TERAGO INC.
Interim Condensed Consolidated Financial Statements
Three months ended March 31, 2021 and 2020
(Unaudited)

Contents

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

	Note		March 31 2021		December 31 2020
Assets					
Cash and cash equivalents	4	$	2,868	$	5,858
Accounts receivable	4		2,541		2,500
Prepaid expenses and other assets			689		804
Current portion of contract costs	3		320		324
Current portion of other long-term assets	9		69		79
Total current assets			6,487		9,565
Network assets, property and equipment	5		56,867		56,649
Intangible assets	6		16,737		17,097
Goodwill	6		19,419		19,419
Contract costs	3		656		397
Other long-term assets	9		26		41
Total non-current assets			93,705		93,603
Total Assets		$	100,192	$	103,168
Liabilities					
Accounts payable and accrued liabilities		$	5,123	$	5,403
Current portion of contract liabilities	3		206		193
Current portion of long-term debt	7		3,000		3,000
Current portion of lease liabilities	8		7,513		7,236
Total current liabilities			15,842		15,832
Decommissioning and restoration obligations			368		360
Contract liabilities	3		197		187
Long-term debt	7		24,438		25,144
Lease liabilities	8		20,569		20,779
Total non-current liabilities			45,572		46,470
Total Liabilities			61,414		62,302
Shareholders' Equity					
Share capital			103,768		103,223
Contributed surplus			26,724		27,191
Deficit			(91,714)		(89,548)
Total Shareholders' Equity		$	38,778	$	40,866
Total Liabilities and Shareholders' Equity		$	100,192	$	103,168

On behalf of the Board:

(signed) “Ken Campbell” — 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)

	Note		Three months ended March 31 2021	Three months ended March 31 2020
Revenue	3	$	10,829	11,617
Expenses				
Cost of services			2,514	2,259
Salaries and related costs			4,253	4,275
Other operating expenses			1,651	1,912
Depreciation of network assets, property, and equipment	5		3,247	3,389
Amortization of intangible assets	6		360	403
			12,025	12,238
Income (Loss) from operations			(1,196)	(621)
Foreign exchange gain (loss)			21	(121)
Finance costs			(1,003)	(1,516)
Finance income			12	55
Loss before income taxes		$	(2,166)	(2,203)
Income taxes				
Income tax expense			-	-
Net loss and comprehensive loss		$	(2,166)	(2,203)
Deficit, beginning of period		$	(89,548)	(81,289)
Deficit, end of period		$	(91,714)	(83,492)
Basic & Diluted loss per share	11	$	(0.13)	(0.13)
Basic & Diluted weighted average number of shares outstanding			16,773	16,635

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)

	Note	Three months ended March 31 2021	Three months ended March 31 2020
Operating Activities			
Net loss for the period		(2,166)	(2,203)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Severance, acquisition, and other costs		430	(9)
Depreciation of network assets, property and equipment	5	3,247	3,389
Amortization of intangible assets	6	360	403
Stock-based compensation expense	10	229	347
Finance costs		1,003	1,516
Finance income		(12)	(55)
Loss on adjustments and disposal of network assets and intangible assets	5	6	45
Impairment of assets and related charges	3,5	157	68
Severance, acquisition, and other costs paid		(380)	(207)
Changes in non-cash working capital items:			
Accounts receivable		(4)	(462)
Prepaid expenses		109	(43)
Accounts payable and accrued liabilities		(752)	(252)
Contract liabilities		23	-
Contract costs		(259)	26
Cash from Operating Activities		1,991	2,563
Investing Activities			
Purchase of network assets, property, and equipment	5	(2,293)	(2,209)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		103	222
Cash used in Investing Activities		(2,190)	(1,987)
Financing Activities			
Proceeds from debt borrowings		-	1,400
Interest paid, net of received		(293)	(285)
Repayment of long-term debt	7	(750)	(1,000)
Payments of lease liabilities	8	(1,906)	(1,911)
Government Grants		158	-
Cash from (used in) Financing Activities		(2,791)	(1,796)
Net change in cash and cash equivalents, during the period		(2,990)	(1,220)
Cash and cash equivalents, beginning of period		5,858	8,686
Cash and cash equivalents, end of period		2,868	7,466

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 000's)		Amount		Contributed Surplus		Deficit		Total
Balance, January 1, 2021	16,762	$	103,223	$	27,191	$	(89,548)	$	40,866
Stock-based compensation	-		-		175		-		175
Issuance of common shares from vesting of RSUs/PSUs	64		491		(491)		-		-
Shares deducted for payment of withholding tax	(21)		-		(151)		-		(151)
Issuance of shares for directors' fees	10		54		-		-		54
Net loss and comprehensive loss	-		-		-		(2,166)		(2,166)
Balance, March 31, 2021	16,815	$	103,768	$	26,724	$	(91,714)	$	38,778

	Share Capital Number (in 000's)		Amount		Contributed Surplus		Deficit		Total
Balance, January 1, 2020	16,628	$	101,846	$	27,548	$	(81,289)	$	48,105
Issuance of common shares from vesting of RSUs/PSUs	61		282		(282)		-		-
Stock-based compensation	-		-		309		-		309
Issuance of shares for directors' fees	7		38		-		-		38
Shares deducted for payment of withholding taxes	(33)		-		(241)		-		(241)
Net loss and comprehensive loss	-		-		-		(2,203)		(2,203)
Balance, March 31, 2020	16,663	$	102,166	$	27,334	$	(83,492)	$	46,008

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

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, 2020 (the "2020 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 2020 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 2020 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 March 31, 2021. The Board of Directors authorized the interim financial statements for issue on May 11, 2021.

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 those described in Note 3 of the 2020 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.

(In thousands of Canadian dollars, except for per share amounts)

		Three months ended March 31	
		2021	**2020**
Cloud and Colocation Revenue	$	4,296	4,299
Connectivity Revenue		6,533	7,318
	$	10,829	11,617

b) Contract Costs

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

		2021
Balance, January 1, 2021	$	721
Incremental costs capitalized		365
Impairment charges from contract terminations		(4)
Amortization		(106)
Balance, March 31, 2021		976
Less: current	$	(320)
		656

c) Contract Liabilities

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

		2021
Balance, January 1, 2021	$	380
Additions from provisioning		93
Revenue recognized for services provided		(66)
Impairment charges from contract terminations		(4)
Balance, March 31, 2021		403
Less: current	$	(206)
		197

d) Unsatisfied Performance Obligations

The aggregate amount of revenue allocated to performance obligations that are unsatisfied as of March 31, 2021 was $47,527. 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.

(In thousands of Canadian dollars, except for per share amounts)

b) Accounts receivable

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

		March 31 2021		December 31 2020
Trade receivables	$	2,400	$	2,465
Loss allowances (Note 12)		(46)		(66)
Other		187		101
	$	2,541	$	2,500

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, 2021	$ 127,403	$ 12,131	$ 5,079	$ 2,323	$ 3,070	$ 49	$ 35,954	$ 186,009
Additions	1,845	397	51	-	-	-	145	2,438
Disposals	(21)	-	-	-	-	-	(13)	(34)
Reclassifications / Adjustments	-	-	-	-	-	-	1,194	1,194
Impairment	(332)	-	-	-	-	-	-	(332)
Balance, March 31, 2021	**$** 128,895	**$** 12,528	**$** 5,130	**$** 2,323	**$** 3,070	**$** 49	**$** 37,280	**$** 189,275
Accumulated Depreciation								
Balance, January 1, 2021	$ 104,002	$ 4,884	$ 4,974	$ 2,305	$ 2,452	$ 49	$ 10,694	$ 129,360
Depreciation for the period	1,519	228	14	6	76	-	1,404	3,247
Disposals	(15)	-	-	-	-	-	(5)	(20)
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Impairment	(179)	-	-	-	-	-	-	(179)
Balance, March 31, 2021	**$** 105,327	**$** 5,112	**$** 4,988	**$** 2,311	**$** 2,528	**$** 49	**$** 12,093	**$** 132,408
Net Book Value, March 31, 2021	**$** 23,568	**$** 7,416	**$** 142	**$** 12	**$** 542	**$** -	**$** 25,187	**$** 56,867

During the three months ended March 31, 2021, the Company wrote off assets with net book value of $14 (Cost of $34 less accumulated depreciation of $20, $8 of which was recognized against lease liabilities for terminated leases) which primarily represents replaced assets and obsolete assets disposed of for negligible value. The corresponding loss of $14 on disposal is included in other operating expenses (2020 - $23).

Impairment of Property, Plant, and Equipment

As result of the loss of certain customers and customer locations, primarily related to connectivity offerings during the three months March 31, 2021, 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 $153 (Cost of $332 less accumulated depreciation of $179) was recorded in other operating expenses on the statement of comprehensive loss (2020 - $68) in the period.

(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, 2021	$	12,649	$	9,868	$	18,021	$	4,831	$	45,369	$	19,419	$	64,788
Additions		-		-		-		-		-		-		-
Disposals / Adjustments		-		-		-		-		-		-		-
Impairment		-		-		-		-		-		-		-
Balance, March 31, 2021	**$**	12,649	**$**	9,868	**$**	18,021	**$**	4,831	**$**	45,369	**$**	19,419	**$**	64,788
Accumulated Depreciation														
Balance, January 1, 2021	$	2,371	$	9,800	$	13,022	$	3,079	$	28,272	$	-	$	28,272
Amortization for the period		-		29		300		31		360		-		360
Impairment		-		-		-		-		-		-		-
Balance, March 31, 2021	**$**	2,371	**$**	9,829	**$**	13,322	**$**	3,110	**$**	28,632	**$**	-	**$**	28,632
Net Book Value, March 31, 2021	**$**	10,278	**$**	39	**$**	4,699	**$**	1,721	**$**	16,737	**$**	19,419	**$**	36,156

7. Long-term Debt

		March 31 2021		December 31 2020
Term debt facility	$	27,656	$	28,405
less: financing fees		(218)		(261)
		27,438		28,144
less: current portion		(3,000)		(3,000)
	$	24,438	$	25,144

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:

- $5,000 revolving facility which bears interest at prime plus a margin percent. As of March 31, 2021, $nil was drawn and outstanding on the revolving facility (2020 - $nil). Letters of credit issued under the facility totaled $625 as of

(In thousands of Canadian dollars, except for per share amounts)

March 31, 2021 (December 31, 2020 - $625).

- $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 March 31, 2021, $27,600 of the term facility principal balance outstanding was in a banker's acceptance bearing interest at prime plus a margin percent and the remaining $150 was in a prime rate loan. As at March 31, 2021, the Company prepaid interest in the amount of $94 which represents the net settlement of the Banker's Acceptance and is recorded as a reduction in the carrying amount of the debt. The effective interest rate on the Company's long-term debt on March 31, 2021 was 4.19%.

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 March 31, 2021. 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:

		2021
Lease liabilities, January 1, 2021	$	28,015
Additions		145
Terminations		(8)
Interest on lease liabilities		642
Modifications		1,194
Lease payments		(1,906)
Lease liabilities – March 31, 2021		28,082
less: current portion		(7,513)
	$	20,569

9. Other Long-Term Assets

		March 31 2021		**December 31 2020**
Contract Asset	$	95		120
		95		120
less: current portion		(69)		(79)
	$	26	$	41

(In thousands of Canadian dollars, except for per share amounts)

10. Stock-Based Compensation

(a) Stock Options

For the three months ended March 31, 2021 and March 31, 2020, the Company granted 139 and 135 stock options, respectively, to certain key executives.

For the three months ended March 31, 2021 and March 31, 2020, the Company recorded stock-based compensation related to stock options of $108 and $121, respectively.

A summary of the change in the Company's stock option plan as at March 31, 2021 is presented below.

	2021	
	Number of Options	Weighted Average Exercise Price
Outstanding - January 1	389	$7.73
Granted	139	$6.61
Exercised	-	-
Forfeited / Expired	-	-
Outstanding – March 31	528	$7.43
Exercisable	180	$7.37

(b) Restricted Share Units (RSUs)

For the three months ended March 31, 2021 and March 31, 2020, the Company granted 26 and 46 RSUs, respectively, to certain key executives.

For the three months ended March 31, 2021 and March 31, 2020, the Company recorded compensation expense of $65 and $188, respectively, related to the RSUs granted. The Company issued net 43 common shares to the holders of RSUs that vested in the period after deduction of 21 common shares in lieu of payment of required taxes (2020 – 28 net issued after deduction of 33).

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

	March 31 2021
Opening Balance, January 1, 2021	110
Granted	26
Forfeited	-
Vested	(64)
Ending Balance, March 31, 2021	72

(c) Performance Based Share Units (PSUs)

For the three months ended March 31, 2021 and March 31, 2020, the Company granted 61 and 46 PSUs, respectively, to certain key executives.

For the three months ended March 31, 2021 and March 31, 2020, the Company recorded compensation expense of $2 and $nil, respectively, related to the PSUs granted and paid $nil and $nil, respectively, to the holders of PSUs that vested in the period.

(In thousands of Canadian dollars, except for per share amounts)

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

	March 31 2021
Opening Balance, January 1, 2021	28
Granted	61
Vested and paid	-
Forfeited / Expired	(25)
Ending Balance, March 31, 2021	64

(d) Stock-Based Compensation Summary

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

		Three months ended March 31 2021		Three months ended March 31 2020
Restricted share units	$	65	$	188
Performance-based share units		2		-
Stock options		108		121
Directors' fees paid in shares		54		38
	$	229	$	347

11. Loss Per Share

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

		Three months ended March 31 2021	Three months ended March 31 2020
Numerator for basic and diluted loss per share:			
Net loss for the period	$	(2,166)	(2,203)
Denominator for basic and diluted loss per share:			
Basic weighted average number of shares outstanding		16,773	16,635
Effect of stock options, RSUs and PSUs		-	-
Diluted weighted average number of shares outstanding		16,773	16,635
Loss per share:			
Basic	$	(0.13)	(0.13)
Diluted	$	(0.13)	(0.13)

Due to the loss for the three months ended March 31, 2021, the impact of all the options, RSUs, and PSUs totaling 576 (2020 – 516), were excluded in the calculation of diluted loss per share because they were antidilutive.

(In thousands of Canadian dollars, except for per share amounts)

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

	Carrying Amount		Fair Value (Level 2)	
	March 31 2021	December 31 2020	March 31 2021	December 31 2020
Financial Liabilities				
Long-term debt	27,438	28,144	27,438	28,144

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 2020 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 three months ended March 31, 2021, the movement in the credit loss allowance in respect of trade receivables was as follows:

	March 31 2021
Opening Balance, January 1, 2021	66
Amounts written off	(23)
Remeasurement of loss allowance	3
Ending Balance, March 31, 2021	46

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 2020 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 March 31, 2021, the Company had cash and cash equivalents of $2,868. The Company also has access to $4,375 undrawn portion of its $35,000 credit facilities after consideration of outstanding letters of credit, current drawings, and subject to certain financial and non-financial covenants.

d) Interest Rate Risk

As a result of the 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 $69.

13. Government Grants

The Company determined it was eligible for both the Canadian Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") based criteria prescribed by the Government of Canada. During the three months ended March 31, 2021, the Company recorded a $85 and $73 related to the CEWS and CERS programs, respectively. Amounts received related to the CEWS have been recorded as a reduction in salaries and related costs and amounts received under the CERS program have been recorded as a reduction in other operating expenses.

14. Subsequent Events

On April 21, 2021 the Company completed a private placement with certain institutional investors, including Cymbria Corporation. The Company issued and sold an aggregate of 934 Series A Units, 934 Series B Units and 934 Series C Units of the Company at a subscription price of $5.25 per Unit, for gross proceeds of $14,711. Each Unit is comprised of one common share and one-half (½) of a Series A, B or C Warrant (each a "**Warrant**"). Each whole series A, B, C Warrant entitles the holder to purchase one common share at prices of $7.00, $7.50, and $8.00, respectively. In total, the Company issued 2,802 Common Shares, 467 Series A Warrants, 467 Series B Warrants, and 467 Series C Warrants.