

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

Contents

Interim Condensed Consolidated Financial Statements	
Statements of Financial Position	2
Statements of Comprehensive Loss	3
Statements of Cash Flows	4
Statements of Changes in Equity	5
Notes to Financial Statements	6-17

Notice of no auditor review of interim financial statements

The accompanying unaudited interim condensed consolidated financial statements of the Company for the three and nine months ended September 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.

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

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

	<i>Note</i>	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Assets			
Cash and cash equivalents	4	\$ 2,910	\$ 6,220
Cash held on behalf of third party	4	12	-
Short-term investments	12	232	1,158
Accounts receivable	4	2,131	2,252
Prepaid expenses and other assets		1,152	1,141
Current portion of contract costs	3	<u>257</u>	<u>167</u>
Total current assets		6,694	10,938
Network assets, property and equipment	5	34,240	32,815
Intangible assets	6	10,717	10,279
Other long-term assets	9	-	1
Goodwill		861	861
Contract costs	3	<u>380</u>	<u>489</u>
Total non-current assets		46,198	44,445
Total Assets		<u>\$ 52,892</u>	<u>\$ 55,383</u>
Liabilities			
Accounts payable and accrued liabilities*		\$ 2,782	\$ 4,461
Payable for cash held to third party	4	12	-
Current portion of contract liabilities	3	209	127
Current portion of lease liabilities	8	<u>5,377</u>	<u>5,023</u>
Total current liabilities		8,380	9,611
Decommissioning and restoration obligations		301	279
Contract liabilities	3	111	169
Long-term debt	7	12,992	6,157
Lease liabilities	8	10,022	9,318
Other long-term liabilities*	7,9	<u>523</u>	<u>250</u>
Total non-current liabilities		23,949	16,173
Total Liabilities		<u>\$ 32,329</u>	<u>\$ 25,784</u>
Shareholders' Equity			
Share capital		118,234	118,105
Warrant reserve		963	963
Contributed surplus		27,281	26,822
Deficit		<u>(125,915)</u>	<u>(116,291)</u>
Total shareholders' equity		<u>\$ 20,563</u>	<u>\$ 29,599</u>
Total Liabilities and Shareholders' Equity		<u>\$ 52,892</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 condensed consolidated financial statements.

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

	Note	Three months ended September 30		Nine months ended September 30	
		2023	2022	2023	2022
Revenue from operations	3	\$ 6,491	6,516	19,498	20,930
Other revenue	3	0	116	18	357
		<u>6,491</u>	<u>6,632</u>	<u>19,516</u>	<u>21,287</u>
Expenses					
Cost of services		1,794	1,799	5,147	5,859
Salaries and related costs		2,841	3,484	9,732	9,946
Other operating expenses*		1,301	1,342	4,121	5,001
Amortization of intangible assets	6	3	-	5	13
Depreciation of network assets, property, and equipment	5	2,548	2,562	7,495	7,543
		<u>8,487</u>	<u>9,187</u>	<u>26,500</u>	<u>28,362</u>
Loss from operations		(1,996)	(2,555)	(6,984)	(7,075)
Impairment loss on divested assets		-	-	-	(107)
Impairment of assets and related charges*	5, 6	(110)	(58)	(278)	(432)
Foreign exchange gain (loss)		29	(4)	17	(38)
Finance costs		(1,075)	(334)	(2,553)	(1,598)
Finance income		65	38	174	85
Loss before income taxes		<u>\$ (3,087)</u>	<u>(2,913)</u>	<u>(9,624)</u>	<u>(9,165)</u>
Income taxes					
Income tax expense		-	-	-	-
Net loss and comprehensive loss		<u>\$ (3,087)</u>	<u>(2,913)</u>	<u>(9,624)</u>	<u>(9,165)</u>
Deficit, beginning of period					
		<u>\$ (122,828)</u>	<u>(110,972)</u>	<u>(116,291)</u>	<u>(104,720)</u>
Deficit, end of period					
		<u>\$ (125,915)</u>	<u>(113,885)</u>	<u>(125,915)</u>	<u>(113,885)</u>
Basic & Diluted loss per share	11	\$ (0.16)	(0.15)	(0.49)	(0.47)
Basic & Diluted weighted average number of shares outstanding (in 000's)		19,786	19,700	19,760	19,540

*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.

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

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

	Note	Three months ended September		Nine months ended September 30	
		2023	30 2022	2023	2022
Operating Activities					
Net loss for the period		\$ (3,087)	(2,913)	(9,624)	(9,165)
Adjustments to reconcile net loss to net cash used in operating activities:					
Severance, acquisition, and other costs		170	374	1,367	1,517
Depreciation of network assets, property and equipment	5	2,548	2,562	7,495	7,543
Amortization of intangible assets	6	3	-	5	13
Stock-based compensation expense	10	193	229	363	573
Finance costs		1,075	334	2,553	1,598
Finance income		(65)	(38)	(174)	(85)
Loss on adjustments and disposal of network assets and intangible assets		16	-	44	171
Impairment of assets and related charges	5, 6	94	58	233	432
Severance, acquisition, and other costs paid		(369)	(246)	(975)	(850)
Changes in non-cash working capital items:					
Accounts receivable		(153)	(884)	(190)	(904)
Prepaid expenses		301	(128)	(11)	(387)
Accounts payable and accrued liabilities		5	550	(1,777)	(86)
Contract liabilities		(27)	(68)	24	(118)
Contract costs		54	18	19	(39)
Cash from (used in) Operating Activities		758	(152)	(648)	213
Investing Activities					
Proceeds from divested assets		\$ -	-	-	27,313
Purchase of network assets, property, and equipment	5	(980)	(935)	(4,283)	(4,677)
Purchase of intangible assets	6	(149)	-	(443)	-
Purchase of short-term investments		-	-	-	(1,139)
Sale of short-term investments		-	-	910	-
Change in receivable in escrow	4	500	-	500	(500)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		21	46	(319)	(475)
Cash (used in) from Investing Activities		(608)	(889)	(3,635)	20,522
Financing Activities					
Interest paid	7	\$ (548)	-	(1,284)	-
Proceeds from debt borrowings	7	-	-	6,775	-
Repayment of long-term debt	7	-	-	-	(19,987)
Payments of lease liabilities	8	(1,529)	(1,361)	(4,518)	(4,448)
Cash (used in) from Financing Activities		(2,077)	(1,361)	973	(24,435)
Net change in cash and cash equivalents during the period		\$ (1,927)	(2,402)	(3,310)	(3,700)
Cash and cash equivalents, beginning of period		4,837	4,183	6,220	5,481
Cash and cash equivalents, end of period		\$ 2,910	1,781	2,910	1,781

The accompanying notes are an integral part of these interim condensed consolidated 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	-	-	226	-	-	226
Issuance of warrants	-	-	-	233	-	233
Expiration of warrants	-	-	233	(233)	-	-
Net loss and comprehensive loss	-	-	-	-	(9,624)	(9,624)
Balance September 30, 2023	19,786	\$ 118,234	\$ 27,281	\$ 963	\$ (125,915)	\$ 20,563

	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	50	211	-	-	-	211
Stock Based Compensation	-	-	362	-	-	362
Net loss and comprehensive loss	-	-	-	-	(9,165)	(9,165)
Balance September 30, 2022	19,717	\$ 118,059	\$ 26,753	\$ 743	\$ (113,885)	\$ 31,670

The accompanying notes are an integral part 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)**

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 September 30, 2023. The Board of Directors authorized the interim financial statements for issue on November 7, 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. Management is assessing the impacts, if any, the amendments to existing standards will have on our 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.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

On May 25, 2023, the IASB issued *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)* for companies to provide disclosures about its supplier finance arrangements. 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 September 30		Nine months ended September 30	
	2023	2022	2023	2022
Cloud and Colocation Revenue (divested) \$	-	-	-	1,355
Connectivity Revenue	6,491	6,516	19,498	19,575
Revenue from Operations \$	6,491	6,516	19,498	20,930
Other Revenue	0	116	18	357
Total Revenue	6,491	6,632	19,516	21,287

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, June 30, 2023	\$	691
Incremental costs capitalized		28
Amortization		(82)
Balance, September 30, 2023		637
Less: current		(257)
	\$	380
		2023
Balance, January 1, 2023	\$	656
Incremental costs capitalized		215
Amortization		(234)
Balance, September 30, 2023		637
Less: current		(257)
	\$	380

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, June 30, 2023	\$ 347
Additions from provisioning	52
Revenue recognised for services provided	<u>(79)</u>
Balance, September 30, 2023	320
Less: Current	<u>(209)</u>
	<u>\$ 111</u>

	<u>2023</u>
Balance, January 1, 2023	\$ 296
Additions from provisioning	209
Revenue recognised for services provided	<u>(185)</u>
Balance, September 30, 2023	320
Less: Current	<u>(209)</u>
	<u>\$ 111</u>

d) Unsatisfied Performance Obligations

The aggregate amount of future revenue allocated to performance obligations that are unsatisfied as of September 30, 2023, was \$20,115 (September 30, 2022 - \$28,842). This represents contractual service obligations that the Company has yet to fulfill under its contracts with customers and yet to invoice its customers for the revenue related to 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 that occurred on January 31, 2022 (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 in a prior period.. However, certain of the transferred customers continue to remit 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 for cash held to third party account is included in TeraGo's statement of financial position as at September 30, 2023 (December 31, 2022 - nil).

c) Accounts receivable

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

	September 30	December 31
	2023	2022
Trade receivables	\$ 1,771	\$ 1,683
Allowance for doubtful accounts	(14)	(73)
Other receivables	374	142
Receivable in escrow*	-	500
	<u>\$ 2,131</u>	<u>\$ 2,252</u>

*Amount held in escrow related to the divestiture was received in full (\$500) on August 16, 2023.

5. Network Assets, Property and Equipment

Cost	Network assets	Datacentre infrastructure	Computer equipment	Office furniture and equipment	Leasehold improvements	Vehicles	Right-of-use Assets	Total
Balance January 1, 2023	\$ 129,104	\$ 707	\$ 5,216	\$ 2,322	\$ 1,704	\$ 49	\$ 29,582	\$ 168,684
Additions	4,187	31	65	0	-	-	1,101	5,384
Disposals	(130)	-	(2)	-	-	-	(615)	(747)
Reclassifications / Adjustments	(11)	11	-	-	-	-	4,224	4,224
Impairment	(490)	-	-	-	-	-	-	(490)
Balance, September 30, 2023	\$ 132,660	\$ 749	\$ 5,279	\$ 2,322	\$ 1,704	\$ 49	\$ 34,292	\$ 177,055
Accumulated Depreciation								
Balance January 1, 2023	\$ 109,322	\$ 624	\$ 5,115	\$ 2,312	\$ 1,699	\$ 49	\$ 16,748	\$ 135,869
Depreciation for the period	3,959	38	66	3	2	-	3,427	7,495
Disposals	(85)	-	(2)	-	-	-	(205)	(292)
Reclassifications / Adjustments	(1)	1	-	-	-	-	-	(0)
Impairment	(257)	-	-	-	-	-	-	(257)
Balance, September 30, 2023	\$ 112,938	\$ 663	\$ 5,179	\$ 2,315	\$ 1,701	\$ 49	\$ 19,970	\$ 142,815
Net Book Value, September 30, 2023	\$ 19,722	\$ 86	\$ 100	\$ 7	\$ 3	\$ -	\$ 14,322	\$ 34,240

Impairment of Property, Plant, and Equipment

As result of the loss of certain customers and customer locations during the three and nine months ended September 30, 2023, the Company determined that the value of certain network assets were not recoverable. As a result, the assets were written off and an impairment charge of \$94 (cost of \$196 less accumulated depreciation of \$102) and \$233 (cost of \$490 less accumulated depreciation of \$257), respectively, was recorded in impairment of assets and related charges on the statement of comprehensive loss for the three and nine months ended September 30, 2023. (2022 - \$50 and \$420, respectively).

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	-	443	-	-	443	-	443
Balance, September 30, 2023	\$ 12,649	\$ 10,311	\$ 6,465	\$ 4,831	\$ 34,256	\$ 5,388	\$ 39,644
Accumulated Amortization							
Balance, January 1, 2023	\$ 2,371	\$ 9,867	\$ 6,465	\$ 4,831	\$ 23,534	\$ 4,527	\$ 28,061
Amortization for the period	-	5	-	-	5	-	5
Balance, September 30, 2023	\$ 2,371	\$ 9,872	\$ 6,465	\$ 4,831	\$ 23,539	\$ 4,527	\$ 28,066
Net Book Value, September 30, 2023	\$ 10,278	\$ 439	\$ -	\$ -	\$ 10,717	\$ 861	\$ 11,578

7. Long-term Debt

	September 30	December 31
	2023	2022
Term debt facility	\$ 14,095	\$ 6,831
Less: financing fees	(1,103)	(674)
	12,992	6,157
Less: current portion	-	-
	\$ 12,992	\$ 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 on October 3, 2022. 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 September 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 nine months ended September 30, 2023, the Company made two additional draws (April 2023 and June 2023) 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. The Company did not make any draws during the three month period ended September 30, 2023.

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 each 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 nine months ended September 30, 2023, were CAD \$292 and CAD \$1,284, 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 September 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 20 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, June 30, 2023	\$	14,628
Additions		697
Terminations		(273)
Interest on lease liabilities		393
Modifications		1,483
Lease payments		(1,529)
Lease liabilities, September 30, 2023		15,399
Less: current portion		(5,377)
	\$	<u>10,022</u>

		2023
Lease liabilities, January 1, 2023	\$	14,341
Additions		1,101
Terminations		(547)
Interest on lease liabilities		1,029
Modifications		3,993
Lease payments		(4,518)
Lease liabilities, September 30, 2023		15,399
Less: current portion		(5,377)
	\$	<u>10,022</u>

9. Other Long-Term Assets/Liabilities**a. Other long-term assets**

		September 30	December 31
		2023	2022
Contract Asset	\$	<u>-</u>	<u>1</u>

b. Other long-term liabilities

		September 30	December 31
		2023	2022
Debt financing - Exit Fee	\$	<u>523</u>	<u>\$ 250</u>

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 nine months ended September 30, 2023, the Company granted 630 and 978 stock options, respectively (2022 – 23 and 293, respectively).

For the three and nine months ended September 30, 2023, the Company recorded stock-based compensation related to stock options expense of \$135 and \$269, respectively (2022 – expense of \$148 and \$318, respectively).

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

	2023	
	Number of Options	Weighted Average Exercise Price
Outstanding - January 1, 2023	501	\$ 5.57
Granted	978	2.56
Forfeited / Expired	(574)	5.17
Outstanding - September 30, 2023	905	2.57
Exercisable	56	4.81

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

For the three and nine months ended September 30, 2023, the Company recorded compensation expense of \$6 and recovery of (\$82), respectively (2022 – expense of \$18 and \$43, respectively).

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

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

(c) Performance Based Share Units (PSUs)

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

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

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

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

(d) Stock-Based Compensation Summary

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

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Restricted share units	\$ 6	18	\$ (82)	43
Performance-based share units	-	1	(5)	1
Stock options	135	148	269	318
Directors' fees paid in shares	-	62	129	211
Directors' fees accrued	52	-	52	-
	\$ 193	229	\$ 363	573

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 September 30		Nine months ended September 30	
	2023	2022	2023	2022
Numerator for basic and diluted loss per share:				
Net loss for the period	\$ (3,087)	(2,913) \$	(9,624)	(9,165)
Denominator for basic and diluted loss per share:				
Basic weighted average number of shares outstanding	19,786	19,700	19,760	19,540
Effect of stock options, RSUs and PSUs	-	-	-	-
Diluted weighted average number of shares outstanding	19,786	19,700	19,760	19,540
Loss per share:				
Basic	\$ (0.16)	(0.15) \$	(0.49)	(0.47)
Diluted	\$ (0.16)	(0.15) \$	(0.49)	(0.47)

Due to the loss for the three and nine months ended September 30, 2023, the impact of all the options, RSUs and PSUs totaling 921 and 820, respectively (2022 – 566 and 490, 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)	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Financial Assets				
Cash held on behalf of third party	12	-	12	-
Short term investments	232	1,158	232	1,158
Financial Liabilities				
Payable for cash held to third party	12	-	12	-
Long term debt (Note 7)	12,992	6,157	12,992	6,157

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 nine months ended September 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	(66)
Remeasurement of loss allowance	6
Ending Balance, September 30, 2023	<u>14</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 September 30, 2023, the Company had cash and cash equivalents and short-term investments of \$2,922. The Company also has reduced its bank credit facility from \$1,000 to \$250, effective April 21, 2023. 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 September 30, 2023, the Company still has access to USD \$9.55 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.