

TERAGO INC.
Interim Condensed Consolidated Financial Statements
Three months ended March 31, 2022 and 2021
(Unaudited)

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TERAGO INC.**Interim Condensed Consolidated Statements of Financial Position
(Unaudited, In thousands of Canadian dollars)**

	<i>Note</i>	March 31 2022	December 31 2021
Assets			
Cash and cash equivalents	4	\$ 7,564	\$ 5,481
Cash held on behalf of third party	4	1,745	-
Short-term investments		1,136	-
Accounts receivable	4	2,341	1,586
Prepaid expenses and other assets		773	350
Current portion of contract costs	3	177	192
Current portion of other long-term assets	9	6	8
Assets classified as held for sale		-	39,952
Total current assets		13,742	47,569
Network assets, property and equipment	5	33,408	33,990
Intangible assets	6	10,288	10,291
Goodwill	6	861	861
Contract costs	3	566	518
Other long-term assets	9	-	1
Total non-current assets		45,123	45,661
Total Assets		\$ 58,865	\$ 93,230
Liabilities			
Accounts payable and accrued liabilities		\$ 4,297	\$ 3,832
Payable to third party		1,745	-
Current portion of contract liabilities	3	173	191
Current portion of long-term debt	7	-	2,250
Current portion of lease liabilities	8	5,118	5,632
Liabilities associated with assets classified as held for sale		-	12,265
Total current liabilities		11,333	24,170
Decommissioning and restoration obligations		505	494
Contract liabilities	3	260	271
Long-term debt	7	-	17,541
Lease liabilities	8	9,472	10,492
Total non-current liabilities		10,237	28,798
Total Liabilities		21,570	52,968
Shareholders' Equity			
Share capital		117,932	117,848
Contributed surplus		26,480	26,391
Warrant reserve		743	743
Deficit		(107,860)	(104,720)
Total Shareholders' Equity		\$ 37,295	\$ 40,262
Total Liabilities and Shareholders' Equity		\$ 58,865	\$ 93,230

On behalf of the Board:

(signed) "Ken Campbell"

Director

(signed) "Gary Sherlock"

Director

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

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

			Three months ended March 31	Three months ended March 31
	<i>Note</i>		2022	2021
Revenue from operations	3	\$	7,789	10,829
Other revenue	3	\$	135	-
			<u>7,924</u>	<u>10,829</u>
Expenses				
Cost of services			2,232	2,514
Salaries and related costs, net			3,443	4,253
Other operating expenses			2,054	1,651
Depreciation of network assets, property, and equipment	5		2,489	3,247
Amortization of intangible assets	6		3	360
			<u>10,221</u>	<u>12,025</u>
Income (Loss) from operations			(2,297)	(1,196)
Impairment loss on disposal	13		(107)	-
Foreign exchange gain (loss)			5	21
Finance costs			(756)	(1,003)
Finance income			15	12
Loss before income taxes		\$	<u>(3,140)</u>	<u>(2,166)</u>
Income taxes				
Income tax expense			-	-
Net loss and comprehensive loss		\$	<u>(3,140)</u>	<u>(2,166)</u>
Deficit, beginning of period		\$	<u>(104,720)</u>	<u>(89,548)</u>
Deficit, end of period		\$	<u>(107,860)</u>	<u>(91,714)</u>
Basic & Diluted loss per share	11	\$	(0.16)	(0.13)
Basic & Diluted weighted average number of shares outstanding			19,669	16,773

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

TERAGO INC.
Interim Condensed Consolidated Statements of Cash Flows
(Unaudited, In thousands of Canadian dollars)

	<i>Note</i>	Three months ended March 31 2022	Three months ended March 31 2021
Operating Activities			
Net loss for the period		(3,140)	(2,166)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Severance, acquisition, and other costs		454	430
Depreciation of network assets, property and equipment	5	2,489	3,247
Amortization of intangible assets	6	3	360
Stock-based compensation expense	10	173	229
Finance costs		756	1,003
Finance income		(15)	(12)
Loss on adjustments and disposal of network assets, leases, and intangible assets		171	6
Impairment of assets and related charges	3,5	120	157
Severance, acquisition, and other costs paid		(663)	(380)
Changes in non-cash working capital items:			
Accounts receivable		(209)	(4)
Prepaid expenses		(429)	109
Accounts payable and accrued liabilities		(211)	(752)
Contract liabilities		(29)	23
Contract costs		(37)	(259)
Cash from Operating Activities		(567)	1,991
Investing Activities			
Proceeds from divested assets		27,313	-
Purchase of network assets, property, and equipment	5	(1,829)	(2,293)
Purchase of short-term investments		(1,136)	-
Receivable from divested assets		(528)	-
Change in non-cash working capital related to network assets, property and equipment and intangible assets		385	103
Cash used in Investing Activities		24,205	(2,190)
Financing Activities			
Interest paid, net of received		-	(293)
Repayment of long-term debt	7	(19,987)	(750)
Payments of lease liabilities	8	(1,568)	(1,906)
Government Grants		-	158
Cash from (used in) Financing Activities		(21,555)	(2,791)
Net change in cash and cash equivalents, during the period		2,083	(2,990)
Cash and cash equivalents, beginning of period		5,481	5,858
Cash and cash equivalents, end of period		7,564	2,868

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

TERAGO INC.
Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited, In thousands of Canadian dollars)

	Share Capital		Contributed Surplus	Warrant Reserve	Deficit	Total
	Number (in 000's)	Amount				
Balance, January 1, 2022	19,667	\$ 117,848	\$ 26,391	\$ 743	\$(104,720)	\$ 40,262
Stock-based compensation	15	84	-	-	-	84
Issuance of shares for directors' fees	-	-	89	-	-	89
Net loss and comprehensive loss	-	-	-	-	(3,140)	(3,140)
Balance, March 31, 2022	19,682	\$ 117,932	\$ 26,480	\$ 743	\$(107,860)	\$ 37,295

	Share Capital		Contributed Surplus	Warrant Reserve	Deficit	Total
	Number (in 000's)	Amount				
Balance, January 1, 2021	16,762	\$ 103,223	\$ 27,191	\$ -	\$(89,548)	\$ 40,866
Stock-based compensation	-	-	175	-	-	175
Issuance of common shares from vesting of RSUs/PSUs	64	491	(491)	-	-	-
Shares deducted for payment of withholding tax	(21)	-	(151)	-	-	(151)
Issuance of shares for directors' fees	10	54	-	-	-	54
Net loss and comprehensive loss	-	-	-	-	(2,166)	(2,166)
Balance, March 31, 2021	16,815	\$ 103,768	\$ 26,724	\$ -	\$(91,714)	\$ 38,778

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

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

1. Reporting Entity

TeraGo Inc. (the “Company”) provides businesses across Canada with connectivity 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, in Canada targeting enterprise customers that require connectivity services. The Company’s common shares are listed on the Toronto Stock Exchange (TSX) under the symbol TGO.

2. Basis of Preparation and Presentation

These unaudited interim condensed consolidated financial statements (“interim financial statements”) were prepared using the same accounting policies and methods as those used in the Company’s consolidated financial statements for the year ended December 31, 2021 (the “2021 Consolidated Financial Statements”). These interim financial statements are in compliance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), have been omitted or condensed.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in Note 2 of the Company’s 2021 Consolidated Financial Statements. The notes presented in these interim financial statements include only significant changes and transactions that have occurred since the last fiscal year. Accordingly, these interim financial statements should be read in conjunction with the Company’s 2021 Consolidated Financial Statements.

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

The policies applied in these interim financial statements are based on IFRS issued and outstanding as at March 31, 2022. The Board of Directors authorized the interim financial statements for issue on May 11, 2022.

These interim financial statements include the accounts of TeraGo Inc. and its wholly owned subsidiaries.

(a) Functional and Presentation Currency

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

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

3. Revenue

The Company's operations, main sources of revenue, and methods for recognition are those described in Note 3 of the 2021 Consolidated Financial Statements. 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 three categories that depict the nature of its revenue streams.

	Three months ended March 31	
	2022	2021
Cloud and Colocation Revenue	\$ 1,355	4,103
Connectivity Revenue	6,434	6,726
Revenue from Operations	\$ 7,789	10,829
Other Revenue	135	-
Total Revenue	<u>7,924</u>	<u>10,829</u>

Other Revenue includes fees earned for transition services provided to the purchaser of the Company's Cloud and Colocation business (Note 13). The transition services are estimated to continue for a period of approximately 12 months following the divestiture of the cloud and colocation business, which occurred on January 31, 2022.

The comparative Cloud and Colocation Revenue and Connectivity Revenue for the three months ended March 31, 2021 have been changed to conform with the presentation of revenue stream allocations for the three months ended March 31, 2022.

b) Contract Costs

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

		2022
Balance, January 1, 2022	\$	<u>710</u>
Change due to divested assets		(20)
Incremental costs capitalized		135
Impairment charges from contract terminations		(4)
Amortization		<u>(78)</u>
Balance, March 31, 2022		743
Less: current	\$	<u>(177)</u>
		<u>566</u>

TERAGO INC.**Notes to the Interim Condensed Consolidated Financial Statements****(Unaudited, 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 period:

		2022
Balance, January 1, 2022	\$	462
Additions from provisioning		37
Revenue recognized for services provided		(64)
Impairment charges from contract terminations		(2)
Balance, March 31, 2022		433
Less: current	\$	(173)
		260

d) Unsatisfied Performance Obligations

The aggregate amount of revenue allocated to performance obligations that are unsatisfied as of March 31, 2022 was \$30,360. 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 remaining contractual terms prior to renewals. This amount excludes obligations owing for month-to-month contracts as the unsatisfied term is calculated monthly.

4. Current Assets

Details of selected current asset balances are as follows:

a) Cash and cash equivalents

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

b) Cash held on behalf of third party

Cash held on behalf of a third party is comprised of cash collected on behalf the purchaser of TeraGo's Cloud and Colocation business (the "Purchaser"). In connection with the divesture of the Cloud and Colocation business (Note 13), TeraGo entered into a transition services agreement ("TSA") with the Purchaser. Under the TSA, TeraGo is performing billing and cash collection services on behalf of the Purchaser. This cash is due to the Purchaser, and a payable to third party account of an equal amount is included in TeraGo's statement of financial position as at March 31, 2022.

c) Accounts receivable

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

	March 31	December 31
	2022	2021
Trade receivables	\$ 1,400	\$ 2,631
Loss allowances (Note 12)	(82)	(97)
Other	495	256
Receivable in escrow	528	-
Accounts receivable, net classified as asset held for sale	-	(1,204)
	\$ 2,341	\$ 1,586

TERAGO INC.**Notes to the Interim Condensed Consolidated Financial Statements****(Unaudited, In thousands of Canadian dollars, except for per share amounts)****5. Network Assets, Property and Equipment**

Cost	Network Assets	Cloud & Datacentre Infrastructure	Computer Equipment	Office Furniture and Equipment	Leasehold Improvements	Vehicles	Right-of-use Assets	Total
Balance, January 1, 2022	\$ 132,334	\$ 12,591	\$ 5,199	\$ 2,330	\$ 3,075	\$ 49	\$ 39,945	\$ 195,523
Divested assets (Note 13)	(8,043)	(12,023)	(13)	(13)	(1,371)	-	(13,443)	(34,906)
Additions	1,740	75	14	-	-	-	102	1,931
Reclassifications / Adjustments	(3)	3	-	-	-	-	76	76
Impairment	(267)	-	-	-	-	-	-	(267)
Balance, March 31, 2022	\$ 125,761	\$ 646	\$ 5,200	\$ 2,317	\$ 1,704	\$ 49	\$ 26,680	\$ 162,357
Accumulated Depreciation								
Balance, January 1, 2022	\$ 108,968	\$ 5,826	\$ 5,038	\$ 2,320	\$ 2,753	\$ 49	\$ 16,421	\$ 141,375
Divested assets (Note 13)	(4,105)	(5,228)	(7)	(11)	(1,062)	-	(4,351)	(14,764)
Depreciation for the period	1,307	4	21	-	2	-	1,155	2,489
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Impairment	(151)	-	-	-	-	-	-	(151)
Balance, March 31, 2022	\$ 106,019	\$ 602	\$ 5,052	\$ 2,309	\$ 1,693	\$ 49	\$ 13,225	\$ 128,949
Net Book Value, March 31, 2022	\$ 19,742	\$ 44	\$ 148	\$ 8	\$ 11	\$ -	\$ 13,455	\$ 33,408

Impairment of Property, Plant, and Equipment

As result of the loss of certain customers and customer locations, primarily related to connectivity offerings during the three months March 31, 2022, the Company determined that certain network assets were not recoverable. As a result, the assets were written down to their recoverable amount and an impairment charge of \$116 (Cost of \$267 less accumulated depreciation of \$151) was recorded in other operating expenses on the statement of comprehensive loss (2021 - \$153) in the period.

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

6. Intangible Assets and Goodwill

Cost	Radio spectrum licenses	Computer Software	Customer relationships	Other	Total Intangibles	Goodwill	Total Intangibles and Goodwill
Balance, January 1, 2022	\$ 12,649	\$ 9,868	\$ 18,021	\$ 4,831	\$ 45,369	\$ 19,419	\$ 64,788
Divested Assets (Note 13)	-	-	(11,556)	-	(11,556)	(14,031)	(25,587)
Additions	-	-	-	-	-	-	-
Disposals / Adjustments	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
Balance, March 31, 2022	\$ 12,649	\$ 9,868	\$ 6,465	\$ 4,831	\$ 33,813	\$ 5,388	\$ 39,201
Accumulated Depreciation							
Balance, January 1, 2022	\$ 2,371	\$ 9,855	\$ 14,223	\$ 4,831	\$ 31,280	\$ 4,527	\$ 35,807
Divested Assets (Note 13)	-	-	(7,758)	-	(7,758)	-	(7,758)
Amortization for the period	-	3	-	-	3	-	3
Impairment	-	-	-	-	-	-	-
Balance, March 31, 2022	\$ 2,371	\$ 9,858	\$ 6,465	\$ 4,831	\$ 23,525	\$ 4,527	\$ 28,052
Net Book Value, March 31, 2022	\$ 10,278	\$ 10	\$ -	\$ -	\$ 10,288	\$ 861	\$ 11,149

7. Long-term Debt

	March 31 2022	December 31 2021
Term debt facility	\$ -	\$ 19,988
less: financing fees	-	(197)
	-	19,791
less: current portion	-	(2,250)
	\$ -	\$ 17,541

Term Debt Facility

At December 31, 2021, the Company had a prime rate loan of \$19,988 and unamortized finance costs of \$197. On February 1, 2022, after the closing of the divestiture of cloud and colocation assets (Note 13), the Company paid off 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.

8. 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 5 of these Interim Condensed Consolidated Financial Statements.

TERAGO INC.**Notes to the Interim Condensed Consolidated Financial Statements****(Unaudited, In thousands of Canadian dollars, except for per share amounts)****b) Lease Liability**

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

	2022
Lease liabilities, January 1, 2022	\$ 16,124
Additions	102
Lease terminated as part of divestiture	(566)
Interest on lease liabilities	422
Modifications	76
Lease payments	(1,568)
Lease liabilities – March 31, 2022	14,590
less: current portion	(5,118)
	\$ 9,472

9. Other Long-Term Assets

	March 31 2022	December 31 2021
Contract asset	\$ 6	40
Contract asset classified as held for sale	-	(31)
	6	9
less: current portion	(6)	(8)
	\$ -	\$ 1

10. Stock-Based Compensation**(a) Stock Options**

For the three months ended March 31, 2022 and March 31, 2021, the Company granted 20 and 139 stock options, respectively, to certain key executives.

For the three months ended March 31, 2022 and March 31, 2021, the Company recorded stock-based compensation related to stock options of \$59 and \$108, respectively.

A summary of the change in the Company's stock option plan as at March 31, 2022 is presented below.

	2022	
	Number of Options	Weighted Average Exercise Price
Outstanding - January 1	323	\$7.03
Granted	20	\$5.44
Exercised	-	-
Forfeited / Expired	(40)	\$7.02
Outstanding – March 31	303	\$6.93
Exercisable	170	\$7.48

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

(b) Restricted Share Units (RSUs)

For the three months ended March 31, 2022 and March 31, 2021, the Company granted nil and 26 RSUs, respectively, to certain key executives.

For the three months ended March 31, 2022 and March 31, 2021, the Company recorded compensation expense of \$30 and \$65, respectively, related to the RSUs granted.

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

	March 31
	2022
Opening Balance, January 1, 2022	67
Granted	-
Forfeited	-
Vested and settled / paid	-
Ending Balance, March 31, 2022	67

(c) Performance Based Share Units (PSUs)

For the three months ended March 31, 2022 and March 31, 2021, the Company granted nil and 61 PSUs, respectively, to certain key executives.

For the three months ended March 31, 2022 and March 31, 2021, the Company recorded compensation expense of \$1 and \$2, respectively, related to the PSUs granted and paid \$nil and \$nil, respectively, to the holders of PSUs that vested in the period.

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

	March 31
	2022
Opening Balance, January 1, 2022	37
Granted	-
Vested and paid	-
Forfeited / Expired	-
Ending Balance, March 31, 2022	37

(d) Stock-Based Compensation Summary

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

	Three	Three
	months	months
	ended	ended
	March 31	March 31
	2022	2021
Restricted share units	\$ 30	\$ 65
Performance-based share units	1	2
Stock options	58	108
Directors' fees paid in shares	84	54
	\$ 173	\$ 229

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

11. Loss Per Share

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

	Three months ended March 31 2022	Three months ended March 31 2021
Numerator for basic and diluted loss per share:		
Net loss for the period	\$ (3,140)	(2,166)
Denominator for basic and diluted loss per share:		
Basic weighted average number of shares outstanding	19,669	16,773
Effect of stock options, RSUs and PSUs	-	-
Diluted weighted average number of shares outstanding	19,669	16,773
Loss per share:		
Basic	\$ (0.16)	(0.13)
Diluted	\$ (0.16)	(0.13)

Due to the loss for the three months ended March 31, 2022, the impact of all the options, RSUs, and PSUs totaling 404 (2021 – 576), were excluded in the calculation of diluted loss per share because they were antidilutive.

12. Fair value of financial instruments

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)	
	March 31 2022	December 31 2021	March 31 2022	December 31 2021
Financial Liabilities				
Long-term debt (Note 7)	-	19,791	-	19,791

b) Credit risk

The Company's credit risk exposure and management strategies are discussed in the notes to the 2021 Consolidated Financial Statements. During the three months ended March 31, 2022, the movement in the credit loss allowance in respect of trade receivables was as follows:

	2022
Opening Balance, January 1, 2022	97
Amounts written off	(22)
Remeasurement of loss allowance	7
Ending Balance, March 31, 2022	82

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

c) Liquidity Risk

The Company's liquidity risk exposure and management strategies are discussed in the notes to the 2021 Consolidated Financial Statements. As of March 31, 2022, the Company had cash and cash equivalents of \$7,564. The Company also has access to \$375 undrawn portion of its \$1,000 credit facilities after consideration of outstanding letters of credit, current drawings, and subject to certain financial and non-financial covenants, which the Company is in compliance with as at March 31, 2022.

13. Divestiture of Cloud and Colocation Business

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.

For the three months ended March 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 loss of \$107 on the divested assets and liabilities in the period.

14. Government Grants

The Company was not eligible for the Canadian Emergency Wage Subsidy ("CEWS"), Canada Emergency Rent Subsidy ("CERS"), or other related grants for the three months ended March 31, 2022.

For the comparative period of the three months ended March 31, 2021, the Company recorded a grant of \$85 and \$73 related to the CEWS and CERS programs, respectively. Amounts received related to the CEWS were recorded as a reduction in salaries and related costs and amounts received under the CERS program have been recorded as a reduction in other operating expenses.