

TERAGO INC.
Consolidated Financial Statements
Years ended December 31, 2018 and 2017

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of TeraGo Inc. and its subsidiaries and all the information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. The consolidated financial statements include certain amounts that are based on the best estimates and judgments of management and in their opinion present fairly, in all material respects, TeraGo Inc.'s financial position, results of operations and cash flows. Management has prepared the financial information presented elsewhere in the Management's Discussion and Analysis and has ensured that it is consistent with the consolidated financial statements, or has provided reconciliations where inconsistencies exist.

Management of TeraGo Inc., in furtherance of the integrity of the consolidated financial statements, has developed and maintains a system of internal controls. Management believes the internal controls provide reasonable assurance that transactions are properly authorized and recorded, financial records are reliable and form a proper basis for the preparation of consolidated financial statements and that TeraGo Inc.'s material assets are properly accounted for and safeguarded. The internal control processes include management's communication to employees of policies that govern ethical business conduct.

The Board of Directors is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee meets periodically with management and the Company's independent auditors to review the Company's reported financial performance and to discuss audit, internal controls, accounting policies, and financial reporting matters; and to review Management's Discussion and Analysis, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee.

February 21, 2019

"Antonio Ciciretto"

President and Chief Executive Officer

"David Charron"

Chief Financial Officer



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of TeraGo Inc.

Opinion

We have audited the consolidated financial statements of TeraGo Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Emphasis of Matter

We draw attention to note 4(a) to the financial statements which indicates that the Entity has changed its accounting policy for revenue, as a result of the adoption of IFRS 15, Revenue from Contracts with Customers, and has applied that change using the cumulative effect method.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Kevin James Fisher.

Vaughan, Canada

February 21, 2019

TERAGO INC.
Consolidated Statements of Financial Position
(In thousands)

	<i>Note</i>	December 31 2018	December 31 2017*
Assets			
Cash and cash equivalents	7(a)	\$ 3,918	\$ 6,986
Accounts receivable	7(b)	3,604	3,389
Prepaid expenses and other assets		996	2,516
Current portion of contract costs	6(b)	501	-
Current portion of other long-term assets	11(a)	37	27
Total current assets		<u>9,056</u>	<u>12,918</u>
Network assets, property and equipment	8	35,346	38,822
Intangible assets	9	20,043	16,699
Goodwill	9	19,419	19,419
Contract costs	6(b)	452	-
Other long-term assets	11(a)	33	-
Total non-current assets		<u>75,293</u>	<u>74,940</u>
Total Assets		<u>\$ 84,349</u>	<u>\$ 87,858</u>
Liabilities			
Accounts payable and accrued liabilities		\$ 5,781	\$ 8,519
Current portion of deferred revenue		-	282
Current portion of contract liabilities	6(c)	178	-
Current portion of long-term debt	10	4,000	4,000
Current portion of other long-term liabilities	11(b)	186	56
Total current liabilities		<u>10,145</u>	<u>12,857</u>
Decommissioning and restoration obligations	12	277	277
Deferred revenue		-	205
Contract liabilities	6(c)	84	-
Long-term debt	10	28,294	32,183
Other long-term liabilities	11(b)	906	419
Total non-current liabilities		<u>29,561</u>	<u>33,084</u>
Total Liabilities		<u>39,706</u>	<u>45,941</u>
Shareholders' Equity			
Share capital		93,262	86,653
Contributed surplus		25,676	25,701
Deficit		(74,295)	(70,437)
Total Shareholders' Equity		<u>\$ 44,643</u>	<u>\$ 41,917</u>
Total Liabilities and Shareholders' Equity		<u>\$ 84,349</u>	<u>\$ 87,858</u>

*The Company retrospectively applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 4(a).

On behalf of the Board:

(signed) "Matthew Gerber"

Director

(signed) "Gary Sherlock"

Director

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

TERAGO INC.
Consolidated Statements of Comprehensive Loss
(In thousands, except per share amounts)

	<i>Note</i>	Year ended December 31 2018	Year ended December 31 2017*
Revenue	6	\$ 54,295	\$ 55,392
Expenses			
Cost of services		13,982	14,103
Salaries and related costs		19,132	19,088
Other operating expenses		12,010	13,573
Depreciation of network assets, property and equipment	8	9,401	11,272
Amortization of intangible assets	9	2,354	3,052
		<u>56,879</u>	<u>61,088</u>
Loss from operations		(2,584)	(5,696)
Foreign exchange gain (loss)		(2)	50
Finance costs		(2,315)	(1,698)
Finance income		81	50
Loss before income taxes		<u>\$ (4,820)</u>	<u>\$ (7,294)</u>
Income taxes			
Income tax expense		-	-
Net loss and comprehensive loss		<u>\$ (4,820)</u>	<u>\$ (7,294)</u>
Deficit, beginning of year**		<u>\$ (69,475)</u>	<u>\$ (63,143)</u>
Deficit, end of year		<u>\$ (74,295)</u>	<u>\$ (70,437)</u>
Basic loss per share	16	\$ (0.32)	\$ (0.51)
Diluted loss per share	16	\$ (0.32)	\$ (0.51)
Basic weighted average number of shares outstanding		15,123	14,307
Diluted weighted average number of shares outstanding		15,123	14,307

*The Company retrospectively applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

**Adjusted for the adoption of IFRS 15 on January 1, 2018 (Note 4(a)(i))

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

TERAGO INC.
Consolidated Statements of Cash Flows
(In thousands)

	<i>Note</i>	Year ended December 31 2018	Year ended December 31 2017*
Operating Activities			
Net loss for the year		\$ (4,820)	(7,294)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Severance, acquisition, and other costs		1,310	1,076
Depreciation of network assets, property and equipment	8	9,401	11,272
Amortization of intangible assets	9	2,354	3,052
Stock-based compensation expense	15	963	201
Finance costs		2,315	1,698
Finance income		(81)	(50)
Loss on adjustments and disposal of network assets	8	757	109
Impairment of assets and related charges	8, 9, 6(b)	764	2,851
Severance, acquisition, and other costs paid		(1,450)	(3,233)
Stock-based compensation paid		-	(644)
Changes in non-cash working capital items:			
Accounts receivable		(285)	284
Prepaid expenses		1,520	634
Accounts payable and accrued liabilities		(1,690)	529
Deferred revenue		-	(123)
Contract liabilities		(162)	-
Contract costs		(140)	-
Cash from Operating Activities		10,756	10,362
Investing Activities			
Purchase of network assets, property and equipment	8	(7,314)	(8,490)
Purchase of intangible assets	9	(5,720)	(754)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		(1,161)	(1,050)
Cash used in Investing Activities		(14,195)	(10,294)
Financing Activities			
Proceeds from exercise of stock options		-	196
Proceeds from equity offering	14	6,906	-
Equity offering costs incurred	14	(858)	-
Interest paid, net of received		(1,677)	(1,604)
Repayment of long-term debt		(4,000)	(4,420)
Financing costs incurred		-	(288)
Cash from (used in) Financing Activities		371	(6,116)
Net change in cash and cash equivalents, during the year		(3,068)	(6,048)
Cash and cash equivalents, beginning of year		6,986	13,034
Cash and cash equivalents, end of year		\$ 3,918	6,986

*The Company retrospectively applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

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

TERAGO INC.
Consolidated Statements of Changes in Equity
(In thousands)

	Share Capital		Contributed		Total
	Number	Amount	Surplus	Deficit	
Balance, January 1, 2018	14,365	\$ 86,653	\$ 25,701	\$ (70,437)	\$ 41,917
Adjustments on adoption of IFRS 15*	-	-	-	962	962
Adjusted Balance at January 1, 2018	14,365	86,653	25,701	(69,475)	42,879
Issuance of shares upon exercise of options	41	115	(114)	-	1
Stock-based compensation	-	-	89	-	89
Issuance of shares for directors' fees	59	446	-	-	446
Issuance of shares for equity offering - net of issuance costs (Note 14)	1,303	6,048	-	-	6,048
Net loss and comprehensive loss	-	-	-	(4,820)	(4,820)
Balance, December 31, 2018	15,768	\$ 93,262	\$ 25,676	\$ (74,295)	\$ 44,643

	Share Capital		Contributed		Total
	Number	Amount	Surplus	Deficit	
Balance, January 1, 2017**	14,250	\$ 86,171	\$ 25,620	\$ (63,143)	\$ 48,648
Issuance of shares upon exercise of options	49	196	-	-	196
Stock-based compensation	-	-	81	-	81
Issuance of shares for directors' fees	66	286	-	-	286
Net loss and comprehensive loss	-	-	-	(7,294)	(7,294)
Balance, December 31, 2017**	14,365	86,653	25,701	(70,437)	41,917

*See Note 4(a)(i).

**The Company retrospectively applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

See Note 14 – Share capital for classes of shares.

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

TERAGO INC.
Notes to the 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**(a) Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Board of Directors authorized the consolidated financial statements for issue on February 21, 2019.

(b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit (loss) ("FVTPL") are measured at fair value through net income or loss
- liabilities for cash-settled stock-based payment arrangements are measured at fair value

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key areas of estimation and information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements are:

- Estimates of useful lives of network assets, property and equipment and intangible assets:*
Management's judgment involves consideration of intended use, industry trends and other factors in determining the expected useful lives of depreciable assets, to determine depreciation methods, the asset's residual value and whether an asset is a qualifying asset for the purposes of capitalizing borrowing costs.
- Capitalization of costs:*
Judgments and estimates are used in assessing the direct labour and other costs capitalized to network assets, property and equipment.
- Cash generating units:*
Judgment is required to assess the Company's determination of cash generating units for the purpose of impairment testing.
- Impairment of non-financial assets:*
The process to calculate the recoverable amount of our cash generating unit requires use of valuation methods such as the discounted cash flow method which uses assumptions of key variables including future cash flows, discount rate and terminal growth rates.
- Valuation allowance on Trade Receivables:*
In developing the estimates for an allowance against existing receivables, the Company considers general and

TERAGO INC.
Notes to the Consolidated Financial Statements
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industry economic and market conditions as well as credit information available for the customer and the aging of the account. Changes in the carrying amount due to changes in economic and market conditions could significantly affect the loss for the period. The Company applies the IFRS 9 model to record valuation allowances on Trade Receivables. See Note 3(c) for more detail.

- (vi) *Stock-based compensation:*
Estimating fair value for stock-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. In valuing stock options, the Company uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Company's stock options using the Black-Scholes option pricing model including the expected life of the option, risk-free interest rate and volatility of the underlying stock.
- (vii) *Business combination:*
The amount of goodwill initially recognized as a result of a business combination, the fair value estimate of any contingent consideration and the determination of the fair value of the identifiable assets acquired and the liabilities assumed is based, to a considerable extent, on management's estimate of future cash flows expected to be derived from the assets acquired.
- (viii) *Income taxes:*
A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Significant estimates are required in evaluating the recoverability of deferred tax assets. The Company's assessment is based on existing tax laws, estimates of future profitability and tax planning strategies.
- (ix) *Provisions:*
Judgment is required to assess the likelihood of an outflow of the economic benefits to settle contingencies, such as litigations or decommissioning and restoration obligations, which may require a liability to be recognized. Significant judgments include assessing estimates of future cash flows, selection of discount rates and the probability of the occurrence of future events.
- (x) *Revenue from contracts with customers:*
The enforceable term of contracts requires estimating average contract terms based on available historical data. Significant judgements are also made in determining whether the promises to deliver certain services are considered distinct and represent separate performance obligations. In addition, evaluating whether costs incurred to obtain a contract are incremental and expected to be recoverable requires judgment based on conditions of each individual contract.

3. Significant Accounting Policies

(a) Revenue Recognition

The Company earns revenue by providing cloud, colocation, and connectivity services. Revenue is measured at the fair value of the consideration received or receivable for services, net of discounts and sales taxes. Revenue is recognized as the related services are provided to customers. The Company applies the five step *IFRS 15 Revenue from Contracts with Customers* model (Note 4(a)) in determining the appropriate treatment of its various sources of revenue. The principal sources of revenue to the Company and recognition of these revenues are as follows:

- Monthly recurring revenue (MRR) from cloud, colocation, and connectivity are recognized as service revenue ratably over the enforceable term of individual contracts which is typically the stated term. The Company satisfies its performance obligation as these services are made available over time. The Company believes this method to be the best representation of transfer of services as it is consistent with industry practice to measure satisfaction through passage of time. In addition, many of the Company's contractual terms are consistent with a monthly passage of time model as services are provided.
- Revenue from installation services, which are not treated as distinct performance obligations, are recognized over the enforceable term of individual contracts consistent with the schedule of MRR discussed above.
- Usage revenue (overage and consumption-based services) is recorded as service revenue in the month the usage is incurred/service is consumed by the customer, based on a fixed agreed upon amount per unit consumed.
- Payment is typically due at the beginning of each month for MRR services and at the end of each month for usage revenue.

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Notes to the Consolidated Financial Statements
(In thousands, except for per share amounts)

(i) Sale of Bundled Services

The Company offers certain customers bundled connectivity, colocation, and cloud services. Revenue from these arrangements were previously classified based on the nature of the contract. Under IFRS 15, total consideration in contracts with customers are allocated to distinct performance obligations based on their stand-alone selling prices. The Company determined the stand-alone selling price to be the list price at which the Company sells connectivity, and colocation and cloud services. As a result of the allocation of performance obligations under IFRS 15, certain amounts that would have been classified as cloud and colocation revenue are now presented as connectivity revenue.

(ii) Service Credits

The Company has obligations for credits under its contracts with customers when certain criteria are met. Credits are measured at agreed upon contractual rates and are recognized net of revenue and presented in total revenue on the statement of comprehensive loss.

(iii) Contract Costs

IFRS 15 requires certain contract acquisition costs to be recognized as an asset on the statement of financial position and amortized into income over time. The Company typically incurs internal or external sales commissions to obtain contracts with customers. Prior to the adoption of IFRS 15, the Company expensed all commission costs as incurred. The Company now capitalizes these commission fees as costs of obtaining a contract when they are incremental and expected to be recovered. These costs are amortized consistently with the pattern of revenue for the related contracts and are recorded in salaries and related costs on the statement of comprehensive loss.

Contract costs are presented separately as an asset on the consolidated statement of financial position. The Company has opted not to use practical expedients under the cumulative effect method and as a result, the current portion of contract costs are presented in current assets. The current portion represent amounts expected to be amortized in the next 12 months. The Company uses significant judgments and estimates when estimating certain contract costs incurred in prior years that continue to be incremental and recoverable in the current period.

(iv) Contract Assets

Contract assets arise primarily as a result of services offered and provided in advance of payments received from a customer. From time to time, the Company will offer promotions which will give rise to contract assets. These arrangements are recorded in other long-term assets on the balance sheet with current and long-term amounts presented separately on the statement of financial position. The current portion represents the performance obligation to be satisfied and recognized as revenue in the next twelve months.

(v) Contract Liabilities

Contract liabilities arise primarily as a result of payment received in advance of providing services to a customer; for example, when a customer pays for a service up-front on a multi-year contract. The Company had previously presented these arrangements as deferred revenue. These payments are now presented as contract liabilities with current and long-term amounts presented separately on the statement of financial position. The current portion represents the performance obligation to be satisfied and recognized as revenue in the next twelve months.

(b) Basis of Consolidation

The consolidated financial statements include the accounts of TeraGo Inc. and its wholly owned subsidiaries TeraGo Networks Inc., Mobileexchange Spectrum Holdings Inc., and Mobileexchange Spectrum Inc. (collectively, the Company). A subsidiary is an entity that is controlled by another entity, known as the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany transactions between subsidiaries are eliminated on consolidation.

(c) Financial Instruments

The Company initially measures financial instruments at fair value. Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying value at inception (except for transaction costs related to financial instruments recorded as fair value through profit or loss (FVTPL) financial assets which are expensed as incurred), and are recognized over the term of the assets or liabilities using the effective interest method.

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The classification and methods of measurement subsequent to initial recognition of our financial assets and financial liabilities are as follows:

Financial Instrument	Classification and measurement method
Financial Assets	
Cash and cash equivalents	Amortized cost
Accounts Receivable	Amortized cost
Financial liabilities	
Accounts payable	Amortized cost
Accrued Liabilities	Amortized cost
Long-term debt	Amortized cost
Derivatives ¹	
Interest rate swap	FVTPL

¹Derivatives can be in an asset or liability position at a point in time historically or in the future

Impairment of Financial Assets

The Company's financial assets measured at amortized cost consist of assets discussed in Note 19.

Under IFRS 9, loss allowances are measured on either of the following bases:

- *12-month ECLs*: these are expected credit losses ("ECLs") that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables and any contract assets at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Loss allowances on financial assets measured at amortized cost are deducted from the gross carrying amount of the asset and the related impairment loss is recorded separately on the statement of comprehensive loss. The Company subsequently writes off financial assets where it is not economical to pursue recovery and when all reasonable legal avenues of pursuit for material assets have been exhausted.

(d) Network Assets, Property and Equipment

Network assets, property and equipment are recorded at cost less accumulated depreciation and impairment charges, if any. These costs include expenditures directly attributable to the acquisition of the asset. The cost of self-constructed network assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended purpose. This includes direct costs to design, acquire and build the asset and include directly attributable internally and externally generated engineering and construction costs and equipment on-hand. They also include the cost of dismantling and removing items and restoring the site on which they are located and specifically attributable borrowing costs on qualifying assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the costs of the item can be reliably measured. All other expenditures are charged to operating expenses as incurred.

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(In thousands, except for per share amounts)

When major components of an item of network assets and property and equipment have different useful lives, they are accounted for as separate items. Depreciation of network assets and property and equipment is based on the estimated useful life of the assets as follows:

	<u>Estimated useful life/ Asset depreciation method</u>
Network assets	6 to 25 years straight line
Cloud and Data centre infrastructure	10 to 15 years straight line
Computer equipment	3 years straight line
Office furniture and equipment	5 years straight line
Leasehold improvements	over the term of lease
Vehicles	30% declining balance

Depreciation methods, useful lives and residual values are reviewed at least annually. Adjustments, if necessary, are recognized prospectively.

(e) Goodwill and Intangible Assets

Intangible assets include the following:

Radio Spectrum Licenses

Radio spectrum licenses are classified as indefinite life intangible assets and are not amortized but are tested for impairment on an annual basis. It is difficult to determine the period over which these assets are expected to generate future net cash inflows to the Company and it is common industry practice for established telecommunications companies to treat these licenses as indefinite life.

Computer Software

Computer software is recorded at cost less accumulated amortization and amortized on a straight-line basis over 3 years or where there is a term license for the software, over the shorter of the term of the license or the useful life of the software.

Customer Relationships, Brand, Non-compete agreements, and Acquired Real Estate Leases

Customer relationships, brand, non-compete agreements and vendor's real estate leases are recorded at cost less accumulated amortization, initially measured at fair value on the acquisition date if acquired in a business combination. Customer relationships are amortized on a straight-line basis over a range of 5 to 10 years, brands are amortized over a period of 5 to 20 years, non-compete agreements are amortized on a straight-line basis in accordance with the term of the contracts and acquired real estate leases are amortized over the term of the lease.

Amortization methods, useful lives and residual values are reviewed at least annually. Adjustments, if necessary, are recognized prospectively.

Goodwill

Goodwill is the amount that results when the fair value of consideration transferred for an acquired business exceeds the net fair value of the identifiable assets and liabilities acquired. When the Company enters into a business combination, the acquisition method of accounting is used. Goodwill is assigned, as of the date of the business combination, to cash generating units that are expected to benefit from the business combination.

(f) Impairment of non-financial assets

The Company monitors events and changes in circumstances that may require an assessment of the recoverability of its non-financial long-lived assets. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of i) the net present value of the expected future cash flows (value-in-use) and ii) the fair value less cost to sell. If the recoverable amount is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is charged to operations in the period in which the impairment is identified. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash generating units" or "CGUs").

The carrying values of identifiable intangible assets with indefinite lives and goodwill are tested at minimum annually for impairment. Goodwill and indefinite life intangible assets are allocated to CGUs for the purpose of impairment testing based on the level at which management monitors it, which is not higher than an operating segment. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company currently has assessed that it has a single CGU.

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The carrying values of non-financial assets with finite useful lives, such as network assets, property and equipment and intangible and other assets subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount of the asset must be determined. Such assets are impaired if their recoverable amount is lower than their carrying amount. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the CGU to which the asset belongs is tested for impairment.

(g) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in loss in the period incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS sections. Changes in the fair value of contingent consideration initially classified as equity are not recognized.

Where a business combination is achieved in stages, the Company's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Company attains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair value at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

(h) Leases

Leases entered into by the Company as lessee that transfer substantially all the benefits and risks of ownership to the Company are recorded as finance leases and are included in property and equipment and obligations under finance leases. Obligations under finance leases are reduced by lease payments net of imputed interest. All other leases are classified as operating leases under which lease payments are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease cost, over the term of the lease. Contingent lease payments are accounted for in the period incurred.

(i) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the impact is significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognized as a finance cost.

Decommissioning and Restoration Obligations:

In the course of the Company's operations, network and other assets are utilized on leased premises. Often costs are expected to be incurred associated with decommissioning these assets and restoring the location where these assets are situated upon ceasing their use on those premises.

These decommissioning and restoration provisions are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and

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other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the liability. Assumptions related to the amount and timing of cash flows required to satisfy the Company's future legal obligations include labour costs based on current marketplace wages and the rate of inflation over expected years to settlement; the length of facility lease renewal periods and probability of such renewals; and the appropriate discount rate to present value the future cash flows. Forecasts of estimated future provisions are reviewed periodically in light of future changes in business conditions or technological requirements.

The Company records these decommissioning and restoration costs as Network Assets, Property and Equipment, and subsequently allocates them to expense using a systematic and rational method over the asset's useful life. The Company records the accretion of the liability (unwinding of the discount) as a charge to finance costs.

(j) Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows: At the transaction date, each asset, liability, revenue, and expense is translated into Canadian dollars using the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in net loss in the current year.

(k) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, gains on sale of available-for-sale financial assets, and changes in fair value of financial assets at FVTPL.

Finance costs comprise interest expense on borrowings, accretion of discounts on provisions, and changes in fair value of financial assets at FVTPL. Borrowing costs that are not directly attributable are recognized in loss for the year.

(l) Income Taxes

Income taxes on losses include current and deferred taxes. Income taxes are recognized in loss except to the extent that it relates to business combinations, or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is generally recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured, on an undiscounted basis, at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries, branches and associates, and interests in joint ventures where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

A deferred tax asset is recognized to the extent it is probable that it will be realized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable the related tax benefit will be realized.

(m) Government incentives

From time to time, the Company applies for government incentive programs such as investment tax credits. Government incentives are recognized when there is reasonable assurance of realization and reflected as a reduction of the expenditure to which the incentive relates. In the event the investment tax credits received differs from the amount claimed, the difference will be reflected in operations in the year in which it is determined.

(n) Stock-based Compensation Plans

The Company has equity-settled and cash-settled stock-based compensation plans.

The grant date fair values of equity settled stock-based payment awards to employees and directors are recognized as compensation cost, with a corresponding increase to equity, over the vesting period of the award. For cash-settled awards, the awards are classified as a liability and are re-measured to fair value at each reporting date. The Company accounts

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for the effects of service and non-market performance conditions in measuring the fair value of the liability in cash-settled awards by adjusting the number of rights to receive cash that are expected to satisfy any service and non-market performance conditions on a best estimate basis.

Awards with graded vesting are valued and recognized as compensation cost based on the respective vesting tranche. The amount of compensation cost recognized is adjusted to reflect the number of awards expected to vest based on continued employment vesting conditions, such that the amount ultimately recognized as compensation cost is based on the number of awards that vest.

The Employee share purchase plan allows employees to voluntarily participate in a share purchase plan. Under the terms of the plan, employees can contribute a specified percentage of their regular earnings through payroll deductions and the Company makes a contribution match which is recorded as compensation expense.

(o) Operating Segments

Management has determined that the Company operates in a single reportable operating segment. The Company provides cloud, colocation, and connectivity services and earns revenues primarily in Canada. As at December 31, 2018 substantially all of the Company's identifiable assets are located in Canada.

(p) Loss Per Share

The basic loss per share has been computed by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is computed by adjusting the net loss attributable to common shareholders for the year and the weighted average number of common shares outstanding for the period for the effects of all potentially dilutive common shares including shares subject to the exercise of stock options, where dilutive. The Company uses the treasury stock method for calculating diluted loss per share.

4. Accounting Pronouncements Adopted in 2018

a) IFRS 15 Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. IFRS 15 supersedes the existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs.

The Company adopted IFRS 15 using the cumulative effect method, i.e. by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at January 1, 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18.

The Company has implemented several processes and policies to ensure the consistent, timely, and appropriate allocation of revenue between performance obligations in contracts with customers.

The adoption of IFRS 15 did not affect the Company's cash flows from operating, investing, or financing activities. Furthermore, the impact on timing of revenue recognition was not material as the treatment of revenue for services rendered over time, which is the method under which Company satisfies the majority of its performance obligations, is consistent under IFRS 15 and IAS 18. The details of the significant changes and quantitative impact of the changes are outlined below.

The treatment of costs incurred in acquiring customer contracts is affected as IFRS 15 requires certain contract acquisition

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costs (such as sales commissions) to be recognized as an asset and amortized into operating expenses over time (note 3(a)). Previously, such costs were expensed as incurred.

In addition, new assets and liabilities have been recognized on our Consolidated Statements of Financial Position. Specifically, a contract asset and contract liability is recognized to account for any timing differences between the revenue recognized and the amounts billed to the customer.

The Company used estimates in the following areas:

- Determining the enforceable term of contracts required estimating average contract terms based on available historical data
- Significant judgments in determining whether the promises to deliver certain services are considered distinct and represent separate performance obligations
- Evaluating whether costs incurred to obtain a contract were incremental and expected to be recoverable

i) Impacts on Consolidated Financial Statements

Impact on Consolidated Statement of Financial Position

	As at December 31 2018			As at January 1 2018		
	As Reported	Adjust.	Balances without adoption of IFRS 15	Balance after adoption of IFRS 15	Adjust.	Balances without adoption of IFRS 15
Assets						
Cash and cash equivalents	3,918	-	3,918	6,986	-	6,986
Accounts receivable	3,604	70	3,674	3,389	-	3,389
Prepaid expenses and other assets	996	-	996	2,516	-	2,516
Other long-term assets	70	(70)	-	27	-	27
Network assets, property and equipment	35,346	-	35,346	38,822	-	38,822
Intangible assets	20,043	-	20,043	16,699	-	16,699
Goodwill	19,419	-	19,419	19,419	-	19,419
Contract costs	953	(953)	-	899	(899)	-
Total Assets	84,349	(953)	83,396	88,757	(899)	87,858
Liabilities						
Accounts payable and accrued liabilities	5,781	-	5,781	8,519	-	8,519
Deferred revenue	-	323	323	-	487	487
Contract liabilities	262	(262)	-	424	(424)	-
Long-term debt	32,294	-	32,294	36,183	-	36,183
Other long-term liabilities	1,092	-	1,092	475	-	475
Decommissioning and restoration obligations	277	-	277	277	-	277
Total Liabilities	39,706	61	39,767	45,878	63	45,941
Shareholders' Equity						
Share capital	93,262	-	93,262	86,653	-	86,653
Contributed surplus	25,676	-	25,676	25,701	-	25,701
Deficit	(74,295)	(1,014)	(75,309)	(69,475)	(962)	(70,437)
Total Shareholders' Equity	84,349	(953)	83,396	88,757	(899)	87,858

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Impact on Consolidated Statement of Comprehensive Income

	Year ended December 31 2018		
	As Reported	Adjust.	Balances without adoption of IFRS 15
Revenue	54,295	2	54,297
Cost of services	(13,982)	-	(13,982)
Salaries and related costs	(19,132)	(140)	(19,272)
Other operating expenses	(12,010)	86	(11,924)
Depreciation of network assets, property and equipment	(9,401)	-	(9,401)
Amortization of intangible assets	(2,354)	-	(2,354)
Foreign exchange gain	(2)	-	(2)
Finance costs	(2,315)	-	(2,315)
Finance income	81	-	81
Income tax expense	-	-	-
Net loss and comprehensive loss	(4,820)	(52)	(4,872)
Basic loss per share	(0.32)	-	(0.32)
Diluted loss per share	(0.32)	-	(0.32)

Impact on Consolidated Statement of Cash Flows

	Year ended December 31 2018		
	As Reported	Adjust.	Balances without adoption of IFRS 15
Operating Activities			
Net loss for the year	(4,820)	(52)	(4,872)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Changes in non-cash working capital items:	16,333	(86)	16,247
Accounts receivable	(285)	-	(285)
Prepaid expenses	1,520	-	1,520
Accounts payable and accrued liabilities	(1,690)	-	(1,690)
Deferred revenue	-	(164)	(164)
Contract liabilities	(162)	162	-
Contract costs	(140)	140	-
Cash from Operating Activities	10,756	-	10,756
Cash used in Investing Activities	(14,195)	-	(14,195)
Cash from Financing Activities	371	-	371
Net change in cash and cash equivalents, during the period	(3,068)	-	(3,068)
Cash and cash equivalents, beginning of period	6,986	-	6,986
Cash and cash equivalents, end of period	3,918	-	3,918

b) IFRS 9 Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9 Financial Instruments. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

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The adoption of this standard did not have a material effect on our consolidated financial statements.

Below is a summary showing the classification and measurement bases of the Company's financial instruments as at January 1, 2018 as a result of adopting IFRS 9 (along with a comparison to IAS 39).

Financial Instrument	IAS 39	IFRS 9
Financial Assets		
Cash and cash equivalents	Loans and receivables (amortized cost)	Amortized Cost
Accounts Receivable	Loans and receivables (amortized cost)	Amortized Cost
Financial liabilities		
Accounts payable	Other financial liabilities (amortized cost)	Amortized Cost
Accrued Liabilities	Other financial liabilities (amortized cost)	Amortized Cost
Long-term debt	Other financial liabilities (amortized cost)	Amortized Cost
Derivatives		
Interest rate swap	Held-for-trading (FVTPL)	FVTPL

i) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Company's financial assets measured at amortized cost consist of assets discussed in Note 19.

Under IFRS 9, loss allowances are measured on either of the following bases:

- *12-month ECLs*: these are expected credit losses ("ECLs") that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables and any contract assets at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired.

ii) Measurement of loss allowances

For trade receivables, the Company uses historic actual credit losses as the basis for estimating ECLs and uniformly applies this estimate to its gross balance net of balances already fully impaired at each reporting date. The Company believes this amount to best estimate the expected credit losses.

iii) Presentation of loss allowances

Loss allowances on financial assets measured at amortized cost are deducted from the gross carrying amount of the asset and the related impairment loss is recorded separately on the statement of comprehensive income.

5. Upcoming accounting pronouncements not yet adopted

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted as at December 31, 2018 and could have an impact on future periods.

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IFRS 16 Leases

On January 13, 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception.

The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company has a dedicated team to assess the impact of IFRS 16 and the team has gathered a significant portion of the information necessary to evaluate the impact of the standard. The team is expected to quantify the impact of the standard upon completion of their assessment. The Company expects the standard to have a significant impact on the Consolidated Statements of Financial Position as the Company will be required to recognize a right-of-use asset and corresponding lease liability for its network sites, datacenter, and office leases. Furthermore, the Company expects a decrease in other operating expenses, an increase in depreciation expense (as the right-of-use asset is depreciated), and an increase in finance costs (due to accretion of the lease liability).

6. Revenue

The Company's operations, main sources of revenue, and methods for recognition are those described in Note 3. The Company's revenue is primarily derived from contracts with customers.

The effect of initially applying IFRS 15 on the Company's financial statements is disclosed in Note 4.

a) Disaggregation of revenue

In the following table and in accordance with IFRS 15, the Company's disaggregates revenue into two primary categories that depict the nature of its revenue streams.

		Year ended December 31	
		2018	2017*
Cloud and Colocation Revenue	\$	19,290	18,961
Connectivity Revenue		35,005	36,431
	\$	<u>54,295</u>	<u>55,392</u>

*The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

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b) Contract Costs

The following table summarizes the change in contract costs during the year ended December 31, 2018:

	<u>2018</u>
Balance, January 1, 2018	\$ 899
Incremental commissions capitalized	782
Impairment charges from contract terminations	(86)
Amortization	(642)
Balance, December 31, 2018	<u>953</u>
Less: current	\$ (501)
	<u>452</u>

c) Contract Liabilities

The following is a table that summarizes the change in contract liabilities during the year ended December 31, 2018:

	<u>2018</u>
Balance, January 1, 2018	\$ 424
Additions from provisioning	413
Revenue recognized for services provided	(539)
Impairments from contract terminations	(36)
Balance, December 31, 2018	<u>262</u>
Less: current	\$ (178)
	<u>84</u>

d) Unsatisfied Performance Obligations

The aggregate amount of transaction price allocated to performance obligations that are unsatisfied as of December 31, 2018 was \$69,498. 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.

7. 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:

	<u>December 31</u>		<u>December 31</u>
	<u>2018</u>		<u>2017</u>
Trade receivables	\$ 3,519	\$	3,137
Loss allowances (Note 19(b))	(47)		(21)
Other	132		273
	<u>\$ 3,604</u>	\$	<u>3,389</u>

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8. Network Assets, Property and Equipment

Cost	Network Assets	Cloud & Datacentre Infrastructure	Computer Equipment	Office Furniture and Equipment	Leasehold Improvements	Vehicles	Total
Balance, January 1, 2018	\$ 117,170	\$ 14,578	\$ 2,770	\$ 2,357	\$ 2,330	\$ 49	\$ 139,254
Additions / reclassifications	6,107	384	9	1	813	-	7,314
Disposals	(2,338)	(281)	(11)	(12)	(37)	-	(2,679)
Reclassifications / Adjustments	643	(2,946)	2,293	10	-	-	-
Impairment	(1,557)	-	(73)	-	(7)	-	(1,637)
Balance, December 31, 2018	\$ 120,025	\$ 11,735	\$ 4,988	\$ 2,356	\$ 3,099	\$ 49	\$ 142,252
Accumulated Depreciation							
Balance, January 1, 2018	\$ 90,454	\$ 3,902	\$ 2,542	\$ 2,222	\$ 1,263	\$ 49	\$ 100,432
Depreciation for the period	7,189	877	844	49	442	-	9,401
Disposals	(1,742)	(145)	(9)	(9)	(17)	-	(1,922)
Reclassifications / Adjustments	(38)	(1,428)	1,463	3	-	-	-
Impairment	(939)	-	(64)	-	(2)	-	(1,005)
Balance, December 31, 2018	\$ 94,924	\$ 3,206	\$ 4,776	\$ 2,265	\$ 1,686	\$ 49	\$ 106,906
Net Book Value, December 31, 2018	\$ 25,101	\$ 8,529	\$ 212	\$ 91	\$ 1,413	\$ -	\$ 35,346

Cost	Network Assets	Cloud & Datacentre Infrastructure	Computer Equipment	Office Furniture and Equipment	Leasehold Improvements	Vehicles	Total
Balance, January 1, 2017	\$ 118,609	\$ 14,386	\$ 2,660	\$ 2,332	\$ 1,648	\$ 49	\$ 139,684
Additions / reclassifications	7,007	620	156	25	682	-	8,490
Disposals / Adjustments	(1,121)	(7)	-	-	-	-	(1,128)
Impairment	(7,325)	(421)	(46)	-	-	-	(7,792)
Balance, December 31, 2017	\$ 117,170	\$ 14,578	\$ 2,770	\$ 2,357	\$ 2,330	\$ 49	\$ 139,254
Accumulated Depreciation							
Balance, January 1, 2017	\$ 87,527	\$ 2,479	\$ 2,245	\$ 2,172	\$ 1,051	\$ 49	\$ 95,523
Depreciation for the period	9,158	1,531	321	50	212	-	11,272
Disposals / Adjustments	(1,024)	(3)	-	-	-	-	(1,027)
Impairment	(5,207)	(105)	(24)	-	-	-	(5,336)
Balance, December 31, 2017	\$ 90,454	\$ 3,902	\$ 2,542	\$ 2,222	\$ 1,263	\$ 49	\$ 100,432
Net Book Value, December 31, 2017	\$ 26,716	\$ 10,676	\$ 228	\$ 135	\$ 1,067	\$ -	\$ 38,822

For the year ended December 31, 2018, the Company recorded reclassifications to adjust the presentation of certain computer equipment and network assets that were recorded in cloud & datacentre infrastructure. This change had no impact on the financial statements.

For the years ended December 31, 2018 and 2017, the Company had additions of capitalized wages and other directly attributable costs of \$2,537 and \$2,157, respectively, in network assets.

During 2018, the Company wrote off assets with net book value of \$757 (Cost of \$2,679 less accumulated depreciation of \$1,922) which primarily represents replaced assets and obsolete assets disposed of for negligible value. During 2017, the Company wrote off assets with a net book value of \$104 (Cost of \$331 less accumulated depreciation of \$227). The corresponding loss on disposal is included in other operating expenses.

Impairment of Property, Plant, and Equipment

The annual impairment test of Network assets, property and equipment was performed on December 31, 2018 and a charge of \$632 was recorded in other operating expenses on the statement of comprehensive loss (December 31, 2017 – \$2,456).

The Company tests assets for impairment when events or circumstances may indicate the carrying value is no longer

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recoverable. The asset is impaired when the recoverable amount is less than the net book value. The recoverable amount is the higher of (i) an asset's fair value less costs to sell and (ii) its value-in-use. In performing the annual impairment test the Company identified evidence of impairment in certain assets and an analysis was done on the recoverable amount.

During the annual review, the Company determined that the recoverable amount of certain network assets, cloud and data centre infrastructure, and computer equipment was less than their carrying values. This was the result of the loss of certain connectivity customers, changes in services demanded and provided to certain customers in primarily connectivity offerings, and assets not expected to be deployed. The fair value less costs to sell (or salvage value) for the impaired assets was insignificant.

9. Intangible Assets and Goodwill

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, January 1, 2018	\$ 7,041	\$ 9,803	\$ 17,690	\$ 4,831	\$ 39,365	\$ 19,419	\$ 58,784
Additions	5,608	112	-	-	5,720	-	5,720
Impairment	-	(75)	-	-	(75)	-	(75)
Balance, December 31, 2018	\$ 12,649	\$ 9,840	\$ 17,690	\$ 4,831	\$ 45,010	\$ 19,419	\$ 64,429
Accumulated Depreciation							
Balance, January 1, 2018	\$ 2,371	\$ 8,584	\$ 9,177	\$ 2,534	\$ 22,666	\$ -	\$ 22,666
Amortization for the period	-	645	1,420	289	2,354	-	2,354
Impairment	-	(53)	-	-	(53)	-	(53)
Balance December 31, 2018	\$ 2,371	\$ 9,176	\$ 10,597	\$ 2,823	\$ 24,967	\$ -	\$ 24,967
Net Book Value, December 31, 2018	\$ 10,278	\$ 664	\$ 7,093	\$ 2,008	\$ 20,043	\$ 19,419	\$ 39,462

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, January 1, 2017	\$ 7,041	\$ 9,056	\$ 18,241	\$ 4,880	\$ 39,218	\$ 19,419	\$ 58,637
Additions	-	754	-	-	754	-	754
Disposals / Adjustments	-	(7)	4	(5)	(8)	-	(8)
Impairment	-	-	(555)	(44)	(599)	-	(599)
Balance, December 31, 2017	\$ 7,041	\$ 9,803	\$ 17,690	\$ 4,831	\$ 39,365	\$ 19,419	\$ 58,784
Accumulated Depreciation							
Balance, January 1, 2017	\$ 2,371	\$ 7,999	\$ 7,481	\$ 1,967	\$ 19,818	\$ -	\$ 19,818
Amortization for the period	-	585	1,866	601	3,052	-	3,052
Impairment	-	-	(170)	(34)	(204)	-	(204)
Balance December 31, 2017	\$ 2,371	\$ 8,584	\$ 9,177	\$ 2,534	\$ 22,666	\$ -	\$ 22,666
Net Book Value, December 31, 2017	\$ 4,670	\$ 1,219	\$ 8,513	\$ 2,297	\$ 16,699	\$ 19,419	\$ 36,118

Spectrum Purchase

On September 18, 2018, TeraGo entered into a share purchase agreement to acquire all of the issued and outstanding shares of Mobilexchange Spectrum Inc. and its parent holding company Mobilexchange Spectrum Holdings Inc. (collectively, "MSI") for aggregate cash consideration of \$5,608. The acquisition was funded through the net proceeds of TeraGo's bought deal equity offering which previously closed on June 18, 2018. On November 9, 2018, TeraGo completed its acquisition of MSI which is a holder of six 24 GHz spectrum licenses in Calgary, Edmonton, Montreal, Ottawa, Toronto, and Vancouver. Prior to the acquisition, TeraGo was a lessee to such spectrum of MSI and held subordinate licenses. The acquisition of MSI was not determined to be a business combination under IFRS 3, and accordingly the Company reflected the acquisition as a purchase of spectrum licenses under intangible assets.

Impairment of Intangible Assets

The annual impairment test of intangible assets was performed on December 31, 2018 and a charge of \$22 was recorded

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in other operating expenses on the statement of comprehensive loss (December 31, 2017 – \$395).

The Company tests assets for impairment when events or circumstances may indicate the carrying value is no longer recoverable. The asset is impaired when the recoverable amount is less than the net book value. The recoverable amount is the higher of (i) an asset's fair value less costs to sell and (ii) its value-in-use. In performing the annual impairment test the Company identified evidence of impairment in certain assets and an analysis was done on the recoverable amount.

During the annual review, the Company determined that the recoverable amount of certain customer relationships and brand assets was less than their carrying value. This was the result of a strategic shift in cloud product offerings and the strategic focus made on the Company's customer base.

Impairment of Goodwill

The annual impairment test of goodwill and indefinite life intangible assets was performed on December 31, 2018 and December 31, 2017 and did not result in any goodwill impairment loss.

The recoverable amount is the higher of (i) an asset's or CGU's fair value less costs to sell and (ii) its value-in-use. In performing the annual impairment test for the Company's single CGU, the Company measured the value-in-use of the CGU using certain key management assumptions. Cash flow projections, which were made over a five-year period, were based primarily on the financial budget reviewed by the Board of Directors plus a terminal value using a 3% terminal growth rate. The Company discounted these estimates of future cash flows to their present value using an after-tax discount rate of 10.4% which reflects the entity's weighted average cost of capital. The fair value less costs to sell, primarily based on the Company's market capitalization as at December 31, 2018, also significantly exceeded the net carrying amount of the CGU.

10. Long-term Debt

	December 31		December 31
	2018		2017
Term debt facility	\$ 32,600	\$	36,611
less: financing fees	(306)		(428)
	<u>32,294</u>		<u>36,183</u>
less: current portion	(4,000)		(4,000)
	<u>\$ 28,294</u>	\$	<u>32,183</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 December 31, 2018, \$nil amount is outstanding (2017 - \$nil). Letters of credit issued under the facility totaled \$655 as of December 31, 2018 (2017 - \$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 December 31, 2018, \$32,900 of the term facility principal balance outstanding was in a Banker's Acceptance and

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the remaining \$100 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 December 31, 2018 was a liability of \$245 (December 31, 2017 – asset of \$27) and is recorded in other long-term assets/liabilities (Note 11), 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 December 31, 2018 was 5.34% which represents the Company's interest on its Banker's Acceptance net of its interest swap contracts.

As at December 31, 2018, the Company prepaid interest in the amount of \$400 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 December 31, 2018, 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 December 31, 2018. 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.

11. Other Long-Term Assets/Liabilities

(a) Other long-term assets

	December 31	December 31
	2018	2017
Interest rate swap contract (Note 10)	\$ -	\$ 27
Contract Asset	70	-
	<u>70</u>	<u>27</u>
less: current portion	(37)	(27)
	<u>\$ 33</u>	<u>\$ -</u>

(b) Other long-term liabilities

	December 31	December 31
	2018	2017
Performance based share units (Note 15(c))	\$ 70	\$ 43
Restricted share units (Note 15(b))	573	171
Interest rate swap contract (Note 10)	245	-
Lease inducement liability	204	261
	<u>1,092</u>	<u>475</u>
less: current portion	(186)	(56)
	<u>\$ 906</u>	<u>\$ 419</u>

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12. Decommissioning and Restoration Obligations

The Company's hub sites are established in leased or licensed premises. As part of these arrangements, the Company is liable for all restoration costs to ensure that the space is returned to its original state upon termination of the leases. The decommissioning and restoration obligations related to future site restoration costs related to these arrangements or licenses. The decommissioning and restoration obligations were determined using a discount rate of 10.4% over a range of periods from 2025 to 2045. As at December 31, 2018, the estimated amount of undiscounted cash flows required to settle this liability was \$1,282.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the decommissioning and restoration obligations associated with the retirement of network assets:

	December 31	December 31
	2018	2017
Obligation, beginning of year	\$ 277	\$ 207
Accretion expense included in finance costs	27	19
Changes in assumptions	(27)	51
Obligation, end of year	\$ 277	\$ 277

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13. Income Taxes

(a) Income tax expense (recovery)

	December 31	December 31
	2018	2017
Profit (Loss) before income taxes (recovery)	\$ (4,820)	\$ (7,294)
Income taxes at enacted rate of 26.4%	(1,275)	(1,933)
Non-deductible expenses and permanent differences	155	109
Change in unrecognized deductible temporary differences	1,388	1,672
True-up adjustment and other	(268)	152
	<u>\$ -</u>	<u>\$ -</u>

(b) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31	December 31
	2018	2017
Deferred Tax Assets:		
Income tax loss carryforwards	\$ 88	\$ -
Deferred Tax Liabilities:		
Contract Costs	<u>(88)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company has recognized deferred tax assets of \$88 (2017 – nil) related to income tax loss carryforwards and recognized deferred tax liabilities in the amount of \$88 related to true-up of opening balance in contract costs as a result of the adoption of IFRS 15.

The net movement of the deferred tax assets and liabilities was as follows:

	December 31	December 31
	2018	2017
Deferred Tax Asset – net, beginning of year	\$ -	\$ -
Income tax loss carryforward	(88)	-
Contract costs (IFRS 15 opening balance adjustment)	88	-
Deferred Tax asset – net, end of year	<u>\$ -</u>	<u>\$ -</u>

(c) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items because they do not meet the criteria for recognition.

	December 31	December 31
	2018	2017
Excess of tax value of network assets, property and equipment, and intangible assets over net book value	\$ 2,184	\$ 5,351
Non-capital tax loss carryforwards	11,653	7,354
Other deductible temporary differences	1,692	1,436
	<u>\$ 15,529</u>	<u>\$ 14,141</u>

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(d) Reconciliation of effective tax rate

	December 31 2018		December 31 2017	
		%		%
Loss before Income taxes	\$ (4,820)		\$ (7,294)	
Income tax recovery at statutory rates	(1,275)	26.4%	(1,933)	26.5%
Permanent differences	155	(3.2%)	109	(1.5%)
Unrecognized deferred tax assets	1,388	(28.8%)	1,672	(22.9%)
Provision to return adjustment for prior year	(268)	5.6%	152	(2.1%)
Income tax expense (recovery)	\$ -	-	\$ -	-

(e) Tax loss expiry schedule

The non-capital tax losses carried forward are available to reduce future taxable income in Canada and expire as follows:

2030	\$ 1,386
2031	1,356
2032	-
2033	647
2034	674
2035	1,651
2036	2,640
2037	20,828
2038 and later	14,552
	\$ 43,734

14. Share Capital

Authorized

Unlimited Common Shares
Two Class B Shares, non-transferable unless approved by the Board, non-participating and redeemable. Holder of Class B shares are entitled to nominate and elect one director for each Class B Share held.

	Number of Common Shares	In \$		
		Common Shares	Share Issue Costs	Total
Issued				
Balance, January 1, 2017	14,250	92,621	(6,450)	86,171
Issuance of common shares on exercise of stock options	49	196	-	196
Issuance of common shares for directors' fees	66	286	-	286
Balance, December 31, 2017	14,365	93,103	(6,450)	86,653
Issuance of common shares on exercise of stock options	41	115	-	115
Issuance of common shares for directors' fees	59	446	-	446
Issuance of common shares for bought deal	1,303	6,906	(858)	6,048
Balance, December 31, 2018	15,768	100,570	(7,308)	93,262

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Equity Offering

On June 18, 2018, the Company completed an equity offering to issue and sell 1,303 common shares for gross proceeds of \$6,906 (the "Offering"). Proceeds net of commissions, legal, accounting and listing fees was \$6,048. The Offering was carried out pursuant to an underwriting agreement dated June 4, 2018 with a syndicate of underwriters led by TD Securities Inc., and included Cormark Securities Inc. and Desjardins Securities Inc.

Dividends

Dividends are payable in an equal amount on each common share if declared by the Board of Directors of the Company. No dividends were declared for the years ended December 31, 2018 and 2017.

15. Stock-Based Compensation

(a) Stock Options

The company adopted its current option plan on June 18, 2007 (the "2007 Option Plan") which is available to directors, officers, employees and other persons approved by the Board from time to time. On closing of the Company's initial public offering, 833 common shares were reserved for issuance under the 2007 Option Plan. The options granted under the 2007 Option Plan expire 10 years from the date of grant and vest over three years. All options under the 2007 Option Plan will vest immediately on a change of control of the Company. As of December 31, 2018, there are 55 (2017 – 588) options outstanding under the 2007 option plan.

For the years ended December 31, 2018 and 2017, the Company recorded stock-based compensation related to stock options of \$89 and \$81, respectively.

A summary of the status of the Company's stock option plan as at December 31, 2018 and 2017 is presented below.

	2018		2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding - January 1	588	\$5.58	672	\$5.99
Granted	-	-	101	\$4.40
Exercised	(517)	\$5.74	(49)	\$4.00
Forfeited / Expired	(16)	\$4.52	(136)	\$7.26
Outstanding - December 31	55	\$4.40	588	\$5.58
Exercisable	13	\$4.40	501	\$5.78

As at December 31, 2018, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life are as follows:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$4.01 - \$5.50	55	8.64	\$4.40	13	\$4.40
	55	8.64	4.40	13	4.40

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(b) Restricted Share Units (RSUs)

On March 12, 2009, the Company established an RSU Plan which is available to the directors, officers, and full-time employees approved by the Board. The value of one RSU is equal to the value of one Common Share. Plan participants are granted a specific number of RSUs for a given period based on their position and level of contribution which generally vest over a three-year period. At the end of the vesting period, the RSUs vest if the plan participant is employed by the Company. Vested RSUs are expected to be paid in cash or Common Shares purchased on the open market, or a combination of both.

In 2018, the Company granted 151 RSUs to certain executives (2017 – 180). In 2018, no RSUs vested (2017 - 150 RSUs vested and the Company paid cash of \$587).

For the year ended December 31, 2018 and December 31, 2017, the Company recorded compensation expense of \$401 and \$51, respectively, related to the RSUs granted. As of December 31, 2018, a liability of \$573 (2017 - \$171) related to the RSUs granted is included in other long-term liabilities (Note 11(b)).

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

	December 31	December 31
	2018	2017
Opening Balance, January 1, 2018	149	162
Granted	151	180
Forfeited	(18)	(43)
Vested and paid	-	(150)
Ending Balance, December 31, 2018	282	149

(c) Performance Based Share Units (PSUs)

Plan participants are granted a specific number of PSUs for a given period based on their role within the Company and level of performance which generally vest over a three-year period. PSUs are also issued pursuant to the RSU Plan. At the end of the vesting period, the PSUs vest if the plan participant is employed by the Company and certain performance criteria are met. Vested PSUs are expected to be paid in cash or Common Shares purchased on the open market, or a combination of both. The PSUs are re-measured to fair value each reporting period. The value of one PSU is equal to the value of one Common Share.

There were no PSUs granted in 2018 or 2017. In 2018, no PSUs vested (2017 - 12 PSUs vested and the Company paid cash of \$58).

For the year ended December 31, 2018 and December 31, 2017, the Company recorded stock-based compensation expense (recovery) of \$27 and (\$217), respectively, related to the PSUs outstanding. As at December 31, 2018, a liability of \$70 (2017 - \$43) related to the PSUs granted is included in the other long-term liabilities (Note 11(b)).

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

	December 31	December 31
	2018	2017
Opening Balance, January 1, 2018	19	195
Granted	-	-
Vested and paid	-	(12)
Forfeited / Expired	-	(164)
Ending Balance, December 31, 2018	19	19

(d) Stock-Based Compensation Summary

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

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	Year ended December 31 2018	Year ended December 31 2017
Restricted share units	\$ 401	\$ 51
Performance-based share units	27	(217)
Stock options	89	81
Directors' fees paid in shares	446	286
	\$ 963	\$ 201

16. Loss Per Share

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

	Year ended December 31 2018	Year ended December 31 2017
Numerator for basic and diluted loss per share:		
Net loss for the period	\$ (4,820)	\$ (7,294)
Denominator for basic and diluted loss per share:		
Basic weighted average number of shares outstanding	15,123	14,307
Effect of stock options, RSUs and PSUs	-	-
Diluted weighted average number of shares outstanding	15,123	14,307
Loss per share:		
Basic	\$ (0.32)	\$ (0.51)
Diluted	\$ (0.32)	\$ (0.51)

For the year ended December 31, 2018, the impact of all options, RSUs and PSUs totaling 401 (2017 – 859) were excluded in the calculation of diluted loss per share because they were antidilutive.

17. Key Management Personnel Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors of the Company.

Key management personnel compensation, including directors, is as follows:

	Year ended December 31 2018	Year ended December 31 2017
Salaries, fees and benefits	\$ 2,254	\$ 1,787
Termination expense	330	1,126
Share-based compensation expense	963	201
	\$ 3,547	\$ 3,114

18. Commitments

The Company is committed to leases for premises, office equipment, network real estate access, telecommunication facilities and radio spectrum licenses. Annual minimum payments over the next five years and thereafter are as follows:

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	<u>Amount</u>
2019	\$ 9,892
2020	6,534
2021	5,072
2022	3,594
2023	2,505
Thereafter	<u>8,952</u>
	<u>\$ 36,549</u>

For the year ended December 31, 2018, the Company recorded rent expense of \$7,648 (2016 - \$7,777) relating to data centre, premises and network real estate access leases.

It is common practice for the Company to re-negotiate network real estate access lease or license arrangements as they become due for renewal. Included in the amounts above are estimates for the renewal of leases or licenses that are currently due for renewal or are due for renewal in 2019 as well as escalations.

The Company is required to pay, under a CRTC-administered regime, a percentage (2018 - 0.54%, 2017 – 0.60%) of its adjusted Canadian telecommunications service revenue (as defined by CRTC and excluding retail Internet revenue) into a fund administered by CRTC.

19. Fair value of financial instruments

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Where quoted market values are not readily available, the Company may use considerable judgment to develop estimates of fair value. Accordingly, any estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange and could be materially affected by the use of different assumptions or methodologies. The Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 7 – Financial Instruments – Disclosures.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Unobservable inputs for the asset or liability which are supported by little or no market activity

The fair values of cash and cash equivalents is based on quoted market values. The fair values of short-term financial assets and liabilities, including accounts receivable, accounts payable and accrued liabilities, as presented in the consolidated statements of financial position, approximate their carrying amounts due to their short-term maturities. The fair value of long-term debt approximates its carrying value because management believes the interest rates approximate the market interest rate for similar debt with similar security. The fair value of our interest rate swap contract is based on broker quotes and therefore, these contracts are measured using Level 2 inputs. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

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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>December 31 2018</u>	<u>December 31 2017</u>	<u>December 31 2018</u>	<u>December 31 2017</u>
Financial Assets				
Interest rate swap contract	\$ -	\$ 27	\$ -	\$ 27
Financial Liabilities				
Interest rate swap contract	\$ 245	\$ -	\$ 245	\$ -
Long-term debt	32,294	36,183	32,294	36,183

b) Credit risk

The Company's cash and cash equivalents and restricted cash subject the Company to credit risk. The Company maintains cash and investment balances at large Canadian financial institutions. The Company's maximum exposure to credit risk is limited to the amount of cash and cash equivalents.

Credit risk related to our interest rate swap contract arises from the possibility that the counter party to the agreement may default on their obligation. The Company assesses the creditworthiness of the counterparty to minimize the risk of counterparty default. The interest rate swap is held by National Bank Financial.

The Company, in the normal course of business, is exposed to credit risk from its customers and the accounts receivable are subject to normal industry risks. The Company attempts to manage these risks by dealing with credit worthy customers. If available, the Company reviews credit bureau ratings, bank accounts and industry references for all new customers. Customers that do not have this information available are typically placed on a pre-authorized payment plan for service or provide deposits to the Company. This risk is minimized as the Company has a diverse customer base located across various provinces in Canada.

As at December 31, 2018 and 2017, the Company had no material trade receivable accounts that were not expected to be collected. The following table provides the aging of the trade accounts receivable:

	<u>December 31 2018</u>	<u>December 31 2017</u>
Current	\$ 2,666	\$ 2,311
31 to 60 days	692	608
61 to 90 days	128	103
over 90 days	33	115
	<u>\$ 3,519</u>	<u>3,137</u>

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During 2018 the change in the credit loss allowance in respect of trade receivables was as follows:

	December 31
	2018
Opening Balance, January 1, 2018	21
Amounts written off	(21)
Remeasurement of loss allowance	47
Ending Balance, December 31, 2018	47

c) Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents and long-term debt. The Company is exposed to interest rate risk on its operating line of credit since the interest rates applicable are variable and is, therefore, exposed to cash flow risks resulting from interest rate fluctuations. As at December 31, 2018, the operating line of credit balance was \$nil. The drawn term facility as at December 31, 2018 was \$33,000, \$32,900 of which was held in a Bankers Acceptance. In 2018, the Company entered into amended fixed-interest swap contracts to manage interest rate risk on its term facility. As a result, the Company is exposed to potential interest rate risk should rates rapidly decline and maintain low for extended periods of time. The interest rate on the Banker's Acceptance net of swap contracts at December 31, 2018 was 5.24%. The remaining \$100 drawn under this facility bears interest for the period at prime rate plus a margin.

d) Liquidity Risk

The Company believes that its current cash and cash equivalents and anticipated cash from operations will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable future. The Company continues to manage liquidity by ensuring trade turnover is consistent with the objectives of the organization as well as through cost management strategies. As at December 31, 2018, the Company had cash and cash equivalents of \$3,918. The Company has access to the \$34,300 undrawn portion of its \$75,000 credit facilities after consideration of outstanding letters of credit.

The Company's financial liabilities that have contractual maturities are summarized below:

	Less than	2 - 3 years	Total
	1 year		
Long-term debt	\$ 4,000	\$ 28,294	\$ 32,294
Accounts payable	1,447	-	1,447
Stock-based compensation ⁽¹⁾	130	513	643
Total	\$ 5,577	\$ 28,807	\$ 34,384

⁽¹⁾ Represents recognized amounts for cash-settled stock-based compensation arrangements (See Note 15). Settlement is subject to achievement of vesting criteria.

e) Currency Risk

The Company has suppliers that are not based in Canada which gives rise to a risk that earnings and cash flows may be adversely affected by fluctuations in foreign currency exchange rates. The Company is primarily exposed to the fluctuations in the dollar. The Company believes this risk is minimal and does not use financial instruments to hedge these risks. A one cent appreciation in the U.S. dollar to Canadian dollar foreign exchange rate would have resulted in a decrease (increase) in income of \$6. Balances denominated in foreign currencies that are considered financial instruments are as follows:

	Currency	December 31	December 31
		2018	2017
Cash and cash equivalents	USD	\$ 79	\$ 336
Accounts payable and accrued liabilities	USD	397	915

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20. Capital Risk Management

The Company's objectives when managing capital are:

- (a) to ensure that the Company will continue as a going concern so that it can continue to provide services to its customers and offer a return on investment to its shareholders;
- (b) to maintain a capital structure which optimizes the cost of capital while providing flexibility and diversity of funding sources and timing of debt maturities along with adequate anticipated liquidity for future growth; and
- (c) to comply with debt covenants.

The Company defines capital that it manages as the aggregate of its cash and cash equivalents, short-term investments, debt facilities including finance leases and equity comprising of share capital, contributed surplus and deficit.

	December 31	December 31
	2018	2017
Cash and cash equivalents	\$ (3,918)	\$ (6,986)
Long term debt	32,294	36,183
Share capital	93,262	86,653
Contributed surplus	25,676	25,701
Deficit	<u>(74,295)</u>	<u>(70,437)</u>
	<u>\$ 73,019</u>	<u>\$ 71,114</u>

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Company's overall strategy with respect to management of capital remains unchanged from the year ended December 31, 2018.