

**TERAGO INC.**  
**Interim Condensed Consolidated Financial Statements**  
**Three and Nine Months Ended September 30, 2021 and 2020**  
**(Unaudited)**

<b>Contents</b>	<b>Page(s)</b>
<hr/>	
<b>Interim Condensed Consolidated Financial Statements</b>	
<b>Statements of Financial Position</b>	<b>2</b>
<b>Statements of Comprehensive Loss</b>	<b>3</b>
<b>Statements of Cash Flows</b>	<b>4</b>
<b>Statements of Changes in Equity</b>	<b>5</b>
<b>Notes to Financial Statements</b>	<b>6-15</b>

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

	<i>Note</i>	<b>September 30 2021</b>	<b>December 31 2020</b>
<b>Assets</b>			
Cash and cash equivalents	4	\$ 6,686	\$ 5,858
Accounts receivable	4	3,023	2,500
Prepaid expenses and other assets		708	804
Current portion of contract costs	3	520	324
Current portion of other long-term assets	9	53	79
<b>Total current assets</b>		<b>10,990</b>	<b>9,565</b>
Network assets, property and equipment	5	54,979	56,649
Intangible assets	6	16,051	17,097
Goodwill	6	19,419	19,419
Contract costs	3	501	397
Other long-term assets	9	4	41
<b>Total non-current assets</b>		<b>90,954</b>	<b>93,603</b>
<b>Total Assets</b>		<b>\$ 101,944</b>	<b>\$ 103,168</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		\$ 4,551	\$ 5,403
Current portion of contract liabilities	3	237	193
Current portion of long-term debt	7	2,250	3,000
Current portion of lease liabilities	8	7,658	7,236
<b>Total current liabilities</b>		<b>14,696</b>	<b>15,832</b>
Decommissioning and restoration obligations		454	360
Contract liabilities	3	275	187
Long-term debt	7	17,854	25,144
Lease liabilities	8	18,977	20,779
<b>Total non-current liabilities</b>		<b>37,560</b>	<b>46,470</b>
<b>Total Liabilities</b>		<b>52,256</b>	<b>62,302</b>
<b>Shareholders' Equity</b>			
Share capital	14	117,767	103,223
Contributed surplus		26,943	27,191
Warrant reserve	14	743	-
Deficit		(95,765)	(89,548)
<b>Total Shareholders' Equity</b>		<b>\$ 49,688</b>	<b>\$ 40,866</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 101,944</b>	<b>\$ 103,168</b>

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

	<i>Note</i>	Three months ended September 30		Nine months ended September 30	
		2021	2020	2021	2020
<b>Revenue</b>	3	\$ 10,876	11,279	32,608	34,544
<b>Expenses</b>					
Cost of services		2,841	2,506	8,038	7,093
Salaries and related costs		3,755	5,100	11,610	12,683
Other operating expenses		1,959	2,051	5,385	5,860
Depreciation of network assets, property, and equipment	5	3,307	3,328	9,823	10,018
Amortization of intangible assets	6	334	373	1,046	1,148
		12,196	13,358	35,902	36,802
<b>Loss from operations</b>		(1,320)	(2,079)	(3,294)	(2,258)
Foreign exchange gain (loss)		(19)	(54)	21	(208)
Finance costs		(929)	(1,053)	(2,981)	(3,662)
Finance income		13	7	37	90
<b>Loss before income taxes</b>		\$ (2,255)	(3,179)	(6,217)	(6,038)
<b>Income taxes</b>					
Income tax expense		-	-	-	-
<b>Net loss and comprehensive loss</b>		\$ (2,255)	(3,179)	(6,217)	(6,038)
<b>Deficit, beginning of period</b>		\$ (93,510)	(84,148)	(89,548)	(81,289)
<b>Deficit, end of period</b>		\$ (95,765)	(87,327)	(95,765)	(87,327)
<b>Basic &amp; Diluted loss per share</b>	11	\$ (0.11)	(0.19)	(0.34)	(0.36)
<b>Basic &amp; Diluted weighted average number of shares outstanding (in 000's)</b>		19,635	16,715	18,471	16,673

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	2021	2020	2021	2020
<b>Operating Activities</b>					
Net loss for the period		(2,255)	(3,179)	(6,217)	(6,038)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Severance, acquisition, and other costs		513	1,323	1,032	1,472
Depreciation of network assets, property and equipment	5	3,307	3,328	9,823	10,018
Amortization of intangible assets	6	334	373	1,046	1,148
Stock-based compensation expense	10	155	475	634	1,239
Finance costs		929	1,053	2,981	3,662
Finance income		(13)	(7)	(37)	(90)
Loss on adjustments and disposal of network assets and intangible assets	5, 8	46	46	169	121
Impairment of assets and related charges	3, 5	81	309	308	485
Severance, acquisition, and other costs paid		(225)	(165)	(857)	(686)
Stock-based compensation paid		-	-	(150)	-
Government grants	13	(413)	-	(813)	-
Changes in non-cash working capital items:					
Accounts receivable		(173)	(70)	(236)	(138)
Prepaid expenses		188	31	75	(422)
Accounts payable and accrued liabilities		(22)	204	(765)	270
Contract liabilities		121	2	132	2
Contract costs		14	(5)	(318)	14
<b>Cash from Operating Activities</b>		<b>2,587</b>	<b>3,718</b>	<b>6,807</b>	<b>11,057</b>
<b>Investing Activities</b>					
Purchase of network assets, property, and equipment	5	(1,491)	(1,996)	(6,032)	(6,114)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		(399)	(107)	(321)	210
<b>Cash used in Investing Activities</b>		<b>(1,890)</b>	<b>(2,103)</b>	<b>(6,353)</b>	<b>(5,904)</b>
<b>Financing Activities</b>					
Proceeds from issuance of warrants	14	-	-	743	-
Proceeds from equity offering	14	-	-	13,812	-
Proceeds from debt borrowings		-	-	-	3,100
Interest swap settlement		-	-	-	(629)
Interest paid, net of received		(240)	(631)	(943)	(916)
Repayment of long-term debt	7	(1,950)	(750)	(7,950)	(2,850)
Financing costs incurred		-	(86)	(85)	(267)
Payments of lease liabilities	8	(1,906)	(1,830)	(5,828)	(5,590)
Government grants	13	225	-	625	927
<b>Cash from (used in) Financing Activities</b>		<b>(3,871)</b>	<b>(3,297)</b>	<b>374</b>	<b>(6,225)</b>
Net change in cash and cash equivalents, during the period		(3,174)	(1,682)	828	(1,072)
Cash and cash equivalents, beginning of period		9,860	9,296	5,858	8,686
<b>Cash and cash equivalents, end of period</b>		<b>6,686</b>	<b>7,614</b>	<b>6,686</b>	<b>7,614</b>

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	Warrant Reserve	Deficit	Total
	Number (in 000's)	Amount				
<b>Balance, January 1, 2021</b>	16,762	\$ 103,223	\$ 27,191	\$ -	(89,548)	\$ 40,866
Issuance of shares upon exercise of options	1	3	(3)	-	-	-
Stock-based compensation	-	-	420	-	-	420
Issuance of common shares from vesting of RSUs/PSUs	69	515	(515)	-	-	-
Shares deducted for payment of withholding tax	(20)	-	(150)	-	-	(150)
Issuance of shares and warrants for equity offering (net of issuance costs)	2,802	13,812	-	743	-	14,555
Issuance of shares for directors' fees	39	214	-	-	-	214
Net loss and comprehensive loss	-	-	-	-	(6,217)	(6,217)
<b>Balance, September 30, 2021</b>	19,653	\$ 117,767	\$ 26,943	\$ 743	(95,765)	\$ 49,688

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

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, 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 September 30, 2021. The Board of Directors authorized the interim financial statements for issue on November 10, 2021.

These interim financial statements include the accounts of TeraGo Inc. and its wholly owned subsidiaries, all intercompany transactions and balances have been eliminated on consolidation.

**(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.

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)

**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.

		<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
		<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Cloud and Colocation Revenue	\$	4,369	4,167	12,796	12,488
Connectivity Revenue		6,507	7,112	19,812	22,056
	\$	10,876	11,279	32,608	34,544

The comparative numbers for the three and nine months ended September 30, 2020 have been changed to conform with the presentation of revenue stream allocations for the three and nine months ended September 30, 2021.

**b) Contract Costs**

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

		<b>2021</b>
<b>Balance, June 30, 2021</b>	\$	1,045
Incremental commissions capitalized		116
Impairment charges from contract terminations		(10)
Amortization		(130)
<b>Balance, September 30, 2021</b>		1,021
Less: current	\$	(520)
		501
		<b>2021</b>
<b>Balance, January 1, 2021</b>	\$	721
Incremental commissions capitalized		680
Impairment charges from contract terminations		(18)
Amortization		(362)
<b>Balance, September 30, 2021</b>		1,021
Less: current	\$	(520)
		501

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

**c) Contract Liabilities**

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

		<b>2021</b>
<b>Balance, June 30, 2021</b>	\$	391
Additions from provisioning		224
Revenue recognized for services provided		(98)
Write-offs from contract terminations		(5)
<b>Balance, September 30, 2021</b>		512
Less: current	\$	(237)
		275
		<b>2021</b>
<b>Balance, January 1, 2021</b>	\$	380
Additions from provisioning		362
Revenue recognized for services provided		(219)
Write-offs from contract terminations		(11)
<b>Balance, September 30, 2021</b>		512
Less: current	\$	(237)
		275

**d) Unsatisfied Performance Obligations**

The aggregate amount of revenue allocated to performance obligations that are unsatisfied as of September 30, 2021 was \$48,604 (December 31, 2020 - \$48,146). 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:

	<b>September 30</b>	<b>December 31</b>
	<b>2021</b>	<b>2020</b>
Trade receivables	\$ 2,752	\$ 2,465
Loss allowances	(58)	(66)
Other	329	101
	\$ 3,023	\$ 2,500



**TERAGO INC.**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
(In thousands, 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, 2021	\$ 127,403	\$ 12,131	\$ 5,079	\$ 2,323	\$ 3,070	\$ 49	\$ 35,954	\$ 186,009
Additions	5,462	481	76	8	5	-	244	6,276
Disposals	(508)	(1)	-	-	-	-	(116)	(625)
Reclassifications / Adjustments	(5)	4	-	-	-	-	2,317	2,316
Impairment	(559)	-	-	-	-	-	-	(559)
<b>Balance, September 30, 2021</b>	<b>\$ 131,793</b>	<b>\$ 12,615</b>	<b>\$ 5,155</b>	<b>\$ 2,331</b>	<b>\$ 3,075</b>	<b>\$ 49</b>	<b>\$ 38,399</b>	<b>\$ 193,417</b>
<b>Accumulated Depreciation</b>								
Balance, January 1, 2021	\$ 104,002	\$ 4,884	\$ 4,974	\$ 2,305	\$ 2,452	\$ 49	\$ 10,694	\$ 129,360
Depreciation for the period	4,575	698	46	14	228	-	4,262	9,823
Disposals	(354)	-	-	-	-	-	(112)	(466)
Reclassifications / Adjustments	(1)	1	-	-	-	-	(10)	(10)
Impairment	(269)	-	-	-	-	-	-	(269)
<b>Balance, September 30, 2021</b>	<b>\$ 107,953</b>	<b>\$ 5,583</b>	<b>\$ 5,020</b>	<b>\$ 2,319</b>	<b>\$ 2,680</b>	<b>\$ 49</b>	<b>\$ 14,834</b>	<b>\$ 138,438</b>
<b>Net Book Value, December 31, 2020</b>	<b>\$ 23,401</b>	<b>\$ 7,247</b>	<b>\$ 105</b>	<b>\$ 18</b>	<b>\$ 618</b>	<b>\$ -</b>	<b>\$ 25,260</b>	<b>\$ 56,649</b>
<b>Net Book Value, September 30, 2021</b>	<b>\$ 23,840</b>	<b>\$ 7,032</b>	<b>\$ 135</b>	<b>\$ 12</b>	<b>\$ 395</b>	<b>\$ -</b>	<b>\$ 23,565</b>	<b>\$ 54,979</b>

During the three and nine months ended September 30, 2021, the Company disposed of assets with net book value of \$44 (Cost of \$154 less accumulated depreciation of \$110, \$nil of which was recognized against lease liabilities) and \$159 (Cost of \$625 less accumulated depreciation of \$466, \$4 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 \$44 and \$155 for the three and nine months ended September 30, 2021 is included in other operating expenses (2020 - \$46 and \$121, 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 and nine months ended September 30, 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 \$71 (Cost of \$121 less accumulated depreciation of \$50) and \$290 (Cost of \$559 less accumulated depreciation of \$269) respectively, was recorded in other operating expenses on the statement of comprehensive loss in the period (2020 - \$277 and \$449, respectively).

**TERAGO INC.**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
(In thousands, 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	-	-	-	-	-	-	-
<b>Balance, September 30, 2021</b>	<b>\$ 12,649</b>	<b>\$ 9,868</b>	<b>\$ 18,021</b>	<b>\$ 4,831</b>	<b>\$ 45,369</b>	<b>\$ 19,419</b>	<b>\$ 64,788</b>
<b>Accumulated Depreciation</b>							
Balance, January 1, 2021	\$ 2,371	\$ 9,800	\$ 13,022	\$ 3,079	\$ 28,272	\$ -	\$ 28,272
Amortization for the period	-	53	901	92	1,046	-	1,046
Impairment	-	-	-	-	-	-	-
<b>Balance, September 30, 2021</b>	<b>\$ 2,371</b>	<b>\$ 9,853</b>	<b>\$ 13,923</b>	<b>\$ 3,171</b>	<b>\$ 29,318</b>	<b>\$ -</b>	<b>\$ 29,318</b>
<b>Net Book Value, December 31, 2020</b>	<b>\$ 10,278</b>	<b>\$ 68</b>	<b>\$ 4,999</b>	<b>\$ 1,752</b>	<b>\$ 17,097</b>	<b>\$ 19,419</b>	<b>\$ 28,272</b>
<b>Net Book Value, September 30, 2021</b>	<b>\$ 10,278</b>	<b>\$ 15</b>	<b>\$ 4,098</b>	<b>\$ 1,660</b>	<b>\$ 16,051</b>	<b>\$ 19,419</b>	<b>\$ 35,470</b>

**7. Long-term Debt**

	September 30 2021	December 31 2020
Term debt facility	\$ 20,331	\$ 28,405
less: financing fees	(227)	(261)
	20,104	28,144
less: current portion	(2,250)	(3,000)
	<u>\$ 17,854</u>	<u>\$ 25,144</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

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

administrative agent.

In June 2021, the Company entered into an amending agreement with the syndicate led by RBC to extend the term of the Company's credit facility to June 30, 2023.

The total \$35,000 facility that matures June 30, 2023 is made up of the following:

- \$5,000 revolving facility which bears interest at prime plus a margin percent. At September 30, 2021, \$nil was drawn and outstanding on the revolving facility (December 31, 2020 - \$nil). Letters of credit issued under the facility totaled \$625 as of September 30, 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 \$563. This facility was fully drawn upon signing the amended and restated credit agreement. At September 30, 2021, \$20,500 of the term facility principal balance outstanding was in a banker's acceptance bearing interest at prime plus a margin percent (December 31, 2020 - \$28,400) and the remaining \$50 was in a prime rate loan (December 31, 2020 - \$100). The effective interest rate on the Company's long-term debt on September 30, 2021 was 4.19%.

During the three and nine months ended September 30, 2021, the Company incurred \$nil and \$85, respectively, 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 as at September 30, 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, datacentre 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:

	<u>2021</u>
Lease liabilities, June 30, 2021	\$ 27,431
Additions	-
Terminations	(2)
Interest on lease liabilities	618
Modifications	494
Lease payments	<u>(1,906)</u>
<b>Lease liabilities, September 30, 2021</b>	<b>26,635</b>
less: current portion	<u>(7,658)</u>
	<u>\$ 18,977</u>

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

		<b>2021</b>
Lease liabilities, January 1, 2021	\$	28,015
Additions		244
Terminations		(10)
Interest on lease liabilities		1,897
Modifications		2,317
Lease payments		(5,828)
<b>Lease liabilities, September 30, 2021</b>		<b>26,635</b>
less: current portion		(7,658)
	\$	<u>18,977</u>

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

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

		<b>September 30</b>		<b>December 31</b>
		<b>2021</b>		<b>2020</b>
Contract asset	\$	57		120
		57		120
less: current portion		(53)		(79)
	\$	<u>4</u>	\$	<u>41</u>

**10. Stock-Based Compensation**

**(a) Stock Options**

For the three and nine months ended September 30, 2021, the Company granted 16 and 155 stock options, respectively, to certain key executives (2020 – 59 and 194, respectively).

For the three and nine months ended September 30, 2021, the Company recorded stock-based compensation related to stock options of \$60 and \$286, respectively (2020 - \$254 and \$524, respectively).

A summary of the change in the Company's stock option plan as at September 30, 2021 is presented below.

		<b>2021</b>
		<b>Weighted</b>
	<b>Number of</b>	<b>Average</b>
	<b>Options</b>	<b>Exercise Price</b>
<b>Outstanding, January 1, 2021</b>	389	\$7.73
Granted	155	\$6.47
Exercised	(6)	\$4.40
Forfeited / Expired	(56)	\$7.94
<b>Outstanding, September 30, 2021</b>	<u>482</u>	<u>\$7.34</u>
Exercisable	128	\$7.45

---

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

---

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

For the three and nine months ended September 30, 2021, the Company granted 27 and 73 RSUs, respectively, to certain key executives (2020 – nil and 46, respectively).

For the three and nine months ended September 30, 2021, the Company recorded compensation expense of \$17 and \$126, respectively, related to the RSUs granted (2020 - \$134 and \$499, respectively). The Company issued 5 and net 49 common shares, respectively, to the holders of RSUs that vested in the period after a deduction of 20 common shares in lieu of payment of required taxes (2020 – 36 and net 86 after deduction of 73 common shares, respectively).

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

	<u>2021</u>
<b>Opening Balance, January 1, 2021</b>	110
Granted	73
Forfeited	(9)
Vested	(69)
<b>Ending Balance, September 30, 2021</b>	<u>105</u>

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

For the three and nine months ended September 30, 2021, the Company granted nil and 61 PSUs, respectively, to certain key executives (2020 – nil and 46, respectively).

For the three and nine months ended September 30, 2021, the Company recorded compensation expense of \$2 and \$8, respectively, related to the PSUs granted (2020 – nil and \$7, respectively).

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

	<u>2021</u>
<b>Opening Balance, January 1, 2021</b>	28
Granted	61
Vested	(25)
Forfeited / Expired	(13)
<b>Ending Balance, September 30, 2021</b>	<u>51</u>

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

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Restricted share units	\$ 17	134	\$ 126	499
Performance-based share units	2	-	8	7
Stock options	60	254	286	524
Directors' fees	76	87	214	209
	<u>\$ 155</u>	<u>475</u>	<u>\$ 634</u>	<u>1,239</u>

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

**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	
	2021	2020	2021	2020
Numerator for basic and diluted loss per share:				
Net loss for the period	\$ (2,255)	(3,179)	\$ (6,217)	(6,038)
Denominator for basic and diluted loss per share:				
Basic weighted average number of shares outstanding	19,635	16,715	18,471	16,673
Effect of stock options, RSUs and PSUs	-	-	-	-
Diluted weighted average number of shares outstanding	19,635	16,715	18,471	16,673
Loss per share:				
Basic	\$ (0.11)	(0.19)	\$ (0.34)	(0.36)
Diluted	\$ (0.11)	(0.19)	\$ (0.34)	(0.36)

Due to the loss for the three and nine months ended September 30, 2021, the impact of all the options, RSUs, and PSUs totaling 668 and 639, respectively (2020 – 570 and 572), were excluded in the calculation of diluted loss per share because they were antidilutive.

**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)	
	September 30 2021	December 31 2020	September 30 2021	December 31 2020
<b>Financial Liabilities</b>				
Long-term debt (Note 7)	20,104	28,144	20,104	28,144

---

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

---

**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 for the COVID-19 pandemic and its associated impacts on an ongoing basis. During the nine months ended September 30, 2021, the movement in the credit loss allowance in respect of trade receivables was as follows:

	<b>2021</b>
<b>Opening Balance, January 1, 2021</b>	66
Amounts written off	(83)
Remeasurement of loss allowance	75
<b>Ending Balance, September 30, 2021</b>	<b>58</b>

**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 for the COVID-19 pandemic and its associated impacts on an ongoing basis.

As of September 30, 2021, the Company had cash and cash equivalents of \$6,686. The Company also has access to \$4,375 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 of 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. A 1% change in interest rate would have increased (decreased) quarterly interest by \$51.

**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 on criteria prescribed by the Government of Canada. During the three and nine months ended September 30, 2021, the Company recorded \$225 and \$552 related to the CEWS program, respectively (2020 - \$162 and \$1,089, respectively). During the three and nine months ended September 30, 2021, the Company recorded \$187 and \$260 related to the CERS program, respectively (2020 - \$nil and \$nil, 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. Share Capital**

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.

On April 21, 2021, the fair value of the warrants was determined using the Black Scholes method. On the date of issuance, the warrants have a fair value of \$743, the common shares are valued \$13,812 and the total is \$14,555. These amounts are disclosed in the Interim Condensed Consolidated Statements of Changes in Equity.