

TERAGO INC.
Interim Condensed Consolidated Financial Statements
Three and six months ended June 30, 2023 and 2022
(Unaudited)

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Notice of no auditor review of interim financial statements

The accompanying unaudited interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2023, have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of the interim financial statements by an entity's auditor.

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

	<i>Note</i>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Assets			
Cash and cash equivalents	4	\$ 4,837	\$ 6,220
Cash held on behalf of third party	4	1	-
Short-term investments	12	229	1,158
Accounts receivable	4	2,417	2,252
Prepaid expenses and other assets		1,453	1,141
Current portion of contract costs	3	<u>256</u>	<u>167</u>
Total current assets		9,193	10,938
Network assets, property and equipment	5	33,998	32,815
Intangible assets	6	10,571	10,279
Other long-term assets		-	1
Goodwill		861	861
Contract costs	3	<u>435</u>	<u>489</u>
Total non-current assets		45,865	44,445
Total Assets		<u>\$ 55,058</u>	<u>\$ 55,383</u>
Liabilities			
Accounts payable and accrued liabilities*		\$ 2,944	\$ 4,461
Payable to third party	4	1	-
Current portion of contract liabilities	3	212	127
Current portion of lease liabilities	8	<u>5,425</u>	<u>5,023</u>
Total current liabilities		8,582	9,611
Decommissioning and restoration obligations		299	279
Contract liabilities	3	135	169
Long-term debt	7	12,860	6,157
Lease liabilities	8	9,203	9,318
Other long-term liabilities*	7,9	<u>523</u>	<u>250</u>
Total non-current liabilities		23,020	16,173
Total Liabilities		<u>\$ 31,602</u>	<u>\$ 25,784</u>
Shareholders' Equity			
Share capital		118,234	118,105
Warrant reserve		963	963
Contributed surplus		27,087	26,822
Deficit		<u>(122,828)</u>	<u>(116,291)</u>
Total shareholders' equity		<u>\$ 23,456</u>	<u>\$ 29,599</u>
Total Liabilities and Shareholders' Equity		<u>\$ 55,058</u>	<u>\$ 55,383</u>

*Prior year figures have been adjusted to conform with current year presentation. In the prior year, the "Other long-term liabilities" was included in "Accounts payable and accrued liabilities". Refer to note 9 for separate disclosure.

On behalf of the Board:

(signed) "Ken Campbell"

Director

(signed) "Pietro Cordova"

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)

	Note	Three months ended June 30		Six months ended June 30	
		2023	2022	2023	2022
Revenue from operations	3	\$ 6,509	6,625	13,007	14,414
Other revenue	3	7	106	18	241
		<u>6,516</u>	<u>6,731</u>	<u>13,025</u>	<u>14,655</u>
Expenses					
Cost of services		1,822	1,828	3,353	4,060
Salaries and related costs		3,830	3,019	6,891	6,462
Other operating expenses*		1,508	1,725	2,820	3,659
Amortization of intangible assets	6	1	10	2	13
Depreciation of network assets, property, and equipment	5	2,469	2,492	4,947	4,981
		<u>9,630</u>	<u>9,074</u>	<u>18,013</u>	<u>19,175</u>
Loss from operations		(3,114)	(2,343)	(4,988)	(4,520)
Impairment loss on divested assets		-	-	-	(107)
Impairment of assets and related charges*	5, 6	(99)	(254)	(168)	(374)
Foreign exchange gain (loss)		18	(39)	(12)	(34)
Finance costs		(834)	(508)	(1,478)	(1,264)
Finance income		42	32	109	47
Loss before income taxes		<u>\$ (3,987)</u>	<u>(3,112)</u>	<u>(6,537)</u>	<u>(6,252)</u>
Income taxes					
Income tax expense		-	-	-	-
Net loss and comprehensive loss		<u>\$ (3,987)</u>	<u>(3,112)</u>	<u>(6,537)</u>	<u>(6,252)</u>
Deficit, beginning of period					
		<u>\$ (118,840)</u>	<u>(107,860)</u>	<u>(116,291)</u>	<u>(104,720)</u>
Deficit, end of period					
		<u>\$ (122,827)</u>	<u>(110,972)</u>	<u>(122,828)</u>	<u>(110,972)</u>
Basic & Diluted loss per share	11	\$ (0.20)	(0.16)	(0.33)	(0.32)
Basic & Diluted weighted average number of shares outstanding (in 000's)		19,755	19,683	19,746	19,676

*Prior year figures have been adjusted to conform with current year presentation. In the prior year, the "Impairment of assets and related charges" was included in "Other Operating Expenses" and not disclosed separately.

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

	Note	Three months ended June 30		Six months ended June 30	
		2023	2022	2023	2022
Operating Activities					
Net loss for the period		\$ (3,987)	(3,112)	(6,537)	(6,252)
Adjustments to reconcile net loss to net cash used in operating activities:					
Severance, acquisition, and other costs		1,177	689	1,197	1,143
Depreciation of network assets, property and equipment	5	2,469	2,492	4,947	4,981
Amortization of intangible assets	6	1	10	2	13
Stock-based compensation expense	10	(32)	171	170	344
Finance costs		834	508	1,478	1,264
Finance income		(42)	(32)	(109)	(47)
Loss on adjustments and disposal of network assets and intangible assets		20	-	28	171
Impairment of assets and related charges	5, 6	79	254	139	374
Severance, acquisition, and other costs paid		(582)	59	(606)	(604)
Changes in non-cash working capital items:					
Accounts receivable		20	189	(37)	(20)
Prepaid expenses		(110)	170	(312)	(259)
Accounts payable and accrued liabilities		(1,157)	(425)	(1,782)	(636)
Contract liabilities		20	(21)	51	(50)
Contract costs		78	(20)	(35)	(57)
Cash (used in) from Operating Activities		(1,212)	932	(1,406)	365
Investing Activities					
Proceeds from divested assets		\$ -	-	-	27,313
Purchase of network assets, property, and equipment	5	(1,457)	(1,913)	(3,303)	(3,742)
Purchase of intangible assets	6	(130)	-	(294)	-
Purchase of short-term investments		-	(3)	-	(1,139)
Sale of short-term investments		910	-	910	-
Change in receivable in escrow	4	-	28	-	(500)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		222	(906)	(340)	(521)
Cash (used in) from Investing Activities		(455)	(2,794)	(3,027)	21,411
Financing Activities					
Interest paid	7	\$ (430)	-	(736)	-
Proceeds from debt borrowings	7	6,775	-	6,775	-
Repayment of long-term debt	7	-	-	-	(19,987)
Payments of lease liabilities	8	(1,617)	(1,519)	(2,989)	(3,087)
Cash from (used in) Financing Activities		4,728	(1,519)	3,050	(23,074)
Net change in cash and cash equivalents during the period		\$ 3,061	(3,381)	(1,383)	(1,298)
Cash and cash equivalents, beginning of period		1,777	7,564	6,220	5,481
Cash and cash equivalents, end of period		\$ 4,838	4,183	4,837	4,183

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, 2023	19,735	\$ 118,105	\$ 26,822	\$ 963	\$ (116,291)	\$ 29,599
Issuance of shares for directors' fees	51	129	-	-	-	129
Stock Based Compensation	-	-	32	-	-	32
Issuance of warrants	-	-	-	233	-	233
Expiration of warrants	-	-	233	(233)	-	-
Net loss and comprehensive loss	-	-	-	-	(6,537)	(6,537)
Balance June 30, 2023	19,786	\$ 118,234	\$ 27,087	\$ 963	\$ (122,828)	\$ 23,456

	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
Issuance of shares for directors' fees	33	149	-	-	-	149
Stock Based Compensation	-	-	195	-	-	195
Net loss and comprehensive loss	-	-	-	-	(6,252)	(6,252)
Balance June 30, 2022	19,700	\$ 117,997	\$ 26,586	\$ 743	\$ (110,972)	\$ 34,354

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, 2022 (the "2022 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 2022 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 2022 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 June 30, 2023. The Board of Directors authorized the interim financial statements for issue on August 9, 2023.

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.

(b) New Standards Implemented

A number of new standards are effective for annual periods beginning on or after January 1, 2023, and management has assessed the impacts of these standards below.

Definition of Accounting Estimates (Amendments to IAS 8)

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, and management has assessed and determined there is no material impact on the financial statements.

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

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, and management has assessed and determined there is no material impact on the financial statements.

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, and management has assessed and determined there is no material impact on the financial statements.

(c) Standards Issued But Not Yet Effective

A number of new standards are effective for annual periods beginning on or after January 1, 2024, and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements.

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.

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.

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 2022 Consolidated Financial Statements. The Company's revenue is primarily derived from contracts with customers.

a) Disaggregation of revenue

In the following table, the Company disaggregates revenue into three categories that depict the nature of its revenue streams.

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Cloud and Colocation Revenue (divested)	\$ -	-	-	1,355
Connectivity Revenue	6,509	6,625	13,007	13,059
Revenue from Operations	\$ 6,509	6,625	13,007	14,414
Other Revenue	7	106	18	241
Total Revenue	6,516	6,731	13,025	14,655

Included in Other Revenue are fees earned for transition services provided to the purchaser of the Company's Cloud and Colocation business (Note 12). The transition services were 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 transition services were completed as at March 31, 2023.

b) Contract Costs

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

		2023
Balance, March 31, 2023	\$	769
Incremental costs capitalized		9
Amortization		(87)
Balance, June 30, 2023		691
Less: current		(256)
	\$	435
		2023
Balance, January 1, 2023	\$	656
Incremental costs capitalized		187
Amortization		(152)
Balance, June 30, 2023		691
Less: current		(256)
	\$	435

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:

	<u>2023</u>
Balance, March 31, 2023	\$ 327
Additions from provisioning	91
Revenue recognised for services provided	<u>(71)</u>
Balance, June 30, 2023	347
Less: Current	<u>(212)</u>
	<u>\$ 135</u>

	<u>2023</u>
Balance, January 1, 2023	\$ 296
Additions from provisioning	157
Revenue recognised for services provided	<u>(106)</u>
Balance, June 30, 2023	347
Less: Current	<u>(212)</u>
	<u>\$ 135</u>

d) Unsatisfied Performance Obligations

The aggregate amount of future revenue allocated to performance obligations that are unsatisfied as of June 30, 2023 was \$26,635. This represents contractual service obligations that the Company has yet to fulfill under its contracts with customers and yet to invoice its customers for those services, receive payment or recognize the corresponding revenues. The Company expects to recognize this revenue over the next three 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.

TERAGO INC.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited, In thousands of Canadian dollars, except for per share amounts)

b) Cash held on behalf of third party

Cash held on behalf of a third party is comprised of cash collected on behalf of the purchaser of TeraGo's Cloud and Colocation business (the "Purchaser"). In connection with the divestiture of the Cloud and Colocation business (Note 12), TeraGo entered into a transition services agreement ("TSA") with the Purchaser for a variety of support and services, all of which all have been concluded. Certain of the transferred customers continue to erroneously send payment to TeraGo instead of the Purchaser, this cash collected on behalf of the Purchaser is due to the Purchaser, and therefore an offsetting payable to third party account is included in TeraGo's statement of financial position as at June 30, 2023 (December 31, 2022 - nil).

c) Accounts receivable

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

	June 30	December 31
	2023	2022
Trade receivables	\$ 1,508	\$ 1,683
Allowance for doubtful accounts	(16)	(73)
Other receivables	425	142
Receivable in escrow	500	500
	<u>\$ 2,417</u>	<u>\$ 2,252</u>

5. Network Assets, Property and Equipment

	Network assets	Datacentre infrastructure	Computer equipment	Office furniture and equipment	Leasehold improvements	Right-of-use Assets	Total
Cost							
Balance January 1, 2023	\$ 129,104	\$ 707	\$ 5,216	\$ 2,322	\$ 1,704	\$ 29,582	\$ 168,684
Additions	3,215	23	65	0	-	404	3,707
Disposals	(92)	0	(2)	-	-	(352)	(446)
Reclassifications / Adjustments	(9)	9	-	-	-	2,745	2,745
Impairment	(294)	-	-	-	-	-	(294)
Balance, June 30, 2023	\$ 131,924	\$ 739	\$ 5,279	\$ 2,322	\$ 1,704	\$ 32,379	\$ 174,396
Accumulated Depreciation							
Balance January 1, 2023	\$ 109,322	\$ 624	\$ 5,115	\$ 2,312	\$ 1,699	\$ 16,748	\$ 135,869
Depreciation for the period	2,641	25	43	2	2	2,234	4,947
Disposals	(64)	-	(2)	-	-	(197)	(263)
Reclassifications / Adjustments	(2)	2	-	-	-	-	(0)
Impairment	(155)	-	-	-	-	-	(155)
Balance, June 30, 2023	\$ 111,742	\$ 651	\$ 5,156	\$ 2,314	\$ 1,701	\$ 18,785	\$ 140,398
Net Book Value, June 30, 2023	\$ 20,182	\$ 88	\$ 123	\$ 8	\$ 3	\$ 13,594	\$ 33,998

Impairment of Property, Plant, and Equipment

As result of the loss of certain customers and customer locations during the three and six months ended June 30, 2023, the Company determined the value of certain network assets were not recoverable. As a result, the assets were written off and an impairment charge of \$139 (cost of \$294 less accumulated depreciation of \$155) was recorded in other operating expenses on the statement of comprehensive loss for the six months ended June 30, 2023 (six months ended June 30, 2022 - \$370).

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, 2023	\$ 12,649	\$ 9,868	\$ 6,465	\$ 4,831	\$ 33,813	\$ 5,388	\$ 39,201
Additions	-	294	-	-	294	-	294
Balance, June 30, 2023	\$ 12,649	\$ 10,162	\$ 6,465	\$ 4,831	\$ 34,107	\$ 5,388	\$ 39,495
Accumulated Amortization							
Balance, January 1, 2023	\$ 2,371	\$ 9,867	\$ 6,465	\$ 4,831	\$ 23,534	\$ 4,527	\$ 28,061
Amortization for the period	-	2	-	-	2	-	2
Balance, June 30, 2023	\$ 2,371	\$ 9,869	\$ 6,465	\$ 4,831	\$ 23,536	\$ 4,527	\$ 28,063
Net Book Value, June 30, 2023	\$ 10,278	\$ 293	\$ -	\$ -	\$ 10,571	\$ 861	\$ 11,432

7. Long-term Debt

	June 30 2023	December 31 2022
Term debt facility	\$ 14,095	\$ 6,831
Less: financing fees	(1,235)	(674)
	12,860	6,157
Less: current portion	-	-
	\$ 12,860	\$ 6,157

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

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 June 30, 2023, the balance due to the Lender for the exit fee is CAD \$523, which is based upon the amount drawn down at period end (December 31, 2022 - CAD \$250).

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. During the six months ended June 30, 2023, the Company made two additional draws totalling to CAD \$7,264 (USD \$5,450) upon approval of the Board of Directors, resulting in the vesting of an additional 58,986 of the issued warrants.

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, therefore meet the fixed-for-fix criteria. Upon draw down date, the liability is measured at its fair value using the forward SOFR curve rate of in effect at the time of the draw down (Initial draw was a rate of 15.75%) and the warrants are measured at the residual amount of the compound financial instrument.

The Company incurred financing fees of CAD \$395, a transaction fee of CAD \$137 (USD \$100) and CAD \$250 for the accrued exit fee upon the initial draw down on October 3, 2022. All financing fees are deferred and are recorded as a reduction in the carrying amount of debt. The amortization of the fees and interest expense for the six months ended June 30, 2023, were CAD \$160 and CAD \$736, respectively, which 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 CAD \$1,500 at all times. The Company is in compliance with the financial covenants as at June 30, 2023.

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:

		2023
Lease liabilities, March 31, 2023	\$	13,721
Additions		162
Terminations		(66)
Interest on lease liabilities		333
Modifications		2,095
Lease payments		(1,617)
Lease liabilities, June 30, 2023		14,628
Less: current portion		(5,425)
	\$	9,203

		2023
Lease liabilities, January 1, 2023	\$	14,341
Additions		404
Terminations		(274)
Interest on lease liabilities		636
Modifications		2,510
Lease payments		(2,989)
Lease liabilities, June 30, 2023		14,628
Less: current portion		(5,425)
	\$	9,203

9. Other Long-Term Assets/Liabilities

a. Other long-term assets

		June 30	December 31
		2023	2022
Contract Asset	\$	-	1

b. Other long-term liabilities

		June 30	December 31
		2023	2022
Debt financing - Exit Fee	\$	523	250

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

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

For the three and six months ended June 30, 2023, the Company granted nil and 348 stock options, respectively (2022 – 250 and 270, respectively).

For the three and six months ended June 30, 2023, the Company recorded stock-based compensation related to stock options recovery of (\$74) and expense of \$134, respectively (2022 – expense of \$112 and \$170, respectively).

A summary of the change in the Company's stock option plan as at June 30, 2023 is presented below.

	2023	
	Number of Options	Weighted Average Exercise Price
Outstanding - January 1, 2023	501	\$5.57
Granted	348	\$3.81
Exercised	-	-
Forfeited / Expired	(243)	\$5.78
Outstanding - June 30, 2023	606	\$4.48
Exercisable	112	\$5.35

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 and six months ended June 30, 2023, the Company granted nil and nil RSUs, respectively (2022 – nil and nil, respectively).

For the three and six months ended June 30, 2023, the Company recorded compensation recovery of (\$33) and (\$88), respectively (2022 – recovery of (\$5) and expense of \$25, respectively).

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

	June 30
	2023
Opening Balance, January 1, 2023	42
Granted	-
Forfeited	(24)
Vested and settled / paid	-
Ending Balance, June 30, 2023	18

(c) Performance Based Share Units (PSUs)

For the three and six months ended June 30, 2023, the Company granted nil and nil PSUs, respectively (2022 – nil and nil, respectively).

For the three and six months ended June 30, 2023, the Company recorded compensation expense of \$1 and recovery of (\$5), respectively (2022 – recovery of (\$1) and nil, respectively), related to the PSUs forfeited.

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

	June 30
	2023
Opening Balance, January 1, 2023	19
Granted	-
Forfeited	(2)
Vested and settled / paid	-
Ending Balance, June 30, 2023	17

(d) Stock-Based Compensation Summary

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

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Restricted share units	\$ (33)	\$ (5)	\$ (88)	\$ 25
Performance-based share units	1	(1)	(5)	-
Stock options	(74)	112	134	170
Directors' fees paid in shares	74	65	129	149
	\$ (32)	\$ 171	\$ 170	\$ 344

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 June 30		Six months ended June 30	
	2023	2022	2023	2022
Numerator for basic and diluted loss per share:				
Net loss for the period	\$ (3,988)	(3,112)	\$ (6,537)	(6,252)
Denominator for basic and diluted loss per share:				
Basic weighted average number of shares outstanding	19,755	19,683	19,746	19,676
Effect of stock options, RSUs and PSUs	-	-	-	-
Diluted weighted average number of shares outstanding	19,755	19,683	19,746	19,676
Loss per share:				
Basic	\$ (0.20)	(0.16)	\$ (0.33)	(0.32)
Diluted	\$ (0.20)	(0.16)	\$ (0.33)	(0.32)

Due to the loss for the three and six months ended June 30, 2023, the impact of all the options, RSUs and PSUs totaling 753 and 769, respectively (2022 – 498 and 451, respectively), 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)	
	June 30 2023	December 31 2022	June 30 2023	December 31 2022
Financial Assets				
Cash held of behalf of third party	1	-	1	-
Short term investments	229	1,158	229	1,158
Financial Liabilities				
Long term debt (Note 7)	\$ 12,860	\$ 6,157	\$ 12,860	\$ 6,157
Payable to third party	1	-	1	-

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

b) Credit risk

The Company's credit risk exposure and management strategies are discussed in the notes to the 2022 Consolidated Financial Statements. During the six months ended June 30, 2023, the movement in the credit loss allowance in respect of trade receivables was as follows:

	<u>2023</u>
Opening Balance, January 1, 2023	73
Amounts written off	(55)
Remeasurement of loss allowance	<u>(3)</u>
Ending Balance, June 30, 2023	<u>16</u>

c) Liquidity Risk

The Company's liquidity risk exposure and management strategies are discussed in the notes to the 2022 Consolidated Financial Statements. As of June 30, 2023, the Company had cash and cash equivalents and short-term investments of \$5,066. The Company also has reduced its bank credit facility from \$1,000 to \$250. The facility is used to issue an outstanding letter of credit to a specific landlord. The short-term investments are pledged as security against this facility. As at June 30, 2023, the Company still has access to USD \$10 million under its long-term debt facility (see Note 7) and is in compliance with all facility covenants.

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.

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 for the three months ended March 31, 2022, 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.