

**TERAGO INC.**  
**Condensed Consolidated Financial Statements**  
**Three and nine months ended September 30, 2017 and 2016**  
**(unaudited)**

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**TERAGO INC.**  
**Condensed Consolidated Statements of Financial Position**  
(In thousands)  
(unaudited)

	<i>Note</i>	<b>September 30 2017</b>	<b>December 31 2016</b>
<b>Assets</b>			
Cash and cash equivalents	4(a)	\$ 7,126	\$ 13,034
Accounts receivable	4(b)	3,506	3,673
Prepaid expenses and other assets		2,782	3,150
<b>Total current assets</b>		<u>13,414</u>	<u>19,857</u>
Network assets, property and equipment	5	40,461	44,161
Intangible assets	6	17,161	19,400
Other long-term assets	8(a)	39	-
Goodwill	6	19,419	19,419
<b>Total non-current assets</b>		<u>77,080</u>	<u>82,980</u>
<b>Total Assets</b>		<u>\$ 90,494</u>	<u>\$ 102,837</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		\$ 6,287	\$ 11,027
Current portion of deferred revenue		320	287
Current portion of long-term debt	7	4,026	5,170
Current portion of other long-term liabilities	8	50	774
<b>Total current liabilities</b>		<u>10,683</u>	<u>17,258</u>
Decommissioning and restoration obligations		223	207
Deferred revenue		211	323
Long-term debt	7	33,146	35,608
Other long-term liabilities	8(b)	349	793
<b>Total non-current liabilities</b>		<u>33,929</u>	<u>36,931</u>
<b>Total Liabilities</b>		<u>44,612</u>	<u>54,189</u>
<b>Shareholders' Equity</b>			
Share capital		86,587	86,171
Contributed surplus		25,671	25,620
Deficit		(66,376)	(63,143)
<b>Total Shareholders' Equity</b>		<u>\$ 45,882</u>	<u>\$ 48,648</u>
<b>Total Liabilities and Shareholders' Equity</b>		<u>\$ 90,494</u>	<u>\$ 102,837</u>

On behalf of the Board:

(signed) "Matthew Gerber"

Director

(signed) "Gary Sherlock"

Director

The accompanying notes are an integral part of these financial statements.

**TERAGO INC.**  
**Condensed Consolidated Statements of Comprehensive Loss**  
(In thousands, except per share amounts)  
(unaudited)

	<i>Note</i>	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
<b>Revenue</b>		\$ 13,680	14,780	\$ 41,849	44,493
<b>Expenses</b>					
Cost of services		3,511	3,328	10,559	10,155
Salaries and related costs		4,665	7,050	14,593	16,535
Other operating expenses		2,673	2,912	7,991	8,606
Depreciation of network assets, property and equipment	5	2,807	2,990	8,525	8,937
Amortization of intangible assets	6	757	808	2,307	2,737
		<u>14,413</u>	<u>17,088</u>	<u>43,975</u>	<u>46,970</u>
<b>Loss from operations</b>		(733)	(2,308)	(2,126)	(2,477)
Foreign exchange gain (loss)		18	(2)	35	18
Finance costs		(350)	(441)	(1,175)	(1,503)
Finance income		18	1	33	8
<b>Loss before income taxes</b>		\$ <u>(1,047)</u>	<u>(2,750)</u>	\$ <u>(3,233)</u>	<u>(3,954)</u>
<b>Income taxes</b>					
Income tax recovery (expense)		-	(704)	-	(715)
<b>Net loss and comprehensive loss</b>		\$ <u>(1,047)</u>	<u>(3,454)</u>	\$ <u>(3,233)</u>	<u>(4,669)</u>
<b>Deficit, beginning of period</b>		\$ (65,329)	(60,044)	\$ (63,143)	(58,829)
<b>Deficit, end of period</b>		\$ <u>(66,376)</u>	<u>(63,498)</u>	\$ <u>(66,376)</u>	<u>(63,498)</u>
<b>Basic loss per share</b>	10	\$ (0.07)	(0.24)	\$ (0.23)	(0.33)
<b>Diluted loss per share</b>	10	\$ (0.07)	(0.24)	\$ (0.23)	(0.33)
<b>Basic weighted average number of shares outstanding</b>		14,334	14,190	14,292	14,161
<b>Diluted weighted average number of shares outstanding</b>		14,334	14,190	14,292	14,161

The accompanying notes are an integral part of these financial statements.

**TERAGO INC.**  
**Condensed Consolidated Statements of Cash Flows**  
(In thousands)  
(unaudited)

	Note	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
<b>Operating Activities</b>					
Net loss for the period		\$ (1,047)	(3,454)	\$ (3,233)	(4,669)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Severance, acquisition, and other costs		371	2,568	1,090	3,012
Depreciation of network assets, property and equipment	5	2,807	2,990	8,525	8,937
Amortization of intangible assets	6	757	808	2,307	2,737
Stock-based compensation expense	9	8	233	45	850
Finance costs		350	441	1,175	1,503
Finance income		(18)	(1)	(33)	(8)
Income tax expense		-	704	-	715
Loss on adjustments and disposal of network assets and intangible assets	5, 6	(1)	52	94	312
Severance, acquisition, and other costs paid		(868)	(280)	(2,586)	(1,164)
Stock-based compensation paid		-	-	(644)	(26)
Changes in non-cash working capital items:					
Accounts receivable		(486)	(1,086)	167	(817)
Prepaid expenses		319	404	368	518
Accounts payable and accrued liabilities		685	1,403	(1,293)	(717)
Deferred revenue		8	5	(79)	108
<b>Cash from (used in) Operating Activities</b>		<b>2,885</b>	<b>4,787</b>	<b>5,903</b>	<b>11,291</b>
<b>Investing Activities</b>					
Acquisitions, net of cash acquired		-	-	-	(1,250)
Purchase of network assets, property and equipment	5	(1,667)	(1,572)	(4,911)	(4,920)
Purchase of intangible assets	6	(3)	(5)	(76)	(193)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		(659)	(47)	(2,106)	(890)
<b>Cash used in Investing Activities</b>		<b>(2,329)</b>	<b>(1,624)</b>	<b>(7,093)</b>	<b>(7,253)</b>
<b>Financing Activities</b>					
Proceeds from exercise of stock options		-	39	196	96
Interest paid, net of received		(410)	(429)	(1,208)	(1,342)
Repayment of long-term debt	7	(1,049)	(1,308)	(3,394)	(3,965)
Financing costs incurred	7	-	-	(312)	-
<b>Cash used in Financing Activities</b>		<b>(1,459)</b>	<b>(1,698)</b>	<b>(4,718)</b>	<b>(5,211)</b>
Net change in cash and cash equivalents, during the period		(903)	1,465	(5,908)	(1,173)
Cash and cash equivalents, beginning of period		8,029	10,428	13,034	13,066
<b>Cash and cash equivalents, end of period</b>		<b>\$ 7,126</b>	<b>11,893</b>	<b>\$ 7,126</b>	<b>11,893</b>

The accompanying notes are an integral part of these financial statements.

**TERAGO INC.**  
**Condensed Consolidated Statements of Changes in Equity**  
(In thousands)  
(unaudited)

	Share Capital		Contributed		Deficit	Total
	Number	Amount	Surplus			
Balance, January 1, 2017	14,250	\$ 86,171	\$ 25,620	\$ (63,143)	\$	48,648
Issuance of shares upon exercise of options	49	196	-	-		196
Stock-based compensation	-	-	51	-		51
Issuance of shares for directors' fees	50	220	-	-		220
Net loss and comprehensive loss	-	-	-	(3,233)		(3,233)
Balance, September 30, 2017	14,349	\$ 86,587	\$ 25,671	\$ (66,376)	\$	45,882

	Share Capital		Contributed		Deficit	Total
	Number	Amount	Surplus			
Balance, January 1, 2016	14,133	\$ 85,636	\$ 25,408	\$ (58,829)	\$	52,215
Issuance of shares upon exercise of options	24	96	-	-		96
Stock-based compensation	-	-	173	-		173
Issuance of shares for directors' fees	55	280	-	-		280
Net loss and comprehensive loss	-	-	-	(4,669)		(4,669)
Balance, September 30, 2016	14,212	86,012	25,581	(63,498)		48,095

The accompanying notes are an integral part of these financial statements.

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**TERAGO INC.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(In thousands, except for per share amounts)**  
**(unaudited)**

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**1. Reporting Entity**

TeraGo Inc. (the “Company”) provides businesses across Canada and globally with network and voice services, data centre services and enterprise infrastructure cloud services. The Company’s head office is located in Canada at Suite 800 – 55 Commerce Valley Drive West, Thornhill, Ontario. The Company was incorporated under the Canada Business Corporations Act on December 21, 2000 and owns and operates a carrier-grade, fixed wireless, fibre-based, IP communications network, as well as cloud and data centre facilities in Canada targeting enterprise customers that require broadband internet, data connectivity, voice, cloud and data centre services. The Company’s common shares are listed on the Toronto Stock Exchange (TSX) under the symbol TGO.

**2. Basis of Preparation and Presentation**

**(a) Basis of preparation**

These unaudited condensed interim consolidated financial statements (“interim financial statements”) were prepared using the same accounting policies and methods as those used in the Company’s consolidated financial statements for the year ended December 31, 2016 (the “2016 Consolidated Financial Statements”). These interim financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical 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 financial statements have been set out in Note 2 of the Company’s 2016 Consolidated Financial Statements. These interim financial statements should be read in conjunction with the Company’s 2016 Consolidated Financial Statements.

The Company’s operating results are subject to seasonal fluctuations that may materially impact quarter-to-quarter operating results and, thus, one quarter’s operating results are not necessarily indicative of a subsequent quarter’s operating results.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as at September 30, 2017. The Board of Directors authorized the interim financial statements for issue on November 7, 2017.

These interim financial statements include the accounts of TeraGo Inc. and its wholly-owned subsidiary, TeraGo Networks Inc.. Effective January 1, 2017, the Company’s wholly-owned subsidiaries, TeraGo Networks Inc., RackForce Networks Inc., RackForce Cloud Video Inc. and Codeninja Ltd. completed a vertical short-form amalgamation.

The notes presented in these interim financial statements include only significant changes and transactions that have occurred since the last fiscal year end.

**(b) Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

**3. Upcoming Accounting Pronouncements Not Yet Adopted**

**IFRS 15 Revenue from Contracts with Customers**

On May 28 2014, the IASB issued IFRS 15 which supersedes existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;

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3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs.

The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company has a team focused on the adoption and compliance with IFRS 15. This team is responsible for determining existing policies, differences between existing policies and IFRS 15, ensuring the Company's data collection is appropriate, and communicating the upcoming changes with various stakeholders. In addition, this team is assisting with the development of processes and policies that will help ensure an effective transition and the related impacts are reliably assessed. As a result, the Company is continuing to assess the impact of this standard on its consolidated financial statements.

While the Company continues to assess all potential impacts of the new revenue recognition standard, the Company currently believes the most significant impacts will relate to expanded disclosure on revenue, performance obligations, and contract balances.

#### **IFRS 9 Financial Instruments**

On 24 July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, Financial Instruments: recognition and measurement ("IAS 39") standard. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on the consolidated financial statements. The extent of the impact has not yet been determined.

#### **IFRS 16 Leases**

On January 13, 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception.

The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The extent of the impact of the adoption of this standard has not yet been determined.

#### **4. Current Assets**

**Details of selected current asset balances are as follows:**

**(a) Cash and cash equivalents**

The Company's cash and cash equivalents are comprised of bank balances at major Canadian financial institutions.

**(b) Accounts receivable**

The Company's accounts receivable is comprised of the following:

**TERAGO INC.**  
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	September 30	December 31
	2017	2016
Trade receivables	\$ 3,339	\$ 3,531
Allowance for doubtful accounts	(65)	(124)
Other	232	266
	<u>\$ 3,506</u>	<u>\$ 3,673</u>

**5. Network Assets, Property and Equipment**

Cost	Network assets	Cloud & Datacentre infrastructure	Computer equipment	Office furniture and equipment	Leasehold improvements	Vehicles	Total
Balance, January 1, 2017	\$ 118,609	\$ 14,386	\$ 2,660	\$ 2,332	\$ 1,648	\$ 49	\$ 139,684
Additions / reclassifications	4,628	78	131	23	51	-	4,911
Disposals / Adjustments	(953)	(8)	-	-	-	-	(961)
<b>Balance, September 30, 2017</b>	<b>\$ 122,284</b>	<b>\$ 14,456</b>	<b>\$ 2,791</b>	<b>\$ 2,355</b>	<b>\$ 1,699</b>	<b>\$ 49</b>	<b>\$ 143,634</b>
<b>Accumulated Depreciation</b>							
Balance, January 1, 2017	\$ 87,527	\$ 2,479	\$ 2,245	\$ 2,172	\$ 1,051	\$ 49	\$ 95,523
Depreciation for the period	6,954	1,358	25	38	150	-	8,525
Disposals / Adjustments	(873)	(2)	-	-	-	-	(875)
<b>Balance, September 30, 2017</b>	<b>\$ 93,608</b>	<b>\$ 3,835</b>	<b>\$ 2,270</b>	<b>\$ 2,210</b>	<b>\$ 1,201</b>	<b>\$ 49</b>	<b>\$ 103,173</b>
<b>Net Book Value, September 30, 2017</b>	<b>\$ 28,676</b>	<b>\$ 10,621</b>	<b>\$ 521</b>	<b>\$ 145</b>	<b>\$ 498</b>	<b>\$ -</b>	<b>\$ 40,461</b>

**6. Intangible Assets and Goodwill**

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, January 1, 2017	\$ 7,041	\$ 9,056	\$ 18,241	\$ 4,880	\$ 39,218	\$ 19,419	\$ 58,637
Additions	-	76	-	-	76	-	76
Disposals / Adjustments	-	(7)	4	(5)	(8)	-	(8)
<b>Balance, September 30, 2017</b>	<b>\$ 7,041</b>	<b>\$ 9,125</b>	<b>\$ 18,245</b>	<b>\$ 4,875</b>	<b>\$ 39,286</b>	<b>\$ 19,419</b>	<b>\$ 58,705</b>
<b>Accumulated Depreciation</b>							
Balance, January 1, 2017	\$ 2,371	\$ 7,999	\$ 7,481	\$ 1,967	\$ 19,818	\$ -	\$ 19,818
Amortization for the period	-	457	1,400	450	2,307	-	2,307
<b>Balance September 30, 2017</b>	<b>\$ 2,371</b>	<b>\$ 8,456</b>	<b>\$ 8,881</b>	<b>\$ 2,417</b>	<b>\$ 22,125</b>	<b>\$ -</b>	<b>\$ 22,125</b>
<b>Net Book Value, September 30, 2017</b>	<b>\$ 4,670</b>	<b>\$ 669</b>	<b>\$ 9,364</b>	<b>\$ 2,458</b>	<b>\$ 17,161</b>	<b>\$ 19,419</b>	<b>\$ 36,580</b>

**TERAGO INC.**  
**Notes to the Condensed Consolidated Financial Statements**  
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**7. Long-term Debt**

	<b>September 30</b>		<b>December 31</b>
	<b>2017</b>		<b>2016</b>
Term debt facility (a)	\$ 37,630	\$	40,897
Equipment loans (b)	26		170
less: financing fees	(484)		(289)
	<u>37,172</u>		<u>40,778</u>
less: current portion	(4,026)		(5,170)
	<u>\$ 33,146</u>	\$	<u>\$ 35,608</u>

**(a) Term Debt Facility**

In June 2014, the Company entered into an agreement with a syndicate led by the National Bank of Canada (“NBC”) to provide a \$50,000 credit facility that is principally secured by a general security agreement over the Company’s assets.

In March 2015, the Company entered into an amended agreement with the syndicate led by NBC that increased the credit facility by \$35,000 (\$30,000 increase to the term debt facility and \$5,000 increase to the revolving facility) and extended the term from June 6, 2017 to June 30, 2018. Other terms were substantially consistent with the existing credit facilities.

In June 2017, the Company entered into a second amended agreement with the syndicate led by NBC that reduced the term debt facility from \$50,000 to \$40,000 (as a result of principal previously repaid), reduced the quarterly principal installment from \$1,250 to \$1,000 and extended the term from June 30, 2018 to June 14, 2021. Other terms were substantially consistent with the existing credit facilities.

The total \$75,000 facility that matures June 14, 2021 is made up of the following:

- \$10,000 revolving facility which bears interest at prime plus a margin percent. As of September 30, 2017, \$nil amount is outstanding. Letters of credit issued under the facility totaled \$655 as of September 30, 2017.
- \$40,000 term facility which bears interest at prime or Banker’s Acceptance (at the Company’s option) plus a margin percent and is repayable in quarterly principal installments of \$1,000. This facility was fully drawn upon signing the second amended agreement.

On September 30, 2017, \$37,900 of the term facility principal balance outstanding was in a Banker’s Acceptance and the remaining \$100 was at a floating rate. In 2015, the Company entered into amended interest rate swap contracts that matures June 29, 2018. The interest rate on the Banker’s Acceptance at September 30, 2017 was 3.99%. The interest rate swap contract has not been designated as a hedge and will be marked-to-market each quarter. The fair value of the interest rate swap contract at September 30, 2017 was an asset of \$39 (December 31, 2016 – liability of \$261) and is recorded in other long-term assets/liabilities (Note 8), with a corresponding charge (recovery) for the change in fair value recorded in finance costs.

As at September 30, 2017, the Company prepaid interest in the amount of \$370 which represents the net settlement of the Banker’s Acceptance and is recorded as a reduction in the carrying value of the debt.

- \$25,000 available for funding acquisitions and will bear interest at prime plus a margin percent and is repayable in quarterly principal installments of 2.5% of the aggregate amount outstanding. As of September 30, 2017, this facility remains undrawn.

In connection with the second amended agreement, the Company incurred financing fees of \$312 which have been deferred and will be amortized using the effective interest method over the amended term of the facility. The balance of previously incurred financing fee is also amortized over the same amended term.

The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at September 30, 2017. Under this facility, the Company is subject to a cash flow sweep that could accelerate a certain amount of principal repayment based on a calculation outlined by the credit agreement not later than 120 days after the end of each fiscal year.

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**(b) Equipment loans**

The Company has certain equipment loans with financing companies that are secured by the underlying equipment. These debt facilities, which bear interest at fixed rates ranging from 5.97% to 6.23% over the respective terms, have maturity dates between September 2017 and December 2017 and have total monthly installments of \$16.

**8. Other Long-Term Assets/Liabilities**

**(a) Other long-term assets**

	<b>September 30</b>	<b>December 31</b>
	<b>2017</b>	<b>2016</b>
Fair value of interest rate swap contract (Note 7 (a))	\$ 39	\$ -
	\$ 39	\$ -

**(b) Other long-term liabilities**

	<b>September 30</b>	<b>December 31</b>
	<b>2017</b>	<b>2016</b>
Performance based share units (Note 9 (c))	\$ 37	\$ 318
Restricted share units (Note 9 (b))	119	707
Fair value of interest rate swap contract (Note 7 (a))	-	261
Lease inducement liability	243	281
	399	1,567
less: current portion	(50)	(774)
	\$ 349	\$ 793

**9. Stock-Based Compensation**

**(a) Stock Options**

For the three and nine months ended September 30, 2017, the Company recorded stock-based compensation related to stock options of \$16 and \$51, respectively. For the three and nine months ended September 30, 2016, the Company recorded stock-based compensation related to stock options of \$60 and \$173, respectively.

A summary of the status of the Company's stock option plan as at September 30, 2017 is presented below.

	<b>2017</b>	
	<b>Number of</b>	<b>Weighted</b>
	<b>Options</b>	<b>Average</b>
		<b>Exercise Price</b>
<b>Outstanding - January 1, 2017</b>	672	\$5.99
Granted	101	\$4.40
Exercised	(49)	\$4.00
Forfeited / Expired	(120)	\$7.65
<b>Outstanding – September 30, 2017</b>	604	\$5.55
Exercisable	500	\$5.78

**(b) Restricted Share Units (RSUs)**

For the three and nine months ended September 30, 2017, the Company granted 28 and 180 RSUs (2016 – 12 and 12) respectively, to certain key executives.

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For the three and nine months ended September 30, 2017, the Company recorded compensation expense (recovery) of \$34 and (\$2), respectively, related to the RSUs granted and paid \$nil and \$587, respectively, to the holders of RSUs that vested in the period. For the three and nine months ended September 30, 2016, the Company recorded compensation expense (recovery) of \$77 and \$199, respectively, related to the RSUs granted. As of September 30, 2017, a liability of \$119 (December 31, 2016 - \$707) related to the RSUs outstanding is included in other long-term liabilities (Note 8).

The following table is a summary of the number of outstanding RSUs at September 30, 2017:

	<b>Number of RSUs</b>
<b>Opening Balance, January 1, 2017</b>	162
Granted	180
Forfeited	(43)
Vested and paid	(150)
<b>Ending Balance, September 30, 2017</b>	<b>149</b>

**(c) Performance Based Share Units (PSUs)**

For the three and nine months ended September 30, 2017, the Company granted nil and nil PSUs (2016 - nil and 256), respectively, to certain key executives.

For the three and nine months ended September 30, 2017, the Company recorded stock-based compensation expense (recovery) of (\$115) and (\$224), respectively, related to the PSUs outstanding and paid \$nil and \$57, respectively, to the holders of the PSUs that vested in the period. For the three and nine months ended September 30, 2016, the Company recorded stock-based compensation expense (recovery) of (\$5) and \$198, respectively, related to the PSUs outstanding. As at September 30, 2017, a liability of \$37 (December 31, 2016 - \$318) related to the PSUs outstanding is included in the other long-term liabilities (Note 8).

The following table is a summary of the number of outstanding PSUs as at September 30, 2017:

	<b>Number of PSUs</b>
<b>Opening Balance, January 1, 2017</b>	195
Granted	-
Vested and paid	(12)
Forfeited / Expired	(164)
<b>Ending Balance, September 30, 2017</b>	<b>19</b>

**(d) Stock-Based Compensation Summary**

The following table is a summary of the stock-based compensation expense (recovery):

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Restricted share units	\$ 34	\$ 77	\$ (2)	\$ 199
Performance-based share units	(115)	(5)	(224)	198
Stock options	16	60	51	173
Directors' fees paid in shares	73	101	220	280
	<b>\$ 8</b>	<b>\$ 233</b>	<b>\$ 45</b>	<b>\$ 850</b>

**TERAGO INC.**  
**Notes to the Condensed Consolidated Financial Statements**  
(In thousands, except for per share amounts)  
**(unaudited)**

**10. Loss Per Share**

The following table sets forth the calculation of basic and diluted loss per share.

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Numerator for basic and diluted loss per share:				
Net loss for the period	\$ (1,047)	\$ (3,454)	\$ (3,233)	\$ (4,669)
Denominator for basic and diluted loss per share:				
Basic weighted average number of shares outstanding	14,334	14,190	14,292	14,161
Effect of stock options, RSUs and PSUs	-	-	-	-
Diluted weighted average number of shares outstanding	14,334	14,190	14,292	14,161
Loss per share:				
Basic	\$ (0.07)	\$ (0.24)	\$ (0.23)	\$ (0.33)
Diluted	\$ (0.07)	\$ (0.24)	\$ (0.23)	\$ (0.33)

Due to the loss for the three and nine months ended September 30, 2017 and 2016, the impact of all options, RSUs and PSUs totaling 813 and 891, respectively (2016 – 1,352 and 1,260), were excluded in the calculation of diluted loss per share because they were antidilutive.

**11. Fair value of financial instruments**

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. These methodologies are described in Note 20 of the 2016 Consolidated Financial Statements.

The Company has classified its financial instruments as follows:

	September 30		December 31	
	2017	2016	2017	2016
	Carrying amount	Fair Value	Carrying amount	Fair Value
<b>Financial assets:</b>				
Loans and receivables, measured at amortized cost				
Cash and cash equivalents	\$ 7,126	\$ 7,126	\$ 13,034	\$ 13,034
Accounts receivable	3,506	3,506	3,673	3,673
Fair value of interest rate swap contract	39	39	-	-
<b>Financial liabilities:</b>				
Accounts payable and accrued liabilities, measured at amortized cost	\$ 6,287	\$ 6,287	\$ 11,027	\$ 11,027
Fair value of interest rate swap contract	-	-	261	261
Long-term debt, measured at amortized cost	37,172	37,172	40,778	40,778

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**TERAGO INC.****Notes to the Condensed Consolidated Financial Statements****(In thousands, except for per share amounts)****(unaudited)**

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**12. Related Party Transactions**

Two former Directors of the Company, who retired effective June 23, 2016, also served as Chairman of the Board and a Director of a customer of the Company. Revenue from this customer for the three and nine months ended September 30, 2017 was \$nil and \$nil (2016 - \$nil and \$40), respectively. Accounts receivable from this customer as at September 30, 2017 was \$nil (2016 - \$nil).

The terms governing these related party transactions are consistent with those negotiated on an arm's length basis with non-related parties.