

**TERAGO INC.**  
**Consolidated Financial Statements**  
**Years ended December 31, 2022, and 2021**

And Independent Auditors' Report thereon

(expressed in Canadian dollars)

	<b>Contents</b>
<b>Management's Responsibility for Financial Reporting</b>	<b>2</b>
<b>Independent Auditor's Report</b>	<b>3-8</b>
<b>Consolidated Financial Statements</b>	
<b>Consolidated Statements of Financial Position</b>	<b>9</b>
<b>Consolidated Statements of Comprehensive Loss</b>	<b>10</b>
<b>Consolidated Statements of Cash Flows</b>	<b>11</b>
<b>Consolidated Statements of Changes in Equity</b>	<b>12</b>
<b>Notes to Consolidated Financial Statements</b>	<b>13-39</b>

Note: These financial statements were originally filed on March 15, 2023 and are being amended for immaterial corrections. The only changes made were to correct the header labelling of the "Consolidated Statement of Comprehensive Loss" and the "Consolidated Statement of Cash Flows" as well as providing additional information in the footnote of the "Consolidated Statement of Comprehensive Loss" with regards to prior year presentation being changed to conform to the current year presentation.

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

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

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

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

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

March 15, 2023

"Matthew Gerber"

Chief Executive Officer

"Philip Jones"

Chief Financial Officer



KPMG LLP  
Vaughan Metropolitan Centre  
100 New Park Place, Suite 1400  
Vaughan ON L4K 0J3  
Canada

Tel 905-265-5900  
Fax 905-265-6390

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TeraGo Inc.

### ***Opinion***

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

- the consolidated statement of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statement of comprehensive loss for the years then ended
- the consolidated statement of changes in equity for the years then ended
- the consolidated statement of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditor’s Responsibilities for the Audit of the Financial Statements***” section of our auditor’s report.



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

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

### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

#### ***Evaluation of the impairment assessment of goodwill and indefinite-life intangible assets***

##### ***Description of the matter***

We draw attention to Notes 2(d), 3(f), and 7 within the financial statements. The Entity performs impairment testing of its non-financial assets annually, or more frequently if events or circumstances indicate the carrying value of the Entity's single cash generating unit might exceed its recoverable amount. The Entity has indefinite-life intangibles and goodwill of \$10,278 thousand and \$861 thousand, respectively. The carrying values of identifiable intangible assets with indefinite lives and goodwill are tested at minimum annually for impairment.

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 costs 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. An impairment loss is charged to operations in the period in which the impairment is identified. The Entity's determination of the recoverable amount incorporates significant assumptions including expected future revenue, operating margins, capital investment, discount rate and terminal growth rate. The fair value less costs to sell is based primarily on available market data to value the Entity's spectrum holdings such as analyst reports, comparable spectrum auctions, and other data.



***Why the matter is a key audit matter***

We identified the evaluation of the impairment assessment of goodwill and indefinite-life intangible assets as a key audit matter. This matter represents a significant risk of material misstatement given the magnitude of the asset values and the high degree of estimation uncertainty in assessing the Entity's significant assumptions. As a result, significant auditor judgment and the involvement of professionals with specialized skill and knowledge was required to evaluate the Entity's use of estimates and assumptions in assessing the recoverable amount of the cash generating unit.

***How the matter was addressed in our audit***

The primary procedures we performed to address this key audit matter included the following:

For the Entity's single cash generating unit, we:

- Updated our understanding of the process management undertakes to perform the impairment analysis. Evaluated the design and implementation effectiveness of key controls;
- For the Entity's single cash generating unit, we:
  - Evaluated the expected future revenue, operating margins, and capital investment in comparison to the actual historical sales and operating margins generated by the cash generating unit to assess the Entity's ability to accurately predict cash flows;
  - Considered changes in conditions and events to assess the assumptions made in arriving at the expected future revenue and operating margins estimates;
  - Evaluated the terminal growth rate by comparing to published reports of industry analysts;
  - Performed sensitivity analysis over key assumptions and assessed the impact of such sensitivity analysis over the recoverable amount of the cash generating unit; and
  - Evaluated the fair value less costs of disposal of the Company's spectrum licenses by comparing to published reports of industry analysts.

We involved valuation professionals with specialized skills and knowledge who assisted in performing the following procedures:

- Assessed the discounted cash flow methodology adopted by the Entity to determine the fair value less cost to sell amount used in the determination of the recoverable amount; and



- Evaluated the appropriateness of the discount rate assumption by comparing it to a discount rate range that was independently developed using publicly available market data for comparable entities.

### ***Other Information***

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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



## ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Lesley Bridget Luk.

Vaughan, Canada

March 15, 2023



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

	<i>Note</i>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
<b>Assets</b>			
Cash and cash equivalents	5	\$ 6,220	\$ 5,481
Short-term investments	18	1,158	-
Accounts receivable	5	2,252	1,586
Prepaid expenses and other assets		1,141	350
Current portion of contract costs	4	167	192
Current portion of other long-term assets	11	-	8
Divestiture of assets	20	-	39,952
<b>Total current assets</b>		<u>10,938</u>	<u>47,569</u>
Network assets, property and equipment	6,20	32,815	33,990
Intangible assets	7,20	10,279	10,291
Other long-term assets	11,20	1	1
Goodwill	7,20	861	861
Contract Costs	4,20	489	518
<b>Total non-current assets</b>		<u>44,445</u>	<u>45,661</u>
<b>Total Assets</b>		<u>\$ 55,383</u>	<u>\$ 93,230</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		\$ 4,711	\$ 3,832
Current portion of contract liabilities	4	127	191
Current portion of long-term debt	9	-	2,250
Current portion of lease liabilities	10	5,023	5,632
Liabilities associated with divestiture of assets	20	-	12,265
<b>Total current liabilities</b>		<u>9,861</u>	<u>24,170</u>
Decommissioning and restoration obligations	8	279	494
Contract liabilities	4	169	271
Long-term debt	9	6,157	17,541
Lease Liabilities	10	9,318	10,492
<b>Total non-current liabilities</b>		<u>15,923</u>	<u>28,798</u>
<b>Total Liabilities</b>		<u>25,784</u>	<u>52,968</u>
<b>Shareholders' Equity</b>			
Share capital		118,105	117,848
Warrant reserve		963	743
Contributed surplus		26,822	26,391
Deficit		(116,291)	(104,720)
<b>Total shareholders' equity</b>		<u>\$ 29,599</u>	<u>\$ 40,262</u>
<b>Total Liabilities and Shareholders' Equity</b>		<u>\$ 55,383</u>	<u>\$ 93,230</u>

On behalf of the Board:

(signed) "Ken Campbell"  
\_\_\_\_\_  
Director

(signed) "Gary Sherlock"  
\_\_\_\_\_  
Director

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

		Year ended December 31, 2022	Year ended December 31, 2021
Revenue from operations	Note 4	\$ 27,215	\$ 43,303
Other revenue	4	407	-
		<u>27,622</u>	<u>43,303</u>
<b>Expenses</b>			
Cost of services		7,437	11,141
Salaries and related costs		12,905	14,565
Other operating expenses*		6,283	7,725
Amortization of intangible assets	7	12	1,379
Depreciation of network assets, property, and equipment	6	10,073	13,175
		<u>36,710</u>	<u>47,985</u>
<b>Loss from operations</b>		(9,088)	(4,682)
Loss on divestiture of assets	20	-	(4,527)
Impairment loss on divested assets		(107)	-
Impairment loss on brand		-	(1,630)
Impairment on network assets, property, equipment and intangible assets*	6,7	(327)	(510)
Foreign exchange (loss) gain		(83)	29
Finance costs		(2,089)	(3,896)
Finance income		123	44
<b>Loss before income taxes</b>		<u>\$ -11,571</u>	<u>\$ -15,172</u>
<b>Income taxes</b>			
Income tax expense		-	-
<b>Net loss and comprehensive loss</b>		<u>\$ (11,571)</u>	<u>\$ (15,172)</u>
<b>Deficit, beginning of period</b>		<u>\$ (104,720)</u>	<u>\$ (89,548)</u>
<b>Deficit, end of period</b>		<u>\$ (116,291)</u>	<u>\$ (104,720)</u>
<b>Basic &amp; Diluted loss per share</b>	16	\$ (0.61)	\$ (0.81)
<b>Basic &amp; Diluted weighted average number of shares outstanding (in 000's)</b>		19,098	18,769

\*Prior year figures have been adjusted to conform with current year presentation. In the prior year, the "Impairment on Network Assets" was included in "Other Operating Expenses" and not disclosed separately.

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

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

	<i>Note</i>	<b>Year ended December 31, 2022</b>	<b>Year ended December 31, 2021</b>
<b>Operating Activities</b>			
Net loss for the period		(11,571)	(15,172)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Severance, acquisition, and other costs		1,798	1,742
Depreciation of network assets, property and equipment	6	10,073	13,175
Amortization of intangible assets	7	12	1,379
Stock-based compensation expense	15	688	164
Finance costs		2,115	3,896
Finance income		(123)	(44)
Loss on adjustments and disposal of network assets and intangible assets	6, 10	171	285
Impairment of assets and related charges	4, 6, 7	423	2,125
Severance, acquisition, and other costs paid		(200)	(1,371)
Loss on divestiture of assets		-	4,527
Stock-based compensation paid		-	-
Changes in non-cash working capital items:			
Accounts receivable		(36)	(166)
Prepaid expenses		(801)	29
Accounts payable and accrued liabilities		(1,171)	(1,048)
Contract liabilities		(166)	142
Contract costs		41	(341)
<b>Cash from Operating Activities</b>		<b>1,253</b>	<b>9,322</b>
<b>Investing Activities</b>			
Proceeds from divested assets		27,313	-
Purchase of network assets, property, and equipment	6	(6,212)	(7,380)
Purchase of short-term investments		(1,158)	-
Change in receivable in escrow	5	(500)	-
Change in non-cash working capital related to network assets, property and equipment and intangible assets		(618)	(373)
<b>Cash from (used in) Investing Activities</b>		<b>18,825</b>	<b>(7,753)</b>
<b>Financing Activities</b>			
Proceeds from issuance of warrants		220	743
Proceeds from equity offering		-	13,812
Proceeds from debt borrowings		(295)	-
Long-term debt and interest paid	9	6,157	(943)
Repayment of long-term debt	9	(19,987)	(8,513)
Financing costs incurred		395	(85)
Payments of lease liabilities	10	(5,829)	(7,787)
Government grants		-	827
<b>Cash from (used in) Financing Activities</b>		<b>(19,339)</b>	<b>(1,946)</b>
Net change in cash and cash equivalents, during the period		739	(377)
Cash and cash equivalents, beginning of period		5,481	5,858
<b>Cash and cash equivalents, end of period</b>		<b>6,220</b>	<b>5,481</b>

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

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

	Share Capital		Contributed Surplus	Warrant Reserve	Deficit	Total
	Number (in 000's)	Amount				
<b>Balance, January 1, 2022</b>	19,667	\$ 117,848	\$ 26,391	\$ 743	\$(104,720)	\$ 40,262
Stock-based compensation	-	-	431	-	-	431
Issuance of warrants (Note 9)	-	-	-	220	-	220
Issuance of shares for directors' fees	68	257	-	-	-	257
Net loss and comprehensive loss	-	-	-	-	(11,571)	(11,571)
<b>Balance, December 31, 2022</b>	19,735	\$ 118,105	\$ 26,822	\$ 963	\$(116,291)	\$ 29,599

	Share Capital		Contributed Surplus	Warrant Reserve	Deficit	Total
	Number (in 000's)	Amount				
<b>Balance, January 1, 2021</b>	16,762	\$ 103,223	\$ 27,191	\$ -	\$(89,548)	\$ 40,866
Issuance of shares upon exercise of options	1	3	(3)	-	-	-
Stock-based compensation	-	-	(132)	-	-	(132)
Issuance of common shares from vesting of RSUs/PSUs	69	515	(515)	-	-	-
Shares deducted for payment of withholding tax	(20)	-	(150)	-	-	(150)
Issuance of shares and warrants for equity offering (net of issuance costs)	2,802	13,812	-	743	-	14,555
Issuance of shares for directors' fees	53	295	-	-	-	295
Net loss and comprehensive loss	-	-	-	-	(15,172)	(15,172)
<b>Balance, December 31, 2021</b>	19,667	\$ 117,848	\$ 26,391	\$ 743	\$(104,720)	\$ 40,262

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

---

**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
**(In thousands of Canadian dollars, except for per share amounts)**

---

**1. Reporting Entity**

TeraGo Inc. (the "Company") provides businesses across Canada with connectivity services, colocation services and enterprise infrastructure cloud services. The Company's head office is located in Canada at Suite 800 – 55 Commerce Valley Drive West, Thornhill, Ontario. The Company was incorporated under the Canada Business Corporations Act on December 21, 2000, and owns and operates a carrier-grade, fixed wireless, fibre-based, IP communications network, as well as cloud and colocation facilities in Canada targeting enterprise customers that require cloud, colocation, and connectivity services. The Company's common shares are listed on the Toronto Stock Exchange (TSX) under the symbol TGO

On January 31, 2022, TeraGo completed the divestiture of its cloud and colocation business. In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, the assets and liabilities of the cloud and colocation business were classified as a disposal group held for sale as at December 31, 2021. In the fiscal year ended December 31, 2022, the fair value of the assets and liabilities was determined based on the final purchase price of the cloud and colocation business, less costs TeraGo incurred to sell the business, and the Company recorded an additional impairment loss of \$107 on the divested assets and liabilities in the period.

**2. Basis of Preparation and Presentation**

**(a) Basis of preparation**

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

The Board of Directors authorized the consolidated financial statements for issue on March 15, 2023.

**(b) Basis of Measurement**

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

- financial instruments at fair value through profit (loss) ("FVTPL") are measured at fair value through net income or loss

**(c) Functional and Presentation Currency**

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

**(d) Use of Estimates and Judgments**

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

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

- (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 significant assumptions including expected future revenue, operating margins, capital investment, discount rate, terminal growth rate. The Company also applied judgement on the use of available market data to estimate the value of its spectrum holdings.
- (v) *Valuation allowance on trade receivables:*  
In developing the estimates for an allowance against existing receivables, the Company considers general and industry economic and market conditions as well as credit information available for the customer and the aging of the account. Changes in the carrying amount due to changes in economic and market conditions could significantly affect the loss for the period. The Company applies the IFRS 9 model to record valuation allowances on Trade Receivables.
- (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) *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.
- (viii) *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.
- (ix) *Revenue from contracts with customers:*  
The enforceable term of contracts requires estimating average contract terms based on available historical data. Significant judgements are also made in determining whether the promises to deliver certain services are considered distinct and represent separate performance obligations. In addition, evaluating whether costs incurred to obtain a contract are incremental and expected to be recoverable requires judgment based on conditions of each individual contract.
- (x) *Leases:*  
Judgment is required to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such options will impact the lease term. The rate at which these leases will be renewed requires estimation as most are negotiated at the time of renewal. In addition, as most of the Company's leases do not have embedded financing rates, judgment is required to arrive at discount rates that reflect the risk associated with each individual lease. The impact of these assumptions significantly impacts the amount of lease liabilities and right-of-use assets recognized.

### **3. Significant Accounting Policies**

#### **(a) Revenue Recognition**

The Company earns revenue by providing cloud, colocation, and connectivity services. Revenue is measured at the

---

**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
**(In thousands of Canadian dollars, except for per share amounts)**

---

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

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

**(i) Sale of Bundled Services**

The Company offers certain customers bundled connectivity, colocation, and cloud services. Total consideration in contracts with customers are allocated to distinct performance obligations based on their stand-alone selling prices. The Company determined the stand-alone selling price to be the list price at which the Company sells connectivity, and colocation and cloud services.

**(ii) Service Credits**

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

**(iii) Contract Costs**

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

Contract costs are presented separately as an asset on the consolidated statement of financial position. The Company has opted not to use practical expedients under IFRS 15 and as a result, the current portion of contract costs are presented in current assets. The current portion represent amounts expected to be amortized in the next 12 months.

**(iv) Contract Assets**

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

**(v) Contract Liabilities**

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

**(b) Basis of Consolidation**

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

**(c) Financial Instruments**

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

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

<b>Financial Instrument</b>	<b>Classification and measurement method</b>
Financial Assets	
Cash and cash equivalents	Fair Value
Short-term investments	Fair Value
Accounts receivable	Amortized cost
Financial liabilities	
Accounts payable	Amortized cost
Accrued liabilities	Amortized cost
Long-term debt	Amortized cost

**Impairment of Financial Assets**

The Company's financial assets measured at amortized cost consist of assets discussed in Note 18.

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

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

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



---

**TERAGO INC.****Notes to the Consolidated Financial Statements****(In thousands of Canadian dollars, except for per share amounts)**

---

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

**(d) Network Assets, Property and Equipment**

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

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

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

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

**(e) Goodwill and Intangible Assets**

Intangible assets include the following:

***Radio Spectrum Licenses***

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

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

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

**Goodwill**

Goodwill is the amount that results when the fair value of consideration transferred for an acquired business exceeds the net fair value of the identifiable assets and liabilities acquired. When the Company enters into a business

combination, the acquisition method of accounting is used. Goodwill is assigned, as of the date of the business combination, to cash generating units that are expected to benefit from the business combination.

**(f) Impairment of non-financial assets**

The Company performs impairment testing of its non-financial assets annually, or more frequently if events or circumstances indicate the carrying value of the Entity's single cash generating unit might exceed its recoverable amount. 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) Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

**(h) 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.

---

**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
**(In thousands of Canadian dollars, except for per share amounts)**

---

***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.

**(i) Foreign Currency Translation**

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

**(j) Finance income and finance costs**

Finance income comprises interest income on funds invested and changes in fair value of financial assets at FVTPL.

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

**(k) Income Taxes**

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

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

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

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

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

**(l) Stock-based Compensation Plans**

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

The grant date fair values of equity settled stock-based payment awards to employees and directors are recognized as compensation cost, with a corresponding increase to equity, over the vesting period of the award. The Company accounts for the effects of service and non-market performance conditions in measuring the fair value of the equity instruments by adjusting the number of rights to receive awards 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.

**(m) Operating Segments**

Management has determined that the Company operates as a single reportable operating segment. The Company provided cloud, colocation and connectivity services until January 31, 2022. Following that date the Company only provides connectivity services and earns revenues exclusively in Canada. As at December 31, 2022 all of the Company's identifiable assets are located in Canada.

**(n) Loss Per Share**

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

**(o) Government Grants**

Government grants are recognized when management has reasonable assurance that the entity will comply with the conditions attached to the grant and the grant will be received. Government grants recognized are accounted for as a reduction in the expense which they are intended to compensate. The Company received grants in 2021 under the government Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS") programs in response to the COVID-19 pandemic. No applicable or equivalent programs or grants were available to the Company in 2022.

**(p) Standards issued but not yet effective**

A number of new standards are effective for annual periods beginning on or after January 1, 2023, and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements. The Company is currently assessing the impact of the amendments.

*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* (the 2020 amendments), to clarify the classification of liabilities as current or non-current.

On October 31, 2022, the IASB issued *Non-current Liabilities with Covenants (Amendments to IAS 1)* (the 2022 amendments), to improve the information a company provides about long-term debt with covenants.

The 2020 amendments and the 2022 amendments (collectively "the Amendments") are effective for annual periods beginning on or after January 1, 2024.

*Definition of Accounting Estimates (Amendments to IAS 8)*

---

**TERAGO INC.****Notes to the Consolidated Financial Statements****(In thousands of Canadian dollars, except for per share amounts)**

---

On February 12, 2021, the IASB issued *Definition of Accounting Estimates (Amendments to IAS 8)*. The amendments are effective for annual periods beginning on or after January 1, 2023.

*Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)*

On February 12, 2021, the IASB issued *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements)*. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

*Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)*

On May 7, 2021, the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*. The amendments are effective for annual periods beginning on or after January 1, 2023.

*Lease Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases)*

On September 22, 2022, the IASB issued *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*. The amendments are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted.

#### 4. Revenue

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

##### a) Disaggregation of revenue

In the following table, the Company's disaggregates revenue into two primary categories that depict the nature of its revenue streams.

	Year ended December 31	
	2022	2021
Cloud and Colocation Revenue (divested)	\$ 1,355	16,956
Connectivity Revenue	25,860	26,347
Revenue from Operations	\$ 27,215	43,303
Other Revenue	407	-
Total Revenue	\$ 27,622	43,303

The disaggregated revenue comparative numbers for the year ended December 31, 2021, have been changed to conform with the presentation of revenue stream allocations for December 31, 2022.

##### b) Contract Costs

The following table summarizes the changes in contract costs during the year:

	2022	2021
<b>Balance, January 1, 2022</b>	\$ 710	721
Contract costs disposed as part of divestiture transaction	(20)	-
Incremental commissions capitalized	451	832
Impairment charges from contract terminations	(13)	(22)
Amortization	(472)	(491)
Contract costs classified as held for sale	-	(330)
<b>Balance, December 31, 2022</b>	656	710
Less: current	\$ (167)	(192)
	489	518

**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
(In thousands of Canadian dollars, except for per share amounts)

**c) Contract Liabilities**

The following is a table that summarizes the change in contract liabilities during the year:

	<b>2022</b>	<b>2021</b>
<b>Balance, January 1, 2022</b>	\$ 462	380
Additions from provisioning	187	451
Revenue recognized for services provided	(350)	(296)
Impairment charges from contract terminations	(3)	(13)
Contract liabilities classified as held for sale	-	(60)
<b>Balance, December 31, 2022</b>	296	462
Less: current	\$ (127)	(191)
	<u>169</u>	<u>271</u>

**d) Unsatisfied Performance Obligations**

The aggregate amount of revenue allocated to performance obligations that are unsatisfied as of December 31, 2022, was \$19,251 (2021 - \$28,842). This represents contractual service obligations that the Company has yet to fulfill under its contracts with customers. The Company expects to recognize this revenue over the next 3 years which represents the average contractual term prior to renewals. This amount excludes obligations owing for month-to-month contracts as the unsatisfied term is calculated monthly.

**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) Accounts receivable, net**

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

	<b>December 31</b>	<b>December 31</b>
	<b>2022</b>	<b>2021</b>
Trade receivables	\$ 1,683	\$ 2,631
Allowance for doubtful accounts	(73)	(97)
Other	142	256
Receivable in escrow	500	-
Accounts receivable, net classified as assets held for sale	-	(1,204)
	<u>\$ 2,252</u>	<u>\$ 1,586</u>

## 6. Network Assets, Property and Equipment

	Network assets	Datacentre infrastructure	Computer equipment	Office furniture and equipment	Leasehold improvements	Right-of-use Assets	Total
<b>Cost</b>							
Balance Jan 1, 2022	\$ 132,334	\$ 12,591	\$ 5,199	\$ 2,330	\$ 3,075	\$ 39,945	\$ 195,523
Divested Assets	(8,043)	(12,023)	(13)	(13)	(1,371)	(13,443)	(34,906)
Additions	6,074	103	30	5	-	238	6,450
Reclassifications / Adjustments	(36)	36	-	-	-	2,842	2,842
Impairment	(1,225)	-	-	-	-	-	(1,225)
<b>Balance, December 31, 2022</b>	<b>\$ 129,104</b>	<b>\$ 707</b>	<b>\$ 5,216</b>	<b>\$ 2,322</b>	<b>\$ 1,704</b>	<b>\$ 29,582</b>	<b>\$ 168,684</b>
<b>Accumulated Depreciation</b>							
Balance, January 1, 2022	\$ 108,968	\$ 5,826	\$ 5,038	\$ 2,320	\$ 2,753	\$ 16,421	\$ 141,375
Divested Assets	(4,105)	(5,228)	(7)	(11)	(1,062)	(4,351)	(14,764)
Depreciation for the period	5,260	40	84	3	8	4,678	10,073
Reclassifications / Adjustments	14	(14)	-	-	-	-	-
Impairment	(815)	-	-	-	-	-	(815)
<b>Balance, December 31, 2022</b>	<b>\$ 109,322</b>	<b>\$ 624</b>	<b>\$ 5,115</b>	<b>\$ 2,312</b>	<b>\$ 1,699</b>	<b>\$ 16,748</b>	<b>\$ 135,869</b>
<b>Net Book Value, December 31, 2022</b>	<b>\$ 19,782</b>	<b>\$ 83</b>	<b>\$ 101</b>	<b>\$ 10</b>	<b>\$ 5</b>	<b>\$ 12,834</b>	<b>\$ 32,815</b>

	Network assets	Datacentre infrastructure	Computer equipment	Office furniture and equipment	Leasehold improvements	Right-of-use Assets	Total
<b>Cost</b>							
Balance, January 1, 2021	\$ 127,403	\$ 12,131	\$ 5,079	\$ 2,323	\$ 3,070	\$ 35,954	\$ 186,009
Additions	6,737	508	122	8	5	1,030	8,410
Disposals	(839)	(1)	-	-	-	(63)	(903)
Reclassifications / Adjustments	(27)	27	-	-	-	3,024	3,024
Impairment	(940)	(74)	(2)	(1)	-	-	(1,017)
<b>Balance, December 31, 2021</b>	<b>\$ 132,334</b>	<b>\$ 12,591</b>	<b>\$ 5,199</b>	<b>\$ 2,330</b>	<b>\$ 3,075</b>	<b>\$ 39,945</b>	<b>\$ 195,523</b>
<b>Accumulated Depreciation</b>							
Balance, January 1, 2021	\$ 104,002	\$ 4,884	\$ 4,974	\$ 2,305	\$ 2,452	\$ 10,694	\$ 129,360
Depreciation for the period	6,106	938	65	16	301	5,749	13,175
Disposals	(595)	-	-	-	-	(13)	(608)
Reclassifications / Adjustments	(8)	8	-	-	-	(9)	(9)
Impairment	(537)	(4)	(1)	(1)	-	-	(543)
<b>Balance, December 31, 2021</b>	<b>\$ 108,968</b>	<b>\$ 5,826</b>	<b>\$ 5,038</b>	<b>\$ 2,320</b>	<b>\$ 2,753</b>	<b>\$ 16,421</b>	<b>\$ 141,375</b>
<b>Network Assets, Property, and Equipment classified as assets held for sale</b>	<b>(3,913)</b>	<b>(6,730)</b>	<b>(6)</b>	<b>(2)</b>	<b>(310)</b>	<b>(9,197)</b>	<b>(20,158)</b>
<b>Net Book Value, December 31, 2020</b>	<b>\$ 19,453</b>	<b>\$ 35</b>	<b>\$ 155</b>	<b>\$ 8</b>	<b>\$ 12</b>	<b>\$ 14,327</b>	<b>\$ 33,990</b>

For the years ended December 31, 2022, and 2021, the Company had additions of capitalized wages and other directly attributable costs of \$1,424 and \$2,081, respectively, in network assets, property and equipment.

During 2022, the Company wrote off assets with net book value of \$410 (Cost of \$1,225 less accumulated depreciation of \$815, \$13 of which was recognized against lease liabilities) which primarily represents replaced assets and obsolete assets disposed of for negligible value. During 2021, the Company wrote off assets with a net book value of \$295 (Cost of \$903 less accumulated depreciation of \$608, \$10 of which was recognized against lease liabilities). The corresponding loss on disposal is included in other operating expenses.

### Impairment of Network Assets, Property, and Equipment

The Company tests Network assets, property, and equipment for impairment when events or circumstances may indicate the carrying value is no longer recoverable. In performing the annual impairment test, the Company recorded a charge of \$327 in impairment on network assets, property, equipment and intangibles for the year ended December 31, 2022 (2021- \$510).



**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
(In thousands of Canadian dollars, except for per share amounts)

**7. Intangible Assets and Goodwill**

	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
<b>Cost</b>							
Balance, January 1, 2022	\$ 12,649	\$ 9,868	\$ 18,021	\$ 4,831	\$ 45,369	\$ 19,419	\$ 64,788
Divested Assets			(11,556)		(11,556)	(14,031)	(25,587)
<b>Balance, December 31, 2022</b>	<b>\$ 12,649</b>	<b>\$ 9,868</b>	<b>\$ 6,465</b>	<b>\$ 4,831</b>	<b>\$ 33,813</b>	<b>\$ 5,388</b>	<b>\$ 39,201</b>
<b>Accumulated Amortization</b>							
Balance, January 1, 2022	\$ 2,371	\$ 9,855	\$ 14,223	\$ 4,831	\$ 31,280	\$ 4,527	\$ 35,807
Divested Assets			(7,758)		(7,758)	-	(7,758)
Amortization for the period	-	12	-	-	12	-	12
<b>Balance, December 31, 2022</b>	<b>\$ 2,371</b>	<b>\$ 9,867</b>	<b>\$ 6,465</b>	<b>\$ 4,831</b>	<b>\$ 23,534</b>	<b>\$ 4,527</b>	<b>\$ 28,061</b>
<b>Net Book Value, December 31, 2022</b>	<b>\$ 10,278</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,279</b>	<b>\$ 861</b>	<b>\$ 11,140</b>
<b>Cost</b>							
Balance, January 1, 2021	\$ 12,649	\$ 9,868	\$ 18,021	\$ 4,831	\$ 45,369	\$ 19,419	\$ 64,788
<b>Balance, December 31, 2021</b>	<b>\$ 12,649</b>	<b>\$ 9,868</b>	<b>\$ 18,021</b>	<b>\$ 4,831</b>	<b>\$ 45,369</b>	<b>\$ 19,419</b>	<b>\$ 64,788</b>
<b>Accumulated Amortization</b>							
Balance, January 1, 2021	\$ 2,371	\$ 9,800	\$ 13,022	\$ 3,079	\$ 28,272	\$ -	\$ 28,272
Amortization for the period	-	55	1,201	123	1,379	-	1,379
Impairment	-	-	-	1,629	1,629	4,527	6,156
<b>Balance, December 31, 2021</b>	<b>\$ 2,371</b>	<b>\$ 9,855</b>	<b>\$ 14,223</b>	<b>\$ 4,831</b>	<b>\$ 31,280</b>	<b>\$ 4,527</b>	<b>\$ 35,807</b>
<b>Intangibles Assets and Goodwill classified as assets held for sales (Note 21)</b>			(3,798)		(3,798)	(14,031)	(17,829)
<b>Net Book Value, December 31, 2021</b>	<b>\$ 10,278</b>	<b>\$ 13</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,291</b>	<b>\$ 861</b>	<b>\$ 11,152</b>

### Impairment of Intangible Assets

At December 31, 2022, certain intangible assets (software licenses) were fully amortized therefore no impairment test was required.

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

### Impairment of Goodwill and Indefinite Life Intangible Assets

The annual impairment test of goodwill was performed on December 31, 2022, and did not result in any goodwill impairment loss.

In performing the annual impairment test, the Company determined there was a single CGU comprising all the assets to operate the connectivity business, including the radio spectrum licenses. The Company measured the fair value less cost to sell of the CGU by valuing the Company's future operations and spectrum holdings by performing a discounted cash flow on estimated future cash flows. The Company relied on analyst reports, comparable spectrum auctions, and other data to value the spectrum. Additionally, the Company relied on significant management assumptions, such as cash flow projections over a five-year period, based primarily on the financial budget reviewed by the Board of Directors, plus a terminal value using a 3% terminal growth rate. The Company discounted these estimates of future cash flows to their present value using an after-tax discount rate of 10.9% which reflects the entity's weighted average cost of capital. The Company's fair value less costs to sell exceeded the net carrying amount of the CGU.

## 8. Decommissioning and Restoration Obligations

The Company's hub sites are established in leased or licensed premises. As part of these arrangements, the Company is liable for all restoration costs to ensure that the space is returned to its original state upon termination of the leases. The decommissioning and restoration obligations are related to future site restoration costs associated to these leased or licensed premises. The decommissioning and restoration obligations were determined using a discount rate of 10.9% over a range of periods from 2025 to 2045. As at December 31, 2022, the estimated amount of undiscounted cash flows required to settle this liability was \$997 (2021 – \$1,648).

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:

	<b>December 31</b>		<b>December 31</b>
	<b>2022</b>		<b>2021</b>
Obligation, beginning of year	\$ 494	\$	360
Accretion expense included in finance costs	27		38
Changes in assumptions	(242)		96
Obligation, end of year	\$ 279	\$	494

**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
**(In thousands of Canadian dollars, except for per share amounts)**

**9. Long-term Debt**

	<b>December 31 2022</b>	<b>December 31 2021</b>
Term debt facility	\$ 6,157	\$ 19,988
less: financing fees	(27)	(197)
	<u>6,130</u>	<u>19,791</u>
less: current portion	-	(2,250)
	<u>\$ 6,130</u>	<u>\$ 17,541</u>

**Term Debt Facility**

On September 29, 2022, the Company entered into a credit agreement (the "Agreement") with CrowdOut Capital LLC (the "Lender") in the amount of USD\$ 20,000. The agreement is a draw down facility and terms include the following: Variable interest rate of SOFR + 9.00%, serviced with monthly interest payments only for a term of 36 months. The agreement also includes a 1% annual rate standby fee for any amounts undrawn on the facility. The standby fee and interest amounts are payable monthly. The facility also requires an initial drawdown of USD \$5,000. At the conclusion of the loan term, there is an exit fee payable to the lender of up to a maximum of CAD\$ 1,000 calculated on a pro-rata basis determined by the amount of the facility that has been drawn down at the time of exit. At December 31, 2022, the balance due to the Lender for the exit fee is \$250, which is based upon the amount drawn down at period end.

In accordance with the Agreement, the Company also issued to the Lender 216,463 warrants for the purchase of common shares. Each warrant will be exercisable for the purchase of one common share for a period of up to five years from the date of the Agreement. The warrants vest pro-rata as the facility is drawn down. The strike price for all warrants is CAD \$4.46 (based upon a 20% premium to the 30-day VWAP at the time of closing).

On October 3, 2022, the Company drew down the initial CAD \$6,694 (USD\$ 5,000) proceeds in conjunction with the terms of the Agreement, resulting in the vesting of 54,116 of the issued warrants. Subsequent draws will be made at the Company's discretion with respect to both amount and timing and requires approval of the Board of Directors.

This facility has been accounted for as compound financial instrument with a liability component for the debt and an equity component for the warrants issued, as the warrants are exchangeable for a fixed number of the Company's common shares, they meet the fixed-for-fix criteria. Upon draw down date, the liability is measured at its fair value using the forward SOFI curve rate of 15.62% and the warrants are measured at the residual amount of the compound financial instrument.

The Company incurred financing fees of \$395, a transaction fee of \$137 (US\$100) upon the initial draw down and \$250 for the accrued exit fee. All financing fees are deferred and are recorded as a reduction in the carrying amount debt. The amortization of the fees for the year ended December 31, 2022 were \$31 and are included in finance costs.

In accordance with the Agreement, the Company is subject to the following financial covenants: (i) Balance drawn on the facility not to exceed 90% of the Company's annual recurring revenue, and (ii) the Company's cash and cash equivalents balance (including short term investments) to be above \$1,500 at all times. The Company is in compliance with the financial covenants as at December 31, 2022.

At December 31, 2021, the Company had a prime rate loan with Royal Bank of Canada ("RBC") in the amount of \$19,988 and unamortized finance costs of \$197. On February 1, 2022, after the closing of the divestiture of cloud and colocation assets, the Company used proceeds of the transaction to repay the prime rate loan in its entirety. Any financing fees that were recorded as a reduction in the carrying amount of the previous term debt facilities and prime interest rate loans were fully amortized at March 31, 2022.

## 10. Leases

The Company has many leases of which it is a lessee. The major categories of leases are building leases for the Company's fixed wireless services, network equipment, corporate offices, and warehouses. Lease terms vary by category and range from 1 to 15 years.

### a) Right-of-use Asset

Changes in the right-of-use asset are summarized in Note 6 of these Consolidated Financial Statements.

### b) Lease Liability

The following table is a summary of the changes in the lease liability during the year:

	<u>2022</u>	<u>2021</u>
Lease liabilities, beginning of period	\$ 16,124	\$ 28,015
Additions	238	1,030
Terminations	(579)	(10)
Interest on lease liabilities	1,545	2,497
Modifications	2,842	2,974
Lease payments	(5,829)	(7,787)
Lease liabilities classified as held for sale	-	(10,595)
Lease liabilities – end of period	<u>14,341</u>	<u>16,124</u>
less: current portion	<u>(5,023)</u>	<u>(5,632)</u>
	<u>\$ 9,318</u>	<u>\$ 20,779</u>

A maturity analysis of these leases is set out in the below table:

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>Thereafter</u>	<u>Total</u>
Undiscounted cash flows	\$ 5,023	4,083	3,178	2,192	1,265	1,250	16,995

## 11. Other Long-Term Assets

		<u>December 31</u>	<u>December 31</u>
		<u>2022</u>	<u>2021</u>
Contract asset	\$	1	\$ 40
Contract asset classified as held for sale		-	(31)
		<u>1</u>	<u>9</u>
less: current portion		-	(8)
	\$	<u>-</u>	<u>\$ 41</u>

**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
(In thousands of Canadian dollars, except for per share amounts)

**12. Commitments & Contingencies**

**(a) Contingencies**

At December 31, 2022, the Company did not have any contingent liabilities.

**(b) Commitments**

At December 31, 2022, the Company had various purchase commitments to fulfill sales orders in the normal course of operations. Below is a summary of the future minimum payments for contractual obligations that are not recognized as liabilities at December 31, 2022:

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>Thereafter</u>	<u>Total</u>
Network assets, property, and equipment	\$ 3,567	-	-	-	-	-	3,567
Loan principal and success fee payments	-	-	7,081	-	-	-	7,081
Other purchase obligations	5,945	2,242	795	45	18	-	9,045
Total commitments	9,512	2,242	7,876	45	18	-	19,693

The Company is required to pay, under a CRTC-administered regime, a percentage (2022 - 0.46%, 2021 – 0.44%) of its adjusted Canadian telecommunications service revenue (as defined by CRTC and excluding retail Internet revenue) into a fund administered by CRTC.

**13. Income Taxes**

**(a) Income tax expense (recovery)**

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Profit (loss) before income taxes (recovery)	\$ (11,571)	\$ (15,172)
Income taxes at enacted rate of 26.17%	(3,028)	(4,089)
Non-deductible expenses and permanent differences	2,037	142
Change in unrecognized deductible temporary differences	(935)	4,365
Effect of change in future tax rates	634	(361)
True-up provision adjustment	1,224	1
Other	68	(58)
	<u>\$ (0)</u>	<u>\$ 0</u>

**(b) Recognized deferred tax assets and liabilities**

The table below summarizes the movement of net deferred tax assets and liabilities:

	December 31, 2022	December 31, 2021
Deferred Tax Assets:		
Income tax loss carryforwards	3,814	3,200
Deferred Tax Liabilities:		
Financing Fees	-	(41)
Property, Plant and Equipment	(3,814)	(3,159)
Deferred tax asset (Liability)	-	-

**(c) Unrecognized deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Excess of tax value of PPE over NBV	\$ -	\$ -
Non-capital loss carryforwards	20,993	21,147
Other deductible temporary differences	1,095	1,399
Capital lease obligations	416	894
	\$ 22,505	\$ 23,440

**(d) Reconciliation of effective tax rate**

	December 31, 2022	%	December 31, 2021	%
Loss before income taxes	(11,571)		(15,172)	
Income tax expense (recovery) at statutory rates	(3,028)	26.2%	(4,089)	27.0%
Permanent Differences	2,037	(17.6%)	142	(0.9%)
Unrecognized deferred tax assets	(935)	8.1%	4,365	(28.8%)
Effect of change in future tax rates	634	(5.5%)	(361)	2.4%
True-up provision adjustment	1,224	(10.6%)	1	(0.0%)
Other	68	(0.6%)	(58)	0.4%
Tax expense (recovery)	0	(0%)	0	(0%)

**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
(In thousands of Canadian dollars, except for per share amounts)

(e) Tax loss expiry schedule:

2027	2
2028	273
2029	1,386
2030	1,356
2031	-
2032	-
2033	647
2034	674
2035	1,651
2036	2,701
2037	21,192
2038	16,020
2039	16,129
2040	14,711
2041	13,673
2042 and later	4,369
	<b>94,784</b>

**14. Share Capital**

**Authorized**

Unlimited Common Shares

	Number of Common Shares	In \$000's		
		Common Shares	Share Issue Costs	Total
<b>Issued</b>				
<b>Balance, January 1, 2021</b>	16,762	111,284	(8,061)	103,223
Issuance of common shares on exercise of stock options	1	3	-	3
Issuance of common shares for directors' fees	53	295	-	295
Issuance of shares and warrants for equity offering	2,802	13,971	(159)	13,812
Issuance of common shares from vesting of RSUs/PSUs	69	515	-	515
Shares deducted for payment of withholding taxes	(20)	-	-	-
<b>Balance, December 31, 2021</b>	<b>19,667</b>	<b>126,068</b>	<b>(8,220)</b>	<b>117,848</b>
Issuance of common shares on exercise of stock options	-	-	-	-
Issuance of common shares for directors' fees	68	257	-	257
<b>Balance, December 31, 2022</b>	<b>19,735</b>	<b>126,325</b>	<b>(8,220)</b>	<b>118,105</b>

**Equity Offering**

On April 21, 2021, the Company completed a private placement where the Company issued and sold an aggregate of 934 Series A Units, 934 Series B Units and 934 Series C Units of the Company at a subscription price of \$5.25 per Unit, for gross proceeds of \$14,711. Each Unit is comprised of one common share and one-half (½) of a Series A, B or C Warrant (each a "Warrant"). Each whole series A, B, C Warrant entitles the holder to purchase one common share at prices of \$7.00, \$7.50, and \$8.00, respectively. In total, the Company issued 2,802 Common

Shares, 467 Series A Warrants, 467 Series B Warrants, and 467 Series C Warrants. The warrants were valued using the Black Scholes model and the residual method was used to value the common shares. The Company accounted for the warrants net of issuance costs in the Company's warrant reserve.

#### 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, 2022, and 2021.

### 15. Stock-Based Compensation

#### (a) Stock Options

The Company adopted its current option plan on June 18, 2007 (the "Option Plan") which is available to directors, officers, employees and other persons approved by the Board from time to time. The options granted under the Option Plan expire 10 years from the date of grant and generally vest over three years. All options under the Option Plan will vest immediately on a change of control of the Company. As of December 31, 2022, there are 501 (2021 – 323) options outstanding under the Option Plan.

For the years ended December 31, 2022 and 2021, the Company recorded stock-based compensation related to stock options of \$463 and (\$49), respectively.

A summary of the status of the Company's stock Option Plan as at December 31, 2022 and 2021 is presented below (number of options in 000's).

	2022		2021	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<b>Outstanding - January 1</b>	323	\$7.03	389	\$7.73
Granted	326	\$4.97	178	\$6.32
Exercised	-	-	(6)	\$4.40
Forfeited / Expired	(148)	\$7.42	(238)	\$7.71
<b>Outstanding - December 31</b>	501	\$5.57	323	\$7.03
Exercisable	88	\$7.25	144	\$7.84

The Company granted stock options to certain key executives during the year. The fair value of stock option grants is estimated using the Black-Scholes option pricing model, with the following weighted average assumptions: risk-free rates ranging from 2.26% to 4.09%; dividend yield of nil; volatility rates ranging from 39.63% to 45.06%; and expected term of stock options of 6.5 years. Expected volatility has been based on an evaluation of the historical period commensurate with the expected term. The expected term of the stock options has been based on historical experience and general option holder behavior. The fair value of the stock options is expensed over the vesting period of the options using the graded method.



**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
(In thousands of Canadian dollars, except for per share amounts)

As at December 31, 2022, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life are as follows (number of options in 000's):

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$3.00 - \$5.75	398	9.13	\$5.19	29	\$5.33
\$6.00 - \$12.00	103	7.47	\$8.12	59	\$8.19
	501	8.67	\$5.57	88	\$7.25

**(b) Restricted Share Units (RSUs)**

On March 12, 2009, the Company established an RSU Plan which is available to the directors, officers, and full-time employees approved by the Board. Plan participants are granted a specific number of RSUs for a given period based on their position and level of contribution which generally vest over a three-year period. The value of one RSU is equal to the value of one Common Share. At the end of the vesting period, the RSUs vest if the plan participant is employed by the Company. On June 21, 2019, the shareholders of the Company approved the board of directors' recommendation to amend the RSU Plan whereby common shares may be issued from treasury to settle current and future vested PSUs and RSUs.

In 2022, the Company did not grant any RSUs (2021 – 75), nor were there any RSU's that vested during the period. All previously issued RSU's were fully vested prior to 2022 RSUs vested (2021 – 69). For the years ended December 31, 2022, and December 31, 2021, the Company recorded compensation expense of \$61 and \$19, respectively, related to the RSUs granted.

The following table is a summary of the number of outstanding RSUs (in 000's) as at:

	December 31 2022	December 31 2021
Opening Balance, January 1, 2022	67	110
Granted	-	75
Forfeited	(25)	(49)
Vested and settled / paid	-	(69)
Ending Balance, December 31, 2022	42	67

**(c) Performance Based Share Units (PSUs)**

Plan participants are granted a specific number of PSUs for a given period based on their role within the Company and level of performance which generally vest over a three-year period. The value of one PSU is equal to the value of one Common Share. PSUs are also issued pursuant to the RSU Plan. At the end of the vesting period, the PSUs vest if the plan participant is employed by the Company and certain performance criteria are met. On June 21, 2019, the shareholders of the Company approved the board of directors' recommendation to amend the RSU Plan whereby common shares may be issued from treasury to settle current and future vested PSUs and RSUs.

There were no PSUs granted in 2022 (2021– 61) to certain key executives. In 2022, zero PSUs vested and were paid (2021 – 25). For the years ended December 31, 2022, and December 31, 2021, the Company recorded stock-based compensation expense of \$1 and \$4, respectively, related to the PSUs outstanding.

The following table is a summary of the number of outstanding PSUs (in 000's) as at:

	<b>December 31</b>	<b>December 31</b>
	<b>2022</b>	<b>2021</b>
<b>Opening Balance, January 1, 2022</b>	37	28
Granted	-	61
Vested and paid	-	(25)
Forfeited / Expired	-	(27)
<b>Ending Balance, December 31, 2022</b>	<b>37</b>	<b>37</b>

**(d) Stock-Based Compensation Summary**

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

	<b>Year ended</b>	<b>Year ended</b>
	<b>December 31</b>	<b>December 31</b>
	<b>2022</b>	<b>2021</b>
Restricted share units	\$ 61	\$ 19
Performance-based share units	1	4
Stock options	369	(154)
Directors' fees paid in shares (note 14)	257	295
	<b>\$ 688</b>	<b>\$ 164</b>

**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
(In thousands of Canadian dollars, except for per share amounts)

**16. Loss Per Share**

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

	<b>Year ended December 31 2022</b>	<b>Year ended December 31 2021</b>
Numerator for basic and diluted loss per share:		
Net loss for the period	\$ (11,571)	(15,172)
Denominator for basic and diluted loss per share:		
Basic weighted average number of shares outstanding	19,098	18,769
Effect of stock options, RSUs and PSUs	-	-
Diluted weighted average number of shares outstanding	19,098	18,769
Loss per share:		
Basic	\$ (0.61)	(0.81)
Diluted	\$ (0.61)	(0.81)

**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:

	<b>Year ended December 31 2022</b>	<b>Year ended December 31 2021</b>
Salaries, fees, and benefits	\$ 1,811	\$ 1,981
Termination expense	204	312
Share-based compensation expense	356	327
	<b>\$ 2,371</b>	<b>\$ 2,620</b>

## 18. 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 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 following table outlines the carrying amounts and fair value of its financial assets and financial liabilities including their level in the fair value hierarchy. Cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities are not shown below as the carrying value of these financial instruments approximates their fair value due to their short-term maturities.

### a) Classification and fair values

	Carrying Amount		Fair Value (Level 2)	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
<b>Financial assets</b>				
Short term investments	1,158	-	1,158	-
<b>Financial liabilities</b>				
Long term debt	6,157	19,791	6,157	19,791

### b) Credit risk

As a result of the recent major changes in market conditions as a result of the ongoing COVID-19 pandemic, the Company re-evaluated its credit risk and concluded that no major changes to existing strategies were necessary in addition to those already disclosed in the notes to these Consolidated Financial Statements. The Company will continue to monitor and re-evaluate this risk as the COVID-19 pandemic and its associated impacts continue to unfold.

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

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 place 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, 2022 and 2021, the Company had no material trade receivable accounts that were not expected to be collected. The following table provides the aging of the trade accounts receivable:

**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
(In thousands of Canadian dollars, except for per share amounts)

	<u>December 31</u> <u>2022</u>	<u>December 31</u> <u>2021</u>
Current	\$ 1,220	\$ 1,925
31 to 60 days	244	416
61 to 90 days	156	158
over 90 days	63	132
	<u>\$ 1,683</u>	<u>2,631</u>

During the year, the movement in the credit loss allowance in respect of trade receivables was as follows:

	<u>December 31</u> <u>2022</u>	<u>December 31</u> <u>2021</u>
<b>Opening Balance, January 1, 2021</b>	97	66
Amounts written off	(58)	(25)
Remeasurement of loss allowance	34	56
<b>Ending Balance, December 31, 2021</b>	<u>73</u>	<u>97</u>

**c) Liquidity Risk**

As at December 31, 2022, the Company had cash and cash equivalents of \$6,220. The Company continues to manage liquidity by ensuring trade turnover is consistent with the objectives of the organization as well as through cost management strategies.

As at December 31, 2022, the Company's financial liabilities that have contractual maturities are summarized below:

	<u>Less than</u> <u>1 year</u>	<u>2 - 3 years</u>	<u>Total</u>
Long-term debt	\$ -	\$ 6,831	\$ 6,831
Accounts payable	4,711	-	4,711
<b>Total</b>	<u>\$ 4,711</u>	<u>\$ 6,831</u>	<u>\$ 11,542</u>

**d) Interest Rate Risk**

As a result of the Company's credit facility with CrowdOut Capital (see Note 9), the Company is exposed to fluctuations in Adjusted SOFR (Secured Overnight Financing Rate) interest rates. A 1% change in interest rate would have increased (decreased) monthly interest by \$6.

**e) Currency Risk**

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

	<u>Currency</u>	<u>December 31 2022</u>	<u>December 31 2021</u>
Cash and cash equivalents	USD	\$ 1,416	\$ 26
Accounts payable and accrued liabilities	USD	232	526
Long term debt	USD	5,000	-

## 19. 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. (see Note 9)

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.

	<u>December 31 2022</u>	<u>December 31 2021</u>
Cash and cash equivalents	\$ (6,220)	\$ (5,481)
Short term investments	(1,158)	-
Long term debt	6,157	19,791
Share capital	118,105	117,848
Contributed surplus	26,822	26,391
Deficit	(116,291)	(104,720)
	<u>\$ 27,415</u>	<u>\$ 53,829</u>

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

The Company's overall strategy with respect to management of capital remains unchanged from the year ended December 31, 2022.

## 20. Divestiture

During the fourth quarter of the year ended December 31, 2021, TeraGo determined that the cloud and colocation business was no longer core to the Company's growth plans and decided to divest the cloud and colocation business. In accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, the assets and liabilities of the cloud and colocation business were classified as a disposal group held for sale and the assets and liabilities were assessed for impairment and adjusted to their fair values accordingly, this resulted in an impairment loss of \$4,527 being recognized in the Statement of Comprehensive Loss for the year ended December 31, 2021 and a corresponding reduction to the goodwill assets included in the disposal group. The fair value of the assets and liabilities was determined based on the final purchase price of the cloud and colocation business, less costs TeraGo incurred to sell the business. The summary of the assets classified as held for sale and liabilities associated with assets classified as held for sale as at December 31, 2021 were as follows:

---

**TERAGO INC.****Notes to the Consolidated Financial Statements****(In thousands of Canadian dollars, except for per share amounts)**

---

<b>Divestiture</b>	
Accounts receivable	1,204
Contract costs	330
Prepaid expenses and other assets	398
Goodwill	14,032
Network assets, property, and equipment	20,159
Other long-term assets	31
Intangible assets	<u>3,798</u>
<b>Assets classified as held for sale</b>	<b>\$ 39,952</b>
Account payables and accrued liabilities	1,610
Current portion of lease liabilities	2,225
Current portion contract liabilities	60
Lease liability	<u>8,370</u>
<b>Liabilities associated with assets classified as held for sale</b>	<b>\$ 12,265</b>

The divestiture transaction closed on January 31, 2022, for an aggregate consideration of \$30,000 in cash, of which \$500 is held in escrow until July 31, 2023 subject to indemnity claims. The proceeds received of \$27,313 is net of \$500 held in escrow and working capital and other post closing adjustments. The Company recorded a further \$107 impairment loss on divestiture, as a result of the final transaction amounts and recorded as an impairment on the disposal of assets in the Statement of Comprehensive Loss for the year ended December 31, 2022.

As TeraGo has one CGU, the cloud and colocation business was not considered a discontinued operation.