

TERAGO INC.
Interim Condensed Consolidated Financial Statements
Three and nine months ended September 30, 2019 and 2018

Contents

Interim Condensed Consolidated Financial Statements

Statements of Financial Position	2
Statements of Comprehensive Loss	3
Statements of Cash Flows	4
Statements of Changes in Equity	5
Notes to Financial Statements	6-17

TERAGO INC.
Interim Condensed Consolidated Statements of Financial Position
(In thousands of Canadian dollars)

	<i>Note</i>	September 30 2019	December 31 2018*
Assets			
Cash and cash equivalents		\$ 9,098	\$ 3,918
Accounts receivable	5(b)	2,856	3,604
Prepaid expenses and other assets		915	996
Current portion of contract costs	4(b)	424	501
Current portion of other long-term assets	10(a)	26	37
Total current assets		13,319	9,056
Network assets, property and equipment	6	60,513	35,346
Intangible assets	7	18,690	20,043
Goodwill	7	19,419	19,419
Contract costs	4(b)	407	452
Other long-term assets	10(a)	15	33
Total non-current assets		99,044	75,293
Total Assets		\$ 112,363	\$ 84,349
Liabilities			
Accounts payable and accrued liabilities		\$ 3,773	\$ 5,781
Current portion of contract liabilities	4(c)	193	178
Current portion of long-term debt	8	4,000	4,000
Current portion of lease liabilities	9	6,770	-
Current portion of other long-term liabilities	10(b)	-	186
Total current liabilities		14,736	10,145
Decommissioning and restoration obligations		253	277
Contract liabilities	4(c)	84	84
Long-term debt	8	25,432	28,294
Lease liabilities	9	21,647	-
Other long-term liabilities	10(b)	328	906
Total non-current liabilities		47,744	29,561
Total Liabilities		62,480	39,706
Shareholders' Equity			
Share capital		101,789	93,262
Contributed surplus		27,263	25,676
Deficit		(79,169)	(74,295)
Total Shareholders' Equity		\$ 49,883	\$ 44,643
Total Liabilities and Shareholders' Equity		\$ 112,363	\$ 84,349

*The Company retrospectively applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated. See Note 3(a).

On behalf of the Board:

(signed) "Matthew Gerber"

Director

(signed) "Gary Sherlock"

Director

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

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

		Three months ended September 30		Nine months ended September 30	
	<i>Note</i>	2019	2018*	2019	2018*
Revenue	<i>4(a)</i>	\$ 11,814	14,004	36,440	41,427
Expenses					
Cost of services		2,324	3,488	6,943	10,509
Salaries and related costs		4,078	4,659	13,467	14,490
Other operating expenses		1,717	2,772	5,729	8,746
Depreciation of network assets, property and equipment	<i>6</i>	3,150	2,331	10,180	7,152
Amortization of intangible assets	<i>7</i>	453	497	1,359	1,875
		<u>11,722</u>	<u>13,747</u>	<u>37,678</u>	<u>42,772</u>
Income (Loss) from operations		92	257	(1,238)	(1,345)
Foreign exchange gain (loss)		34	12	(41)	18
Finance costs		(1,082)	(343)	(3,679)	(1,549)
Finance income		41	27	84	28
Loss before income taxes		<u>\$ (915)</u>	<u>(47)</u>	<u>(4,874)</u>	<u>(2,848)</u>
Income taxes					
Income tax expense		-	-	-	-
Net loss and comprehensive loss		<u>\$ (915)</u>	<u>(47)</u>	<u>(4,874)</u>	<u>(2,848)</u>
Deficit, beginning of period		<u>\$ (78,254)</u>	<u>(72,276)</u>	<u>(74,295)</u>	<u>(69,475)</u>
Deficit, end of period		<u>\$ (79,169)</u>	<u>(72,323)</u>	<u>(79,169)</u>	<u>(72,323)</u>
Basic & Diluted loss per share	<i>12</i>	\$ (0.06)	(0.00)	(0.30)	(0.19)
Basic & Diluted weighted average number of shares outstanding		16,579	15,736	16,051	14,910

*The Company retrospectively applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated. See Note 3(a).

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

TERAGO INC.
Interim Condensed Consolidated Statements of Cash Flows
(In thousands of Canadian dollars)

		Three months ended September 30		Nine months ended September 30	
	Note	2019	2018*	2019	2018*
Operating Activities					
Net loss for the period		\$ (915)	(47)	(4,874)	(2,848)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Severance, acquisition, and other costs		186	90	1,141	689
Depreciation of network assets, property and equipment	6	3,150	2,331	10,180	7,152
Amortization of intangible assets	7	453	497	1,359	1,875
Stock-based compensation expense	11(d)	331	250	1,643	684
Finance costs		1,082	343	3,679	1,549
Finance income		(41)	(27)	(84)	(28)
Loss on adjustments and disposal of network assets	6	109	104	203	360
Impairment of assets and related charges	4, 6	40	64	183	431
Severance, acquisition, and other costs paid		(307)	(105)	(1,005)	(606)
Stock-based compensation paid		-	-	(353)	-
Changes in non-cash working capital items:					
Accounts receivable		233	(386)	708	(541)
Prepaid expenses		279	494	(304)	1,013
Accounts payable and accrued liabilities		(324)	(222)	(1,251)	(1,146)
Contract liabilities	4(c)	20	(47)	19	(159)
Contract costs	4(b)	73	(68)	119	(171)
Cash from Operating Activities		4,369	3,271	11,363	8,254
Investing Activities					
Purchase of network assets, property and equipment	6	(1,230)	(1,451)	(5,090)	(6,224)
Purchase of intangible assets	7	-	-	(6)	(112)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		(821)	(13)	90	(1,209)
Cash used in Investing Activities		(2,051)	(1,464)	(5,006)	(7,545)
Financing Activities					
Proceeds from exercise of stock options		79	-	79	-
Proceeds from equity offering	14	8,855	-	8,855	6,906
Equity offering costs incurred	14	(753)	(19)	(753)	(858)
Interest paid, net of received	8	(354)	(485)	(1,106)	(1,255)
Repayment of long-term debt	8	(1,000)	(1,000)	(3,000)	(3,000)
Payments of lease liabilities	9	(1,625)	-	(5,252)	-
Cash from (used in) Financing Activities		5,202	(1,504)	(1,177)	1,793
Net change in cash and cash equivalents, during the period		7,520	303	5,180	2,502
Cash and cash equivalents, beginning of period		1,578	9,185	3,918	6,986
Cash and cash equivalents, end of period		\$ 9,098	9,488	9,098	9,488

*The Company retrospectively applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated. See Note 3(a).

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

TERAGO INC.
Interim Condensed Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars)

	Share Capital Number (in 1000s)	Amount	Contributed Surplus	Deficit	Total
Balance, January 1, 2019	15,768	\$ 93,262	\$ 25,676	\$ (74,295)	\$ 44,643
Issuance of shares upon exercise of options	21	125	(46)	-	79
Stock-based compensation	-	-	300	-	300
Issuance of shares for directors' fees	27	300	-	-	300
Modifications of share-based awards from cash-settled to equity-settled (Note 11(b),(c))	-	-	1,333	-	1,333
Issuance of shares for equity offering (net of issuance costs) (Note 14)	805	8,102	-	-	8,102
Net loss and comprehensive loss	-	-	-	(4,874)	(4,874)
Balance, September 30, 2019	16,621	\$ 101,789	\$ 27,263	\$ (79,169)	\$ 49,883

	Share Capital Number (in 1000s)	Amount	Contributed Surplus	Deficit	Total
Balance, January 1, 2018*	14,365	\$ 86,653	\$ 25,701	\$ (69,475)	\$ 42,879
Issuance of shares upon exercise of options	41	115	(114)	-	1
Stock-based compensation	-	-	79	-	79
Issuance of shares for directors' fees	45	294	-	-	294
Issuance of shares for equity offering (net of issuance costs)	1,303	6,048	-	-	6,048
Net loss and comprehensive loss	-	-	-	(2,848)	(2,848)
Balance, September 30, 2018*	15,754	\$ 93,110	\$ 25,666	\$ (72,323)	\$ 46,453

*The Company retrospectively applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated. See Note 3(a).

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

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

1. Reporting Entity

TeraGo Inc. (the "Company") provides businesses across Canada with connectivity services, colocation 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 colocation facilities in Canada targeting enterprise customers that require cloud, colocation, and connectivity services. The Company's common shares are listed on the Toronto Stock Exchange (TSX) under the symbol TGO.

2. Basis of Preparation and Presentation

These unaudited interim condensed 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, 2018 (the "2018 Consolidated Financial Statements") except as described in Note 3. 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 2018 Consolidated Financial Statements. The notes presented in these interim financial statements include only significant changes and transactions that have occurred since the last fiscal year. Accordingly, these interim financial statements should be read in conjunction with the Company's 2018 Consolidated Financial Statements.

The Company's operating results are subject to seasonal fluctuations that may be materially impacted quarter to quarter 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, 2019. The Board of Directors authorized the interim financial statements for issue on November 6, 2019.

These interim financial statements include the accounts of TeraGo Inc. and its wholly owned subsidiaries, TeraGo Networks Inc., Mobilexchange Spectrum Holdings Inc., and Mobilexchange Spectrum Inc.

During the preparation of the interim consolidated financial statements, The Company determined that certain salary and related costs were presented as other operating expenses in the nine months ended September 30, 2018. The impact of the immaterial correction was an \$894 increase in salary and other related costs and a corresponding decrease in other operating expenses.

(a) Functional and Presentation Currency

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

3. Accounting Pronouncements Adopted in 2019**a) IFRS 16 Leases**

IFRS 16 introduced a single, on-balance sheet accounting approach for leases. Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at January 1, 2019. Comparative information has not been restated and continues to be reported under IAS 17.

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

Under the new standard, the Company assesses whether at contract inception, such contract contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control or use an identified asset for a period of time in exchange for consideration. The Company has also elected to apply the practical expedient to grandfather the assessment of which transactions were leases, as previously determined by IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 was only applied to contracts entered into or changed on or after January 1, 2019.

i) Significant Accounting Policies

The Company records a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. Payments included in the measurement of the liability include fixed payments and payments expected to be made where a renewal/extension option is reasonably certain to be exercised. The lease liability is subsequently increased by the interest cost and decreased by lease payments made. The liability is remeasured when there is a change in the future lease payments arising from the exercise of extension options, changes in the assessment of extension options reasonably expected to be exercised, renegotiations with lessors and contract amendments, changes in the scope of a lease due to certain contract rights being exercised, and changes in assessments of termination options reasonably expected to be exercised.

In addition, the Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short term leases.

Judgments

The Company has applied judgment to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such options will impact the lease term, which significantly impacts the amount of lease liabilities and right-of-use assets recognized.

A large portion of the Company's leases include renewal options that are exercisable by the Company and not the lessor. The Company typically exercises these options when they relate to rooftop locations that service its fixed wireless network. From time to time, the Company will reassess whether these options are reasonably expected to be exercised and remeasure the lease liability accordingly.

ii) Impacts on Financial Statements

On transition, the Company elected to record the right-of-use assets based on the corresponding lease liability. The right-of-use assets represent the Company's rights to use the underlying assets and lease liabilities represent its obligation to make lease payments. Right-of-use assets and lease liabilities of \$30,507 were recorded on January 1, 2019. In addition, the Company had previously recognized prepaid assets and deferred rent liabilities at December 31, 2018 for timing differences in contractual operating lease cash flows. Under the new standard, timing differences are recognized in the right-of-use asset and lease liability and as a result, these prepaid assets and deferred rent liabilities were adjusted through the January 1, 2019 right-of-use asset balance. There was no net impact on opening retained earnings on adoption.

The following is a table that reconciles the Company's operating lease obligations at December 31, 2018 as previously disclosed in the Company's 2018 Consolidated Financial Statements to the IFRS 16 lease liability recognized on January 1, 2019. A reconciliation of the lease liabilities during the three and nine months ended September 30, 2019 is presented in Note 9 of these financial statements. The weighted average discount rate applied at January 1, 2019 was 9.29%.

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

Commitments, December 31, 2018	\$	36,549
Less: Non-lease commitments		(5,246)
Operating lease commitments, December 31, 2018		31,303
Less: Non-lease components & measurement adjustments		(2,485)
Add: Extension options reasonably certain to be exercised		15,801
Undiscounted lease obligation at January 1, 2019		44,619
Balance, lease liability, discounted using the incremental borrowing rate at January 1, 2019	\$	31,457
Effect of prior period prepayments and deferred rent		(950)
Balance, right- use of-asset January 1, 2019	\$	30,507

Impact on Consolidated Statement of Financial Position

	As at January 1 2019		
	Balance after adoption of IFRS 16	Impact of IFRS 16	Balances without adoption of IFRS 16
Assets			
Cash and cash equivalents	3,918	-	3,918
Accounts receivable	3,604	-	3,604
Prepaid expenses and other assets	625	371	996
Other long-term assets	70	-	70
Network assets, property and equipment	65,853	(30,507)	35,346
Intangible assets	20,043	-	20,043
Goodwill	19,419	-	19,419
Contract costs	953	-	953
Total Assets	114,485	(30,136)	84,349
Liabilities			
Accounts payable and accrued liabilities	4,664	1,117	5,781
Contract liabilities	262	-	262
Long-term debt	32,294	-	32,294
Lease Liabilities	31,457	(31,457)	-
Other long-term liabilities	888	204	1,092
Decommissioning and restoration obligations	277	-	277
Total Liabilities	69,842	(30,136)	39,706
Shareholders' Equity			
Share capital	93,262	-	93,262
Contributed surplus	25,676	-	25,676
Deficit	(74,295)	-	(74,295)
Total Liabilities & Shareholders' Equity	114,485	(30,136)	84,349

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

4. Revenue

The Company's operations, main sources of revenue, and methods for recognition are those described in notes to the 2018 Consolidated Financial Statements. The Company's revenue is primarily derived from contracts with customers.

a) Disaggregation of revenue

In the following table, the Company's disaggregates revenue into two primary categories that depict the nature of its revenue streams.

		Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
Cloud and Colocation Revenue	\$	4,277	5,190	13,358	14,815
Connectivity Revenue		7,537	8,814	23,082	26,612
	\$	11,814	14,004	36,440	41,427

b) Contract Costs

The following table summarizes the changes in contract costs during the period:

		Three months ended September 30
		2019
Balance, June 30, 2019	\$	904
Incremental commissions capitalized		80
Impairment charges from contract terminations		-
Amortization		(153)
Balance, September 30, 2019		831
Less: current	\$	(424)
		407
		Nine months ended September 30
		2019
Balance, January 1, 2019	\$	953
Incremental commissions capitalized		350
Impairment charges from contract terminations		(3)
Amortization		(469)
Balance, September 30, 2019		831
Less: current	\$	(424)
		407

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

c) Contract Liabilities

The following is a table that summarizes the change in contract liabilities during the period:

		Three months ended 2019
Balance, June 30, 2019	\$	261
Additions from provisioning		148
Revenue recognized for services provided		(132)
Impairment charges from contract terminations		-
Balance, September 30, 2019		277
Less: current	\$	(193)
		<u>84</u>
		Nine months ended 2019
Balance, January 1, 2019	\$	262
Additions from provisioning		312
Revenue recognized for services provided		(293)
Impairment charges from contract terminations		(4)
Balance, September 30, 2019		277
Less: current	\$	(193)
		<u>84</u>

d) Unsatisfied Performance Obligations

The aggregate amount of revenue allocated to performance obligations that are unsatisfied as of September 30, 2019 was \$55,656. This represents contractual service obligations that the Company has yet to fulfill under its contracts with customers. The Company expects to recognize this revenue over the next 3 years which represents the average remaining contractual terms prior to renewals. This amount excludes obligations owing for month-to-month contracts as the unsatisfied term is calculated monthly.

5. 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:

	September 30 2019	December 31 2018
Trade receivables	\$ 2,848	\$ 3,519
Loss allowances (Note 13(b))	(63)	(47)
Other	71	132
	<u>\$ 2,856</u>	<u>\$ 3,604</u>

TERAGO INC.**Notes to the Interim Condensed Consolidated Financial Statements**
(In thousands of Canadian dollars, except for per share amounts)**6. Network Assets, Property and Equipment**

Cost	Network Assets	Cloud & Datacentre Infrastructure	Computer Equipment	Office Furniture and Equipment	Leasehold Improvements	Vehicles	Right-of-use Assets	Total
Balance, January 1, 2019	\$ 120,025	\$ 11,735	\$ 4,988	\$ 2,356	\$ 3,099	\$ 49	\$ 30,507	\$ 172,759
Additions	4,632	445	3	8	2	-	242	5,332
Disposals	(596)	(8)	-	(1)	-	-	(95)	(700)
Reclassifications / Adjustments	(35)	35	-	-	-	-	(15)	(15)
Impairment	(385)	-	-	-	-	-	(6)	(391)
Balance, September 30, 2019	\$ 123,641	\$ 12,207	\$ 4,991	\$ 2,363	\$ 3,101	\$ 49	\$ 30,633	\$ 176,985
Accumulated Depreciation								
Balance, January 1, 2019	\$ 94,924	\$ 3,206	\$ 4,776	\$ 2,265	\$ 1,686	\$ 49	\$ -	\$ 106,906
Depreciation for the period	5,012	654	157	34	362	-	3,961	10,180
Disposals	(391)	(1)	-	-	-	-	(8)	(400)
Reclassifications / Adjustments	(9)	2	-	-	-	-	-	(7)
Impairment	(205)	-	-	-	-	-	(2)	(207)
Balance, September 30, 2019	\$ 99,331	\$ 3,861	\$ 4,933	\$ 2,299	\$ 2,048	\$ 49	\$ 3,951	\$ 116,472
Net Book Value, September 30, 2019	\$ 24,310	\$ 8,346	\$ 58	\$ 64	\$ 1,053	\$ -	\$ 26,682	\$ 60,513

During the three and nine months ended September 30, 2019, the Company wrote off assets with net book value of \$178 (Cost of \$329 less accumulated depreciation of \$151, \$69 of which was recognized against lease liabilities) and \$300 (Cost of \$700 less accumulated depreciation of \$400, \$97 of which was recognized against lease liabilities) respectively, which primarily represents replaced assets and obsolete assets disposed of for negligible value (2018 - \$104 and \$360, respectively). The corresponding loss on disposal is included in other operating expenses.

Impairment of Property, Plant, and Equipment

As result of the loss of certain customers and customer locations in primarily connectivity offerings during the three and nine months ended September 30, 2019, the Company determined that certain network assets were not recoverable. The assets were subsequently written down to their recoverable amount and an impairment charge of \$44 (Cost of \$94 less accumulated depreciation of \$50) and \$184 (Cost of \$391 less accumulated depreciation of \$207) respectively, was recorded in other operating expenses on the statement of comprehensive loss (2018 - \$64 and \$431, respectively).

7. Intangible Assets and Goodwill

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, January 1, 2019	\$ 12,649	\$ 9,840	\$ 17,690	\$ 4,831	\$ 45,010	\$ 19,419	\$ 64,429
Additions	-	6	-	-	6	-	6
Disposals / Adjustments	-	-	-	-	-	-	-
Balance, September 30, 2019	\$ 12,649	\$ 9,846	\$ 17,690	\$ 4,831	\$ 45,016	\$ 19,419	\$ 64,435
Accumulated Depreciation							
Balance, January 1, 2019	\$ 2,371	\$ 9,176	\$ 10,597	\$ 2,823	\$ 24,967	\$ -	\$ 24,967
Amortization for the period	-	375	887	97	1,359	-	1,359
Balance, September 30, 2019	\$ 2,371	\$ 9,551	\$ 11,484	\$ 2,920	\$ 26,326	\$ -	\$ 26,326
Net Book Value, September 30, 2019	\$ 10,278	\$ 295	\$ 6,206	\$ 1,911	\$ 18,690	\$ 19,419	\$ 38,109

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

8. Long-term Debt

	September 30	December 31
	2019	2018
Term debt facility	\$ 29,645	\$ 32,600
less: financing fees	(213)	(306)
	29,432	32,294
less: current portion	(4,000)	(4,000)
	<u>\$ 25,432</u>	<u>\$ 28,294</u>

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.

In March 2019, the Company entered into a third amended agreement with the syndicate led by NBC which had the effect of excluding the impact of IFRS 16 on certain covenant calculations, and thereby maintaining accounting definitions in effect when the credit agreement was first entered into in June 2014.

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, 2019, \$nil amount is outstanding (2018 - \$nil). Letters of credit issued under the facility totaled \$655 as of September 30, 2019 (2018 - \$655).
- \$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, 2019, \$29,800 of the term facility principal balance outstanding was in a Banker's Acceptance and the remaining \$200 was at a floating rate. During 2018, the Company entered into two amended interest rate swap contracts that mature June 29, 2021. The interest rate swap contracts have not been designated as a hedge and will be marked-to-market each quarter. The fair value of the interest rate swap contracts at September 30, 2019 was a liability of \$328 (December 31, 2018 – \$245) and is recorded in other long-term assets/liabilities (Note 10(b)), with a corresponding charge (recovery) for the change in fair value recorded in finance costs. The effective interest rate on the Company's long-term debt at September 30, 2019 was 5.34% which represents the Company's interest on its Banker's Acceptance net of its interest swap contracts.

As at September 30, 2019, the Company prepaid interest in the amount of \$355 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, 2019, this facility remains undrawn.

Financing fees incurred as part of the Company's debt origination and modifications have been recorded as a reduction in the carrying amount of the debt and deferred and amortized using the effective interest method over the remaining term of the facility.

The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at

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

September 30, 2019. 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.

9. Lease Liabilities

The Company has many leases of which it is a lessee. The major categories of leases are building leases for the Company's fixed wireless services, data centre leases for colocation and cloud service offerings, corporate offices, and warehouses. Lease terms vary by category and range from 1 to 15 years. The following table is a summary of the changes in the lease liability during the three and nine months ended September 30, 2019:

		Three months ended September 30 2019
Lease liabilities, beginning of period	\$	29,225
Additions		155
Terminations		(97)
Interest on lease liabilities		666
Remeasurements		93
Lease payments		(1,625)
		28,417
less: current portion		(6,770)
	\$	21,647
		Nine months ended September 30 2019
Lease liabilities, beginning of period	\$	31,457
Additions		242
Terminations		(97)
Interest on lease liabilities		2,082
Remeasurements		(15)
Lease payments		(5,252)
		28,417
less: current portion		(6,770)
	\$	21,647

10. Other Long-Term Assets/Liabilities**(a) Other long-term assets**

	September 30 2019	December 31 2018
Contract Asset	\$ 41	70
	41	70
less: current portion	(26)	(37)
	\$ 15	\$ 33

TERAGO INC.**Notes to the Interim Condensed Consolidated Financial Statements**
(In thousands of Canadian dollars, except for per share amounts)**(b) Other long-term liabilities**

	September 30	December 31
	2019	2018
Performance based share units (Note 11(c))	\$ -	\$ 70
Restricted share units (Note 11(b))	-	573
Interest rate swap contract (Note 8)	328	245
Lease inducement liability	-	204
	<u>328</u>	<u>1,092</u>
less: current portion	-	(186)
	<u>\$ 328</u>	<u>\$ 906</u>

11. Stock-Based Compensation**(a) Stock Options**

For the three and nine months ended September 30, 2019, the Company granted nil and 39 stock options, respectively, to certain key executives (2018 – nil and nil, respectively).

For the three and nine months ended September 30, 2019, the Company recorded stock-based compensation related to stock options of \$37 and \$78, respectively (2018 - \$22 and \$79, respectively).

A summary of the change in the Company's stock option plan as at September 30, 2019 is presented below.

	2019
	Number of
	Options
	Weighted
	Average
	Exercise Price
Outstanding - January 1	55
Granted	39
Exercised	(21)
Forfeited / Expired	(5)
Outstanding – September 30	68
Exercisable	11

(b) Restricted Share Units (RSUs)

For the three and nine months ended September 30, 2019, the Company granted nil and 39 RSUs, respectively, to certain key executives (2018 – nil and 151, respectively).

For the three and nine months ended September 30, 2019, the Company recorded compensation expense of \$216 and \$1,100, respectively (2018 – \$110 and \$291, respectively), related to the RSUs granted and paid \$nil and \$128, respectively (2018 - \$nil and \$nil, respectively), to the holders of RSUs that vested in the period.

RSU modification and adjustment:

On June 21, 2019, the shareholders of the Company approved the board of directors' recommendation to amend the RSU Plan whereby up to 300,000 common shares may be issued from treasury to settle current and future vested PSUs and RSUs. Following this amendment, the previous cash-settled liability was revalued to its modification date fair value and derecognized and a corresponding amount was recorded in contributed surplus on the statement of financial position. The impact of the change resulted in a \$701 stock based compensation charge recorded in net loss for the nine months ended September 30, 2019. In reviewing the accounting for this change, management identified that \$688 of this charge relates to fiscal 2018 which management concluded is not material to the current or previous financial statements.

As a result of the reclassification on the modification date, a balance of \$1,328 was recorded in contributed surplus related to the RSUs outstanding.

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

The following table is a summary of the number of outstanding RSUs as at:

	September 30
	2019
Balance, January 1, 2019	282
Granted	39
Forfeited	(51)
Vested and paid	(12)
Balance, September 30, 2019	258

(c) Performance Based Share Units (PSUs)

For the three and nine months ended September 30, 2019, the Company granted nil and 39 PSUs, respectively, to certain key executives (2018 – nil and nil, respectively).

For the three and nine months ended September 30, 2019, the Company recorded compensation expense of \$5 and \$165, respectively (2018 – \$7 and \$20, respectively), related to the PSUs granted and paid \$nil and \$225, respectively (2018 – \$nil and \$nil, respectively), to the holders of PSUs that vested in the period.

PSU modification and adjustment:

On June 21, 2019, the shareholders of the Company approved the board of directors' recommendation to amend the PSU Plan whereby up to 300,000 common shares may be issued from treasury to settle current and future vested PSUs and RSUs. Following this amendment, the previous cash-settled liability was revalued to its modification date fair value and derecognized and a corresponding amount was recorded in contributed surplus on the statement of financial position. The impact of the change resulted in a net (\$16) stock based compensation recovery recorded in net loss for the nine months ended September 30, 2019. In reviewing the accounting for this change, management identified that \$71 of this charge relates to fiscal 2018 which management concluded is not material to the current or previous financial statements.

As a result of the reclassification on the modification date, a balance of \$5 was recorded in contributed surplus related to the PSUs outstanding.

The following table is a summary of the number of outstanding PSUs as at:

	September 30
	2019
Balance, January 1, 2019	19
Granted	39
Vested and paid	(19)
Forfeited / Expired	(4)
Balance, September 30, 2019	35

(d) Stock-Based Compensation Summary

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2019	2018	2019	2018
Restricted share units	\$ 216	110	\$ 1,100	291
Performance-based share units	5	7	165	20
Stock options	37	22	78	79
Directors' fees paid in shares	73	111	300	294
	\$ 331	250	\$ 1,643	684

TERAGO INC.**Notes to the Interim Condensed Consolidated Financial Statements**
(In thousands of Canadian dollars, except for per share amounts)**12. 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	
	2019	2018	2019	2018
Numerator for basic and diluted loss per share:				
Net loss for the period	\$ (915)	(47)	\$ (4,874)	(2,848)
Denominator for basic and diluted loss per share:				
Basic weighted average number of shares outstanding	16,579	15,736	16,051	14,910
Effect of stock options, RSUs and PSUs	-	-	-	-
Diluted weighted average number of shares outstanding	16,579	15,736	16,051	14,910
Loss per share:				
Basic	\$ (0.06)	(0.00)	\$ (0.30)	(0.19)
Diluted	\$ (0.06)	(0.00)	\$ (0.30)	(0.19)

Due to the loss for the three and nine months ended September 30, 2019 the effect of outstanding share-based awards totaling 372 and 373, respectively (2018 – 380 and 414, respectively), were excluded in the calculation of diluted loss per share because they were antidilutive.

13. Fair value of financial instruments

The following table outlines the carrying amounts and fair value of its financial assets and financial liabilities including their level in the fair value hierarchy. Cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities are not shown below as the carrying value of these financial instruments approximates their fair value due to their short-term maturities.

a) Classification and fair values

	Carrying Amount		Fair Value (Level 2)	
	September 30 2019	December 31 2018	September 30 2019	December 31 2018
Financial Liabilities				
Interest rate swap contract	\$ 328	\$ 245	\$ 328	\$ 245
Long-term debt	29,432	32,294	29,432	32,294

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

b) Credit risk

The Company's credit risk exposure and management strategies are discussed in the notes to the 2018 Consolidated Financial Statements. During the nine months ended September 30, 2019, the movement in the credit loss allowance in respect of trade receivables was as follows:

	September 30
	2019
Opening Balance, January 1, 2019	47
Amounts written off	(47)
Remeasurement of loss allowance	63
Ending Balance, September 30, 2019	63

14. Equity Offering

On July 3, 2019, the Company completed an equity offering to issue and sell 805,000 common shares for gross proceeds of \$8,855 (the "Offering"). Proceeds net of actual commissions, legal, accounting, and listing fees was \$8,102. The Offering was carried out pursuant to an underwriting agreement dated June 17, 2019, with a syndicate of underwriters led by TD Securities Inc., and included Canaccord Genuity Corp., Cormark Securities Inc., and Desjardins Securities Inc.