



# 2020 Annual Report

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20 Years of Moving IT Forward

TeraGo

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April 8, 2021

Dear Fellow Shareholders,

Although I have been part of this company for almost five years as a member of the Board, with my stepping into the CEO role last month I want to give you a bit more background on me and how I am thinking about TeraGo's path forward for 2021 and onward, and then offer our thoughts on what we experienced this past year.

I have spent over thirty years in the technology business, with much of that time working in the wireless, cloud, IT infrastructure and data centre sectors during periods of aggressive market growth. I was fortunate to be part of both Norand and Itronix, two wireless companies that were well positioned to take advantage of the explosive growth in the first wave of wireless data. These companies helped organizations like AT&T, Coca-Cola, Sears, RCMP, Frito Lay, Molson Coors and many others deploy hundreds of thousands of wireless endpoints. Itronix was acquired by General Dynamics, and Norand eventually became part of Honeywell. I was also involved with several companies that experienced exponential growth from the adoption of cloud computing, including 2nd Watch and the Blue Box Group, which were respectively acquired by ST Telemedia and IBM. Building teams that successfully position companies to capitalize on wireless and IT infrastructure growth opportunities has been a consistent theme for me.

Much like what I have seen in my past, it feels to me that TeraGo is well positioned to take advantage of the secular growth that is happening in the wireless and IT infrastructure markets as we all use, send, store, and manage ever-increasing amounts of data, especially when 5G connectivity becomes broadly available and acts as a further accelerant for these growth trends. With our spectrum, wireless network, cloud and colocation assets, coupled with the managed network services that make it easier for Canadian businesses to deploy next generation solutions, TeraGo is very well positioned to take advantage of the ever-growing need for more communication and computing capabilities, including high speed wireless connectivity.

The growth opportunity in front of us is reflected in the results we started to see in 2020, and despite the external challenges we all faced with the COVID-19 pandemic and its impacts to Canadian businesses and consumers, we feel our 2020 performance represents an inflection point for our team and company.

We were quick to react to the prospective impacts of COVID-19 by strategically implementing our Pandemic Response Plan in early 2020 to ensure full operational capabilities of our network, data centres and critical facilities as well as maintain our 24/7 industry leading customer support service. This proactive measure gave us the ability to fully operate at maximum capacity to support our customers and partners, as an essential service.

In addition to the adjustments made on the front-end, we executed certain initiatives on the back end of the business to best set ourselves up for success. We entered into an amended credit agreement with The Royal Bank of Canada and The Toronto-Dominion Bank, which bolstered our financial flexibility, appointed Ken Campbell, a proven wireless industry veteran, to our board of directors and expanded Blake Wetzel's role to be Chief Operating Officer in addition to his role as Chief Revenue Officer.

Furthermore, we enhanced our product offerings with a set of new solutions. In particular, after a successful launch of Managed SD-WAN, in partnership with NetFortris, we continued to gain significant traction from customers. More recently, we further expanded this segment of our business with our Managed Network Services offering, which enables business customers to optimize performance, and reduce outages and

costs on their network infrastructure by leveraging our advanced management systems and team of network experts.

Our preparation with our operations team and continued progress with our customer facing teams has helped us achieve encouraging results across our Key Performance Indicators (KPI). We experienced an uptick in MRR backlog, stabilization in churn, and an increase in ARPU, which we expect will drive growth in our business this year.

In addition to our KPI's, another metric that isn't highlighted in our financial statements is our Net Promoter Score (NPS). After a couple years of instituting multiple initiatives to improve our relationship with customers, we have seen an increase in our NPS, which proves that we are providing best-in-class service and driving customer loyalty. These measures have reduced and stabilized our churn and demonstrated improvement in expanding our portfolio of products with our existing and new customers. Our team at TeraGo understands the importance of customer service and we intend to sustain and grow this vital metric.

Regarding our 5G technical trials in the Greater Toronto area, we kickstarted 2020 with leveraging fixed wireless network equipment from Nokia Inc. and customer premise equipment from Askey Computer Corp. After some bumps in the road this past year due to the pandemic, we recently announced advancements and have experienced improved through-put speeds by increasing results to approximately 1.5 gigabits per second. We remain the largest holder of millimetre wave spectrum in Canada and are uniquely positioned to be one of the first operators to launch commercial 5G fixed wireless services. Our vast spectrum coverage, along with the technological advantages offered by 5G, is expected to deliver new innovative communications solutions to our customers, improve the efficiency of our network and open new market opportunities for TeraGo.

The positive trends that started for us in 2020 have continued into 2021. At the start of this year, we made significant advancements to our 5G fixed wireless technical trials, expanded our product portfolio with managed networking services, jointly developed a security solution that protects online elections from potential cyber-attacks with Radware and were selected by a large national Canadian healthcare provider for our Managed SD-WAN solution. With TeraGo's resilient business model, diversified customer base, significant growth in order backlog, stabilization of churn, predictable recurring revenue, judicious approach to cash and launch of new products and services, I am confident that the positive trends we have experienced at the start of this year will bode well for TeraGo through 2021 and beyond.

As you can tell our team is excited about both the near-term and long-term opportunity in front of us, and the trends we are currently experiencing with our business. In sharing what we experienced in 2020 and are currently seeing continue into 2021, we hope you also share this excitement with us. Many of you have been long term shareholders and our team is grateful for your continued support as we realize our vision of launching the first commercial 5G fixed wireless services in Canada.

Sincerely,

(signed) "*Matthew Gerber*"

Matthew Gerber  
Chief Executive Officer





## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE MONTHS AND FISCAL YEAR ENDED DECEMBER 31, 2020 AND 2019

*The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of TeraGo Inc. All references in this MD&A to "TeraGo", the "Company", "we", "us", "our" and "our company" refer to TeraGo Inc. and its subsidiaries, unless the context requires otherwise. This MD&A is dated February 17, 2021 and should be read in conjunction with our audited consolidated financial statements for the fiscal year ended December 31, 2020 and the notes thereto. Additional information relating to TeraGo, including our most recently filed Annual Information Form ("AIF"), can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and our website at [www.terago.ca](http://www.terago.ca). For greater certainty, the information contained on our website is not incorporated by reference or otherwise into this MD&A. All dollar amounts included in this MD&A are in Canadian dollars unless otherwise indicated.*

*Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. For a description of material factors that could cause our actual results to differ materially, see the "Forward-Looking Statements" section and the "Risk Factors" section in this MD&A. This MD&A also contains certain industry-related non-GAAP and additional GAAP measures that management uses to evaluate performance of the Company. These non-GAAP and additional GAAP measures are not standardized and the Company's calculation may differ from other issuers. See "Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures".*

### FORWARD-LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are made as of the date hereof only and based upon current expectations, which involve risks and uncertainties associated with our business and the economic environment in which the business operates. All such statements are made pursuant to the 'safe harbour' provisions of, and are intended to be forward-looking statements under, applicable Canadian securities laws. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. For example, the words *anticipate, believe, plan, estimate, expect, intend, should, may, could, objective* and similar expressions are intended to identify forward-looking statements. This MD&A includes, but is not limited to, forward looking statements regarding TeraGo's growth strategy, strategic plan, the growth in TeraGo's cloud and data centre businesses, retention campaign and initiatives to improve customer service, additional capital expenditures, investments in products and other IT services, and the Company's 5G technical trials and 5G fixed wireless business strategy. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed with the forward-looking statements. When relying on forward-looking statements to make decisions with respect to the Company, you should carefully consider the risks, uncertainties and assumptions, including the risk that TeraGo's growth strategy and strategic plan will not generate the result intended by management, cross-selling of TeraGo's cloud services may not succeed, retention efforts decreasing profit margins, opportunities for expansion and acquisition not being available or at unfavourable terms, TeraGo's "go-to-market" strategy may not materialize, trends in the global 5G, connectivity, cloud and data centre sectors may not be accurately projected, future ISED decisions in upcoming Consultations being unfavourable to the Company, the technical 5G trial the Company is currently conducting may not generate the results intended, the lack of availability of suitable 5G radio equipment, the inability of the Company to successfully launch a 5G fixed wireless business, new market opportunities for 5G may not exist or require additional capital that may not be available to the Company, prolonged economic impacts from the current COVID-19 pandemic, and those risks set forth in the "Risk Factors" section of this MD&A and other uncertainties and potential events. If any of the risks materialize, the expectations and predictions of the Company may need to be re-evaluated. Consequently, all of the forward-looking statements in this MD&A are expressly qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences for the Company.

Except as may be required by applicable Canadian securities laws, we do not intend, and disclaim any obligation, to update or revise any forward-looking statements whether in words, oral or written as a result of new information, future events or otherwise.

## OVERVIEW

### Financial Highlights

- Total revenue decreased 9.2% to \$10.9 million for the three months ended December 31, 2020 compared to \$12.0 million for the same period in 2019. The decrease in revenue was driven by lower connectivity revenue which decreased 11.0% to \$6.5 million compared to \$7.3 million for the same period in 2019. The decrease in connectivity revenue was attributable to churn exceeding provisioning. Cloud and colocation revenue decreased 6.4% to \$4.4 million compared to \$4.7 million for the same period in 2019. The decline was due to one-time revenue recognized for an early termination in the prior year period. Total revenue decreased 6.2% to \$45.4 million for the year ended December 31, 2020 compared to \$48.4 million for the same period in 2019. The decrease was driven by the factors described above.
- Net loss increased 4.8% to \$2.2 million for the three months ended December 31, 2020 compared to a net loss of \$2.1 million for the same period in 2019. The higher net loss was driven by the decline in revenue. Net loss was \$8.3 million for the year ended December 31, 2020 compared to a net loss of \$7.0 million for the same period in 2019. The higher net loss was driven by the factor described above.
- Adjusted EBITDA<sup>1,2</sup> decreased 7.5% to \$3.7 million for the three months ended December 31, 2020 compared to \$4.0 million for the same period in 2019. The decrease was driven primarily by the decrease in revenue. For the year ended December 31, 2020, Adjusted EBITDA decreased 9.1% to \$15.9 million compared to \$17.5 million for the same period in 2019. The decrease was driven by the factor described above.

### Key Developments

- The COVID-19 pandemic continues to impact the Canadian and global economy, including the markets in which the Company and its customers operate. The Company's offices and data centres remain open and in operation to support its customers. Management continues to operate under its pandemic response plan for the Company to ensure it continues to provide services to the customer base while supporting the health and well-being of TeraGo employees. These include: alternative work arrangements and work-from-home policies for back office and other non-field service employees, online education and promotion of social distancing, mandated face coverings at its data centres and other facilities attended by customers and vendors, as well as utilizing the Company's Health and Safety committee, its Senior Leadership Team and the Board of Directors to oversee the administration of the pandemic response plan.
- Due to the uncertainty of the outcome, length, and full extent of the impact the pandemic will have at this time, Management will continue to actively monitor the impacts to the business and make appropriate adjustments to policies, practices, and spending to ensure we continue to offer our services.
- In mid-2019, TeraGo reinstituted a regularly measured Net Promoter Score ("NPS"), a widely utilized industry measurement of customer loyalty and relationships with its customers. TeraGo's NPS score across Q4 2020 was a +62, which compares favourably across both Network and Cloud Operators.
- On June 30, 2020, the Company entered into an amended and restated credit agreement with each of Royal Bank of Canada ("RBC", as new administrative agent and lead lender) and The Toronto-Dominion Bank ("TD"). The parties to the credit agreement agreed, among other things, to extend the maturity date from June 14, 2021 to June 30, 2022. The new facilities under the credit agreement total \$35.0M, comprising of a \$30.0M non-revolving term facility and a \$5.0M revolving operating credit facility.
- On August 4, 2020, Tony Ciciretto ceased to serve as President & CEO of the Company. The Board of Directors appointed David Charron as Interim-CEO. David Charron continues to serve as the Chief Financial Officer.

1 Adjusted EBITDA is a Non-GAAP measure. See "Definitions – Key Performance Indicator, IFRS, Additional GAAP and Non-GAAP Measures.

2 See "Adjusted EBITDA" for a reconciliation of net loss to Adjusted EBITDA

### TERAGO OVERVIEW

TeraGo provides businesses across Canada with network connectivity, cloud, and colocation services. The Company provides cloud Infrastructure as a Service ("IaaS") computing and storage solutions, data centre colocation solutions, and operates five (5) data centres across Canada. With respect to the Company's connectivity services, it owns and operates a carrier-grade, Multi-Protocol Label Switching ("MPLS") enabled fixed wireless, IP communications network in Canada targeting businesses that require Internet access, private interconnection, and data connectivity services.

The Company provides enterprise-class cloud services to multiple high value, mid-market and enterprise customers across a variety of industry verticals, federal, provincial and municipal governments and agencies, as well as non-profit organizations. The Company is focussed on providing customers with tailored hybrid IT solutions, running their IT workloads with the appropriate mix of on-premise, data centre colocation, private and public cloud environments. It currently has strategic relationships with several technology partners that give it access to certain products and solutions to provide enterprise cloud services.

The Company's subscription-based business model generally generates stable and predictable recurring revenue from cloud, colocation and connectivity services. Once a customer is obtained, TeraGo's strategy is to generate incremental recurring revenue from that customer by cross-selling to bundle customers with multiple services and up-selling within services provided.

Network Connectivity Services	Cloud Services	Colocation Services
<ul style="list-style-type: none"> <li>National high performance, scalable Internet access principally via wireless and fibre optics</li> <li>Active redundancy capability with bundled connectivity solution</li> <li>Managed network service</li> </ul>	<ul style="list-style-type: none"> <li>Private and hybrid cloud</li> <li>IaaS utility computing on virtual and dedicated compute platforms</li> <li>High performance and secure data storage and archiving</li> <li>Business Continuity services for critical situations</li> <li>Managed Services for public and hybrid cloud offerings</li> </ul>	<ul style="list-style-type: none"> <li>Colocation services in partial, full, or customized cabinets</li> <li>Managed, Private Dedicated, and Co-location hosting services</li> <li>Private Vaults protected with biometrics for maximum security</li> <li>Other value-added services such as hybrid cloud</li> </ul>

### TERAGO'S BUSINESS MODEL

TeraGo's business strategy is to provide enterprise-class hybrid IT solutions tailored to the mid-market and larger businesses. The Company leverages its existing nationwide data centre footprint, private/multi-tenant cloud capabilities, all underpinned by a resilient national carrier grade network infrastructure, to align with customers' current IT landscape. This allows customers to operate on platforms best suited for their workloads – on-premise, data centre colocation, TeraGo private and multi-tenant cloud, and AWS public cloud – all securely interconnected.

TeraGo's customers typically sign one, two or three-year contracts. Services are billed monthly over the term of the contract.

## NETWORK CONNECTIVITY SERVICES

TeraGo owns and operates a carrier-grade Multi-Protocol Label Switching ("MPLS") enabled wireline and fixed wireless, Internet Protocol ("IP") communications network in Canada, providing businesses with high performance, scalable, and secure access and data connectivity services.

TeraGo's carrier grade IP communication network serves an important and growing demand among Canadian businesses for network access diversity by offering wireless services that are redundant to their existing wireline broadband connections.

TeraGo's IP network has been designed to eliminate single points of failure and the Company backs its services with customer service level commitments, including 99.9% service availability, industry leading mean time to repair, and 24 x 7 telephone and e-mail access to technical support specialists.

TeraGo offers Canadian businesses high performance unlimited and usage-based dedicated Internet access with upload and download speeds from 5 megabits per second ("Mbps") up to 1 gigabit per second ("Gbps"). TeraGo enhances service performance by minimizing the number of networks between our customers and their audiences, using peering arrangements with multiple tier-one carriers to connect to the Internet.

To deliver its services, the Company has built and operates a carrier-grade, IP network, using licensed and license-exempt spectrum and fibre-optic wireline infrastructure that supports commercially available equipment.

The Company owns and controls a national MPLS distribution network from Vancouver to Montreal that aggregates customer voice and data traffic and interconnects where necessary with carrier diverse leased fibre optic facilities. Major Internet peering and core locations are centralized in Vancouver, Toronto and Seattle, although Internet access is also available in all regional markets for further redundancy.

TeraGo offers a range of diverse Ethernet-based services over a secured wireless connection to customer locations up to 20 kilometres from a hub (provided line of sight or wireline networks exist) or through a fibre optic connection.

### Quality of Service Capabilities

TeraGo's MPLS network, including key high traffic hub sites, is equipped with Quality of Service ("QoS") capabilities to improve performance and traffic management. All of TeraGo's major national markets are end-to-end QoS enabled providing the foundation to support voice traffic and other potential future applications.

### Radio Spectrum

#### 24-GHz and 38-GHz Wide-area Licences

The Company owns a national spectrum portfolio of exclusive 24 GHz and 38 GHz wide-area spectrum licences which covers major regions throughout Canada including 2,120 MHz of spectrum across Canada's 6 largest cities and has a total coverage of approximately 23.8 million of the population in Canada (or nearly 10 million households)<sup>1</sup>. This spectrum is used to deploy point-to-point and point-to-multipoint microwave radio systems, interconnecting core hubs in ring architectures (where possible) to backhaul metro area network traffic and in the access network or "last mile" to deliver high capacity (speeds of 20Mbps to 1Gbps) IP-based services for business, government and mobile backhaul.

On June 5, 2019, Innovation, Science, and Economic Development Canada ("ISED"), released its *Decision* on Releasing Millimetre Wave Spectrum to Support 5G. Among other things in its decision document, ISED reported that existing licensees of the 38 GHz band are eligible to apply for new "flexible use" licences for an equal amount of spectrum upon expiry of the current 10-year licence term, or earlier upon voluntary licence cancellation. Flexible use licences will permit licensees to deploy mobile systems to support 5G, while retaining the current ability to deploy on a fixed wireless basis. The Company holds 25 of 27 issued 38 GHz spectrum licences in Canada.

In June 2018, ISED published its overall approach and planned activities for spectrum over the next five years in a document titled *Spectrum Outlook 2018 to 2022*. In such document, ISED has confirmed that the 24 GHz band, among

<sup>1</sup> Based on 2016 Canadian Census data cited by ISED.

several others has been designated as Priority 2 for future release for commercial mobile use. A definitive timeline for the release of spectrum bands designated as Priority 2 and Priority 3 has not yet been confirmed by ISED. A timeline for the release of the 38 GHz band, which has been designated as a Priority 1 band was previously set for the end of 2021 but may be subject to delay due to the COVID-19 pandemic.

For additional information on these Consultations and to review the response letter of the Company or other stakeholders, please refer to ISED's Consultation webpage: [https://www.ic.gc.ca/eic/site/smt-gst.nsf/eng/h\\_sf08436.html](https://www.ic.gc.ca/eic/site/smt-gst.nsf/eng/h_sf08436.html).

For further details on our licensed spectrums, please refer to the Company's 2020 AIF.

### CLOUD SERVICES

TeraGo provides cloud services that seek to meet the complex and evolving IT needs of our customers. TeraGo provides IaaS for compute, storage, disaster recovery cloud solutions and other offerings. These solutions allow the Company to compete in the cloud services market.

TeraGo offers customized cloud storage and compute offerings to customers across Canada. TeraGo cloud can offer a virtualized computing environment whereby customers can access on-demand computing without the need to acquire and maintain expensive server equipment. TeraGo can also provide offsite cloud storage for key backup and disaster recovery situations, including utilizing partnerships with software and hardware vendors such as Veeam, Zerto and Pure Storage. The Company has strategic relationships and partnerships with technology leaders such as IBM, Cisco, VMware, Microsoft, and others that gives it early access to intelligence, products and solutions to provide enterprise cloud services.

### COLOCATION SERVICES

TeraGo provides data centre colocation services that protect and connect our customers' valuable information assets. Customers can provision their computing equipment within shared partial cabinets or full, private cabinets, as well as customized caged space designed for their specific needs. TeraGo provides connectivity on redundant routes in and out of the facilities.

Hosting and colocation revenue is derived from set-up fees for new installations and monthly recurring charges based on the number of cabinets and/or the quantity of cage space, power requirements, managed services provided and Internet/data bandwidth requirements. Other services, such as disaster recovery services, are provided under custom contractual arrangements.

TeraGo also offers a variety of managed hosting solutions, which may require us to manage various aspects of a customer's hardware, software or operating systems in public or privately accessible environment. TeraGo offers disaster recovery services on a custom basis. These facilities can be provisioned at the data centre location and provide customers with the capability to restore office functionality with direct access to their information located in the data centre.

Our network can provide these customers Internet and/or secure private interconnections between the data centre facility and the customer's office location(s).

Data centre services customers typically include national government agencies, financial services companies, IT service providers, content and network service providers, and businesses which rely on TeraGo to store and manage their critical IT equipment and provide the ability to directly connect to the networks that enable our information-driven economy.

### **Data Centre Facilities**

TeraGo's data centres provide IT solutions, including colocation and disaster recovery, to a roster of small and medium-sized businesses, enterprises, public sector and technology service providers. TeraGo has approximately 60,000 square feet of data centre capacity in the five (5) facilities it operates across Canada:

#### ***Mississauga, Ontario***

TeraGo operates a 10,000 square foot AT 101 SOC2 Type 2 compliant data centre facility in Mississauga, Ontario that was previously managed by BlackBerry Limited and built to a tier 3 standard. This facility predominantly serves the Greater Toronto Area.

#### ***Vaughan, Ontario***

TeraGo operates a 16,000 square foot AT 101 SOC2 Type 2 compliant data centre facility in Vaughan, Ontario, serving the Greater Toronto Area.

#### ***Kelowna, British Columbia***

TeraGo operates its 18,000 square feet AT 101 SOC2 Type 2 compliant data centre in Kelowna named the GigaCenter. The GigaCenter is built to a tier 3 standard and the location in Kelowna is considered ideal for a data centre as the region is considered a seismically stable geographic location, has a temperate climate and has a lower probability of both natural and man-made events that may be a risk.

#### ***Vancouver, British Columbia***

TeraGo operates two AT 101 SOC2 Type 2 compliant data centre facilities in downtown Vancouver. Its first facility is approximately 7,000 square feet. The facility has redundant fibre facilities between the data centre and the 'telco hotel', 555 West Hastings, in downtown Vancouver. The second facility is 7,000 square feet and is served by TeraGo's fibre optic lines. Both facilities are used to service the Greater Vancouver Area.



### SELECTED ANNUAL INFORMATION

The following table displays a summary of our Consolidated Statements of Comprehensive Earnings (Loss) for the three months ended December 31, 2020 and 2019 and the years ended December 31, 2020, 2019 and 2018 and a summary of select Balance Sheet data as at December 31, 2020, 2019 and 2018.

(in thousands of dollars, except with respect to earnings (loss) per share)	Three months ended December 31		Year ended December 31		
	2020	2019	2020	2019	2018 <sup>(1)</sup>
<b>Revenue</b>					
Cloud and colocation revenue	\$ 4,382	4,706	\$ 17,427	18,064	19,290
Connectivity revenue	6,522	7,291	28,021	30,373	35,005
<b>Total Revenue</b>	<u>10,904</u>	<u>11,997</u>	<u>45,448</u>	<u>48,437</u>	<u>54,295</u>
<b>Expenses</b>					
Cost of services	2,723	2,704	9,816	9,647	13,982
Salaries and related costs, net	3,571	4,046	16,254	17,511	19,132
Other operating expenses	2,080	2,583	7,940	8,314	12,010
Amortization of intangible assets	360	440	1,508	1,799	2,354
Depreciation of network assets, property and equipment	3,283	3,308	13,301	13,488	9,401
	<u>12,017</u>	<u>13,081</u>	<u>48,819</u>	<u>50,759</u>	<u>56,879</u>
<b>Earnings (loss) from operations</b>	<u>(1,113)</u>	<u>(1,084)</u>	<u>(3,371)</u>	<u>(2,322)</u>	<u>(2,584)</u>
Foreign exchange gain (loss)	(2)	(28)	(210)	(69)	(2)
Finance costs	(1,115)	(1,090)	(4,777)	(4,769)	(2,315)
Finance income	9	82	99	166	81
<b>Earnings (loss) before income taxes</b>	<u>(2,221)</u>	<u>(2,120)</u>	<u>(8,259)</u>	<u>(6,994)</u>	<u>(4,820)</u>
<b>Income taxes</b>					
Income tax recovery (expense)	0	0	-	-	-
<b>Net earnings (loss) and comprehensive earnings (loss)</b>	<u>\$ (2,221)</u>	<u>(2,120)</u>	<u>\$ (8,259)</u>	<u>(6,994)</u>	<u>(4,820)</u>
<b>Deficit, beginning of year <sup>(1)</sup></b>	<u>(87,327)</u>	<u>(79,169)</u>	<u>(81,289)</u>	<u>(74,295)</u>	<u>(69,475)</u>
<b>Deficit, end of year</b>	<u>\$ (89,548)</u>	<u>(81,289)</u>	<u>\$ (89,548)</u>	<u>(81,289)</u>	<u>(74,295)</u>
<b>Basic earnings (loss) per share</b>	<u>\$ (0.13)</u>	<u>(0.13)</u>	<u>\$ (0.49)</u>	<u>(0.43)</u>	<u>(0.32)</u>
<b>Diluted earnings (loss) per share</b>	<u>\$ (0.13)</u>	<u>(0.13)</u>	<u>\$ (0.49)</u>	<u>(0.43)</u>	<u>(0.32)</u>
<b>Basic weighted average number of shares outstanding</b>	16,750	16,623	16,693	16,195	15,123
<b>Diluted weighted average number of shares outstanding</b>	16,750	16,623	16,693	16,195	15,123
<b>Selected Balance Sheet Data</b>	<b>As at December 31</b>				
	<b>2020</b>		<b>2019</b>		<b>2018<sup>(1)</sup></b>
Cash and cash equivalents	\$ 5,858	\$	8,686	\$	3,918
Accounts receivable	\$ 2,500	\$	2,889	\$	3,604
Prepaid expenses and other assets	\$ 804	\$	727	\$	996
Network assets, property and equipment	\$ 56,649	\$	59,562	\$	35,346
Total Assets	\$ 103,168	\$	110,677	\$	84,349
Accounts payable and accrued liabilities	\$ 5,403	\$	4,599	\$	5,781
Long-term debt	\$ 28,144	\$	28,470	\$	32,294
Other long-term liabilities	\$ -	\$	235	\$	1,092
Shareholders' equity	\$ 40,866	\$	48,105	\$	44,643

(1) The Company has applied IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this method, the comparative information as at and for the year ended December 31, 2018 is not restated. See "Accounting Pronouncements Adopted in 2019" in the Company's MD&A for the three months and fiscal years ended December 31, 2019 and 2018.

### RESULTS OF OPERATIONS

#### Comparison of the three months and year ended December 31, 2020 and 2019

(in thousands of dollars, except with respect to gross profit margin, earnings per share, Backlog MRR, and ARPU)

	Three months ended December 31		Year ended December 31	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>Financial</b>				
Cloud and Colocation Revenue	\$ 4,382	4,706	17,427	18,064
Connectivity Revenue	\$ <u>6,522</u>	<u>7,291</u>	<u>28,021</u>	<u>30,373</u>
Total Revenue	\$ 10,904	11,997	45,448	48,437
Cost of Services <sup>1</sup>	\$ 2,723	2,704	9,816	9,647
Selling, General, & Administrative Costs	\$ 5,651	6,628	24,194	25,825
Gross profit margin <sup>1</sup>	75.0%	77.5%	78.4%	80.1%
Adjusted EBITDA <sup>1, 2</sup>	\$ 3,695	4,006	15,920	17,477
Net loss	\$ (2,221)	(2,120)	(8,259)	(6,994)
Basic loss per share	\$ (0.13)	(0.13)	(0.49)	(0.43)
Diluted loss per share	\$ (0.13)	(0.13)	(0.49)	(0.43)
<b>Operating</b>				
<u>Backlog MRR<sup>1</sup></u>				
Connectivity	\$ 129,676	92,096	129,676	92,096
Cloud & Colocation	\$ 56,437	18,615	56,437	18,615
<u>Churn Rate<sup>1</sup></u>				
Connectivity	1.4%	1.4%	1.5%	1.4%
Cloud & Colocation	1.0%	0.9%	1.0%	1.3%
<u>ARPU<sup>1</sup></u>				
Connectivity	\$ 1,025	1,019	1,032	1,022
Cloud & Colocation	\$ 3,582	3,393	3,386	3,262

Refer to "Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures" for a description of the components of relevant line items below.

#### Revenue

Total revenue decreased 9.2% to \$10.9 million for the three months ended December 31, 2020 compared to \$12.0 million for the same period in 2019. Revenue decreased 6.2% to \$45.4 million for the year ended December 31, 2020 compared to \$48.4 million for the same period in 2019.

#### Connectivity Revenue

For the three months ended December 31, 2020, connectivity revenue decreased 11.0% to \$6.5 million compared to \$7.3 million for the same period in 2019. The decrease was attributable to churn exceeding customer provisioning.

For the year ended December 31, 2020, connectivity revenue decreased 7.9% to \$28.0 compared to \$30.4 million for the same period in 2019. The decrease was driven by the factors described above.

#### Cloud and Colocation Revenue

For the three months ended December 31, 2020, cloud and colocation revenue decreased 6.4% to \$4.4 million compared to \$4.7 million for the same period in 2019. The decline was due to one-time revenue recognized for an early termination in the prior year period. Normalizing for this one-time revenue in the prior year period, cloud and colocation revenue would have grown 0.6% for the three months ended December 31, 2020.

<sup>1</sup> See "Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures"

<sup>2</sup> See "Adjusted EBITDA" for a reconciliation of net loss to Adjusted EBITDA



For the year ended December 31, 2020, cloud and colocation revenue decreased 3.9% to \$17.4 million compared to \$18.1 million for the same period in 2019. The decrease was driven by the factor described above.

### Cost of Services

For the three months ended December 31, 2020, cost of services was flat at \$2.7 million compared to cost of services of \$2.7 million in the same period in 2019.

For the year ended December 31, 2020, cost of services increased 2.1% to \$9.8 million compared to \$9.6 million in the same period in 2019. The increase was driven by an increase in the cost of connectivity services.

### Salaries and related costs and other operating expenses ("SG&A")

For the three months ended December 31, 2020, SG&A decreased 13.6% to \$5.7 million compared to \$6.6 million for the same period in 2019. The decrease was driven by lower salaries, severance charges and travel expenses.

For the year ended December 31, 2020, SG&A decreased 6.2% to \$24.2 million compared to \$25.8 million for the same period in 2019. The decrease was primarily due to Government grants of \$1.3 million received due to COVID-19.

### Net loss

Net loss increased 4.8% to \$2.2 million for the three months ended December 31, 2020 compared to a net loss of \$2.1 million for the same period in 2019. The higher net loss was driven by lower revenue.

Net loss was \$8.3 million for the year ended December 31, 2020 compared to a net loss of \$7.0 million for the same period in 2019. The higher net loss was driven by the factor described above.

### Adjusted EBITDA<sup>1, 2</sup>

Adjusted EBITDA decreased 7.5% to \$3.7 million for the three months ended December 31, 2020 compared to \$4.0 million for the same period in 2019. The decrease was driven primarily by the decrease in revenue.

For the year ended December 31, 2020, Adjusted EBITDA decreased 9.1% to \$15.9 million compared to \$17.5 million for the same period in 2019. The decrease was driven by the factor described above.

The table below reconciles net loss to Adjusted EBITDA<sup>1</sup> for the three months and year ended December 31, 2020 and 2019.

(in thousands of dollars)	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
<b>Net earnings (loss) for the period</b>	\$ (2,221)	(2,120)	\$ (8,259)	(6,994)
Foreign exchange loss (gain)	2	28	210	69
Finance costs	1,115	1,090	4,777	4,769
Finance income	(9)	(82)	(99)	(166)
<b>Earnings (loss) from operations</b>	(1,113)	(1,084)	(3,371)	(2,322)
Add:				
Depreciation of network assets, property and equipment and amortization of intangible assets	3,643	3,748	14,809	15,287
Loss on disposal of network assets	77	93	198	296
Impairment of Assets and Related Charges	654	625	1,139	808
Stock-based Compensation Expense (Recovery)	276	341	1,515	1,984
Restructuring, acquisition-related, integration costs and other	158	283	1,630	1,424
<b>Adjusted EBITDA<sup>4</sup></b>	\$ 3,695	4,006	\$ 15,920	17,477

<sup>1</sup> See "Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures"

<sup>2</sup> Adjusted EBITDA is a Non-GAAP measure. See "Definitions – Key Performance Indicator, IFRS, Additional GAAP and Non-GAAP Measures."

### **Backlog MRR<sup>4</sup>**

Connectivity backlog MRR was \$129,676 as at December 31, 2020, compared to \$92,096 as at December 31, 2019. The increase in backlog MRR is driven primarily by higher sales volume from both the direct sales team and the channel team compared to the prior year period.

Cloud and colocation backlog MRR was \$56,437 as at December 31, 2020 compared to \$18,615 as at December 31, 2019. The increase in backlog MRR is driven higher sales volume compared to the prior year.

### **ARPU<sup>4</sup>**

For the three months ended December 31, 2020 connectivity ARPU was \$1,025 compared to \$1,019 for the same period in 2019. The ARPU increased slightly as the Company continues to focus on acquiring and retaining mid-market business customers. For the year ended December 31, 2020 connectivity ARPU was \$1,032 compared to \$1,022 for the same period in 2019. The increase was driven by the factors described above.

For the three months ended December 31, 2020 cloud and colocation ARPU was \$3,582 compared to \$3,393 for the same period in 2019. The increase is due to customer upgrades and cross-selling activities as well as the churn of lower ARPU customers. For the year ended December 31, 2020 cloud & colocation ARPU was \$3,386 compared to \$3,262 for the same period in 2019. The increase was driven by the factors described above.

### **Churn<sup>1</sup>**

For the three months ended December 31, 2020, connectivity churn was 1.4% compared to 1.4% for the same period in 2019. The Company's customer retention initiatives have stabilized churn. For the year ended December 31, 2020 connectivity churn was 1.5% compared to 1.4% for the same period in 2019. The increase is due to elevated churn experienced in the second quarter of 2020 that was associated with the onset of the COVID-19 pandemic.

For the three months ended December 31, 2020, cloud and colocation churn was 1.0% compared to 0.9% for the same period in 2019. Churn in the three months ended December 31, 2020 remained at a consistent level due to ongoing customer retention initiatives. For the year ended December 31, 2020 cloud and colocation churn was 1.0% compared to 1.3% for the same period in 2019. The decrease was driven by ongoing customer retention initiatives.

### **Finance costs**

For the three months ended December 31, 2020, finance costs were flat at \$1.1 million compared to \$1.1 million for the same period in 2019.

For the year ended December 31, 2020 finance costs were flat at \$4.8 million compared to \$4.8 million for the same period in 2019.

### **Depreciation and amortization**

For the year ended December 31, 2020 depreciation of network assets, property and equipment and amortization of intangibles decreased 3.3% to \$14.8 million compared to \$15.3 million for the same period in 2019. The decrease was due to impaired and fully depreciated assets.

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<sup>1</sup> See "Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures"

### Summary of Quarterly Results

All financial results are in thousands, with the exception of Earnings per Share, Gross Profit Margin, Backlog MRR, Churn Rate, and ARPU

		Q4-20	Q3-20	Q2-20	Q1-20	Q4-19	Q3-19	Q2-19	Q1-19
<b>Financial</b>									
Revenue	\$	10,904	11,279	11,648	11,617	11,997	11,814	12,229	12,397
Gross Profit Margin % <sup>1</sup>		75.0%	77.8%	80.0%	80.6%	77.5%	80.3%	80.7%	81.8%
Adjusted EBITDA <sup>4</sup>	\$	3,695	3,775	4,828	3,622	4,006	4,358	4,523	4,590
Net income/(loss)	\$	(2,221)	(3,179)	(656)	(2,203)	(2,120)	(915)	(2,771)	(1,188)
Basic income/(loss) per share	\$	(0.13)	(0.19)	(0.04)	(0.13)	(0.13)	(0.06)	(0.18)	(0.08)
Diluted income/(loss) per share	\$	(0.13)	(0.19)	(0.04)	(0.13)	(0.13)	(0.06)	(0.18)	(0.08)
Basic weighted average number of shares outstanding		16,750	16,715	16,670	16,635	16,623	16,579	15,790	15,775
Diluted weighted average number of shares outstanding		16,750	16,715	16,670	16,635	16,623	16,579	15,790	15,775
<b>Operating</b>									
<u>Backlog MRR<sup>4</sup></u>									
Connectivity	\$	129,676	113,231	86,903	89,296	92,096	47,672	57,081	71,624
Cloud & Colocation	\$	56,437	31,935	18,864	18,225	18,615	37,237	17,049	37,094
<u>Churn Rate<sup>4</sup></u>									
Connectivity		1.4%	1.4%	1.7%	1.5%	1.4%	1.3%	1.6%	1.5%
Cloud & Colocation		1.0%	0.9%	1.1%	1.0%	0.9%	1.3%	1.7%	1.1%
<u>ARPU<sup>4</sup></u>									
Connectivity	\$	1,025	1,028	1,041	1,033	1,019	1,014	1,023	1,033
Cloud & Colocation	\$	3,582	3,468	3,255	3,240	3,393	3,248	3,185	3,221

### Seasonality

The Company's net customer growth, with respect to its connectivity business, is typically impacted adversely by weather conditions as the majority of new customer locations require the installation of rooftop equipment. Typically, harsher weather in the first quarter of the year results in a reduction of productive installation days. In addition, certain customers using our cloud services may have higher usage during certain times of the year based on the seasonality of their respective businesses.

The Company's cash flow and earnings are typically impacted in the first quarter of the year due to several annual agreements requiring payments in the first quarter including annual rate increases in long-term contracts and the restart on January 1<sup>st</sup> of payroll taxes and other levies related to employee compensation.

<sup>1</sup> See "Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures"

### LIQUIDITY AND CAPITAL RESOURCES

TeraGo has historically financed its growth and operations through cash generated by operations, the issuance of equity securities and long-term debt.

The table below is a summary of cash inflows and outflows by activity.

<i>(in thousands of dollars)</i>	Three months ended December 31		Year ended December 31	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>Statement of Cash Flows Summary</b>				
Cash inflows and (outflows) by activity:				
Operating activities	\$ 2,275	4,015	\$ 13,332	15,378
Investing activities	(1,680)	(1,350)	(7,584)	(6,356)
Financing activities	(2,351)	(3,077)	(8,576)	(4,254)
Net cash inflows (outflows)	(1,756)	(412)	(2,828)	4,768
Cash and cash equivalents, beginning of period	7,614	9,098	8,686	3,918
<b>Cash and cash equivalents, end of period</b>	<b>\$ 5,858</b>	<b>8,686</b>	<b>\$ 5,858</b>	<b>8,686</b>

#### **Operating Activities**

For the three months ended December 31, 2020, cash generated from operating activities was \$2.3 million compared to cash from operations of \$4.0 million for the same period in 2019. The decrease was primarily due to higher severance payments in the three months ended December 31, 2020. For the year ended December 31, 2020, cash generated from operating activities was \$13.3 million compared to cash from operations of \$15.4 million for the same period in 2019. The decrease was due to lower income from operations, higher severance payments and an unfavourable movement in working capital due to the timing of cash receipts and payments.

#### **Investing Activities**

For the three months ended December 31, 2020, cash used in investing activities was \$1.7 million compared to cash used of \$1.4 million for the same period in 2019. For the year ended December 31, 2020, cash used in investing activities was \$7.6 million compared to cash used of \$6.4 million for the same period in 2019. The increase was driven by increased capital expenditures due to higher customer provisioning.

#### **Financing Activities**

For the three months ended December 31, 2020 cash used in financing activities was \$2.4 million compared to cash used from financing activities of \$3.1 million for the same period in 2019. The decrease was due to lower principal payments on the Company's long-term debt, as well as government grants received in the three months ended December 31, 2020. For the year ended December 31, 2020, cash used in financing activities was \$8.6 million compared to cash used of \$4.3 million for the same period in 2019. The increase was due to the Company's equity offering in the prior year period, partially offset by proceeds from long-term debt and government grants received in the year ended December 31, 2020.

#### **Capital Resources**

As at December 31, 2020, the Company had cash and cash equivalents of \$5.9 million and access to a revolving facility and acquisition funding capital as described below, subject to the terms and conditions of the credit facilities.

The Company anticipates incurring additional capital expenditures for the purchase and installation of network, colocation and cloud assets and customer premise equipment as dictated by business needs.

Management believes the Company's current cash, anticipated cash from operations, access to the undrawn portion of debt facilities and its access to additional financing in the form of debt or equity will be sufficient to meet its working capital and capital expenditure requirements for at least the twelve-month period following December 31, 2020. In light of the current COVID-19 pandemic and the impacts it has had on businesses globally, including that of the Company (see "Risk Factors"), the Company continues to monitor its cash position closely and has taken certain mitigation efforts to conserve its cash, implement cost saving measures and avail itself of available Government support programs.

### **Term Debt Facility**

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 \$35.0 million (from \$75.0 million) and extended the term from June 14, 2021 to June 30, 2022. Effective June 30, 2020, National Bank of Canada 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 \$35.0 million facility that matures June 30, 2022 is made up of the following:

- \$5.0 million revolving facility which bears interest at prime plus a margin percent. As of December 31, 2020, \$nil was drawn and outstanding on the revolving facility. Letters of credit issued under the facility totaled \$0.6 million as of December 31, 2020 (December 31, 2019 - \$0.7 million).
- \$30.0 million 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 \$0.75 million. This facility was fully drawn upon signing the amended and restated credit agreement.

At December 31, 2020, \$28.4 million of the term facility principal balance outstanding was in a banker's acceptance bearing interest at prime plus a margin percent and the remaining \$0.1 million was in a prime rate loan. The effective interest on the Company's long-term debt on December 31, 2020 was 4.21%.

During the year ended December 31, 2020, the Company incurred \$0.3 million in finance costs to amend and extend the credit facility. 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 December 31, 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.

### **Equity Offering**

On July 3, 2019, the Company completed an equity offering to issue and sell 805,000 common shares for gross proceeds of \$8.9 million (the "Offering"). Proceeds net of actual commissions, legal, accounting, and listing fees was \$8.1 million. The Offering was carried out pursuant to an underwriting agreement dated June 17, 2019, with a syndicate of underwriters led by TD Securities Inc., and included Canaccord Genuity Corp., Cormark Securities Inc., and Desjardins Securities Inc.

The net proceeds were used in full to fund technical and customer trials related to 5G technology and for general corporate purposes.

<b>Intended Use of Net Proceeds</b>	<b>Use of Net Proceeds as at December 31, 2020</b>
a) Fund technical and customer trials related to 5G technology	\$1.0 million
b) General corporate purposes	\$7.1 million

### Contractual Obligations

The Company is committed to leases for premises, office equipment, network real estate access, automobiles, telecommunication facilities and radio spectrum licences. Annual minimum payments over the next five years and thereafter are as follows (in thousands):

	2021	2022	2023	2024	2025	Thereafter	Total
Network assets, property, and equipment	\$ 565	-	-	-	-	-	565
Other Purchase Obligations	4,224	2,815	2,011	1,086	461	-	10,597
Long-term debt	3,000	25,500	-	-	-	-	28,500
Lease liabilities	7,236	6,769	5,553	4,330	3,660	10,335	37,883
Total	15,025	35,084	7,564	5,416	4,121	10,335	77,545

### Off-balance Sheet Arrangements

As of December 31, 2020, the Company had no off-balance sheet arrangements.

### Share Capital

TeraGo's authorized share capital consists of an unlimited number of Common Shares, an unlimited number of Class A Non-Voting Shares and two Class B Shares. A detailed description of the rights, privileges, restrictions and conditions attached to the authorized shares is included in the Company's 2020 Annual Information Form, a copy of which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

As of February 17, 2021, there were 16,762 thousand Common Shares issued and outstanding. In addition, as of February 17, 2021 there were 389 thousand Common Shares issuable upon exercise of TeraGo stock options, 110 thousand Common Shares issuable upon vesting of restricted share units, and 28 thousand Common Shares issuable upon vesting of performance share units.

### Financial Instruments

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

Subsequent measurement and treatment of any gain or loss is recorded as follows:

- (i) Financial assets and financial liabilities at FVTPL are measured at fair value at the balance sheet date with any gain or loss recognized immediately in net loss. Interest and dividends earned from financial assets are also included in net loss for the period.
- (ii) Loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses are recognized in net loss for the period.
- (iii) Other financial liabilities are measured at amortized cost using the effective interest method. Any gains or losses are recognized in net loss for the period.

### Impairment of Financial Assets

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

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

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

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

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

The following is a summary of the Company's significant categories of financial instruments as at December 31, 2020:

Financial Instrument	Classification and measurement method
Financial Assets	
Cash and cash equivalents	Amortized cost
Accounts Receivable	Amortized cost
Financial liabilities	
Accounts payable	Amortized cost
Accrued Liabilities	Amortized cost
Long-term debt	Amortized cost
Derivatives <sup>1</sup>	
Interest rate swap	FVTPL

<sup>1</sup>Derivatives can be in an asset or liability position at a point in time historically or in the future

#### **Other financial liabilities**

The Company recognizes debt securities issues and subordinated liabilities on the date that they originated. All other financial liabilities are recognized initially on the date that the Company becomes a party to the contractual provisions. The Company has the following non-derivative financial liabilities: current and long-term debt, accounts payable and accrued liabilities, and current portion and long-term portion of other long term liabilities.

Such liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Interest on loans and borrowings is expensed as incurred unless capitalized for qualifying assets in accordance with IAS 23, Borrowing Costs. Loans and borrowings are classified as a current liability unless the Company has an unconditional right to defer settlement for at least 12 months after the end of the year.

#### **Derivative instruments**

The Company is not engaged in any derivative contracts as at December 31, 2020.

#### **Financial Instrument Risks**

##### **Fair value of financial instruments**

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Where quoted market values are not readily available, the Company may use considerable judgment to develop estimates of fair value. Accordingly, any estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange and could be materially affected by the use of different assumptions or methodologies. The Company classifies its fair value measurements within a fair value hierarchy, which



reflects the significance of the inputs used in making the measurements as defined in IFRS 9 – Financial Instruments – Disclosures.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Unobservable inputs for the asset or liability which are supported by little or no market activity

The fair values of cash and cash equivalents, short-term investments and restricted cash, which are primarily money market and fixed income securities, are based on quoted market values. The fair values of short-term financial assets and liabilities, including accounts receivable, accounts payable and accrued liabilities, as presented in the consolidated statements of financial position, approximate their carrying amounts due to their short-term maturities. The fair value of long-term debt approximates its carrying value because management believes the interest rates approximate the market interest rate for similar debt with similar security. The fair value of our interest rate swap contract is based on broker quotes and therefore, these contracts are measured using Level 2 inputs. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

### **Credit risk**

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

The Company, in the normal course of business, is exposed to credit risk from its customers and the accounts receivable are subject to normal industry risks. The Company attempts to manage these risks by dealing with credit worthy customers. If available, the Company reviews credit bureau ratings, bank accounts and industry references for all new customers. Customers that do not have this information available are typically placed on a pre-authorized payment plan for service or provide deposits to the Company. This risk is minimized as the Company has a diverse customer base located across various provinces in Canada.

As at December 31, 2020 and 2019, the Company had no material past due trade accounts receivable.

### **Interest rate risk**

The Company is subject to interest rate risk on its cash and cash equivalents and long-term debt. The Company is exposed to interest rate risk on its operating line of credit and term loan since the interest rates applicable are variable and are, therefore, exposed to cash flow risks resulting from interest rate fluctuations. As at December 31, 2020, the revolving facility balance was \$nil. The drawn term facility as at December 31, 2020 was \$28.5 million, \$28.4 million of which was held in a Bankers Acceptance. The interest rate on the Banker's Acceptance at December 31, 2020 was 4.21%. The remaining \$0.1 million drawn under this facility bears interest at prime rate plus a margin. The Company assesses its interest rate risk as low, as a 1% change in interest rate would have increased (decreased) quarterly interest by \$71 thousand.

### **Liquidity risk**

Management believes the Company's current cash, anticipated cash from operations, access to the undrawn portion of debt facilities and its access to additional financing in the form of debt or equity will be sufficient to meet its working capital and capital expenditure requirements for at least the twelve-month period following December 31, 2020. The Company continues to manage liquidity by ensuring trade turnover is consistent with the objectives of the organization as well as through cost management strategies. As at December 31, 2020, the Company had cash and cash equivalents of \$5.9 million. As described in "Liquidity and Capital Resources" above, the Company also has access to \$4.4 million undrawn portion of its \$35 million credit facilities after consideration of outstanding letters of credit and current drawings, subject to certain financial and non-financial covenants.

## **SIGNIFICANT ACCOUNTING ESTIMATES**

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



basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

- (i) *Estimates of useful lives of network assets, property and equipment and intangible assets:*  
Management's judgment involves consideration of intended use, industry trends and other factors in determining the expected useful lives of depreciable assets, to determine depreciation methods, the asset's residual value and whether an asset is a qualifying asset for the purposes of capitalizing borrowing costs.
- (ii) *Capitalization of costs:*  
Judgments and estimates are used in assessing the direct labour and other costs capitalized to network assets, property and equipment.
- (iii) *Cash generating units:*  
Judgment is required to assess the Company's determination of cash generating units for the purpose of impairment testing.
- (iv) *Impairment of non-financial assets:*  
The process to calculate the recoverable amount of our cash generating unit requires use of valuation methods such as the discounted cash flow method which uses significant assumptions including expected future revenue, operating margins, capital investment, discount rate and terminal growth rate.
- (v) *Valuation Allowance on Trade Receivables:*  
In developing the estimates for an allowance against existing receivables, the Company considers general and industry economic and market conditions as well as credit information available for the customer and the aging of the account. The Company applies the IFRS 9 model to record valuation allowances on Trade Receivables. See Note 3(c) in the Financial Statements for more detail.
- (vi) *Stock-based compensation:*  
Estimating fair value for stock-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. In valuing stock options, the Company uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Company's stock options using the Black-Scholes option pricing model including the expected life of the option, risk-free interest rate and volatility of the underlying stock.
- (vii) *Income taxes:*  
A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Significant estimates are required in evaluating the recoverability of deferred tax assets. The Company's assessment is based on existing tax laws, estimates of future profitability and tax planning strategies.
- (viii) *Provisions:*  
Judgment is required to assess the likelihood of an outflow of the economic benefits to settle contingencies, such as litigations or decommissioning and restoration obligations, which may require a liability to be recognized. Significant judgments include assessing estimates of future cash flows, selection of discount rates and the probability of the occurrence of future events.
- (ix) *Revenue from contracts with customers:*  
The enforceable term of contracts requires estimating average contract terms based on available historical data. Significant judgements are also made in determining whether the promises to deliver certain services are considered distinct and represent separate performance obligations. In addition, evaluating whether costs incurred to obtain a contract are incremental and expected to be recoverable requires judgment based on conditions of each individual contract.

(x) **Leases:**

Judgment is required to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such options will impact the lease term. The rate at which these leases will be renewed requires estimation as most are negotiated at the time of renewal. In addition, as most of the Company's leases do not have embedded financing rates, judgment is required to arrive at discount rates that reflect the risk associated with each individual lease. The impact of these assumptions significantly impacts the amount of lease liabilities and right-of-use assets recognized.

### RISK FACTORS

TeraGo is exposed to a number of risks and uncertainties that are common to other companies engaged in the same or similar businesses. The following is a summary of the material risks that could significantly affect the financial condition, operating results or business of TeraGo.

#### **Revenues and Operating Results Can Fluctuate**

Our revenue in past periods may not be indicative of future performance from quarter to quarter or year to year. In addition, our operating results may not follow any past trends. The factors affecting our revenue and results, many of which are outside of our control, include:

- competitive conditions in the industry, including strategic initiatives by us or our competitors, new services, service announcements and changes in pricing policy by us or our competitors;
- market acceptance of our services;
- timing and contractual terms of orders for our services, which may delay the recognition of revenue;
- the discretionary nature of purchase and budget cycles of our customers and changes in their budgets for, and timing of, services orders;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- general weakening of the economy resulting in a decrease in the overall demand for telecommunications, data centre, cloud or IT services or otherwise affecting the capital investment levels of medium-sized and enterprise businesses;
- timing of the development of new service offerings;
- no assurance that the Company's current and future competitors will not be able to develop data centre or cloud services or other infrastructure expertise comparable or superior to those developed by the Company or to adapt more quickly than the Company to new technologies, evolving industry standards or customer requirements; and
- seasonal factors which may cause certain cloud service customers to increase or decrease their usage based services.

#### **5G Fixed Wireless Business launch is unsuccessful**

The Company's proposed 5G fixed wireless business (the "**5G Fixed Wireless Business**") is subject to many risks. The Company is still in the process of testing and trialing equipment that would be vital to offering any 5G fixed wireless service to its customers and there are currently no assurances that such trials will be successful, nor will there be assurances that there is suitable equipment available from vendors. As of the date hereof, the general availability of 5G equipment has been delayed in the market as reported by various partners and vendors the Company has been working with.

In addition, the opportunities and business case for the 5G Fixed Wireless Business has not yet been fully developed nor fully explored, and therefore no assumptions or assurances can be made that TeraGo will develop or provide 5G-services on a commercial basis. Moreover, the Company has not fully determined the capital needs, and whether such capital is available to provide 5G-related services, or whether equipment suppliers like Nokia Inc. and its competitors could be relied on to supply such equipment in a manner that would support a 5G-related opportunity.

The Company has not historically serviced residential customers, having focused all of its services to business customers. As a result, should the Company launch the 5G Fixed Wireless Business to residential customers as well, it will need to adapt its sales and marketing strategy, systems, support and focus to also include this new segment of

customers. The lack of experience servicing this segment of the market may cause delays or significantly increase the cost to the Company of offering 5G services.

5G services are not widely available at the moment and the demand for such services is estimated only. While indications are that there will be a high demand, it remains to be seen whether such demand will translate to the 5G fixed wireless services that the Company is planning to offer and whether the Company can capture certain market share in this new business. Assuming the technical and customer trials the Company plans on conducting are successful, the launch and growth of the 5G Fixed Wireless Business will necessitate additional skilled employees and human resources which the Company does not yet have. The recruitment and hiring of such people is expected to be competitive as a result of short supply, which will in turn affect the progress and success of the launch of the 5G Fixed Wireless Business.

### ***Future ISED Consultations and decisions resulting in unfavourable outcome for 24 GHz and 38 GHz spectrum bands***

While the decision issued on June 5, 2019 by ISED for the Consultation on *Releasing Millimetre Wave Spectrum to Support 5G* was generally favourable from the perspective of the Company for its 38 GHz spectrum licences, the decision also contemplates that there will be a future consultation on the 38 GHz band to establish the licensing framework for the new 38 GHz flexible use licences. In addition, ISED also noted that when new flexible use licences are issued, existing licensees will be issued such licences under a new spectrum band plan which will necessitate the assignment to the Company of new frequency blocks. These new flexible licences are also expected to cover smaller licensing areas than the existing Tier 3 licence areas of current licences. As such, the full extent of the rules and terms and conditions surrounding the Company's 38 GHz spectrum licences when converted over to flexible use have not yet been established. The new rules, as well as terms and conditions of these licences could have a negative impact on the Company's operations and may cause either disruption of services, or will require additional costs to ensure the Company maintains its existing deployments to service customers.

ISED has identified and designated the 38 GHz band as a Priority 1 band for future use to support the deployment of 5G. The 24 GHz band has not yet been subject to similar consultations like the 38 GHz band. ISED, through its release of the *Spectrum Outlook 2018 - 2022* decision document did confirm that the 24 GHz band, among several others has been designated as Priority 2 for future release for commercial mobile use. A definitive timeline for the release of spectrum bands designated as Priority 2 and Priority 3 has not yet been confirmed by ISED. There can be no assurances that the 24 GHz band licences that the Company holds will be identified in the future for potential 5G use.

If the 24 GHz licences that the Company holds are determined by ISED to not qualify for 5G use, or do qualify but with stringent conditions and terms of use, or a large percentage of the spectrum will be "clawed back", it will have a negative effect on the value of these licences, severely inhibit the Company's 5G Fixed Wireless Business plan, and therefore impact negatively on the value of the Common Shares.

### ***COVID-19 Pandemic and Public Health Emergency***

The global COVID-19 pandemic has evolved rapidly in the past year and may have a material adverse effect on the operations and financial results of the Company. The Company is currently operating under its Pandemic Response Plan which involves certain mitigation measures to reduce the spread of COVID-19, employees working from home where possible, alternative work arrangements, the elimination of in-person meetings, and mandating face coverings in certain of its facilities. As of the date of this MD&A, the initial impacts of COVID-19 on the Company include lower sales volume and therefore lower revenues than otherwise would be generated as businesses have generally reduced or suspended their IT and telecommunications spend. The Company has seen a limited number of requests by customers to defer monthly payments for services, or have services suspended during the COVID-19 pandemic. If sales volumes continue to materially decline due to COVID-19, or there is an increase in the number and/or dollar amounts of customers who have defaulted on their obligations to pay under their service contracts, the Company will experience a material adverse effect on its business, results of operations and financial condition.

In addition, economic conditions globally in light of COVID-19 are beyond our control. A sustained downturn in the economy may cause customers to delay or cancel projects, reduce their overall capital or operating budgets or reduce or cancel orders for our services, which could have a material adverse effect on our business. While a disruption in the Company's supply chain for radio equipment has not yet been experienced, a significant disruption in this supply chain due to COVID-19 will cause unintended backlog, provisioning delays and reduce the Company's ability to offer services and generate new revenue.

The full extent to which the COVID-19 pandemic may impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be predicted at this time. Many factors that will determine the extent of COVID-19's impact include the duration of the outbreak in Canada and the U.S. (and to a lesser extent globally), its disruptions in supply chains and global trade, the effectiveness of vaccines and the speed at which they are distributed and administered to the broader population, the time to recovery in the global economy and consumer confidence. Management continues to monitor the developments of COVID-19 and has taken steps to mitigate initial impacts caused by it.

### ***Insufficient Capital***

The continued growth and operation of our business may require additional funding for working capital, debt service, the enhancement and upgrade of our network, the build-out of infrastructure to expand the coverage area of our services, possible acquisitions and possible bids to acquire spectrum licences. We may be unable to secure such funding when needed in adequate amounts or on acceptable terms, if at all.

To execute our business strategy, we may issue additional equity securities in public or private offerings, potentially at a price lower than the market price at the time of such issuance. Similarly, we may seek debt financing and we may be forced to incur significant interest expense. If we cannot secure sufficient funding, we may be forced to forego strategic opportunities or delay, scale back or eliminate network deployments, operations, acquisitions, spectrum acquisitions and other investments.

### ***Reliance on Credit Facilities and Restrictive Debt Covenants***

The Company relies on its Credit Facilities to operate its business, including for the maintenance of a certain level of liquidity and to carry out its strategy. There can be no assurance that the Company will continue to have access to appropriate Credit Facilities on reasonable terms and conditions, if at all beyond the maturity date of June 30, 2022 for the existing Credit Facilities. An inability to draw down upon the Credit Facilities could have a material adverse effect on the Company's business, liquidity, financial condition and results of operations.

Covenants in our Credit Facilities with our lenders impose operating and financial restrictions on us. A breach of any of these covenants could result in a default under our Credit Facilities. These restrictions may limit our ability to obtain additional financing, withstand downturns in our business and take advantage of business opportunities. Moreover, we may be required to seek additional debt financing on terms that include more restrictive covenants, may require repayment on an accelerated schedule or may impose other obligations that limit our ability to grow our business, acquire needed assets, or take other actions we might otherwise consider appropriate or desirable.

### ***Transition of the Company to a Multi-Product IT Services Company***

In the past, the core business of the Company was to provide internet access services. The Company has in recent years transitioned to a multi-product IT services company focused on the management of its customer's data flow and has begun to invest in and conduct technical trials related to 5G technologies. If TeraGo is unable to execute on its business strategy and to grow the business, either as a result of the risks identified in this section or for any other reason, the business, prospects, financial condition and results of operations will be materially and adversely affected.

### ***Reliance on Certain Third Parties***

We rely on third-party suppliers, in some cases sole suppliers or limited groups of suppliers, to provide us with components necessary for the operation and upgrading of our network and infrastructure, as well as to develop our 5G Fixed Wireless Business Plan. If we are unable to obtain sufficient allocations of components, our 5G initiatives and/or network expansion will be delayed, we may lose customers and our profitability will be affected. Reliance on suppliers also reduces our control over costs, delivery schedules, reliability and quality of components. Any inability to obtain timely deliveries of quality components, or any other circumstances that would require us to seek alternative suppliers, could adversely affect our ability to expand and maintain our network or infrastructure.

In addition, the Company relies on third party partners, agents and resellers to carry out its business. If these third parties do not honour their contractual commitments or cease to do business, it may have a significant impact on our business. Replacements for such third parties may require a lengthy period of time in order to establish a commercially comparable relationship.

The Company has recently aligned with several partners both as part of its channel program, as well as its technology program. The benefits of such partnerships have not yet been proven and an early termination of the partnerships or any unanticipated setbacks may have a material impact on the Company's business and strategic plan.

**Regulatory Environment**

We are subject to the laws of Canada and to regulations set by regulatory authorities of the Canadian government, primarily the CRTC and ISED. Regulatory authorities may adopt new laws, policies or regulations, or change their interpretation of existing laws, policies or regulations, that could cause our existing authorizations to be changed or cancelled, require us to incur additional costs, or otherwise adversely affect our operations, revenue or cost of capital.

Any currently held regulatory approvals or licences may be subject to rescission and non-renewal. Additional approvals or licences may be necessary that we may not be able to obtain on a timely basis or on terms that are not unduly burdensome. Further, if we fail to obtain or maintain particular approvals on acceptable terms, such failure could delay or prevent us from continuing to offer some or all of our current or new services, or offer new services, and adversely affect our results of operations, business prospects and financial condition. Even if we were able to obtain the necessary approvals, the licences or other approvals we obtain may impose significant operational restrictions. The acquisition, lease, maintenance and use of spectrum are extensively regulated in Canada.

These regulations and their application are subject to continual change as new legislation, regulations or amendments to existing regulations are adopted from time to time by governmental or regulatory authorities, including as a result of judicial interpretations of such laws and regulations. Current regulations directly affect the breadth of services we are able to offer and may impact the rates, terms and conditions of our services.

The breach of the conditions of a licence or applicable law, even if inadvertent, can result in the revocation, suspension, cancellation or reduction in the term of a licence or the imposition of fines. In addition, regulatory authorities may grant new licences to third parties, resulting in greater competition in markets where we already have rights to licenced spectrum. In order to promote competition, licences may also require that third parties be granted access to our bandwidth, frequency capacity, facilities or services. We may not be able to obtain or retain any required licence, and we may not be able to renew our licences on favourable terms, or at all.

Our internet access services may become subject to greater regulation in the future. If we become subject to proceedings before the CRTC or ISED with respect to our compliance with the relevant legislation and regulations relating to restrictions on foreign ownership and control, we could be materially adversely affected, even if it were ultimately successful in such a proceeding. There can be no assurance that a future CRTC or ISED determination or events beyond our control will not result in our ceasing to comply with the relevant legislation or regulations. If this occurs, our ability to operate as a Canadian carrier under the *Telecommunications Act* or to hold, renew or secure licences under the *Radiocommunication Act* could be jeopardized and our business, operating results and financial condition could be materially adversely affected.

**Obtaining and Maintaining Licenced Spectrum in Certain Markets**

To offer our internet services using licenced spectrum in Canada, we depend on our ability to acquire and maintain sufficient rights to use spectrum through ownership, long-term leases, or developmental licences in each of the markets in which we operate or intend to operate. Obtaining the necessary amount of licenced spectrum can be a long and difficult process that can be costly and require a disproportionate amount of our resources. We may not be able to acquire, lease or maintain the spectrum necessary to execute our business strategy. In addition, we may spend significant resources to acquire spectrum licences, even if the amount of spectrum actually acquired in certain markets is not adequate to deploy our network on a commercial basis in all such markets.

Using licenced spectrum, whether owned, leased, or developmental, poses additional risks to us, including:

- inability to satisfy build-out or service deployment or research and development requirements upon which our spectrum licences or leases are, or may be, conditioned;
- adverse changes to regulations or licence conditions governing our spectrum rights;
- inability to use the spectrum we have acquired or leased due to interference from licenced or licence-exempt operators in our band or in adjacent bands;
- refusal by ISED to recognize our acquisition or lease of spectrum licences from others or our investments in other licence holders;
- inability to offer new services (including 5G) or to expand existing services to take advantage of new capabilities of our network resulting from advancements in technology due to regulations governing our spectrum rights;
- inability to control leased spectrum due to contractual disputes with, or the bankruptcy or other reorganization of, the licence holders;



- failure of ISED to renew our spectrum licences as they expire and our failure to obtain extensions or renewals of spectrum leases before they expire;
- imposition by ISED of new or amended conditions of licence, or licence fees, upon the renewal of our spectrum licences or in other circumstances;
- potentially significant increases in spectrum prices, because of increased competition for the limited supply of licenced spectrum in Canada; and
- invalidation of our authorization to use all or a significant portion of our spectrum, resulting in, among other things, impairment charges related to assets recorded for such spectrum.

While the 38 GHz spectrum band has been identified by ISED as one of the bands contemplated for future use to support the deployment of 5G through a Consultation, a similar Consultation has not been issued for the 24 GHz band. The Company's 24 GHz licences have a set expiry date in 2025. There are no guarantees that such licences will be renewed beyond 2025 or won't be subject to any potential claw back by ISED. If the 24 GHz licences that the Company holds are determined by ISED to not qualify for 5G use, or does qualify but with stringent conditions and terms of use, it may have a negative effect on the value of these licences and therefore impact negatively on the value of the Company and its common shares.

We expect ISED to make additional spectrum available from time to time. Additionally, other companies hold spectrum rights that could be made available for lease or sale. The availability of additional spectrum in the marketplace could change the market value of spectrum rights generally and, as a result, may adversely affect the value of our spectrum assets.

We also use radio equipment under individual radio licences issued by ISED, and subject to annual renewal. We may not be able to obtain the licences we require thereby jeopardizing our ability to reliably deliver our internet services. ISED may decline to renew our licences, or may impose higher fees upon renewal, or impose other conditions that adversely affect us. ISED may decide to reassign the spectrum in the bands we use to other purposes, and may require that we discontinue our use of radio equipment in such bands.

### ***Licence-exempt Spectrum***

We presently utilize licence-exempt spectrum in connection with a majority of our internet customers. Licence-exempt or "free" spectrum is available to multiple simultaneous users and may suffer bandwidth limitations, interference and slowdowns if the number of users exceeds traffic capacity. The availability of licence-exempt spectrum is not unlimited and others do not need to obtain permits or licences to utilize the same licence-exempt spectrum that we currently or may in the future utilize, threatening our ability to reliably deliver or expand our services. Moreover, the prevalence of licence-exempt spectrum creates low barriers to entry in our business, creating the potential for heightened competition.

### ***Integration and Anticipated Benefits Pursuant to Past Acquisitions***

The overall success of acquisitions will depend, in part, on the Company's ability to realize the anticipated benefits and synergies from combining and integrating the acquired businesses into TeraGo's existing business. Integration of acquisitions require significant management attention and expansion of TeraGo's staff in operations, marketing, sales and general and administrative functions. The Company may have difficulties in the integration of the acquired company's departments, systems, including accounting, human resource and other administrative systems, technologies, books and records, and procedures, as well as in maintaining uniform standards, controls, including internal control over financial reporting required by Canadian securities laws and related procedures and policies. If we cannot integrate the acquisitions successfully, it could have a material adverse impact on our business, financial condition and results of operations.

As part of the Company's business strategy, TeraGo may also continue to acquire additional companies, assets or technologies principally related to, or complementary to, our current operations. Any such acquisitions will be accompanied by certain risks including but not limited to exposure to unknown liabilities of acquired companies, higher than anticipated acquisition costs and expenses, the difficulty and expense of integrating operations, systems, and personnel of acquired companies, disruption of the Company's ongoing business, inability to retain key customers, distributors, vendors and other business partners of the acquired company, diversion of management's time and attention; and possible dilution to shareholders.

### ***Price Sensitive Market***

The competitive market in which the Company conducts its business could require the Company to reduce its prices. If competitors offer discounts on certain products or services in an effort to recapture or gain market share or to sell other products, the Company may be required to lower prices or offer other favourable terms to compete successfully.

Any such changes would likely reduce the Company's margins and could adversely affect operating results. Some of the Company's competitors may bundle services that compete with the Company for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, limit the prices that the Company can charge for its products. If the Company cannot offset price reductions with a corresponding increase in volume, bundling of services or with lower spending, then the reduced revenues resulting from lower prices would adversely affect the Company's margins and operating results.

### **Market Demand for Available Capacity**

The Company currently has available capacity in its data centres. There can be no assurance that the existing or future market demand will be sufficient to fill this capacity. Should the demand for the Company's cloud and data centre services decline or fail to increase, this may negatively affect the Company's ability to capitalize on its high operating leverage and may adversely affect the Company's future financial performance.

Reductions in the amount or cancellations of customers' orders would adversely affect our business, results of operations and financial condition.

### **Cyber Security Risk**

Our network security, data centre security and the authentication of our customer credentials are designed to protect unauthorized access to data on our network and to our data centre premises. Because techniques used to obtain unauthorized access to or to sabotage networks (including DDoS attacks) change frequently and may not be recognized until launched against a target, we may be unable to anticipate or implement adequate preventive measures against unauthorized access or sabotage. Consequently, unauthorized parties may overcome our network security and obtain access to confidential, customer or employee data on our network, including on a device connected to our network. In addition, because we own and operate our network, unauthorized access or sabotage of our network could result in damage to our network and to the computers or other devices used by our customer. An actual or perceived breach of network security or data centre security could harm public perception of the effectiveness of our security measures, adversely affect our ability to attract and retain customers, expose us to significant liability and adversely affect our business and revenue prospects.

The Company aims to mitigate and manage certain cyber security risks by employing specific policies and procedures, carrying out IT security-related audits, establishing internal controls relevant to mitigating security risks, performing certain "penetration" tests either internally or with help of third party consultants, obtaining IT security-related compliance certificates, designating a security officer that oversees the IT security of the Company, designating a privacy officer that is accountable for the Company's compliance with applicable privacy laws, using DDoS mitigation, tools and services, utilizing back-up and disaster recovery services and maintaining specific cyber liability insurance coverage to insure against cyber security incidents. The Audit Committee of Company has been tasked to periodically review the various measures management and the Company has undertaken to manage its cyber security risks.

### **Excessive Customer Churn**

The successful implementation of our business strategy depends upon controlling customer churn. Customer churn is a measure of customers who stop using our services. Customer churn could increase as a result of:

- billing errors and/or reduction in the quality of our customer service;
- interruptions to the delivery of services to customers;
- the availability of competing technology and other emerging technologies, some of which may, from time to time, be less expensive or technologically superior to those offered by us; and
- competitive conditions in the industry, including strategic initiatives by us or our competitors, new services, service announcements and changes in pricing policy by us or our competitors.

An increase in customer churn can lead to slower customer growth, increased costs and a reduction in revenue. Given the current economic environment, there is risk that churn levels could increase in the future.

### **Key Competitors are More Established and Have More Resources**

The market for internet access, data connectivity, cloud and data centre services is highly competitive and we compete with several other companies within each of our markets. Many of our competitors are better established or have greater financial and spectrum resources than we have. Our competitors include:

- ILECs and CLECs providing DSL and fibre-optic enabled services over their existing wide, metropolitan and local area networks and who have started to provide cloud and colocation services;
- Utelcos offering or planning to offer internet and data connectivity over fibre optic networks;
- Large cloud service providers and IT companies;
- Colocation and disaster recovery service providers;
- cable operators offering high-speed Internet connectivity services and voice communications;
- wireless Internet service providers using licenced or licence-exempt spectrum;
- satellite and fixed wireless service providers offering or developing broadband Internet connectivity and VoIP; and
- resellers providing wireless Internet or other wireless services using infrastructure developed and operated by others.

Many of our competitors are well established with larger and better developed networks and support systems, longer standing relationships with customers and suppliers, greater name recognition and greater financial, technical and marketing resources than we have. Our competitors may subsidize competing services with revenue from other sources and, thus, may offer their products and services at prices lower than ours. We may not be able to reduce our prices which may make it more difficult to attract and retain customers.

We expect other existing and prospective competitors to adopt technologies and/or business plans similar to ours, or seek other means to develop services competitive with ours, particularly if our services prove to be attractive in our target markets.

### ***Acquisitions and Other Strategic Transactions***

We may from time to time make strategic acquisitions of other assets and businesses. Any such transactions can be risky, may require a disproportionate amount of our management and financial resources and may create unforeseen operating difficulties or expenditures, including:

- difficulties in integrating acquired businesses and assets into our business while maintaining uniform standards, controls, policies and procedures;
- obligations imposed on us by counterparties in such transactions that limit our ability to obtain additional financing, our ability to compete in geographic areas or specific lines of business or other aspects of our operational flexibility;
- increasing cost and complexity of assuring the implementation and maintenance of adequate internal control and disclosure controls and procedures;
- difficulties in consolidating and preparing our financial statements due to poor accounting records, weak financial controls and, in some cases, procedures at acquired entities not based on IFRS, particularly those entities in which we lack control; and
- inability to predict or anticipate market developments and capital commitments relating to the acquired company, business or assets.

If we do not successfully address these risks or any other problems encountered in connection with an acquisition, the acquisition could have a material adverse effect on our business, results of operations and financial condition. In addition, if we proceed with an acquisition, our available cash may be used to complete the transaction, diminishing our liquidity and capital resources, or additional equity may be issued which could cause significant dilution to existing shareholders.

### ***Changes to Technologies and Standards***

The industries TeraGo operates is characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction of new or alternative technology and the emergence of new industry standards may render our existing network, equipment and/or infrastructure obsolete and our services unmarketable and may exert price pressures on existing services. It is critical to our success that we be able to anticipate changes in technology or in industry standards and ensure that we can leverage such new technologies and standards in a timely and cost-effective manner to remain competitive from a service and cost perspective. Rapid changes in business demands may also affect the Company's internal processes where certain software tools, processes, and standards may become inefficient or obsolete. The Company may fail to keep pace with changes in these technologies and practices which may result in operational breakdowns and/or financial losses.



### ***Investments in Development of New Technologies, Products and Services***

The Company has and will continue to make significant investments in the development and introduction of new products and services that make use of the Company's network, infrastructure and equipment. There is no assurance that the Company will be successful in implementing and marketing these new products and services (including 5G) in a reasonable time, or that they will gain market acceptance. Development could be delayed for reasons beyond our control. Alternatively, we may fail to anticipate or satisfy the demand for certain products or services, or may not be able to offer or market these new products or services successfully to customers. The failure to attract customers to new products or services, cross-sell service to our existing customer base or failure to keep pace with changing consumer preferences for products or services would slow revenue growth and could have a materially adverse effect on our business, results of operations and financial condition.

### ***Expanding, Upgrading and Maintaining Network and Infrastructure***

We expect to allocate significant resources in expanding, maintaining and improving our network. Additionally, as the number of our customer locations increases, as the usage habits of our customers change and as we increase our service offerings, we may need to upgrade our network to maintain or improve the quality of our services. If we do not successfully implement upgrades to our network, the quality of our services may decline and our churn rate may increase.

We may experience quality deficiencies, cost overruns and delays with the expansion, maintenance and upgrade of our network and existing infrastructure including the portions of those projects not within our control. Expansion of our network or infrastructure may require permits and approvals from governmental bodies and third parties. Failure to receive approvals in a timely fashion can delay expansion of our network. In addition, we are typically required to obtain rights from land, building and tower owners to install the antennas and other equipment that provide our internet access service to our customers. We may not be able to obtain, on terms acceptable to us or at all, the rights necessary to expand our network or existing infrastructure.

We also may face challenges in managing and operating our network and existing infrastructure. These challenges include ensuring the availability of customer equipment that is compatible with our network and managing sales, advertising, customer support, and billing and collection functions of our business while providing reliable network service that meets our customers' expectations. Our failure in any of these areas could adversely affect customer satisfaction, increase churn, increase our costs, decrease our revenue and otherwise have a material adverse effect on our business, prospects, financial condition and results of operations.

### ***Foreign Exchange***

While the majority of the Company's revenues are earned in Canadian dollars, a portion of its costs, including for certain capital expenditures and SG&A are paid in U.S. dollars. As a result, the Company is exposed to currency exchange rate risks. A change in the currency exchange rate may increase or decrease the amount of Canadian dollars required to be paid by the Company for its U.S. expenditures. The Company does not currently have any foreign exchange contracts to manage the foreign exchange risk. As a result, there can be no assurance that currency fluctuations will not have a material adverse effect on the Company.

### ***Physical Inventory***

The nature of our business requires the Company to procure, deploy, track, and maintain large volumes of specialized network and datacentre equipment purchased in Canada and abroad. Equipment is frequently moved between provinces in Canada as part of provisioning. As a result, the Company is subject to inventory risk due to delays in inventory movement as well as process breakdowns in provisioning and deploying inventory to a customer site, network site, or datacentre facility. These delays may result in unintended backlog and inventory losses. The Company relies heavily on the ability of our vendors to supply us in a timely manner as well as the diligence of the Company's internal process owners to ensure provisioning and inventory management is effective.

### ***Interest Rates***

As the Company currently borrows funds through its credit facility with variable interest rates, the Company is exposed to rising interest rates. A significant rise in interest rates may materially increase the cost of either its revolving or non-revolving credit facilities. The Company does not currently have any interest rate swap contracts to manage the interest rate risk. As a result, there can be no assurance that interest rate fluctuations will not have a material adverse effect on the Company.

### ***Interruption or Failure of Information Technology and Communications Systems***

We have experienced service interruptions in some markets in the past and may experience service interruptions or system failures in the future. Our services depend on the continuing operation of our cloud and data centre, information technology and communications systems. Any service interruption adversely affects our ability to operate our business and could result in an immediate loss of revenue. If we experience frequent or persistent system, power or network failures, our reputation and brand could be permanently harmed. We may make significant capital expenditures to increase the reliability and security of our systems, but these capital expenditures may not achieve the results we expect.

Our systems and data centres are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to harm our systems, and similar events. Some of our systems are not fully redundant and our disaster recovery planning may not be adequate. The occurrence of a natural disaster or unanticipated problems at our network centres or data centres could result in lengthy interruptions in our service and adversely affect our operating results. The Company could also be required to make significant expenditures if the Company's systems were damaged or destroyed, or pay damages if the delivery of the Company's services to its customers were delayed or stopped by any of these occurrences.

### ***Retention and Motivation of Personnel***

We depend on the services of key technical, sales, marketing and management personnel. The loss of any of these key persons could have a material adverse effect on our business, results of operations and financial condition. Our success is also highly dependent on our continuing ability to identify, hire, train, motivate and retain highly qualified technical, sales, marketing and management personnel.

Competition for such personnel can be intense and we cannot provide assurance that we will be able to attract or retain highly qualified technical, sales, marketing and management personnel in the future. Our inability to attract and retain the necessary technical, sales, marketing and management personnel may adversely affect our future growth and profitability. It may be necessary for us to increase the level of compensation paid to existing or new employees to a degree that our operating expenses could be materially increased.

If we cannot hire, train and retain motivated and well-qualified individuals, we may face difficulties in attracting, recruiting and retaining various sales and support personnel in the markets we serve, which may lead to difficulties in growing our subscriber base.

### ***Leased Data Centre Facilities***

The Company's data centres are located in leased premises and there can be no assurance that the Company will remain in compliance with the Company's leases, that the landlord will continue to support the operation of the Company's data centre and that the leases will not be terminated despite negotiation for long term lease periods and renewal provisions. Termination of a lease could have a material adverse effect on the Company's business, results of operations and financial condition.

### ***Electrical Power and Outages***

The Company's data centres are susceptible to regional variations in the cost of power, electrical power outages, planned or unplanned power outages and limitations on availability of adequate power resources. Power outages can harm, and in the past, have harmed the Company's customers and its business, including the loss of customers' data and extended service interruptions. While the Company attempts to limit exposure to system downtime by using backup generators and power supplies, the Company cannot limit the Company's exposure entirely even with these protections in place. With respect to any increase in energy costs, the Company may not always be able to pass these increased costs on to the Company's customers which could have a material adverse effect on the Company's business, results of operations and financial condition.

### ***Litigation Risk and Intellectual Property Claims***

Competitors or other persons may independently develop, patent technologies or copyright software that are substantially equivalent or superior to those we currently use or plan to use or that are necessary to permit us to deploy and operate our network, data centres or provide cloud services. Some of these patents, copyrights or rights may grant very broad protection to the owners. We cannot determine with certainty whether any existing third party intellectual property or the issuance of any third party intellectual property would require us to alter technology or software we use, obtain licences or cease certain activities. Defending against infringement claims, even meritless ones, would be time consuming, distracting and costly.

If we are found to be infringing the proprietary rights of a third party, we could be enjoined from using such third party's rights, may be required to pay substantial royalties and damages, and may no longer be able to use the intellectual property subject to such rights on acceptable terms or at all. Failure to obtain licences to intellectual property held by third parties on reasonable terms, or at all, could delay or prevent us from providing services to customers and could cause us to expend significant resources to acquire technology which includes non-infringing intellectual property.

If we have to negotiate with third parties to establish licence arrangements, or to renew existing licences, it may not be successful and we may not be able to obtain or renew a licence on satisfactory terms or at all. If required licences cannot be obtained, or if existing licences are not renewed, litigation could result.

### ***Operating Losses***

We have incurred a net loss in the past several fiscal years. We cannot anticipate with certainty what our earnings, if any, will be in any future period. However, we could incur further net losses as we continue to expand our network into new and existing markets and pursue our business strategy in 5G and providing cloud and data centre services. Accordingly, our results of operations may fluctuate significantly, which may adversely affect the value of an investment in our Common Shares. We may also invest significantly in our business before we expect cash flow from operations to be adequate to cover our anticipated expenses.

### ***Economic and Geopolitical Risk***

The market for our services depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond our control. In addition, acts of terrorism and the outbreak of hostilities and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy, pandemics, or geopolitical uncertainties may cause customers to delay or cancel projects, reduce their overall capital or operating budgets or reduce or cancel orders for our services, which could have a material adverse effect on our business, results of operations and financial condition.

### ***Regulation of Internet***

Regulation of the Internet and the content transmitted through that medium is a topic that receives considerable political discussion from time to time, from both a "pro-regulation" and an "anti-regulation" perspective, including discussions on whether all internet traffic should be delivered equally. It is unclear as to what impact decisions made on either side of this issue by various political and governing bodies could have on us and our business or on the ability of our customers to utilize our internet services.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES**

Our Interim-President and Chief Executive Officer and Chief Financial Officer, designed or caused to be designed under his supervision, TeraGo's disclosure controls and procedures and internal control over financial reporting.

The Company has adopted a work-from-home program as of March 16, 2020. As substantially all of the Company's day-to-day activities can be fully performed by personnel working remotely, the Company is able to remain fully operational during this period, and continues to pursue revenue opportunities, execute on its product development roadmap and generate revenue from both new and existing customers. The Company has complied with applicable federal, provincial and other local regulations related to the pandemic. The Company will continue to monitor closely developments in this regard, with the health and safety of the Company's employees and management as the primary concern. Due to the fluidity of the COVID-19 pandemic and the uncertainty of its magnitude, outcome and duration, the Company is unable to definitively quantify its potential impact.

TeraGo's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to TeraGo is made known to management by others, particularly during the period in which the interim filings are being prepared and that information required to be disclosed by TeraGo in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. TeraGo's disclosure controls and procedures includes controls and procedures designed to ensure that information required to be disclosed by TeraGo in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to management, as appropriate to allow timely decisions regarding required disclosure.

TeraGo's internal control over financial reporting are designed to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. TeraGo's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of TeraGo; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of TeraGo are being made only in accordance with authorizations of management and directors of TeraGo; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of TeraGo's assets that could have a material effect on TeraGo's financial statements. There have been no changes to the Company's internal controls over financial reporting in the period that have materially affected or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

The control framework used to design TeraGo's internal control over financial reporting is based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

Due to its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

### EXECUTIVE MANAGEMENT CHANGES

- Effective on August 4, 2020, Tony Ciciretto, President & CEO was no longer with the Company.
- Effective on August 4, 2020, David Charron was appointed as Interim-Chief Executive Officer in addition to his role as Chief Financial Officer.
- Effective on August 24, 2020, Geoff Kereluik, Vice President, Sales was no longer with the Company.
- Effective on September 25, 2020, Blake Wetzel was appointed as Chief Operating Officer in addition to his role as Chief Revenue Officer.
- Effective on October 1, 2020, Candice Levy was appointed as Vice President, People & Culture, having previously served as Director, Human Resources.

### DEFINITIONS – KEY PERFORMANCE INDICATORS, IFRS, ADDITIONAL GAAP AND NON-GAAP MEASURES

#### IFRS Measures

##### **Cost of services**

Cost of services consists of expenses related to delivering service to customers and servicing the operations of our networks. These expenses include costs for the lease of intercity facilities to connect our cities, internet transit and peering costs paid to other carriers, network real estate lease expense, spectrum lease expenses and lease and utility expenses for the data centres and salaries and related costs of staff directly associated with the cost of services.

##### **Gross profit margin %**

Gross profit margin % consists of gross profit margin divided by revenue where gross profit margin is revenue less cost of services.

##### **Other operating expenses**

Other operating expenses includes sales commission expense, advertising and marketing expenses, travel expenses, administrative expenses including insurance and professional fees, communication expenses, maintenance expenses and rent expenses for office facilities.

##### **Foreign exchange gain (loss)**

Foreign exchange gain (loss) relates to the translation of monetary assets and liabilities into Canadian dollars using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in net income in the period.

##### **Finance costs**

Finance costs consist of interest charged on our short- and long-term debt, amortization of deferred financing costs including expenses associated with closing our long-term debt facility and accretion expense on the Company's decommissioning and restoration obligations. The deferred financing costs are amortized using the effective interest method over the term of the loan.

##### **Finance income**

Finance income consists of interest earned on our cash and cash equivalent and short-term investment balances.

#### Additional GAAP Measures

##### **Earnings (loss) from operations**

Earnings (loss) from operations exclude foreign exchange gain (loss), income taxes, finance costs and finance income. We include earnings (loss) from operations as an additional GAAP measure in our consolidated statement of earnings. We consider earnings (loss) from operations to be representative of the activities that would normally be regarded as operating for the Company. We believe this measure provides relevant information that can be used to assess the consolidated performance of the Company and therefore, provides meaningful information to investors.

#### Non-GAAP Measures

##### **Adjusted EBITDA**

The term "EBITDA" refers to earnings before deducting interest, taxes, depreciation and amortization. The Company believes that Adjusted EBITDA is useful additional information to management, the Board and investors as it provides an indication of the operational results generated by its business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and amortization and it excludes items that could affect the comparability of our operational results and could potentially alter the trends analysis in business performance. Excluding these items does not necessarily imply they are non-recurring, infrequent or unusual. Adjusted EBITDA is also used by some investors and analysts for the purpose of valuing a company. The Company calculates Adjusted EBITDA as earnings before deducting interest, taxes, depreciation and amortization, foreign exchange gain or loss, finance costs, finance income, gain or loss on disposal of network assets, property and equipment, impairment of property, plant, & equipment and intangible assets, stock-based compensation and restructuring, acquisition-related and integration costs. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to operating earnings or net earnings determined in accordance with IFRS as an indicator of our financial performance or as a measure of our liquidity and cash flows. Adjusted EBITDA does not take into

account the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

Adjusted EBITDA does not have any standardized meaning under GAAP. TeraGo's method of calculating Adjusted EBITDA may differ from other issuers and, accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See "Results of Operations – Adjusted EBITDA" for reconciliation of net loss to Adjusted EBITDA.

### **Key Performance Indicators**

#### ***Backlog MRR***

The term "Backlog MRR" is a measure of contracted monthly recurring revenue (MRR) from customers that have not yet been provisioned. The Company believes backlog MRR is useful additional information as it provides an indication of future revenue. Backlog MRR is not a recognized measure under IFRS and may not translate into future revenue, and accordingly, investors are cautioned in using it. The Company calculates backlog MRR by summing the MRR of new customer contracts and upgrades that are signed but not yet provisioned, as at the end of the period. TeraGo's method of calculating backlog MRR may differ from other issuers and, accordingly, backlog MRR may not be comparable to similar measures presented by other issuers.

#### ***ARPU***

The term "ARPU" refers to the Company's average revenue per customer per month in the period. The Company believes that ARPU is useful supplemental information as it provides an indication of our revenue from an individual customer on a per month basis. ARPU is not a recognized measure under IFRS and, accordingly, investors are cautioned that ARPU should not be construed as an alternative to revenue determined in accordance with IFRS as an indicator of our financial performance. The Company calculates ARPU by dividing our total revenue before revenue from early terminations by the number of customers in service during the period and we express ARPU as a rate per month. TeraGo's method of calculating ARPU has changed from the Company's past disclosures to exclude revenue from early termination fees, where ARPU was previously calculated as revenue divided by the number of customers in service during the period. TeraGo's method may differ from other issuers, and accordingly, ARPU may not be comparable to similar measures presented by other issuers.

#### ***Churn***

The term "churn" or "churn rate" is a measure, expressed as a percentage, of customer cancellations in a particular month. The Company calculates churn by dividing the number of customer cancellations during a month by the total number of customers at the end of the month before cancellations. The information is presented as the average monthly churn rate during the period. The Company believes that the churn rate is useful supplemental information as it provides an indication of future revenue decline and is a measure of how well the business is able to renew and keep existing customers on their existing service offerings. Churn and churn rate are not recognized measures under IFRS and, accordingly, investors are cautioned in using it. TeraGo's method of calculating churn and churn rate may differ from other issuers and, accordingly, churn may not be comparable to similar measures presented by other issuers.

## **Management's Responsibility for Financial Reporting**

The accompanying consolidated financial statements of TeraGo Inc. and its subsidiaries and all the information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

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

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

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

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

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

February 17, 2021

"David Charron"

Interim Chief Executive Officer &  
Chief Financial Officer





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

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of TeraGo Inc.

### ***Opinion***

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of comprehensive loss for the years then ended
- the consolidated statements of shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report.

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

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





## ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

### ***Evaluation of the impairment assessment of long-lived assets***

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

We draw attention to Notes 2(d), 3(f), and 7 to the financial statements. The Entity performs impairment testing of its non-financial long-lived assets annually, or more frequently if events or circumstances indicate the carrying value of the Entity's single cash generating unit might exceed its recoverable amount. The Entity has goodwill and indefinite-life intangibles of \$19,419 thousand and \$10,278 thousand, respectively. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of (i) the net present value of the expected future cash flows (value-in-use) and (ii) the fair value less costs to sell. The Entity's determination of the value-in-use uses significant assumptions including expected future revenue, operating margins, capital investment, discount rate and terminal growth rate.

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

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

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

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

- For the Entity's single cash generating unit, we:
  - Evaluated the expected future revenue, operating margins, and capital investment in comparison to the actual historical sales and operating margins generated by, and capital investment used by, the cash generating unit to assess the Entity's ability to accurately predict cash flows.
  - Considered changes in conditions and events to assess the assumptions made in arriving at the expected future revenue and operating margins estimates.
  - Evaluated the terminal growth rate by comparing to published reports of industry analysts.



- We involved valuation professionals with specialized skills and knowledge who assisted in performing the following procedures:
  - Assessing the discounted cash flow methodology adopted by the Entity to determine the value-in-use amount used in the determination of the recoverable amount.
  - Evaluating the appropriateness of the discount rate assumption by comparing it to a discount rate range that was independently developed using publicly available market data including available data for comparable entities.

### ***Other Information***

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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



### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Kevin James Fisher.

Vaughan, Canada

February 17, 2021

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

	<i>Note</i>	<b>December 31 2020</b>	<b>December 31 2019</b>
<b>Assets</b>			
Cash and cash equivalents	5	\$ 5,858	\$ 8,686
Accounts receivable	5	2,500	2,889
Prepaid expenses and other assets		804	727
Current portion of contract costs	4	324	394
Current portion of other long-term assets	11	79	17
<b>Total current assets</b>		<b>9,565</b>	<b>12,713</b>
Network assets, property and equipment	6	56,649	59,562
Intangible assets	7	17,097	18,605
Goodwill	7	19,419	19,419
Contract costs	4	397	362
Other long-term assets	11	41	16
<b>Total non-current assets</b>		<b>93,603</b>	<b>97,964</b>
<b>Total Assets</b>		<b>\$ 103,168</b>	<b>\$ 110,677</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		\$ 5,403	\$ 4,599
Current portion of contract liabilities	4	193	155
Current portion of long-term debt	9	3,000	4,000
Current portion of lease liabilities	10	7,236	7,014
<b>Total current liabilities</b>		<b>15,832</b>	<b>15,768</b>
Decommissioning and restoration obligations	8	360	276
Contract liabilities	4	187	79
Long-term debt	9	25,144	24,470
Lease liabilities	10	20,779	21,744
Other long-term liabilities	11	-	235
<b>Total non-current liabilities</b>		<b>46,470</b>	<b>46,804</b>
<b>Total Liabilities</b>		<b>62,302</b>	<b>62,572</b>
<b>Shareholders' Equity</b>			
Share capital		103,223	101,846
Contributed surplus		27,191	27,548
Deficit		(89,548)	(81,289)
<b>Total Shareholders' Equity</b>		<b>\$ 40,866</b>	<b>\$ 48,105</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 103,168</b>	<b>\$ 110,677</b>

Commitments and Contingencies – Note 12.

On behalf of the Board:

(signed) “Matthew Gerber”

Director

(signed) “Gary Sherlock”

Director

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

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

		Year ended December 31 2020	Year ended December 31 2019
	<i>Note</i>		
<b>Revenue</b>	<b>4</b>	<b>\$ 45,448</b>	<b>48,437</b>
<b>Expenses</b>			
Cost of services		9,816	9,647
Salaries and related costs, net	20	16,254	17,511
Other operating expenses		7,940	8,314
Depreciation of network assets, property and equipment	6	13,301	13,488
Amortization of intangible assets	7	1,508	1,799
		<u>48,819</u>	<u>50,759</u>
<b>Income (Loss) from operations</b>		<b>(3,371)</b>	<b>(2,322)</b>
Foreign exchange (loss)		(210)	(69)
Finance costs		(4,777)	(4,769)
Finance income		99	166
<b>Loss before income taxes</b>		<b>\$ (8,259)</b>	<b>(6,994)</b>
<b>Income taxes</b>			
Income tax expense		-	-
<b>Net loss and comprehensive loss</b>		<b>\$ (8,259)</b>	<b>(6,994)</b>
<b>Deficit, beginning of year</b>		<b>\$ (81,289)</b>	<b>(74,295)</b>
<b>Deficit, end of year</b>		<b>\$ (89,548)</b>	<b>(81,289)</b>
<b>Basic &amp; Diluted loss per share</b>	16	<b>\$ (0.49)</b>	<b>(0.43)</b>
<b>Basic &amp; Diluted weighted average number of shares outstanding</b>		<b>16,693</b>	<b>16,195</b>

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

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

		Year ended December 31 2020	Year ended December 31 2019
	<i>Note</i>		
<b>Operating Activities</b>			
Net loss for the year		(8,259)	(6,994)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Severance, acquisition, and other costs		1,630	1,424
Depreciation of network assets, property and equipment	6	13,301	13,488
Amortization of intangible assets	7	1,508	1,799
Stock-based compensation expense	15	1,515	1,984
Finance costs		4,777	4,769
Finance income		(99)	(166)
Loss on adjustments and disposal of network assets and intangible assets	6, 10	198	296
Impairment of assets and related charges	4, 6, 7	1,139	808
Severance, acquisition, and other costs paid		(1,777)	(1,328)
Stock-based compensation paid		-	(353)
Changes in non-cash working capital items:			
Accounts receivable		401	792
Prepaid expenses		(98)	(122)
Accounts payable and accrued liabilities		(1,039)	(1,140)
Contract liabilities		146	(16)
Contract costs		(11)	137
<b>Cash from Operating Activities</b>		<b>13,332</b>	<b>15,378</b>
<b>Investing Activities</b>			
Purchase of network assets, property and equipment	6	(7,616)	(6,696)
Purchase of intangible assets	7	-	(35)
Change in non-cash working capital related to network assets, property and equipment and intangible assets		32	375
<b>Cash used in Investing Activities</b>		<b>(7,584)</b>	<b>(6,356)</b>
<b>Financing Activities</b>			
Proceeds from exercise of stock options		-	79
Proceeds from equity offering	14	-	8,855
Equity offering costs incurred	14	-	(753)
Proceeds from debt borrowings		3,100	-
Interest swap settlement	9	(629)	-
Interest paid, net of received		(1,011)	(1,453)
Repayment of long-term debt	9	(3,600)	(4,000)
Financing costs incurred	9	(267)	-
Payments of lease liabilities	10	(7,434)	(6,982)
Government grants	20	1,265	-
<b>Cash from (used in) Financing Activities</b>		<b>(8,576)</b>	<b>(4,254)</b>
Net change in cash and cash equivalents, during the year		(2,828)	4,768
Cash and cash equivalents, beginning of year		8,686	3,918
<b>Cash and cash equivalents, end of year</b>		<b>5,858</b>	<b>8,686</b>

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



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

	Share Capital			Contributed	Deficit	Total
	Number (in 000's)	Amount		Surplus		
<b>Balance, January 1, 2020</b>	16,628	\$ 101,846	\$	27,548	\$ (81,289)	\$ 48,105
Issuance of shares upon exercise of options	2	4		(4)	-	-
Stock-based compensation	-	-		1,226	-	1,226
Issuance of common shares from vesting of RSUs/PSUs	159	1,084		(1,084)	-	-
Shares deducted for payment of withholding tax	(73)	-		(495)	-	(495)
Issuance of shares for directors' fees	46	289		-	-	289
Net loss and comprehensive loss	-	-		-	(8,259)	(8,259)
<b>Balance, December 31, 2020</b>	16,762	\$ 103,223	\$	27,191	\$ (89,548)	\$ 40,866

	Share Capital			Contributed	Deficit	Total
	Number (in 000's)	Amount		Surplus		
<b>Balance, January 1, 2019</b>	15,768	\$ 93,262	\$	25,676	\$ (74,295)	\$ 44,643
Issuance of shares upon exercise of options	21	125		(46)	-	79
Stock-based compensation	-	-		585	-	585
Issuance of shares for directors' fees	34	357		-	-	357
Modifications of share-based awards from cash-settled to equity-settled	-	-		1,333	-	1,333
Issuance of shares for equity offering (net of issuance costs)	805	8,102		-	-	8,102
Net loss and comprehensive loss	-	-		-	(6,994)	(6,994)
<b>Balance, December 31, 2019</b>	16,628	\$ 101,846	\$	27,548	\$ (81,289)	\$ 48,105

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

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**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
**(In thousands of Canadian dollars, 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**

**(a) Basis of preparation**

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

The Board of Directors authorized the consolidated financial statements for issue on February 17, 2021.

**(b) Basis of Measurement**

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

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

**(c) Functional and Presentation Currency**

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

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

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

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

- (i) *Estimates of useful lives of network assets, property and equipment and intangible assets:*  
Management's judgment involves consideration of intended use, industry trends and other factors in determining the expected useful lives of depreciable assets, to determine depreciation methods, the asset's residual value and whether an asset is a qualifying asset for the purposes of capitalizing borrowing costs.
- (ii) *Capitalization of costs:*  
Judgments and estimates are used in assessing the direct labour and other costs capitalized to network assets, property and equipment.
- (iii) *Cash generating units:*  
Judgment is required to assess the Company's determination of cash generating units for the purpose of impairment testing.
- (iv) *Impairment of non-financial assets:*  
The process to calculate the recoverable amount of our cash generating unit requires use of valuation methods such as the discounted cash flow method which uses significant assumptions including expected future revenue, operating margins, capital investment, discount rate and terminal growth rate.

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

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

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(v) *Valuation allowance on Trade Receivables:*

In developing the estimates for an allowance against existing receivables, the Company considers general and industry economic and market conditions as well as credit information available for the customer and the aging of the account. Changes in the carrying amount due to changes in economic and market conditions could significantly affect the loss for the period. The Company applies the IFRS 9 model to record valuation allowances on Trade Receivables.

(vi) *Stock-based compensation:*

Estimating fair value for stock-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. In valuing stock options, the Company uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Company's stock options using the Black-Scholes option pricing model including the expected life of the option, risk-free interest rate and volatility of the underlying stock.

(vii) *Income taxes:*

A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Significant estimates are required in evaluating the recoverability of deferred tax assets. The Company's assessment is based on existing tax laws, estimates of future profitability and tax planning strategies.

(viii) *Provisions:*

Judgment is required to assess the likelihood of an outflow of the economic benefits to settle contingencies, such as litigations or decommissioning and restoration obligations, which may require a liability to be recognized. Significant judgments include assessing estimates of future cash flows, selection of discount rates and the probability of the occurrence of future events.

(ix) *Revenue from contracts with customers:*

The enforceable term of contracts requires estimating average contract terms based on available historical data. Significant judgements are also made in determining whether the promises to deliver certain services are considered distinct and represent separate performance obligations. In addition, evaluating whether costs incurred to obtain a contract are incremental and expected to be recoverable requires judgment based on conditions of each individual contract.

(x) *Leases:*

Judgment is required to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such options will impact the lease term. The rate at which these leases will be renewed requires estimation as most are negotiated at the time of renewal. In addition, as most of the Company's leases do not have embedded financing rates, judgment is required to arrive at discount rates that reflect the risk associated with each individual lease. The impact of these assumptions significantly impacts the amount of lease liabilities and right-of-use assets recognized.

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

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

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

- Monthly recurring revenue (MRR) from cloud, colocation, and connectivity are recognized as service revenue ratably over the enforceable term of individual contracts which is typically the stated term. The Company satisfies its performance obligation as these services are made available over time. The Company believes this method to be the best representation of transfer of services as it is consistent with industry practice to measure satisfaction through passage of time. In addition, many of the Company's contractual terms are consistent with a monthly passage of time model as services are provided.

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

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- Transaction price is determined as the list price of services (net of discounts) that the Company promises to deliver to its customers, taking into account the term of each individual contract, and the ability to enforce and collect the consideration.
- Revenue from installation services, which are not treated as distinct performance obligations, are recognized over the enforceable term of individual contracts consistent with the schedule of MRR discussed above.
- Usage revenue (overage and consumption-based services) is recorded as service revenue in the month the usage is incurred/service is consumed by the customer, based on a fixed agreed upon amount per unit consumed.
- Payment is typically due at the beginning of each month for MRR services and at the end of each month for usage revenue.

**(i) Sale of Bundled Services**

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

**(ii) Service Credits**

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

**(iii) Contract Costs**

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

Contract costs are presented separately as an asset on the consolidated statement of financial position. The Company has opted not to use practical expedients under IFRS 15 and as a result, the current portion of contract costs are presented in current assets. The current portion represent amounts expected to be amortized in the next 12 months. The Company uses significant judgments and estimates when estimating certain contract costs incurred in prior years that continue to be incremental and recoverable in the current period.

**(iv) Contract Assets**

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

**(v) Contract Liabilities**

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

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

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**(b) Basis of Consolidation**

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

**(c) Financial Instruments**

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

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

Financial Instrument	Classification and measurement method
Financial Assets	
Cash and cash equivalents	Amortized cost
Accounts Receivable	Amortized cost
Financial liabilities	
Accounts payable	Amortized cost
Accrued Liabilities	Amortized cost
Long-term debt	Amortized cost
Derivatives <sup>1</sup>	
Interest rate swap	FVTPL

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<sup>1</sup>Derivatives can be in an asset or liability position at a point in time historically or in the future

***Impairment of Financial Assets***

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

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

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

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

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

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

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

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

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

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

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

**(e) Goodwill and Intangible Assets**

Intangible assets include the following:

***Radio Spectrum Licenses***

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

***Computer Software***

Computer software is recorded at cost less accumulated amortization and amortized on a straight-line basis over 3 years or where there is a term license for the software, over the shorter of the term of the license or the useful life of the software.

***Customer Relationships, Brand, and Non-compete agreements***

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

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

**Goodwill**

Goodwill is the amount that results when the fair value of consideration transferred for an acquired business exceeds the net fair value of the identifiable assets and liabilities acquired. When the Company enters into a business combination, the acquisition method of accounting is used. Goodwill is assigned, as of the date of the business combination, to cash generating units that are expected to benefit from the business combination.

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

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

The Company performs impairment testing of its non-financial long-lived assets annually, or more frequently if events or circumstances indicate the carrying value of the Entity's single cash generating unit might exceed its recoverable amount. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of i) the net present value of the expected future cash flows (value-in-use) and ii) the fair value less cost to sell. If the recoverable amount is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is charged to operations in the period in which the impairment is identified. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("cash generating units" or "CGUs").

The carrying values of identifiable intangible assets with indefinite lives and goodwill are tested at minimum annually for impairment. Goodwill and indefinite life intangible assets are allocated to CGUs for the purpose of impairment testing based on the level at which management monitors it, which is not higher than an operating segment. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company currently has assessed that it has a single CGU.

The carrying values of non-financial assets with finite useful lives, such as network assets, property and equipment and intangible and other assets subject to amortization, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount of the asset must be determined. Such assets are impaired if their recoverable amount is lower than their carrying amount. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the CGU to which the asset belongs is tested for impairment.

**(g) Business Combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in loss in the period incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS sections. Changes in the fair value of contingent consideration initially classified as equity are not recognized.

Where a business combination is achieved in stages, the Company's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Company attains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair value at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

**(h) Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.



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

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

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

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

**(i) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the impact is significant, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognized as a finance cost.

***Decommissioning and Restoration Obligations:***

In the course of the Company's operations, network and other assets are utilized on leased premises. Often costs are expected to be incurred associated with decommissioning these assets and restoring the location where these assets are situated upon ceasing their use on those premises.

These decommissioning and restoration provisions are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the liability. Assumptions related to the amount and timing of cash flows required to satisfy the Company's future legal obligations include labour costs based on current marketplace wages and the rate of inflation over expected years to settlement; the length of facility lease renewal periods and probability of such renewals; and the appropriate discount rate to present value the future cash flows. Forecasts of estimated future provisions are reviewed periodically in light of future changes in business conditions or technological requirements.

The Company records these decommissioning and restoration costs as Network Assets, Property and Equipment, and subsequently allocates them to expense using a systematic and rational method over the asset's useful life. The Company records the accretion of the liability (unwinding of the discount) as a charge to finance costs.

**(j) Foreign Currency Translation**

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

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

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

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

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**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
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recognized in loss for the year.

**(l) Income Taxes**

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

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

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

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

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

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

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

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

Awards with graded vesting are valued and recognized as compensation cost based on the respective vesting tranche. The amount of compensation cost recognized is adjusted to reflect the number of awards expected to vest based on continued employment vesting conditions, such that the amount ultimately recognized as compensation cost is based on the number of awards that vest.

The Employee share purchase plan allows employees to voluntarily participate in a share purchase plan. Under the terms of the plan, employees can contribute a specified percentage of their regular earnings through payroll deductions and the Company makes a contribution match which is recorded as compensation expense.

**(n) Operating Segments**

Management has determined that the Company operates in a single reportable operating segment. The Company provides cloud, colocation, and connectivity services and earns revenues primarily in Canada. As at December 31, 2020 substantially all of the Company's identifiable assets are located in Canada.

**(o) Loss Per Share**

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

**(p) Government Grants**

Government grants are recognized when management has reasonable assurance that the entity will comply with the

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**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
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conditions attached to the grant and the grant will be received. Government grants recognized are accounted for as a reduction in the expense which they are intended to compensate.

#### 4. Revenue

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

##### a) Disaggregation of revenue

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

	<b>Year ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Cloud and Colocation Revenue	\$ 17,427	18,064
Connectivity Revenue	28,021	30,373
	<u>\$ 45,448</u>	<u>48,437</u>

##### b) Contract Costs

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

	<b>2020</b>
<b>Balance, January 1, 2020</b>	\$ 756
Incremental commissions capitalized	539
Impairment charges from contract terminations	(46)
Amortization	(528)
<b>Balance, December 31, 2020</b>	<u>721</u>
Less: current	\$ (324)
	<u>397</u>

##### c) Contract Liabilities

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

	<b>2020</b>
<b>Balance, January 1, 2020</b>	\$ 234
Additions from provisioning	519
Revenue recognized for services provided	(361)
Impairment charges from contract terminations	(12)
<b>Balance, December 31, 2020</b>	<u>380</u>
Less: current	\$ (193)
	<u>187</u>

##### d) Unsatisfied Performance Obligations

The aggregate amount of revenue allocated to performance obligations that are unsatisfied as of December 31, 2020 was \$48,146. 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

**TERAGO INC.**  
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as the unsatisfied term is calculated monthly.

**5. Current Assets**

Details of selected current asset balances are as follows:

**a) Cash and cash equivalents**

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

**b) Accounts receivable**

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

	<b>December 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Trade receivables	\$ 2,465	\$ 2,814
Loss allowances (Note 18)	(66)	(40)
Other	101	115
	<u>\$ 2,500</u>	<u>\$ 2,889</u>

**6. 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	7,256	247	102	11	-	-	1,200	8,816
Disposals	(763)	-	-	-	-	-	(251)	(1,014)
Reclassifications / Modifications	-	-	9	(9)	-	-	3,043	3,043
Impairment	(2,729)	(220)	(3)	(41)	(7)	-	(54)	(3,054)
<b>Balance, December 31, 2020</b>	<b>\$ 127,403</b>	<b>\$ 12,131</b>	<b>\$ 5,079</b>	<b>\$ 2,323</b>	<b>\$ 3,070</b>	<b>\$ 49</b>	<b>\$ 35,954</b>	<b>\$ 186,009</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	6,474	901	48	32	319	-	5,527	13,301
Disposals	(565)	-	-	-	-	-	(67)	(632)
Reclassifications / Modifications	(2)	2	-	-	-	-	(4)	(4)
Impairment	(1,789)	(100)	(2)	(34)	(5)	-	(31)	(1,961)
<b>Balance, December 31, 2020</b>	<b>\$ 104,002</b>	<b>\$ 4,884</b>	<b>\$ 4,974</b>	<b>\$ 2,305</b>	<b>\$ 2,452</b>	<b>\$ 49</b>	<b>\$ 10,694</b>	<b>\$ 129,360</b>
<b>Net Book Value, December 31, 2020</b>	<b>\$ 23,401</b>	<b>\$ 7,247</b>	<b>\$ 105</b>	<b>\$ 18</b>	<b>\$ 618</b>	<b>\$ -</b>	<b>\$ 25,260</b>	<b>\$ 56,649</b>

# TERAGO INC.

## Notes to the Consolidated Financial Statements

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

Cost	Network Assets	Cloud & Datacentre Infrastructure	Computer Equipment	Office Furniture and Equipment	Leasehold Improvements	Vehicles	Right-of-use Assets	Total
Balance, January 1, 2019	\$ 120,025	\$ 11,735	\$ 4,988	\$ 2,356	\$ 3,099	\$ 49	\$ 30,507	\$ 172,759
Additions	6,095	576	15	8	2	-	545	7,241
Disposals	(734)	(240)	-	(1)	-	-	(131)	(1,106)
Reclassifications / Modifications	(21)	45	-	-	(24)	-	1,115	1,115
Impairment	(1,726)	(12)	(32)	(1)	-	-	(20)	(1,791)
<b>Balance, December 31, 2019</b>	<b>\$ 123,639</b>	<b>\$ 12,104</b>	<b>\$ 4,971</b>	<b>\$ 2,362</b>	<b>\$ 3,077</b>	<b>\$ 49</b>	<b>\$ 32,016</b>	<b>\$ 178,218</b>
<b>Accumulated Depreciation</b>								
Balance, January 1, 2019	\$ 94,924	\$ 3,206	\$ 4,776	\$ 2,265	\$ 1,686	\$ 49	\$ -	\$ 106,906
Depreciation for the period	6,633	879	182	42	452	-	5,300	13,488
Disposals	(667)	(4)	-	-	-	-	(24)	(695)
Reclassifications / Modifications	(14)	7	-	-	-	-	-	(7)
Impairment	(992)	(7)	(30)	-	-	-	(7)	(1,036)
<b>Balance, December 31, 2019</b>	<b>\$ 99,884</b>	<b>\$ 4,081</b>	<b>\$ 4,928</b>	<b>\$ 2,307</b>	<b>\$ 2,138</b>	<b>\$ 49</b>	<b>\$ 5,269</b>	<b>\$ 118,656</b>
<b>Net Book Value, December 31, 2019</b>	<b>\$ 23,755</b>	<b>\$ 8,023</b>	<b>\$ 43</b>	<b>\$ 55</b>	<b>\$ 939</b>	<b>\$ -</b>	<b>\$ 26,747</b>	<b>\$ 59,562</b>

For the years ended December 31, 2020 and 2019, the Company had additions of capitalized wages and other directly attributable costs of \$2,149 and \$1,999, respectively, in network assets, property and equipment.

During 2020, the Company wrote off assets with net book value of \$382 (Cost of \$1,014 less accumulated depreciation of \$632, \$184 of which was recognized against lease liabilities) which primarily represents replaced assets and obsolete assets disposed of for negligible value. During 2019, the Company wrote off assets with a net book value of \$411 (Cost of \$1,106 less accumulated depreciation of \$695, \$115 of which was recognized against lease liabilities). The corresponding loss on disposal is included in other operating expenses.

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

The Company tests Network assets, property and equipment for impairment when events or circumstances may indicate the carrying value is no longer recoverable. The asset is impaired when the recoverable amount is less than the net book value. The recoverable amount is the higher of (i) an asset's fair value less costs to sell and (ii) its value-in-use. In performing the annual impairment test the Company identified evidence of impairment in certain assets and an analysis was done on the recoverable amount. The Company determined that the recoverable amount of certain network assets, cloud and datacentre infrastructure, and computer equipment was less than their carrying values. This was the result of the loss of certain customers, changes in services demanded and provided to certain customers in primarily connectivity offerings, and assets not expected to be deployed. The fair value less costs to sell (or salvage value) for the impaired assets was insignificant. For the year ended December 31, 2020 the Company recorded a charge of \$1,093 in other operating expenses on the statement of comprehensive loss (December 31, 2019 – \$755).

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

**7. Intangible Assets and Goodwill**

<b>Cost</b>	<b>Radio spectrum licenses</b>	<b>Computer Software</b>	<b>Customer relationships</b>	<b>Other</b>	<b>Total Intangibles</b>	<b>Goodwill</b>	<b>Total Intangibles and Goodwill</b>
Balance, January 1, 2020	\$ 12,649	\$ 9,868	\$ 18,021	\$ 4,831	\$ 45,369	\$ 19,419	\$ 64,788
Additions	-	-	-	-	-	-	-
Disposals / Adjustments	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-
<b>Balance, December 31, 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	-	139	1,242	127	1,508	-	1,508
Impairment	-	-	-	-	-	-	-
<b>Balance, December 31, 2020</b>	<b>\$ 2,371</b>	<b>\$ 9,800</b>	<b>\$ 13,022</b>	<b>\$ 3,079</b>	<b>\$ 28,272</b>	<b>\$ -</b>	<b>\$ 28,272</b>
<b>Net Book Value, December 31, 2020</b>	<b>\$ 10,278</b>	<b>\$ 68</b>	<b>\$ 4,999</b>	<b>\$ 1,752</b>	<b>\$ 17,097</b>	<b>\$ 19,419</b>	<b>\$ 36,516</b>

<b>Cost</b>	<b>Radio spectrum licenses</b>	<b>Computer Software</b>	<b>Customer relationships</b>	<b>Other</b>	<b>Total Intangibles</b>	<b>Goodwill</b>	<b>Total Intangibles and Goodwill</b>
Balance, January 1, 2019	\$ 12,649	\$ 9,840	\$ 17,690	\$ 4,831	\$ 45,010	\$ 19,419	\$ 64,429
Additions	-	35	331	-	366	-	366
Disposals / Adjustments	-	-	-	-	-	-	-
Impairment	-	(7)	-	-	(7)	-	(7)
<b>Balance, December 31, 2019</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, 2019	\$ 2,371	\$ 9,176	\$ 10,597	\$ 2,823	\$ 24,967	\$ -	\$ 24,967
Amortization for the period	-	487	1,183	129	1,799	-	1,799
Impairment	-	(2)	-	-	(2)	-	(2)
<b>Balance, December 31, 2019</b>	<b>\$ 2,371</b>	<b>\$ 9,661</b>	<b>\$ 11,780</b>	<b>\$ 2,952</b>	<b>\$ 26,764</b>	<b>\$ -</b>	<b>\$ 26,764</b>
<b>Net Book Value, December 31, 2019</b>	<b>\$ 10,278</b>	<b>\$ 207</b>	<b>\$ 6,241</b>	<b>\$ 1,879</b>	<b>\$ 18,605</b>	<b>\$ 19,419</b>	<b>\$ 38,024</b>

**Impairment of Intangible Assets**

The annual impairment test of intangible assets was performed on December 31, 2020 and no assets were identified requiring impairment (December 31, 2019 – \$5).

The Company tests intangible assets for impairment when events or circumstances may indicate the carrying value is no longer recoverable. The asset is impaired when the recoverable amount is less than the net book value. The recoverable amount is the higher of (i) an asset's fair value less costs to sell and (ii) its value-in-use. In performing the annual impairment test the Company identified evidence of impairment in certain assets and an analysis was done on the recoverable amount.

**Impairment of Goodwill**

The annual impairment test of goodwill and indefinite life intangible assets was performed on December 31, 2020 and December 31, 2019 and did not result in any goodwill impairment loss.

The recoverable amount is the higher of (i) an asset's or CGU's fair value less costs to sell and (ii) its value-in-use. In performing the annual impairment test for the Company's single CGU, the Company measured the value-in-use of the

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

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CGU using certain significant management assumptions. Cash flow projections, which were made over a five-year period, were based primarily on the financial budget reviewed by the Board of Directors plus a terminal value using a 3% terminal growth rate. The Company discounted these estimates of future cash flows to their present value using an after-tax discount rate of 9.0% which reflects the entity's weighted average cost of capital. The fair value less costs to sell, primarily based on the Company's market capitalization as at December 31, 2020, also significantly exceeded the net carrying amount of the CGU.

**8. Decommissioning and Restoration Obligations**

The Company's hub sites are established in leased or licensed premises. As part of these arrangements, the Company is liable for all restoration costs to ensure that the space is returned to its original state upon termination of the leases. The decommissioning and restoration obligations are related to future site restoration costs associated to these leased or licensed premises. The decommissioning and restoration obligations were determined using a discount rate of 9.0% over a range of periods from 2025 to 2045. As at December 31, 2020, the estimated amount of undiscounted cash flows required to settle this liability was \$1,218.

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the decommissioning and restoration obligations associated with the retirement of network assets:

	<b>December 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Obligation, beginning of year	\$ 276	\$ 277
Accretion expense included in finance costs	28	28
Changes in assumptions	56	(29)
Obligation, end of year	\$ 360	\$ 276

**9. Long-term Debt**

	<b>December 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Term debt facility	\$ 28,405	\$ 28,652
less: financing fees	(261)	(182)
	28,144	28,470
less: current portion	(3,000)	(4,000)
	\$ 25,144	\$ 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.



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

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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:

- \$5,000 revolving facility which bears interest at prime plus a margin percent. As of December 31, 2020, \$nil was drawn and outstanding on the revolving facility (2019 - \$nil). Letters of credit issued under the facility totaled \$625 as of December 31, 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 December 31, 2020, \$28,400 of the term facility principal balance outstanding was in a banker's acceptance bearing interest at prime plus a margin percent and the remaining \$100 was in a prime rate loan. As at December 31, 2020, the Company prepaid interest in the amount of \$95 which represents the net settlement of the Banker's Acceptance and is recorded as a reduction in the carrying amount of the debt.

During the year, the Company's existing interest rate swap contracts were terminated, and the Company paid cash of \$629 to settle the contracts. Until the date of settlement, the interest rate swap contracts had not been designated as a hedge and were marked-to-market each period, with the corresponding charge (recovery) for the change in fair value recorded in finance costs. The effective interest rate on the Company's long-term debt on December 31, 2020 was 4.21% (2019 - 5.34%).

During the year ended December 31, 2020, the Company incurred \$267 (2019 - nil) in finance costs to amend and extend the credit facility. 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 December 31, 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.

**10. Leases**

The Company has many leases of which it is a lessee. The major categories of leases are building leases for the Company's fixed wireless services, datacentre 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.

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

**a) Right-of-use Asset**

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

**b) Lease Liability**

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

	<b>2020</b>	<b>2019</b>
Lease liabilities, beginning of period	\$ 28,758	\$ 31,457
Additions	1,200	545
Terminations	(184)	(115)
Interest on lease liabilities	2,651	2,754
Modifications	3,024	1,099
Lease payments	(7,434)	(6,982)
Lease liabilities – end of period	28,015	28,758
less: current portion	(7,236)	(7,014)
	\$ 20,779	\$ 21,744

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

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Thereafter</b>	<b>Total</b>
Undiscounted cash flows	\$ 7,236	6,769	5,553	4,330	3,660	10,335	37,883

**11. Other Long-Term Assets/Liabilities**

**(a) Other long-term assets**

	<b>December 31 2020</b>	<b>December 31 2019</b>
Contract asset	\$ 120	\$ 33
	120	33
less: current portion	(79)	(17)
	\$ 41	\$ 16

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

	<b>December 31 2020</b>	<b>December 31 2019</b>
Interest rate swap contract (Note 9)	\$ -	\$ 235
	-	235

**12. Commitments & Contingencies**

**(a) Contingencies**

From time to time the Company is subject to reviews conducted by its vendors over various licenses we purchase and offer to our customers. One such review was conducted in 2019 and a preliminary findings report was issued by the vendor which gave rise to a contingent liability. At December 31, 2020, the Company is in the process of formally negotiating a settlement with the vendor. Included in the accrued liabilities balance as at December 31, 2020 is a provision of \$491 which, using all currently available information, represents management's best estimate (within a range of probable outcomes) of the expected cash outflow (2019 - \$500). The final outcome is subject to measurement uncertainty and is expected to be finalized within fiscal 2021.

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

At December 31, 2020, the Company had various purchase commitments to fulfill sales orders in the normal course of operations. Below is a summary of the future minimum payments for contractual obligations that are not recognized as liabilities at December 31, 2020:

	2021	2022	2023	2024	2025	Thereafter	Total
Network assets, property, and equipment	\$ 565	-	-	-	-	-	565
Other Purchase Obligations	4,224	2,815	2,011	1,086	461	-	10,597
Total Commitments	4,789	2,815	2,011	1,086	461	-	11,162

The Company is required to pay, under a CRTC-administered regime, a percentage (2020 - 0.44%, 2019 - 0.52%) of its adjusted Canadian telecommunications service revenue (as defined by CRTC and excluding retail Internet revenue) into a fund administered by CRTC.

**13. Income Taxes****(a) Income tax expense (recovery)**

	December 31 2020	December 31 2019
Profit (Loss) before income taxes (recovery)	\$ (8,259)	\$ (6,994)
Income taxes at enacted rate of 26.41%	(2,181)	(1,861)
Non-deductible expenses and permanent differences	405	539
Change in unrecognized deductible temporary differences	1,879	1,667
Effect of change in future tax rates	118	(88)
True-up adjustment and other	(221)	(257)
	\$ -	\$ -

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

Deferred tax assets and liabilities are attributable to the following:

	December 31 2020	December 31 2019
Deferred Tax Assets:		
Income tax loss carryforwards	\$ 2,629	\$ 63
Deferred Tax Liabilities:		
Contract Costs	-	-
Property, Plant, & Equipment	(2,629)	(63)
	\$ -	\$ -

The Company has recognized deferred tax assets of \$2,629 (2019 - \$63) related to income tax loss carryforwards and recognized deferred tax liabilities in the amount of \$2,629 related to Network Assets, Property and Equipment.

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

Deferred tax assets have not been recognized in respect of the following items because they do not meet the criteria for recognition.

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

	<b>December 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Unrecognized Deferred Tax Assets:		
Excess of tax value of network assets, property and equipment, and intangible assets over net book value	\$ -	\$ -
Non-capital tax loss carryforwards	17,103	15,213
Capital lease obligations	722	638
Other deductible temporary differences	1,250	1,344
	<u>\$ 19,075</u>	<u>\$ 17,195</u>

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

	<b>December 31</b>		<b>December 31</b>
	<b>2020</b>		<b>2019</b>
	%		%
Loss before Income taxes	\$ (8,259)		\$ (6,994)
Income tax recovery at statutory rates	(2,181) 26.4%		(1,861) 26.6%
Permanent differences	405 (4.9%)		539 (7.7%)
Unrecognized deferred tax assets	1,879 (22.8%)		1,667 (23.8%)
Effect of changes in future tax rates	118 (1.4%)		(88) 1.3%
Provision to return adjustment for prior year and other	(221) 2.7%		(257) 3.7%
Income tax expense (recovery)	<u>\$ - -</u>		<u>\$ - -</u>

**(e) Tax loss expiry schedule**

The non-capital tax losses carried forward are available to reduce future taxable income in Canada and expire as follows:

2030	\$ 1,356
2031	1,386
2032	-
2033	647
2034	674
2035	1,651
2036	2,640
2037	21,153
2038	15,969
2039	16,127
2040 and later	12,684
	<u>\$ 74,287</u>

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

**14. Share Capital**

**Authorized**

Unlimited Common Shares

	Number of Common Shares	In \$	
		Common Shares	Share Issue Costs Total
<b>Issued</b>			
<b>Balance, January 1, 2019</b>	15,768	100,570	(7,308) 93,262
Issuance of common shares on exercise of stock options	21	125	- 125
Issuance of common shares for directors' fees	34	357	- 357
Issuance of common shares for equity offering	805	8,855	(753) 8,102
<b>Balance, December 31, 2019</b>	16,628	109,907	(8,061) 101,846
Issuance of common shares on exercise of stock options	2	4	- 4
Issuance of common shares for directors' fees	46	289	- 289
Issuance of common shares from vesting of RSUs/PSUs	159	1,084	- 1,084
Shares deducted for payment of withholding taxes	(73)	-	- -
<b>Balance, December 31, 2020</b>	16,762	111,284	(8,061) 103,223

**Equity Offering**

On July 3, 2019, the Company completed an equity offering to issue and sell 805 common shares for gross proceeds of \$8,855 (the "Offering"). Proceeds net of actual commissions, legal, accounting, and listing fees was \$8,102. The Offering was carried out pursuant to an underwriting agreement dated June 17, 2019, with a syndicate of underwriters led by TD Securities Inc., and included Canaccord Genuity Corp., Cormark Securities Inc., and Desjardins Securities Inc.

**Dividends**

Dividends are payable in an equal amount on each common share if declared by the Board of Directors of the Company. No dividends were declared for the years ended December 31, 2020 and 2019.

**15. Stock-Based Compensation**

**(a) Stock Options**

The company adopted its current option plan on June 18, 2007 (the "Option Plan") which is available to directors, officers, employees and other persons approved by the Board from time to time. The options granted under the Option Plan expire 10 years from the date of grant and generally vest over three years. All options under the Option Plan will vest immediately on a change of control of the Company. As of December 31, 2020, there are 389 (2019 – 217) options outstanding under the Option Plan.

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

For the years ended December 31, 2020 and 2019, the Company recorded stock-based compensation related to stock options of \$640 and \$157, respectively.

A summary of the status of the Company's stock Option Plan as at December 31, 2020 and 2019 is presented below.

	2020		2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<b>Outstanding - January 1</b>	217	\$8.72	55	\$4.40
Granted	194	\$6.45	190	\$9.49
Exercised	(2)	\$4.40	(21)	\$4.40
Forfeited / Expired	(20)	\$6.44	(7)	\$8.48
<b>Outstanding - December 31</b>	389	\$7.73	217	\$8.72
Exercisable	135	\$7.59	11	\$4.40

The Company granted stock options to certain key executives during the year. The fair value of stock option grants is estimated using the Black-Scholes option pricing model, with the following weighted average assumptions: risk-free rates ranging from 0.23% to 0.66%; dividend yield of nil; volatility rates ranging from 33.31% to 34.41%; and expected term of stock options of 6.5 years. Expected volatility has been based on an evaluation of the historical period commensurate with the expected term. The expected term of the stock options has been based on historical experience and general option holder behavior. The fair value of the stock options is expensed over the vesting period of the options using the graded method.

As at December 31, 2020, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life are as follows:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$4.01 - \$5.50	27	6.64	\$4.40	27	\$4.40
\$6.01 - \$12.00	362	9.00	\$8.31	108	\$8.38
	389	8.91	\$7.73	135	\$7.59

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

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

In 2020, the Company granted 46 RSUs to certain executives (2019 – 39). In 2020, 159 RSUs vested and the company issued common shares (2019 – 12 vested and cash settled). For the years ended December 31, 2020 and December 31, 2019, the Company recorded compensation expense of \$582 and \$1,314, respectively, related to the RSUs granted.

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

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**RSU modification and adjustment:**

On June 21, 2019, the shareholders of the Company approved the board of directors' recommendation to amend the RSU Plan whereby up to 300,000 common shares may be issued from treasury to settle current and future vested PSUs and RSUs. Following this amendment, the awards were determined to be modified from cash-settled to equity-settled, and the previous cash-settled liability was revalued to its modification date fair value and derecognized and a corresponding amount was recorded in contributed surplus on the statement of financial position. The impact of the change resulted in a \$701 stock based compensation charge recorded in net loss for the year ended December 31, 2019.

As a result of the reclassification on the modification date, a balance of \$1,328, representing the liability balance of the awards, was recorded in contributed surplus related to the RSUs outstanding.

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

	<b>December 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
<b>Opening Balance, January 1, 2020</b>	255	282
Granted	46	39
Forfeited	(32)	(54)
Vested and settled / paid	(159)	(12)
<b>Ending Balance, December 31, 2020</b>	<b>110</b>	<b>255</b>

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

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

There were 46 PSUs granted in 2020 (2019– 39) to certain key executives. In 2020, nil PSUs vested and were paid (2019 – 19 vested and cash settled). For the years ended December 31, 2020 and December 31, 2019, the Company recorded stock-based compensation expense of \$4 and \$156, respectively, related to the PSUs outstanding.

**PSU modification and adjustment:**

On June 21, 2019, the shareholders of the Company approved the board of directors' recommendation to amend the PSU Plan whereby up to 300,000 common shares may be issued from treasury to settle current and future vested PSUs and RSUs. Following this amendment, the awards were determined to be modified from cash-settled to equity-settled, and the previous cash-settled liability was revalued to its modification date fair value and derecognized and a corresponding amount was recorded in contributed surplus on the statement of financial position. The impact of the change resulted in a net (\$16) stock based compensation recovery recorded in net loss for the year ended December 31, 2019.

As a result of the reclassification on the modification date, a balance of \$5, representing the liability balance of the awards, was recorded in contributed surplus related to the PSUs outstanding.



**TERAGO INC.**  
**Notes to the Consolidated Financial Statements**  
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The following table is a summary of the number of outstanding PSUs as at:

	<b>December 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
<b>Opening Balance, January 1, 2020</b>	32	19
Granted	46	39
Vested and paid	-	(19)
Forfeited / Expired	(50)	(7)
<b>Ending Balance, December 31, 2020</b>	<b>28</b>	<b>32</b>

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

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

	<b>Year ended</b>	<b>Year ended</b>
	<b>December 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Restricted share units	\$ 582	\$ 1,314
Performance-based share units	4	156
Stock options	640	157
Directors' fees paid in shares	289	357
	<b>\$ 1,515</b>	<b>\$ 1,984</b>

**16. Loss Per Share**

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

	<b>Year ended</b>	<b>Year ended</b>
	<b>December 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Numerator for basic and diluted loss per share:		
Net loss for the period	\$ (8,259)	(6,994)
Denominator for basic and diluted loss per share:		
Basic weighted average number of shares outstanding	16,693	16,195
Effect of stock options, RSUs and PSUs	-	-
Diluted weighted average number of shares outstanding	16,693	16,195
Loss per share:		
Basic	\$ (0.49)	(0.43)
Diluted	\$ (0.49)	(0.43)

For the year ended December 31, 2020, the effect of outstanding share-based awards totaling 561 (2019 – 389), were excluded in the calculation of diluted loss per share because they were antidilutive.

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

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**17. Key Management Personnel Compensation**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors of the Company.

Key management personnel compensation, including directors, is as follows:

	<b>Year ended December 31</b>		<b>Year ended December 31</b>	
	<b>2020</b>		<b>2019</b>	
Salaries, fees and benefits	\$	2,297	\$	2,250
Termination expense		1,140		796
Share-based compensation expense		1,505		1,954
	\$	4,942	\$	5,000

**18. Fair value of financial instruments**

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Where quoted market values are not readily available, the Company may use considerable judgment to develop estimates of fair value. Accordingly, any estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange and could be materially affected by the use of different assumptions or methodologies. The Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 7 – Financial Instruments – Disclosures.

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;  
Level 2 - Inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and  
Level 3 - Unobservable inputs for the asset or liability which are supported by little or no market activity

The fair values of cash and cash equivalents are based on quoted market values. The fair values of short-term financial assets and liabilities, including accounts receivable, accounts payable and accrued liabilities, as presented in the consolidated statements of financial position, approximate their carrying amounts due to their short-term maturities. The fair value of long-term debt approximates its carrying value because management believes the interest rates approximate the market interest rate for similar debt with similar security. The fair value of interest rate swap contracts are based on broker quotes and therefore, these contracts are measured using Level 2 inputs. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar 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**

		<b>Carrying Amount</b>		<b>Fair Value (Level 2)</b>	
		<b>December 31 2020</b>	<b>December 31 2019</b>	<b>December 31 2020</b>	<b>December 31 2019</b>
<b>Financial Liabilities</b>					
Interest rate swap contract	\$	-	\$ 235	\$	- \$ 235
Long-term debt		28,144	28,470		28,144 28,470

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

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**b) Credit risk**

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

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

The Company, in the normal course of business, is exposed to credit risk from its customers and the accounts receivable are subject to normal industry risks. The Company attempts to manage these risks by dealing with credit worthy customers. If available, the Company reviews credit bureau ratings, bank accounts and industry references for all new customers. Customers that do not have this information available are typically placed on a pre-authorized payment plan for service or provide deposits to the Company. This risk is minimized as the Company has a diverse customer base located across various provinces in Canada.

As at December 31, 2020 and 2019, the Company had no material trade receivable accounts that were not expected to be collected. The following table provides the aging of the trade accounts receivable:

	<b>December 31</b>	<b>December 31</b>
	<b>2020</b>	<b>2019</b>
Current	\$ 1,996	\$ 2,205
31 to 60 days	307	523
61 to 90 days	48	84
over 90 days	114	2
	<u>\$ 2,465</u>	<u>2,814</u>

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

	<b>December 31</b>
	<b>2020</b>
<b>Opening Balance, January 1, 2020</b>	40
Amounts written off	(31)
Remeasurement of loss allowance	57
<b>Ending Balance, December 31, 2020</b>	<u>66</u>

**c) Liquidity Risk**

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

The Company believes that its current cash and cash equivalents and anticipated cash from operations will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable future. The Company continues to manage liquidity by ensuring trade turnover is consistent with the objectives of the organization as well as through cost management strategies. As at December 31, 2020, the Company had cash and cash equivalents of \$5,858. The Company also has access to \$4,375 undrawn portion of its \$35,000 credit facilities after consideration of outstanding letters of credit, current drawings and subject to certain financial and non-financial covenants.

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

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As at December 31, 2020, the Company's financial liabilities that have contractual maturities are summarized below:

	<u>Less than 1 year</u>	<u>2 - 3 years</u>	<u>Total</u>
Long-term debt	\$ 3,000	\$ 25,144	\$ 28,144
Accounts payable	2,360	-	2,360
<b>Total</b>	<b>\$ 5,360</b>	<b>\$ 25,144</b>	<b>\$ 30,504</b>

**d) Interest Rate Risk**

As a result of the recent modification of the Company's credit facility and termination of its interest rate swap (see Note 9), 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 currently 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 during such period. A 1% change in interest rate would have increase (decreased) quarterly interest by \$71. As at December 31, 2020, the revolving facility balance was \$nil. The drawn term facility as at December 31, 2020 was \$28,500, \$28,400 of which was held in a Bankers Acceptance. The interest rate on the Banker's Acceptance at December 31, 2020 was 4.21%. The remaining \$100 drawn under this facility bears interest at prime rate plus a margin.

**e) Currency Risk**

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

	<u>Currency</u>	<u>December 31 2020</u>	<u>December 31 2019</u>
Cash and cash equivalents	USD	\$ 45	\$ 27
Accounts payable and accrued liabilities	USD	695	954

**19. Capital Risk Management**

The Company's objectives when managing capital are:

- (a) to ensure that the Company will continue as a going concern so that it can continue to provide services to its customers and offer a return on investment to its shareholders;
- (b) to maintain a capital structure which optimizes the cost of capital while providing flexibility and diversity of funding sources and timing of debt maturities along with adequate anticipated liquidity for future growth; and
- (c) to comply with debt covenants.

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

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The Company defines capital that it manages as the aggregate of its cash and cash equivalents, short-term investments, debt facilities including finance leases and equity comprising of share capital, contributed surplus and deficit.

	<b>December 31</b>		<b>December 31</b>
	<b>2020</b>		<b>2019</b>
Cash and cash equivalents	\$ (5,858)	\$	(8,686)
Long term debt	28,144		28,470
Share capital	103,223		101,846
Contributed surplus	27,191		27,548
Deficit	(89,548)		(81,289)
	<u>\$ 63,152</u>	\$	<u>67,889</u>

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

The Company's overall strategy with respect to management of capital remains unchanged from the year ended December 31, 2019.

**20. Government Grants**

The Company determined it was eligible for the Canada Emergency Wage Subsidy ("CEWS") based on the prescribed criteria by the Government of Canada. During the year ended December 31, 2020, the Company recorded the \$1,265 grant received as a reduction in salaries and related costs for amounts received in cash under the program. During the year ended December 31, 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.

# CORPORATE INFORMATION

## DIRECTORS

### **Kenneth Campbell**

Chair, TeraGo Inc.  
Senior Advisor, Performance Management Partners

### **Matthew Gerber**

Chief Executive Officer, TeraGo Inc.

### **Michael Martin**

Vice President of Technology, Metercor Inc.

### **Richard Brekka**

Managing Partner, Second Alpha Partners, LLC

### **Gary Sherlock**

Chief Executive Officer, commercebuild Holdings Inc.

### **Laurel Buckner**

Managing Director, WestRiver Group

## SENIOR LEADERSHIP TEAM

### **Matthew Gerber**

Chief Executive Officer

### **David Charron**

Chief Financial Officer

### **Blake Wetzel**

Chief Operations Officer and Chief Revenue Officer

### **Duncan McGregor**

Vice President, Engineering & Operations

### **Mark Lau**

Vice President, Legal, General Counsel &  
Corporate Secretary

### **Candice Levy**

Vice President, People & Culture

## CORPORATE HEAD OFFICE

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## EXCHANGE LISTING

Toronto Stock Exchange

## STOCK SYMBOL

TGO

## INVESTOR RELATIONS CONTACT

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## WEBSITE

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## YEAR END

December 31

## AUDITORS

KPMG LLP

Vaughan, Ontario, Canada

## TRANSFER AGENT

Computershare Investor Services Inc.

Toronto, Ontario, Canada

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