TERAGO INC.
Consolidated Financial Statements
Year ended December 31, 2014 and 2013

Contents

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 24, 2015

(signed) "Stewart Lyons"	(signed) "Joe Prodan"
President and Chief Executive Officer	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, 2014 and December 31, 2013, the consolidated statements of comprehensive earnings (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, 2014 and December 31, 2013, 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

February 24, 2015
Toronto, Canada

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

	December 31 2014	December 31 2013
Assets		
Cash and cash equivalents (Note 5 (a))	$ 2,866	$ 2,137
Short-term investments (Note 5 (b))	-	452
Accounts receivable (Note 5 (c))	2,908	2,933
Prepaid expenses	2,431	2,382
Total current assets	8,205	7,904
Network assets, property and equipment (Note 6)	41,774	41,042
Intangible assets (Note 7)	10,153	12,183
Deferred income taxes (Note 12)	2,700	2,700
Restricted cash (Note 8)	821	821
Goodwill (Note 7)	5,908	5,908
Total non-current assets	61,356	62,654
Total Assets	$ 69,561	$ 70,558
Liabilities		
Accounts payable and accrued liabilities	$ 7,401	$ 6,008
Current portion of deferred revenue	236	561
Current portion of long-term debt (Note 9)	2,301	6,288
Current portion of other long-term liabilities (Note 10)	109	237
Total current liabilities	10,047	13,094
Decommissioning and restoration obligations (Note 11)	222	210
Deferred revenue	113	277
Long-term debt (Note 9)	16,493	12,824
Other long-term liabilities (Note 10)	1,273	627
Total non-current liabilities	18,101	13,938
Total Liabilities	28,148	27,032
Shareholders' Equity		
Share capital (Note 13)	72,470	71,461
Contributed surplus	24,962	24,157
Deficit	(56,019)	(52,092)
Total shareholders' equity	41,413	43,526
Total Liabilities and Shareholders' Equity	$ 69,561	$ 70,558

Commitments (Notes 18)

On behalf of the Board:

(signed) “Charles Allen”
Director

(signed) “Grant Ballantyne”
Director

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

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

		Year ended December 31 2014		Year ended December 31 2013
Revenue				
Total Revenue (Note 16)	$	51,229	$	51,426
Expenses				
Cost of services		12,022		11,656
Salaries and related costs		19,444		15,863
Other operating expenses		8,386		7,454
Amortization of intangible assets (Note 7)		2,781		2,550
Depreciation of network assets, property and equipment (Note 6)		10,479		9,729
		53,112		47,252
Earnings (loss) from operations		(1,883)		4,174
Foreign exchange loss		(84)		(63)
Finance costs		(1,990)		(1,126)
Finance income		30		36
Earnings (loss) before income taxes		(3,927)		3,021
Income taxes (Note 12)				
Current tax expense		-		(26)
Income tax recovery		-		1,314
Income tax recovery		-		1,288
Net earnings (loss) and comprehensive earnings (loss)	$	(3,927)	$	4,309
Deficit, beginning of period		(52,092)		(56,401)
Deficit, end of period	$	(56,019)	$	(52,092)
Basic earnings (loss) per share (Note 15)	$	(0.34)	$	0.38
Diluted earnings (loss) per share (Note 15)	$	(0.34)	$	0.36
Basic weighted average number of shares outstanding		11,588		11,423
Diluted weighted average number of shares outstanding		11,588		11,809

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

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

	Year ended December 31 2014	Year ended December 31 2013
Operating Activities		
Net earnings (loss)	$ (3,927)	$ 4,309
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation of network assets, property and equipment (Note 6)	10,479	9,729
Amortization of intangible assets (Note 7)	2,781	2,550
Stock-based compensation expense (recovery) (Note 14(d))	1,973	(149)
Finance costs	1,990	1,126
Finance income	(30)	(36)
Income tax recovery (Note 12)	-	(1,314)
Loss on adjustments and disposal of network assets (Note 6)	643	202
Changes in non-cash working capital items:		
Accounts receivable	25	317
Prepaid expenses	(49)	(54)
Accounts payable and accrued liabilities	449	311
Deferred revenue	(489)	(625)
Other long-term liabilities	(220)	(615)
Cash from Operating Activities	13,625	15,751
Investing Activities		
Acquisition of Data Centres Canada Inc. - net of cash acquired (Note 22 (a))	-	(9,140)
Proceeds from disposal of network assets	-	1
Purchase of network assets, property and equipment (Note 6)	(11,854)	(11,053)
Purchase of intangible assets (Note 7)	(751)	(1,290)
Change in non-cash working capital related to network assets, property and equipment and intangible assets	561	192
Purchase of short-term investments	(274)	(1,411)
Sale of short-term investments	726	2,105
Cash used in Investing Activities	(11,592)	(20,596)
Financing Activities		
Proceeds from issuance of share capital	701	237
Interest paid	(1,050)	(1,114)
Interest received	10	21
Proceeds from long term debt (Note 9)	22,822	12,119
Repayment of long-term debt (Note 9)	(23,106)	(4,995)
Financing costs incurred (Note 9)	(680)	(424)
Repayment of finance lease obligations	(1)	(331)
Cash from Financing Activities	(1,304)	5,513
Net change in cash and cash equivalents, during the year	729	668
Cash and cash equivalents, beginning of year	2,137	1,469
Cash and cash equivalents, end of year	$ 2,866	$ 2,137
Supplemental cash flow disclosure:		
Non-cash acquisition of Vancouver Data Centre assets (Note 22 (b))	$ -	$ 579

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

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

	Share Capital Number	Share Capital Amount	Contributed 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

	Share Capital Number	Share Capital Amount	Contributed Surplus	Deficit	Total
Balance, January 1, 2013	11,365	$ 70,978	$ 24,176	$ (56,401)	$ 38,753
Issuance of shares upon exercise of options	61	256	(19)	-	237
Issuance of shares for directors' fees	33	227	-	-	227
Net earnings and comprehensive earnings	-	-	-	4,309	4,309
Balance, December 31, 2013	11,459	$ 71,461	$ 24,157	$ (52,092)	$ 43,526

See Note 13 – Share Capital for classes of shares

1. Reporting Entity

TeraGo Inc. (the "Company)" is a leading broadband communications and data center service provider to businesses in Canada. The Company is located in Canada and the address of its registered office is 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, data center and cloud facilities in Canada targeting small to medium-sized businesses that require broadband internet, data connectivity, voice, cloud and data center 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 presentation of the consolidated financial statements, the Company determined that utility costs associated with its Data Centers should be reclassified from other operating expenses to cost of services. For the year ended December 31, 2013, $363 was reclassified for the correction of this immaterial adjustment. In addition, the Company combined direct cost of services and salaries and related costs – cost of services, included in the consolidated statement of comprehensive earnings (loss) for the year ended December 31, 2013, into one expense caption called cost of services.

The consolidated financial statements were authorized for issuance by the Board of Directors on February 24, 2015.

(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 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 earnings 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 judgment 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, voice, data centers and cloud 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 centers 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 is deferred and recognized over the initial 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. and 2000682 Ontario 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 related to 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 earnings (loss). Interest and dividends earned from financial assets are also included in net earnings (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 earnings (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 earnings (loss) for the period.

The following is a summary of the Company’s significant categories of financial instruments as at December 31, 2014:

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, short-term investments, accounts receivable and restricted cash.

(i) ***Cash and Cash Equivalents***
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 are carried at amortized cost.

(ii) ***Restricted Cash***
Restricted cash consist of highly liquid marketable investments and short-term debt securities with an initial maturity from the date of acquisition of between three months and one year. These primarily consist of investment-grade fixed income securities, such as guaranteed investment certificates and investment savings accounts and these are in compliance with the Company’s policy on investments. Restricted cash are carried at amortized cost.

(iii) ***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 net earnings (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 earnings (loss) and reflected in an allowance account against the financial asset.

Other non-derivative 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 and accounts payable and accrued 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 reporting period.

Derivative instruments
The Company uses an interest rate swap contract to manage the risk associated with the fluctuations of interest rates on 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 the consolidated statement of comprehensive earnings (loss). The interest rate swap contract is valued based on broker quotes.

(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
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 contract 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 and Acquired Real Estate Leases
Customer relationships, brand 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 and brand are amortized on a straight-line basis over 5 years 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, liabilities and contingent liabilities recognized. 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 earnings (loss) as 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 (see below). 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 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 of.

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 (see below) 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 earnings in the current period.

(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 to the acquisition or construction of a qualifying asset are recognized in earnings and loss using the effective interest method.

(m) Income Taxes

Income taxes on earnings and loss include current and deferred taxes. Income taxes are recognized in earnings and 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 period, 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 period 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 value 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 its internet, data connectivity, voice, data centers and cloud services and earns revenues exclusively in Canada. All of the Company's identifiable assets as at December 31, 2014 and 2013 were located in Canada.

(q) Earnings (Loss) Per Share

The basic earnings or loss per share has been computed by dividing the net earnings or loss for the period by the weighted average number of Common shares outstanding during the period. Diluted earnings or loss per share is computed by adjusting the net earnings or loss attributable to common shareholders for the period 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 earnings per share.

4. Accounting Pronouncements

(a) New Accounting Pronouncements Adopted in 2014

During 2014, the Company adopted the following accounting changes:

IFRIC 21, Levies (“IFRIC 21”)

In May 2013, the IASB issued IFRIC 21, which provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

(i) the liability is recognized progressively if the obligating event occurs over a period of time, and

(ii) if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. The amendments were required to be applied retrospectively.

Amendments to IAS 32, Financial Instruments: Presentation (“IAS 32”)

In December 2011, the IASB amended IAS 32 to clarify the meaning of when an entity has a current legally enforceable right of set-off. The amendments were required to be applied retrospectively.

Amendments to IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”)

In June 2013, the IASB amended IAS 39 to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments were required to be applied retrospectively.

The adoption of these accounting pronouncements had no impact on the Company’s consolidated financial statements.

(b) 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, 2014, and could have an impact on future periods.

(In thousands, except for per share amounts)

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 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 effective for annual periods beginning on or after January 1, 2017. The Company is assessing the impact of this standard on the consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9")

In July 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.

Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets

In May 2014, the IASB issued amendments to these standards to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate.

The amendment is effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Company is assessing the impact of this standard on the consolidated financial statements.

5. Current Assets

Details of selected current asset balances are as follows:

(a) Cash and cash equivalents

The Company's cash and cash equivalents are comprised of bank balances at major Canadian financial institutions.

(b) Short-term investments

The Company's short-term investments are as follows:

	December 31 2014	December 31 2013
Guaranteed Investment Certificates (maturity dates within 1 year of the statement of financial position with interest rates of 1.25%)	$ -	$ 452

Interest earned on short-term investments of $27 (2013 - $36) is included in finance income.

(In thousands, except for per share amounts)

(c) Accounts receivable

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

	December 31 2014	December 31 2013
Trade receivables	$ 2,451	$ 2,732
Allowance for doubtful accounts	(19)	(14)
Indemnification receivable (Note 22 (a))	-	160
Other	476	55
	$ 2,908	$ 2,933

The Company's summary of activity related to allowance for doubtful accounts is as follows:

	December 31 2014	December 31 2013
Opening Balance	$ (14)	$ (26)
Additions	(170)	(124)
Write-offs	165	136
Ending Balance	$ (19)	$ (14)

(In thousands, except for per share amounts)

6. Network Assets, Property and Equipment

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 period	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, December31, 2014	**$ 39,252**	**$ 1,468**	**$ 155**	**$ 100**	**$ 798**	**$ 1**	**$ 41,774**

Cost	Network assets	Datacentre infrastructure	Computer equipment	Office furniture and equipment	Leasehold improvements	Vehicles	Total
Balance, January 1, 2013	$ 91,536	$ -	$ 1,868	$ 2,095	$ 663	$ 48	$ 96,210
Additions/ reclassifications	10,855	57	126	14	-	1	11,053
Acquisitions (Note 21)	349	1,506	34	8	-	-	1,897
Disposals/ Adjustments	(1,299)	11	-	-	-	-	(1,288)
Balance, December 31, 2013	**$ 101,441**	**$ 1,574**	**$ 2,028**	**$ 2,117**	**$ 663**	**$ 49**	**$ 107,872**
Accumulated Depreciation							
Balance, January 1, 2013	$ 54,014	$ -	$ 1,633	$ 1,959	$ 549	$ 31	$ 58,186
Depreciation for the period	9,355	42	173	94	50	15	9,729
Disposals/ Adjustments	(1,085)	-	-	-	-	-	(1,085)
Balance, December 31, 2013	**$ 62,284**	**$ 42**	**$ 1,806**	**$ 2,053**	**$ 599**	**$ 46**	**$ 66,830**
Net Book Value, December 31, 2013	**$ 39,157**	**$ 1,532**	**$ 222**	**$ 64**	**$ 64**	**$ 3**	**$ 41,042**

For the years ended December 31, 2014 and 2013, the Company has additions of capitalized wages and other directly attributable costs of $2,418 and $3,156, respectively, in network assets.

During 2014, the Company wrote off assets with a net book value of $643 (Cost of $1,770 less accumulated depreciation of $1,127) to reflect physical inventory count results and write offs associated with the decommissioning of sites of a large wireless customer. This corresponding loss on disposal of network assets of $643 was included in other operating expenses. During 2013, the Company wrote off assets with a net book value of $202 (Cost of $1,288 less accumulated depreciation of $1,086) to reflect physical inventory count results. This corresponding loss on disposal of network assets of $202 was included in other operating expenses.

(In thousands, except for per share amounts)

7. Goodwill and Intangible Assets

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 Amortization												
Balance, January 1, 2014	$	2,371	$	4,981	$	2,057	$	402	$	9,811	-	9,811
Amortization for the period		-		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**

Cost		Radio spectrum licenses		Computer software		Customer relationships		Other		Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, January 1, 2013	$	7,041	$	5,627	$	3,330	$	427	$	16,425	861	17,286
Additions		-		1,290		-		-		1,290		1,290
Acquisitions (Note 21)		-		-		2,850		1,429		4,279	5,047	9,326
Balance, December 31, 2013	**$**	**7,041**	**$**	**6,917**	**$**	**6,180**	**$**	**1,856**	**$**	**21,994**	**5,908**	**27,902**
Accumulated Amortization												
Balance, January 1, 2013	$	2,371	$	3,689	$	1,059	$	142	$	7,261	-	7,261
Amortization for the period		-		1,292		998		260		2,550	-	2,550
Balance, December 31, 2013	**$**	**2,371**	**$**	**4,981**	**$**	**2,057**	**$**	**402**	**$**	**9,811**	-	**9,811**
Net Book Value, December 31, 2013	**$**	**4,670**	**$**	**1,936**	**$**	**4,123**	**$**	**1,454**	**$**	**12,183**	**5,908**	**18,091**

(a) Impairment

The annual impairment test of goodwill and indefinite life intangible assets was performed on December 31, 2014 and December 31, 2013 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 3 year financial budget reviewed by the Board plus a terminal value using a 2% 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%. The fair value less costs to sell, primarily based on the Company's market capitalization as at December 31, 2014, also significantly exceeded the carrying amount of the CGU.

8. Restricted Cash

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 $0 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 expires June 2015, the restricted cash is 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. The Company is awaiting a final settlement of claim with the former officer. The balance of $821 is held as restricted cash and $630 is recorded in accounts payable and accrued liabilities as at December 31, 2014.

(In thousands, except for per share amounts)

9. Long-term Debt

		December 31 2014		December 31 2013
Term debt facility (a)	$	18,351	$	18,454
Equipment loans (b)		732		1,061
less: financing fees		(289)		(403)
		18,794		19,112
less: current portion		(2,301)		(6,288)
	$	16,493	$	12,824

(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.

The total $50,000 facility that matures June 6, 2017 is made up of the following:

- $5,000 revolving facility which bears interest at prime plus a margin percent. As of December 31 2014, $nil amounts are outstanding. Letters of credit outstanding under the facility totaled $655 as of December 31, 2014.

- $20,000 term facility which bears interest at prime plus a margin percent and is repayable in quarterly principal installments of $500 starting June 30, 2014. This facility was fully drawn in June 2014. On September 30, 2014, the Company converted, in accordance with the agreement, the remaining $19,000 principal of the term facility into a Banker's Acceptance for proceeds, after interest and stamping fee paid, of $18,843. Per agreement terms, the Company will roll-over its Banker's Acceptance every quarter. On December 31, 2014, the Company rolled over $18,400 of the remaining $18,500 drawn facility into a Banker's Acceptance for proceeds, after interest and stamping fee paid, of $18,251. The remaining $100 of the drawn term facility bears interest at prime plus a margin percent.

  The Company also entered into an interest rate swap contract on September 30, 2014 (which matures June 6, 2017) to fix the interest on the Banker's Acceptance at 3.79% based on current debt ratio levels. The interest rate swap contract has not been designated as a hedge and will be marked-to-market each period. The fair value of the interest rate swap contract at December 31, 2014 was ($123) and is recorded in other long-term liabilities (Note 10).

- $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, 2014, this facility remains undrawn.

The Company incurred financing fees of $357 which have been deferred and amortized using the effective interest method over the term of the debt. The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at December 31, 2014. Under this facility, the Company is also subject to a cash flow sweep that could accelerate principal repayments based on a detailed calculation outlined by NBC not later than 120 days after the end of each fiscal year commencing with the year ending December 31, 2014. At December 31, 2014, no accelerated principal repayments were required.

As at December 31, 2013, the Company had a credit facility agreement with the Royal Bank of Canada ("RBC") that consisted of an operating line of credit and certain term facilities, of which $18,454 was drawn at December 31, 2013. The RBC facility was repaid in 2014 with the proceeds received from the NBC facility. The Company recorded an expense of $624 related to the write-off of unamortized deferred finance costs and unwinding fees which are included in finance costs in the consolidated statement of comprehensive earnings (loss).

(In thousands, except for per share amounts)

(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.

10. Other Long-Term Liabilities

		December 31 2014		December 31 2013
Performance-based share units (Note 14 (c))	$	97	$	282
Restricted share units (Note 14 (b))		196		-
Finance lease obligations		-		3
Fair value of interest rate swap contract (Note 9 (a))		123		-
Lease inducement liability		381		-
Assumed liabilities - Vancouver Data Centre (Note 22 (b))		585		579
		1,382		864
less: current portion		(109)		(237)
	$	1,273	$	627

11. Decommissioning and Restoration Obligations

The Company's hub sites are established in leased premises. As part of the leasing arrangements with the landlords, 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 relate to future site restoration costs related to these leased facilities. 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, 2014, the estimated amount of undiscounted cash flows required to settle this liability was $1,551.

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 2014		December 31 2013
Obligation, beginning of year	$	210	$	198
Accretion expense included in finance costs		12		12
Obligation, end of year	$	222	$	210

12. Income Taxes

Income tax expense (recovery)

		December 31 2014		December 31 2013
Current tax expense				
Current tax expense	$	-	$	26
		-	$	26
Deferred income tax (recovery)				
Recognition of previously unrecognized losses and temporary differences	$	-	$	(1,314)
	$	-	$	(1,288)

(In thousands, except for per share amounts)

Reconciliation of effective tax rate

		December 31 2014			December 31 2013	
			%			%
Earnings before Income taxes (recovery)	$	(3,927)		$	3,021	
Income tax expense (recovery) at statutory rates	$	(1,027)	(26.1)	$	790	26.1
Expenses (revenue) deducted (included) in the accounts that have no corresponding deduction (inclusion) for income taxes		481	12.2		30	1.0
Utilization of previously unrecognized non-capital losses and temporary differences		-	-		(794)	(26.3)
Utilization of previously unrecognized losses and temporary differences		(384)	(9.8)		(794)	(26.3)
Current year loss for which no benefit recognized		930	23.7		-	-
Recognition of previously unrecognized losses and other temporary differences		-	-		(1,314)	(43.5)
Income tax recovery	$	-	-	$	(1,288)	(42.7)

Recognized deferred tax assets

		Assets 2014		Assets 2013
			$	
Excess of tax basis over book value	$	1,905		1,861
Investment tax credits		872		872
Non-capital tax losses		-		-
Other differences		-		44
Tax assets (liabilities) before set off		2,777		2,777
Set off of tax		(77)		(77)
	$	2,700	$	2,700

In 2013, management reviewed the tax implications as a result of the acquisition and subsequent amalgamation of Data Centers Canada Inc. ("DCC") – Note 22 (a). A tax benefit of $1,314 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.

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 2014		December 31 2013
Excess of tax basis over book value	$	9,247	$	8,186
Non-capital tax loss carry forwards		399		1,014
Other deductible temporary differences		724		712
	$	10,370	$	9,912

The non-capital tax losses carried forward are available to reduce future taxable income and expire in 2032 ($1,525).

(In thousands, except for per share amounts)

13. Share Capital

Authorized

Unlimited	Common Shares
Unlimited	Class A Non-Voting 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, 2013	**11,365**	**76,634**	**(5,656)**	**70,978**
Issuance of common shares on exercise of stock options	61	256	-	256
Issuance of common shares for directors' fees	33	227	-	227
Balance, December 31, 2013	**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**

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, 2014 and 2013.

14. 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, 2014, there are 327 (2013 – 498) common shares outstanding under the Old Plan with a weighted average exercise price of $3.97.

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.

On March 3, 2014, the Company granted 262 options under the 2007 Option Plan to an officer of the Company at an exercise price of $5.77 per share. As at December 31, 2014, 762 options (2013 – 547) to purchase common shares have been granted under the 2007 Option Plan.

On January 9, 2014, the Toronto Stock Exchange (the "TSX") approved the Company to allocate 229 options which were to fall outside of the 2007 Option Plan subject to certain pre-conditions. On March 3, 2014, the Company granted 229 options from this reserve to an officer of the Company at an exercise price of $5.77 per share. On March 6, 2014, the Company secured confirmation from the TSX that the pre-conditions had been satisfied and the option grant approved.

(In thousands, except for per share amounts)

For the years ended December 31, 2014 and 2013, the Company recorded stock-based compensation related to stock options of $836 and $nil, respectively.

A summary of the status of the Company's stock option plan as at December 31, 2014 and 2013 is presented below.

		2014		2013
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding - January 1	1,045	$7.11	1,123	$6.92
Granted	491	$5.77	-	-
Exercised	(187)	$3.74	(61)	$3.86
Forfeited / Expired	(31)	$9.49	(17)	$6.59
Outstanding - December 31	1,318	$7.03	1,045	$7.11
Exercisable	950	$7.52	1,045	$7.11

As at December 31, 2014, 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
$2.50 - $4.00	327	1.27	$3.97	327	$3.97
$4.01 - $5.50	100	0.90	$5.05	100	$5.05
$5.51 - $11.50	505	8.97	$5.80	137	$5.87
$11.51 - $11.75	386	0.90	$11.75	386	$11.75
	1,318	5.76	$7.03	950	$7.52

(b) Restricted Share Units (RSUs)

On March 12, 2009, the Company established a RSU Plan which is available to our 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.

In 2014, the Company granted 150 RSUs to an officer of the Company (2013 – nil). The share price at the date of grant was $5.35 and will be marked to market on a quarterly basis.

For the year ended December 31, 2014 and December 31, 2013, the Company recorded compensation expense of $196 and $nil, respectively, related to the RSUs granted. As of December 31, 2014, a liability of $196 (2013 - $nil) related to the RSUs granted is included in other long-term liabilities (Note 10).

(In thousands, except for per share amounts)

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

	December 31 2014	December 31 2013
Opening Balance, January 1	-	-
Granted	150	-
Vested	-	-
Ending Balance, December 31	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 2014, the Company granted 118 PSUs to certain key executives (2013 – 54).

In 2014, 36 PSUs vested and the Company paid cash of $220 to settle the awards based on a weighted share price of $6.29 per award (2013 – 89 PSUs vested and the Company paid cash of $615).

For the year ended December 31, 2014 and December 31, 2013, the Company recorded stock-based compensation expense (recovery) of $34 and $(376), respectively, related to the PSUs outstanding. As at December 31, 2014, a liability of $97 (2013 - $282) related to the PSUs granted is included in the other long-term liabilities (Note 10).

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

	December 31 2014	December 31 2013
Opening Balance, January 1	66	213
Granted	118	54
Exercised	(36)	(89)
Forfeited/ Expired	(29)	(112)
Ending Balance, December 31	119	66

(d) Stock-Based Compensation Summary

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

	Year ended December 31 2014	Year ended December 31 2013
Restricted share units	$ 196	$ -
Performance-based share units	34	(376)
Stock options (Note 14(a))	836	-
Stock option tax indemnity (Note 8)	630	-
Directors' fees paid in shares	277	227
	$ 1,973	$ (149)

(In thousands, except for per share amounts)

15. Earnings Per Share

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

	Year ended December 31 2014	Year ended December 31 2013
Numerator for basic and diluted earnings (loss) per share:		
Net earnings (loss) for the period	$ (3,927)	$ 4,309
Denominator for basic and diluted earnings per share:		
Basic weighted average number of shares outstanding	11,588	11,423
Effect of stock options, RSUs and PSUs	-	386
Diluted weighted average number of shares outstanding	11,588	11,809
Earnings (loss) per share:		
Basic	$ (0.34)	$ 0.38
Diluted	$ (0.34)	$ 0.36

For the year ended December 31, 2014, the impact of all options, RSUs and PSUs totaling 1,587 (2013 – 409) were excluded in the calculation of diluted earnings per share because they were antidilutive.

16. Revenue

The Company’s revenue is comprised of the following:

	Year ended December 31 2014	Year ended December 31 2013
Service revenue	$ 50,568	$ 50,480
Installation revenue	661	946
	$ 51,229	$ 51,426

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 2014	Year ended December 31 2013
Salaries, fees and benefits	$ 1,987	$ 2,176
Termination expense	483	943
Share-based expense (recovery)	1,964	(149)
	$ 4,434	$ 2,970

(In thousands, except for per share amounts)

18. 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
2015	$	7,166
2016		5,335
2017		3,605
2018		2,181
2019		1,505
Thereafter		2,283
	$	22,075

For the year ended December 31, 2014, the Company recorded rent expense of $5,864 (2013 - $5,316) relating to premises and network real estate access leases.

It is common practice for the Company to re-negotiate network real estate access lease arrangements as they become due for renewal. Included in the amounts above are estimates for the renewal of leases that are currently due for renewal or are due for renewal in 2015.

The Company is required to pay, under a CRTC-administered regime, a percentage (2014 - 0.55%, 2013 – 0.53%) of its adjusted Canadian telecommunications service revenue (as defined by CRTC and excluding retail Internet revenue) into a fund administered by CRTC.

19. 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.

(In thousands, except for per share amounts)

The Company has classified its financial instruments as follows:

	December 31 2014 Carrying amount	December 31 2014 Fair Value	December 31 2013 Carrying amount	December 31 2013 Fair Value
Financial assets:				
Loans and receivables, measured at amortized cost				
Cash and cash equivalents	$ 2,866	$ 2,866	$ 2,137	$ 2,137
Short-term investments	-	-	452	452
Accounts receivable	2,908	2,908	2,933	2,933
Restricted cash	821	821	821	821
Financial liabilities:				
Accounts payable and accrued liabilities, measured at amortized cost	7,401	7,401	6,008	6,008
Fair value of interest rate swap contract	123	123	-	-
Long-term debt, measured at amortized cost	18,794	18,794	19,112	19,112

Credit risk

The Company's cash and cash equivalents, short-term investments and restricted cash subject the Company to credit risk. The Company holds low risk money market and fixed income securities, as per its practice of protecting its capital rather than maximizing investment yield. 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 and short-term investments.

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, 2014 and 2013, the Company had no material past due trade accounts receivable. The following table provides the aging of the trade accounts receivable:

	December 31 2014	December 31 2013
Current	$ 1,995	$ 2,231
31 to 60 days	430	447
61 to 90 days	26	55
over 90 days	-	(1)
	$ 2,451	$ 2,732

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, 2014, the operating line of credit balance was $nil. On September 30, 2014, the Company entered into an interest rate swap contract to fix the interest rate on the Banker's Acceptance portion of the term facility at 3.79%. At December 31, 2014, $18,400 of the $18,500 drawn term facility was subject to the fixed 3.79% interest rate. The remaining $100 under this facility bears interest for the period at prime rate plus a margin.

(In thousands, except for per share amounts)

Liquidity risk
The Company believes that its current cash and cash equivalents, short-term investments 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, 2014, the Company had cash and cash equivalents and short-term investments of $2,866. The Company has access to the $29,345 undrawn portion of its $50,000 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	$ 2,301	$ 16,493	$ 18,794
Accounts payable	1,612	-	1,612
Fair value of interest rate swap contract	-	123	123
Stock-based compensation[(1)]	-	293	293
Total	$ 3,913	$ 16,909	$ 20,822

(1) Represents recognized amounts for cash-settled stock-based compensation arrangements (See Note 14). 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 US dollar. The Company believes this risk is minimal and does not use financial instruments to hedge these risks. A one cent variation in the U.S dollar would result in an impact of $33 per year. Balances denominated in foreign currencies that are considered financial instruments are as follows:

	Currency	December 31 2014	December 31 2013
Cash and cash equivalents	USD	$ 16	$ 168
Accounts payable and accrued liabilities	USD	830	844

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.

(In thousands, except for per share amounts)

		December 31 2014		December 31 2013
Cash and cash equivalents	$	(2,866)	$	(2,137)
Short-term investments		-		(452)
Long term debt and finance lease obligations		18,794		19,115
Share capital		72,470		71,461
Contributed surplus		24,962		24,157
Deficit		(56,019)		(52,092)
	$	57,341	$	60,052

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, 2013.

21. Related Party Transactions

The Company provides services to one customer whose Chairman and Director of the Board of Directors are both Directors of the Company. Revenue from this customer for the years ended December 31, 2014 and 2013 was $68 and $58, respectively. Accounts receivable from this customer as at December 31, 2014 and 2013 was $5 and $5.

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

22. Acquisitions

(a) Data Centers Canada Inc.

On May 31, 2013, the Company closed a share purchase agreement to acquire 100% of the shares of DCC for cash consideration of $9,187. The acquisition supports TeraGo's strategic plan in offering complementary services to business and enterprise customers. DCC operates a 16,000 square foot data center facility that provides data center solutions, including colocation and disaster recovery to businesses, enterprises, public sector and technology service providers. Of the total consideration paid, $500 was held in escrow to be remitted to the seller on May 31, 2014. In October 2014, following the settlement of ongoing disputes with the vendors, $420 of the funds held in escrow were released to the vendors. The remaining escrow funds including interest totaling $90 were released to the Company on October 6, 2014.

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 June 1, 2013 and has contributed incremental revenue of $1,574 and net income of $9 for the year ended December 31, 2013. If the acquisition had occurred on January 1, 2013, consolidated revenue of the Company for the year ended would have been $52,550 and earnings from operations for the period would have been $3,027. The total acquisition related costs were $255 and are included in other operating expenses for the year ended December 31, 2013.

(In thousands, except for per share amounts)

The final fair values of the assets acquired and liabilities assumed in the acquisition at May 31, 2013 are as follows:

Cash	$ 47
Net Working Capital	(153)
Finance Lease Obligations	(217)
Property, Plant and Equipment	1,318
Identifiable Intangible Assets	
Customer Contracts	2,850
Brand	1,137
Non-Competition Agreement	292
Deferred Tax Liability	(1,134)
Goodwill	5,047
	$9,187

The share purchase agreement included an indemnification by the vendors for certain liabilities related to DCC prior to May 31, 2013 totaling $160, which was included in accounts receivable at December 31, 2013. In 2014, following the settlement with the vendors, the indemnification was released. .

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 contracts, non-competition agreement and brand are recorded as Intangibles assets and are being amortized over a period of 5 years.

(b) Vancouver Data Center

On December 23, 2013, the Company closed an acquisition for all of the assets of a leased data center located in Vancouver, British Columbia. The acquisition is accounted for as an asset purchase. This is a 5,058 square foot data center facility, with options to expand, that provides data center solutions, including colocation and disaster recovery to businesses, enterprises, public sector and technology service providers. In exchange for the data center assets of $579, the Company assumed liabilities from the vendor relating to the leased premises and a favorable contract for data center services to the vendor. The fair value of the assumed liabilities at December 31, 2014 of $585 (2013 - $579) is recorded in other long-term liabilities (Note 10) and will be drawn down over the period of the respective lease agreement and revenue contract.