

TERAGO INC.
Interim Condensed Consolidated Financial Statements
Three months ended March 31, 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	6-15

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

	<i>Note</i>	March 31 2019	December 31 2018*
Assets			
Cash and cash equivalents		\$ 3,106	\$ 3,918
Accounts receivable	5(b)	3,083	3,604
Prepaid expenses and other assets		680	996
Current portion of contract costs	4(b)	495	501
Current portion of other long-term assets	10(a)	32	37
Total current assets		<u>7,396</u>	<u>9,056</u>
Network assets, property and equipment	6	64,246	35,346
Intangible assets	7	19,597	20,043
Goodwill	7	19,419	19,419
Contract costs	4(b)	476	452
Other long-term assets	10(a)	28	33
Total non-current assets		<u>103,766</u>	<u>75,293</u>
Total Assets		<u>\$ 111,162</u>	<u>\$ 84,349</u>
Liabilities			
Accounts payable and accrued liabilities		\$ 4,187	\$ 5,781
Current portion of contract liabilities	4(c)	183	178
Current portion of long-term debt	8	4,000	4,000
Current portion of lease liabilities	9	6,827	-
Current portion of other long-term liabilities	10(b)	320	186
Total current liabilities		<u>15,517</u>	<u>10,145</u>
Decommissioning and restoration obligations		284	277
Contract liabilities	4(c)	81	84
Long-term debt	8	27,348	28,294
Lease liabilities	9	23,487	-
Other long-term liabilities	10(b)	794	906
Total non-current liabilities		<u>51,994</u>	<u>29,561</u>
Total Liabilities		<u>67,511</u>	<u>39,706</u>
Shareholders' Equity			
Share capital		93,464	93,262
Contributed surplus		25,670	25,676
Deficit		(75,483)	(74,295)
Total Shareholders' Equity		<u>\$ 43,651</u>	<u>\$ 44,643</u>
Total Liabilities and Shareholders' Equity		<u>\$ 111,162</u>	<u>\$ 84,349</u>

*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)**

	<i>Note</i>	Three months ended March 31 2019	Three months ended March 31 2018*
Revenue	<i>4(a)</i>	\$ 12,397	\$ 13,740
Expenses			
Cost of services		2,261	3,555
Salaries and related costs		4,266	4,795
Other operating expenses		1,697	2,917
Depreciation of network assets, property and equipment	<i>6</i>	3,525	2,416
Amortization of intangible assets	<i>7</i>	452	737
		<u>12,201</u>	<u>14,420</u>
Income (Loss) from operations		196	(680)
Foreign exchange gain (loss)		6	(4)
Finance costs		(1,415)	(628)
Finance income		25	-
Loss before income taxes		<u>\$ (1,188)</u>	<u>\$ (1,312)</u>
Income taxes			
Income tax expense		-	-
Net loss and comprehensive loss		<u>\$ (1,188)</u>	<u>\$ (1,312)</u>
Deficit, beginning of period		<u>\$ (74,295)</u>	<u>\$ (69,475)</u>
Deficit, end of period		<u>\$ (75,483)</u>	<u>\$ (70,787)</u>
Basic loss per share	<i>12</i>	\$ (0.08)	\$ (0.09)
Diluted loss per share	<i>12</i>	\$ (0.08)	\$ (0.09)
Basic weighted average number of shares outstanding		15,775	14,391
Diluted weighted average number of shares outstanding		15,775	14,391

*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)

	<i>Note</i>	Three months ended March 31 2019	Three months ended March 31 2018*
Operating Activities			
Net loss for the period		\$ (1,188)	(1,312)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Severance, acquisition, and other costs		(30)	136
Depreciation of network assets, property and equipment	6	3,525	2,416
Amortization of intangible assets	7	452	737
Stock-based compensation expense	11(d)	342	203
Finance costs		1,415	628
Loss on adjustments and disposal of network assets		23	82
Impairment of assets and related charges	4, 6	82	236
Severance, acquisition, and other costs paid		(187)	(303)
Stock-based compensation paid		(128)	-
Changes in non-cash working capital items:			
Accounts receivable		563	(268)
Prepaid expenses		(60)	551
Accounts payable and accrued liabilities		873	(1,362)
Contract liabilities	4	2	(82)
Contract costs	4	(21)	(92)
Cash from Operating Activities		5,663	1,570
Investing Activities			
Purchase of network assets, property and equipment	6	(2,061)	(2,759)
Purchase of intangible assets	7	(6)	(40)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		(1,161)	(814)
Cash used in Investing Activities		(3,228)	(3,613)
Financing Activities			
Proceeds from exercise of stock options		-	98
Interest paid, net of received	8	(377)	(400)
Repayment of long-term debt	8	(1,000)	(1,000)
Payments of lease liabilities	9	(1,870)	-
Cash from (used in) Financing Activities		(3,247)	(1,302)
Net change in cash and cash equivalents, during the period		(812)	(3,345)
Cash and cash equivalents, beginning of period		3,918	6,986
Cash and cash equivalents, end of period		\$ 3,106	3,641

*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		Contributed		Deficit	Total
	Number	Amount	Surplus			
Balance, January 1, 2019	15,768	\$ 93,262	\$ 25,676	\$ (74,295)	\$	44,643
Issuance of shares upon exercise of options	7	49	(16)	-		33
Stock-based compensation	-	-	10	-		10
Issuance of shares for directors' fees	14	153	-	-		153
Net loss and comprehensive loss	-	-	-	(1,188)		(1,188)
Balance, March 31, 2019	15,789	\$ 93,464	\$ 25,670	\$ (75,483)	\$	43,651

	Share Capital		Contributed		Deficit	Total
	Number	Amount	Surplus			
Balance, January 1, 2018*	14,365	\$ 86,653	\$ 25,701	\$ (69,475)	\$	42,879
Issuance of shares upon exercise of options	34	98	(99)	-		(1)
Stock-based compensation	-	-	29	-		29
Issuance of shares for directors' fees	16	92	-	-		92
Net loss and comprehensive loss	-	-	-	(1,312)		(1,312)
Balance, March 31, 2018*	14,415	86,843	25,631	(70,787)		41,687

*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. 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 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 March 31, 2019. The Board of Directors authorized the interim financial statements for issue on May 8, 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.

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

(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 2018

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.

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

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

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.

The Company elected to record the right-of-use assets based on the corresponding lease liability. 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 reasonable expected to be exercised and remeasure the lease liability accordingly.

ii) Impacts on Financial Statements

On initial transition, the Company has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing 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 3 months ended March 31, 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 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	
		March 31	
		2019	2018
Cloud and Colocation Revenue	\$	4,494	4,731
Connectivity Revenue		7,903	9,009
	\$	<u>12,397</u>	<u>13,740</u>

b) Contract Costs

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

		2019
Balance, January 1, 2019	\$	<u>953</u>
Incremental commissions capitalized		175
Impairment charges from contract terminations		(3)
Amortization		<u>(154)</u>
Balance, March 31, 2019		971
Less: current	\$	<u>(495)</u>
		<u>476</u>

c) Contract Liabilities

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

		2019
Balance, January 1, 2019	\$	<u>262</u>
Additions from provisioning		100
Revenue recognized for services provided		(94)
Impairment charges from contract terminations		<u>(4)</u>
Balance, March 31, 2019		264
Less: current	\$	<u>(183)</u>
		<u>81</u>

d) Unsatisfied Performance Obligations

The aggregate amount of transaction price allocated to performance obligations that are unsatisfied as of March 31, 2019 was \$63,434. 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.

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

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:

	March 31	December 31
	2019	2018
Trade receivables	\$ 3,005	\$ 3,519
Loss allowances (Note 13(b))	(60)	(47)
Other	138	132
	\$ 3,083	\$ 3,604

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	1,765	229	-	-	8	-	59	2,061
Disposals	(72)	(6)	-	-	-	-	-	(78)
Reclassifications / Adjustments	3	(3)	-	-	-	-	(49)	(49)
Impairment	(167)	-	-	-	-	-	-	(167)
Balance, March 31, 2019	\$ 121,554	\$ 11,955	\$ 4,988	\$ 2,356	\$ 3,107	\$ 49	\$ 30,517	\$ 174,526
Accumulated Depreciation								
Balance, January 1, 2019	\$ 94,924	\$ 3,206	\$ 4,776	\$ 2,265	\$ 1,686	\$ 49	-	\$ 106,906
Depreciation for the period	1,694	218	66	11	123	-	1,413	3,525
Disposals	(54)	(1)	-	-	-	-	-	(55)
Reclassifications / Adjustments	(3)	(5)	-	-	-	-	-	(8)
Impairment	(88)	-	-	-	-	-	-	(88)
Balance, March 31, 2019	\$ 96,473	\$ 3,418	\$ 4,842	\$ 2,276	\$ 1,809	\$ 49	\$ 1,413	\$ 110,280
Net Book Value, March 31, 2019	\$ 25,081	\$ 8,537	\$ 146	\$ 80	\$ 1,298	\$ -	\$ 29,104	\$ 64,246

During the three months ended March 31, 2019, the Company wrote off assets with net book value of \$23 (Cost of \$78 less accumulated depreciation of \$55) which primarily represents replaced assets and obsolete assets disposed of for negligible value (2018 - \$82). 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 months March 31, 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 \$79 (Cost of \$167 less accumulated depreciation of \$88) was recorded in other operating expenses on the statement of comprehensive loss (2018 - \$236).

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

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
Balance, March 31, 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	-	124	296	32	452	-	452
Balance, March 31, 2019	\$ 2,371	\$ 9,300	\$ 10,893	\$ 2,855	\$ 25,419	\$ -	\$ 25,419
Net Book Value, March 31, 2019	\$ 10,278	\$ 546	\$ 6,797	\$ 1,976	\$ 19,597	\$ 19,419	\$ 39,016

8. Long-term Debt

	March 31 2019	December 31 2018
Term debt facility	\$ 31,623	\$ 32,600
less: financing fees	(275)	(306)
	31,348	32,294
less: current portion	(4,000)	(4,000)
	<u>\$ 27,348</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.

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 March 31, 2019, \$nil amount is outstanding (2018 - \$nil). Letters of credit issued under the facility totaled \$655 as of March 31, 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 March 31, 2019, \$31,800 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 March 31, 2019 was a liability of \$420 (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 March 31, 2019 was 5.34% which represents the Company's interest on its Banker's Acceptance net of its interest swap contracts.

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

As at March 31, 2019, the Company prepaid interest in the amount of \$377 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 March 31, 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 March 31, 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 months ended March 31, 2019:

	March 31
	2019
Lease liabilities, beginning of period	\$ 31,457
Additions	59
Interest on lease liabilities	717
Remeasurements	(49)
Lease payments	(1,870)
	<u>30,314</u>
less: current portion	(6,827)
	<u>\$ 23,487</u>

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

	March 31	December 31
	2019	2018
Contract Asset	\$ 60	70
	60	70
less: current portion	(32)	(37)
	<u>\$ 28</u>	<u>\$ 33</u>

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**

	March 31	December 31
	2019	2018
Performance based share units (Note 11(c))	\$ 78	\$ 70
Restricted share units (Note 11(b))	616	573
Interest rate swap contract (Note 8)	420	245
Lease inducement liability	-	204
	<u>1,114</u>	<u>1,092</u>
less: current portion	(320)	(186)
	<u>\$ 794</u>	<u>\$ 906</u>

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

For the three months ended March 31, 2019 and March 31, 2018, the Company granted 21 and nil stock options, respectively, to certain key executives.

For the three months ended March 31, 2019 and 2018, the Company recorded stock-based compensation related to stock options of \$10 and \$29, respectively.

A summary of the change in the Company's stock option plan as at March 31, 2019 is presented below.

	2019	
	Number of	Weighted
	Options	Average
		Exercise Price
Outstanding - January 1	55	\$4.40
Granted	21	\$10.68
Exercised	(7)	\$4.40
Forfeited / Expired	-	\$4.40
Outstanding – March 31	<u>69</u>	<u>\$6.36</u>
Exercisable	<u>5</u>	<u>\$4.40</u>

(b) Restricted Share Units (RSUs)

For the three months ended March 31, 2019 and March 31, 2018, the Company granted 36 and 151 RSUs, respectively, to certain key executives.

For the three months ended March 31, 2019 and March 31, 2018, the Company recorded compensation expense of \$172 and \$75, respectively, related to the RSUs granted and paid \$128 and \$nil, respectively, to the holders of RSUs that vested in the period. As of March 31, 2019, a liability of \$616 (December 31, 2018 - \$573) related to the RSUs outstanding is included in other long-term liabilities (Note 10(b)).

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

	March 31
	2019
Balance, January 1, 2019	<u>282</u>
Granted	36
Forfeited	-
Vested and paid	(12)
Balance, March 31, 2019	<u>306</u>

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

(c) Performance Based Share Units (PSUs)

For the three months ended March 31, 2019 and March 31, 2018, the Company granted 36 and nil PSUs, respectively, to certain key executives.

For the three months ended March 31, 2019 and March 31, 2018, the Company recorded compensation expense of \$7 and \$7, respectively, related to the PSUs granted and paid \$nil and \$nil, respectively, to the holders of PSUs that vested in the period. As of March 31, 2019, a liability of \$78 (December 31, 2018 - \$70) related to the PSUs outstanding is included in other long-term liabilities (Note 10(b)).

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

	March 31
	2019
Balance, January 1, 2019	19
Granted	36
Vested and paid	-
Forfeited / Expired	-
Balance, March 31, 2019	55

(d) Stock-Based Compensation Summary

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

	Three		Three
	months		months
	ended		ended
	March 31		March 31
	2019		2018
Restricted share units	\$ 172	\$	75
Performance-based share units	7		7
Stock options	10		29
Directors' fees paid in shares	153		92
	\$ 342	\$	203

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 March 31 2019		Three months ended March 31 2018	
Numerator for basic and diluted loss per share:				
Net loss for the period	\$	(1,188)	\$	(1,312)
Denominator for basic and diluted loss per share:				
Basic weighted average number of shares outstanding		15,775		14,391
Effect of stock options, RSUs and PSUs		-		-
Diluted weighted average number of shares outstanding		15,775		14,391
Loss per share:				
Basic	\$	(0.08)	\$	(0.09)
Diluted	\$	(0.08)	\$	(0.09)

Due to the loss for the three months ended March 31, 2019, the impact of all the options, RSUs, and PSUs totaling 340 (2018 – 456), 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)	
	March 31 2019	December 31 2018	March 31 2019	December 31 2018
Financial Liabilities				
Interest rate swap contract	\$ 420	\$ 245	\$ 420	\$ 245
Long-term debt	31,348	32,294	31,348	32,294

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 three months ended March 31, 2019, the movement in the credit loss allowance in respect of trade receivables was as follows:

	March 31 2019
Opening Balance, January 1, 2019	47
Amounts written off	(47)
Remeasurement of loss allowance	60
Ending Balance, March 31, 2019	60