



**URTHECAST CORP.**  
**CONDENSED INTERIM CONSOLIDATED**  
**FINANCIAL STATEMENTS**

**(unaudited)**

**For the three and six months ended June 30, 2019 and 2018**

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

As at	June 30, 2019	December 31, 2018
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 2,669	\$ 1,438
Restricted term deposits	273	8,058
Trade and other receivables (Note 6)	15,182	22,178
Prepaid expenses and deposits	825	1,128
	<u>18,949</u>	<u>32,802</u>
Assets held for sale (Note 5)	58,319	-
<b>Non-current assets</b>		
Restricted term deposits	-	234
Trade and other receivables (Note 6)	1,659	-
Property and equipment (Note 7)	4,154	32,425
Intangible assets (Note 8)	64,301	48,178
	<u>64,301</u>	<u>48,178</u>
<b>Total assets</b>	<u>\$ 147,382</u>	<u>\$ 113,639</u>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Trade and other payables	\$ 20,648	\$ 24,936
Income taxes payable	1,021	720
Bank and other loans (Note 9)	16,865	6,807
Current portion of long-term debt (Note 10)	-	10,252
Convertible debentures (Note 11)	5,001	4,852
Other financial liabilities (Note 13)	8,492	2,167
Deferred revenue	4,582	801
	<u>56,609</u>	<u>50,535</u>
Liabilities directly associated with assets held for sale (Note 5)	39,341	-
<b>Non-current liabilities</b>		
Long-term debt (Note 10)	6,135	20,274
Convertible debentures (Note 11)	7,550	7,406
Derivative financial instruments (Note 12)	3,782	6,415
Other financial liabilities (Note 13)	13,842	5,823
Deferred revenue	-	144
Deferred income tax liabilities (Note 4)	7,876	552
	<u>135,135</u>	<u>91,149</u>
<b>Total liabilities</b>	<u>135,135</u>	<u>91,149</u>
<b>Shareholders' equity</b>		
Share capital (Note 14)	221,227	219,356
Contributed surplus and other reserves	9,646	9,798
Accumulated other comprehensive income	6,911	7,198
Accumulated deficit	(225,537)	(213,862)
	<u>12,247</u>	<u>22,490</u>
<b>Total shareholders' equity</b>	<u>12,247</u>	<u>22,490</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 147,382</u>	<u>\$ 113,639</u>

Corporate Information and Going Concern (Note 1)

Commitments (Note 20)

Subsequent Events (Note 21)

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
		(Re-presented) (Note 5)		(Re-presented) (Note 5)
Revenue (Note 16(a))	\$ 5,058	\$ 1,543	\$ 9,483	\$ 4,794
Other operating income	219	37	550	232
	5,277	1,580	10,033	5,026
Operating costs				
Direct costs, selling, general and administrative expenses	5,745	5,004	10,982	11,674
Research expenditures	234	306	528	612
Depreciation and amortization	1,731	122	3,148	282
Share-based payments (Note 15)	735	436	964	877
	8,445	5,868	15,622	13,445
Operating loss	(3,168)	(4,288)	(5,589)	(8,419)
Other income (expenses)				
Finance income	8	48	9	85
Finance costs	(2,340)	(5,585)	(3,977)	(5,780)
(Loss) gain on derivative financial instruments (Note 18(a))	(369)	4,151	3,106	4,378
Foreign exchange gain (loss)	364	493	(729)	705
Loss before income taxes	(5,505)	(5,181)	(7,180)	(9,031)
Income tax recovery (expense)	331	(25)	584	(51)
Net loss from continuing operations	(5,174)	(5,206)	(6,596)	(9,082)
Net loss from discontinued operation (Note 5)	(26)	(8,047)	(5,079)	(15,229)
Net loss	(5,200)	(13,253)	(11,675)	(24,311)
Other comprehensive income:				
Items that may subsequently be reclassified to net loss:				
Foreign currency translation (loss) gain	(450)	(1,355)	(287)	901
Comprehensive loss	\$ (5,650)	\$ (14,608)	\$ (11,962)	\$ (23,410)
Loss per common share, basic and diluted (Note 19)	\$ (0.04)	\$ (0.11)	\$ (0.09)	\$ (0.20)
Loss per common share, basic and diluted - continuing operations (Note 19)	\$ (0.04)	\$ (0.04)	\$ (0.05)	\$ (0.07)

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)

Six months ended June 30, 2019	Share capital (Note 14)	Reserves		Accumulated other comprehensive income	Accumulated deficit	Total
		Warrants	Contributed surplus			
December 31, 2018	\$ 219,356	\$ -	\$ 9,798	\$ 7,198	\$ (213,862)	\$ 22,490
Net loss for the period	-	-	-	-	(11,675)	(11,675)
Share-based payments (Note 15)	-	-	895	-	-	895
Shares issued for vested restricted share units	1,047	-	(1,047)	-	-	-
Shares issued on conversion of debentures (Note 11(b))	824	-	-	-	-	824
Foreign currency translation	-	-	-	(287)	-	(287)
June 30, 2019	\$ 221,227	\$ -	\$ 9,646	\$ 6,911	\$ (225,537)	\$ 12,247

Six months ended June 30, 2018	Share capital (Note 14)	Reserves		Accumulated other comprehensive income	Accumulated deficit	Total
		Warrants	Contributed surplus			
December 31, 2017	\$ 216,633	\$ 165	\$ 9,469	\$ 6,536	\$ (130,610)	\$ 102,193
Net loss for the period	-	-	-	-	(24,311)	(24,311)
Share-based payments (Note 15)	-	-	1,161	-	-	1,161
Shares issued for vested restricted share units	448	-	(448)	-	-	-
Warrants expired	-	(165)	165	-	-	-
Foreign currency translation	-	-	-	901	-	901
June 30, 2018	\$ 217,081	\$ -	\$ 10,347	\$ 7,437	\$ (154,921)	\$ 79,944

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

For the six months ended	June 30, 2019	June 30, 2018 (Re-presented)
<b>Cash flows from (used in) operating activities</b>		
Net loss from continuing operations for the period	\$ (6,596)	\$ (9,082)
Items not affecting operating cash flows:		
Depreciation of property and equipment	560	282
Amortization of intangible assets	2,588	-
Share-based payments	964	877
Finance income	(9)	(85)
Finance costs	3,977	5,780
Unrealized gain on derivative financial instruments	(3,186)	(4,146)
Loss on disposal of property and equipment	-	72
Unrealized foreign exchange loss (gain)	413	(175)
Income tax (recovery) expense	(584)	51
Interest paid	(162)	(202)
Interest received	13	89
Changes in operating assets and liabilities	5,385	1,696
<b>Net cash from (used in) continuing operating activities</b>	<b>3,363</b>	<b>(4,843)</b>
<b>Cash flows used in investing activities</b>		
Acquisition of Geosys, net of cash acquired (Note 4)	(5,202)	-
Acquisition of property and equipment	(17)	(1)
Expenditures on intangible assets	(4,338)	(7,381)
Proceeds from government grants	707	2,559
<b>Net cash used in continuing investing activities</b>	<b>(8,850)</b>	<b>(4,823)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issuance of convertible debentures (Note 11)	-	14,669
Proceeds from bank and other loans (Note 9)	17,771	-
Repayment of bank and other loans (Note 9)	(6,807)	(1,918)
Proceeds from long-term debt (Note 10)	664	1,060
Reduction in other financial liabilities	(414)	-
Interest paid on bank and other loans and convertible debentures	(801)	(261)
Financing costs	(1,250)	(8,167)
Purchase of restricted term deposits, net	-	(6,124)
<b>Net cash from (used in) continuing financing activities</b>	<b>9,163</b>	<b>(741)</b>
<b>Net increase (decrease) in cash during the period, continuing operations</b>	<b>3,676</b>	<b>(10,407)</b>
<b>Net decrease in cash during the period, discontinued operation (Note 5)</b>	<b>(1,840)</b>	<b>(9,325)</b>
<b>Cash at beginning of year</b>	<b>1,438</b>	<b>23,206</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(43)</b>	<b>199</b>
<b>Cash at end of period</b>	<b>\$ 3,231</b>	<b>\$ 3,673</b>
Cash attributable to continuing operations	\$ 2,669	\$ 3,470
Cash attributable to discontinued operation (Note 5)	\$ 562	\$ 203

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 geo-analytics markets with a wide range of information-rich products and services. UrtheCast has 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.

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. 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 as further described in Note 5.

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 has a history of significant operating losses, working capital deficiencies and insufficient cash flows from operations to fund its activities. 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 February 13, 2019, the Company and the senior lenders of the US \$142,000 credit agreement dated May 18, 2018 (the "Credit Agreement") to finance the UrtheDaily Constellation project, entered into a mutual termination agreement (the "Termination Agreement") which formally terminated the Credit Agreement among the parties. 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, build and launch 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 its working capital deficiency, during the six months ended June 30, 2019, the Company completed a US \$12,000 term loan financing, a US \$1,500 term loan financing, secured a US \$10,000 receivables purchasing agreement to finance qualifying trade receivables, implemented significant cost reductions and committed to a formal plan to sell all or substantially all of its Spanish earth observation assets comprising the Deimos-1 and Deimos-2 satellites, operations and ground station assets, as further described in Note 5. The Company also expects Geosys to generate positive operating cash flows, specifically from the 13-year agreement to provide services to Land O'Lakes as further described in Note 4.

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 Company is also seeking an amendment to the terms of the SADI funding agreement or waiver of certain requirements in order to regain compliance with the agreement as further described in note 10(b). While the Company expects to resolve the matter in a timely fashion and on favourable terms, there can be no assurance that these efforts will be successful. 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 or otherwise execute on its business strategies. 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**

Except as described in Note 3, 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, 2018. 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 the 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, 2018, which are available at [www.sedar.com](http://www.sedar.com).

These consolidated financial statements were authorized for issue by the Board of the Directors on August 14, 2019.

### **b) Critical Accounting Estimates and Judgments**

The preparation of these condensed interim consolidated financial statements requires management to make certain accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2018 and below for additional judgments applied in these condensed interim consolidated financial statements.

#### **Fair Values of Assets and Liabilities Acquired in Business Combinations**

The fair value of net assets acquired is determined using valuation techniques that require estimation of replacement costs, future net cash flows and discount rates. As described in Note 4, the Company made a preliminary allocation of the purchase price to the estimated fair value of the identifiable assets and liabilities acquired, based on management's best estimates. The Company expects that the preliminary fair value allocation will change once an independent valuation has been completed and the changes may be material. In addition, the final purchase price allocation could change if new information is obtained about facts and circumstances that existed as of the acquisition date. While title over the Geosys IP, as described in Note 4, is to be transferred from Land O'Lakes to the Company on second closing of the acquisition, the Company has determined that sufficient control over the assets existed at the time of first closing and therefore included the estimated fair value of the Geosys IP in intangible assets within the preliminary purchase price allocation.

## **3. ADOPTION OF ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES**

The following describes the impact of adopting IFRS 16 *Leases* and other changes in accounting policies effective January 1, 2019.

### **a) Leases**

The Company adopted IFRS 16 *Leases* on January 1, 2019 using the modified retrospective approach, which requires transitional adjustments, if any, to be recorded in retained earnings on the date of initial application without restating prior year

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comparatives. The Company elected to apply the optional practical expedients such that for any expired or existing leases it did not reassess lease classification, initial direct costs or whether any expired or existing contracts are or contain leases.

IFRS 16 replaced IAS 17 *Leases* and eliminated 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.

#### ***Lessee Accounting***

The Company leases assets, including office premises, antenna equipment and office equipment.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets ("ROU assets") and lease liabilities for most leases on its balance sheet.

However, the Company elected to apply the optional practical expedient such that short-term leases with a remaining term not exceeding 12 months as at adoption date as well as leases where the underlying asset is of low value were not recognized as ROU assets. The Company expenses the lease payments associated with these leases in direct costs, selling, general and administrative expenses.

On adoption of IFRS 16, the Company recognized lease liabilities for leases which had previously been classified as operating leases under IAS 17, other than short-term leases and leases of low value assets. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate as of January 1, 2019 of 12%. The lease liabilities are included in Other Financial Liabilities (Note 13).

The following table presents the reconciliation of operating lease commitments disclosed at December 31, 2018 to the recognized lease liabilities as of January 1, 2019:

Operating lease commitments disclosed as of December 31, 2018	\$ 4,306
Recognition exemption	
Current leases with a lease term of 12 months or less (short-term leases)	(651)
Other	(165)
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(817)
<b>Lease liabilities due to initial application of IFRS 16 as of January 1, 2019</b>	<b>\$ 2,673</b>
Lease liabilities from finance leases as of January 1, 2019	5,934
<b>Lease liabilities as of January 1, 2019</b>	<b>\$ 8,607</b>
Current lease liabilities	\$ 597
Non-current lease liabilities	8,010
Lease liabilities as of January 1, 2019	<b>\$ 8,607</b>

The associated ROU assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the ROU assets at the date of initial application. The ROU asset is depreciated on a straight-line basis over the lease term or, if it is shorter, over the useful life of the leased asset. The provisions of IAS 36 concerning the determination and recognition of impairments of assets also apply to ROU assets. The ROU assets are included in Property and Equipment (Note 7).

For leases previously classified as finance leases, the Company recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.



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The initial application of IFRS 16 resulted in recording ROU assets in the amount of \$2,605 and lease liabilities in the amount of \$2,673 in the condensed interim consolidated statements of financial position as at January 1, 2019. There were no transitional adjustments recognized in opening retained earnings.

**Lessor Accounting**

The accounting policies applicable to the Company as lessor are not different from those under IAS 17. However, when the Company is an intermediate lessor, if the head lease is a short-term lease that the Company has accounted for applying the short-term lease exemption, the sublease has been classified as an operating lease. Otherwise, the sub-leases are classified with reference to the ROU asset arising from the head lease, not with reference to the underlying asset.

**b) Non-current assets held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets on the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities on the balance sheet.

A discontinued operation is a component of the Company's business, the operations and cashflows of which can be clearly distinguished from the rest of the Company and which represents a separate major line of business or geographic area of operations and is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or is a subsidiary acquired exclusively with the view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When the operation is classified as a discontinued operation, the interim consolidated statements of loss and comprehensive loss are re-presented as if the operation had been discontinued from the start of the comparative year.

**c) Basis of consolidation**

As a result of the acquisition of Geosys as described in Note 4, the following additional material entities have been consolidated within the Company's financial statements since the acquisition closing date.

Entity	Registered	Holding	Status
Geosys SAS	France	100% owned	Active
Geosys Australia PTY	Australia	100% owned	Active
Geosys Brasil Ltda.	Brazil	100% owned	Active
Geosys Europe SARL	Switzerland	100% owned	Active
Geosys Intl Inc.	USA	100% owned	Active
1185781 B.C. Ltd.	British Columbia, Canada	100% owned	Active

#### **4. 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. The acquisition of Geosys positions UrtheCast as a fully vertically-integrated geo-analytics solution provider for the precision agriculture market, able to integrate satellite imagery services with analytics.

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. The transfer is subject to the Company completing separation of the Geosys IP from Land O’Lakes’ intellectual property. The deferred consideration of US \$15,000 is measured at fair value on the acquisition date by discounting the future consideration at a discount rate of 13.5%.

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 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 has accounted for the acquisition as a business combination using the acquisition method. A preliminary allocation of the purchase price to the fair value of the identifiable assets and liabilities of Geosys at January 14, 2019 is presented in the table below. This preliminary allocation is based on management’s best estimates. Due to the complex technical nature of the assets, the Company intends to complete an independent valuation of the tangible and intangible assets acquired. Following the valuation, it is expected that the preliminary fair values allocated to the Geosys IP and other intangible assets, goodwill and deferred income taxes will change, and the changes may be material. In addition, the final purchase price accounting may vary from the amounts below as a result of new information obtained about facts and circumstances that existed as of the acquisition date.

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	Preliminary Fair Values at Acquisition Date			
	USD		CAD	
Cash	\$	1,080	\$	1,433
Trade and other receivables		2,531		3,358
Prepaid expenses and deposits		482		640
Restricted term deposits		68		90
Property and equipment		1,762		2,338
Intangible assets		22,727		30,156
<b>Total assets</b>		<b>28,650</b>		<b>38,015</b>
Trade and other payables		2,671		3,544
Income taxes payable		215		285
Deferred revenue		873		1,158
Other financial liabilities		1,435		1,904
Deferred income tax liabilities		6,388		8,476
<b>Total identifiable net assets at acquisition date</b>	<b>\$</b>	<b>17,068</b>	<b>\$</b>	<b>22,648</b>
<b>Purchase consideration</b>				
Cash paid	\$	5,000	\$	6,635
Deferred consideration		12,068		16,013
<b>Total purchase consideration</b>	<b>\$</b>	<b>17,068</b>	<b>\$</b>	<b>22,648</b>

The Company revised the total purchase consideration to reduce the preliminary estimated working capital adjustment receivable of \$851 at March 31, 2019 to nil at June 30, 2019. The adjustment to the preliminary fair values at acquisition date resulted in an increase of \$1,216 to the intangible assets and increase of \$365 to deferred income tax liabilities.

The Company recorded acquisition costs of nil and \$8 during the three and six months ended June 30, 2019, respectively. Acquisition costs, including legal, tax and other advisory fees, of \$719 were recorded during the year ended December 31, 2018.

The Company's consolidated statement of loss and comprehensive loss for the three and six months ended June 30, 2019 includes revenue of \$5,058 and \$9,483, respectively, and net income of \$100 and \$116, respectively, contributed by Geosys after the acquisition date.

Had Geosys been acquired on January 1, 2019, based on management estimates, the Company's consolidated statement of loss and comprehensive loss for the three and six months ended June 30, 2019 would have included additional revenue of \$63 and \$482, respectively with respect to the acquired operations.

## 5. ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

In 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. Accordingly, the associated assets and liabilities have been classified as held for sale and are presented at the lower of their carrying amount and their fair value less costs to sell as at June 30, 2019. The Company ceased to depreciate Deimos Imaging's significant property and equipment and intangible assets effective April 1, 2019.

The comparative interim consolidated statements of loss and comprehensive loss and statements of cash flows have been re-presented to classify the discontinued operation separately from continuing operations. The Company continues to explore a viable transaction but there can be no assurance that a binding transaction will be entered into.

The following assets and liabilities were classified as held for sale at June 30, 2019:

	<u>June 30, 2019</u>
<b>Assets</b>	
Cash	\$ 562
Trade and other receivables (Note 6)	8,558
Prepaid expenses and deposits	278
Restricted term deposits	7,667
Property and equipment (Note 7(a))	28,110
Intangible assets (Note 8(b))	13,144
<b>Total assets of disposal group held for sale</b>	<u>58,319</u>
<b>Liabilities</b>	
Trade and other payables	(10,160)
Long-term debt (Note 10)	(22,838)
Other financial liabilities (Note 13)	(6,042)
Deferred revenue	(301)
<b>Liabilities directly associated with disposal group held for sale</b>	<u>(39,341)</u>
<b>Net assets directly associated with disposal group</b>	<u>\$ 18,978</u>

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The results of the discontinued operation for the three and six months ended June 30, 2019 and 2018 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 5,017	\$ 1,834	\$ 6,185	\$ 2,850
Other operating income	435	-	462	-
	5,452	1,834	6,647	2,850
Operating costs	(5,140)	(9,725)	(11,608)	(17,571)
Operating income (loss)	312	(7,891)	(4,961)	(14,721)
Finance and other costs, net	(338)	(308)	(653)	(769)
Loss before income taxes	(26)	(8,199)	(5,614)	(15,490)
Income tax recovery	-	152	535	261
<b>Net loss from discontinued operation</b>	<b>\$ (26)</b>	<b>\$ (8,047)</b>	<b>\$ (5,079)</b>	<b>\$ (15,229)</b>
<b>Loss per share, basic and diluted - discontinued operation</b>	<b>\$ -</b>	<b>\$ (0.07)</b>	<b>\$ (0.04)</b>	<b>\$ (0.13)</b>

The cash flow information for the discontinued operation for the three and six months ended June 30, 2019 and 2018 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net cash from (used in) operating activities	\$ 536	\$ (1,241)	\$ 337	\$ (2,901)
Net cash from (used in) investing activities	71	(16)	-	(48)
Net cash used in financing activities	(1,159)	(6,357)	(2,177)	(6,376)
<b>Net decrease in cash from discontinued operation</b>	<b>\$ (552)</b>	<b>\$ (7,614)</b>	<b>\$ (1,840)</b>	<b>\$ (9,325)</b>

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## 6. TRADE AND OTHER RECEIVABLES

	June 30, 2019	December 31, 2018
Unbilled revenue	\$ 16,271	\$ 18,028
Trade accounts receivable (a)	4,496	1,251
Sales tax and other receivables	3,257	1,777
Government funding receivable (Note 8(c))	1,375	1,122
Total trade and other receivables	25,399	22,178
Assets held for sale (Note 5)	(8,558)	-
	16,841	22,178
Current portion	(15,182)	(22,178)
Non-current portion	\$ 1,659	\$ -

### a) US \$10,000 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 (“Financing Agent”) which allows the Company to finance certain qualifying trade receivables. The RPA requires the Company’s customer to remit payment to the Financing Agent’s collection account; however, the Company continues to service collection of the receivables.

In March 2019, the Company financed trade receivables under the Winfield SLA with a fair value of US \$2,525 and received advance proceeds of approximately US \$2,196, which represented 90% of the face value of the trade receivables, net of interest of \$22 and facility fees of \$55. The remaining 10% of the financed receivables were collected in April 2019.

In May 2019, the Company financed further trade receivables under the Winfield SLA with a fair value of US \$2,525 and received advance proceeds of approximately US \$2,363 which represented 95% of the face value of the trade receivables, net of interest of \$35. At June 30, 2019, the remaining 5% of the financed receivables were outstanding from the Factoring Agent and were subsequently collected. The financed trade receivables were derecognized in full at the time of purchase by the Factoring Agent as substantially all of the risks and rewards were considered to have been transferred by the Company.

## 7. PROPERTY AND EQUIPMENT

### a) Assets Held for Sale

As described in Note 5, 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. At June 30, 2019, the disposal group was stated at fair value less costs to sell and the assets and liabilities related to the discontinued operation were reclassified as held for sale. Property and equipment related to Deimos Imaging of \$28,110, including the Deimos-1 and Deimos-2 satellites and related equipment, ROU assets, computer equipment and furniture and fixtures, were reclassified from property and equipment to assets held for sale at June 30, 2019.

### b) Right of Use Assets (“ROU Assets”)

As a result of the adoption of IFRS 16 on January 1, 2019 as described in Note 3, the Company recorded ROU assets and recognized lease liabilities for most leases which had been expensed as operating leases prior to January 1, 2019. At June 30, 2019, ROU assets, including ROU assets acquired in the Geosys Acquisition, relating to leases of office premises, antenna equipment and office equipment totalled \$3,399 (December 31, 2018 - nil).

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**c) Acquisition of Geosys**

As part of the Geosys Acquisition described in Note 4, the Company acquired property and equipment with an estimated fair value of \$2,338 which was comprised of ROU assets related to leases of office premises, furniture and fixtures and computer equipment.

## **8. INTANGIBLE ASSETS**

**a) Acquisition of Geosys**

As a result of the preliminary purchase price allocation for the Geosys Acquisition described in Note 4, the Company recognized intangible assets of \$30,156, primarily related to the intellectual property associated with accessing, processing, cataloguing and retrieving of images.

**b) Assets Held for Sale**

At June 30, 2019, the intangible assets related to Deimos Imaging of \$13,144 consisting of technologies and software in use, customer relationships and trade names and patents were reclassified from intangible assets to assets held for sale as described in Note 5.

**c) Government funding**

The Company filed claims related to its Strategic Aerospace & Defence Initiative ("SADI") totalling nil and \$653 for the reimbursement of eligible costs incurred in the three and six months ended June 30, 2019, respectively (three and six months ended June 30, 2018 - \$639 and \$1,410, respectively) and the grant portion of the eligible costs of \$277 was recognized as a reduction of the intangible asset. A receivable of \$339 is included in trade and other receivables as at June 30, 2019 (December 31, 2018 - \$600) (Note 6). The Company received proceeds of nil and \$1,203 during the three and six months ended June 30, 2019, respectively, of which nil and \$644 was recognized as a long-term repayable government loan (Note 10).

The Company filed claims under other Canadian government funding programs of \$484 and \$881 for eligible costs incurred during the three and six months ended June 30, 2019, respectively (three and six months ended June 30, 2018 - \$546 and \$1,577, respectively), of which \$327 was credited against technologies and software in development and \$554 was recognized as other operating income.

## **9. BANK AND OTHER LOANS**

	June 30, 2019	December 31, 2018
Secured US \$12,000 Term Loan (a)	\$ 15,118	\$ -
Secured US \$1,500 Term Loan (b)	1,747	-
Unsecured demand promissory note (c)	-	6,807
	\$ 16,865	\$ 6,807

**a) 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 "US \$12,000 Term Loan") with a group of lenders led by Bolzano Investments Limited ("Bolzano") and 1112099 B.C. Ltd. ("1112099"). The US \$12,000 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, (i) Bolzano appointed an independent director of UrtheCast pursuant to a board appointment right granted by the Company to Bolzano (Note 17 (b)); (ii) the Borrower agreed to pay Bolzano a finance fee in the amount of US \$180 and the Company 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; (iii) each UrtheCast director agreed to defer cash compensation from January 1, 2019 to June 30, 2019; and (iv) certain UrtheCast directors and executives agreed to contribute a minimum aggregate principal amount of US \$700, including other funds sourced by such directors and

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executives from investors acceptable to the lenders, on substantially the same terms as the US \$12,000 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 (the "Term Loan Warrants"), including the warrants issued to Bolzano, 660,000 warrants to 1112099 and 1,815,713 warrants to certain directors and officers. The Term Loan Warrants are accounted for as a derivative warrant liability as they do not meet the criteria for equity classification under IFRS as further described in Note 12(a). The initial fair value of the derivative warrant liability was recognized as deferred finance costs, along with the US \$180 finance fee and legal fees of US \$25, which were deducted against the debt liability and are being amortized as finance costs over the term of the loan.

Approximately US \$7,900 of the US \$12,000 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 (b) below and US \$2,500 was used to fund the first installment of the Geosys Acquisition. The balance of the US \$12,000 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 US \$12,000 Term Loan and the lenders' conditions described above, and was available for general corporate purposes.

In connection with the US \$1,500 Term Loan described in (b), the terms of the US \$12,000 Term Loan were amended to increase the interest rate from 14% to 17% per annum effective June 26, 2019 and include any net proceeds from the proposed sale of the Company's Deimos assets, if and when such a sale is completed, as security.

**b) Secured US \$1,500 Term Loan**

On June 27, 2019, the Borrower entered into an additional US \$1,500 term loan (the "US \$1,500 Term Loan") with Bolzano. The US \$1,500 Term Loan accrues interest at a rate of 17% per annum, has a maturity date of January 15, 2020 and is secured by all of the Geosys assets owned by the Borrower and any net proceeds from the proposed sale of the Company's Deimos assets, if and when such a sale is completed.

In satisfaction of conditions required by the lender, the Borrower agreed to pay Bolzano a finance fee in the amount of US \$45 and the Company agreed to issue to Bolzano 10,560,000 common share purchase warrants of UrtheCast having a maturity date of June 26, 2024 and an exercise price of \$0.48 per common share.

**c) Unsecured Demand Promissory Note**

On September 28, 2018, the Company obtained a US \$5,000 unsecured demand promissory note from the backstop party which had an interest rate of 14% per annum, payable quarterly in arrears. The unsecured demand promissory note was repaid on January 14, 2019 as described in (a) above.



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## 10. LONG-TERM DEBT

	June 30, 2019	December 31, 2018
Spanish Term Loan (a)	\$ 21,588	\$ 24,133
Financing fees	(161)	(228)
Government loans (b)	7,546	6,621
Total long-term debt	28,973	30,526
Long-term debt directly associated with assets held for sale (Note 5)	(22,838)	-
	6,135	30,526
Current portion	-	(10,252)
Non-current portion	\$ 6,135	\$ 20,274

### 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 June 30, 2019 of \$94 (December 31, 2018 - \$100) 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 €14,500 at June 30, 2019 (December 31, 2018 - €15,500).

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. The Company repaid €1,000 during the six months ended June 30, 2019 and €1,500, which was due July 31, 2019, has been further deferred by the Spanish lender to August 31, 2019 as described in Note 21(b).

### 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 8(c), which are recorded at amortized cost. The loans are repayable in semi-annual or annual instalments ending in 2037.

In connection with some of its financing requirements, the Company was required to reduce and terminate its existing revolving demand credit facility with RBC and therefore is no longer in compliance with the terms of the SADI funding agreement. 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, or additional financing. While the Company expects to resolve this matter in a timely fashion and on favourable terms, there can be no assurance that these efforts will be successful and that outstanding and future claims will be collected.

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## 11. CONVERTIBLE DEBENTURES

The following table summarizes the changes in the convertible debentures from January 1, 2018 to June 30, 2019:

	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 12)	-	(14,324)
Fair value allocated to warrant liabilities (Note 12)	-	(2,808)
Transaction costs allocated to host liability	-	(1,025)
Carrying value of debentures converted into Common Shares	(2,211,429)	(246)
Accretion expense	-	3,985
<b>Balance at December 31, 2018</b>	<b>74,005,831</b>	<b>\$ 12,258</b>
Carrying value of debentures converted into Common Shares (b)	(4,228,571)	(556)
Accretion expense	-	849
<b>Balance at June 30, 2019</b>	<b>69,777,260</b>	<b>12,551</b>
<b>Current portion (a)</b>	<b>(14,287,500)</b>	<b>(5,001)</b>
<b>Non-current portion</b>	<b>55,489,760</b>	<b>\$ 7,550</b>

### a) Issuance of Convertible Debentures

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 and non-brokered private placement for gross proceeds of \$6,017 (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.

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. On February 28, 2019, the debenture holder extended the date to April 30, 2019 in consideration for \$50 and a general security agreement over the Borrower's assets. During the three months ended June 30, 2019, a further extension was granted to July 31, 2019. Subsequent to June 30, 2019, a further extension was granted as described in Note 21.

As a result, the carrying value of the non-derivative host liability of \$5,001 relating to the Interest-bearing Debentures has been classified as a current liability at June 30, 2019. Also, the fair values of the associated embedded derivative of \$804 and derivative warrant liability of \$30 at June 30, 2019 have been classified as current liabilities and presented within Other Financial Liabilities (Note 13).

Accretion expense of \$353 and \$849 was recorded in finance costs during the three and six months ended June 30, 2019, (three and six months ended June 30, 2018 - \$112 and \$112, respectively), calculated using an effective interest rate of 19.2% (2018 - 19.2%). The Company also recognized \$150 and \$300 of interest expense on the Interest-bearing Debentures during the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 - nil and nil, respectively).

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

During the six months ended June 30, 2019, 4,228,571 Debentures with a principal amount of \$1,480 were converted into 4,625,000 Common Shares. The debt host liability was reduced by the proportionate carrying value of the debentures on the conversion date of \$556 and the embedded derivative component was reduced by the conversion date fair value of \$268. 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 \$824 (Note 14) in accordance with its accounting policy.

**c) 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 June 30, 2019 are as follows:

	<b>Debentures issued May and June 2018</b>	<b>Interest-bearing Debentures issued July 2018</b>
Share price	<b>\$0.12</b>	<b>\$0.12</b>
Risk-free interest rate	<b>1.39%</b>	<b>1.39%</b>
Term to maturity (years)	<b>5.0</b>	<b>5.0</b>
Expected volatility	<b>52.8%</b>	<b>52.8%</b>
Implied credit spread	<b>27%</b>	<b>27%</b>
Probability of a downward adjustment to conversion price	<b>25%</b>	<b>25%</b>
Fair value of embedded derivative	<b>\$0.06</b>	<b>\$0.06</b>

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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## 12. DERIVATIVE FINANCIAL INSTRUMENTS

The following table reflects the continuity of the derivative financial instruments classified as non-current liabilities from January 1, 2018 to June 30, 2019:

	Embedded Derivatives (Note 13)	Derivative Warrant Liabilities (a)	Total
<b>Balance at January 1, 2018</b>	\$ -	\$ -	\$ -
Fair value allocated on issuance of convertible debentures	14,324	2,808	17,132
Fair value on issuance of Backstop Fee Warrants	-	3,460	3,460
Fair value on issuance of Lender Warrants (a)(i)	-	975	975
Fair value of debentures converted into Common Shares	(320)	-	(320)
Change in fair value	(9,321)	(4,441)	(13,762)
<b>Balance at December 31, 2018</b>	<b>4,683</b>	<b>2,802</b>	<b>7,485</b>
Fair value of debentures converted into Common Shares (Note 11(b))	(268)	-	(268)
Fair value on issuance of Term Loan Warrants	-	507	507
Fair Value on issuance of US \$1,500 Term Loan Warrants	-	50	50
Change in fair value	(482)	(2,676)	(3,158)
<b>Balance at June 30, 2019</b>	<b>3,933</b>	<b>683</b>	<b>4,616</b>
<b>Current portion (Note 11(a))</b>	<b>(804)</b>	<b>(30)</b>	<b>(834)</b>
<b>Non-current portion</b>	<b>\$ 3,128</b>	<b>\$ 653</b>	<b>\$ 3,782</b>

### a) Derivative Warrant Liabilities

The following table reflects the continuity of warrants from January 1, 2018 to June 30, 2019:

	Number of Warrants	Fair Value	Weighted Average Exercise Price
<b>Balance at January 1, 2018</b>	-	\$ -	\$ -
Issuance of Private Placement Warrants	41,681,302	2,808	0.48
Issuance of Backstop Fee Warrants	23,617,500	3,460	0.15
Issuance of Lender Warrants (i)	14,275,172	975	0.48
Change in fair value	-	(4,441)	-
<b>Balance at December 31, 2018</b>	<b>79,573,974</b>	<b>\$ 2,802</b>	<b>\$ 0.38</b>
Issuance of Term Loan Warrants (ii)	22,275,713	507	0.48
Issuance US \$1,500 Term Loan Warrants (iii)	10,560,000	50	0.48
Change in fair value	-	(2,676)	-
<b>Balance at June 30, 2019</b>	<b>112,409,687</b>	<b>\$ 683</b>	<b>\$ 0.41</b>

No warrants were exercised during the three and six months ended June 30, 2019 and 2018.

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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.

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.

**(i) Lender Warrants**

The Company issued 14,275,172 common share purchase warrants (the “Lender Warrants”) to the senior lenders of the Credit Agreement in connection with 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.

The Lender Warrants have similar terms as the 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. On February 13, 2019, as part of the Termination Agreement described in Note 1(b), the Company agreed that in lieu of all termination fees otherwise payable under the Credit Agreement, the 14,275,172 Lender Warrants 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 agreed to pay the expenses of the senior lenders in connection with the Credit Agreement in the amount of approximately \$325.

**(ii) Term Loan Warrants**

In connection with the secured US \$12,000 Term Loan described in Note 9(a), on January 30, 2019, the Company issued a total of 22,275,713 common share purchase warrants of UrtheCast, including 19,800,000 warrants to Bolzano, 660,000 warrants to 1112099 and 1,815,713 warrants to certain directors and officers. The Term Loan Warrants have a maturity date of May 25, 2023, an exercise price of \$0.48 per common share and have the same terms as described above.

**(iii) US \$1,500 Term Loan Warrants**

In connection with the secured US \$1,500 Term Loan described in Note 9(b), on June 26, 2019, the Company issued a total of 10,560,000 common share purchase warrants of UrtheCast to Bolzano. The US \$1,500 Term Loan Warrants have a maturity date of June 26, 2024, an exercise price of \$0.48 per common share and have the same terms as described above.

**(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 June 30, 2019.

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The key assumptions used in the model for the Term Loan Warrants and the US \$1,500 Term Loan Warrants at the date of initial recognition are as follows:

	Term Loan Warrants (January 2019)	US \$1,500 Term Loan Warrants (June 2019)
Share price	\$0.16	\$0.11
Exercise price	\$0.48	\$0.48
Risk-free interest rate	1.83%	1.40%
Term to maturity (years)	5.0	5.0
Expected volatility	52.5%	53.9%
Probability of a downward adjustment to conversion price	25%	25%
Fair value of warrant	\$0.023	\$0.005

The key assumptions used in the model at June 30, 2019 are as follows:

	Private Placement Warrants	Private Placement Warrants (July 2018)	Backstop Fee Warrants	Lender Warrants	Term Loan Warrants	US \$1,500 Term Loan Warrants
Share price	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12
Exercise price	\$0.48	\$0.48	\$0.15	\$0.48	\$0.48	\$0.48
Risk-free interest rate	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%
Term to maturity (years)	4.0	4.0	4.0	4.0	4.0	5.0
Expected volatility	53.9%	53.9%	53.9%	53.9%	53.9%	53.9%
Probability of a downward adjustment to conversion price	25%	25%	25%	25%	25%	25%
Fair value of warrant	\$0.004	\$0.004	\$0.014	\$0.004	\$0.004	\$0.006

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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### 13. OTHER FINANCIAL LIABILITIES

	June 30, 2019	December 31, 2018
Deferred consideration related to the Geosys Acquisition (Note 4)	\$ 16,841	\$ -
Lease liabilities (a)	9,538	5,934
Derivative financial instruments (Note 18(a))	1,832	2,056
Other financial liabilities	165	-
Total other financial liabilities	28,376	7,990
Other financial liabilities directly associated with assets held for sale (Note 5)	(6,042)	-
	22,334	7,990
Current portion	(8,492)	(2,167)
Non-current portion	\$ 13,842	\$ 5,823

#### a) Lease liabilities

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 assets held for sale (Note 5) with a carrying amount of \$2,856 at June 30, 2019. The Company has future minimum lease payments of \$5,955 of which \$223 is payable in 2019 and \$5,732 in 2020.

As described in Note 3, on adoption of IFRS 16, the Company recognized lease liabilities for leases which had previously been classified as operating leases under IAS 17, other than short-term leases and leases of low value assets. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate as of January 1, 2019 of 12%.

### 14. SHARE CAPITAL

The authorized share capital of UrtheCast Corp. includes 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.

On June 26, 2019, the Company modified its authorized share capital by creating a new class of unlimited number of preferred shares with certain rights and restrictions to be determined by the Board at a future date. No preferred shares have been issued.

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The following is a summary of changes in the Company's share capital from January 1, 2018 to June 30, 2019:

	Number of Shares	Amount
<b>Balance at January 1, 2018</b>	121,265,933	\$ 216,633
Shares issued upon vesting of Restricted Share Units	3,630,134	2,157
Shares issued on conversion of debentures	2,418,750	566
<b>Balance at December 31, 2018</b>	<b>127,314,817</b>	<b>\$ 219,356</b>
Shares issued upon vesting of Restricted Share Units (Note 15(b))	2,199,165	1,047
Shares issued on conversion of debentures (Note 11(b))	4,625,000	824
<b>Balance at June 30, 2019</b>	<b>134,138,982</b>	<b>\$ 221,227</b>

## 15. 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 15% 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 six months ended June 30, 2019 was \$735 and \$964, respectively (three and six months ended June 30, 2018 - \$436 and \$877, respectively). In addition, share-based payments associated with internal engineering staff involved in development activities of nil and nil were capitalized in the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 - \$63 and \$112, respectively).

### 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. No stock options were granted or exercised during the three and six months ended June 30, 2019 or 2018.

The following table reflects the continuity of stock options for the six months ended June 30, 2019 and 2018:

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
<b>Outstanding, beginning of year</b>	4,321,500	\$ 0.97	5,867,168	\$ 1.43
Forfeited	(770,000)	0.94	(962,334)	1.43
Expired	(59,500)	1.35	-	-
<b>Outstanding, end of period</b>	<b>3,492,000</b>	<b>\$ 0.97</b>	4,904,834	\$ 1.43
<b>Vested, end of period</b>	<b>1,846,002</b>	<b>\$ 1.40</b>	3,108,505	\$ 1.50

### 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 in six-month increments or over a three-year period in annual increments, 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 six months ended June 30, 2019 and 2018:

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Number of RSUs	Weighted average grant date fair value	Number of RSUs	Weighted average grant date fair value
Outstanding, beginning of year	9,547,287	\$ 0.44	3,212,673	\$ 1.33
Granted	-	-	1,366,333	0.27
Released	(2,199,165)	0.48	(385,000)	1.16
Forfeited	(552,045)	0.24	(185,000)	1.19
Cancelled	(4,124,506)	0.24	-	-
Outstanding, end of period	2,671,571	\$ 0.75	4,009,006	\$ 0.99
Vested, end of period	2,030,620	\$ 0.90	3,322,339	\$ 0.92

During the six months ended June 30, 2019, no RSUs were granted. During the six months ended June 30, 2018, the Company granted 1,366,333 RSUs to certain directors and former directors of the Company. These RSUs vested immediately as they were not subject to performance conditions or forfeiture and are issuable as Common Shares upon the directors ceasing to be directors of the Company.

During the six months ended June 30, 2019, 2,199,165 Common Shares were issued (2018 - 385,000) upon the vesting of RSUs (Note 14).

## 16. REVENUE AND GEOGRAPHIC INFORMATION

The Company's chief operating decision makers, consisting of the chief executive officer, the chief financial officer and the Board, examine the Company's performance based on one reportable operating segment which includes the provision of the Earth Observation imagery, geo-analytics products and services, and engineering and value-added services.

### a) Revenue

Revenue disaggregated by primary revenue sources is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Engineering and value-added services	\$ -	\$ 1,543	\$ -	\$ 4,794
Geo-analytics imagery products and services	5,058	-	9,483	-
	\$ 5,058	\$ 1,543	\$ 9,483	\$ 4,794

During the three and six months ended June 30, 2019, one geo-analytics imagery products and services customer accounted for greater than 10% of revenue as a result of the Winfield SLA with Land O'Lakes described in Note 4. During the three and six months ended June 30, 2018, one engineering and value-added services customer accounted for greater than 10% of revenue.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Americas	\$ 3,579	\$ -	\$ 7,161	\$ -
Europe and Russia	1,317	-	2,080	508
Asia-Pacific	95	-	145	-
Middle East, Africa and South Asia	67	1,543	97	4,286
	<b>\$ 5,058</b>	<b>\$ 1,543</b>	<b>\$ 9,483</b>	<b>\$ 4,794</b>

**b) Non-current assets**

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

	Property and Equipment	Intangible Assets	Total
Canada	\$ 1,548	\$ 36,430	\$ 37,978
France	2,080	27,871	29,951
United States	526	-	526
<b>Balance at June 30, 2019</b>	<b>\$ 4,154</b>	<b>\$ 64,301</b>	<b>\$ 68,455</b>
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>\$ 80,603</b>

The non-current non-financial assets of Deimos Imaging were classified as held for sale at June 30, 2019 as described in Note 5.

## 17. 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 six months ended June 30, 2019 and 2018 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Salaries and benefits	\$ 293	\$ 640	\$ 597	\$ 1,262
Directors' fees	119	43	238	151
Share-based payments	497	457	682	782
	<b>\$ 909</b>	<b>\$ 1,140</b>	<b>\$ 1,517</b>	<b>\$ 2,195</b>

The Company deferred cash compensation to certain officers of \$149 and \$273 and directors' fees of \$119 and \$238 during the three and six months ended June 30, 2019 in order to satisfy conditions under the US \$12,000 Term Loan described in Note 9(a).

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**b) Other Related Party Transactions**

Under the conditions of the US \$12,000 Term Loan described in Note 9(a), certain officers and directors of the Company agreed to participate in the financing and in consideration, the Company issued 1,815,713 common share purchase warrants to those officers and directors.

In connection with the US \$12,000 Term Loan, Bolzano appointed an independent director of UrtheCast pursuant to a board appointment right granted by the Company to Bolzano.

The Company issued 22,275,713 common share purchase warrants in connection with the US \$12,000 Term Loan and 10,560,000 common share purchase warrants in connection with the US \$1,500 Term Loan described in Note 9(b) and incurred interest expense of US \$186 and US \$340 to Bolzano during the three and six months ended June 30, 2019.

## **18. 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 June 30, 2019 may be less than the carrying value as a result of the Company's credit and liquidity risk (Note 1(b)).

**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 June 30, 2019 and December 31, 2018:

	Classification	Hierarchy	Fair Value	
			June 30, 2019	December 31, 2018
Embedded derivatives (Note 12)	FVTPL	Level 2	\$ 3,933	\$ 4,683
Derivative warrant liabilities (Note 12)	FVTPL	Level 2	683	2,802
Foreign exchange forward contracts	FVTPL	Level 2	904	886
Interest rate swap	FVTPL	Level 2	94	100

The fair value of derivative financial instruments with respect to its foreign exchange forward contracts and interest rate swap of \$998 (December 31, 2018 - \$986) and the current portion of the fair value of the embedded derivatives of \$804 (December 31, 2018 - \$899) and derivative warrant liability of \$30 (December 31, 2018 - \$171) related to the Interest-bearing Debentures are included in Other Financial Liabilities (Note 13).

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The following table summarizes the unrealized gain (loss) on derivative financial instruments for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Embedded derivatives (Note 12)	\$ (1,163)	\$ 2,911	\$ 482	\$ 2,911
Derivative warrant liabilities (Note 12)	933	1,697	2,676	1,697
Foreign exchange forward contracts	(139)	(457)	(52)	(230)
	\$ (369)	\$ 4,151	\$ 3,106	\$ 4,378

During the three and six months ended June 30, 2019, an unrealized gain of \$1 and \$1, respectively (three and six months ended June 30, 2018 - unrealized gain of \$18 and unrealized loss of \$8, respectively) on an interest rate swap has been included in the loss from discontinued operations (Note 5).

**b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company is currently experiencing severe cash flow constraints and may not have sufficient funds to be able to pay its debt and other obligations in the future. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing financial liabilities and commitments as well as compliance with long-term debt and funding agreements. These condensed interim consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future as discussed further in Note 1.

## 19. 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, RSUs, convertible debentures, warrants and other equity instruments would be anti-dilutive, making the basic and diluted loss per share equal.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net loss	\$ (5,200)	\$ (13,253)	\$ (11,962)	\$ (24,311)
Weighted average number of common shares	134,005,878	121,466,318	132,515,629	121,440,063
Basic and diluted loss per share	\$ (0.04)	\$ (0.11)	\$ (0.09)	\$ (0.20)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net loss from continuing operations	\$ (5,174)	\$ (5,206)	\$ (6,596)	\$ (9,082)
Weighted average number of common shares	134,005,878	121,466,318	132,515,629	121,440,063
Basic and diluted loss per share - continuing operations	\$ (0.04)	\$ (0.04)	\$ (0.05)	\$ (0.07)

## **20. COMMITMENTS**

The Company has contractual capital commitments requiring future payments of \$5,705 in 2019 (December 31, 2018 - \$6,245) related to the development of its SAR technologies. These amounts will be recorded when the services are rendered.

In addition, the Company has commitments relating to bank and other loans (Note 9), long-term debt (Note 10), deferred consideration (Note 13) and leases (Note 13).

## **21. SUBSEQUENT EVENTS**

### **a) Second US \$1,500 Term Loan**

On July 26, 2019, the Company announced that it entered into a US \$1,500 term loan (the “July Term Loan”) with Lunar Ventures Inc. The July Term Loan accrues interest at a rate of 17% per annum, has a maturity date of January 15, 2020, and is secured by all of the assets owned by the Borrower and any net proceeds from the proposed sale of the Company’s Deimos assets, if and when such sale is completed.

In satisfaction of conditions required by the lender, the Borrower has paid Lunar a finance fee in the amount of US \$45 and the Company agreed to issue to Lunar 10,560,000 common share purchase warrants of UrtheCast having a maturity date of June 26, 2024 and an exercise price of \$0.48 per common share, subject to adjustment in certain circumstances.

### **b) Payment Deferral under Spanish Term Loan**

UrtheCast Imaging has agreed with the Spanish lender to further defer a previously negotiated principal repayment of €1,500 from July 31, 2019 to August 31, 2019.

### **c) Extension of Interest-Bearing Convertible Debentures**

Subsequent to June 30, 2019, the Company was granted a further extension under the Escrow Release and Amending Agreement 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 to August 31, 2019.