

TERAGO INC.
Interim Condensed Consolidated Financial Statements
Three and nine months ended September 30, 2020 and
2019

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Interim Condensed Consolidated Financial Statements

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

	<i>Note</i>	September 30 2020	December 31 2019
Assets			
Cash and cash equivalents	4	\$ 7,614	\$ 8,686
Accounts receivable	4	3,005	2,889
Prepaid expenses and other assets		1,134	727
Current portion of contract costs	3	361	394
Current portion of other long-term assets	9	89	17
Total current assets		12,203	12,713
Network assets, property and equipment	5	58,147	59,562
Intangible assets	6	17,457	18,605
Goodwill	6	19,419	19,419
Contract costs	3	345	362
Other long-term assets	9	56	16
Total non-current assets		95,424	97,964
Total Assets		\$ 107,627	\$ 110,677
Liabilities			
Accounts payable and accrued liabilities		\$ 7,473	\$ 4,599
Current portion of contract liabilities	3	162	155
Current portion of long-term debt	7	3,000	4,000
Current portion of lease liabilities	8	7,135	7,014
Total current liabilities		17,770	15,768
Decommissioning and restoration obligations		269	276
Contract liabilities	3	74	79
Long-term debt	7	25,632	24,470
Lease liabilities	8	21,071	21,744
Other long-term liabilities	9	-	235
Total non-current liabilities		47,046	46,804
Total Liabilities		64,816	62,572
Shareholders' Equity			
Share capital		103,143	101,846
Contributed surplus		26,995	27,548
Deficit		(87,327)	(81,289)
Total Shareholders' Equity		\$ 42,811	\$ 48,105
Total Liabilities and Shareholders' Equity		\$ 107,627	\$ 110,677

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

	Note	Three months ended September		Nine months ended September 30	
		2020	2019	2020	2019
Revenue	3	\$ 11,279	11,814	34,544	36,440
Expenses					
Cost of services		2,506	2,324	7,093	6,943
Salaries and related costs		5,100	4,078	12,683	13,467
Other operating expenses		2,051	1,717	5,860	5,729
Depreciation of network assets, property, and equipment	5	3,328	3,150	10,018	10,180
Amortization of intangible assets	6	373	453	1,148	1,359
		<u>13,358</u>	<u>11,722</u>	<u>36,802</u>	<u>37,678</u>
Income (Loss) from operations		(2,079)	92	(2,258)	(1,238)
Foreign exchange gain (loss)		(54)	34	(208)	(41)
Finance costs		(1,053)	(1,082)	(3,662)	(3,679)
Finance income		7	41	90	84
Loss before income taxes		<u>\$ (3,179)</u>	<u>(915)</u>	<u>(6,038)</u>	<u>(4,874)</u>
Income taxes					
Income tax expense		-	-	-	-
Net loss and comprehensive loss		<u>\$ (3,179)</u>	<u>(915)</u>	<u>(6,038)</u>	<u>(4,874)</u>
Deficit, beginning of period		<u>\$ (84,148)</u>	<u>(78,254)</u>	<u>(81,289)</u>	<u>(74,295)</u>
Deficit, end of period		<u>\$ (87,327)</u>	<u>(79,169)</u>	<u>(87,327)</u>	<u>(79,169)</u>
Basic & Diluted loss per share	11	\$ (0.19)	(0.06)	(0.36)	(0.30)
Basic & Diluted weighted average number of shares outstanding		16,715	16,579	16,673	16,051

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

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

		Three months ended September 30		Nine months ended September 30	
	Note	2020	2019	2020	2019
Operating Activities					
Net loss for the period		(3,179)	(915)	(6,038)	(4,874)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Severance, acquisition, and other costs		1,323	186	1,472	1,141
Depreciation of network assets, property and equipment	5	3,328	3,150	10,018	10,180
Amortization of intangible assets	6	373	453	1,148	1,359
Stock-based compensation expense	10	475	331	1,239	1,643
Finance costs		1,053	1,082	3,662	3,679
Finance income		(7)	(41)	(90)	(84)
Loss on adjustments and disposal of network assets and intangible assets	5	46	109	121	203
Impairment of assets and related charges	3, 5	309	40	485	183
Severance, acquisition, and other costs paid		(165)	(307)	(686)	(1,005)
Stock-based compensation paid		-	-	-	(353)
Changes in non-cash working capital items:					
Accounts receivable		(70)	233	(138)	708
Prepaid expenses		31	279	(422)	(304)
Accounts payable and accrued liabilities		204	(324)	270	(1,251)
Contract liabilities		2	20	2	19
Contract costs		(5)	73	14	119
Cash from Operating Activities		3,718	4,369	11,057	11,363
Investing Activities					
Purchase of network assets, property, and equipment	5	(1,996)	(1,230)	(6,114)	(5,090)
Purchase of intangible assets	6	-	-	-	(6)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		(107)	(821)	210	90
Cash used in Investing Activities		(2,103)	(2,051)	(5,904)	(5,006)
Financing Activities					
Proceeds from the exercise of stock options		-	79	-	79
Proceeds from equity offering		-	8,855	-	8,855
Proceeds from debt borrowings		-	-	3,100	-
Interest swap settlement		-	-	(629)	-
Interest paid, net of received		(631)	(354)	(916)	(1,106)
Repayment of long-term debt		(750)	(1,000)	(2,850)	(3,000)
Financing costs incurred		(86)	(753)	(267)	(753)
Payments of lease liabilities		(1,830)	(1,625)	(5,590)	(5,252)
Government grants	13	-	-	927	-
Cash from (used in) Financing Activities		(3,297)	5,202	(6,225)	(1,177)
Net change in cash and cash equivalents, during the period		(1,682)	7,520	(1,072)	5,180
Cash and cash equivalents, beginning of period		9,296	1,578	8,686	3,918
Cash and cash equivalents, end of period		7,614	9,098	7,614	9,098

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

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

	Share Capital		Contributed Surplus	Deficit	Total
	Number (in 000's)	Amount			
Balance, January 1, 2020	16,628	\$ 101,846	\$ 27,548	\$ (81,289)	\$ 48,105
Issuance of shares upon exercise of options	2	4	(4)	-	-
Stock-based compensation	-	-	1,030	-	1,030
Issuance of common shares from vesting of RSUs/PSUs	159	1,084	(1,084)	-	-
Shares deducted for payment of withholding tax	(73)	-	(495)	-	(495)
Issuance of shares for directors' fees	34	209	-	-	209
Net loss and comprehensive loss	-	-	-	(6,038)	(6,038)
Balance, September 30, 2020	16,750	\$ 103,143	\$ 26,995	\$ (87,327)	\$ 42,811

	Share Capital		Contributed Surplus	Deficit	Total
	Number (in 000's)	Amount			
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	-	-	1,333	-	1,333
Issuance of shares for equity offering (net of issuance costs)	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

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

TERAGO INC.
Notes to the Interim Condensed Consolidated Financial Statements
(In thousands, 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, 2019 (the “2019 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 2019 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 2019 Consolidated Financial Statements.

The continuing uncertainty around the outbreak of the novel coronavirus (“COVID-19”) pandemic required the use of judgments and estimates in preparation of the interim condensed financial statements for the period ended September 30, 2020. The future impact of COVID-19 uncertainties could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, revenue and expenses in the consolidated financial statements. Examples of accounting estimates and judgments that may be impacted by the pandemic include: revenue recognition, impairment of goodwill and intangible assets, allowance for expected credit losses, and provisions.

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, 2020. The Board of Directors authorized the interim financial statements for issue on November 4, 2020.

These interim financial statements include the accounts of TeraGo Inc. and its wholly owned subsidiaries.

(a) Functional and Presentation Currency

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

3. Revenue

The Company’s operations, main sources of revenue, and methods for recognition are consistent with those described in Note 3 of the 2019 Consolidated Financial Statements. The Company’s revenue is primarily derived from contracts

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)

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	
		2020	2019	2020	2019
Cloud and Colocation Revenue	\$	4,349	4,277	13,045	13,358
Connectivity Revenue		6,930	7,537	21,499	23,082
	\$	11,279	11,814	34,544	36,440

b) Contract Costs

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

		2020
Balance, June 30, 2020	\$	733
Incremental commissions capitalized		137
Impairment charges from contract terminations		(32)
Amortization		(132)
Balance, September 30, 2020		706
Less: current	\$	(361)
		345
		2020
Balance, January 1, 2020	\$	756
Incremental commissions capitalized		390
Impairment charges from contract terminations		(36)
Amortization		(404)
Balance, September 30, 2020		706
Less: current	\$	(361)
		345

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:

		2020
Balance, June 30, 2020	\$	222
Additions from provisioning		105
Revenue recognized for services provided		(91)
Write-offs from contract terminations		-
Balance, September 30, 2020		236
Less: current	\$	(162)
		74
		2020
Balance, January 1, 2020	\$	234
Additions from provisioning		282
Revenue recognized for services provided		(272)
Write-offs from contract terminations		(8)
Balance, September, 2020		236
Less: current	\$	(162)
		74

d) Unsatisfied Performance Obligations

The aggregate amount of revenue allocated to performance obligations that are unsatisfied as of September 30, 2020 was \$46,992. 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.

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:

	September 30	December 31
	2020	2019
Trade receivables	\$ 2,738	\$ 2,814
Loss allowances (Note 12)	(47)	(40)
Other	314	115
	\$ 3,005	\$ 2,889

TERAGO INC.**Notes to the Interim Condensed Consolidated Financial Statements
(In thousands of Canadian dollars, except for per share amounts)****5. 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, 2020	\$ 123,639	\$ 12,104	\$ 4,971	\$ 2,362	\$ 3,077	\$ 49	\$ 32,016	\$ 178,218
Additions	5,863	190	50	11	-	-	1,008	7,122
Disposals	(462)	-	-	-	-	-	(69)	(531)
Reclassifications / Adjustments	10	(10)	9	(9)	-	-	2,101	2,101
Impairment	(794)	-	-	-	-	-	(54)	(848)
Balance, September 30, 2020	\$ 128,256	\$ 12,284	\$ 5,030	\$ 2,364	\$ 3,077	\$ 49	\$ 35,002	\$ 186,062
Accumulated Depreciation								
Balance, January 1, 2020	\$ 99,884	\$ 4,081	\$ 4,928	\$ 2,307	\$ 2,138	\$ 49	\$ 5,269	\$ 118,656
Depreciation for the period	4,898	674	37	24	242	-	4,143	10,018
Disposals	(336)	-	-	-	-	-	(20)	(356)
Reclassifications / Adjustments	1	(1)	-	-	-	-	(4)	(4)
Impairment	(368)	-	-	-	-	-	(31)	(399)
Balance, September 30, 2020	\$ 104,079	\$ 4,754	\$ 4,965	\$ 2,331	\$ 2,380	\$ 49	\$ 9,357	\$ 127,915
Net Book Value, September 30, 2020	\$ 24,177	\$ 7,530	\$ 65	\$ 33	\$ 697	\$ -	\$ 25,645	\$ 58,147

During the three and nine months ended September 30, 2020, the Company wrote off assets with net book value of \$49 (Cost of \$157 less accumulated depreciation of \$108, \$3 of which was recognized against lease liabilities) and \$175 (Cost of \$531 less accumulated depreciation of \$356, \$54 of which was recognized against lease liabilities) respectively, which primarily represents replaced assets and obsolete assets disposed of for negligible value. The corresponding loss on disposal of \$46 and \$121 for the three and nine months ended September 30, 2020 is included in other operating expenses (2019 - \$178 and \$300, respectively).

Impairment of Property, Plant, and Equipment

As a result of the loss of certain customers and customer locations in primarily connectivity offerings during the three months and nine months ended September 30, 2020, the Company determined that certain network assets were not recoverable. As a result, the assets were written down to their recoverable amount and an impairment charge of \$277 (Cost of \$503 less accumulated depreciation of \$226) and \$449 (Cost of \$848 less accumulated depreciation of \$399) respectively, was recorded in other operating expenses on the statement of comprehensive loss in the period (2019 - \$44 and \$184, respectively).

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

6. Intangible Assets and Goodwill

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, January 1, 2020	\$ 12,649	\$ 9,868	\$ 18,021	\$ 4,831	\$ 45,369	\$ 19,419	\$ 64,788
Additions	-	-	-	-	-	-	-
Disposals / Adjustments	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
Balance, September 30, 2020	\$ 12,649	\$ 9,868	\$ 18,021	\$ 4,831	\$ 45,369	\$ 19,419	\$ 64,788
Accumulated Depreciation							
Balance, January 1, 2020	\$ 2,371	\$ 9,661	\$ 11,780	\$ 2,952	\$ 26,764	\$ -	\$ 26,764
Amortization for the period	-	110	942	96	1,148	-	1,148
Impairment	-	-	-	-	-	-	-
Balance, September 30, 2020	\$ 2,371	\$ 9,771	\$ 12,722	\$ 3,048	\$ 27,912	\$ -	\$ 27,912
Net Book Value, September 30, 2020	\$ 10,278	\$ 97	\$ 5,299	\$ 1,783	\$ 17,457	\$ 19,419	\$ 36,876

7. Long-term Debt

	September 30 2020	December 31 2019
Term debt facility	\$ 28,937	\$ 28,652
less: financing fees	(305)	(182)
	28,632	28,470
less: current portion	(3,000)	(4,000)
	<u>\$ 25,632</u>	<u>\$ 24,470</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.

In June 2020, the Company entered into an amended and restated credit agreement with a syndicate led by Royal Bank of Canada ("RBC") to replace the Company's existing credit facilities which reduced the credit facility to \$35,000 (from \$75,000) and extended the term from June 14, 2021 to June 30, 2022. Effective June 30, 2020, NBC ceased to be an administrative agent and a lender to the Company and assigned its right and obligations to RBC, in its capacity as administrative agent.

The total \$35,000 facility that matures June 30, 2022 is made up of the following:

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

- \$5,000 revolving facility which bears interest at prime plus a margin percent. As of September 30, 2020, \$nil was drawn and outstanding on the revolving facility. Letters of credit issued under the facility totaled \$900 as of September 30, 2020 (December 31, 2019 - \$655).
- \$30,000 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 \$750. This facility was fully drawn upon signing the amended and restated credit agreement.

At September 30, 2020, \$29,200 of the term facility principal balance outstanding was in a banker's acceptance bearing interest at prime plus a margin percent and the remaining \$50 was in a prime rate loan. During the year, the Company's existing interest rate swap contracts were terminated, and the Company paid cash of \$629 to settle the contracts. The effective interest rate on the Company's long-term debt on September 30, 2020 was 4.31%.

During the three and nine months ended September 30, 2020, the Company incurred \$267 in finance costs to amend and extend the credit facility. 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 amended and restated RBC facility is subject to certain financial and non-financial covenants which were substantially carried over from the previous credit agreement and the Company is in compliance with at September 30, 2020. 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.

8. Leases

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, network equipment, corporate offices, and warehouses. Lease terms vary by category and range from 1 to 15 years.

a) Right-of-use Asset

Changes in the right-of-use asset are summarized in Note 5 of these Interim Condensed Consolidated Financial Statements.

b) Lease Liability

The following table is a summary of the changes in the lease liability during the period:

	2020
Lease liabilities, June 30, 2020	\$ 29,197
Additions	13
Terminations	(3)
Interest on lease liabilities	673
Modifications	156
Lease payments	(1,830)
Lease liabilities – September 30, 2020	28,206
less: current portion	(7,135)
	\$ 21,071

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

		2020
Lease liabilities, January 1, 2020	\$	28,758
Additions		1,008
Terminations		(54)
Interest on lease liabilities		2,002
Modifications		2,082
Lease payments		(5,590)
Lease liabilities – September 30, 2020		28,206
less: current portion		(7,135)
	\$	<u>21,071</u>

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

	September 30	December 31
	2020	2019
Contract asset	\$ 145	33
	145	33
less: current portion	(89)	(17)
	\$ 56	\$ 16

(b) Other long-term liabilities

	September 30	December 31
	2020	2019
Interest rate swap contract (Note 7)	-	235
	-	235

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

For the three and nine months ended September 30, 2020, the Company granted 59 and 194 stock options, respectively, to certain key executives (2019 – nil and 39, respectively).

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

For the three and nine months ended September 30, 2020, the Company recorded stock-based compensation related to stock options of \$254 and \$524, respectively (2019 - \$37 and \$78, respectively).

A summary of the change in the Company's stock option plan as at September 30, 2020 is presented below.

	2020	
	Number of Options	Weighted Average Exercise Price
Outstanding - January 1	217	\$8.72
Granted	194	\$6.45
Exercised	(2)	\$4.40
Forfeited / Expired	(19)	\$6.27
Outstanding – September 30	390	\$7.73
Exercisable	84	\$6.70

(b) Restricted Share Units (RSUs)

For the three and nine months ended September 30, 2020, the Company granted nil and 46 RSUs, respectively, to certain key executives (2019 – nil and 39, respectively).

For the three and nine months ended September 30, 2020, the Company recorded compensation expense of \$134 and \$499, respectively, related to the RSUs granted (2019 - \$216 and \$1,100, respectively). The Company issued 36 and net 86 common shares, respectively, to the holders of RSUs that vested in the period after a deduction of common shares in lieu of payment of required taxes (2019 – paid \$nil and \$128 in cash, respectively).

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

	September 30 2020
Opening Balance, January 1, 2020	255
Granted	46
Forfeited	(32)
Vested	(159)
Ending Balance, September 30, 2020	110

(c) Performance Based Share Units (PSUs)

For the three and nine months ended September 30, 2020, the Company granted nil and 46 PSUs, respectively, to certain key executives (2019 – nil and 39, respectively).

For the three and nine months ended September 30, 2020, the Company recorded compensation expense of \$nil and \$7, respectively, related to the PSUs granted (2019 - \$5 and \$165).

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

	September 30 2020
Opening Balance, January 1, 2020	32
Granted	46
Vested and paid	-
Forfeited / Expired	(50)
Ending Balance, September 30, 2020	28

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

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Restricted share units	\$ 134	216	\$ 499	1,100
Performance-based share units	-	5	7	165
Stock options	254	37	524	78
Directors' fees	87	73	209	300
	<u>\$ 475</u>	<u>331</u>	<u>\$ 1,239</u>	<u>1,643</u>

11. 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	
	2020	2019	2020	2019
Numerator for basic and diluted loss per share:				
Net loss for the period	\$ (3,179)	(915)	\$ (6,038)	(4,874)
Denominator for basic and diluted loss per share:				
Basic weighted average number of shares outstanding	16,715	16,579	16,673	16,051
Effect of stock options, RSUs and PSUs	-	-	-	-
Diluted weighted average number of shares outstanding	<u>16,715</u>	<u>16,579</u>	<u>16,673</u>	<u>16,051</u>
Loss per share:				
Basic	\$ (0.19)	(0.06)	\$ (0.36)	(0.30)
Diluted	\$ (0.19)	(0.06)	\$ (0.36)	(0.30)

Due to the loss for the three and nine months ended September 30, 2020, the impact of all the options, RSUs, and PSUs totaling 570 and 572, respectively (2019 – 372 and 373), were excluded in the calculation of diluted loss per share because they were antidilutive.

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12. 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

	<u>Carrying Amount</u>		<u>Fair Value (Level 2)</u>	
	<u>September</u>	<u>December</u>	<u>September</u>	<u>December</u>
	<u>30</u>	<u>31</u>	<u>30</u>	<u>31</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Financial Liabilities				
Interest rate swap contract	\$ -	\$ 235	\$ -	\$ 235
Long-term debt	28,632	28,470	28,632	28,470

b) Credit risk

As a result of the recent major changes in market conditions as a result of COVID-19, the Company re-evaluated its credit risk and concluded that no major changes to existing strategies were necessary in addition to those already disclosed in the 2019 Consolidated Financial Statements. The Company will continue to monitor and re-evaluate this risk as the COVID-19 pandemic and its associated impacts continue to unfold. During the nine months ended September 30, 2020, the movement in the credit loss allowance in respect of trade receivables was as follows:

	<u>September 30</u>
	<u>2020</u>
Opening Balance, January 1, 2020	40
Amounts written off	(30)
Remeasurement of loss allowance	37
Ending Balance, September 30, 2020	<u>47</u>

c) Liquidity Risk

As a result of the recent major changes in market conditions as a result of COVID-19, the Company re-evaluated its liquidity risk and concluded that no major changes to existing strategies were necessary in addition to those already disclosed in the 2019 Consolidated Financial Statements. The Company will continue to monitor and re-evaluate this risk as the COVID-19 pandemic and its associated impacts continue to unfold. As of September 30, 2020, the Company had cash and cash equivalents of \$7,614. The Company also has access to \$4,100 undrawn portion of its \$35,000 credit facilities after consideration of outstanding letters of credit and current drawings.

d) Interest Rate Risk

As a result of the recent modification on the Company's credit facility (see Note 7), the Company no longer has a fixed interest rate on its long-term debt. As such, the Company is more exposed to fluctuations in interest rates. However, given that interest rates are very low and the Bank of Canada forecasts rates to remain low in the medium term, the Company does not believe interest rate risk to be significant in the current period. A 1% change in interest rate would have increase (decreased) quarterly interest by \$72.

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13. Government Grants

The Company determined it was eligible for the Canadian Emergency Wage Subsidy (“CEWS”) based on the prescribed criteria by the Government of Canada. During the three and nine months ended September 30, 2020, the Company recorded a \$162 and \$1,089 reduction in salaries and related costs for amounts received in cash under the program. During the three-month period ended September 30, 2020, the Company took significant measures to manage costs, including the reduction of discretionary expenses and availing itself of applicable Government programs, including the CEWS.