TERAGO INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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 24, 2015 and should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2014 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 and our website at 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 – 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, cloud services, retention campaign and initiatives, additional capital expenditures, investments in data centers and other IT services. 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 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 and those risks set forth in the "Risk Factors" section of this MD&A and other uncertainties and potential events. In particular, if any of the risks materialize, the expectations, and the predictions based on them, 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 2.2% to $12.6 million for the three months ended December 31, 2014, compared to $12.9 million for the same period in 2013. Excluding revenues related to the loss of a new wireless entrant customer, total ongoing revenue increased 2.1% for the quarter compared to the same period in 2013 with service revenues from ongoing operations steadily increasing quarter over quarter during 2014 (Q1 = $12.0 million, Q2 = $12.0 million, Q3 = $12.1 million, Q4 = $12.3 million).

- For the year ended December 31, 2014, total revenue decreased 0.4% to $51.2 million compared to $51.4 million for the same period in 2013. Excluding revenues related to the loss of a new wireless entrant customer, total ongoing revenue increased 1.5% for the year ended December 31, 2014 compared to the same period in 2013.

- ARPU or revenue per customer decreased 2.7% to $1,006 for the three months ended December 31, 2014 compared to $1,034 for the same period in 2013. Excluding the impact of the loss of a new wireless entrant customer, ARPU increased 2.2% to $1,006 for the three months ended December 31, 2014 compared to $984 for the same period in 2013.

- For the year ended December 31, 2014 ARPU decreased 2.7% to $1,009 compared to $1,037 for the same period in 2013. Excluding the impact of the loss of a new wireless entrant customer, ARPU increased to $988 for the year ended December 31, 2014 compared to $986 for the same period in 2013.

- EBITDA decreased 8.2% to $4.0 million for the three months ended December 31, 2014, compared to $4.3 million for the same period in 2013 primarily due to a decrease in access revenue partially offset by an increase in data center revenue and early termination fees.
- Net loss was $1.1 million for the three months ended December 31, 2014 compared to $0.7 million for the same period in 2013. Net loss was impacted by a decrease in revenue as described above and higher stock based compensation.
- Average customer churn rate was 1.02% for the three months ended December 31, 2014 and 0.99% for year ended December 31, 2014 compared to 1.18% for the same periods in 2013. The improvement is primarily due to ongoing retention initiatives and improved customer service
- Ending customer count at December 31, 2014 and December 31, 2013 remained the same at 4,073

Key Developments

- On January 6, 2014, the Company announced the appointment of Stewart Lyons as President and Chief Executive Officer
- On February 4, 2014, the Company announced the appointment of Joe Prodan as Chief Financial Officer
- In January 2014, the Company expanded its data center footprint to 7,000 square feet in the Greater Vancouver Area
- In April 2014, the Company acquired an additional 7,000 square foot data center facility in downtown Vancouver, British Columbia
- In June 2014, the Company entered into a credit agreement with National Bank of Canada and Royal Bank of Canada (the "Credit Agreement") for credit facilities totaling $50.0 million, consisting of a $5.0 million revolving operating credit facility, a $20.0 million non-revolving term credit facility to refinance the Company's existing credit facility and a $25.0 million non-revolving acquisitions and capital expenditure facility
- In October, 2014, TeraGo acquired a 10,000 square foot tier 3-ready data center facility in Mississauga, Ontario that was previously built and managed by BlackBerry Limited
- During 2014, TeraGo launched 8 major product and feature enhancements, with a focus on our 'Data Flow Security Suite' of products. The Data Flow Security Suite includes Active Redundancy Failover, Disaster Recovery and a complete Cloud based IaaS (Infrastructure as a Service) offering. The Cloud offering includes Cloud back-up and storage, virtual and dedicated servers and software licenses that enable a customer to completely provision their IT environment in the Cloud. In conjunction with the other products in the Data Flow

Security Suite, TeraGo can provide a fully-managed data connectivity and Cloud solution that is unrivaled in the industry.

- TeraGo's 2014 Net Promoter Score ("NPS"), a widely utilized industry measurement of customer satisfaction as measured by a third party research firm, was +19 at the close of the year. This compares very favourably with the large incumbent providers, who according to the same survey had an average score of -28. Customers repeatedly cited TeraGo's network reliability and customer service as the main reasons for TeraGo's high NPS score
- TeraGo was presented with the inaugural Canadian Telecommunications Employer of Choice (EOC) Recognition Award for 2014, which identifies, recognizes and promotes the best employers in the Canadian telecommunications industry
- TeraGo's HR team has been named a finalist in two categories in the Canadian HR Awards for 2014: Best Change Management Strategy and Best Health and Wellness Strategy

TERAGO OVERVIEW

TeraGo provides communications, data center and cloud services through its national network and data centers.

Access Services	Data Center Services	Cloud Services
• National high performance, scalable internet access principally via wireless with fibre optic in selected strategic areas • Active redundancy capability with bundled connectivity solution • Voice over IP services • Managed network service	• Colocation services in partial, full, or customized cabinets • Managed, Private Dedicated, and Co-location hosting services • Other value added services	• Infrastructure-as-a-Service (IaaS) utility computing on virtual and dedicated compute platforms • High performance protected data storage • Managed backup services • Data archiving and vaulting

Strategy

TeraGo leverages its strategic strengths as a facilities-based information technology ("IT") and data center and cloud services provider for small and medium-sized business ("SMB") customers in Canada, enabling their businesses to connect to the world and securing their critical information assets by providing superior customer service, performance and availability as key differentiators.

TeraGo employs a growth strategy that consists of the following key components:

- Increase customer penetration in our existing markets;
- Cross-sell and promote our enhanced service offerings that include value-added IT services to our current customer base;
- Expand our customer base by offering a comprehensive suite of IT solutions;
- Expand and enhance our product and service offerings; and
- Pursue strategic initiatives including acquisitions and partnerships on an opportunistic basis.

TERAGO'S BUSINESS MODEL

TeraGo's subscription-based business model generates stable and predictable recurring revenue from Internet, data, voice services, data center services and cloud services.

Communications Services

TeraGo's communications services customers typically sign one, two or three-year contracts. In 2014, approximately 80% of our new customers signed contracts for three years or more. Services are billed monthly or quarterly over the term of the contract.

Data center services

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.

Cloud services

TeraGo's focus is to provide these services to communications and data center services customers; though certain customers have purchased cloud-based services independent of TeraGo's other services. Cloud services revenue is derived from monthly recurring charges based on usage.

As at December 31, 2014, the Company offered its services in 46 geographic markets across Canada serving over 4,000 customers. Once a customer is obtained, we work to capitalize on opportunities to generate incremental recurring revenue from that customer by adding new customer locations and increasing service capacity supplied to existing locations, by increasing data center cabinet space and by providing additional services.

ACCESS 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, 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"). Unlike asymmetrical DSL services offered by many of our competitors, TeraGo provides services that are symmetrical, hence customers can have the same high speed broadband performance whether uploading or downloading. 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.

DATA SERVICES

TeraGo offers data connectivity services that allow businesses to connect their multiple sites within a city or across TeraGo's geographic footprint through a Private Virtual Local Area Network ("VLAN"). With speeds from 3 Mbps to 1 Gbps, TeraGo's VLAN services are ideal for companies with multiple offices and large interoffice data requirements. Campus VLAN services between two customer locations are available at speeds up to 1 Gbps. TeraGo's data services, which run across our MPLS core network, are symmetrical, allowing communication between parties in both directions simultaneously. TeraGo's use of Ethernet over MPLS ("EoMPLS") technology enhances its VLAN performance and enables VLAN customers to experience higher reliability and easier provisioning.

VOICE SERVICES

TeraGo is approved by the Canadian Radio-television and Telecommunications Commission ("CRTC") to offer voice services as a Type IV competitive local exchange carrier ("CLEC"). TeraGo provides businesses with a cost effective, flexible and high quality connection from their private branch exchange (PBX) to the public switched telephone network (PSTN). TeraGo's service provides features and capabilities generally consistent with those provided by incumbent local exchange carriers ("ILECs"), while offering greater value for our customers.

NETWORK

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 when necessary with carrier diverse leased fiber optic facilities. Major Internet peering and core locations are centralized in Vancouver, Toronto, Seattle and Los Angeles 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 24-GHz and 38-GHz wide-area spectrum licences which covers regions across Canada, including 1,160 MHz in Canada's 6 largest cities. This spectrum is used for: point-to-point and point-to-multipoint microwave radio deployments; connecting core hubs together to create a wireless backbone where appropriate (often in a ring configuration to avoid points of failure); and in the access network or "last mile" to deliver high capacity (speeds of 10 to 1,000 Mbps) Ethernet-based links for business, government and cellular backhaul.

For further details on licensed spectrums, please refer to the Company's 2014 AIF.

DATA CENTER AND MANAGED SERVICES

TeraGo provides data center services that protect and connect our customers' valuable information assets. Customers can provision 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.

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. This includes back-up office facilities that can be used in case of disaster. These facilities can be provisioned at the data center location and provide customers with the capability to restore office functionality with direct access to their information located in the data center.

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

Data center services customers typically include national government agencies, financial services companies, cloud and data storage service providers, content and network service providers, and small and medium 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 Center Facilities

TeraGo's data centers provide data center solutions, including colocation and disaster recovery, to a roster of small and medium-sized businesses, enterprises, public sector and technology service providers. As of December 31, 2014, TeraGo has approximately 40,000 square feet of data center capacity in four facilities across Canada:

Vaughan, Ontario
TeraGo operates a 16,000 square foot SSAE 16 SOC1 Type 2 data center facility in Vaughan, Ontario, serving the Greater Toronto Area. This data center and its operations were purchased in May 2013 when the Company acquired Data Centers Canada Inc.

Mississauga, Ontario
In October, 2014, TeraGo acquired a 10,000 square foot tier 3-ready data center facility in Mississauga, Ontario that was previously managed by BlackBerry Limited. This facility is expected to be ready in March, 2015 and will predominantly serve the Greater Toronto Area.

Vancouver, British Columbia
TeraGo operates two data center facilities in downtown Vancouver. Its first facility, acquired in December 2013, is 5,000 square feet and is expandable to 7,000 square feet. The facility has redundant fibre facilities between the data center and the 'telco hotel', 555 West Hastings, in downtown Vancouver. The second facility which was acquired in April 2014 is 7,000 square feet and is served by TeraGo's fiber optic line. Both facilities are used to service the Greater Vancouver Area.

CLOUD SERVICES

TeraGo provides cloud services that seek to meet the complex and evolving IT needs of our customers. TeraGo provides Infrastructure as a Service ("IaaS") cloud computing solutions and data archiving or cloud storage and other offerings either on a direct or indirect basis. These solutions allow the Company to compete in the cloud services, Platform as a Service ("PaaS") and IaaS markets.

With its entry into data center services and cloud services, TeraGo is building an operating platform to service the IT solutions sector. Cross selling opportunities to the customer base, while leveraging the Company's carrier grade network is expected to augment and diversify the Company's revenue base.

SELECTED ANNUAL INFORMATION

The following table displays a summary of our Consolidated Statements of Comprehensive Earnings (Loss) for the three months ended December 31, 2014 and 2013 and the years ended December 31, 2014, 2013 and 2012 and a summary of select Balance Sheet data as at December 31, 2014, 2013 and 2012

(in thousands of dollars, except with respect to earnings (loss) per share)	Three months ended December 31		Years ended December 31		
	2014	**2013**	**2014**	**2013**	**2012**
Revenue					
Total Revenue	$ 12,629	12,909	$ 51,229	51,426	49,168
Expenses					
Cost of services	3,054	3,111	12,022	11,656	11,018
Salaries and related costs	4,728	4,552	19,444	15,863	17,103
Other operating expenses	2,176	2,333	8,386	7,454	6,554
Special charges	-	-	-	-	699
Amortization of intangible assets	674	726	2,781	2,550	1,924
Depreciation of network assets, property and equipment	2,652	2,514	10,479	9,729	8,750
	13,284	13,236	53,112	47,252	46,048
Earnings (loss) from operations	(655)	(327)	(1,883)	4,174	3,120
Foreign exchange gain (loss)	(41)	(34)	(84)	(63)	14
Finance costs	(381)	(352)	(1,990)	(1,126)	(828)
Finance income	3	5	30	36	31
Earnings (loss) before income taxes	(1,074)	(708)	(3,927)	3,021	2,337
Income taxes					
Current tax expense	-	(26)	-	(26)	-
Deferred tax recovery	-	-	-	1,314	2,520
Income tax recovery (expense)	-	(26)	-	1,288	2,520
Net earnings (loss) and comprehensive earnings (loss)	$ (1,074)	(734)	$ (3,927)	4,309	4,857
Deficit, beginning of period	(54,945)	(51,358)	(52,092)	(56,401)	(61,258)
Deficit, end of period	$ (56,019)	(52,092)	$ (56,019)	(52,092)	(56,401)
Basic earnings (loss) per share	$ (0.09)	(0.06)	$ (0.34)	0.38	0.43
Diluted earnings (loss) per share	$ (0.09)	(0.06)	$ (0.34)	0.36	0.41
Basic weighted average number of shares outstanding	11,676	11,345	11,588	11,423	11,318
Diluted weighted average number of shares outstanding	11,676	11,892	11,588	11,809	11,840

Selected Balance Sheet Data	As at December 31		
	2014	**2013**	**2012**
Cash and cash equivalents	$ 2,866	$ 2,137	$ 1,469
Short term investments	$ -	$ 452	$ 1,131
Accounts receivable	$ 2,908	$ 2,933	$ 3,021
Network assets, property and equipment	$ 41,774	$ 41,042	$ 38,024
Total Assets	$ 69,561	$ 70,558	$ 59,333
Accounts payable and accrued liabilities	$ 7,401	$ 6,008	$ 5,194
Long-term debt	$ 18,794	$ 19,112	$ 12,412
Other long-term liabilities	$ 1,382	$ 864	$ 1,390
Shareholders' equity	$ 41,413	$ 43,526	$ 38,753

RESULTS OF OPERATIONS

Comparison of the three months and year ended December 31, 2014 and 2013
(in thousands of dollars, except with respect to gross profit margin, earnings per share and operating metrics)

	Three months ended December 31		Year ended December 31	
	2014	**2013**	**2014**	**2013**
Financial[3]				
Revenue	$ 12,629	$ 12,909	$ 51,229	$ 51,426
Cost of Services[1]	$ 3,054	$ 3,111	$ 12,022	$ 11,656
Gross profit margin[1]	75.8%	75.9%	76.5%	77.3%
EBITDA[1] [2]	$ 3,954	$ 4,306	$ 16,167	$ 18,364
Income tax recovery (expense)	$ -	$ (26)	$ -	$ 1,288
Net earnings (loss)	$ (1,074)	$ (734)	$ (3,927)	$ 4,309
Basic earnings (loss) per share	$ (0.09)	$ (0.06)	$ (0.34)	$ 0.38
Diluted earnings (loss) per share	$ (0.09)	$ (0.06)	$ (0.34)	$ 0.36
Operating				
Customers	4,073	4,073	4,073	4,073
ARPU[1]	$ 1,006	$ 1,034	$ 1,009	$ 1,037
Churn rate[1]	1.02%	1.18%	0.99%	1.18%
Number of employees	151	191	151	191

[1] See "DEFINITIONS - Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures" for descriptions of Cost of Services, Gross profit margin %, EBITDA, Churn and ARPU
[2] See "EBITDA" for a reconciliation of net earnings (loss) to EBITDA
[3] Financial results for DCC are included from the date of acquisition, May 31, 2013.

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

Revenue

Total revenue decreased 2.2% to $12.6 million for the three months ended December 31, 2014, compared to $12.9 million for the same period in 2013. Excluding revenues related to the loss of a new wireless entrant customer, total ongoing revenue increased 2.1% for the quarter compared to the same period in 2013 with service revenues from ongoing operations steadily increasing quarter over quarter during 2014 (Q1 = $12.0 million, Q2 = $12.0 million, Q3 = $12.1 million, Q4 = $12.3 million).

For the year ended December 31, 2014, total revenue decreased 0.4% to $51.2 million compared to $51.4 million for the same period in 2013. Excluding revenues related to the loss of a new wireless entrant customer, total ongoing revenue increased 1.5% for the year ended December 31, 2014 compared to the same period in 2013.

The Company believes the current retention campaign launched for customers coming to the end of the contract term will help long-term revenue growth by maintaining and growing a large base of customers to cross-sell complementary services such as data center and cloud services.

ARPU

ARPU or revenue per customer decreased 2.7% to $1,006 for the three months ended December 31, 2014 compared to $1,034 for the same period in 2013. Excluding the impact of the loss of a new wireless entrant customer, ARPU increased 2.2% to $1,006 for the three months ended December 31, 2014 compared to $984 for the same period in 2013. This change was primarily due to a decrease in revenue contribution from the internet access business offset by an increase in the data center services as discussed in the revenue section above.

For the year ended December 31, 2014 ARPU decreased 2.7% to $1,009 compared to $1,037 the same period in 2013. Excluding the impact of the loss of a new wireless entrant customer, ARPU increased to $988 for the year ended December 31, 2014 compared to $986 for the same period in 2013.

Churn

The average monthly churn rate improved to 1.02% for the three months ended December 31, 2014 compared to 1.18% for the same period in 2013. For the year ended December 31 average monthly churn rate improved to 0.99% compared to 1.18% the same period in 2013. The improvement is primarily as a result of the enhanced retention focus now in place. Management continues to focus on retention initiatives and offerings, customer service, focused on the needs of SMB customers and renewed sales activity with competitive product offerings in addition to monitoring customer creditworthiness and churn levels.

Cost of services

Cost of services remained relatively stable at $3.1 million for the three months ended December 31, 2014 and 2013. For the year ended December 31, 2014, cost of services increased to $12.0 million compared to $11.7 million for the same period in 2013. The increase is primarily due to higher utility costs associated with the data centres being operational for the full year in 2014 vs. partial year in 2013.

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

SG&A expenses remained relatively stable at $6.9 million for the three months ended December 31, 2014 and 2013. For the year ended December 31, 2014, SG&A expenses increased to $27.8 million compared to $23.3 million for the same period in 2013. The increase was due to increased rental expenses associated with DC acquisitions, higher marketing costs related to new marketing programs and product launches, higher restructuring costs related to the ongoing alignment of the Company's strategy and integration costs partially offset by savings in salary and benefits due to reductions in the number of employees.

EBITDA

EBITDA was $4.0 million for the three months ended December 31, 2014 compared to $4.3 million for the same period in 2013, a decrease of 8.2%. EBITDA for the year ended December 31, 2014 was $16.2 million compared to $18.4 million for the same period in 2013, a decrease of 12.0%. The decrease in both periods is driven by the revenue, cost of services and SG&A movements described above.

The table below reconciles net earnings (loss) to EBITDA for the three months and year ended December 31, 2014 and 2013.

(in thousands of dollars)	**Three months ended December 31**		**Year ended December 31**	
	2014	**2013**	**2014**	**2013**
Net earnings (loss) for the period	$ (1,074)	$ (734)	$ (3,927)	$ 4,309
Foreign exchange loss (gain)	41	34	84	63
Finance costs	381	352	1,990	1,126
Finance income	(3)	(5)	(30)	(36)
Income tax(recovery) expense	-	26	-	(1,288)
Earnings (loss) from operations	(655)	(327)	(1,883)	4,174
Add:				
Depreciation of network assets, property and equipment and amortization of intangible assets	3,326	3,240	13,260	12,279
Loss (gain) on disposal of network assets	94	121	643	202
Stock-based compensation expense (recovery)	376	9	1,973	(149)
	3,141	3,043	13,993	16,506
Restructuring, acquisition-related and integration costs	813	1,263	2,174	1,858
EBITDA[1]	$ 3,954	$ 4,306	$ 16,167	$ 18,364

(1) See Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures

Finance costs

Finance costs increased $0.03 million for the three months ended December 31, 2014 compared to the same period in 2013 due to $0.1 million expense related to the mark to market of the Company's interest rate swap contract offset by benefits on interest rates from refinancing the debt in Q2 2014. For the year ended December 31, 2014, finance costs increased to $2.0 million compared to $1.1 million for the same period in 2013. The increase in finance costs for year ended December 31, 2014 compared to 2013 is primarily due to fees and charges related to the set-up of the new Credit Facilities and the extinguishment of the old facility, expense related to the mark to market of the Company's interest rate swap contract and an increase in interest expense as TeraGo's debt level increased due to acquisitions at the end of the second quarter in 2013.

Depreciation and amortization
Depreciation of network assets, property and equipment and amortization of intangibles increased by 2.7% to $3.3 million for the three months ended December 31, 2014 compared to $3.2 million for the same period in 2013. For the year ended December 31 2014 depreciation of network assets, property and equipment and amortization of intangibles increased by 8.0% to $13.3 million compared to $12.3 million for the same period in 2013. The increase in depreciation and amortization relates to increased investment in fibre optic network, wireless network assets and customer premise equipment as well as the amortization of new intangible assets acquired in the purchase of DCC on May 31, 2013.

Income tax
The Company reviewed and updated the assumptions and projections regarding future profitability as at December 31, 2014. Based on management's analysis, no change in deferred income tax asset resulting from temporary tax differences were recognized in the three months and year end December 31, 2014. For the year ended December 31, 2013, the Company recognized a tax benefit of $1.3 million associated with previously unrecognized tax losses as management considered it probable that future taxable profits would be available against which they can be utilized.

Net earnings (loss)
Net loss was $1.1 million for the three months ended December 31, 2014, compared to net loss of $0.7 million for the same period in 2013. For the year ended December 31, 2014, net loss was $3.9 million compared to net earnings of $4.3 million for the same period in 2013. For the three months ended December 31, 2014 net loss was impacted by lower access revenue and higher stock based compensation expenses compared to the same period in 2013. For the year ended December 31, 2014, earnings were also negatively impacted by higher finance costs associated with the new credit facility, higher depreciation costs related to the new data center locations and restructuring costs incurred related to the ongoing alignment of the Company's strategy compared to the same period in 2013. In addition, the year ended December 31, 2013 included a tax benefit of $1.3 million associated with previously unrecognized tax losses.

Summary of Quarterly Results

All financial results are in thousands, with the exception of earnings per share.

	Q4 -14	Q3 -14	Q2-14	Q1-14	Q4-13	Q3-13	Q2-13	Q1-13
Revenue	$ 12,629	$ 12,545	$ 13,182	$ 12,874	$ 12,909	$ 13,168	$ 12,779	$ 12,570
Gross Profit Margin %[1]	75.8%	76.0%	77.9%	77.7%	75.9%	77.5%	78.0%	77.7%
EBITDA[1]	$ 3,954	$ 4,081	$ 4,330	$ 3,802	$ 4,306	$ 5,140	$ 4,585	$ 4,333
Net earnings (loss)[1]	$ (1,074)	$ (225)	$ (1,535)	$ (1,093)	$ (734)	$ 1,602	$ 2,101	$ 1,340
Basic earnings (loss) per share	$ (0.09)	$ (0.02)	$ (0.13)	$ (0.10)	$ (0.06)	$ 0.14	$ 0.18	$ 0.12
Diluted earnings (loss) per share	$ (0.09)	$ (0.02)	$ (0.13)	$ (0.10)	$ (0.06)	$ 0.13	$ 0.18	$ 0.11
Basic weighted average number of shares outstanding	11,676	11,620	11,566	11,490	11,446	11,430	11,419	11,397
Diluted weighted average number of shares outstanding	11,676	11,620	11,566	11,490	11,446	11,884	11,962	11,960

(1) See Definitions – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures

Seasonality
The Company's net customer growth 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.

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 spectrum payments, annual rate increases in long-term contracts and the restart on January 1st of payroll taxes and other levies related to employee compensation.

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.

(in thousands of dollars)	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Statement of Cash Flows Summary				
Cash inflows and (outflows) by activity:				
Operating activities	$ 3,893	$ 4,517	$ 13,625	$ 15,751
Investing activities	(2,482)	(2,487)	(11,592)	(20,596)
Financing activities	(1,777)	(795)	(1,304)	5,513
Net cash inflows (outflows)	(366)	1,235	729	668
Cash and cash equivalents, beginning of period	3,232	902	2,137	1,469
Cash and cash equivalents, end of period	$ 2,866	$ 2,137	$ 2,866	$ 2,137

Operating Activities
For the three months ended December 31, 2014, cash generated from operating activities was $3.9 million compared to $4.5 million for the same period in 2013. For the year ended December 31, 2014, cash generated from operating activities was $13.6 million compared to $15.8 million for the same period in 2013. The decrease in cash from operating activities for the year ended December 31, 2014 is principally from a net loss mainly driven by an increase of expenses associated with the full year impact of data center operational costs (eg. rent, utilities), higher marketing costs related to new marketing programs and product launches and higher restructuring costs offset by savings in salary and benefit.

Investing Activities
Cash used in investing activities was $2.5 million and $11.6 million for the three months and year ended December 31, 2014 and $2.5 million and $20.6 million, respectively, for the same periods in 2013.

For the three and year ended December 31, 2014, additions to fibre optic and wireless network assets, property and equipment, excluding amounts related to changes in non-cash working capital, was $2.3 million and $11.9 million, respectively, compared to $2.9 million and $11.1 million, respectively, for the same periods in 2013. For the three months and year ended December 31, 2014, the capital spending is primarily attributable to data center improvements, upgrading intercity core network, new equipment related to new customer installs.

For the year ended December 31, 2013, cash used in investing included the payment of $9.5 million, net of cash acquired, for the acquisition of DCC.

For the three months ended December 31, 2014, the Company had redeemed net $0.1 million short-term investments. For the year ended December 31, 2014 the Company had redeemed net $0.5 million of short-term investments compared to a net redemption of $0.7 million for the same period in 2013.

Financing Activities
Cash used in financing activities was $1.8 million and $1.3 million, respectively, for the three months and year ended December 31, 2014 compared to cash used from financing activities of $0.8 million for the three months ended December 31, 2013 and cash provided from financing activities of $5.5 million for the year ended December 31, 2013.

For the three months and year ended December 31, 2014, cash used in financing activities was primarily due to the principal repayment of the new Credit Facility and related interest obligations. For the three months ended December 31, 2013, the $0.8 million cash used was mainly due to principal repayment of the Company's previous debt facilities with RBC and related financing cost and interest obligations.

For the year ended December 31, 2014, cash used from financing activities was primarily due to repayment of the Company's previous debt facilities with RBC and related finance costs mainly offset by draw from the new Credit Facilities. For the year ended December 31, 2013, cash generated from financing activities was primarily due to the draw of $12.1 million from the previous RBC facility to finance the DCC acquisition offset by repayment of the term debt facility and capital lease obligations, finance costs and interest obligations.

Capital Resources

As at December 31, 2014, the Company had cash and cash equivalents of $2.9 million and access to the $29.3 million undrawn portion of its $50.0 million Credit Facilities.

The Company anticipates incurring additional capital expenditures for the purchase and installation of network assets and customer premise equipment. As economic conditions warrant, the Company may expand its network coverage into new Canadian markets using wireless or fibre optics and making additional investments in data centers and other IT services through acquisitions or expansion.

In June 2014, TeraGo entered into an agreement with a syndicate led by the National Bank of Canada ("NBC") that provides a $50.0 million credit facility that is principally secured by a general security agreement over the Company's assets.

The total $50.0 million facility, which matures June 6, 2017, is made up of the following:

- $5.0 million revolving facility which bears interest at prime plus a margin percent. As of December 31 2014, $nil amounts are outstanding. Letters of credit outstanding under the facility totaled $0.7 million as of December 31, 2014.

- $20.0 million term facility which bears interest at prime plus a margin percent and is repayable in quarterly principal installments of $0.5 million starting June 30, 2014. This facility was fully drawn in June 2014. On September 30, 2014, the Company converted, in accordance with the agreement, the remaining $19.0 million principal of the term facility into a Banker's Acceptance for proceeds, after interest and stamping fee paid, of $18.8 million. Per agreement terms, the Company will roll-over its Banker's Acceptance every quarter. On December 31, 2014, the Company rolled over $18.4 million of the remaining $18.5 million drawn facility into a Banker's Acceptance for proceeds, after interest and stamping fee paid, of $18.3 million. The remaining $0.1 million of the drawn term facility bears interest at prime plus a margin percent.

  The Company also entered into an interest rate swap contract on September 30, 2014 (which matures June 6, 2017) to fix the interest on the Banker's Acceptance at 3.79% based on current debt ratio levels. The interest rate swap contract has not been designated as a hedge and will be marked-to-market each period. The fair value of the interest rate swap contract at December 31, 2014 was ($0.1) million and is recorded in other long-term liabilities.

- $25.0 million available for funding acquisitions and will bear interest at prime plus a margin percent and is repayable in quarterly principal installments of 2.5% of the aggregate amount outstanding. As of December 31, 2014, this facility remains undrawn.

The Company incurred financing fees of $0.4 million which have been deferred and amortized using the effective interest method over the term of the debt. The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at December 31, 2014. Under this facility, the Company is also subject to a cash flow sweep that could accelerate principal repayments based on a detailed calculation outlined by NBC not later than 120 days after the end of each fiscal year commencing with the year ending December 31, 2014. At December 31, 2014, no accelerated principal repayments were required.

As at December 31, 2013, the Company had a credit facility agreement with the Royal Bank of Canada ("RBC") that consisted of an operating line of credit and certain term facilities, of which $18.5 million was drawn at December 31, 2013. The RBC facility was repaid in 2014 with the proceeds received from the NBC facility. The Company recorded an expense of $0.6 million related to the write-off of unamortized deferred finance costs and unwinding fees which are included in finance costs in the consolidated statement of comprehensive earnings (loss).

Management believes the Company's current cash, short-term investments, 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 the foreseeable future.

Contractual Obligations

The following table is a summary of our contractual obligations at December 31, 2014 that are due in the next five years and thereafter.

in thousands of dollars	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years	Total
Principal payments on long-term debt	$ 2,301	$ 16,493	$ -	$ -	$ 18,794
Operating leases	7,166	8,940	3,686	2,283	22,075
Purchase obligations and commitments	3,496	-	-	-	3,496
Total	$ 12,963	$ 25,433	$ 3,686	$ 2,283	$ 44,365

Off-Balance Sheet Arrangements

As of December 31, 2014, the Company had no off-balance sheet arrangements apart from operating leases noted above.

Transactions with Related Parties

The Company provides services to one customer whose Chairman and Director of the Board of Directors are both Directors of the Company. Revenue from this customer for the years ended December 31, 2014 and 2013 was $68 and $58, respectively. Accounts receivable from this customer as at December 31, 2014 and 2013 was $5 and $5.

The terms governing these related party transactions are consistent with those negotiated on an arm's length basis with non-related parties.

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 2014 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of February 23, 2015, there were 11,714 Common Shares issued and outstanding and 2 Class B Shares issued and outstanding. In addition, as of February 23, 2015, there were 1,301 Common Shares issuable upon exercise of TeraGo stock options.

Restricted Cash

The restricted cash is segregated for the period of a tax indemnity to a former officer in connection with the Company's initial public offering on June 18, 2007, and is invested in a guaranteed investment certificate. The related accrued interest is included in short-term investments. The indemnity is described in note 8 of the Company's 2014 Consolidated Financial Statements and the indemnity period expires in June, 2015. In 2014, the Company received a notice of a claim against the tax indemnity from the former officer relating to the sale of 189 Common Shares. The Company estimated the cost of the indemnity to be paid from the $0.8 million maximum allocated to the former officer and recorded stock-based compensation expense of $0.6 million related to this claim in the first quarter of 2014. The Company is awaiting a final settlement of claim with the former officer. The balance of $0.8 million is held as restricted cash and $0.6 million is recorded in accounts payable and accrued liabilities as at December 31, 2014.

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 related to 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 earnings (loss). Interest and dividends earned from financial assets are also included in net earnings (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 earnings (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 earnings (loss) for the period.

The following is a summary of the Company's significant categories of financial instruments as at December 31, 2014:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets currently are comprised of cash and cash equivalents, short-term investments, accounts receivable and restricted cash.

Cash and Cash Equivalents

Cash and cash equivalents consists of bank balances, cash on hand, demand deposits that can be withdrawn without penalty and short-term, highly liquid securities such as debt securities with an initial maturity date of not more than three months from the date of acquisition, that can readily be converted into known amounts of cash and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable upon demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Restricted Cash

Restricted cash consist of highly liquid marketable investments and short-term debt securities with an initial maturity from the date of acquisition of between three months and one year. These primarily consist of investment-grade fixed income securities, such as guaranteed investment certificates and investment savings accounts and these are in compliance with the Company's policy on investments. Restricted cash are carried at amortized cost.

Accounts Receivable

Accounts receivable are measured at the amount the item is initially recognized. The allowance for doubtful accounts is based on the Company's assessment of the collectability of outstanding trade receivables. The evaluation of collectability of customer accounts is done on an individual account basis. If, based on an evaluation of accounts, it is concluded that it is probable that a customer will not be able to pay all amounts due, an expected impairment loss is recognized. Recoveries are only recorded when objective verifiable evidence supports the change in the original allowance. Changes in the carrying amount of the allowance account are recognized in net earnings (loss) for the period.

Impairment of Financial Assets

A financial asset carried at amortized cost is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset that can be estimated reliably. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Losses are recognized in the consolidated statements of earnings (loss) and reflected in an allowance account against the financial asset.

Other non-derivative 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 and accounts payable and accrued 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 reporting period.

Derivative instruments
The Company uses an interest rate swap contract to manage the risk associated with the fluctuations of interest rates on long-term debt. Management does not apply hedge accounting on the interest rate swap contract. As a result, the interest rate swap contract is marked to market each period, resulting in a gain or loss in the consolidated statement of comprehensive earnings (loss). The interest rate swap contract is valued based on broker quotes.

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 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, 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, short-term investments and restricted cash subject the Company to credit risk. The Company holds low risk money market and fixed income securities, as per its practice of protecting its capital rather than maximizing investment yield. The Company maintains cash and investment balances at Tier 1 Canadian financial institutions. The Company's maximum exposure to credit risk is limited to the amount of cash and cash equivalents and short-term investments.

Credit risk related to our interest rate swap contract arises from the possibility that the counter party to the agreement may default on their obligation. The Company assesses the creditworthiness of the counterparty to minimize the risk of counterparty default. The interest rate swap is held by a financial institution with a Standard & Poor's rating of A.

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, 2014 and 2013, 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 since the interest rates applicable are variable and is, therefore, exposed to cash flow risks resulting from interest rate fluctuations. As at December 31, 2014, the operating line of credit balance was $nil. On September 30, 2014, the Company entered into an interest rate swap contract to fix the interest rate on the Banker's Acceptance portion of the term facility at 3.79%. At December 31, 2014, $18.4 million of the $18.5 million drawn term facility was subject to the fixed 3.79% interest rate. The remaining $0.1 million under this facility bears interest for the period at prime rate plus a margin.

Liquidity risk

The Company believes that its current cash and cash equivalents, short-term investments and anticipated cash from operations will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable future. As at December 31, 2014, the Company had cash and cash equivalents and short-term investments of $2.9 million. The Company has access to the $29.3 million undrawn portion of its $50.0 million credit facilities after consideration of outstanding letters of credit.

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 US dollar. The Company believes this risk is minimal and does not use financial instruments to hedge these risks. A one cent variation in the U.S dollar would result in an impact of $33 thousand per year.

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:

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.

Capitalization of costs:

Judgments and estimates are used in assessing the direct labour and other costs capitalized to network assets, property and equipment.

Cash generating units:

Judgment is required to assess the Company's determination of cash generating units for the purpose of impairment testing.

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 assumptions of key variables including future cash flows, discount rate and terminal growth rates.

The Company monitors events and changes in circumstances that may require an assessment of the recoverability of its non-financial long-lived assets. 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.

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 CGU using certain key management assumptions. Cash flow projections, which were made over a five-year period, were based primarily on the 3 year financial budget reviewed by the Board plus a terminal value using a 2% terminal growth rate. The Company discounted these estimates of future cash flows to their present value using an after-tax discount rate of 10.5%. The fair value less costs to sell, primarily based on the Company's market capitalization as at December 31, 2014, also significantly exceeded the carrying amount of the CGU.

Allowance for doubtful accounts:
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 earnings for the period.

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.

Business combination:
The amount of goodwill initially recognized as a result of a business combination, the fair value estimate of any contingent consideration and the determination of the fair value of the identifiable assets acquired and the liabilities assumed is based, to a considerable extent, on management's judgment of future cash flows expected to be derived from the assets acquired.

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.

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.

SIGNIFICANT REGULATORY DEVELOPMENTS

In December, 2014, Industry Canada announced a new framework for the licensing and renewal of licenses in the 24, 28 and 38 GHz bands. The new framework permits the renewal of all auctioned licenses for a subsequent 10-year term by their holders if such holders have met the prescribed conditions of these licenses. The Company is currently working on the renewal of its spectrum licenses and expects that the spectrum licenses which it currently holds and needs to operate its internet access business will be eligible for renewal. In addition, under the new framework, Industry Canada has changed the fee structure for new licences, but has "grandfathered" the previous fee structure for existing licenses.

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 or IT services or otherwise affecting the capital investment levels of medium-sized and enterprise businesses;
- timing of the development of new service offerings; and
- no assurance that the Company's current and future competitors will not be able to develop data center 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.

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 is currently transitioning to a multi-product IT services company focused on the management of its customer's data flow. In doing so, TeraGo has begun to offer colocation services through its data centers and is offering cloud storage and cloud computing services. If TeraGo is unable to execute on its new 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. There is no assurance that such objectives can be obtained and there could be a risk that there may be future delays in the transition process of the Company to a multi-product IT services company that is profitable.

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 centers and intends to expand its footprint in the co-location market. 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 data center 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.

Security Risk
Our network security, data center security and the authentication of our customer credentials are designed to protect unauthorized access to data on our network and to our data center premises. Because techniques used to obtain

unauthorized access to or to sabotage networks 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 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 center 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 prospects.

Placing Newly Acquired Data Centers into Operation
The Company's recently acquired data center in Mississauga is currently being evaluated and prepared for operation. Placement into operation of the data center is expected to occur in March 2015. If there are any delays or setbacks in the work that is required prior to servicing customers, the results of the business may be adversely affected.

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. See "DEFINITIONS – KEY PERFORMANCE INDICATORS, IFRS, ADDITIONAL GAAP AND NON-GAAP MEASURES" for a description of how we determine churn. 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.

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. 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.

Key Competitors are More Established and Have More Resources
The market for internet access, data connectivity, colocation and cloud 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 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 industry 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.

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 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 subscribers. 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 expend 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.

Reliance on Certain Third Party Suppliers
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. If we are unable to obtain sufficient allocations of components, our 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.

Foreign Exchange
While the Company's revenues are earned in Canadian dollars, a portion of its costs, including for certain capital expenditures 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 and as a result, there can be no assurance that currency fluctuations will not have a material adverse effect on the Company.

Interest Rates
As the Company currently borrows funds through its credit facility, certain portions of the facility are based on a variable interest rate. A significant rise in interest rates may materially increase the cost of either its revolving or non-revolving credit facilities. The Company mitigates a portion of the underlying interest rate risk with respect to the non-revolving term credit facility by entering into an interest rate swap contract to effectively fix the underlying interest rate on a variable-rate debt. Similar interest rate swap contracts have not been entered into for the other portions of the credit facility. To the extent funds have been drawn down from such facilities, the Company will be exposed to interest rate fluctuations.

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 Industry Canada. 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 Industry Canada 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 Industry Canada 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 *Radio Communication 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 or long-term leases 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 or leased, 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 Industry Canada to recognize our acquisition or lease of spectrum licences from others or our investments in other licence holders;
- inability to offer new services 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 Industry Canada to renew our spectrum licences as they expire and our failure to obtain extensions or renewals of spectrum leases before they expire;
- imposition by Industry Canada 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.

We expect Industry Canada 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 Industry Canada, 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. Industry Canada may decline to renew our licences, or may impose higher fees upon renewal, or impose other conditions that adversely affect us. Industry Canada 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.

Changes in Foreign Ownership Legislation
We could face increased competition if there is a further removal or relaxation of the limits on foreign ownership and control of large radio communication carriers and telecommunication common carriers. Legislative or executive action to remove or relax these limits could result in foreign telecommunication companies entering the Canadian wireless communications market, including the fixed broadband market, through the acquisition of either wireless licences or of a holder of wireless licences. The entry into the market of such companies with significantly greater capital resources than us could reduce our market share and cause revenue to decrease.

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.

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 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 centers 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 centers or data centers 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 Center Facilities
The Company's data centers 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 data center by TeraGo 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 centers 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 centers 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 recorded a net loss in several reporting periods since our inception. Although for the years ended December 31, 2011, 2012 and 2013, we recorded positive net earnings, we have recorded a net loss for the year ended December 31, 2014. Our accumulated deficit at December 31, 2014 was $56.0 million. 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 providing colocation and cloud 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 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

ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations, amendments and improvements to existing standards have been issued by the IASB. The standards impacted that may be applicable to the Company are as follows:

(a) New Accounting Pronouncements Adopted in 2014

During 2014, the Company adopted the following accounting changes:

IFRIC 21, Levies ("IFRIC 21")

In May 2013, the IASB issued IFRIC 21, which provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

(i) the liability is recognized progressively if the obligating event occurs over a period of time, and

(ii) if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. The amendments were required to be applied retrospectively.

Amendments to IAS 32, Financial Instruments: Presentation ("IAS 32")

In December 2011, the IASB amended IAS 32 to clarify the meaning of when an entity has a current legally enforceable right of set-off. The amendments were required to be applied retrospectively.

Amendments to IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39")

In June 2013, the IASB amended IAS 39 to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments were required to be applied retrospectively.

The adoption of these accounting pronouncements had no impact on the Company's consolidated financial statements.

(b) Recent accounting pronouncements not yet adopted

The IASB has issued new standards and amendments to existing standards. These changes are not yet adopted as at December 31, 2014, and could have an impact on future periods.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15 which supersedes existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs.

The standard is effective for annual periods beginning on or after January 1, 2017. The Company is assessing the impact of this standard on the consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, Financial Instruments: recognition and measurement ("IAS 39") standard. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on the consolidated financial statements.

Amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets

In May 2014, the IASB issued amendments to these standards to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate.

The amendment is effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Company is assessing the impact of this standard on the consolidated financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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 the Company's 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 the Company's 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.

The control framework used to design TeraGo's internal control over financial reporting is based on the Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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.

There were no changes in the Company's internal controls over financial reporting during the year ended December 31, 2014 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting.

As at December 31, 2014, the Company's management, together with its CEO and CFO, has evaluated the effectiveness of the design and operation of each of the Company's disclosure controls and procedures and internal control over financial reporting. Based on these evaluations, the CEO and CFO have concluded that the Company's disclosure controls and procedures and the Company's internal control over financial reporting are effective.

EXECUTIVE MANAGEMENT CHANGES

Effective January 16, 2014, Stewart Lyons was hired as President and CEO and appointed to the Board of Directors.

Effective February 4, 2014, Joe Prodan was hired as Chief Financial Officer.

Effective March 4, 2014, Ryan Lausman was hired as Vice President of Operations and IT (later named Chief Operating Officer).

Effective March 6, 2014, Alan Laudersmith, Vice President of Sales, was no longer with the Company.

Effective May 28, 2014, Ian Thorburn, Vice President of Legal, was no longer with the Company.

Effective June 12, 2014, Kevin Hickey, Vice President of Engineering and Operations, was no longer with the Company.

Effective August 5, 2014, Greg Larnder was hired as Vice President of Sales.

Effective August 29, 2014, Bosco Chan, Vice President of Finance, was no longer with the Company.

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

Key Performance Indicators

ARPU
The term "ARPU" refers to the Company's average revenue per customer. 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. In addition, ARPU calculated by customer is a more appropriate performance indicator for a Company that offers multi lines of products. 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 service revenue by the average number of customers in service during the period and we express ARPU as a rate per month. TeraGo's method of calculating ARPU 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. Churn represents the number of customer cancellations per month as a percentage of total number of customers during the month. The Company calculates churn by dividing the number of customer cancellations during a period by the total number of customers during the period. 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.

IFRS Measures

Service revenue
Service revenue is generated from Internet access and data connectivity services that are sold on a subscription basis. This revenue is recurring and contracted with terms from one to three years and these contracts are typically renewable automatically unless notice of non-renewal is received 60 days prior to expiry.

Other revenue
Other revenue that customers are charged that is non-recurring such as installation fees and early termination fees. The installation fee charged to customers is a one-time set up fee and typically decreases with longer-term contracts.

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, network maintenance expenses, and lease and utility expenses for the data centers 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 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

EBITDA
The Company believes that 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. The Company believes that EBITDA is useful additional information to management, the Board and investors as 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 imply they are non-recurring. The Company calculates 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 and stock-based compensation, restructuring, acquisition-related and integration costs. Investors are cautioned that EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of our financial performance or as a measure of our liquidity and cash flows. 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.

TeraGo's method of calculating EBITDA may differ from other issuers and, accordingly, EBITDA may not be comparable to similar measures presented by other issuers. See "Results of Operations – EBITDA" for reconciliation of net earnings (loss) to EBITDA.