



URTHECAST CORP.
CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
(unaudited)

For the three and nine months ended September 30, 2017 and 2016

UrtheCast Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)
(in thousands of Canadian dollars)

As at	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash	\$ 25,424	\$ 8,107
Restricted term deposits (Note 4)	7,708	7,495
Trade and other receivables (Note 5)	35,318	38,233
Prepaid expenses and deposits (Note 6)	1,415	1,310
Total current assets	69,865	55,145
Non-current assets		
Property and equipment (Note 7)	52,236	59,415
Intangible assets (Note 8)	56,097	54,713
Goodwill	5,795	5,555
Deferred income tax assets	4,534	1,362
Total assets	\$ 188,527	\$ 176,190
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	\$ 17,606	\$ 17,754
Income taxes payable	557	495
Other financial liabilities (Note 9)	566	1,654
Bank loans (Note 10)	10,431	-
Current portion of long-term debt (Note 11)	5,936	5,586
Deferred revenue (Note 12)	4,513	10,761
Total current liabilities	39,609	36,250
Non-current liabilities		
Other financial liabilities (Note 9)	5,642	5,480
Long-term debt (Note 11)	26,325	25,277
Deferred revenue (Note 12)	306	2,008
Total liabilities	71,882	69,015
Shareholders' equity		
Share capital (Note 13(a))	216,278	193,918
Contributed surplus and other reserves	9,202	9,372
Accumulated other comprehensive income	5,412	2,748
Accumulated deficit	(114,247)	(98,863)
Total shareholders' equity	116,645	107,175
Total liabilities and shareholders' equity	\$ 188,527	\$ 176,190

Commitments (Note 22)

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

UrtheCast Corp.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(unaudited)

(in thousands of Canadian dollars, except for per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue (Note 15(a))	\$ 10,165	\$ 20,651	\$ 31,415	\$ 53,776
Other operating income (Note 16)	90	61	201	756
	10,255	20,712	31,616	54,532
Operating costs (Note 17)				
Direct costs, selling, general and administrative expenses	10,418	13,853	31,821	42,895
Research expenditures	211	844	599	4,073
Depreciation and amortization	4,156	6,321	12,818	19,277
Asset impairment (Note 7)	355	7,780	664	7,780
Share-based payments (Note 14)	822	769	2,033	1,892
	15,962	29,567	47,935	75,917
Operating loss	(5,707)	(8,855)	(16,319)	(21,385)
Other income (expenses)				
Finance income	35	25	87	108
Finance costs	(563)	(560)	(1,493)	(1,744)
Gain (loss) on derivative financial instruments (Note 18)	422	(775)	1,345	(775)
Foreign exchange (loss) gain	(760)	296	(1,965)	(106)
Loss before income taxes	(6,573)	(9,869)	(18,345)	(23,902)
Income tax recovery	173	251	2,961	2,907
Net loss	(6,400)	(9,618)	(15,384)	(20,995)
Other comprehensive gain (loss)				
Items that may subsequently be reclassified to net loss:				
Foreign currency translation (loss) gain	(340)	1,425	2,664	(2,031)
Comprehensive loss	\$ (6,740)	\$ (8,193)	\$ (12,720)	\$ (23,026)
Loss per common share, basic and diluted (Note 20)	\$ (0.05)	\$ (0.09)	\$ (0.13)	\$ (0.20)

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

UrtheCast Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)
(in thousands of Canadian dollars)

Nine Months Ended September 30, 2017	Share capital (Note 13(a))	Reserves		Accumulated other comprehensive income	Accumulated deficit	Total
		Warrants (Note 13(b))	Contributed surplus			
December 31, 2016	\$ 193,918	\$ 165	\$ 9,207	\$ 2,748	\$ (98,863)	\$ 107,175
Net loss for the period	-	-	-	-	(15,384)	(15,384)
Share capital issued	19,550	-	-	-	-	19,550
Share issue costs	(1,555)	-	-	-	-	(1,555)
Share-based payments (Note 14)	-	-	2,563	-	-	2,563
Stock options exercised	2,467	-	(835)	-	-	1,632
Shares issued for vested restricted share units	1,898	-	(1,898)	-	-	-
Foreign currency translation	-	-	-	2,664	-	2,664
September 30, 2017	\$ 216,278	\$ 165	\$ 9,037	\$ 5,412	\$ (114,247)	\$ 116,645

Nine Months Ended September 30, 2016	Share capital (Note 13(a))	Reserves		Accumulated other comprehensive income	Accumulated deficit	Total
		Warrants (Note 13(b))	Contributed surplus			
December 31, 2015	\$ 190,862	\$ 269	\$ 8,847	\$ 7,234	\$ (69,551)	\$ 137,661
Net loss for the period	-	-	-	-	(20,995)	(20,995)
Share-based payments (Note 14)	-	-	2,418	-	-	2,418
Stock options exercised	34	-	(12)	-	-	22
Shares issued for vested restricted share units	3,020	-	(3,020)	-	-	-
Warrants expired	-	(104)	104	-	-	-
Foreign currency translation	-	-	-	(2,031)	-	(2,031)
September 30, 2016	\$ 193,916	\$ 165	\$ 8,337	\$ 5,203	\$ (90,546)	\$ 117,075

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

UrtheCast Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands of Canadian dollars)

For the nine months ended	September 30, 2017	September 30, 2016
Cash flows from (used in) operating activities		
Net loss for the period	\$ (15,384)	\$ (20,995)
Items not affecting operating cash flows		
Non-cash revenue (Note 7(a))	-	(15,541)
Non-cash operating expenses (Note 7(a))	-	11,736
Depreciation of property and equipment (Note 7)	8,837	14,216
Amortization of intangible assets (Note 8)	3,981	5,061
Asset impairment (Note 7(a))	664	7,780
Share-based payments (Note 14)	2,033	1,892
Finance income	(87)	(108)
Finance costs	1,493	1,744
Unrealized (gain) loss on derivative financial instruments	(1,214)	775
Loss on disposal of property and equipment	8	-
Unrealized foreign exchange loss	255	776
Income tax recovery	(2,961)	(2,907)
Income taxes and interest paid, net (Note 21(b))	(567)	(1,216)
Changes in operating assets and liabilities (Note 21(a))	4,040	(25,263)
Net cash from (used in) operating activities	1,098	(22,050)
Cash flows (used in) investing activities		
Acquisition of property and equipment (Note 7)	(171)	(565)
Disposals of property and equipment (Note 7)	21	-
Expenditures on intangible assets (Note 8)	(14,818)	(9,665)
Proceeds from government grants (Note 8(a))	2,089	548
Proceeds from insurance claim	-	7,307
Net cash (used in) investing activities	(12,879)	(2,375)
Cash flows from financing activities		
Proceeds from share issuance, net (Note 13(a))	17,994	-
Proceeds from bank loans (Note 10)	10,425	-
Repayment of long-term debt (Note 11)	(19)	(20)
Interest paid on bank loans and long-term debt	(559)	(516)
Reduction in other financial liabilities	(217)	(443)
Proceeds from stock options exercised (Note 13(a))	1,632	22
Redemption of restricted term deposits, net (Note 4)	93	2,486
Net cash from financing activities	29,349	1,529
Net increase (decrease) in cash and cash equivalents during the period	17,568	(22,896)
Cash at beginning of year	8,107	34,984
Effect of foreign exchange rate changes on cash and cash equivalents	(251)	(698)
Cash and cash equivalents at end of period (Note 21(c))	\$ 25,424	\$ 11,390

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

1. CORPORATE INFORMATION

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

As announced on August 14, 2017, the Company has entered into a contract for the development and delivery of a dual-frequency stand-alone SAR operational-class satellite as an “accelerator” for the OptiSAR Constellation.

Common shares of UrtheCast trade on the Toronto Stock Exchange under the symbol “UR”.

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

2. BASIS OF PREPARATION

a) Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies and methods as those used in the Company’s audited consolidated financial statements for the year ended December 31, 2016. These condensed interim consolidated financial statements were prepared in compliance with International Accounting Standards (“IAS”) 34 - *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”), and therefore do not contain all of the disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016, which are available at www.sedar.com.

These consolidated financial statements were authorized for issue by the Board of the Directors on November 14, 2017.

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

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

a) IFRS 15 Revenue from Contracts with Customers

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

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

UrtheCast Corp.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

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

The Company is in the process of completing 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. Also, the treatment of costs incurred in acquiring and fulfilling customer contracts may be impacted as IFRS 15 requires certain incremental costs incurred in obtaining and fulfilling a contract to be recorded as an asset and amortized into expenses over time. Currently, such costs are expensed as incurred.

b) IFRS 9 Financial Instruments

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

The Company plans to adopt IFRS 9 for the annual period beginning on January 1, 2018 and is in the process of completing an assessment of the potential impact of the adoption of the standard on its consolidated financial statements.

c) IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and eliminates the current distinction between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 requires that nearly all leases be capitalized by the lessee, with an exemption for leases of very low value or of a short-term duration, resulting in an accounting treatment similar to finance leases under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and the Company has not yet completed an assessment of the impact of the adoption of the standard on its consolidated financial statements.

4. RESTRICTED TERM DEPOSITS

At September 30, 2017, the Company had \$7,375 of restricted term deposits provided as collateral for a €5,000 bank guarantee associated with a government subsidy received by Deimos Imaging in prior years (December 31, 2016 - \$7,069) and \$333 of restricted term deposits provided as collateral for letters of credit for office lease obligations and corporate credit cards (December 31, 2016 - \$426). These term deposits have maturities of one year or less.

UrtheCast Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

5. TRADE AND OTHER RECEIVABLES

	September 30, 2017	December 31, 2016
Unbilled revenue (a)	\$ 22,840	\$ 27,629
Trade accounts receivable	6,485	8,456
Government funding receivable (Note 8(a))	4,969	776
Sales tax and other receivables	1,024	1,372
	\$ 35,318	\$ 38,233

(a) Unbilled revenue includes amounts recognized as revenue under EO imagery and engineering and value-added service contracts (Note 12(a)) on a straight-line or percentage of completion basis. Invoicing to the customers is based on the achievement of pre-determined contractual milestones.

6. PREPAID EXPENSES AND DEPOSITS

	September 30, 2017	December 31, 2016
Advance payments to subcontractors	\$ 550	\$ 73
Software licenses & cloud storage	322	581
Prepaid travel, tradeshow and other expenses	168	258
Bank guarantee and letter of credit fees	150	59
Prepaid office rent and security deposits	113	92
Insurance premiums	112	247
	\$ 1,415	\$ 1,310

7. PROPERTY AND EQUIPMENT

	Cameras, Satellites and Related Equipment	Computer Equipment	Furniture and Fixtures	Total
Year ended December 31, 2016				
Opening net book value	\$ 124,751	\$ 1,279	\$ 1,376	\$ 127,406
Additions	115	225	323	663
Depreciation (a)	(58,351)	(663)	(395)	(59,409)
Impairment (a)	(5,216)	-	-	(5,216)
Foreign exchange rate changes	(3,975)	(28)	(26)	(4,029)
Closing net book value	\$ 57,324	\$ 813	\$ 1,278	\$ 59,415
At December 31, 2016				
Cost	\$ 129,704	\$ 1,821	\$ 2,074	\$ 133,599
Accumulated depreciation and impairment	(72,380)	(1,008)	(796)	(74,184)
Net book value	\$ 57,324	\$ 813	\$ 1,278	\$ 59,415

UrtheCast Corp.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

	Cameras, Satellites and Related Equipment	Computer Equipment	Furniture and Fixtures	Total
Nine months ended September 30, 2017				
Opening net book value	\$ 57,324	\$ 813	\$ 1,278	\$ 59,415
Additions	-	152	19	171
Disposals	-	(27)	(2)	(29)
Depreciation	(8,161)	(359)	(317)	(8,837)
Impairment (a)	(522)	-	-	(522)
Foreign exchange rate changes	2,040	9	(11)	2,038
Closing net book value	\$ 50,681	\$ 588	\$ 967	\$ 52,236
At September 30, 2017				
Cost	\$ 132,529	\$ 1,893	\$ 2,063	\$ 136,485
Accumulated depreciation and impairment	(81,848)	(1,305)	(1,096)	(82,249)
Net book value	\$ 50,681	\$ 588	\$ 967	\$ 52,236

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

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

Prior to achieving initial commercial operations, the Company capitalized \$48,810 of non-cash costs associated with the launch, installation and operation of the camera equipment aboard the ISS, with a corresponding amount recorded as Deferred Revenue (Note 12). These amounts were to have been recognized into income over the remaining term of the agreement with Energia, which was originally intended to correspond to the life of the ISS, to 2024. However, Energia terminated the agreement on December 31, 2016. As a result, the Company recorded accelerated depreciation of \$40,590 and accelerated revenue recognition of \$40,590 in the fourth quarter of 2016 to reflect the reduced useful life of the assets.

As the capitalized non-cash costs and deferred revenue were fully written off at December 31, 2016, no further non-cash amounts will be recorded in 2017. During the three months ended September 30, 2016, the Company recorded non-cash revenue of \$5,128, depreciation expense of \$1,269 and non-cash operating expenses of \$3,859. During the nine months ended September 30, 2016, the Company recorded non-cash revenue of \$15,541 depreciation expense of \$3,805 and non-cash operating expenses of \$11,736.

Due to the termination of the agreement with Energia, the Company is seeking to monetize the assets through alternative means, including licensing arrangements or an asset sale. As a result, the carrying value of the assets was written down at December 31, 2016 to their estimated fair value less costs of disposal, which is the amount expected to be realized from the proceeds of a sale of the assets. An additional impairment loss of \$355 and \$664 was recorded in the three and nine months ending September 30, 2017, respectively, of which \$279 and \$522 was credited to Property and Equipment, and \$76 and \$142 was credited to Intangible Assets (Note 8) in the three and nine months ended September 30, 2017, respectively, to reduce the estimated recoverable amount, which was valued in US dollars, due to the weakening of the US dollar against the

UrtheCast Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

Canadian dollar. The estimated recoverable amount involves a significant degree of uncertainty and actual proceeds from a sale, if any, could be materially different.

The assets were not classified as held-for-sale at December 31, 2016 or September 30, 2017 as, due to the highly specialized nature of the assets and their location aboard the ISS, management has assessed that it is not highly probable that a sale will be completed within one year.

8. INTANGIBLE ASSETS

	Internally Developed Technologies and Software	Imagery Archive	Customer Relationships	Trade Names and Patents	Total
Balance at January 1, 2016	\$ 44,013	\$ 700	\$ 4,957	\$ 1,970	\$ 51,640
Additions	19,634	-	-	276	19,910
Government funding (a)	(2,416)	-	-	-	(2,416)
Amortization for the period	(5,753)	(234)	(732)	-	(6,719)
Impairment	(5,649)	-	-	-	(5,649)
Foreign exchange rate changes	(1,614)	-	(307)	(132)	(2,053)
Balance at December 31, 2016	\$ 48,215	\$ 466	\$ 3,918	\$ 2,114	\$ 54,713
Additions	10,495	-	-	135	10,630
Government funding (a)	(6,209)	-	-	-	(6,209)
Amortization for the period	(2,970)	(466)	(545)	-	(3,981)
Impairment (Note 7(a))	(142)	-	-	-	(142)
Foreign exchange rate changes	846	-	161	79	1,086
Balance at September 30, 2017	\$ 50,235	\$ -	\$ 3,534	\$ 2,328	\$ 56,097

Intangible assets are comprised of internally developed technologies and software associated with the Company's ground segment networks, development work on the OptiSAR constellation and related SAR technology described in Note 1, and an imagery archive, customer relationships and trade names acquired in 2015. The imagery archive was fully amortized during three months ended March 31, 2017 due to a change in its expected useful life.

During the nine months ended September 30, 2017, the Company capitalized \$198 (2016 - nil) of interest on general borrowings associated with costs incurred on qualifying internally developed technologies and software, using an annualized capitalization rate of 3.24% of qualifying expenditures.

a) Government funding

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

The 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

UrtheCast Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

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. The interest rate used in this measurement 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 has filed claims totalling \$6,052 for the reimbursement of eligible costs incurred from April 2016 to September 2017. At September 30, 2017, the Company recognized the grant portion of the eligible costs, amounting to \$3,094, as a reduction of the intangible asset and as a receivable included in trade and other receivables (Note 5).

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 \$539 and \$1,462 for eligible costs incurred in the three and nine months ended September 30, 2017, respectively, which were credited against internally developed technologies and software.

In May 2016, the Company was awarded \$5,000 from the Government of Canada's Technology Development Program ("TDP") to support the development of its OptiSAR Constellation. The Company filed claims totalling \$281 and \$1,215 in the three and nine months ended September 30, 2017, respectively, which was credited against internally developed technologies and software. The Company filed claims totalling \$1,436 in the nine months ended September 30, 2016, of which \$745 was credited against internally developed technologies and software and the remaining claim amount of \$691 was recognized as other operating income.

In 2015 and 2016, the Company was awarded three non-repayable grants from the Canadian Space Agency's Space Technologies Development Program ("STDP") to reimburse up to \$3,200 of eligible OptiSAR development costs. The Company made claims of \$34 and \$438 for eligible costs incurred in the three and nine months ended September 30, 2017, respectively (\$434 and \$1,384 in the three and nine months ended September 30, 2016), which were credited against internally developed technologies and software.

9. OTHER FINANCIAL LIABILITIES

	September 30, 2017	December 31, 2016
Finance lease liability	\$ 5,851	\$ 5,569
Derivative financial instruments (Note 18)	357	1,565
Total other financial liabilities	6,208	7,134
Current portion	(566)	(1,654)
Non-current portion	\$ 5,642	\$ 5,480

10. BANK LOANS

In 2017 the Company renewed and amended its credit agreement with the Royal Bank of Canada ("RBC") to include a new \$10,000 revolving demand credit facility, which is secured by a combination of cash collateral and qualifying accounts receivable totalling \$10,000. The interest rate on this facility is RBC's prime rate plus 2.00% per annum and borrowings are repayable on demand. The facility has a covenant requiring the Company to maintain consolidated working capital of not less than \$10,000, to be measured prior to each borrowing under the facility. The principal amount outstanding under this facility as at September 30, 2017 was \$10,000.

On April 7, 2017, the Company's subsidiary, UrtheCast Imaging S.L.U, obtained a €1,000 unsecured credit facility with a Spanish Bank, which will be used to finance trade accounts receivable in advance of their due dates. Amounts drawn under this facility are repayable to the Bank on the original due date of the receivable, or in 60 days, whichever is earlier, with interest charged at 1.2%. The principal amount outstanding at September 30, 2017 was €292, or \$431.

UrtheCast Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

11. LONG-TERM DEBT

	September 30, 2017	December 31, 2016
Term loan (a)	\$ 30,973	\$ 29,690
Financing fees	(353)	(419)
Government loans (b)	1,641	1,592
Total long-term debt	32,261	30,863
Current portion	(5,936)	(5,586)
Non-current portion	\$ 26,325	\$ 25,277

(a) On December 11, 2015, the Company's wholly-owned Spanish subsidiary, UrtheCast Imaging, S.L.U. ("UrtheCast Imaging"), obtained a loan of €25,000 from a Spanish bank. The loan has a five-year term and accrues 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. The loan is repayable in annual instalments of €4,000 over the first four years and €9,000 is repayable on the maturity date. 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 September 30, 2017 of \$158 (December 31, 2016 - \$173) is included in Other Financial Liabilities (Note 9).

Under the loan agreement, UrtheCast Imaging is required to meet certain annual 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. The Company was in compliance with the covenants for the year ended December 31, 2016.

(b) Government loans are interest-free or low-interest loans provided by Spanish government agencies, which are recorded at amortized cost. The loans are repayable in semi-annual instalments, ending in 2025.

12. DEFERRED REVENUE

	Engineering and Value-Added Services (a)	Earth Imagery Data (b)	Government Funding (c)	Total
Balance at September 30, 2017	\$ 3,931	\$ 700	\$ 188	\$ 4,819
Less: current portion	(3,931)	(394)	(188)	(4,513)
Non-current portion	\$ -	\$ 306	\$ -	\$ 306
Balance at December 31, 2016	\$ 10,949	\$ 1,532	\$ 288	\$ 12,769
Less: current portion	(9,333)	(1,140)	(288)	(10,761)
Non-current portion	\$ 1,616	\$ 392	\$ -	\$ 2,008

a) Engineering and value-added services

During 2014, the Company entered into a contract with a customer for the provision of engineering services, value-added services and Earth imagery data valued at US \$65,050. The terms of the contract provided for the payment of an advance by the customer of 20% of the total contract value and a letter of credit for the balance of payments. The advance was recorded as deferred revenue and is being recognized as revenue on a proportionate basis as the services and imagery are provided. During 2016, the contract was amended to reallocate a significant portion of the funds previously earmarked for future data purchases towards engineering services. The Company recognized \$7,229 of revenue from this contract in the three months ended September 30, 2017 (2016 - \$8,185), and \$21,932 in the nine months ended September 30, 2017 (2016 - \$23,180),

UrtheCast Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

including \$449 and \$711 from the provision of Earth imagery data in the three and nine months ended September 30, 2017, respectively (\$1,043 in the three and nine months ended Sept 30, 2016).

During the year ended December 31, 2015, the Company received an advance payment of US \$6,305 from a customer with respect to a US \$9,007 contract for the provision of space hardware and engineering services commencing in April 2015. The remainder of the contract value is receivable after delivery of the equipment to the customer. The contract is being accounted for in accordance with IAS 11, "Construction Contracts", with revenue being recognized on a percentage of completion basis over the term of the contract. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for the contract. Costs incurred in the current period in connection with future activity on the contract are excluded from contract costs in determining the stage of completion. Work on the project was substantially completed at September 30, 2017. Revenue of \$229 and \$1,250 was recognized during the three and nine months ended September 30, 2017, respectively (\$1,272 and \$4,517 in the three and nine months ended September 30, 2016, respectively).

In December 2016, the Company signed an additional contract to provide engineering services and space hardware for US \$3,900. The Company received an advance payment of 70% of the contract price from the customer in the first quarter of 2017, which was recorded in trade accounts receivable and deferred revenue at December 31, 2016. Work on the project commenced in the second quarter of 2017 and revenue of \$1,333 and \$2,226 was recognized during the three and nine months ended September 30, 2017, respectively, based on the percentage of completion method described above.

b) Earth Imagery Data

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

c) Government funding

The Company received government funding in 2016 with respect to certain research activities to be carried out in 2016 and 2017. The amounts are being recognized in income as the costs are incurred, of which \$90 and \$201 was recorded in the three and nine months ended September 30, 2017, respectively (\$65 in the three and nine months ended Sept 30, 2016) (Note 16).

13. SHARE CAPITAL AND RESERVES

a) Common Shares

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

The following is a summary of changes in the Company's share capital from January 1, 2016 to September 30, 2017:

	Number of Shares	Amount
Balance at January 1, 2016	102,752,217	\$ 190,862
Shares issued upon vesting of Restricted Share Units (Note 14(b))	1,896,860	3,022
Options exercised (Note 14(a))	30,000	34
Balance at December 31, 2016	104,679,077	\$ 193,918
Shares issued in public offering	13,033,341	19,550
Share issue costs	-	(1,555)
Shares issued upon vesting of Restricted Share Units (Note 14(b))	1,468,750	1,898
Options exercised (Note 14(a))	1,838,932	2,467
Balance at September 30, 2017	121,020,100	\$ 216,278

UrtheCast Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

Shares Issued in Public Offering

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

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

b) Warrants

At September 30, 2017 and December 31, 2016, there were 124,842 share purchase warrants outstanding with a weighted average exercise price of \$1.77 and fair value of \$165, expiring in June 2018. No warrants were issued or exercised during the nine months ended September 30, 2017.

14. SHARE-BASED PAYMENTS

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

The total expense arising from share-based payment transactions in the three and nine months ended September 30, 2017 was \$822 and \$2,033, respectively (2016 - \$769 and \$1,892 in the three and nine months ended September 30, respectively). In addition, \$222 and \$530 of share-based payment costs associated with internal engineering staff involved in development activities were capitalized in the three and nine months ended September 30, 2017, respectively (2016 - \$218 and \$526 in the three and nine months ended September 30, respectively) (Note 8).

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 nine months ended September 30, 2017 and 2016:

	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, beginning of year	6,807,834	\$ 1.32	6,864,168	\$ 1.43
Granted	2,534,000	1.32	927,000	0.98
Exercised	(1,838,932)	0.89	(30,000)	0.75
Forfeited	(1,025,001)	1.49	(1,116,667)	1.67
Expired	(317,400)	1.12	-	-
Outstanding, end of period	6,160,501	\$ 1.43	6,644,501	\$ 1.33
Vested, end of period	2,669,160	\$ 1.59	4,577,333	\$ 1.27

UrtheCast Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

Fair Value Assumptions

2,534,000 stock options were granted in the nine months ended September 30, 2017 at a weighted average exercise price of \$1.32 (2016 - 927,000 stock options were granted at a weighted average exercise price of \$0.98). The weighted average grant date fair value of options granted during the nine months ended September 30, 2017 was estimated at \$0.64 per stock option (2016 - \$0.49) using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	2017	2016
Risk-free interest rate	0.79%	0.53%
Expected lives (years)	3.5	3.5
Expected volatility	73%	73%
Dividend per share	NIL	NIL
Share price fair value	\$1.27	\$0.96

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

1,838,932 stock options were exercised in the nine months ended September 30, 2017 (Note 13(a)) (2016 - 30,000) at a weighted average exercise price of \$0.89 (2016 - \$0.75). The weighted average Common Share price at the time the options were exercised was \$1.36 (2016 - \$1.05).

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 200,000 RSUs granted to an officer which vest in one-third increments over an 18-month period, and RSUs granted to directors and certain consultants, which vest immediately. RSUs are valued at the greater of the closing market price of the Common Shares on the day prior to the grant and the volume weighted average price of the shares for the five trading days prior to the grant date.

The following table reflects the continuity of RSUs for the nine months ended September 30, 2017 and 2016:

	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
	Number of RSUs	Weighted average grant date fair value	Number of RSUs	Weighted average grant date fair value
Outstanding, beginning of year	3,328,748	\$ 1.25	2,864,193	\$ 1.71
Granted	1,951,425	1.41	2,416,415	0.99
Released	(1,468,750)	1.29	(1,895,610)	1.59
Forfeited	(218,750)	1.10	(65,000)	1.97
Outstanding, end of period	3,592,673	\$ 1.33	3,319,998	\$ 1.25
Vested, end of period	930,173	\$ 1.58	531,248	\$ 1.55

During the nine months ended September 30, 2017, the Company granted 1,951,425 RSUs (2016 - 2,416,415) at a weighted average grant date fair value of \$1.41 (2016 - \$0.99). This includes 1,580,000 RSUs granted to employees, officers and a consultant (2016 - 2,160,000) which vest equally every 6 months over a two-year period, and 200,000 RSUs granted to an officer which vest equally every 6 months over an 18-month period, all of which are being expensed on a graded vesting basis. The remaining 171,425 RSUs were granted to directors of the Company (2016 - 256,415), which are issuable as Common Shares upon the directors ceasing to be directors of the Company. As the RSUs granted to the directors vested immediately and are not subject to performance conditions or forfeiture, the fair value was recognized as an expense on the grant date.

UrtheCast Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

During the nine months ended September 30, 2017, 1,468,750 Common Shares (2016 - 1,895,610) were issued upon the vesting of RSUs (Note 13(a)).

15. REVENUE AND GEOGRAPHIC INFORMATION

The Company has one reportable operating segment involving the provision of Earth Observation imagery and engineering and value-added services described in Notes 1 and 12(a).

a) Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Engineering and value-added services	\$ 8,342	\$ 8,414	\$ 24,697	\$ 26,654
Earth observation imagery	1,823	7,109	6,718	11,581
Non-cash revenue (Note 7(a))	-	5,128	-	15,541
	\$ 10,165	\$ 20,651	\$ 31,415	\$ 53,776

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Middle East, Africa and South Asia	\$ 7,277	\$ 8,236	\$ 22,251	\$ 24,224
Europe and Russia	2,627	12,284	8,314	28,922
Americas	261	131	850	630
	\$ 10,165	\$ 20,651	\$ 31,415	\$ 53,776

b) Non-current assets

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

	Property and Equipment	Intangible Assets	Goodwill	Deferred Tax Assets	Total
Spain	\$ 44,301	\$ 23,920	\$ 5,795	\$ 5,991	\$ 80,007
Canada	7,703	32,177	-	-	39,880
United States	232	-	-	-	232
Balance at September 30, 2017	\$ 52,236	\$ 56,097	\$ 5,795	\$ 5,991	\$ 120,119
Spain	\$ 50,393	\$ 26,343	\$ 5,555	\$ 1,362	\$ 83,653
Canada	8,652	28,370	-	-	37,022
United States	370	-	-	-	370
Balance at December 31, 2016	\$ 59,415	\$ 54,713	\$ 5,555	\$ 1,362	\$ 121,045

16. OTHER OPERATING INCOME

In the three and nine months ended September 30, 2017, the Company recognized grant income of \$90 and \$201, respectively, from a Canadian government research program (Note 12(c)) (2016 - \$61 and \$756 in the three and nine months ended September 30, 2016, respectively).

17. EXPENSES BY NATURE

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Depreciation, amortization and impairment	\$ 4,511	\$ 14,101	\$ 13,482	\$ 27,057
Salaries and benefits	4,418	4,940	12,693	16,524
Subcontractors and other suppliers	3,778	3,100	10,590	7,536
Computer software and cloud storage	512	754	1,923	2,708
Professional fees	384	165	1,907	1,542
Office and other expenses	590	734	1,851	2,410
Travel expenses	503	582	1,505	1,893
Marketing, sales commissions, public relations and shareholder expenses	457	495	1,360	1,590
Contractors and consultants	459	428	1,222	1,375
Insurance	289	348	897	1,053
Directors' fees	61	61	505	493
Non-cash services provided (Note 7(a))	-	3,859	-	11,736
	\$ 15,962	29,567	\$ 47,935	\$ 75,917

18. FINANCIAL INSTRUMENTS

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. At September 30, 2017, the fair value of derivative financial instruments is a liability of \$357 (Note 9) (December 31, 2016 - \$1,565).

Derivative 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 unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are 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 above-noted derivative financial instruments were classified as held for trading and were measured at fair value using level 2 inputs.

UrtheCast Corp.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

The following table summarizes the unrealized gain (loss) on derivative financial instruments for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Foreign exchange forward contracts	\$ 467	\$ (464)	\$ 1,323	\$ (464)
Interest rate swap	(45)	(311)	22	(311)
	\$ 422	\$ (775)	\$ 1,345	\$ (775)

19. 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 three and nine months ended September 30, 2017 and 2016 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Salaries and benefits	\$ 482	\$ 445	\$ 1,408	\$ 1,354
Directors' fees	61	61	195	193
Share-based payments	445	439	1,337	1,372
	\$ 988	\$ 945	\$ 2,940	\$ 2,919

b) Other Related Party Transactions

Related parties include key management personnel and enterprises that are controlled by these individuals. There were no related party transactions during the period other than those noted in (a).

20. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net loss	\$ (6,400)	\$ (9,618)	\$ (15,384)	\$ (20,995)
Weighted average number of common shares	120,937,152	104,451,088	115,829,332	103,670,727
Basic and diluted loss per share	\$ (0.05)	\$ (0.09)	\$ (0.13)	\$ (0.20)

UrtheCast Corp.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2017 and 2016
(unaudited)
(in thousands of Canadian dollars, except number of shares and per share amounts)

21. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in Operating Assets and Liabilities

	Nine Months Ended September 30,	
	2017	2016
Trade and other receivables (Note 5)	\$ 7,690	\$ (19,595)
Prepaid expenses and deposits (Note 6)	(8)	2,808
Trade and other payables	4,337	(1,549)
Deferred revenue (Note 12)	(7,979)	(6,927)
	<u>\$ 4,040</u>	<u>\$ (25,263)</u>

b) Income Taxes and Interest Paid and Received

	Nine Months Ended September 30,	
	2017	2016
Income taxes paid	\$ -	\$ (376)
Interest paid	(645)	(943)
Interest received	78	103
	<u>\$ (567)</u>	<u>\$ (1,216)</u>

c) Cash and Cash Equivalents

	September 30, 2017	September 30, 2016
Cash	\$ 25,424	\$ 8,904
Term deposits with maturities of three months or less	-	2,486
	<u>\$ 25,424</u>	<u>\$ 11,390</u>

22. COMMITMENTS

The Company has contractual commitments requiring future payments of \$8,931, (\$11,307 at December 31, 2016) related to the development of its OptiSAR Constellation, of which \$2,955 is payable in 2017, and \$5,976 is payable in 2018. These amounts will be recorded when the services are rendered.

In addition, the Company has commitments under a Service Level Agreement and Option agreement for the purchase of assets associated with the acquisition of Deimos Imaging in 2015, which are being accounted for a finance lease. The total commitment is \$6,562 (\$6,715 at December 31, 2016), of which \$442 is payable in 2018 and 2019, and \$5,678 is payable in 2020.