

**TERAGO INC.**  
**Interim Condensed Consolidated Financial Statements**  
**Three and six months ended June 30, 2020 and 2019**

**Contents**

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**Interim Condensed Consolidated Financial Statements**

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

	<i>Note</i>	<b>June 30 2020</b>	<b>December 31 2019</b>
<b>Assets</b>			
Cash and cash equivalents	4	\$ 9,296	\$ 8,686
Accounts receivable	4	2,937	2,889
Prepaid expenses and other assets		1,172	727
Current portion of contract costs	3	364	394
Current portion of other long-term assets	9	79	17
<b>Total current assets</b>		<b>13,848</b>	<b>12,713</b>
Network assets, property and equipment	5	59,630	59,562
Intangible assets	6	17,830	18,605
Goodwill	6	19,419	19,419
Contract costs	3	369	362
Other long-term assets	9	57	16
<b>Total non-current assets</b>		<b>97,305</b>	<b>97,964</b>
<b>Total Assets</b>		<b>\$ 111,153</b>	<b>\$ 110,677</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		\$ 6,051	\$ 4,599
Current portion of contract liabilities	3	150	155
Current portion of long-term debt	7	3,000	4,000
Current portion of lease liabilities	8	7,251	7,014
Current portion of other long-term liabilities	9	-	-
<b>Total current liabilities</b>		<b>16,452</b>	<b>15,768</b>
Decommissioning and restoration obligations		262	276
Contract liabilities	3	72	79
Long-term debt	7	26,652	24,470
Lease liabilities	8	21,946	21,744
Other long-term liabilities	9	-	235
<b>Total non-current liabilities</b>		<b>48,932</b>	<b>46,804</b>
<b>Total Liabilities</b>		<b>65,384</b>	<b>62,572</b>
<b>Shareholders' Equity</b>			
Share capital		102,379	101,846
Contributed surplus		27,538	27,548
Deficit		(84,148)	(81,289)
<b>Total Shareholders' Equity</b>		<b>\$ 45,769</b>	<b>\$ 48,105</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 111,153</b>	<b>\$ 110,677</b>

Subsequent Event – Note 14

On behalf of the Board:

(signed) "Matthew Gerber"

Director

(signed) "Gary Sherlock"

Director

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

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

	<i>Note</i>	Three months ended June 30		Six months ended June 30	
		2020	2019	2020	2019
<b>Revenue</b>	3	\$ 11,648	12,229	23,265	24,626
<b>Expenses</b>					
Cost of services		2,328	2,358	4,587	4,619
Salaries and related costs		3,308	5,077	7,583	9,344
Other operating expenses		1,897	2,361	3,809	4,057
Depreciation of network assets, property, and equipment	5	3,301	3,505	6,690	7,030
Amortization of intangible assets	6	372	454	775	906
		11,206	13,755	23,444	25,956
<b>Income (Loss) from operations</b>		442	(1,526)	(179)	(1,330)
Foreign exchange gain (loss)		(33)	(81)	(154)	(75)
Finance costs		(1,093)	(1,182)	(2,609)	(2,597)
Finance income		28	18	83	43
<b>Loss before income taxes</b>		\$ (656)	(2,771)	(2,859)	(3,959)
<b>Income taxes</b>					
Income tax expense		-	-	-	-
<b>Net loss and comprehensive loss</b>		\$ (656)	(2,771)	(2,859)	(3,959)
<b>Deficit, beginning of period</b>		\$ (83,492)	(75,483)	(81,289)	(74,295)
<b>Deficit, end of period</b>		\$ (84,148)	(78,254)	(84,148)	(78,254)
<b>Basic &amp; Diluted loss per share</b>	11	\$ (0.04)	(0.18)	(0.17)	(0.25)
<b>Basic &amp; Diluted weighted average number of shares outstanding</b>		16,670	15,790	16,652	15,782

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

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

		Three months ended June 30		Six months ended June 30	
	Note	2020	2019	2020	2019
<b>Operating Activities</b>					
Net loss for the period		(656)	(2,771)	(2,859)	(3,959)
Adjustments to reconcile net loss to net cash provided by operating activities:					
Severance, acquisition, and other costs		158	985	149	955
Depreciation of network assets, property and equipment	5	3,301	3,505	6,690	7,030
Amortization of intangible assets	6	372	454	775	906
Stock-based compensation expense	10	417	970	764	1,312
Finance costs		1,093	1,182	2,609	2,597
Finance income		(28)	18	(83)	43
Loss on adjustments and disposal of network assets and intangible assets	5	30	72	75	95
Impairment of assets and related charges	3, 5	108	64	176	146
Severance, acquisition, and other costs paid		(314)	(511)	(521)	(698)
Stock-based compensation paid		-	(225)	-	(353)
Changes in non-cash working capital items:					
Accounts receivable		394	(63)	(68)	475
Prepaid expenses		(410)	(523)	(453)	(583)
Accounts payable and accrued liabilities		318	(133)	66	(1,017)
Contract liabilities		-	(3)	-	(1)
Contract costs		(7)	67	19	46
<b>Cash from Operating Activities</b>		<b>4,776</b>	<b>3,088</b>	<b>7,339</b>	<b>6,994</b>
<b>Investing Activities</b>					
Purchase of network assets, property, and equipment	5	(1,909)	(1,799)	(4,118)	(3,860)
Purchase of intangible assets	6	-	-	-	(6)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		95	315	317	911
<b>Cash used in Investing Activities</b>		<b>(1,814)</b>	<b>(1,484)</b>	<b>(3,801)</b>	<b>(2,955)</b>
<b>Financing Activities</b>					
Proceeds from debt borrowings		1,700	-	3,100	-
Interest swap settlement		(629)	-	(629)	-
Interest paid, net of received		-	(375)	(285)	(752)
Repayment of long-term debt		(1,100)	(1,000)	(2,100)	(2,000)
Financing costs incurred		(181)	-	(181)	-
Payments of lease liabilities		(1,849)	(1,757)	(3,760)	(3,627)
Government grants	13	927	-	927	-
<b>Cash from (used in) Financing Activities</b>		<b>(1,132)</b>	<b>(3,132)</b>	<b>(2,928)</b>	<b>(6,379)</b>
Net change in cash and cash equivalents, during the period		1,830	(1,528)	610	(2,340)
Cash and cash equivalents, beginning of period		7,466	3,106	8,686	3,918
<b>Cash and cash equivalents, end of period</b>		<b>9,296</b>	<b>1,578</b>	<b>9,296</b>	<b>1,578</b>

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

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

	Share Capital		Contributed Surplus	Deficit	Total
	Number (in 000's)	Amount			
<b>Balance, January 1, 2020</b>	16,628	\$ 101,846	\$ 27,548	\$ (81,289)	\$ 48,105
Stock-based compensation	-	-	726	-	726
Issuance of common shares from vesting of RSUs/PSUs	82	495	(495)	-	-
Shares deducted for payment of withholding tax	(33)	-	(241)	-	(241)
Issuance of shares for directors' fees	7	38	-	-	38
Net loss and comprehensive loss	-	-	-	(2,859)	(2,859)
<b>Balance, June 30, 2020</b>	16,684	\$ 102,379	\$ 27,538	\$ (84,148)	\$ 45,769

	Share Capital		Contributed Surplus	Deficit	Total
	Number (in 000's)	Amount			
<b>Balance, January 1, 2019</b>	15,768	\$ 93,262	\$ 25,676	\$ (74,295)	\$ 44,643
Issuance of shares upon exercise of options	7	49	(16)	-	33
Stock-based compensation	-	-	41	-	41
Issuance of shares for directors' fees	21	153	74	-	227
Modifications of share-based awards from cash-settled to equity-settled	-	-	1,333	-	1,333
Net loss and comprehensive loss	-	-	-	(3,959)	(3,959)
<b>Balance, June 30, 2019</b>	15,796	\$ 93,464	\$ 27,108	\$ (78,254)	\$ 42,318

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

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

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**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.

**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, 2019 (the “2019 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 2019 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 2019 Consolidated Financial Statements.

The continuing uncertainty around the outbreak of the novel coronavirus (“COVID-19”) pandemic required the use of judgments and estimates in preparation of the interim condensed financial statements for the period ended June 30, 2020. The future impact of COVID-19 uncertainties could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, revenue and expenses in the consolidated financial statements. Examples of accounting estimates and judgments that may be impacted by the pandemic include: revenue recognition, impairment of goodwill and intangible assets, allowance for expected credit losses, and provisions.

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, 2020. The Board of Directors authorized the interim financial statements for issue on August 5, 2020.

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

**(a) Functional and Presentation Currency**

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

**3. Revenue**

The Company’s operations, main sources of revenue, and methods for recognition are those described in Note 3 of

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

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

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the 2019 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 two primary categories that depict the nature of its revenue streams.

		<b>Three months ended</b>		<b>Six months ended</b>	
		<b>June 30</b>		<b>June 30</b>	
		<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Cloud and Colocation Revenue	\$	4,397	4,587	8,696	9,081
Connectivity Revenue		7,251	7,642	14,569	15,545
	\$	11,648	12,229	23,265	24,626

**b) Contract Costs**

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

		<b>2020</b>
<b>Balance, March 31, 2020</b>	\$	730
Incremental commissions capitalized		141
Impairment charges from contract terminations		(4)
Amortization		(134)
<b>Balance, June 30, 2020</b>		733
Less: current	\$	(364)
		369
		<b>2020</b>
<b>Balance, January 1, 2020</b>	\$	756
Incremental commissions capitalized		253
Impairment charges from contract terminations		(4)
Amortization		(272)
<b>Balance, June 30, 2020</b>		733
Less: current	\$	(364)
		369

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

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**c) Contract Liabilities**

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

		<b>2020</b>
<b>Balance, March 31, 2020</b>	\$	224
Additions from provisioning		105
Revenue recognized for services provided		(99)
Write-offs from contract terminations		(8)
<b>Balance, June 30, 2020</b>		222
Less: current	\$	(150)
		72
		<b>2020</b>
<b>Balance, January 1, 2020</b>	\$	234
Additions from provisioning		177
Revenue recognized for services provided		(181)
Write-offs from contract terminations		(8)
<b>Balance, June 30, 2020</b>		222
Less: current	\$	(150)
		72

**d) Unsatisfied Performance Obligations**

The aggregate amount of revenue allocated to performance obligations that are unsatisfied as of June 30, 2020 was \$48,780. 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) Accounts receivable**

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

	<b>June 30</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Trade receivables	\$ 2,875	\$ 2,814
Loss allowances (Note 12)	(65)	(40)
Other	127	115
	\$ 2,937	\$ 2,889



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

<b>Cost</b>	<b>Network Assets</b>	<b>Cloud &amp; Datacentre Infrastructure</b>	<b>Computer Equipment</b>	<b>Office Furniture and Equipment</b>	<b>Leasehold Improvements</b>	<b>Vehicles</b>	<b>Right-of-use Assets</b>	<b>Total</b>
Balance, January 1, 2020	\$ 123,639	\$ 12,104	\$ 4,971	\$ 2,362	\$ 3,077	\$ 49	\$ 32,016	\$ 178,218
Additions	3,930	157	20	11	-	-	995	5,113
Disposals	(311)	-	-	-	-	-	(63)	(374)
Reclassifications / Adjustments	-	(1)	9	(9)	-	-	1,944	1,943
Impairment	(324)	-	-	-	-	-	(21)	(345)
<b>Balance, June 30, 2020</b>	<b>\$ 126,934</b>	<b>\$ 12,260</b>	<b>\$ 5,000</b>	<b>\$ 2,364</b>	<b>\$ 3,077</b>	<b>\$ 49</b>	<b>\$ 34,871</b>	<b>\$ 184,555</b>
<b>Accumulated Depreciation</b>								
Balance, January 1, 2020	\$ 99,884	\$ 4,081	\$ 4,928	\$ 2,307	\$ 2,138	\$ 49	\$ 5,269	\$ 118,656
Depreciation for the period	3,299	449	27	16	162	-	2,737	6,690
Disposals	(232)	-	-	-	-	-	(16)	(248)
Reclassifications / Adjustments	1	(1)	-	-	-	-	-	-
Impairment	(160)	-	-	-	-	-	(13)	(173)
<b>Balance, June 30, 2020</b>	<b>\$ 102,792</b>	<b>\$ 4,529</b>	<b>\$ 4,955</b>	<b>\$ 2,323</b>	<b>\$ 2,300</b>	<b>\$ 49</b>	<b>\$ 7,977</b>	<b>\$ 124,925</b>
<b>Net Book Value, June 30, 2020</b>	<b>\$ 24,142</b>	<b>\$ 7,731</b>	<b>\$ 45</b>	<b>\$ 41</b>	<b>\$ 777</b>	<b>\$ -</b>	<b>\$ 26,894</b>	<b>\$ 59,630</b>

During the three and six months ended June 30, 2020, the Company wrote off assets with net book value of \$63 (Cost of \$191 less accumulated depreciation of \$128, \$32 of which was recognized against lease liabilities) and \$126 (Cost of \$374 less accumulated depreciation of \$248, \$51 of which was recognized against lease liabilities) respectively, which primarily represents replaced assets and obsolete assets disposed of for negligible value. The corresponding loss on disposal is included in other operating expenses (2019 - \$71 and \$94, respectively).

**Impairment of Property, Plant, and Equipment**

As a result of the loss of certain customers and customer locations in primarily connectivity offerings during the three months and six months ended June 30, 2020, 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 \$104 (Cost of \$221 less accumulated depreciation of \$117) and \$172 (Cost of \$345 less accumulated depreciation of \$173) respectively, was recorded in other operating expenses on the statement of comprehensive loss in the period (2019 - \$61 and \$140, respectively).

**TERAGO INC.**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
(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, 2020	\$ 12,649	\$ 9,868	\$ 18,021	\$ 4,831	\$ 45,369	\$ 19,419	\$ 64,788
Additions	-	-	-	-	-	-	-
Disposals / Adjustments	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
<b>Balance, June 30, 2020</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 Depreciation</b>							
Balance, January 1, 2020	\$ 2,371	\$ 9,661	\$ 11,780	\$ 2,952	\$ 26,764	\$ -	\$ 26,764
Amortization for the period	-	80	630	65	775	-	775
Impairment	-	-	-	-	-	-	-
<b>Balance, June 30, 2020</b>	<b>\$ 2,371</b>	<b>\$ 9,741</b>	<b>\$ 12,410</b>	<b>\$ 3,017</b>	<b>\$ 27,539</b>	<b>\$ -</b>	<b>\$ 27,539</b>
<b>Net Book Value, June 30, 2020</b>	<b>\$ 10,278</b>	<b>\$ 127</b>	<b>\$ 5,611</b>	<b>\$ 1,814</b>	<b>\$ 17,830</b>	<b>\$ 19,419</b>	<b>\$ 37,249</b>

**7. Long-term Debt**

	June 30 2020	December 31 2019
Term debt facility	\$ 30,000	\$ 28,652
less: financing fees	(348)	(182)
	29,652	28,470
less: current portion	(3,000)	(4,000)
	\$ 26,652	\$ 24,470

**Term Debt Facility**

In June 2014, the Company entered into an agreement with a syndicate led by the National Bank of Canada ("NBC") to provide a \$50,000 credit facility that is principally secured by a general security agreement over the Company's assets.

In March 2015, the Company entered into an amended agreement with the syndicate led by NBC that increased the credit facility by \$35,000 (\$30,000 increase to the term debt facility and \$5,000 increase to the revolving facility) and extended the term from June 6, 2017 to June 30, 2018. Other terms were substantially consistent with the existing credit facilities.

In June 2017, the Company entered into a second amended agreement with the syndicate led by NBC that reduced the term debt facility from \$50,000 to \$40,000 (as a result of principal previously repaid), reduced the quarterly principal installment from \$1,250 to \$1,000 and extended the term from June 30, 2018 to June 14, 2021. Other terms were substantially consistent with the existing credit facilities.

In March 2019, the Company entered into a third amended agreement with the syndicate led by NBC which had the effect of excluding the impact of IFRS 16 on certain covenant calculations, and thereby maintaining accounting definitions in effect when the credit agreement was first entered into in June 2014.

In June 2020, the Company entered into an amended and restated credit agreement with a syndicate led by Royal Bank of Canada ("RBC") to replace the Company's existing credit facilities which reduced the credit facility to \$35,000 (from \$75,000) and extended the term from June 14, 2021 to June 30, 2022. Effective June 30, 2020, NBC ceased to be an administrative agent and a lender to the Company and assigned its right and obligations to RBC, in its capacity as administrative agent.

The total \$35,000 facility that matures June 30, 2022 is made up of the following:

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

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- \$5,000 revolving facility which bears interest at prime plus a margin percent. As of June 30, 2020, \$nil was drawn and outstanding on the revolving facility. Letters of credit issued under the facility totaled \$655 as of June 30, 2020 (December 31, 2019 - \$655).
- \$30,000 term facility which bears interest at prime or Banker's Acceptance (at the Company's option) plus a margin percent and is repayable in quarterly principal installments of \$750. This facility was fully drawn upon signing the amended and restated credit agreement.

At June 30, 2020, \$30,000 of the term facility principal balance outstanding was in a prime rate loan bearing interest at prime plus a margin percent. During the three and six months ended June 30, 2020, the Company's existing interest rate swap contracts were terminated, and the Company paid cash of \$629 to settle the contracts. The effective interest rate on the Company's long-term debt on June 30, 2020 was 5.2% which represents the prime loan rate.

During the three and six months ended June 30, 2020, the Company incurred \$266 in finance costs to amend and extend the credit facility, \$181 of which was paid in cash. Financing fees incurred as part of the Company's debt origination and modifications have been recorded as a reduction in the carrying amount of the debt and deferred and amortized using the effective interest method over the remaining term of the facility.

The amended and restated RBC facility is subject to certain financial and non-financial covenants which were substantially carried over from the previous credit agreement and the Company is in compliance with at June 30, 2020. Under this facility, the Company is subject to a cash flow sweep that could accelerate a certain amount of principal repayment based on a calculation outlined by the credit agreement not later than 120 days after the end of each fiscal year.

**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, data centre leases for colocation and cloud service offerings, 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.

**b) Lease Liability**

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

		<b>2020</b>
Lease liabilities, March 31, 2020	\$	28,241
Additions		981
Terminations		(33)
Interest on lease liabilities		663
Modifications		1,194
Lease payments		(1,849)
<b>Lease liabilities – June 30, 2020</b>		<b>29,197</b>
less: current portion		(7,251)
	\$	<b>21,946</b>

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

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		<b>2020</b>
Lease liabilities, January 1, 2020	\$	28,758
Additions		995
Terminations		(51)
Interest on lease liabilities		1,329
Modifications		1,926
Lease payments		(3,760)
<b>Lease liabilities – June 30, 2020</b>		<b>29,197</b>
less: current portion		(7,251)
	\$	21,946

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

	<b>June 30</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Contract asset	\$ 136	33
	136	33
less: current portion	(79)	(17)
	\$ 57	\$ 16

**(b) Other long-term liabilities**

	<b>June 30</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Interest rate swap contract (Note 7)	-	235
	-	235

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

For the three and six months ended June 30, 2020, the Company granted nil and 135 stock options, respectively, to certain key executives (2019 – 17 and 39, respectively).

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

For the three and six months ended June 30, 2020, the Company recorded stock-based compensation related to stock options of \$149 and \$270, respectively (2019 - \$31 and \$41, respectively).

A summary of the change in the Company's stock option plan as at June 30, 2020 is presented below.

	<b>2020</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
<b>Outstanding - January 1</b>	217	\$8.72
Granted	135	\$6.23
Exercised	-	-
Forfeited / Expired	-	-
<b>Outstanding - June 30</b>	<b>352</b>	<b>\$7.77</b>
Exercisable	22	\$7.97

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

For the three and six months ended June 30, 2020, the Company granted nil and 46 RSUs, respectively, to certain key executives (2019 - 3 and 39, respectively).

For the three and six months ended June 30, 2020, the Company recorded compensation expense of \$177 and \$365, respectively, related to the RSUs granted (2019 - \$712 and \$884, respectively). The Company issued 21 and net 49 common shares, respectively, to the holders of RSUs that vested in the period after a deduction of 33 common shares in lieu of payment of required taxes (2019 - paid \$nil and \$128 in cash, respectively).

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

	<b>June 30 2020</b>
<b>Opening Balance, January 1, 2020</b>	255
Granted	46
Forfeited	-
Vested	(82)
<b>Ending Balance, June 30, 2020</b>	<b>219</b>

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

For the three and six months ended June 30, 2020, the Company granted nil and 46 PSUs, respectively, to certain key executives (2019 - 4 and 39, respectively).

For the three and six months ended June 30, 2020, the Company recorded compensation expense of \$7 and \$7, respectively, related to the PSUs granted (2019 - \$153 and \$160).

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

	<b>June 30 2020</b>
<b>Opening Balance, January 1, 2020</b>	32
Granted	46
Vested and paid	-
Forfeited / Expired	(32)
<b>Ending Balance, December 31, 2020</b>	<b>46</b>

**TERAGO INC.****Notes to the Interim Condensed Consolidated Financial Statements  
(In thousands of Canadian dollars, except for per share amounts)****(d) Stock-Based Compensation Summary**

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

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Restricted share units	\$ 177	712	\$ 365	884
Performance-based share units	7	153	7	160
Stock options	149	31	270	41
Directors' fees	84	74	122	227
	<u>\$ 417</u>	<u>970</u>	<u>\$ 764</u>	<u>1,312</u>

**11. Loss Per Share**

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

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Numerator for basic and diluted loss per share:				
Net loss for the period	\$ (656)	(2,771)	\$ (2,859)	(3,959)
Denominator for basic and diluted loss per share:				
Basic weighted average number of shares outstanding	16,670	15,790	16,652	15,782
Effect of stock options, RSUs and PSUs	-	-	-	-
Diluted weighted average number of shares outstanding	<u>16,670</u>	<u>15,790</u>	<u>16,652</u>	<u>15,782</u>
Loss per share:				
Basic	\$ (0.04)	(0.18)	\$ (0.17)	(0.25)
Diluted	\$ (0.04)	(0.18)	\$ (0.17)	(0.25)

Due to the loss for the three and six months ended June 30, 2020, the impact of all the options, RSUs, and PSUs totaling 632 and 574, respectively (2019 – 408 and 374), were excluded in the calculation of diluted loss per share because they were antidilutive.

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

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**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**

	<u>Carrying Amount</u>		<u>Fair Value (Level 2)</u>	
	<u>June 30</u> <u>2020</u>	<u>December</u> <u>31</u> <u>2019</u>	<u>June 30</u> <u>2020</u>	<u>December</u> <u>31</u> <u>2019</u>
<b>Financial Liabilities</b>				
Interest rate swap contract	\$ -	\$ 235	\$ -	\$ 235
Long-term debt	29,652	28,470	29,652	28,470

**b) Credit risk**

As a result of the recent major changes in market conditions as a result of COVID-19, 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 2019 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. During the six months ended June 30, 2020, the movement in the credit loss allowance in respect of trade receivables was as follows:

	<u>June 30</u> <u>2020</u>
<b>Opening Balance, January 1, 2020</b>	40
Amounts written off	(30)
Remeasurement of loss allowance	55
<b>Ending Balance, June 30, 2020</b>	<u>65</u>

**c) Liquidity Risk**

As a result of the recent major changes in market conditions as a result of COVID-19, the Company re-evaluated its liquidity risk and concluded that no major changes to existing strategies were necessary in addition to those already disclosed in the 2019 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. As of June, 2020, the Company had cash and cash equivalents of \$9,296. The Company also has access to \$4,345 undrawn portion of its \$35,000 credit facilities after consideration of outstanding letters of credit and current drawings.

**d) Interest Rate Risk**

As a result of the recent modification the Company's credit facility (see Note 7), the Company no longer has a fixed interest rate on its long-term debt. As such, the Company is more exposed to fluctuations in interest rates. However, given that interest rates are very low and the Bank of Canada forecasts rates to remain low in the medium term, the Company does not believe interest rate risk to be significant in the current period. A 1% change in interest rate would have increase (decreased) quarterly interest by \$75.

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

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**13. Government Grants**

The Company determined it was eligible for the Canadian Emergency Wage Subsidy ("CEWS") based on the prescribed criteria by the Government of Canada. During the three and six months ended June 30, 2020, the Company received \$927 in cash which was recognized as a reduction in salaries expense. During the three-month period ended June 30, 2020, the Company took significant measures to manage costs, including the reduction of discretionary expenses and availing itself of applicable Government programs, including the CEWS.

**14. Subsequent Event**

On August 4, 2020, Tony Cicireto ceased to serve as President & CEO of the Company and a search for a new CEO has been initiated. The Board of Directors appointed David Charron as Interim-CEO. David Charron continues to serve as the Chief Financial Officer.