

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

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

	June 30	December 31
	2014	2013
Assets		
Cash and cash equivalents	\$ 2,016	\$ 2,137
Short-term investments (Note 4 (ii))	77	452
Accounts receivable (Note 4 (iii))	3,608	2,933
Prepaid expenses	2,867	2,382
Total current assets	8,568	7,904
Network assets, property and equipment (Note 5)	41,589	41,042
Intangible assets (Note 6)	11,194	12,183
Deferred income taxes	2,700	2,700
Restricted cash (Note 7)	821	821
Goodwill	5,908	5,908
Total non-current assets	62,212	62,654
Total Assets	\$ 70,780	\$ 70,558
Liabilities		
Accounts payable and accrued liabilities	\$ 6,304	\$ 6,008
Current portion of deferred revenue	516	561
Current portion of long-term debt (Note 8)	2,292	6,288
Current portion of other long-term liabilities (Note 9)	29	237
Total current liabilities	9,141	13,094
Decommissioning and restoration obligations	216	210
Deferred revenue	74	277
Long-term debt (Note 8)	18,741	12,824
Other long-term liabilities (Note 9)	673	627
Total non-current liabilities	19,704	13,938
Total Liabilities	28,845	27,032
Shareholders' Equity		
Share capital	72,100	71,461
Contributed surplus	24,555	24,157
Deficit	(54,720)	(52,092)
Total shareholders' equity	41,935	43,526
Total Liabilities and Shareholders' Equity	\$ 70,780	\$ 70,558
Contingencies (Note 14)		

On behalf of the Board:

"Grant Ballantyne"

 Director

"Charles Allen"

 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 June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenue				
Total Revenue	\$ 13,182	\$ 12,779	\$ 26,056	\$ 25,349
Expenses				
Direct cost of services	2,560	2,459	5,254	4,850
Salaries and related costs - Cost of services	352	354	709	733
Salaries and related costs - Other	5,377	3,998	10,710	7,995
Other operating expenses	2,154	1,919	4,116	3,337
Amortization of intangible assets (Note 6)	706	578	1,418	1,094
Depreciation of network assets, property and equipment (Note 5)	2,625	2,420	5,201	4,750
	<u>13,774</u>	<u>11,728</u>	<u>27,408</u>	<u>22,759</u>
Earnings (loss) from operations	(592)	1,051	(1,352)	2,590
Foreign exchange gain (loss)	32	(39)	(1)	(58)
Finance costs (Note 8)	(979)	(235)	(1,298)	(423)
Finance income	4	10	23	18
Earnings before income taxes	<u>(1,535)</u>	<u>787</u>	<u>(2,628)</u>	<u>2,127</u>
Income tax recovery	-	1,314	-	1,314
Net earnings (loss) and comprehensive earnings (loss)	<u>\$ (1,535)</u>	<u>\$ 2,101</u>	<u>\$ (2,628)</u>	<u>\$ 3,441</u>
Deficit, beginning of period	<u>(53,185)</u>	<u>(55,061)</u>	<u>(52,092)</u>	<u>(56,401)</u>
Deficit, end of period	<u>\$ (54,720)</u>	<u>\$ (52,960)</u>	<u>\$ (54,720)</u>	<u>\$ (52,960)</u>
Basic earnings (loss) per share (Note 11)	\$ (0.13)	\$ 0.18	\$ (0.23)	\$ 0.30
Diluted earnings (loss) per share (Note 11)	\$ (0.13)	\$ 0.18	\$ (0.23)	\$ 0.29
Basic weighted average number of shares outstanding	11,566	11,419	11,528	11,408

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

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

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Cash provided by (used in)				
Operating Activities				
Net earnings (loss)	\$ (1,535)	\$ 2,101	\$ (2,628)	\$ 3,441
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:				
Depreciation of network assets, property and equipment (Note 5)	2,625	2,420	5,201	4,750
Amortization of intangible assets (Note 6)	706	578	1,418	1,094
Stock-based compensation expense (recovery) (Note 10)	476	(64)	1,227	(77)
Finance costs	979	235	1,298	423
Finance income	(4)	(10)	(23)	(18)
Income tax recovery	-	(1,314)	-	(1,314)
Loss (gain) on adjustments and disposal of network assets (Note 5)	363	144	375	105
Changes in non-cash working capital items:				
Accounts receivable	(663)	(301)	(675)	(223)
Prepaid expenses	139	110	(485)	(381)
Accounts payable and accrued liabilities	(304)	335	(132)	(680)
Deferred revenue	(105)	98	(248)	(143)
Other long-term liabilities	(4)	(94)	(205)	(94)
Cash from Operating Activities	<u>2,673</u>	<u>4,238</u>	<u>5,123</u>	<u>6,883</u>
Investing Activities				
Acquisition of Data Centres Canada Inc. - net of cash acquired	-	(9,453)	-	(9,453)
Proceeds from disposal of network assets	-	-	-	1
Purchase of network assets, property and equipment (Note 5)	(2,112)	(2,998)	(6,123)	(5,104)
Purchase of intangible assets (Note 6)	(110)	(305)	(429)	(642)
Change in non-cash working capital related to network assets, property and equipment, and intangible assets	(1,402)	569	(265)	646
Purchase of short-term investments	-	(9)	(274)	(1,403)
Sale of short-term investments	-	-	664	385
Cash used in Investing Activities	<u>(3,624)</u>	<u>(12,196)</u>	<u>(6,427)</u>	<u>(15,570)</u>
Financing Activities				
Proceeds from issuance of share capital	179	13	483	201
Interest paid	(589)	(200)	(905)	(359)
Interest received	-	10	8	18
Proceeds from long-term debt (Note 8)	21,000	9,500	21,557	10,500
Repayment of long-term debt (Note 8)	(17,827)	(1,103)	(19,285)	(1,817)
Financing costs incurred (Note 8)	(674)	(175)	(674)	(175)
Repayment of finance lease obligations	-	(49)	(1)	(92)
Cash from Financing Activities	<u>2,089</u>	<u>7,996</u>	<u>1,183</u>	<u>8,276</u>
Net change in cash and cash equivalents, during the period	1,138	38	(121)	(411)
Cash and cash equivalents, beginning of period	878	1,020	2,137	1,469
Cash and cash equivalents, end of period	<u>\$ 2,016</u>	<u>\$ 1,058</u>	<u>\$ 2,016</u>	<u>\$ 1,058</u>

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

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

	Share Capital		Contributed	Deficit	Total
	Number	Amount	Surplus		
Balance, December 31, 2013	11,459	\$ 71,461	\$ 24,157	\$ (52,092)	\$ 43,526
Issuance of shares upon exercise of options	131	514	(31)	-	483
Stock-based compensation	-	-	429	-	429
Issuance of shares for Directors' Fees	24	125	-	-	125
Net loss and comprehensive loss	-	-	-	(2,628)	(2,628)
Balance, June 30, 2014	11,614	\$ 72,100	\$ 24,555	\$ (54,720)	\$ 41,935

	Share Capital		Contributed	Deficit	Total
	Number	Amount	Surplus		
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	14	111	-	-	111
Net earnings and comprehensive earnings	-	-	-	3,441	3,441
Balance, June 30, 2013	11,429	\$ 71,290	\$ 24,176	\$ (52,960)	\$ 42,506

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

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

1. Reporting Entity

TeraGo Inc. (the "Company") is a leading broadband communications and data centre service provider to businesses in Canada. The Company is located in Canada and the address of its registered office is Suite 500 – 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 centre facilities in Canada targeting small to medium-sized businesses that require broadband Internet, data connectivity, voice and data centre services. The Company's common shares are listed on the Toronto Stock Exchange (TSX) under the symbol TGO.

2. Basis of Preparation and Presentation**(a) Basis of 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 June 30, 2014. The Board of Directors authorized the interim financial statements for issue on August 7, 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 Centres should be reclassified from Other Operating expenses to Direct cost of services. For the six months ended June 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 six months ended June 30, 2013, \$30 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

TERAGO INC.
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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:

- 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 Pronouncements not yet Adopted

(i) Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which provides guidance on a new five step revenue recognition model that applies to contracts with customers. 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.

(ii) 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.

4. Current Assets

Details of selected current asset balances are as follows:

(i) Cash and cash equivalents

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

(ii) Short-term investments

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

	<u>June 30</u> <u>2014</u>	<u>December 31</u> <u>2013</u>
Guaranteed Investment Certificates (maturity dates within 1 year of the statement of financial position with interest rates of 1.25%)	\$ 77	\$ 452

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

(iii) Accounts receivable

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

	<u>June 30</u> <u>2014</u>	<u>December 31</u> <u>2013</u>
Trade receivables	\$ 3,366	\$ 2,732
Allowance for doubtful accounts	(11)	(14)
Indemnification receivable	160	160
Other	93	55
	<u>\$ 3,608</u>	<u>\$ 2,933</u>

TERAGO INC.
Notes to Consolidated Financial Statements
(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	6,074	24	25	-	-	-	6,123
Disposals/ Adjustments	(880)	20	-	-	-	-	(860)
Balance, June 30, 2014	\$ 106,635	\$ 1,618	\$ 2,053	\$ 2,117	\$ 663	\$ 49	\$ 113,135
Accumulated Depreciation							
Balance, December 31, 2013	\$ 62,284	\$ 42	\$ 1,806	\$ 2,053	\$ 599	\$ 46	\$ 66,830
Depreciation for the period	5,024	70	76	19	11	1	5,201
Disposals/ Adjustments	(491)	6	-	-	-	-	(485)
Balance, June 30, 2014	\$ 66,817	\$ 118	\$ 1,882	\$ 2,072	\$ 610	\$ 47	\$ 71,546
Net Book Value, June 30, 2014	\$ 39,818	\$ 1,500	\$ 171	\$ 45	\$ 53	\$ 2	\$ 41,589

6. Intangibles Assets

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total
Balance, December 31, 2013	\$ 7,041	\$ 6,917	\$ 6,180	\$ 1,856	\$ 21,994
Additions	-	429	-	-	429
Balance, June 30, 2014	\$ 7,041	\$ 7,346	\$ 6,180	\$ 1,856	\$ 22,423
Accumulated Amortization					
Balance, December 31, 2013	\$ 2,371	\$ 4,981	\$ 2,057	\$ 402	\$ 9,811
Amortization for the period	-	616	618	184	1,418
Balance, June 30, 2014	\$ 2,371	\$ 5,597	\$ 2,675	\$ 586	\$ 11,229
Net Book Value, June 30, 2014	\$ 4,670	\$ 1,749	\$ 3,505	\$ 1,270	\$ 11,194

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 final settlement of the claim amount is still being evaluated. The balance of \$821 is held as restricted cash and \$630 is recorded in Accounts payable and accrued liabilities as at June 30, 2014.

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

8. Long-term Debt

	June 30	December 31
	2014	2013
Long-term debt facility (i)	\$ 20,500	\$ 18,454
Equipment loans (ii)	876	1,061
less: financing fees	(343)	(403)
	<u>21,033</u>	<u>19,112</u>
less: current portion	(2,292)	(6,288)
	<u>\$ 18,741</u>	<u>\$ 12,824</u>

(i) 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 which 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 June 30, 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. As of June 30, 2014, this facility bears interest at 4.75% and this facility has been fully drawn; 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 June 30, 2014, this facility remains undrawn.
- The interest rate margin percent is determined each quarter following the delivery of the Company's financial statements and a compliance certificate. The interest rate ranges from prime plus 1.0 % to 1.75%.

The Company incurred financing fees of \$352 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 June 30, 2014. Under this facility, principal payments could also be accelerated depending on the generation of excess cash flow by the Company, as defined, which will be calculated and due not later than 120 days after the end of each fiscal year.

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

(ii) 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.

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

9. Other Long-Term Liabilities

	June 30	December 31
	2014	2013
Performance-based Share Units (Note 10 (iii))	\$ 28	\$ 282
Restricted Share Units (Note 10 (ii))	\$ 77	-
Finance lease obligations	-	3
Assumed liabilities - Vancouver Data Centre	597	579
	<u>702</u>	<u>864</u>
less: current portion	(29)	(237)
	<u>\$ 673</u>	<u>\$ 627</u>

10. Stock-Based Compensation

(i) Stock Options

For the three and six months ended June 30, 2014, the Company recorded stock-based compensation related to stock options of \$317 and \$429, 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.

For the three and six months ended June 30, 2013, the Company recorded stock-based compensation related to stock options of \$nil as all stock option awards were fully vested at that time.

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

	2014	
	Number of Options	Weighted Average Exercise Price
Outstanding - January 1	1,045	\$7.11
Granted	491	\$5.77
Exercised	(131)	\$3.68
Forfeited / Expired	(5)	\$10.82
Outstanding - June 30	<u>1,400</u>	<u>\$6.95</u>
Exercisable	<u>949</u>	<u>\$7.51</u>

(ii) 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.

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

For the three and six months ended June 30, 2014, the Company recorded compensation expense of \$65 and \$77 (2013 - \$nil and \$nil), respectively, related to the RSUs granted. As of June 30, 2014, a liability of \$77 related to the RSUs granted is included in Other long-term liabilities.

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

	June 30 2014
Opening Balance	-
Granted	150
Vested	-
Ending Balance	<u>150</u>

(iii) 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, the Company granted 98 PSUs to certain key executives.

For the three and six months ended June 30, 2014, the Company recorded stock-based compensation expense (recovery) of \$21 and \$(34), respectively, related to the PSUs outstanding. For the three and six months ended June 30, 2013, the Company recorded stock-based compensation recovery of \$(130) and \$(188), respectively, related to the PSUs outstanding. As at June 30, 2014, a liability of \$28 related to the PSUs granted is included in Other long-term liabilities (Note 9).

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

	June 30 2014
Opening Balance	66
Granted	98
Exercised	(36)
Forfeited/ Expired	(23)
Ending Balance	<u>105</u>

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(In thousands, except for per share amounts)

Stock-Based Compensation Summary

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

	Three months ended		Six months ended	
	June 30		June 30	
	2014	2013	2014	2013
Restricted share units	\$ 65	\$ -	\$ 77	\$ -
Performance-based share units ¹	21	(130)	(34)	(188)
Stock options (Note 10(i))	317	-	429	-
Stock option tax indemnity (Note 7)	-	-	630	-
Directors' Fees paid in shares	73	66	125	111
	<u>\$ 476</u>	<u>\$ (64)</u>	<u>\$ 1,227</u>	<u>\$ (77)</u>

¹ The Company's stock price decreased from \$6.61 at December 31, 2013 to \$5.20 at June 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 Per Share

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

	Three months ended		Six months ended	
	June 30		June 30	
	2014	2013	2014	2013
Numerator for basic and diluted earnings per share:				
Net earnings for the period	\$ (1,535)	\$ 2,101	\$ (2,628)	\$ 3,441
Denominator for basic and diluted earnings per share:				
Basic weighted average number of shares outstanding	11,566	11,419	11,528	11,408
Effect of stock options, RSUs and PSUs	-	543	-	558
Diluted weighted average number of shares outstanding	11,566	11,962	11,528	11,966
Earnings per share:				
Basic	\$ (0.13)	\$ 0.18	\$ (0.23)	\$ 0.30
Diluted	\$ (0.13)	\$ 0.18	\$ (0.23)	\$ 0.29

For the three and six months ended June 30, 2014, the impact of all options, RSUs and PSUs totaling 1,159 and 1,234, respectively, were excluded from the calculation of diluted earnings per share because they were antidilutive.

For the three and six months ended June 30, 2013, the effect of stock options totaling 409 and 409, respectively, were excluded in the calculation of diluted earnings per share because they were antidilutive.

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Notes to Consolidated Financial Statements
(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:

	June 30		December 31
	2014		2013
Financial assets:			
Loans and receivables, measured at amortized cost			
Cash and cash equivalents	\$ 2,016	\$	2,137
Short-term investments	77		452
Accounts receivable	3,608		2,933
Restricted cash	821		821
Financial liabilities, measured at amortized cost:			
Accounts payable and accrued liabilities	6,304		6,008
Long-term debt	21,033		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 six months ended June 30, 2014 was \$16 (2013 - \$14) and \$32 (2013 - \$27), respectively. Accounts receivable from this customer as at June 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. Contingencies

On May 31, 2013, the Company completed the purchase of 100% of the shares of Data Centres Canada Inc. for cash consideration of \$9,187. Of the total consideration paid, \$500 remains in escrow pending settlement of ongoing disputes with the vendors and their related parties. Subsequent to June 30, 2014, the Company received a statement of claim issued by the vendors claiming the total escrowed consideration plus costs and expenses. The Company intends to defend such claim.