



**URTHECAST CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
For the years ended December 31, 2018 and 2017



## *Independent auditor's report*

To the Shareholders of UrtheCast Corp.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of UrtheCast Corp. and its subsidiaries, (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Material uncertainty related to going concern*

We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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*PricewaterhouseCoopers LLP*

*PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7  
T: +1 604 806 7000, F: +1 604 806 7806*

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



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### *Other information*

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

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

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

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

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



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

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

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



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

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

**(signed) PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Vancouver, British Columbia  
April 1, 2019

**UrtheCast Corp.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
As at December 31, 2018 and 2017  
(in thousands of Canadian dollars)

	2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 1,438	\$ 23,206
Restricted term deposits (Note 7)	8,058	9,774
Trade and other receivables (Note 8)	22,178	27,303
Prepaid expenses and deposits (Note 9)	1,128	1,981
<b>Total current assets</b>	<b>32,802</b>	<b>62,264</b>
<b>Non-current assets</b>		
Restricted term deposits (Note 7)	234	-
Property and equipment (Note 10)	32,425	43,373
Intangible assets (Note 11)	48,178	57,946
Goodwill (Note 12)	-	5,927
Deferred income tax assets (Note 23(b))	-	4,764
<b>Total assets</b>	<b>\$ 113,639</b>	<b>\$ 174,274</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Trade and other payables	\$ 24,936	\$ 16,780
Income taxes payable	720	584
Bank and other loans (Note 14)	6,807	10,771
Current portion of long-term debt (Note 15)	10,252	12,095
Convertible debentures (Note 16)	4,852	-
Other financial liabilities (Note 13)	2,167	247
Deferred revenue	801	2,043
<b>Total current liabilities</b>	<b>50,535</b>	<b>42,520</b>
<b>Non-current liabilities</b>		
Long-term debt (Note 15)	20,274	23,533
Convertible debentures (Note 16)	7,406	-
Derivative financial instruments (Note 17)	6,415	-
Other financial liabilities (Note 13)	5,823	5,749
Deferred revenue	144	279
Deferred income tax liabilities (Note 23(b))	552	-
<b>Total liabilities</b>	<b>91,149</b>	<b>72,081</b>
<b>Shareholders' equity</b>		
Share capital (Note 18(a))	219,356	216,633
Contributed surplus and other reserves	9,798	9,634
Accumulated other comprehensive income	7,198	6,536
Accumulated deficit	(213,862)	(130,610)
<b>Total shareholders' equity</b>	<b>22,490</b>	<b>102,193</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 113,639</b>	<b>\$ 174,274</b>

Corporate Information and Going Concern (Note 1)

Commitments (Note 29)

Subsequent Events (Note 30)

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

Approved on behalf of the Board:

"signed"

James Topham, Director

"signed"

Don Osborne, Director

**UrtheCast Corp.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
For the years ended December 31, 2018 and 2017  
(in thousands of Canadian dollars, except for per share amounts)

	2018	2017
<b>Revenue (Note 20(a))</b>	<b>\$ 15,634</b>	<b>\$ 40,393</b>
<b>Other operating income (Note 11(b))</b>	<b>706</b>	<b>338</b>
	<b>16,340</b>	<b>40,731</b>
<b>Operating costs (Note 21)</b>		
Direct costs, selling, general and administrative expenses	38,255	42,957
Research expenditures	1,810	927
Depreciation and amortization	17,035	17,045
Asset impairment (Note 11(a))	20,441	9,399
Share-based payments (Note 19)	2,219	2,643
	<b>79,760</b>	<b>72,971</b>
<b>Operating loss</b>	<b>(63,420)</b>	<b>(32,240)</b>
<b>Other income (expenses)</b>		
Finance income	145	127
Finance costs (Note 22)	(28,756)	(2,209)
Gain on derivative financial instruments (Note 25(a))	13,053	1,561
Foreign exchange gain (loss)	1,192	(2,053)
<b>Loss before income taxes</b>	<b>(77,786)</b>	<b>(34,814)</b>
<b>Income tax expense (recovery) (Note 23(a))</b>	<b>5,466</b>	<b>(3,067)</b>
<b>Net loss</b>	<b>(83,252)</b>	<b>(31,747)</b>
<b>Other comprehensive income:</b>		
Items that may subsequently be reclassified to net loss:		
Foreign currency translation gain	662	3,788
<b>Comprehensive loss</b>	<b>\$ (82,590)</b>	<b>\$ (27,959)</b>
<b>Loss per common share, basic and diluted (Note 27)</b>	<b>\$ (0.67)</b>	<b>\$ (0.27)</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, 2018 and 2017  
(in thousands of Canadian dollars)

2018	Share capital (Note 18(a))	Reserves		Accumulated other comprehensive income	Accumulated deficit	Total
		Warrants	Contributed surplus			
<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>
Net loss for the year	-	-	-	-	(83,252)	(83,252)
Share-based payments (Note 19)	-	-	2,321	-	-	2,321
Shares issued for vested restricted share units	2,157	-	(2,157)	-	-	-
Shares issued on conversion of debentures (Note 18(a))	566	-	-	-	-	566
Warrants expired	-	(165)	165	-	-	-
Foreign currency translation	-	-	-	662	-	662
<b>December 31, 2018</b>	<b>\$ 219,356</b>	<b>\$ -</b>	<b>\$ 9,798</b>	<b>\$ 7,198</b>	<b>\$ (213,862)</b>	<b>\$ 22,490</b>

2017	Share capital (Note 18(a))	Reserves		Accumulated other comprehensive income	Accumulated deficit	Total
		Warrants	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 19)	-	-	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>

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, 2018 and 2017  
(in thousands of Canadian dollars)

	2018	2017
<b>Cash flows (used in) from operating activities</b>		
Net loss for the year	\$ (83,252)	\$ (31,747)
Items not affecting operating cash flows		
Depreciation of property and equipment (Note 10)	12,097	11,856
Amortization of intangible assets (Note 11)	4,938	5,189
Asset impairment (Note 11(a))	20,441	9,399
Share-based payments (Note 19)	2,219	2,643
Finance income	(145)	(127)
Finance costs	28,756	2,209
Unrealized gain on derivative financial instruments	(12,922)	(1,430)
Loss on disposal of property and equipment	72	40
Unrealized foreign exchange loss	(223)	417
Income tax recovery	5,466	(3,067)
Interest received	152	120
Interest paid	(423)	(918)
Changes in operating assets and liabilities (Note 28(a))	8,388	7,100
<b>Net cash (used in) from operating activities</b>	<b>(14,436)</b>	<b>1,684</b>
<b>Cash flows used in investing activities</b>		
Acquisition of property and equipment (Note 10)	(49)	(230)
Disposals of property and equipment (Note 10)	3	20
Expenditures on intangible assets (Note 11)	(10,018)	(21,420)
Proceeds from government grants (Note 11(b))	4,386	5,893
<b>Net cash used in investing activities</b>	<b>(5,678)</b>	<b>(15,737)</b>
<b>Cash flows (used in) from financing activities</b>		
Proceeds from issuance of convertible debentures, net (Note 16)	19,554	-
Proceeds from share issuance, net (Note 18(a))	-	17,994
Proceeds from bank and other loans (Note 14)	6,807	10,749
Repayment of bank and other loans (Note 14)	(10,782)	-
Proceeds from long-term debt (Note 15)	1,794	2,514
Repayment of long-term debt (Note 15)	(8,562)	(38)
Interest paid on bank loans, long-term debt and convertible debentures	(1,854)	(1,107)
Reduction in other financial liabilities (Note 13)	(459)	(439)
Financing costs	(10,126)	-
Proceeds from exercise of stock options (Note 19(a))	-	1,684
Redemption (purchase) of restricted term deposits, net (Note 7)	1,726	(1,805)
<b>Net cash (used in) generated from financing activities</b>	<b>(1,902)</b>	<b>29,552</b>
<b>Net (decrease) increase in cash during the year</b>	<b>(22,016)</b>	<b>15,499</b>
<b>Cash at beginning of year</b>	<b>23,206</b>	<b>8,107</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>248</b>	<b>(400)</b>
<b>Cash at end of year</b>	<b>\$ 1,438</b>	<b>\$ 23,206</b>

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

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

### **a) Corporate Information**

UrtheCast Corp. ("UrtheCast" or the "Company") is a Vancouver-based technology company that serves the rapidly growing and evolving geospatial and geoanalytics markets with a wide range of information-rich products and services. The Company currently owns and operates two Earth Observation ("EO") satellites, Deimos-1 and Deimos-2. Imagery data from these sensors is continuously downlinked to ground stations around the world and distributed directly to partners and customers in multiple markets. UrtheCast also processes and distributes imagery data and value-added products on behalf of the PanGeo Alliance, a network of seven EO satellite operators with a combined 13 medium- and high-resolution EO sensors, led by Deimos Imaging, S.L.U., a wholly-owned subsidiary of UrtheCast. UrtheCast has also designed and proposes to build and launch a satellite constellation designed to capture high-quality, medium-resolution optical imagery of the Earth's entire land mass (excluding Antarctica) everyday, called UrtheDaily™, and has developed advanced synthetic aperture radar technology for satellites, called OptiSAR™.

In January 2019, UrtheCast acquired Geosys, a digital agriculture company that provides a suite of geo-analytics products and services to agribusinesses around the world. The acquisition of Geosys (the "Geosys Acquisition") positions UrtheCast as a fully vertically-integrated geo-analytics solution provider for precision agriculture, able to integrate satellite imagery services with analytics.

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.

### **b) Going Concern**

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 had a working capital deficiency of \$17,733 at December 31, 2018 and a history of significant operating losses (2018 - \$63,420, 2017 - \$32,240) and insufficient cash flows from operations to fund its activities (2018 - outflows of \$14,436, 2017 - inflows of \$1,684). Based on the Company's forecasted cash flows for the next twelve months, 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, which could have a negative impact on its ability to continue as a going concern.

On May 18, 2018, the Company entered into a definitive credit agreement for US \$142,000 (the "Credit Agreement") with certain senior lenders (the "Senior Lenders") to finance the UrtheDaily Constellation project, subject to satisfaction certain conditions precedent. As a condition of closing, the Company completed a private placement of subscription receipts (the "Subscription Receipts") on May 3, 2018 for total gross proceeds of \$26,676 as further described in Note 16(a).

As further disclosed in Note 30(d), the Credit Agreement was terminated subsequent to December 31, 2018. As a result, the Company is pursuing alternative sources of financing in order to finance the UrtheDaily Constellation.

The Company will need to secure additional capital through alternative sources of financing or asset sales in order to obtain funds to pay for its ongoing costs of operations, service its working capital deficiency, meet its commitments to lenders, fund the development of the UrtheDaily Constellation and pay the remaining consideration to the vendor for the Geosys Acquisition. The Company monitors its risk of shortage of funds by monitoring forecasted and actual cash flows and maturity dates of existing financial liabilities and commitments and is actively managing its capital to ensure a sufficient liquidity position to finance its general and administrative, working capital and overall capital expenditures.

In order to address the working capital deficiency, the Company will rely, in part, on cost reductions and transactions entered into subsequent to December 31, 2018, including the cash flows expected to be generated from services provided to Land O'Lakes as part of the Geosys Acquisition, the completion of a US \$12,000 term loan financing, a receivables purchasing agreement to finance qualifying trade receivables, and a plan to sell its Spanish earth observation assets as described in Note 30.

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

For the years ended December 31, 2018 and 2017

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

The Company's ability to continue as a going concern is dependent upon its ability to generate cash flows from operations, asset sales, equity financings or through other arrangements, accretive acquisitions and new engineering contracts, and its ability to access alternative sources of financing for the UrtheDaily Constellation as described above. While the Company has been successful in arranging financing in the past, there can be no assurance that future financings will be completed on the terms currently being negotiated or at all. The above noted 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.

## **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").

These consolidated financial statements were authorized for issue by the Board of the Directors on April 1, 2019.

### **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 when impaired, 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.

## **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 material active 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 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

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 Company'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 net income (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, discount rates and other assumptions. 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.

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

For the years ended December 31, 2018 and 2017

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

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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
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.

**f) 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 and patents, 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

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

**g) 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.

**h) 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 the consolidated statements of loss and comprehensive 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 consolidated statements of loss and comprehensive loss and the resulting carrying values of the assets.

**i) 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.

**j) Revenue Recognition**

The Company adopted IFRS 15 *Revenue from Contracts with Customers* as of January 1, 2018 using the modified retrospective approach, which requires any transitional adjustments to be recorded in retained earnings on the date of initial application without restating prior year comparatives. IFRS 15 replaced IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations effective January 1, 2018 and introduced a new five-step model for revenue recognition and measurement. The adoption of the new standard did not result in any transitional adjustments on January 1, 2018 as described in Note 4(a).

The Company recognizes revenue from contracts with customers either at a point in time when the customer obtains control of the promised goods or services, or over time based on the pattern of transfer of control to the customer. A contract with a customer exists when it is approved by all parties and the parties are committed to perform their respective obligations. A contract also must identify payment terms and each party's rights to promised goods or services to be transferred. Revenue is measured at the consideration to which the Company expects to be entitled to in exchange for those goods or services and is recognized when it is probable that consideration under the contract will be collected. The Company's contracts with customers may include multiple performance obligations, in which case the consideration received is allocated to each separate performance obligation. Certain contracts with customers include variable consideration which is allocated to the applicable performance obligation and the expected value is recognized when the related performance obligation is satisfied and when it is highly probable that there will not be a significant reversal of cumulative revenue.

Long-term contracts, where the period between payment and performance exceeds one year, will be considered for a potential financing component.

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 performance obligations are satisfied.

**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 and where the customer obtains control over time, the Company recognizes revenue on a straight-line basis over the specified period, which approximates the stage of completion of the performance obligation under the project. Revenue for other engineering service contracts involving the provision of space hardware, where the customer obtains control over time, is recognized based on the stage of completion, which 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 performance obligations 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.

Revenues from contracts with resellers, or where the Company is a member of a consortium of suppliers to provide EO data to a third party, are recognized when transfer of control of the goods or services is satisfied, collection of the consideration is probable, and amounts are not deemed highly probable of a revenue reversal. Transfer of control is generally satisfied upon the delivery and acceptance of the data by the final customer and when a present right to payment has been established.

#### **k) 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 consolidated statements 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.

#### **l) Equity-settled Share-based Payments**

The Company has a stock option plan and a restricted share unit ("RSU") plan, which are described in Note 19. 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 loss and 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.

#### **m) 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.

**n) 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.

**o) 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. The Company also reassesses deferred tax assets that have been recognized and derecognizes deferred tax assets where it is no longer probable that future taxable profit will allow the deferred tax asset to be recovered.

**p) 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 convertible debentures.

**q) Financial Instruments**

The Company adopted IFRS 9 on January 1, 2018 in accordance with the transitional provisions of the standard. IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities and supersedes the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The adoption of this standard did not result in any significant changes to these consolidated financial statements on adoption as described in Note 4(b).

**FINANCIAL ASSETS**

When the Company recognises a financial asset, it classifies it based on the Company's business model for managing the financial asset and the financial asset's contractual cash flow characteristics, as follows:

- Amortized cost — a financial asset is measured at amortized cost if both of the following conditions are met:
  - The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Fair value through other comprehensive income ("FVOCI") — financial assets are classified and measured at FVOCI if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Fair value through profit or loss ("FVTPL") — any financial assets that are not held in one of the two business models mentioned are measured at FVTPL.



The Company's accounting policy for each category is as follows:

- Cash and restricted term deposits are measured at amortized cost.
- Derivative financial assets, such as derivatives entered into by the Company that are not designated as hedging instruments, are measured at FVTPL on initial recognition and subsequently. Any gains or losses arising from changes in fair value of these instruments are recorded in the consolidated statements of loss and comprehensive loss.
- Trade and other receivables are initially measured at fair value and subsequently measured at amortized cost.

#### **Impairment of 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. The impairment of financial assets is based on an expected credit loss ("ECL") model. The impairment model applies to financial assets measured at amortized cost and debt instruments measured at FVOCI, and requires that the Company to consider factors that include historical, current and forward-looking information when measuring ECL. The Company uses the simplified approach for measuring losses based on the lifetime ECL for trade and other receivables. Expected credit losses are recognized in operating costs in the Consolidated Statements of Loss and Comprehensive Loss. Trade and other receivables are written off when there is no reasonable expectation of recovery, which can be demonstrated by failure of debtors to engage in a repayment plan with the Company or failure to make contractual payments that are significantly past due.

#### **FINANCIAL LIABILITIES**

Financial liabilities are classified into one of the following categories based on the purpose for which the liability was incurred. All transactions related to financial instruments are recorded on a trade date basis. Fair value changes are generally presented (i) in OCI if the amount of change in the fair value is attributable to changes in credit risk of the liability; and (ii) in profit or loss for the remaining amount of change. The Company's accounting policy for each category is as follows:

#### **Financial Liabilities at Fair Value Through Profit or Loss**

Financial liabilities at fair value through profit or 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 or 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 though profit or loss.

#### **Other Financial Liabilities**

Other financial liabilities are non-derivative financial liabilities, which includes finance lease liabilities, bank and other loans, long-term debt and convertible debentures, 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. ADOPTION OF NEW ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES**

### **a) Revenue Recognition**

The Company adopted IFRS 15 *Revenue from Contracts with Customers* as of January 1, 2018 using the modified retrospective approach, which requires any transitional adjustments to be recorded in retained earnings on the date of initial application without restating prior year comparatives. IFRS 15 replaced IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations effective January 1, 2018 and introduced a new five-step model for revenue recognition and measurement.

Furthermore, the Company applied the optional practical expedients available for completed contracts and contract modifications which allowed the Company to apply IFRS 15 retrospectively only to contracts that are not considered completed as at January 1, 2018. 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 January 1, 2018 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.

Therefore, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company has performed 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 did not result in any transitional adjustments on January 1, 2018. The Company's revenue recognition policy is described in Note 3(j). The policies as described are consistent with the revenue recognized in the comparative period.

### **b) Financial Instruments**

The Company adopted IFRS 9 on January 1, 2018 in accordance with the transitional provisions of the standard. IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities and supersedes the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 retains but simplifies the mixed measurement model and establishes a single model with three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model for managing the financial asset and the contractual cash flow characteristics. It eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented (i) in OCI if the amount of change in the fair value is attributable to changes in credit risk of the liability; and (ii) in profit or loss for the remaining amount of change.

The adoption of IFRS 9 did not change the measurement bases of the Company's financial instruments but their classification was revised into the appropriate IFRS 9 categories.

All financial instruments are initially measured at fair value plus, in the case of an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

IFRS 9 also includes a single, forward-looking expected loss impairment model, guidance on hedge accounting and a new general hedge accounting standard which will better align hedge accounting and risk management.

The adoption of this standard did not result in any significant changes to its consolidated financial statements on adoption. In accordance with the transition requirements, comparative periods have not been restated. The Company's financial instruments policy is described in Note 3(q).

## 5. ACCOUNTING 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 2019 and its impact on the Company's consolidated financial statements.

### 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.

The Company will adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019 using the modified retrospective approach. Using this approach, the Company will recognize any transitional adjustments in retained earnings on the date of initial application of January 1, 2019, without restating prior year comparatives. The Company also intends to elect to apply the optional practical expedients such that for any expired or existing leases it will not reassess lease classification, initial direct costs or whether any expired or existing contracts are or contain leases.

The adoption of IFRS 16 will result in a change in the accounting method for certain of the Company's office leases. The Company's commitments for operating lease payments are described in Note 29. Under IFRS 16, the Company will recognize a right-of-use asset and a lease liability on the consolidated statements of financial position for these office leases based on the present value of the future minimum lease payments. Currently, no right-of-use asset or lease liability is recognized for operating leases and operating lease payments are expensed on a straight-line basis over the term of the lease. The impact of adopting IFRS 16 on the Company's consolidated statement of financial position will be an increase to its assets and liabilities and will result in a timing difference in expense recognition on the consolidated statement of loss and comprehensive loss.

## 6. 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(h).

During the year ended December 31, 2018, the Company recognized impairment losses of its web platform development costs and the optical component of its OptiSAR development costs which are included in technologies and software in development (Note 11(a)).

Management determined the web platform assets to be obsolete with no future intended use and that the carrying value of the assets of \$744 should be written down to nil. Also, the estimated recoverable amount relating to the optical component of its OptiSAR development costs were determined to be minimal due to the high level of uncertainty over whether the Company will be able to monetize these assets, Company's revised strategy under its new leadership to pursue SAR-based stand-alone projects that do not require an optical sensor, and the deterioration of geopolitical relations in the fourth quarter of 2018 which restricted the Company's ability to close new contracts with an existing customer. As a result, the Company recognized an impairment loss of \$9,612 relating to this optical component and a total impairment loss of \$10,356 on technologies and software in development during the year ended December 31, 2018 (2017 - nil).

The estimated recoverable amount of technologies and software in development are sensitive to a number of considerations including how the technology compares to other available technology, cost to replicate development and timing and the ability to negotiate contracts to monetize the assets. Changes to these assumptions could have a material impact on the impairment.

As described in Note 10(a), in 2016 and 2017, management identified impairment indicators related to the Company's cameras installed aboard the International Space Station (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, terminal value multiplier, and the expected cash flows from third party sales.

As described in Note 12, the Company determined that the recoverable amount of the Company's CGUs comprising the Deimos-1 and Deimos-2 satellites, related equipment and intangibles assets, was lower than their carrying values. As a result, the Company recognized impairment losses of \$1,709 on tradenames, \$2,309 on customer relationships and \$6,007 on goodwill during the year ended December 31, 2018.

**c) Recoverability of Deferred Tax Assets**

At the end of each reporting period, the Company reassesses previously recognized deferred tax assets in accordance with its accounting policy in Note 3(o) to ensure that it is probable that future taxable profit will allow the deferred tax asset to be recovered. Based on management's review of the estimated cashflows of the CGUs to which the deferred tax assets were related, the amount of unused tax losses, and history of operating losses, the recoverability of the deferred tax assets through future taxable profits was no longer estimated to be probable at December 31, 2018. As a result, the Company derecognized the full carrying amount of deferred tax assets at December 31, 2018.

**d) 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.

**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(c), 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(f), 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.

**c) Valuation of Derivative Financial Instruments**

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In measuring the fair value of its embedded derivatives and derivative warrant liabilities, the Company uses judgment to determine key assumptions used in the valuation model, specifically with respect to the probability of a down-round provision as described in Note 16(a) and the probability of a change of control.

## 7. RESTRICTED TERM DEPOSITS

	December 31, 2018	December 31, 2017
Collateral for bank guarantees associated with a Spanish government subsidy	\$ 7,785	\$ 7,543
Collateral for letters of credit for corporate credit cards	273	273
Collateral for a bank guarantee associated with an EO customer contract	234	-
Collateral for secured revolving demand credit facility (Note 14(b))	-	1,958
Total restricted term deposits	8,292	9,774
Current portion	(8,058)	(9,774)
Non-Current portion	\$ 234	\$ -

Term deposits classified as current have maturities of one year or less.

## 8. TRADE AND OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Unbilled revenue (a)	\$ 18,028	\$ 20,216
Sales tax and other receivables	1,777	1,147
Trade accounts receivable	1,251	3,631
Government funding receivable (Note 11(b))	1,122	2,309
	\$ 22,178	\$ 27,303

(a) Unbilled revenue includes amounts recognized as revenue under Earth Observation imagery and engineering and value-added service contracts (Note 20(a)) on a straight-line basis. Invoicing to the customers is based on the achievement of pre-determined contractual milestones.

## 9. PREPAID EXPENSES AND DEPOSITS

	December 31, 2018	December 31, 2017
Software licenses and cloud storage	\$ 494	\$ 473
Prepaid travel, tradeshow and other expenses	307	221
Bank guarantee and letter of credit fees	124	139
Insurance premiums	80	142
Financing costs	68	421
Prepaid office rent and security deposits	55	79
Advance payments to subcontractors	-	506
	\$ 1,128	\$ 1,981

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## 10. PROPERTY AND EQUIPMENT

	Cameras, Satellites and Related Equipment	Computer Equipment	Furniture and Fixtures	Total
<b>Year ended December 31, 2017</b>				
Opening net book value	\$ 57,324	\$ 813	\$ 1,278	\$ 59,415
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
Closing net book value	\$ 41,992	\$ 526	\$ 855	\$ 43,373
<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)
Net book value	\$ 41,992	\$ 526	\$ 855	\$ 43,373
<b>Year ended December 31, 2018</b>				
Opening net book value	\$ 41,992	\$ 526	\$ 855	\$ 43,373
Additions	-	38	11	49
Disposals	-	-	(74)	(74)
Depreciation	(11,460)	(305)	(332)	(12,097)
Foreign exchange rate changes	1,152	7	15	1,174
Closing net book value	\$ 31,684	\$ 266	\$ 475	\$ 32,425
<b>At December 31, 2018</b>				
Cost	\$ 135,595	\$ 1,985	\$ 1,837	\$ 139,417
Accumulated depreciation	(103,911)	(1,719)	(1,362)	(106,992)
Net book value	\$ 31,684	\$ 266	\$ 475	\$ 32,425

Cameras, satellites and related equipment include the Deimos-1 and Deimos-2 satellites acquired in July 2015, and associated ground station, 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(h). The satellites and related equipment associated with the business acquisition in 2015 were included in the annual goodwill impairment test described in Note 12. In 2017, the Company determined that the remaining carrying value of its two cameras on the International Space Station ("ISS") should be written down to nil and recorded an impairment loss of \$9,399 of which \$7,385 was credited to Property and Equipment and \$2,014 was credited to Intangible Assets (Note 11).

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## 11. 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, 2017</b>	\$ 25,613	\$ 22,602	\$ 466	\$ 3,918	\$ 2,114	\$ 54,713
Additions	15,944	5	-	-	188	16,137
Government funding (b)	(7,324)	-	-	-	-	(7,324)
Amortization for the period	-	(3,991)	(466)	(732)	-	(5,189)
Impairment (Note 10(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
Additions	11,740	11	-	-	203	11,954
Government funding (b)	(2,937)	-	-	-	-	(2,937)
Amortization for the period	-	(4,173)	-	(765)	-	(4,938)
Impairment (a)	(10,356)	-	-	(2,369)	(1,709)	(14,434)
Foreign exchange rate changes	-	503	-	53	31	587
<b>Balance at December 31, 2018</b>	\$ 32,680	\$ 14,203	\$ -	\$ 345	\$ 950	\$ 48,178

Intangible assets are comprised of technologies and software in development associated with the Company's OptiSAR and SAR related technologies and its UrthePipeline ground segment systems. 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 10(a)). Intangible assets also include customer relationships and trade names and patents acquired in 2015 and subsequent. An imagery archive was fully amortized during 2017 due to a change in its expected useful life.

During the year ended December 31, 2018, the Company capitalized \$732 (2017 - \$321) 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 4.81% of qualifying expenditures (2017 - 3.34%).

### a) Asset impairment

The Company assessed development costs that were not yet in use for impairment at December 31, 2018 in accordance with its accounting policy described in Note 3(h) and determined that there was impairment as further described in Note 6(a). As a result, the Company recognized an impairment loss of \$10,356 on technologies and software in development during the year ended December 31, 2018 (2017 - nil), including \$9,612 relating to the optical component of its OptiSAR development costs and \$744 relating to its web platform assets.

During the year ended December 31, 2018, the Company also identified indicators of impairment relating to CGUs associated with the business acquisition in 2015 and determined that the recoverable amount for those assets was higher than their carrying value primarily due to the deterioration in market conditions impacting of the CGUs' estimated future cashflows, delays in securing large contracts, lower than budgeted sales for the year, and departure of management personnel towards the end of 2018. As a result, the Company recognized impairment losses in 2018 of \$2,369 relating to customer relationships and \$1,709 relating to certain trade names.

Technologies and software in use, customer relationships and trade names associated with the business acquisition in 2015 were included in the annual goodwill impairment test described in Note 12.

**b) 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 Company's OptiSAR and SAR technologies. 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 long-term 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.

The Company is required to maintain a \$10,000 revolving credit facility as part of the SADI funding agreement. However, as described in Note 30(i), the Company is currently not in compliance with this requirement.

In 2018, the Company filed claims totalling \$2,732 for the reimbursement of eligible costs incurred in 2018 (2017 - \$7,257). The Company recognized the grant portion of the eligible costs, amounting to \$1,254, as a reduction of the intangible asset and recorded \$600 in trade and other receivables (Note 8). The Company received proceeds of \$3,481 (2017 - \$5,162) during the year ended December 31, 2018, of which \$1,794 was recognized as a long-term repayable government loan (Note 15).

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 \$521 for eligible costs incurred in 2018, of which \$439 was credited against technologies and software in development and the remaining amount of \$82 was recognized as other operating income.

In June 2018, the Company was awarded two additional non-repayable grants from the Government of Canada's DIRP to reimburse up to \$500 of eligible OptiSAR development costs and up to \$1,000 to support other research and development programs. The Company filed claims of \$93 for eligible costs incurred in 2018 of which \$53 was credited against technologies and software in development and \$40 included in other operating income.

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 of \$1,000 for eligible costs incurred in 2018 which was credited against technologies and software in development.

The Company recognized \$2,937 in total as a credit against technologies and software in development during the year ended December 31, 2018 (2017 - \$7,324) primarily from the sources described above, and also recognized \$706 in other operating income from certain Canadian government research programs, Spanish government grants and from the sources described above (2017 - \$338).



## 12. GOODWILL

### a) Reconciliation of Carrying Amount

	2018	2017
Balance, beginning of year	\$ 5,927	\$ 5,555
Foreign exchange rate changes	80	372
Impairment loss	(6,007)	-
Balance, end of year	\$ -	\$ 5,927

### 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 in accordance with its accounting policy described in Note 3(h).

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 25(a)). The recoverable amount includes the expected cash flows related to the Deimos-1 and Deimos-2 satellites as well as revenues from third party data sales. 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 9 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, 2018 and impairment was indicated for the period tested as the recoverable amount of the CGU was estimated to be less than its carrying amount primarily due to the deterioration in market conditions impacting the CGU's projected future cashflows from its Deimos-1 and Deimos-2 satellites and third party sales, delays in securing large contracts, lower than budgeted sales for the year, and departure of management personnel towards the end of 2018. In order to write down the CGU's carrying value to its estimated recoverable amount, the Company recognized an impairment loss of \$6,007 which reduced the carrying value of goodwill to nil.

The key assumptions used in the estimation of the recoverable amount of the CGU at December 31, 2018 are described below:

- The impairment testing was based on a 10-year cash flow projection, beginning with budgeted amounts for 2019, which were based on existing sales contracts, the current probability-weighted non-contracted 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, which are expected to grow at an annual rate of 8%.
- An after-tax discount rate of 11% was used to discount the cash flow projections. The discount rate was 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 entity-specific risks that were not reflected in the underlying cash flows.

The recoverable amount is most sensitive to changes in revenue growth forecasts and the discount rate. The recoverable amount of the CGU was equal to the carrying amount of the CGU, after the impairment losses recognized in 2018. If the third party revenue growth rate used in the calculation had been 1% lower than management's estimate at December 31, 2018 (7% instead of 8%), the Company would have had to recognize a further impairment loss against the CGU of \$2,260. If the post-tax discount rate applied to the cash flow projections had been 1% higher (12% instead of 11%), the Company would have had to recognize a further impairment loss against the CGU of \$2,350 at December 31, 2018.

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### 13. OTHER FINANCIAL LIABILITIES

	2018	2017
Finance lease liability (a)	\$ 5,934	\$ 5,851
Derivative financial instruments (Note 25(a))	2,056	145
Total other financial liabilities	7,990	5,996
Current portion	(2,167)	(247)
Non-current portion	\$ 5,823	\$ 5,749

(a) The Company has commitments under a Service Level Agreement 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 10) with a carrying amount of \$3,211 at December 31, 2018 (2017 - \$3,979).

Future minimum lease payments as at December 31, 2018 are as follows:

	EURO	CAD
2019	€ 300	\$ 467
2020	3,850	5,994
Total future minimum lease payments	4,150	6,461
Less: Imputed interest	(339)	(527)
Present value of minimum lease payments	€ 3,811	\$ 5,934

### 14. BANK AND OTHER LOANS

	2018	2017
Unsecured demand promissory note with Backstop Party (a)	\$ 6,807	\$ -
Secured revolving demand credit facility with RBC (b)	-	10,000
Unsecured credit facility with Spanish bank (c)	-	771
	\$ 6,807	\$ 10,771

(a) On September 28, 2018, the Company obtained a US \$5,000 unsecured demand promissory note from the Backstop Party which bears an interest rate of 14% per annum, payable quarterly in arrears.

(b) 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, fully secured by a combination of cash collateral and qualifying accounts receivable. The credit agreement was amended further in 2018 to reduce the facility amount to \$8,082. The interest rate on this facility is RBC's prime rate plus 2.00% per annum and borrowings are repayable on demand. The principal amount outstanding under this facility at December 31, 2018 was nil (2017 - \$10,000) and the facility was terminated subsequent to December 31, 2018.

(c) In 2017, the Company's wholly-owned Spanish subsidiary, UrtheCast Imaging S.L.U ("UrtheCast Imaging"), obtained a €1,000 unsecured credit facility with a Spanish bank for financing 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% per annum. The principal amount outstanding under this facility at December 31, 2018 was nil (2017 - €511 or \$771).

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## 15. LONG-TERM DEBT

	2018	2017
Spanish Term Loan (a)	\$ 24,133	\$ 31,679
Financing fees	(228)	(333)
Government loans (b)	6,621	4,282
Total long-term debt	30,526	35,628
Current portion	(10,252)	(12,095)
Non-current portion	\$ 20,274	\$ 23,533

### a) Spanish Term Loan

On December 11, 2015, UrtheCast Imaging obtained a loan of €25,000 from a Spanish bank (the “Spanish Term Loan”). 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, 2018 of \$100 (2017 - \$113) is included in Other Financial Liabilities (Note 13).

The loan is repayable in annual instalments of €4,000 over the first four years and €9,000 is repayable on the maturity date. The loan has a principal balance outstanding of €15,500 at December 31, 2018 (2017 - €21,000).

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 has been required to date.

UrtheCast Imaging was in compliance with the annual debt coverage ratio at December 31, 2018 and received a waiver from the lender in respect of compliance with the annual leverage ratio covenant at December 31, 2018. The lender also agreed to defer €2,500 of the €4,000 principal payment which was due on December 11, 2018 as further described in Note 30(e).

### b) Government Loans

Government loans consist of interest-free or low-interest loans provided by Spanish government agencies and the SADI loan described in Note 11(b), which are recorded at amortized cost. The loans are repayable in semi-annual or annual instalments ending in 2037.

Annual principal repayments of long-term debt as at December 31, 2018 are as follows:

	CAD
2019	\$ 10,369
2020	14,261
2021	249
2022	229
2023	921
Thereafter	13,966
	\$ 39,995

## 16. CONVERTIBLE DEBENTURES

The following table summarizes the change in carrying value of the convertible debentures for the year ended December 31, 2018:

	Number of Debentures	Amount
<b>Balance at January 1, 2018</b>	-	\$ -
Principal amount of convertible debentures on issuance (a)	76,217,260	26,676
Fair value allocated to embedded derivative components (Note 17)	-	(14,324)
Fair value allocated to warrant liabilities (Note 17)	-	(2,808)
Transaction costs allocated to host liability (b)	-	(1,025)
Carrying value of debentures converted into Common Shares (c)	(2,211,429)	(246)
Accretion expense	-	3,985
<b>Balance at December 31, 2018</b>	<b>74,005,831</b>	<b>12,258</b>
<b>Current portion (a)</b>	<b>(14,287,500)</b>	<b>(4,852)</b>
<b>Non-current portion</b>	<b>59,718,331</b>	<b>\$ 7,406</b>

### a) Issuance of Convertible Debentures

As described in Note 1(b), the Company closed a private placement of 76,217,260 Subscription Receipts on May 3, 2018 which were sold at a purchase price of \$0.35 for total gross proceeds of \$26,676 which were placed in escrow on closing. The Subscription Receipts were sold through a combination of a brokered private placement for gross proceeds of \$20,659 (the "Brokered Private Placement") and non-brokered private placement for gross proceeds of \$6,017 (the "Non-brokered Private Placement") (together, the "Private Placement").

The Subscription Receipts converted into non-interest bearing, unsecured senior convertible debentures in the principal amount of \$26,676 or \$0.35 per debenture (the "Debentures") and 41,681,302 common share purchase warrants (the "Private Placement Warrants") upon qualification for distribution. Gross proceeds of \$21,675 were released to the Company in May and June in several separate tranches upon satisfaction of the relevant escrow release conditions.

The last tranche of the Brokered Private Placement of \$5,001 was released in July pursuant to an Escrow Release and Amending Agreement dated July 10, 2018 in consideration for a payment of \$100 and amendment to the terms and conditions of the Debentures, whereby such debentures shall bear interest at a rate of 12% per annum from the date of issuance of the Debentures until the first draw-down conditions under the Credit Agreement are completed, satisfied or waived (the "Interest-bearing Debentures"). If the conditions are not satisfied by December 31, 2018, the investor has the right to request repayment and cancellation of the Interest-bearing Debentures and warrants which, in the event of default, the Company would grant to the holder of such Interest-bearing Debentures a licensing agreement that provides the investor certain limited rights over the Company's SAR IP.

On December 14, 2018, the Company entered into an amendment to the Escrow Release and Amending Agreement pursuant to which the debenture holder extended the date by which the Company must meet the first drawdown conditions under the Credit Agreement from December 31, 2018 until February 28, 2019 in consideration for a payment of \$50. A further amendment was entered into subsequent to December 31, 2018 as described in Note 30(h).

As a result, the carrying value of the non-derivative host liability of \$4,852 relating to the Interest-bearing Debentures has been classified as a current liability at December 31, 2018. Also, the fair values of the associated embedded derivative of \$899 and derivative warrant liability of \$171 at December 31, 2018 have been classified as current liabilities and presented within Other Financial Liabilities (Note 13).

The Company received net cash proceeds of \$19,554 during the year ended December 31, 2018 after deducting transaction costs of \$2,828 relating to the Private Placement and \$454 relating to the Backstop Agreement (Note 17(a)(ii)). Furthermore, Debentures in the principal amount of \$3,840 were issued in lieu of payment of certain arrangement fees in connection with the UrtheDaily Senior Secured Facility.

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The Company recorded the issuance of the Debentures and Private Placement Warrants at the time of receipt of the proceeds and as at December 31, 2018, the Company had issued Debentures in the principal amount of \$26,676 in addition to 41,681,302 Private Placement Warrants (Note 17(a)(i)). Each Debenture is convertible into Common Shares of the Company at the option of the holder for a period of six years following issuance of the Debenture and if not converted, repayable at the principal amount upon maturity or as described above in the case of the Interest-bearing Debentures.

The Convertible Debentures are considered hybrid instruments which contain a non-derivative debt host liability and four embedded derivatives consisting of a holder's Conversion Option, Prepayment Option, Redemption Option, and Issuer's Call Option (the "Embedded Derivatives"), as described below:

- The Debentures are convertible at the holder's option into Common Shares of the Company at an initial conversion price of \$0.32 per Debenture representing a conversion rate of 3,125 Common Shares per \$1,000 principal amount of Debentures converted, subject to certain anti-dilution adjustments and downward adjustments (the "Conversion Option"). The original conversion price is subject to a downward adjustment to a lower conversion price to match the lower issue price for shares issued during the life of the Debentures, subject to a floor of \$0.24 ("Down-round Provision").
- The Company may elect to prepay all or any portion of the Debentures prior to maturity, without bonus or penalty, at a price equal to the greater of a) the principal amount outstanding; and b) the five-day VWAP multiplied by the number of Common Shares issuable upon full conversion of the debentures at the time of prepayment at the original conversion price ("Prepayment Option").
- In the event of a change of control, the Company is required to offer to purchase the Debentures, in whole or in part, at 100% of the principal amount or convert the Debenture into a replacement debenture at 101% aggregate principal amount if the change of control results in a new issuer ("Redemption Option").
- If a change of control results in 90% or more in aggregate principal amount of Debentures to be surrendered for purchase by the Company, the Company has a right to repurchase the remaining outstanding Debentures ("Issuer's Call Option").

The Embedded Derivatives are recorded separately from the host liability as their characteristics and risks are not clearly and closely related to those of the host contract. The Embedded Derivatives do not meet the criteria for equity classification under IFRS and are initially measured at fair value and subsequent changes in fair value are recorded through profit and loss (FVTPL). As the Embedded Derivatives are subject to the same risk exposures and are not independent from one another, the Embedded Derivatives are treated as a single compound embedded derivative.

The debt host liability is classified as a financial liability and on initial recognition recorded at the residual transaction value, net of transaction costs, as further described below in Note (d). Subsequent to initial recognition, the debt host liability is measured at amortized cost and accreted to its face value over the term of the Debenture using the effective interest rate method. Accretion expense of \$3,985 was recorded in finance costs during the year ended December 31, 2018, calculated using an effective interest rate of 19.2%. The Company also recognized \$360 of interest expense on the Interest-bearing Debentures during the year ended December 31, 2018 (Note 22).

**b) Transaction Costs**

Any directly attributable transaction costs are apportioned to the debt host liability, embedded derivative components and derivative warrant liability in proportion to their initial fair values. Transaction costs apportioned to the host debt liability component are amortized over the estimated term of the debentures under the effective interest rate method and transaction costs relating to the embedded derivative components and derivative warrant liability are expensed on issuance.

The Company incurred transaction costs of \$2,845 in connection with the Brokered and Non-brokered Private Placement, including agents' commission and expenses of \$1,681 and legal and other fees of \$1,164 in connection with the offering. Transaction costs of \$1,025 were deducted from the carrying value of the host liability and transaction costs of \$1,803 were attributable to the Embedded Derivatives and the Private Placement Warrants which were expensed as finance costs during the year ended December 31, 2018 (Note 22).

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**c) Conversion of Debentures into Common Shares**

During 2018, 2,211,429 Debentures with a principal amount of \$774 were converted into 2,418,750 Common Shares. The debt host liability was reduced by the proportionate carrying value of the debentures on the conversion date of \$246 and the embedded derivative component was reduced by the conversion date fair value of \$320. The Company recognized the reclassification from financial liability to Common Shares at the aggregate carrying amount of the host liability and fair value of the embedded derivative component of \$566 (Note 18(a)) in accordance with its accounting policy.

**d) Valuation**

The embedded derivatives and derivative warrant liability were measured first at their fair values on date of initial recognition upon the release of proceeds to the Company and recorded separately. The debt host liability was measured at the residual value after deducting the fair values attributable to the embedded derivatives and derivative warrant liability from the total transaction price of the Convertible Debentures. The proceeds from the Debentures were bifurcated between the host debt liability and these derivative components on their respective dates of initial recognition.

The Company used a third-party valuation expert that applied FinCAD's convertible bond model to value the Embedded Derivates upon initial measurement and subsequently.

The key assumptions used in the model at the date of initial recognition are as follows:

	Debentures issued May and June 2018	Interest-bearing Debentures issued July
Share price	\$0.27	\$0.27
Risk-free interest rate	2.23%	2.09%
Term to maturity (years)	6.0	6.0
Expected volatility	46.3%	46.1%
Implied credit spread	16.9%	16.9%
Probability of a downward adjustment to conversion price	10%	10%
Fair value of embedded derivative	\$0.190	\$0.179
Fair value of host liability	\$0.123	\$0.136

The key assumptions used in the model at December 31, 2018 are as follows:

	Debentures issued May and June 2018	Interest-bearing Debentures issued July
Share price	\$0.16	\$0.16
Risk-free interest rate	1.88%	1.88%
Term to maturity (years)	5.4	5.4
Expected volatility	49.3%	49.3%
Implied credit spread	18.7%	18.7%
Probability of a downward adjustment to conversion price	10%	10%
Fair value of embedded derivative	\$0.063	\$0.063

The expected volatility rate was derived from the Company's historical volatility and adjusted for a 40% discount to reflect an estimated implicit volatility discount based on implicit discounts observed in the prices of traded warrants on the TSX.

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## 17. DERIVATIVE FINANCIAL INSTRUMENTS

The following table reflects the continuity of the derivative financial instruments classified as non-current liabilities for the year ended December 31, 2018:

	Embedded Derivatives (Note 15)	Derivative Warrant Liabilities (a)	Total
<b>Balance at January 1, 2018</b>	\$ -	\$ -	\$ -
Fair value allocated on issuance of convertible debentures (Note 16)	14,324	2,808	17,132
Fair value on issuance of Backstop Fee Warrants (a)(ii)	-	3,460	3,460
Fair value on issuance of Lender Warrants (a)(iii)	-	975	975
Fair value of debentures converted into Common Shares (Note 16(c))	(320)	-	(320)
Change in fair value	(9,321)	(4,441)	(13,762)
<b>Balance at December 31, 2018</b>	4,683	2,802	7,485
<b>Current portion (Note 16(a))</b>	(899)	(171)	(1,070)
<b>Non-current portion</b>	\$ 3,784	\$ 2,631	\$ 6,415

### a) Derivative Warrant Liabilities

The following table reflects the continuity of warrants for the year ended December 31, 2018:

	Number of Warrants	Fair Value	Weighted Average Exercise Price
<b>Balance at January 1, 2018</b>	-	\$ -	\$ -
Issuance of Private Placement Warrants (i)	41,681,302	2,808	0.48
Issuance of Backstop Fee Warrants (ii)	23,617,500	3,460	0.15
Issuance of Lender Warrants (iii)	14,275,172	975	0.48
Change in fair value	-	(4,441)	-
<b>Balance at December 31, 2018</b>	79,573,974	\$ 2,802	\$ 0.38

No warrants were exercised during the year ended December 31, 2018.

The warrants described below are considered a derivative instrument and classified as financial liabilities at FVTPL as they do not meet the criteria for equity classification under IFRS. The warrants are initially measured at fair value and subsequent changes in fair value are recorded through the consolidated statements of loss and comprehensive loss.

#### (i) Private Placement Warrants

As described in Note 16(a), the Company issued 41,681,302 common share purchase warrants (the "Private Placement Warrants") as part of the subscription receipts offering sold through the Brokered and Non-brokered Private Placement. The number of Warrants issued are equal to 50% of the number of Common Shares the holder would receive if the Debenture were converted at the original conversion price of \$0.32.

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Each warrant is exercisable at an exercise price of \$0.48 for one Common Share of the Company for a period of five years following issuance of the warrant. The exercise period can be accelerated at the option of the Company if the closing share price of the Common Shares of the Company equals or exceeds 250% of the exercise price for at least 20 consecutive trading days. The exercise price is subject to downward adjustment to a lower exercise price to match the lower issue price for shares issued during the life of the warrants, subject to a floor of \$0.32. Warrant holders have a cashless exercise option that if exercised, may elect to receive the number of Common Shares equal to the difference between the aggregate exercise price and aggregate market price at time of exercise divided by the market price at time of exercise.

**(ii) Backstop Fee Warrants**

On May 3, 2018, the Company entered into a conditional backstop agreement (the “Backstop Agreement”) with the backstop party (the “Backstop Party”) for \$7,710 aggregate principal amount of senior unsecured convertible debentures and warrants. The Backstop Party, however, did not exercise its right to release the funds out of escrow to the Company prior to the expiry date of the Backstop Agreement of June 17, 2018, which resulted in cancellation of the debentures and warrants, except for 23,617,500 additional common share purchase warrants (the “Backstop Fee Warrants”).

The Backstop Fee Warrants were issued under similar terms as the Private Placement Warrants described above, except that each warrant is exercisable at an exercise price of \$0.15, as determined by the lesser of \$0.48 and the volume weighted average price of the Common Shares of the Company for the five trading days immediately prior to the expiry date of the Backstop Agreement, less \$0.10.

As a result of the Backstop Party not exercising its right to release the funds to the Company prior to the expiry date of the Backstop Agreement, the fair value on initial recognition of the Backstop Fee Warrants of \$3,460 was expensed as finance costs in the year ended December 31, 2018. Additional transaction costs of \$454 associated with the Backstop Agreement were also expensed as finance costs during the year (Note 22).

**(iii) Lender Warrants**

The Company issued to the Senior Lenders 14,275,172 common share purchase warrants (the “Lender Warrants”) after the signing of the UrtheDaily Senior Secured Facility, which is the number of common share purchase warrants equal to 5% of the issued and outstanding Common Shares of the Company after the signing of the UrtheDaily Senior Secured Facility and full conversion of the debentures and warrants issued under the Subordinated Capital Financing.

As the Lender Warrants were issued in connection with the Credit Agreement described in Note 1(b), the fair value on initial recognition of the Lender Warrants of \$975 was expensed as finance costs (Note 22(a)).

The Lender Warrants have similar terms as the Private Placement Warrants described above; however, the Lender Warrants cannot be exercised prior to such date that the Company satisfies the first drawdown conditions under the Credit Agreement. These terms are to be amended subsequent to December 31, 2018 as part of the termination agreement described in Note 30(d).

**(iv) Valuation**

The Company used a third-party valuation expert that applied FinCAD’s single barrier options model, which incorporates the Black-Scholes option pricing approach, to value the warrants upon initial measurement and subsequently at December 31, 2018.



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The key assumptions used in the model at the date of initial recognition are as follows:

	Private Placement Warrants	Private Placement Warrants (July 2018)	Backstop Fee Warrants	Lender Warrants
Share price	\$0.27	\$0.27	\$0.27	\$0.27
Exercise price	\$0.48	\$0.48	\$0.15	\$0.48
Risk-free interest rate	2.19%	2.06%	2.19%	2.19%
Term to maturity (years)	5.0	5.0	5.0	5.0
Expected volatility	46.3%	46.1%	46.3%	46.3%
Probability of a downward adjustment to conversion price	10%	10%	10%	10%
Fair value of warrant	\$0.068	\$0.063	\$0.147	\$0.068

The key assumptions used in the model at December 31, 2018 are as follows:

	Private Placement Warrants	Private Placement Warrants (July 2018)	Backstop Fee Warrants	Lender Warrants
Share price	\$0.16	\$0.16	\$0.16	\$0.16
Exercise price	\$0.48	\$0.48	\$0.15	\$0.48
Risk-free interest rate	1.87%	1.87%	1.87%	1.87%
Term to maturity (years)	4.4	4.4	4.4	4.4
Expected volatility	49.8%	49.8%	49.8%	49.8%
Probability of a downward adjustment to conversion price	10%	10%	10%	10%
Fair value of warrant	\$0.022	\$0.022	\$0.067	\$0.022

The expected volatility rate was derived from the Company's historical volatility and adjusted for a 40% discount to reflect an estimated implicit volatility discount based on implicit discounts observed in the prices of traded warrants on the TSX.

## 18. SHARE CAPITAL

### 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.

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The following is a summary of changes in the Company's share capital from January 1, 2017 to December 31, 2018:

	Number of Shares	Amount
<b>Balance at January 1, 2017</b>	104,679,077	\$ 193,918
Shares issued in public offering (b)	13,033,341	19,550
Share issue costs	-	(1,555)
Shares issued upon vesting of Restricted Share Units (Note 19(b))	1,666,250	2,177
Options exercised (Note 19(a))	1,887,265	2,543
<b>Balance at December 31, 2017</b>	<b>121,265,933</b>	<b>\$ 216,633</b>
Shares issued upon vesting of Restricted Share Units (Note 19(b))	3,630,134	2,157
Shares issued on conversion of debentures (Note 16(c))	2,418,750	566
<b>Balance at December 31, 2018</b>	<b>127,314,817</b>	<b>\$ 219,356</b>

**b) Shares Issued in Public Offering**

In March 2017, the Company closed an offering, on a "bought deal" basis, of 13,033,341 Common Shares of the Company at a price of \$1.50 per Common Share for aggregate gross proceeds of \$19,550. The Company received net proceeds of \$18,245 from the underwriters after deducting a 6% commission, legal fees and other expenses in connection with the offering.

## 19. 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 advisors 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 2018 was \$2,219 (2017 - \$2,643). In addition, \$102 of share-based payment costs associated with internal engineering staff involved in development activities were capitalized in 2018 (2017 - \$655) (Note 11).

**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, 2018 and 2017:

	2018		2017	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise price
<b>Outstanding, beginning of year</b>	<b>5,867,168</b>	<b>\$ 1.43</b>	<b>6,807,834</b>	<b>\$ 1.32</b>
Granted	1,550,000	0.22	2,534,000	1.32
Exercised	-	-	(1,887,265)	0.89
Forfeited	(2,450,334)	1.38	(1,270,001)	1.50
Expired	(645,334)	1.80	(317,400)	1.12
<b>Outstanding, end of year</b>	<b>4,321,500</b>	<b>\$ 0.97</b>	<b>5,867,168</b>	<b>\$ 1.43</b>
<b>Vested, end of year</b>	<b>1,691,169</b>	<b>\$ 1.47</b>	<b>2,604,827</b>	<b>\$ 1.57</b>

No stock options were exercised in 2018. In 2017, 1,887,265 stock options were exercised at a weighted average exercise price of \$0.89. The weighted average Common Share price at the time the options were exercised in 2017 was \$1.36.

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The following table reflects the stock options issued and outstanding at December 31, 2018 and 2017:

Expiry Date	2018				2017		
	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
August 28, 2018	\$1.77	-	-	-	0.66	729,334	729,334
November 19, 2018	\$1.93	-	-	-	0.88	146,000	146,000
May 14, 2019	\$1.35	0.37	59,500	59,500	1.37	92,500	92,500
August 14, 2019	\$1.20	0.62	461,000	461,000	1.62	890,000	890,000
December 16, 2019	\$1.38	0.96	12,000	12,000	1.96	28,667	28,667
March 29, 2020	\$2.09	1.24	20,000	20,000	2.24	96,000	64,000
June 25, 2020	\$4.57	1.48	68,000	68,000	2.48	78,000	51,999
August 23, 2020	\$2.16	1.65	236,000	236,000	2.65	411,000	274,001
April 5, 2021	\$1.17	2.26	12,000	12,000	3.26	20,000	13,333
June 27, 2021	\$0.97	2.49	530,000	353,339	3.49	736,667	243,326
November 21, 2021	\$0.87	2.89	35,000	23,333	3.89	225,000	71,667
May 21, 2022	\$1.32	3.39	1,338,000	445,997	4.39	2,414,000	-
August 13, 2023	\$0.29	4.38	100,000	-	-	-	-
November 7, 2023	\$0.22	4.66	1,450,000	-	-	-	-
	\$0.97	3.24	4,321,500	1,691,169	3.04	5,867,168	2,604,827

**Fair Value Assumptions**

1,550,000 stock options were granted to employees and consultants in 2018 (2017 - 2,534,000) at a weighted average exercise price of \$0.22 (2017 - \$1.32). These options vest over three years and expire in 2023. The weighted average grant date fair value of options granted during 2018 was estimated at \$0.12 per stock option (2017 - \$0.64) using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	2018	2017
Risk-free interest rate	2.35%	0.79%
Expected lives (years)	3.3	3.5
Expected volatility	80%	73%
Dividend per share	-	-
Share price fair value	\$0.22	\$1.27

The expected volatility rate in 2018 and 2017 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.

**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 generally vest over a two-year period, on the 6, 12, 18 and 24-month anniversaries of the grant date, except for 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.

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The following table reflects the continuity of RSUs for the years ended December 31, 2018 and 2017:

	2018		2017	
	Number of RSUs	Weighted Average Grant Date Fair Value	Number of RSUs	Weighted Average Grant Date Fair Value
Outstanding, beginning of year	3,212,673	\$ 1.33	3,328,748	\$ 1.25
Granted	10,524,748	0.25	1,951,425	1.41
Released	(3,630,134)	0.59	(1,666,250)	1.31
Forfeited	(560,000)	1.00	(401,250)	1.14
Outstanding, end of year	9,547,287	\$ 0.44	3,212,673	\$ 1.33
Vested, end of year	4,095,178	\$ 0.67	1,609,340	\$ 1.39

During 2018, the Company granted 10,524,748 RSUs (2017 - 1,951,425) to certain directors, former directors, officers and employees of the Company at a weighted average grant date fair value of \$0.25 (2017 - \$1.41). 4,699,663 RSUs granted to directors and former directors vested immediately, are not subject to performance conditions or forfeiture, and are issuable as Common Shares upon the directors ceasing to be directors of the Company or as otherwise mutually agreed upon.

During 2018, 3,630,134 Common Shares were issued to employees, officers, a former officer, directors and a consultant upon the vesting of RSUs (2017 - 1,666,250 Common Shares were issued to employees, officers, a former officer and a consultant) (Note 18(a)).

## 20. 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 Note 1(a).

### a) Revenue

Revenue disaggregated by primary sources is as follows:

	2018	2017
Earth observation imagery	\$ 9,414	\$ 7,772
Engineering and value-added services (i)	6,220	32,621
	<b>\$ 15,634</b>	<b>\$ 40,393</b>

Revenues from engineering and value-added services were derived primarily from one major customer in 2018 and two major customers in 2017, as described in (i) below, which individually accounted for more than 10% of the Company's revenues for the year. One major customer accounted for EO imagery revenues greater than 10% of the Company's revenues in 2018, primarily from one contract that generated \$4,676 of revenue in 2018. The Company expects to recognize revenue of approximately \$7,600 relating to the unsatisfied performance obligations on this contract during 2019.

### i) 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. In 2018, the Company recognized \$5,511 of revenue from this contract (2017 - \$27,878, including \$762 from the provision of Earth imagery data). At December 31, 2018, \$510 was included in deferred revenue (2017 - \$1,555). The Company expects to recognize revenue of \$2,500 relating to the unsatisfied performance obligations on this contract during 2019.

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In December 2016, the Company signed a contract with a customer to provide engineering services and space hardware for US \$3,900. 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. Work on the project commenced in the second quarter of 2017 and was completed in 2018. Revenue of \$709 was recognized during the year ended December 31, 2018 (2017 - \$4,256 from this contract and \$1,249 from another contract with the same customer).

Revenue disaggregated by the geographic location of customers is as follows:

	2018	2017
Europe and Russia	\$ 9,353	\$ 10,831
Middle East, Africa and South Asia	6,027	28,989
Americas	254	573
	<b>\$ 15,634</b>	<b>\$ 40,393</b>

The impact of adopting IFRS 15 *Revenue from Contracts with Customers* effective January 1, 2018 and the resulting changes in revenue recognition accounting policy are described in Note 4(a).

**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	\$ 32,058	\$ 14,831	\$ -	\$ -	\$ 46,889
Canada	303	33,347	-	-	33,650
United States	64	-	-	-	64
<b>Balance at December 31, 2018</b>	<b>\$ 32,425</b>	<b>\$ 48,178</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 80,603</b>
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>

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## 21. EXPENSES BY NATURE

	2018	2017
Depreciation, amortization and impairment (Notes 10,11)	\$ 37,476	\$ 26,444
Salaries and benefits	15,818	15,142
Subcontractors and other suppliers	8,209	13,819
Professional fees	5,105	3,028
Bad debts	2,259	607
Office and other expenses	2,242	2,419
Share-based payments	2,219	2,643
Travel expenses	1,567	1,968
Marketing, sales commissions, public relations and shareholder expenses	1,279	1,682
Contractors and consultants	1,211	1,482
Computer software and cloud storage	1,166	2,367
Insurance	806	1,116
Directors' fees	403	254
	<u>\$ 79,760</u>	<u>\$ 72,971</u>

## 22. FINANCE COSTS

The following table summarizes the finance costs for the years ended December 31, 2018 and 2017:

	2018	2017
Financing fees associated with the UrtheDaily Credit Agreement (a)	\$ 15,696	\$ -
Accretion and interest on convertible debentures (Note 16(a))	4,345	-
Fair value of Backstop Fee Warrants and related transaction costs (Note 17(a)(ii))	3,914	-
Transaction costs associated with Private Placement (Note 16(b))	1,803	-
Interest on bank and other loans (Note 14) and Spanish Term Loan (Note 15)	1,471	1,161
Bank guarantees and other interest	1,267	942
Interest on finance lease liability (Note 13)	356	350
Less: Capitalized borrowing costs (Note 11)	(96)	(244)
	<u>\$ 28,756</u>	<u>\$ 2,209</u>

(a) The Company incurred transaction costs and commitment fees of \$15,696 in connection with the Credit Agreement for the UrtheDaily Constellation described in Note 1(b), which includes the \$975 issuance date fair value of the Lender Warrants (Note 17(a)(iii)). These financing fees were expensed due to the expiration of the forbearance agreement with the Senior Lenders on December 31, 2018, and subsequent termination of the Credit Agreement, as described in Note 30(d).

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## 23. 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:

	2018	2017
Loss before income taxes	\$ (77,786)	\$ (34,814)
Canadian combined federal and provincial income tax rate	27%	26%
Expected income tax recovery	(21,002)	(9,052)
Permanent differences	4,325	717
Change in deferred tax assets not recognized	23,193	5,860
Tax rate changes	-	(224)
Share issuance costs	(277)	(418)
Convertible debentures	(1,026)	-
Effects of different tax rates in foreign jurisdictions	970	427
Other differences	(667)	(494)
Change in prior year estimates	(50)	117
<b>Income tax expense (recovery) recorded at December 31</b>	<b>\$ 5,466</b>	<b>\$ (3,067)</b>

### 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, 2018</b>				
Loss carry forwards	\$ 4,889	\$ (4,961)	\$ 72	\$ -
Property and equipment	(80)	(462)	(10)	(552)
Intangible assets and goodwill	(867)	880	(13)	-
Other	822	(834)	12	-
	<b>\$ 4,764</b>	<b>\$ (5,377)</b>	<b>\$ 61</b>	<b>\$ (552)</b>
<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
	<b>\$ 1,362</b>	<b>\$ 3,214</b>	<b>\$ 188</b>	<b>\$ 4,764</b>

### 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.

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	2018	2017
Loss carry forwards	\$ 44,810	\$ 25,125
Property and equipment	7,878	9,650
Intangible assets	2,275	(834)
Share issuance costs	659	1,226
Deferred revenue	(12,329)	(12,329)
Long-term debt	(978)	(694)
Convertible debentures & warrant liabilities	(1,663)	-
SRED expenditures carry forward	2,235	2,235
Investment tax credits	1,471	1,471
Other	4,991	(14)
	\$ 49,349	\$ 25,836

**d) Tax Losses**

The Company has non-capital loss carry forwards in the amount of \$102,768, which expire in various amounts from 2030 to 2038. In addition, subsidiaries of the Company have non-capital losses of \$67,672, most of which may be carried forward indefinitely.

## **24. 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, 2018 was as follows:

	2018	2017
Salaries and benefits	\$ 2,162	\$ 1,833
Directors' fees	403	254
Share-based payments	1,989	1,676
	\$ 4,554	\$ 3,763

**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).

## **25. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**a) 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 carrying amounts for cash, restricted term deposits, and trade and other receivables approximate fair value due to their short-term nature. The fair value of the Company's trade and other accounts payables, bank and other loans, and long-term debt at December 31, 2018 may be less than the carrying value as a result of the Company's credit and liquidity risk (See Note 1(b)).



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**Fair value hierarchy:**

Derivative financial instruments are measured at fair value in accordance with IFRS 13, *Fair Value Measurement*, which requires classification of financial instruments within a hierarchy 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).

The Company utilizes a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates and floating interest rates on long-term debt. The following table summarizes the fair values and fair value classification of derivative financial instruments as at December 31, 2018 and 2017:

	Classification	Hierarchy	Fair Value	
			2018	2017
Embedded derivatives (Note 16(a))	FVTPL	Level 2	\$ 4,683	\$ -
Derivative warrant liabilities (Note 16(a))	FVTPL	Level 2	2,802	-
Foreign exchange forward contracts	FVTPL	Level 2	886	32
Interest rate swap	FVTPL	Level 2	100	113

The fair value of derivative financial instruments with respect to its foreign currency contracts and interest rate swap of \$986 (2017 - \$145) and the fair values of the embedded derivatives of \$899 and derivative warrant liability of \$171 related to the Interest-bearing Debentures are included in Other Financial Liabilities (Note 13).

The notional principal amounts of the outstanding foreign exchange forward contracts at December 31, 2018 was GBP 4,132 (2017 - GBP 4,800). The notional principal amount of the outstanding interest rate swap at December 31, 2018 was EUR 9,750 (2017 - EUR 12,750).

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The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2018 and 2017:

	2018	2017
Embedded derivatives (Note 17)	\$ 9,321	\$ -
Derivative warrant liabilities (Note 17)	4,441	-
Foreign exchange forward contracts	(724)	1,490
Interest rate swap	15	71
	\$ 13,053	\$ 1,561

**b) Risk management**

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

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

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.

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.

**c) 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, 2018, including cash, trade and other receivables, trade and other payables, bank and other loans, 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:

	2018		2017	
USD	\$	452	\$	2,022
GBP	\$	(1,041)	\$	(774)
EUR	\$	357	\$	180

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, 2018, the cumulative translation adjustment related to foreign operations was \$7,198 (2017 - \$6,536).

**d) 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 expected credit losses. Based on a detailed review of trade accounts receivable at the end of the year, an allowance for doubtful accounts of \$127 was recorded at December 31, 2018 (2017 - \$704).

**e) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. As described in Note 1(b), 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 forecasted and actual cash flows and maturity dates of existing financial liabilities and commitments and is actively managing its capital to ensure a sufficient liquidity position to finance its general and administrative, working capital and overall capital expenditures. At December 31, 2018, the Company's financial liabilities were comprised of trade and other payables, finance lease liabilities, derivative financial liabilities, bank and other loans, long-term debt and convertible debentures.

As further described in Note 1(b), the Company had a working capital deficiency of \$17,733 at December 31, 2018 and a history of significant operating losses (2018 - \$63,420, 2017 - \$32,240) and generating insufficient cash flows from operations to fund its activities (2018 - outflows of \$14,436, 2017 - inflows of \$1,684). At December 31, 2018, the Company held cash of \$1,438 (2017 - \$23,206). Based on the Company's forecasted cash flows for the next twelve months, 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.

In order to address the working capital deficiency, the Company will rely, in part, on cost reductions and transactions entered into subsequent to December 31, 2018, including the cash flows expected to be generated from services provided to Land O'Lakes as part of the Geosys Acquisition, the completion of a US \$12,000 term loan financing, a receivables purchasing agreement to finance qualifying trade receivables and a plan to sell its Spanish earth observation assets as described in Note 30.

**f) 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 14), and long-term bank loan (Note 15), 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 Spanish Bank for 75% of the loan's value, which substantially reduces the Company's exposure to interest rate risk.

## **26. 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 and other loans, long-term debt, convertible debentures 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 the five-year Spanish Term Loan (Note 15). 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 2018, the Company completed the Private Placement of Subscription Receipts (Note 16(a)) and also obtained US \$5,000 by issuing an unsecured demand promissory note (Note 14(a)). The Company has completed transactions and initiatives subsequent to December 31, 2018 to improve its liquidity position as described in Note 30.

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.

## **27. 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.

	2018	2017
Net loss	\$ (83,252)	\$ (31,747)
Weighted average number of common shares	123,779,797	117,167,281
Basic and diluted loss per share	\$ (0.67)	\$ (0.27)

## **28. SUPPLEMENTAL CASH FLOW INFORMATION**

**a) Changes in Operating Assets and Liabilities**

	2018	2017
Trade and other receivables (Note 8)	\$ 3,914	\$ 13,281
Prepaid expenses and deposits (Note 9)	847	(577)
Trade and other payables	5,022	4,890
Deferred revenue	(1,395)	(10,494)
	\$ 8,388	\$ 7,100

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**b) 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, 2018:

	Opening Balance	Cash Flows	Foreign Exchange Translation	Other non- cash changes	Balance, end of year
Finance lease liability	\$ 5,851	\$ (459)	\$ 186	\$ 356	\$ 5,934
Bank and other loans	10,771	(3,975)	11	-	6,807
Long-term debt	35,628	(6,768)	916	750	30,526
Convertible debentures	-	19,554	-	(7,296)	12,258
	<b>\$ 52,250</b>	<b>\$ 8,352</b>	<b>\$ 1,113</b>	<b>\$ (6,190)</b>	<b>\$ 55,525</b>

## 29. COMMITMENTS

The Company has contractual capital commitments requiring future payments of \$6,245 in 2019 related to the development of its OptiSAR and SAR technologies. These amounts will be recorded when the services are rendered.

The Company has commitments for the following operating lease payments:

2019	\$ 1,289
2020	1,049
2021	860
2022	449
2023	439
After 5 years	220
	<u>\$ 4,306</u>

During the year ended December 31, 2018, the Company recorded an expense of \$1,612 (2017 - \$1,549) with respect to its operating leases.

In addition, the Company has commitments relating to a finance lease (Note 13), bank and other loans (Note 14), long-term debt (Note 15) and convertible debentures (Note 16).

## 30. SUBSEQUENT EVENTS

**a) Acquisition of Geosys**

On November 7, 2018, the Company announced that it had entered into a definitive purchase agreement (the "Purchase Agreement") with Land O'Lakes Inc. ("Land O'Lakes") for the acquisition of its wholly owned subsidiary, Geosys Technology Holding LLC ("Geosys"), and certain of its intellectual property (the "Geosys IP") related to software for accessing, processing, cataloguing and retrieving of images, on substantially the same terms set forth in the binding letter of intent announced on August 14, 2018. On January 14, 2019, the Company completed the first closing of the acquisition of Geosys (the "Geosys Acquisition"). The aggregate cash purchase price of the Geosys Acquisition of US \$20,000 is payable in three installments. The Company paid US \$5,000 to Land O'Lakes for 100% of the ownership of Geosys on the first closing of the transaction, US \$5,000 is payable within nine months of the first closing and US \$10,000 is payable on second closing upon transfer of the Geosys IP from Land O'Lakes prior to April 13, 2021.

On first closing, the Company also entered into a new 13-year agreement to provide Land O'Lakes with certain services currently provided by Geosys to Land O'Lakes with total annual fees payable to the Company in excess of US \$10,000 per year, and an increased rate at such time that the UrtheDaily Constellation is operational (the "Winfield SLA"). Land O'Lakes has also agreed

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to provide to the Company certain services and a license for the Geosys IP from the first closing until the second closing under an interim services agreement.

The Company expects to account for the acquisition as a business combination using the acquisition method. Due to the acquisition closing structure related to the Geosys IP, the complex technical nature of the assets acquired and pending independent valuation of the tangible and intangible assets acquired which are expected to account for a significant amount of the total consideration, the Company was not able to complete and present a preliminary allocation of the purchase price to the fair value of the identifiable assets and liabilities of Geosys at January 14, 2019.

The Company recorded acquisition costs, including legal, tax and other advisory fees, of \$719 during the year ended December 31, 2018.

**b) US \$12,000 Term Loan**

On January 14, 2019, the wholly-owned subsidiary of the Company that acquired Geosys (the "Borrower") entered into a US \$12,000 term loan (the "Term Loan") with a group of lenders led by Bolzano Investments Limited ("Bolzano") and 1112099 B.C. Ltd. ("1112099"). The Term Loan accrues interest at a rate of 14% per annum, has a maturity date of one year, and is secured by all of the Geosys assets owned by the Borrower.

In satisfaction of conditions required by the lenders, Bolzano appointed Mr. Pirmin Lüönd as a director of UrtheCast pursuant to a board appointment right granted by UrtheCast to Bolzano.

In satisfaction of conditions required by the lenders: (i) the Borrower agreed to pay Bolzano a finance fee in the amount of US \$180 and UrtheCast agreed to issue to Bolzano 19,800,000 common share purchase warrants of UrtheCast having a maturity date of May 25, 2023 and an exercise price of \$0.48 per common share; (ii) each UrtheCast director agreed to defer cash compensation from January 1, 2019 to June 30, 2019; and (iii) certain UrtheCast directors and executives agreed to contribute a minimum aggregate principal amount of US \$700, including other funds sourced by such directors and executives from investors acceptable to the lenders, on substantially the same terms as the Term Loan or on such other terms acceptable to the lenders in consideration for a number of common share purchase warrants of UrtheCast proportionate to the number of common share purchase warrants that UrtheCast agreed to issue to Bolzano. The Company issued a total of 22,275,713 common share purchase warrants effective January 30, 2019, including the warrants issued to Bolzano, 660,000 warrants to 1112099 and 1,815,713 warrants to certain directors and officers.

Approximately US \$7,900 of the Term Loan was advanced on January 14, 2019, US \$5,000 was used to repay the previously issued US \$5,000 unsecured demand promissory note dated September 28, 2018 to 1112099 described in Note 16(a) and US \$2,500 was used to fund the first installment of the Geosys Acquisition. The balance of the Term Loan from Bolzano was advanced on January 30, 2019 upon the satisfaction of certain conditions required by the lenders, including the completion of definitive documentation relating to the security of the Term Loan and the lenders' conditions described above, and was available for general corporate purposes.

**c) Deimos Imaging**

During the first quarter of 2019, the Company committed to a formal plan and commenced a bid process to sell all or substantially all of the assets of Deimos Imaging comprising the Deimos-1 and Deimos-2 satellites, operations and ground station assets. The proceeds from the sale of these assets are expected to be used for the repayment of the Spanish Term Loan, and for general working capital purposes, to the extent possible. The Company continues to explore a viable transaction but there can be no assurance that a binding transaction will be entered into.

**d) Mutual Termination of UrtheDaily Credit Agreement**

On January 14, 2019, the Company announced that it is pursuing alternative sources of financing in order to finance the UrtheDaily Constellation on the most expeditious and favourable terms and decided to allow the forbearance agreement with the Senior Lenders of the Credit Agreement dated October 25, 2018, which was subsequently extended to December 31, 2018, to expire.

As announced on February 14, 2019, the Company and the senior lenders of the Credit Agreement entered into a mutual termination agreement (the "Termination Agreement") dated February 13, 2019 which formally terminated the Credit Agreement dated as of May 18, 2018 among the parties.

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Under the Termination Agreement, the Company agreed that in lieu of all termination fees otherwise payable under the Credit Agreement, the 14,275,172 Lender Warrants described in Note 17(a)(iii) which were issued to the senior lenders on execution of the Credit Agreement, will become exercisable upon alternative financing for the UrtheDaily Constellation being secured and drawn down, subject to approval from the TSX. In addition, the Company has agreed to pay the expenses of the senior lenders in connection with the Credit Agreement in the amount of approximately \$325.

**e) Payment Deferral under Spanish Term Loan**

As described in Note 15(a), the Company and its Spanish lender agreed to defer €2,500 of the principal payment due on December 11, 2018 to January 31, 2019. Subsequent to December 31, 2018, Sabadell agreed to revise the previously negotiated principal repayment amounts such that the Company repaid €0.3 million on January 31, 2019 and €0.2 million on February 28, 2019. A further €0.5 million is due on May 31, 2019 and €1.5 million is due on July 31, 2019. If the Company completes the Deimos Sale as described in (c) above, the Company will use the proceeds from the transaction towards repayment of the outstanding loan balance and accrued interest.

**f) TSX Delisting Review**

As previously announced, the Company was under review by the TSX for continued listing since May 2018 and has been granted a series of extensions, including a 30-day extension to March 5, 2019. On March 8, 2019, the TSX determined that the Company had regained compliance with the TSX's applicable requirements for continued listing.

**g) Receivables Purchasing Agreement**

On February 26, 2019, the Company signed a US \$10,000 receivables purchasing agreement (the "RPA") with a working capital financing agent which allows the Company to finance certain qualifying trade receivables. In March 2019, the Company received advance proceeds of approximately US \$2,196 from factoring receivables under the Winfield SLA.

**h) Extension of Interest-Bearing Convertible Debentures**

Effective February 28, 2019, the Company entered into a further amendment to the Escrow Release and Amending Agreement described in Note 16(a) pursuant to which the holder of the Interest-Bearing Convertible Debentures extended the date by which the Company must draw down on a financing for the UrtheDaily Constellation from February 28, 2019 to April 30, 2019 in consideration for \$50 and a general security agreement over the Borrower's assets.

**i) Compliance with SADI Funding Agreement**

In connection with some of its financing requirements, the Company was required to reduce and subsequently terminate its existing revolving demand credit facility with RBC (Note 14(b)) after December 31, 2018 and therefore is no longer in compliance with the terms of the SADI funding agreement described in Note 11(b). While the Company has not received default notice from SADI, management is currently seeking an amendment to the terms of the SADI funding agreement and/or a waiver of this requirement from the Government of Canada. While the Company expects to resolve this matter in a timely fashion and on favourable terms, in particular considering the closing of the US \$10,000 RPA described above, there can be no assurance that these efforts will be successful.