TERAGO INC.
Condensed Consolidated Financial Statements
Three and nine months ended September 30, 2014 and 2013 (unaudited)

Contents

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

		Sep 30 2014		Dec 31 2013
Assets				
Cash and cash equivalents	$	3,232	$	2,137
Short-term investments (Note 4 (b))		80		452
Accounts receivable (Note 4 (c))		2,878		2,933
Prepaid expenses		2,502		2,382
Total current assets		8,692		7,904
Network assets, property and equipment (Note 5)		42,231		41,042
Intangible assets (Note 6)		10,620		12,183
Deferred income taxes		2,700		2,700
Restricted cash (Note 7)		821		821
Goodwill (Note 6)		5,908		5,908
Total non-current assets		62,280		62,654
Total Assets	$	70,972	$	70,558
Liabilities				
Accounts payable and accrued liabilities	$	7,072	$	6,008
Current portion of deferred revenue		188		561
Current portion of long-term debt (Note 8)		2,296		6,288
Current portion of other long-term liabilities (Note 9)		45		237
Total current liabilities		9,601		13,094
Decommissioning and restoration obligations		219		210
Deferred revenue		72		277
Long-term debt (Note 8)		18,190		12,824
Other long-term liabilities (Note 9)		739		627
Total non-current liabilities		19,220		13,938
Total Liabilities		28,821		27,032
Shareholders' Equity				
Share capital		72,312		71,461
Contributed surplus		24,784		24,157
Deficit		(54,945)		(52,092)
Total shareholders' equity		42,151		43,526
Total Liabilities and Shareholders' Equity	$	70,972	$	70,558

Subsequent Events (Note 14)

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
(In thousands, except per share amounts)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenue				
Total Revenue	$ 12,545	$ 13,168	$ 38,600	$ 38,517
Expenses				
Direct cost of services	2,700	2,625	7,954	7,475
Salaries and related costs - Cost of services	305	337	1,015	1,070
Salaries and related costs - Other	4,007	3,316	14,715	11,311
Other operating expenses	2,094	1,784	6,210	5,121
Amortization of intangible assets (Note 6)	689	730	2,107	1,824
Depreciation of network assets, property and equipment (Note 5)	2,626	2,465	7,827	7,215
	12,421	11,257	39,828	34,016
Earnings (loss) from operations	124	1,911	(1,228)	4,501
Foreign exchange gain (loss)	(42)	29	(43)	(29)
Finance costs (Note 8)	(311)	(351)	(1,609)	(774)
Finance income	4	13	27	31
Earnings before income taxes	(225)	1,602	(2,853)	3,729
Income tax recovery	-	-	-	1,314
Income tax recovery	-	-	-	1,314
Net earnings (loss) and comprehensive earnings (loss)	$ (225)	$ 1,602	$ (2,853)	$ 5,043
Deficit, beginning of period	(54,720)	(52,960)	(52,092)	(56,401)
Deficit, end of period	$ (54,945)	$ (51,358)	$ (54,945)	$ (51,358)
Basic earnings (loss) per share (Note 11)	$ (0.02)	$ 0.14	$ (0.25)	$ 0.44
Diluted earnings (loss) per share (Note 11)	$ (0.02)	$ 0.13	$ (0.25)	$ 0.42
Basic weighted average number of shares outstanding	11,620	11,430	11,534	11,415
Diluted weighted average number of shares outstanding	11,620	11,884	11,534	11,959

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

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

	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Cash provided by (used in)				
Operating Activities				
Net earnings (loss)	(225) $	1,602 $	(2,853) $	5,043
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:				
Depreciation of network assets, property and equipment (Note 5)	2,626	2,465	7,827	7,215
Amortization of intangible assets (Note 6)	689	730	2,107	1,824
Stock-based compensation expense (recovery) (Note 10)	370	(81)	1,599	(158)
Finance costs (Note 8)	311	351	1,609	774
Finance income	(4)	(13)	(27)	(31)
Income tax recovery	-	-	-	(1,314)
Loss (gain) on adjustments and disposal of network assets (Note 5)	174	(24)	549	81
Changes in non-cash working capital items:				
Accounts receivable	730	320	55	97
Prepaid expenses	365	362	(120)	(19)
Accounts payable and accrued liabilities	(92)	(454)	(227)	(1,134)
Deferred revenue	(330)	(386)	(578)	(529)
Other long-term liabilities	(4)	(521)	(209)	(615)
Cash from Operating Activities	4,610	4,351	9,732	11,234
Investing Activities				
Acquisition of Data Centres Canada Inc. - net of cash acquired	-	-	-	(9,453)
Proceeds from disposal of network assets	-	-	-	1
Purchase of network assets, property and equipment (Note 5)	(3,442)	(3,002)	(9,565)	(8,106)
Purchase of intangible assets (Note 6)	(115)	(276)	(544)	(918)
Change in non-cash working capital related to network assets, property and equipment, and intangible assets	874	(253)	609	393
Purchase of short-term investments	0	(8)	(274)	(1,411)
Sale of short-term investments	-	1,000	664	1,385
Cash used in Investing Activities	(2,683)	(2,539)	(9,110)	(18,109)
Financing Activities				
Proceeds from issuance of share capital	155	-	638	201
Interest paid	(313)	(406)	(1,217)	(765)
Interest received	-	8	8	26
Proceeds from long term debt (Note 8)	-	325	21,557	10,825
Repayment of long-term debt (Note 8)	(547)	(1,855)	(19,832)	(3,672)
Financing costs incurred (Note 8)	(6)	-	(680)	(175)
Repayment of finance lease obligations	-	(40)	(1)	(132)
Cash from Financing Activities	(711)	(1,968)	473	6,308
Net change in cash and cash equivalents, during the period	1,216	(156)	1,095	(567)
Cash and cash equivalents, beginning of period	2,016	1,058	2,137	1,469
Cash and cash equivalents, end of period	$ 3,232	$ 902	$ 3,232	$ 902

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, December 31, 2013	11,459	$ 71,461	$ 24,157	$ (52,092)	$ 43,526
Issuance of shares upon exercise of options	170	669	(31)	-	638
Stock-based compensation	-	-	658	-	658
Issuance of shares for Directors' Fees	38	182	-	-	182
Net loss and comprehensive loss	-	-	-	(2,853)	(2,853)
Balance, September 30, 2014	11,667	$ 72,312	$ 24,784	$ (54,945)	$ 42,151

	Share Capital Number	Share Capital Amount	Contributed Surplus	Deficit	Total
Balance, December 31, 2012	11,365	$ 70,978	$ 24,176	$ (56,401)	$ 38,753
Issuance of shares upon exercise of options	50	201	-	-	201
Issuance of shares for Directors' Fees	23	166	-	-	166
Net earnings and comprehensive earnings	-	-	-	5,043	5,043
Balance, September 30, 2013	11,438	$ 71,345	$ 24,176	$ (51,358)	$ 44,163

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

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 and data center facilities in Canada targeting small to medium-sized businesses that require broadband Internet, data connectivity, voice 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 preparation

These unaudited condensed interim consolidated financial statements ("interim financial statements") were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2013 (the "2013 Consolidated Financial Statements"), with the exception of those new accounting pronouncements that were adopted on January 1, 2014 as more fully described in note 3. These interim financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 2 of the Company's 2013 Consolidated Financial Statements. These interim financial statements should be read in conjunction with the Company's 2013 Consolidated Financial Statements.

The Company's operating results are subject to seasonal fluctuations that may materially impact quarter-to-quarter operating results and, thus, one quarter's operating results are not necessarily indicative of a subsequent quarter's operating results.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as at September 30, 2014. The Board of Directors authorized the interim financial statements for issue on November 5, 2014.

(b) Basis of presentation

These interim financial statements include the accounts of TeraGo Inc. and its wholly-owned subsidiaries, TeraGo Networks Inc. and 2000682 Ontario Inc. (collectively, the Company). The notes presented in these interim financial statements include only significant changes and transactions that have occurred since the last fiscal year end.

During the preparation of the interim financial statements, the Company determined that the utilities costs associated with its Data Centers should be reclassified from Other Operating expenses to Direct cost of services. For the nine months ended September 30, 2014, $277 was reclassified for the correction of this immaterial adjustment related to amounts incurred in the first three months of fiscal 2014. For the three and nine months ended September 30, 2013, $194 and $224, respectively, was reclassified.

(c) Functional and Presentation Currency

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

3. Significant Accounting Policies

These interim financial statements were prepared using the same accounting policies and methods as those used in the 2013 Consolidated Financial Statements, except for the adoption of new accounting policies as at January 1, 2014 that are described below:

(a) Levies

In May 2013, the IASB issued IFRIC 21, Levies, 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:

(In thousands, except for per share amounts)

- The liability is recognized progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

The Company has assessed the impact of this standard and determined there is no impact on its consolidated financial statements.

Upcoming Accounting Pronouncement not yet Adopted

(b) Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which provides guidance on a revenue recognition model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

(c) Financial Instruments
In November 2009, the IASB issued IFRS 9, Financial Instruments ("IFRS 9") and in October 2010, the IASB published amendments to IFRS 9. IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

4. Current Assets

Details of selected current asset balances are as follows:

(a) Cash and cash equivalents

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

(b) Short-term investments

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

	September 30 2014	December 31 2013
Guaranteed Investment Certificates (maturity dates within 1 year of the statement of financial position with interest rates of 1.25%)	$ 80	$ 452

Interest earned on short-term investments is included in finance income.

(c) Accounts receivable

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

	September 30 2014	December 31 2013
Trade receivables	$ 2,693	$ 2,732
Allowance for doubtful accounts	(16)	(14)
Indemnification receivable	160	160
Other	41	55
	$ 2,878	$ 2,933

(In thousands, except for per share amounts)

5. Network Assets, Property and Equipment

Cost	Network assets	Datacentre infrastructure	Computer equipment	Office furniture and equipment	Leasehold improvements	Vehicles	Total
Balance, December 31, 2013	$ 101,441	$ 1,574	$ 2,028	$ 2,117	$ 663	$ 49	$ 107,872
Additions/ reclassifications	8,536	32	64	68	865	-	9,565
Disposals/ Adjustments	(1,495)	23	-	-	-	-	(1,472)
Balance, September 30, 2014	**$ 108,482**	**$ 1,629**	**$ 2,092**	**$ 2,185**	**$ 1,528**	**$ 49**	**$ 115,965**
Accumulated Depreciation							
Balance, December 31, 2013	$ 62,284	$ 42	$ 1,806	$ 2,053	$ 599	$ 46	$ 66,830
Depreciation for the period	7,556	106	111	29	24	1	7,827
Disposals/ Adjustments	(929)	6	-	-	-	-	(923)
Balance, September 30, 2014	**$ 68,911**	**$ 154**	**$ 1,917**	**$ 2,082**	**$ 623**	**$ 47**	**$ 73,734**
Net Book Value, September 30, 2014	**$ 39,571**	**$ 1,475**	**$ 175**	**$ 103**	**$ 905**	**$ 2**	**$ 42,231**

6. Intangibles Assets and Goodwill

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, December 31, 2013	$ 7,041	$ 6,917	$ 6,180	$ 1,856	$ 21,994	5,908	27,902
Additions	-	544	-	-	544		544
Balance, September 30, 2014	**$ 7,041**	**$ 7,461**	**$ 6,180**	**$ 1,856**	**$ 22,538**	**5,908**	**28,446**
Accumulated Amortization							
Balance, December 31, 2013	$ 2,371	$ 4,981	$ 2,057	$ 402	$ 9,811	-	9,811
Amortization for the period	-	903	927	277	2,107	-	2,107
Balance, September 30, 2014	**$ 2,371**	**$ 5,884**	**$ 2,984**	**$ 679**	**$ 11,918**	-	**11,918**
Net Book Value, September 30, 2014	**$ 4,670**	**$ 1,577**	**$ 3,196**	**$ 1,177**	**$ 10,620**	**5,908**	**16,528**

7. Restricted Cash

The restricted cash is segregated for the period of a tax indemnity to a former officer in connection with the Company's initial public offering on June 18, 2007, and is invested in a guaranteed investment certificate. The related accrued interest is included in short-term investments. The indemnity is described in note 9 of the 2013 Consolidated Financial Statements and the indemnity period expires in June 2015. In 2014, the Company received a notice of a claim against the tax indemnity from the 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 September 30, 2014.

(In thousands, except for per share amounts)

8. Long-term Debt

	September 30 2014	December 31 2013
Current and Long-term debt facility (a)	$ 20,000	$ 18,454
Equipment loans (b)	805	1,061
less: financing fees	(319)	(403)
	20,486	19,112
less: current portion	(2,296)	(6,288)
	$ 18,190	$ 12,824

(a) Long-term Debt Facility

In June 2014, TeraGo 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 September 2014, $4,000 of this facility remains undrawn;
- $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. On September 30, 2014, the Company converted, in accordance with the agreement, the outstanding $19,000 balance into a Banker’s Acceptance for proceeds, after interest and stamping fee paid, of $18,843. The Company also entered into an interest rate swap contract on September 30, 2014 to fix the interest rate on the term facility at 3.79%. This interest rate swap contract has not been designated as a hedge and will be marked-to-market each period; and
- $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 September 30, 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 September 30, 2014. Under this facility, the Company is also subject to a cash flow sweep 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.

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 the second quarter of 2014 with the proceeds received from the NBC facility. The Company recorded total finance costs of $624 related to the write-off of unamortized deferred finance costs and unwinding fees.

(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 5.97% to 6.23% over the respective terms, have total monthly installments of $29.

(In thousands, except for per share amounts)

9. Other Long-Term Liabilities

		September 30 2014		December 31 2013
Performance-based Share Units (Note 10 (c))	$	56	$	282
Restricted Share Units (Note 10 (b))		135		-
Finance lease obligations		-		3
Assumed liabilities - Vancouver Data Centre		593		579
		784		864
less: current portion		(45)		(237)
	$	739	$	627

10. Stock-Based Compensation

(a) Stock Options

For the three and nine months ended September 30, 2014, the Company recorded stock-based compensation related to stock options of $228 and $658 respectively. 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.

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.

A summary of the status of the Company's stock option plan as at September 30, 2014 is presented below.

	Number of Options	Weighted Average Exercise Price
Outstanding - January 1, 2014	1,045	$7.11
Granted	491	$5.77
Exercised	(170)	$3.74
Forfeited / Expired	(16)	$8.47
Outstanding - September 30, 2014	1,350	$7.03
Exercisable	940	$7.58

(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. In the first quarter of 2014, the Company granted 150 RSUs to an officer of the Company. The share price at the date of grant was $5.35 and will be marked to market on a quarterly basis. 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 three and nine months ended September 30, 2014, the Company recorded compensation expense of $57 and $135 (2013 - $nil and $nil), respectively, related to the RSUs granted. As of September 30, 2014, a liability of $135 related to the RSUs granted is included in other long-term liabilities.

(In thousands, except for per share amounts)

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

	September 30 2014
Opening Balance, January 1, 2014	-
Granted	150
Vested	-
Ending Balance, September 30, 2014	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.

On March 2, 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. In May 2014 and August 2014, the Company granted 98 and 20 PSUs respectively to certain key executives.

For the three and nine months ended September 30, 2014, the Company recorded stock-based compensation expense (recovery) of $28 and $(6), respectively, related to the PSUs outstanding. For the three and nine months ended September 30, 2013, the Company recorded stock-based compensation recovery of $(136) and $(324), respectively, related to the PSUs outstanding. As at September 30, 2014, a liability of $28 related to the PSUs granted is included in Current liabilities and Other long-term liabilities (Note 6).

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

	September 30 2014
Opening Balance, January 1, 2014	66
Granted	118
Exercised	(36)
Forfeited/ Expired	(29)
Ending Balance, September 30, 2014	119

(In thousands, except for per share amounts)

(d) Stock-Based Compensation Summary

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

	Three months ended September 30 2014	2013	Nine months ended September 30 2014	2013
Restricted share units	$ 57	$ -	$ 135	$ -
Performance-based share units [1]	28	(136)	(6)	(324)
Stock options (Note 10(a))	228	-	658	-
Stock option tax indemnity (Note 7)	-	-	630	-
Directors' Fees paid in shares	57	55	182	166
	$ 370	$ (81)	$ 1,599	$ (158)

[1] The Company's stock price decreased from $6.61 at December 31, 2013 to $4.99 at September 30, 2014 resulting in a recovery related to the re-measurement of Performance-based share units that are recorded at fair value each period end, in addition to the reversal of previous recognized compensation for awards forfeited prior to vesting.

11. Earnings (loss) Per Share

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

	Three months ended September 30 2014	2013	Nine months ended September 30 2014	2013
Numerator for basic and diluted earnings (loss) per share:				
Net earnings (loss) for the period	$ (225)	$ 1,602	$ (2,853)	$ 5,043
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	11,620	11,430	11,534	11,415
Effect of stock options, RSUs and PSUs	-	454	-	544
Diluted weighted average number of shares outstanding	11,620	11,884	11,534	11,959
Earnings (loss) per share:				
Basic	$ (0.02)	$ 0.14	$ (0.25)	$ 0.44
Diluted	$ (0.02)	$ 0.13	$ (0.25)	$ 0.42

For the three and nine months ended September 30, 2014, the impact of all options, RSUs and PSUs totaling 1,240 and 1,146 respectively, were excluded from the calculation of diluted earnings per share because they were antidilutive.

For the three and nine months ended September 30, 2013, the effect of stock options totaling 410 and 410, respectively, were excluded in the calculation of diluted earnings per share because they were antidilutive.

(In thousands, except for per share amounts)

12. Fair value of financial instruments

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. These methodologies are described in note 20 of the 2013 Consolidated Financial Statements.

The Company has classified its financial instruments as follows:

	September 30 2014	December 31 2013
Financial assets:		
Loans and receivables, measured at amortized cost		
Cash and cash equivalents	$ 3,232	$ 2,137
Short-term investments	80	452
Accounts receivable	2,878	2,933
Restricted cash	821	821
Financial liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	7,072	6,008
Current and long-term debt	20,486	19,112

13. Related Party Transactions

The Company provides services to one customer whose Chairman of the Board of Directors is one of the Directors of the Company. Revenue from this customer for the three and nine months ended September 30, 2014 was $18 (2013 - $15) and $50 (2013 - $43), respectively. Accounts receivable from this customer as at September 30, 2014 was $2 (2013 - $6).

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

14. Subsequent Events

On May 31, 2013, the Company completed the purchase of 100% of the shares of Data Centers Canada Inc. ("DCC") for cash consideration of $9,187 (DCC has since been amalgamated with TeraGo Networks Inc., a wholly-owned subsidiary of the Company). Of the total consideration paid, $500 remained in escrow pending settlement of ongoing disputes with the vendors of DCC and their related parties. In October 2014, the Company settled all outstanding disputes and $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.