Columbia scientific research and experimental development investment tax credits available of \$1,167 and \$608, respectively, which expire in 2023.



## 22. KEY MANAGEMENT COMPENSATION AND RELATED PARTY TRANSACTIONS

### a) Key Management Compensation

The Company considers its officers and directors to be key management personnel. Key management compensation for the year ended December 31, 2017 was as follows:

	2017	2016
Salaries and benefits	\$ 1,833	\$ 2,269
Directors' fees	254	259
Share-based payments	1,676	1,755
	<b>\$ 3,763</b>	<b>\$ 4,283</b>

### b) Related Party Transactions

Related parties include key management personnel. There were no related party transactions during the period other than those noted in (a).

## 23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Foreign Currency Risk
- Credit Risk
- Liquidity Risk
- Interest Rate Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

### General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and retaining ultimate responsibility for them. It has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

### a) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company utilizes foreign exchange forward contracts to reduce its exposure to risks associated with fluctuations in foreign exchange rates.

Fluctuations in foreign exchange rates could result in unanticipated fluctuations in the operating results for the Company. The Company has transactions that are denominated in Euros, United States dollars and the British pound, but does not have exposure to any highly inflationary foreign currencies.

A portion of the Company's transactions is denominated in United States dollars ("USD"), British Pound Sterling ("GBP"), and Euros ("EUR"). The following table reflects the sensitivity of the Company's net loss for the year to a 10% weakening in the Canadian dollar in relation to the respective foreign currencies based on the net exposure on outstanding foreign currency denominated monetary items as at December 31, 2017, including cash, trade and other receivables, trade and other payables, and deferred revenues. A 10% strengthening of the Canadian dollar would have an opposite effect on net loss.

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Decrease (increase) to net loss for the year from a 10% weakening of the Canadian dollar against the following currencies:

	2017	2016
USD	\$ 2,022	\$ 1,495
GBP	\$ (774)	\$ (841)
EUR	\$ 180	\$ (445)

The Company also has investments in US dollar and Euro denominated foreign operations, whose net assets are exposed to foreign currency translation risk. At December 31, 2017, the cumulative translation adjustment related to foreign operations was \$6,536 (2016 - \$2,748).

**b) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that are potentially subject to credit risk for the Company consist primarily of cash, restricted term deposits and trade and other receivables. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure.

The Company is not exposed to significant credit risk. The Company has policies to limit the amount of risk with each individual customer, and exposure to bad debts is managed as part of the Company's normal activities. Independent credit ratings of customers are used if available. Otherwise, each customer's credit rating is assessed considering its financial position, past experience and other factors. Individual credit limits are established based on internal and external ratings in accordance with the limits set by the finance department.

The Company regularly reviews the collectability of its trade accounts receivable and, when necessary, establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Based on a detailed review of trade accounts receivable at the end of the year, an allowance for doubtful accounts of \$704 was recorded at December 31, 2017 (2016 - \$90).

**c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company is currently experiencing severe cash flow constraints and may not have sufficient funds to be able to pay its debt and other obligations in the future. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing financial liabilities and commitments.

To date, the Company has a history of operating losses (2017 - \$32,240, 2016 - \$28,286) and generating insufficient cash flows from operations to fund its activities (2017 - inflows of \$1,684, 2016 - outflows of \$19,893).

At December 31, 2017, the Company held cash of \$23,206 (2016 - \$8,107). In addition, as described in Note 10(a), the Company was awarded up to \$17,600 of repayable, and approximately \$2,200 of non-repayable, government funding in the first quarter of 2017 to support the development of our OptiSAR technology. The Company also obtained new credit facilities of \$10,000 and €1,000 in 2017 for working capital purposes and to finance qualifying trade accounts receivable. Based on the Company's forecasted cash flows for the next twelve months, given an ongoing delay to secure a major contract award and the required principal repayments of its long-term debt in 2018, the Company's current cash flow from operations may not be sufficient to cover its commitments, obligations and operating costs for at least the next twelve months (see note 1).

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing financial liabilities and commitments, as disclosed in Note 27. At December 31, 2017, the Company's financial liabilities were comprised of trade and other payables, finance lease liabilities, derivative financial liabilities, bank loans, and long-term debt.

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**d) Interest rate risk**

The Company is exposed to interest rate risk from interest received on cash and short-term investments, its revolving demand credit facility, which has a variable interest rate based on RBC's prime rate plus 2.00% (Note 13), and long-term bank loan (Note 14), which has a variable interest rate based on EURIBOR plus 2.6%. In 2016, the Company entered into a 4-year interest-rate swap with the lender for 75% of the loan's value, which substantially reduces the Company's exposure to interest rate risk.

**e) Derivative financial instruments**

The following table summarizes the gain (loss) on derivative financial instruments for the year ended December 31, 2017 and 2016:

	2017	2016
Foreign exchange forward contracts	\$ 1,490	\$ (1,392)
Interest rate swap	71	(186)
	\$ 1,561	\$ (1,578)

At December 31, 2017, the fair value of derivative financial instruments is a liability of \$145 (Note 12) (December 31, 2016 - \$1,565). The fair value of these instruments was determined using level 2 inputs (f). The notional principal amounts of the outstanding foreign exchange forward contracts at December 31, 2017 was GBP 4,800 (2016 - GBP 9,320). The notional principal amount of the outstanding interest rate swap at December 31, 2016 was EUR 12,750 (2016 - EUR 15,750).

**f) Fair value measurement**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Consolidated Statement of Financial Position carrying amounts for cash, restricted term deposits, trade and other receivables and trade and other payables approximate fair value due to their short-term nature. The Company has one finance lease, which was initially valued at fair value based on an independent valuation. The fair value of the Company's long-term debt at December 31, 2017 is substantially equal to its carrying value. Due to the use of subjective judgments and uncertainties in the determination of fair values, these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

**Fair value hierarchy:**

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 24. CAPITAL MANAGEMENT

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its research and development activities, general and administrative expenses, working capital and overall capital expenditures.

The Company manages and defines capital as total shareholders' equity (excluding accumulated other comprehensive income), bank loans, long-term debt, and cash. To fund its activities, the Company has followed an approach that relies almost exclusively on the issuance of common shares, until late 2015, when the Company, through its Spanish subsidiary, obtained a five-year bank loan (Note 14). The bank loan requires that the Company's Spanish subsidiary maintain certain financial ratios and imposes limits on the Spanish subsidiary's ability to incur additional indebtedness, but does not otherwise limit the Company's ability to incur indebtedness, make capital expenditures or engage in acquisitions, mergers or restructurings. In 2017, the Company also entered into new revolving demand credit facilities of \$10,000 and €1,000 (Note 13) for working capital purposes and to finance qualifying trade accounts receivable.

The Company's senior management is responsible for managing the Company's capital, which it does through regular meetings and reviews of the financial information. The Board of Directors is responsible for overseeing this process.

## 25. LOSS PER SHARE

The basic loss per share amount is calculated by dividing the net loss for the period by the weighted average number of ordinary shares outstanding during the period. The effect of the conversion of options, warrants and other equity instruments would be anti-dilutive, making the basic and diluted loss per share equal.

	2017	2016
Net loss	\$ (31,747)	\$ (29,312)
Weighted average number of common shares	117,167,281	103,924,134
Basic and diluted loss per share	\$ (0.27)	\$ (0.28)

## 26. SUPPLEMENTAL CASH FLOW INFORMATION

### a) Changes in Operating Assets and Liabilities

	2017	2016
Trade and other receivables (Note 7)	\$ 13,281	\$ (22,642)
Prepaid expenses and deposits (Note 8)	(577)	3,344
Trade and other payables	4,890	(885)
Deferred revenue (Note 15)	(10,494)	(5,402)
	\$ 7,100	\$ (25,585)

### b) Income Taxes and Interest Paid and Received

	2017	2016
Income taxes paid	\$ -	(376)
Interest paid	(918)	(753)
Interest received	120	132
	\$ (798)	\$ (997)

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**c) Changes in Liabilities Arising from Financing Activities**

The following table reflects the cash and non-cash changes in liabilities arising from financing activities for the year ended December 31, 2017:

	Opening Balance	Cash Flows	Foreign Exchange Translation	Other non- cash changes	Balance, end of year
Finance lease liability	\$ 5,569	\$ (439)	\$ 371	\$ 350	\$ 5,851
Bank loans	-	10,749	22	-	10,771
Long-term debt	30,863	2,476	2,070	219	35,628
	<b>\$ 36,432</b>	<b>\$ 12,786</b>	<b>\$ 2,463</b>	<b>\$ 569</b>	<b>\$ 52,250</b>

## 27. COMMITMENTS

The Company has contractual commitments requiring future payments of \$6,591 in 2018 (\$11,307 at December 31, 2016) related to the development of its OptiSAR Constellation. These amounts will be recorded when the services are rendered.

The Company has commitments for the following operating lease payments to the end of 2021:

2018	\$ 1,423
2019	1,033
2020	451
2021	255
	<b>\$ 3,162</b>

During the year ended December 31, 2017, the Company recorded an expense of \$1,549 (2016 - \$1,789) with respect to its operating leases.

In addition, the Company has commitments relating to a finance lease described in Note 12, bank loans (Note 13), and long-term debt (Note 14).