TERAGO INC.
Consolidated Financial Statements
Years ended December 31, 2015 and 2014

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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.

March 17, 2016

"Stewart Lyons"

President and Chief Executive Officer

"Joe Prodan"

Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of TeraGo Inc.

We have audited the accompanying consolidated financial statements of TeraGo Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of TeraGo Inc. as at December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 17, 2016
Toronto, Canada

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KPMG Canada provides services to KPMG LLP.

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

		December 31 2015		December 31 2014
Assets				
Cash and cash equivalents (Note 7(a))	$	13,066	$	2,866
Accounts receivable (Note 7(b))		3,306		2,908
Prepaid expenses and other assets		3,351		2,431
Total current assets		19,723		8,205
Network assets, property and equipment (Note 8)		48,520		41,774
Intangible assets (Note 9)		21,824		10,153
Goodwill (Note 9)		19,063		5,908
Deferred income taxes (Note 14)		700		2,700
Restricted cash (Note 10)		172		821
Total non-current assets		90,279		61,356
Total Assets	$	110,002	$	69,561
Liabilities				
Accounts payable and accrued liabilities	$	9,128	$	7,401
Current portion of deferred revenue		211		236
Current portion of long-term debt (Note 11)		6,123		2,301
Current portion of other long-term liabilities (Note 12)		186		109
Total current liabilities		15,648		10,047
Decommissioning and restoration obligations (Note 13)		234		222
Deferred revenue		270		113
Long-term debt (Note 11)		39,658		16,493
Other long-term liabilities (Note 12)		1,977		1,273
Total non-current liabilities		42,139		18,101
Total Liabilities		57,787		28,148
Shareholders' Equity				
Share capital (Note 15)		85,636		72,470
Contributed surplus		25,408		24,962
Deficit		(58,829)		(56,019)
Total shareholders' equity		52,215		41,413
Total Liabilities and Shareholders' Equity	$	110,002	$	69,561

Commitments (Note 20)

On behalf of the Board:

(signed) “Charles Allen”	(signed) “Grant Ballantyne”
Director	Director

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

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

		Year ended December 31 2015		Year ended December 31 2014
Revenue (Note 18)	$	57,720	$	51,229
Expenses				
Cost of services		13,159		10,102
Salaries and related costs		20,587		20,747
Other operating expenses		10,062		9,003
Depreciation of network assets, property and equipment (Note 8)		11,400		10,479
Amortization of intangible assets (Note 9)		3,697		2,781
		58,905		53,112
Loss from operations		(1,185)		(1,883)
Foreign exchange loss		(171)		(84)
Finance costs		(2,624)		(1,990)
Finance income		37		30
Loss before income taxes		(3,943)		(3,927)
Income taxes (Note 14)				
Income tax recovery		1,133		-
Net loss and comprehensive loss	$	(2,810)	$	(3,927)
Deficit, beginning of year		(56,019)		(52,092)
Deficit, end of year	$	(58,829)	$	(56,019)
Basic loss per share (Note 17)	$	(0.23)	$	(0.34)
Diluted loss per share (Note 17)	$	(0.23)	$	(0.34)
Basic weighted average number of shares outstanding		12,252		11,588
Diluted weighted average number of shares outstanding		12,252		11,588

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

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

	Year ended December 31 2015	Year ended December 31 2014
Operating Activities		
Net loss for the year	$ (2,810)	$ (3,927)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation of network assets, property and equipment (Note 8)	11,400	10,479
Amortization of intangible assets (Note 9)	3,697	2,781
Stock-based compensation expense (Note 16(d))	1,272	1,973
Finance costs	2,624	1,990
Finance income	(37)	(30)
Income tax recovery (Note 14)	(1,133)	-
Loss on adjustments and disposal of network assets (Note 8)	266	643
Changes in non-cash working capital items:		
Accounts receivable	1,001	25
Prepaid expenses	(689)	(49)
Accounts payable and accrued liabilities	605	449
Deferred revenue	(510)	(489)
Other long-term liabilities	-	(220)
Cash from Operating Activities	15,686	13,625
Investing Activities		
Acquisition of RackForce Networks Inc. – net of cash acquired (Note 5(a))	(30,334)	-
Acquisition of BoxFabric – net of cash acquired (Note 5(b))	(910)	-
Increase in restricted cash (Note 10(b))	(172)	-
Purchase of network assets, property and equipment (Note 8)	(8,542)	(11,854)
Purchase of intangible assets (Note 9)	(892)	(751)
Change in non-cash working capital related to network assets, property and equipment and intangible assets	(239)	561
Purchase of short-term investments	-	(274)
Sale of short-term investments	-	726
Cash used in Investing Activities	(41,089)	(11,592)
Financing Activities		
Proceeds from exercise of stock options	1,234	701
Proceeds from equity offering (Note 6)	10,004	-
Equity offering costs incurred (Note 6)	(794)	-
Interest paid	(1,940)	(1,050)
Interest received	36	10
Proceeds from long term debt (Note 11)	31,500	22,822
Repayment of long-term debt (Note 11)	(4,058)	(23,106)
Financing costs incurred (Note 11)	(379)	(680)
Repayment of finance lease obligations	-	(1)
Cash from (used in) Financing Activities	35,603	(1,304)
Net change in cash and cash equivalents, during the year	10,200	729
Cash and cash equivalents, beginning of year	2,866	2,137
Cash and cash equivalents, end of year	$ 13,066	$ 2,866
Supplemental cash flow disclosure		
Issuance of common shares in acquisition of Rackforce Networks Inc. (Note 5(a))	$ 2,351	-

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

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

	Share Capital		Contributed		
	Number	Amount	Surplus	Deficit	Total
Balance, January 1, 2015	11,698	$ 72,470	$ 24,962	$ (56,019)	$ 41,413
Issuance of shares upon exercise of options	287	1,234	-	-	1,234
Stock-based compensation	-	-	446	-	446
Issuance of shares for directors' fees	64	371	-	-	371
Issuance of shares for RackForce acquisition (Note 5(a))	329	2,351	-	-	2,351
Issuance of shares for equity offering – net of issuance costs (Note 6)	1,755	9,210	-	-	9,210
Net loss and comprehensive loss	-	-	-	(2,810)	(2,810)
Balance, December 31, 2015	14,133	$ 85,636	$ 25,408	$ (58,829)	$ 52,215

	Share Capital		Contributed		
	Number	Amount	Surplus	Deficit	Total
Balance, January 1, 2014	11,459	$ 71,461	$ 24,157	$ (52,092)	$ 43,526
Issuance of shares upon exercise of options	187	732	(31)	-	701
Stock-based compensation	-	-	836	-	836
Issuance of shares for directors' fees	52	277	-	-	277
Net loss and comprehensive loss	-	-	-	(3,927)	(3,927)
Balance, December 31, 2014	11,698	$ 72,470	$ 24,962	$ (56,019)	$ 41,413

See Note 15 – Share Capital for classes of shares

1. Reporting Entity

TeraGo Inc. (the “Company)” provides businesses across Canada and globally with network and voice services, data centre services and enterprise infrastructure cloud services. The Company 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 data centre facilities in Canada targeting enterprise customers that require broadband internet, data connectivity, voice, cloud and data centre 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 presentation

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

During the preparation of the consolidated financial statements, the Company determined that certain operating expenses associated with its Data Centres should be reclassified to conform to the financial statement presentation adopted following the acquisition of RackForce Networks Inc. For the year ended December 31, 2014, cost of services have decreased by $1,920, salaries and related costs have increased by $1,303 and other operating expenses have increased by $617 for certain immaterial reclassifications of operating expenses.

The consolidated financial statements were authorized for issuance by the Board of Directors on March 17, 2016.

(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

The 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:

(i) *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.

(ii) *Capitalization of costs:*
Judgments and estimates are used in assessing the direct labour and other costs capitalized to network assets, property and equipment.

(iii) *Cash generating units:*
Judgment is required to assess the Company’s determination of cash generating units for the purpose of impairment testing.

(iv) 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.

(v) Allowance for doubtful accounts:
In developing the estimates for an allowance against existing receivables, the Company considers general and 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.

(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.

3. Significant Accounting Policies

(a) Revenue Recognition

The Company earns revenue by providing internet access, data connectivity and voice, cloud and data centre 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, if evidence of an arrangement exists, collection is deemed probable by management and revenue and costs are reliably measurable. The principal sources of revenue to the Company and recognition of these revenues are as follows:

(i) Monthly recurring revenue from Internet access and data connectivity, voice, data centres and cloud services are recognized as service revenue ratably over the number of months in the contract term and as related services are provided to the customer.
(ii) Revenue from installation services that do not have standalone value from the ongoing service are deferred and recognized over the term of the contract.
(iii) Usage revenue is recorded as service revenue in the month the usage occurs.

Billings or payments received from customers in advance of revenue recognition are recorded in deferred revenue on the consolidated statement of financial position.

(b) Basis of Consolidation

The consolidated financial statements include the accounts of TeraGo Inc. and its wholly owned subsidiaries TeraGo Networks Inc., RackForce Networks Inc. and Codeninja Ltd. (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 FVTPL financial assets which are expensed as incurred), and are recognized over the term of the assets or liabilities using the effective interest method.

Subsequent measurement and treatment of any gain or loss is recorded as follows:

(i) Financial assets and financial liabilities at FVTPL are measured at fair value at the balance sheet date with any gain or loss recognized immediately in net loss. Interest and dividends earned from financial assets are also included in net loss for the period.
(ii) Loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses are recognized in net loss for the period.
(iii) Other financial liabilities are measured at amortized cost using the effective interest method. Any gains or losses are recognized in net loss for the period.

The following is a summary of the Company's significant categories of financial instruments as at December 31, 2015:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets currently are comprised of cash and cash equivalents, accounts receivable and restricted cash.

(i) ***Cash and Cash Equivalents and restricted cash***

Cash and cash equivalents consists of bank balances, cash on hand, demand deposits that can be withdrawn without penalty and short-term, highly liquid securities such as debt securities with an initial maturity date of not more than three months from the date of acquisition, that can readily be converted into known amounts of cash and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable upon demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents. Cash and cash equivalents and restricted cash are carried at amortized cost.

(ii) ***Accounts Receivable***

Accounts receivable are measured at the amount the item is initially recognized. The allowance for doubtful accounts is based on the Company's assessment of the collectability of outstanding trade receivables. The evaluation of collectability of customer accounts is done on an individual account basis. If, based on an evaluation of accounts, it is concluded that it is probable that a customer will not be able to pay all amounts due, an expected impairment loss is recognized. Recoveries are only recorded when objective verifiable evidence supports the change in the original allowance. Changes in the carrying amount of the allowance account are recognized in the statement of comprehensive loss for the period.

Impairment of Financial Assets

A financial asset carried at amortized cost is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset that can be estimated reliably. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Losses are recognized in the consolidated statements of loss and reflected in an allowance account against the financial asset.

Other financial liabilities

The Company recognizes debt securities issues and subordinated liabilities on the date that they originated. All other

financial liabilities are recognized initially on the date that the Company becomes a party to the contractual provisions. The Company has the following non-derivative financial liabilities: current and long-term debt, accounts payable and accrued liabilities, and current portion and long-term portion of other long term liabilities.

Such liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Interest on loans and borrowings is expensed as incurred unless capitalized for qualifying assets in accordance with IAS 23, Borrowing Costs. Loans and borrowings are classified as a current liability unless the Company has an unconditional right to defer settlement for at least 12 months after the end of the year.

Derivative instruments
The Company uses an interest rate swap contract to manage the risk associated with the fluctuations of interest rates on its long-term debt. Management does not apply hedge accounting on the interest rate swap contract. As a result, the interest rate swap contract is marked to market each period, resulting in a gain or loss in net loss for the year.

(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.

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:

	Estimated useful life/ Asset depreciation method
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. The licenses are granted with an auto-renewal policy and non-renewal of licenses by the regulatory body is considered remote unless license conditions are breached. As such, there is no foreseeable limit to 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 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.

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) Subscriber acquisition costs
Subscriber acquisition costs are expensed as incurred.

(h) 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.

(i) 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.

(j) 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 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.

(k) 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.

(l) 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.

(m) 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.

(n) Government incentives

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.

(o) 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 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.

(p) Operating Segments

Management has determined that the Company operates in a single reportable operating segment. The Company offers cloud and data centre services, internet, data connectivity and voice services and earns revenues primarily in Canada. All of the Company's identifiable assets as at December 31, 2015 and 2014 were located in Canada.

(q) 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. Recent 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, 2015, and could have an impact on future periods.

Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

On May 12, 2014 the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, which explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset. The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning on January 1, 2016. The adoption of the amendments are not expected to have a material impact on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

On May 28 2014, the IASB issued IFRS 15 which supersedes 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 standard is currently effective for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of this standard on the consolidated financial statements. The extent of the impact of IFRS 15 has not yet been determined.

IFRS 9 Financial Instruments

On July 24 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, Financial Instruments: recognition and measurement (“IAS 39”) standard. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on the consolidated financial statements. The extent of the impact has not yet been determined.

IAS 1 Presentation of Financial Statements

On December 18, 2014, the IASB issued amendments to IAS as part of its initiative to improve presentation and disclosure in financial reports. The amendments, which clarify that information should not be obscured by aggregating or providing immaterial information, are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on its consolidated financial statements.

IFRS 16 Leases

On January 23, 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 accounting treatment for lessors will remain largely the same as under IAS 17. 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 extent of the impact of the adoption of this standard has not yet been determined.

5. Acquisitions

(a) Acquisition of RackForce Networks Inc.

On March 27, 2015, the Company closed a share purchase agreement to acquire 100% of the shares of RackForce Networks Inc. (“RackForce”). The acquisition supports TeraGo’s strategic plan in offering complementary services to business and enterprise customers. RackForce is one of Canada’s largest enterprise cloud service providers. Its business involves the management of enterprise cloud services including Cloud Hosting Services (IaaS) and Application Hosting Services (SaaS) with network. RackForce has been in operation since 2001 and currently serves a variety of enterprise customers, including Fortune 100 companies, governments and education clients.

On March 27, 2015, the Company transferred $33,351 (consisting of $31,000 cash and issuance of $2,351 common shares of the Company) with payment of cash and shares of $24,132 to the vendors and cash of $9,219 paid in escrow for the remaining balance, subject to among other things a working capital adjustment to be finalized within 90 days of closing. During 2015 the Company rendered a reduction in the purchase consideration of $666 from the working capital adjustment, resulting in a net purchase consideration of $32,685. During 2015, the Company was repaid $666 from the escrow account.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3, Business Combinations, with the results of operations consolidated with those of the Company effective the acquisition date. Total acquisition related costs were $656 and are included in other operating expenses for the year ended December 31, 2015.

The fair values of the assets acquired and liabilities assumed at the date of acquisition are as follows:

Net Working Capital	$ (621)
Network Assets, Property and Equipment	9,824
Identifiable Intangible Assets	
Customer Relationships	11,170
Brand	2,460
Non-Competition Agreements	490
Deferred tax liability	(3,039)
Goodwill	12,401
	$ 32,685

Goodwill represents the expected operational synergies with the acquiree including intangible assets that do not qualify for separate recognition. The goodwill is not tax deductible.

The customer relationships are being amortized over a period of 10 years, brand is being amortized over a period of 20 years and the non-competition agreements are being amortized over a period of 3 years.

(b) Acquisition of BoxFabric

On September 18, 2015, the Company closed a share purchase agreement to acquire 100% of the shares of Codeninja Ltd., which operates as BoxFabric ("BoxFabric") for consideration of $1,100, subject to a working capital adjustment.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3, Business Combinations, with the results of operations consolidated with those of the Company effective from the acquisition date.

Following settlement of the working capital adjustment, the Company paid total consideration of $1,082, of which $172 is held in escrow as restricted cash pending finalization of the escrow term (Note 10(b)).

The preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition are determined to be as follows:

Net working capital	$	20
Network Assets, Property and Equipment		46
Identifiable Intangible Assets		356
Deferred tax liability		(94)
Goodwill		754
	$	1,082

Goodwill represents the expected operational synergies with the acquiree including intangible assets that do not qualify for separate recognition. The goodwill is not tax deductible.

The identifiable intangible assets are being amortized over a period of 3 to 5 years.

(c) Pro Forma Disclosures

Since the respective acquisition dates, the Company's acquisitions have contributed revenue of $9,228 and earnings from operations of $2,375. If the acquisitions had occurred on January 1, 2015, consolidated revenue of the Company for the year ended December 31, 2015 would have been $60,869 and loss from operations for the year would have been ($953).

6. Equity Offering

On June 11, 2015, the Company completed an equity offering to issue and sell 1,755 common shares for gross proceeds of $10,004 (the "Offering"). Proceeds net of commissions, legal, accounting and listing fees were $9,210. The Offering was carried out pursuant to an underwriting agreement with a syndicate of underwriters led by National Bank Financial Inc. and TD Securities Inc. and included Cormark Securities Inc., PI Financial Corp. and RBC Capital Markets.

7. Current Assets

(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:

		December 31 2015		December 31 2014
Trade receivables	$	3,148	$	2,451
Allowance for doubtful accounts		(54)		(19)
Other		212		476
	$	3,306	$	2,908

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, 2015	$ 110,485	$ 1,663	$ 2,105	$ 2,194	$ 1,460	$ 49	$ 117,956
Additions / reclassifications	6,096	2,315	20	5	106	-	8,542
Acquisitions (Note 5)	-	9,774	48	12	36	-	9,870
Disposals / Adjustments	(1,712)	-	-	-	-	-	(1,712)
Balance, December 31, 2015	**$** 114,869	**$** 13,752	**$** 2,173	**$** 2,211	**$** 1,602	**$** 49	**$** 134,656
Accumulated Depreciation							
Balance, January 1, 2015	$ 71,233	195	1,950	2,094	662	48	76,182
Depreciation for the year	10,294	692	183	38	192	1	11,400
Disposals / Adjustments	(1,447)	1	-	-	-	-	(1,446)
Balance, December 31, 2015	**$** 80,080	**$** 888	**$** 2,133	**$** 2,132	**$** 854	**$** 49	**$** 86,136
Net Book Value, December 31, 2015	**$** 34,789	**$** 12,864	**$** 40	**$** 79	**$** 748	**$** -	**$** 48,520

Cost	**Network assets**	**Datacentre infrastructure**	**Computer equipment**	**Office furniture and equipment**	**Leasehold improvements**	**Vehicles**	**Total**
Balance, January 1, 2014	$ 101,441	$ 1,574	$ 2,028	$ 2,117	$ 663	$ 49	$ 107,872
Additions / reclassifications	10,841	62	77	77	797	-	11,854
Disposals / Adjustments	(1,797)	27	-	-	-	-	(1,770)
Balance, December 31, 2014	**$** 110,485	**$** 1,663	**$** 2,105	**$** 2,194	**$** 1,460	**$** 49	**$** 117,956
Accumulated Depreciation							
Balance, January 1, 2014	$ 62,284	$ 42	$ 1,806	$ 2,053	$ 599	$ 46	$ 66,830
Depreciation for the year	10,087	142	144	41	63	2	10,479
Disposals / Adjustments	(1,138)	11	-	-	-	-	(1,127)
Balance, December 31, 2014	**$** 71,233	195	1,950	2,094	662	48	76,182
Net Book Value, December 31, 2014	**$** 39,252	**$** 1,468	**$** 155	**$** 100	**$** 798	**$** 1	**$** 41,774

For the years ended December 31, 2015 and 2014, the Company had additions of capitalized wages and other directly attributable costs of $1,851 and $2,418, respectively, in network assets.

During 2015, the Company wrote off assets with a net book value of $266 (Cost of $1,712 less accumulated depreciation of $1,446). During 2014, the Company wrote off assets with a net book value of $643 (Cost of $1,770 less accumulated depreciation of $1,127). The corresponding loss on disposal of assets was included in other operating expenses.

9. Goodwill and Intangible Assets

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, January 1, 2015	$ 7,041	$ 7,668	$ 6,180	$ 1,856	$ 22,745	$ 5,908	$ 28,653
Additions	-	892	-	-	892	-	892
Acquisitions (Note 5)	-	-	11,497	2,979	14,476	13,155	27,631
Balance, December 31, 2015	**$** 7,041	**$** 8,560	**$** 17,677	**$** 4,835	**$** 38,113	**$** 19,063	**$** 57,176
Accumulated Depreciation							
Balance, January 1, 2015	$ 2,371	$ 6,157	$ 3,293	$ 771	$ 12,592	$ -	$ 12,592
Amortization for the year	-	1,021	2,092	584	3,697	-	3,697
Balance, December 31, 2015	**$** 2,371	**$** 7,178	**$** 5,385	**$** 1,355	**$** 16,289	**$** -	**$** 16,289
Net Book Value, December 31, 2015	**$** 4,670	**$** 1,382	**$** 12,292	**$** 3,480	**$** 21,824	**$** 19,063	**$** 40,887

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, January 1, 2014	$ 7,041	$ 6,917	$ 6,180	$ 1,856	$ 21,994	$ 5,908	$ 27,902
Additions	-	751	-	-	751	-	751
Balance, December 31, 2014	**$** 7,041	**$** 7,668	**$** 6,180	**$** 1,856	**$** 22,745	**$** 5,908	**$** 28,653
Accumulated Depreciation							
Balance, January 1, 2014	$ 2,371	$ 4,981	$ 2,057	$ 402	$ 9,811	$ -	$ 9,811
Amortization for the year	-	1,176	1,236	369	2,781	-	2,781
Balance, December 31, 2014	**$** 2,371	6,157	3,293	771	12,592	-	12,592
Net Book Value, December 31, 2014	**$** 4,670	**$** 1,511	**$** 2,887	**$** 1,085	**$** 10,153	**$** 5,908	**$** 16,061

Impairment

The annual impairment test of goodwill and indefinite life intangible assets was performed on December 31, 2015 and December 31, 2014 and did not result in any 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 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 10.5% 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, 2015, also significantly exceeded the carrying amount of the CGU.

10. Restricted Cash

(a) Indemnity

On June 18, 2007, two former officers exchanged 287 and 63 options respectively to purchase Common Shares, at an exercise price of $4 per share with options to purchase 189 and 41 Common Shares at nil exercise price. The exchanged options had a value equal to the original options on the date of the exchange. On June 18, 2007, these options were exercised to facilitate Common Share ownership and as a result, the two officers received 189 and 41 Common Shares, respectively, pursuant to such exercise. The Company provided the officers with an indemnity with a combined maximum coverage of $1,000 to cover any potential negative personal tax consequences that might arise as a result of the early exercise of these options. Under the indemnity agreement, which expired June 2015, the restricted cash was to be segregated for the period of the indemnity and is invested in a guaranteed investment certificate.

During the third quarter of 2009, the Company received notice of a claim from one of the former officers against the restricted cash balance relating to the sale of the 41 Common Shares. The notice of claim was settled in 2010 for $179.

In 2014, the Company received a notice of a claim against the tax indemnity from the other former officer relating to the sale of 189 Common Shares. The Company estimated the cost of the indemnity to be paid from the $821 maximum allocated to the former officer and recorded stock-based compensation expense of $630 related to this claim in the first quarter of 2014. During 2015, the Company settled the claim with the former officer for $649.

(b) Funds held in escrow

As at December 31, 2015, $172 is held in escrow by the Company related to the acquisition of BoxFabric (Note 5 (b)).

11. Long-term Debt

		December 31 2015		December 31 2014
Term debt facility (a)	$	45,833	$	18,351
Equipment loans (b)		431		732
less: financing fees		(483)		(289)
		45,781		18,794
less: current portion		(6,123)		(2,301)
	$	39,658	$	16,493

(a) 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 increases 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 are substantially consistent with the existing credit facilities.

The total $85,000 facility that matures June 30, 2018 is made up of the following:

- $10,000 revolving facility which bears interest at prime plus a margin percent. As of December 31, 2015, $nil amount is outstanding. Letters of credit outstanding under the facility totaled $655 as of December 31, 2015.

- $50,000 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 $1,250 starting June 30, 2015. This facility was fully drawn upon signing the amended agreement.

  On December 31, 2015, $46,200 of the term facility principal was in a Banker’s Acceptance and the remaining $50 is at a floating rate. During 2015, the Company entered into amended interest rate swap contracts that mature June 29, 2018 to fix the interest rate on the entire Banker’s Acceptance at an average rate of 4.24%. The interest rate swap contract has not been designated as a hedge and will be marked-to-market each quarter. The fair value of the interest rate swap contract at December 31, 2015 was a liability of $612 (December 31, 2014 – ($123)) and is recorded in other long-term liabilities (Note 12), with a corresponding charge for the change in fair value recorded in finance costs.

  As at December 31, 2015, the Company prepaid interest in the amount of $417 which represents the net settlement of the Banker’s Acceptance.

- $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, 2015, this facility remains undrawn.

In connection with the amended agreement, the Company incurred financing fees of $379 which have been deferred and amortized using the effective interest method over the term of the facility. The balance of previously incurred financing fees are amortized over the same amended term.

The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at December 31, 2015. 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. At December 31, 2015, the calculation resulted in the Company exceeding the ratio that triggers the cash flow sweep by 0.03. Based on these results, the Company requested the lenders to forego the $862 cash flow sweep for the year ended December 31, 2015, to which the lenders agreed to subsequent to year end.

(b) Equipment loans

The Company has certain equipment loans with financing companies that are secured by the underlying equipment. These debt facilities, which bear interest at fixed rates ranging from 5.91% to 6.23% over the respective terms, have maturity dates between July 2016 and December 2017 and have total monthly installments of $28.

12. Other Long-Term Liabilities

	December 31 2015	December 31 2014
Performance based share units (Note 16 (c))	$ 309	$ 97
Restricted share units (Note 16 (b))	441	196
Fair value of interest rate swap contract (Note 11 (a))	612	123
Lease inducement liability	331	381
Assumed liabilities - Vancouver Data Centre	470	585
	2,163	1,382
less: current portion	(186)	(109)
	$ 1,977	$ 1,273

13. 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 10.5% over a range of periods from 2025 to 2045. As at December 31, 2015, the estimated amount of undiscounted cash flows required to settle this liability was $1,558.

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 2015	December 31 2014
Obligation, beginning of year	$ 222	$ 210
Accretion expense included in finance costs	12	12
Obligation, end of year	$ 234	$ 222

14. Income Taxes

Income tax expense (recovery)

	December 31 2015	December 31 2014
Current tax expense		
Current tax expense	$ -	$ -
	-	-
Deferred income tax (recovery)		
Origination and reversal of temporary difference	424	-
Recognition of previously unrecognized losses and temporary differences	(1,153)	
Utilization of previously unrecognized non-capital losses and temporary differences	(404)	
	$ (1,133)	$ -

Reconciliation of effective tax rate

	December 31 2015	%	December 31 2014	%
Loss before Income taxes	$ 3,943		$ 3,927	
Income tax recovery at statutory rates	$ (1,031)	(26.1)	$ (1,027)	(26.1)
Expenses (revenue) deducted (included) in the accounts that have no corresponding deduction (inclusion) for income taxes	410	10.4	481	12.2
Utilization of previously unrecognized non-capital losses and temporary differences	(404)	(10.2)	-	-
Utilization of previously unrecognized losses and temporary differences	-	-	(384)	(9.8)
Current year loss for which no benefit recognized	-	-	930	23.7
Recognition of previously unrecognized losses and other temporary differences	(1,153)	(29.2)	-	-
Origination and reversal of temporary differences	1,045	26.5	-	-
Income tax recovery	$ (1,133)	(28.7)	$ -	-

Recognized deferred tax assets & deferred tax liabilities

Assets	2015	2014
Excess of tax basis over book value	$ 2,021	$ 1,905
Investment tax credits	872	872
Non-capital tax losses	1,352	-
Tax assets (liabilities) before set off	4,245	2,777
Set off of tax – Intangible Assets and other	(3,545)	(77)
	$ 700	$ 2,700

Liabilities	2015	2014
Intangible Assets	$ (3,504)	$ -
Other	(41)	(77)
	$ (3,545)	$ (77)

Unrecognized deferred tax assets and liabilities

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

	December 31 2015	December 31 2014
Excess of tax basis over book value	$ 9,410	$ 9,247
Non-capital tax loss carry forwards	-	399
Other deductible temporary differences	1,011	724
	$ 10,421	$ 10,370

Movement in deferred tax balances

	Net Balance December 31, 2014	Recognized in net loss	Acquired in business combinations	Net Balance, December 31, 2015
Excess UCC over NBV	$ 1,905	$ 186	$ (70)	$ 2,021
SR&ED	872	-	-	872
Intangible Assets	-	332	(3,836)	(3,504)
Non-capital loss carryforwards	-	602	750	1,352
Other deductible temporary differences	(77)	13	23	(41)
	$ 2,700	$ 1,133	$ (3,133)	$ 700

In 2015, management reviewed the tax implications as a result of the Rackforce and BoxFabric acquisitions and as a result a tax benefit of $1,133 associated with previously unrecognized deductible temporary differences was recognized as management considered it probable that future taxable profits would be available against which they can be utilized. The deferred tax asset was determined based on existing laws, estimates of future probability based on financial forecasts, and tax planning strategies.

Non-capital tax losses

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

2029	$ 135
2030	2,359
2031	1,356
2032	-
2033	647
2034	674
	$ 5,171

15. 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.

		In $		
Issued	**Number of Common Shares**	**Common Shares**	**Share Issue Costs**	**Total**
Balance, January 1, 2014	11,459	77,117	(5,656)	71,461
Issuance of common shares on exercise of stock options	187	732	-	732
Issuance of common shares for directors' fees	52	277	-	277
Balance, December 31, 2014	11,698	78,126	(5,656)	72,470
Issuance of common shares on exercise of stock options	287	1,234	-	1,234
Issuance of common shares for directors' fees	64	371	-	371
Issuance of common shares for Rackforce acquisition (Note 5(a))	329	2,351	-	2,351
Issuance of common shares for equity offering (Note 6)	1,755	10,004	(794)	9,210
Balance, December 31, 2015	14,133	92,086	(6,450)	85,636

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, 2015 and 2014.

16. Stock-Based Compensation

(a) Stock Options

There are 1,331 common shares reserved for issuance under the Company's stock option plan. Upon closing of the Company's initial public offering on June 26, 2007, 799 options granted under the Company's original option plan (the "Old Plan") fully vested. Options granted under the Old Plan expire 10 years from date of vesting and as at December 31, 2015, there are 115 (2014 – 327) options outstanding under the Old Plan with a weighted average exercise price of $4.00.

On June 18, 2007, the Company adopted a new option plan (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 on a quarterly basis in 12 equal amounts 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, 2015, there are 684 options outstanding under the 2007 option plan.

For the years ended December 31, 2015 and 2014, the Company recorded stock-based compensation related to stock options of $446 and $836, respectively.

A summary of the status of the Company's stock option plan as at December 31, 2015 and 2014 is presented below.

	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding - January 1	1,318	$7.03	1,045	$7.11
Granted	12	$6.25	491	$5.77
Exercised	(287)	$4.30	(187)	$3.74
Forfeited / Expired	(359)	$11.37	(31)	$9.49
Outstanding - December 31	684	$5.89	1,318	$7.03
Exercisable	470	$5.94	950	$7.52

As at December 31, 2015, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life are as follows:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$4.00	115	1.07	$4.00	115	$4.00
$4.01 - $5.50	10	2.48	$5.05	10	$5.05
$5.51 - $11.50	512	8.08	$5.79	298	$5.79
$11.51 - $11.75	47	1.47	$11.75	47	$11.75
	684	6.30	$5.89	470	$5.94

(b) Restricted Share Units (RSUs)

On March 12, 2009, the Company established a 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. At the end of the three-year 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, as the Company chooses. All RSUs under this Plan will vest immediately on a change of control of the Company.

For the year ended December 31, 2015 and December 31, 2014, the Company recorded compensation expense of $244 and $196, respectively, related to the RSUs granted. As of December 31, 2015, a liability of $441 (2014 - $196) related to the RSUs granted is included in other long-term liabilities (Note 12).

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

	December 31 2015	December 31 2014
Opening Balance, January 1	150	-
Granted	-	150
Vested	-	-
Ending Balance, December 31	150	150

(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. At the end of the three-year vesting period, the PSUs vest if the plan participant is employed by the Company and certain non-market 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, as the Company chooses. All PSUs under this Plan will vest immediately on a change of control of the Company. 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.

In 2015, the Company granted 153 PSUs to certain executives (2014 – 118).

No PSUs vested in 2015 (2014 – 36 PSUs vested and the Company paid cash of $220).

For the year ended December 31, 2015 and December 31, 2014, the Company recorded stock-based compensation expense of $211 and $34, respectively, related to the PSUs outstanding. As at December 31, 2015, a liability of $309 (2014 - $97) related to the PSUs granted is included in the other long-term liabilities (Note 12).

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

	December 31 2015	December 31 2014
Opening Balance, January 1	119	66
Granted	153	118
Exercised	-	(36)
Forfeited/ Expired	(20)	(29)
Ending Balance, December 31	252	119

(d) Stock-Based Compensation Summary

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

		Year ended December 31 2015	Year ended December 31 2014
Restricted share units	$	244	196
Performance-based share units		211	34
Stock options		446	836
Stock option tax indemnity (Note 10(a))		-	630
Directors' fees paid in shares		371	277
	$	1,272	1,973

17. Loss Per Share

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

		Year ended December 31 2015		Year ended December 31 2014
Numerator for basic and diluted loss per share:				
Net loss for the year	$	(2,810)	$	(3,927)
Denominator for basic and diluted loss per share:				
Basic weighted average number of shares outstanding		12,252		11,588
Effect of stock options, RSUs and PSUs		-		-
Diluted weighted average number of shares outstanding		12,252		11,588
Loss per share:				
Basic	$	(0.23)	$	(0.34)
Diluted	$	(0.23)	$	(0.34)

For the year ended December 31, 2015, the impact of all options, RSUs and PSUs totaling 1,086(2014 – 1,587) were excluded in the calculation of diluted loss per share because they were antidilutive.

18. Revenue

The Company's revenue is comprised of the following:

		Year ended December 31 2015		Year ended December 31 2014
Cloud and Data Centre Revenue	$	13,166	$	3,402
Network and Voice Revenue		44,554		47,827
	$	57,720	$	51,229

19. 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 2015	Year ended December 31 2014
Salaries, fees and benefits	$ 2,091	$ 1,987
Termination expense	219	483
Share-based compensation expense	1,258	1,964
	$ 3,568	$ 4,434

20. Commitments

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

	Amount
2016	$ 10,535
2017	8,507
2018	5,856
2019	4,282
2020	3,359
Thereafter	5,094
	$ 37,633

For the year ended December 31, 2015, the Company recorded rent expense of $7,032 (2014 - $5,864) relating to 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 2016.

The Company is required to pay, under a CRTC-administered regime, a percentage (2015 - 0.56%, 2014 – 0.55%) of its adjusted Canadian telecommunications service revenue (as defined by CRTC and excluding retail Internet revenue) into a fund administered by CRTC.

21. Financial Instrument Risks

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, short-term investments and restricted cash, which are primarily money market and fixed income securities, are 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.

The Company has classified its financial instruments as follows:

	December 31 2015		December 31 2014	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets:				
Loans and receivables, measured at amortized cost				
Cash and cash equivalents	$ 13,066	$ 13,066	$ 2,866	$ 2,866
Accounts receivable	3,306	3,306	2,908	2,908
Restricted cash	172	172	821	821
Financial liabilities:				
Accounts payable and accrued liabilities, measured at amortized cost	$ 9,128	$ 9,128	$ 7,401	$ 7,401
Fair value of interest rate swap contract	612	612	123	123
Long-term debt, measured at amortized cost	45,781	45,781	18,794	18,794

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 Tier 1 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 a financial institution with a Standard & Poor's rating of A.

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, 2015 and 2014, the Company had no material past due trade accounts receivable. The following table provides the aging of the trade accounts receivable:

	December 31 2015	December 31 2014
Current	$ 2,302	$ 1,995
31 to 60 days	769	430
61 to 90 days	77	26
over 90 days	-	-
	$ 3,148	$ 2,451

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, 2015, the operating line of credit balance was $nil. The drawn term facility as at December 31, 2015 was $46,250, $46,200 of which was held in a Bankers Acceptance. During the year, the Company entered into amended interest rate swap contracts that mature June 29, 2018 to fix the interest rate on the Banker's Acceptance at an average rate of 4.24%. The remaining $50 drawn under this facility bears interest for the period at prime rate plus a margin.

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. As at December 31, 2015, the Company had cash and cash equivalents of $13,066. The Company has access to the $34,345 undrawn portion of its $85,000 credit facilities after consideration of outstanding letters of credit.

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

	Less than 1 year	2 - 3 years	Total
Long-term debt	$ 6,123	$ 39,658	$ 45,781
Accounts payable	2,798	-	2,798
Fair value of interest rate swap contract	-	612	612
Stock-based compensation[1]	27	723	750
Total	$ 8,948	$ 40,993	$ 49,941

[1] Represents recognized amounts for cash-settled stock-based compensation arrangements (See Note 16). Settlement is subject to achievement of vesting criteria.

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 $34. Balances denominated in foreign currencies that are considered financial instruments are as follows:

	Currency	December 31 2015	December 31 2014
Cash and cash equivalents	USD	$ 138	$ 16
Accounts payable and accrued liabilities	USD	595	830

22. 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 2015		December 31 2014
Cash and cash equivalents	$	(13,066)	$	(2,866)
Long term debt		45,781		18,794
Share capital		85,636		72,470
Contributed surplus		25,408		24,962
Deficit		(58,829)		(56,019)
	$	84,930	$	57,341

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, 2014.

23. Related Party Transactions

Two Directors of the Company also serve as Chairman of the Board and a Director of a customer of the Company. Revenue from this customer for the years ended December 31, 2015 and 2014 was $79 and $68, respectively. Accounts receivable from this customer as at December 31, 2015 and 2014 was $3 and $5, respectively.

The terms governing these related party transactions are consistent with those negotiated on an arm's length basis with non-related parties.