

**TERAGO INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE MONTHS ENDED
MARCH 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 May 7, 2014 and should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three months ended March 31, 2014 and the notes thereto, our audited consolidated financial statements for the fiscal year ended December 31, 2013, including the notes thereto and our annual MD&A for the year ended December 31, 2013. 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. See "Forward-Looking Statements" and "Risk Factors" in our annual MD&A for the year ended December 31, 2013. 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 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. 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 set forth herein and other uncertainties and potential events. 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.

EXECUTIVE OVERVIEW

FIRST QUARTER FINANCIAL AND OPERATIONS HIGHLIGHTS AND KEY DEVELOPMENTS

- Total revenue for the three months ended March 31, 2014 was \$12.9 million compared to \$12.6 million for the same period in 2013, an increase of 2.4%;
- Gross profit margin for the three months ended March 31, 2014 was 77.7% compared to 78.0% for the same period in 2013;
- Adjusted EBITDA for the three months ended March 31, 2014 was \$3.8 million compared to \$4.3 million for the same period in 2013, a decrease of 12%. The adjusted EBITDA decrease was due to a decrease in access revenue and selective investments in sales and marketing;
- Net loss for the three months ended March 31, 2014 was \$1.1 million compared to net earnings of \$1.3 million for the same period in 2013, a decrease of 182%. The decrease was primarily due to higher stock-based compensation of \$0.6 million relating to a tax indemnity claim by a former officer, restructuring costs due to a re-aligning of Company strategy and acquisition costs, selective investments in sales and marketing and higher utility and facilities expenses from the operations of the data centre;
- For the three months ended March 31, 2014, basic and diluted loss per share were \$(0.10) compared to basic and diluted earnings per share of \$0.12 and \$0.11, respectively, for the same period in 2013;
- Ended the period with \$1.0 million of cash, cash equivalents and short-term investments;
- As at March 31, 2014, \$19.0 million of the Company's \$41.8 million credit facilities remains undrawn and available for future use;
- Average monthly churn rate for the three months ended March 31, 2014 was 1.01% for access customer locations compared to 1.50% for the three months ended December 31, 2013 and 1.21% for the same period in 2013 which is a result of the enhanced retention focus now in place;
- Net access customer locations increased by 22 in the first quarter 2014 ending the period with 6,475 net access customer locations in service compared to 80 net access customers locations lost in the fourth quarter of 2013 and 12 net access customer locations lost in the same period in 2013. This increase results from management's continued focus on retention initiatives and offerings, customer service, the needs of small and medium-sized businesses ("SMB") and renewed sales activity with competitive product offerings;
- Average revenue per access customer location ("ARPU") for the three months ended March 31, 2014 was \$615 compared to \$624 for the same period in 2013. This is primarily the result of the retention program launched by the Company for customers coming to the end of contract term by offering them lower pricing in exchange for long-term contract renewals as well as the impact of competitive pricing on both customer renewals and new sales.

First Quarter 2014 Key Developments

- The Company announced that its Board of Directors has appointed Stewart Lyons as President and CEO of the company and a member of the Board of Directors effective January 16, 2014 and appointed Joe Prodan as Chief Financial Officer of the company effective February 4, 2014.
- The Company has received notice that a new wireless entrant customer will be disconnecting their services during 2014.
- The Company announced that it has established a fibre-optic core network in Western Canada through the acquisition of newly constructed fibre facilities in downtown Vancouver, British Columbia ("BC"). These fibre facilities connect the Company's Vancouver data center facility, as well as twelve high customer density buildings in downtown Vancouver. This will ensure secure broadband connectivity between customer locations and the data center. In January 2014, the Company drew down \$0.6 million from its term debt facility with the Royal Bank of Canada ("RBC") to finance this. This facility bears interest at the rate of 4.17%.

Events subsequent to March 31, 2014

- To strengthen the Company's balance sheet and provide flexibility to pursue additional opportunities, in May 2014, the Company signed a commitment letter with National Bank of Canada and RBC 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 repay the drawn portion of the existing credit facility and a \$25.0 million non-revolving acquisitions and capital expenditure facility (collectively, the "Credit Facilities"). The Credit Facilities would replace TeraGo's existing debt facilities and are expected to close prior to May 31, 2014.
- In April 2014, the Company announced that it has continued to expand its data center business in Western Canada through the acquisition of an additional 7,000 square foot data center facility in downtown Vancouver, BC., bringing the total amount of its data center capacity in downtown Vancouver to 14,000 square feet.
- For the third consecutive year, the Company has earned a place in the top 100 among Canada's top technology companies on the Branham 300 list.

TERAGo OVERVIEW

TeraGo provides broadband communications services and data center services through its owned networks and data centers.

TERAGo Inc.	
BROADBAND COMMUNICATIONS	DATA CENTER SERVICES
<ul style="list-style-type: none"> • HIGH PERFORMANCE, SCALABLE INTERNET ACCESS PRINCIPALLY VIA WIRELESS WITH FIBRE OPTIC IN SELECTED STRATEGIC AREAS • DATA CONNECTIONS AND VLAN SERVICES • REDUNDANT CONNECTIVITY • VOICE OVER IP SERVICES 	<ul style="list-style-type: none"> • COLOCATION SERVICES IN PARTIAL, FULL, OR CUSTOMIZED CABINETS • MANAGED SERVICES • OTHER VALUE ADDED SERVICES

Strategy

TeraGo leverages its strategic strengths as a leading facilities-based information technology (“IT”) and data center services provider for small and medium business 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.

The key components of our growth strategy are:

- Increase customer penetration in our existing markets;
- Cross-sell and promote our enhanced service offerings that includes value-added IT services to our current broadband Internet access and data connectivity customer base;
- Expand our data center services and locations, including colocation, managed service and Cloud services into a comprehensive set of IT offerings;
- Expand and enhance our broadband network using combination of wireless and fibre optic technologies; 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, and data center services.

Broadband communications

TeraGo’s broadband customers typically sign one, two or three-year contracts. In 2013, approximately 86% 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

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 and internet/data bandwidth requirements.

Business model success

Since inception, TeraGo has achieved strong growth in the number of customers and locations served. As at March 31, 2014, the Company offered its services in 46 geographic markets across Canada serving 6,475 customer locations. Once a customer is installed, 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.

BROADBAND COMMUNICATIONS

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 Internet 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 that 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.

BROADBAND COMMUNICATIONS SERVICES

Internet Services

TeraGo offers Canadian businesses high performance TeraGo Subscription Line (TSL), Ethernet and Dedicated Internet access with upload and download speeds from 1.5 megabytes per second (“Mbps”) up to 1 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 1.5 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.

Cellular Backhaul

TeraGo uses its spectrum assets to provide facilities-based backhaul services to Canadian wireless carriers. Backhaul is the transport of voice and data traffic from a wireless carrier’s cell sites to its mobile switching center or other exchange point. Our wireless backhaul services, which allow wireless carriers to optimize their networks, offer a high capacity, scalable and cost competitive alternative to other backhaul options and provide a long-term solution to address the demand for backhaul capacity. TeraGo regularly upgrades its cellular backhaul sites to accommodate increasing customer traffic. Backhaul service revenue from new wireless entrants was less than 6% of total revenue in the three months ended March 31, 2014.

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.

BROADBAND NETWORK

To deliver broadband services, the Company has built and operates a next generation, carrier-grade, broadband 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.

There are three main network components in each regional market: core hub, multiple hubsites and customer locations:

Core hub sites

Core hub sites, the main interconnection point between our regional wireless and wireline system and national MPLS fiber-optic facilities, are equipped with redundant fiber-optic equipment, high performance MPLS routers, uninterruptible power supplies, and server equipment. Core hub sites are configured in MPLS ring architecture to avoid service disruption in the event of any single point of failure.

Hub sites

Hub sites are generally equipped with broadband wireless base stations where appropriate; high performance Ethernet switches and routers; high capacity licensed backhaul radios with uninterruptible power supplies; and in selected cases, fibre optic connections, both used to connect the Hub site to one or more adjacent hub sites. Under our enhanced strategy to deploy fibre-optic facilities, TeraGo is constructing fibre-optic routes that originate at a hub site and, using industry standard fibre-optic termination equipment, provide fibre-optic access to TeraGo customers. Where appropriate, TeraGo is also deploying fibre-optic facilities between hubs to provide backhaul capabilities.

Customer locations

Customer locations are typically equipped with a broadband wireless radio and, depending upon the services deployed, a managed Ethernet switch, router, or QoS-enabled voice demarcation device. Broadband wireless radios, widely available from leading manufacturers, are selected to match the customer's performance requirements. Customer connections may also be supported over TeraGo's new fibre-optic facilities. Both broadband wireless and fibre-optic customer premise equipment is industry standard and sourced from leading manufacturers. The customer interface to our services is an industry standard RJ45 Ethernet or PRI jack.

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 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 76 24-GHz and 38-GHz wide-area spectrum licences, covering Canadian regions with a population base of 24.5 million, and 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 broadband links for business, government and cellular backhaul.

The Company's 24-GHz and 38-GHz wide area licences are in Abitibi, Barrie, Belleville, Brandon, Brockville, Calgary, Chatham, Cobourg, Cornwall, Edmonton, Huntsville, Kingston, Lethbridge, Listowel/Goderich/Stratford, London/Woodstock/St. Thomas, Medicine Hat/Brooks, Montreal, Nanaimo, Niagara/St. Catharines, Okanagan/Columbia, Ottawa, Pembroke, Peterborough, Red Deer, Strathroy, Toronto, Vancouver, Victoria, Windsor/Leamington, and Winnipeg.

38 GHz user defined licences

TeraGo's licences in the 38 GHz band, issued on an as-needed and user-defined basis, are used for point-to-point deployments. Industry Canada's spectrum grid concept defines service areas based on 25 square kilometre hexagonal grid cells.

The Company's 38 GHz user-defined licences are in Abbotsford, Calgary, Edmonton, Montreal, Ottawa, Toronto, Vancouver, and Waterloo.

11, 18 and 23 GHz point-to-point licences

TeraGo also holds 378 point-to-point licences in the 11, 18 and 23 GHz bands, licensed by Industry Canada on a site-by-site basis and used to deploy point-to-point radio links.

3.65 GHz licences

TeraGo also holds 16 3.65-GHz band licences on a shared-use basis. Each licence consists of 50 MHz of spectrum, available within the entire serving area, and used to provide services up to 10 Mbps using point-to-point and point-to-multipoint deployments.

The Company's 3.65 GHz licences are in Barrie, Calgary, Edmonton, Guelph/Kitchener, Kelowna, London/Woodstock/St. Thomas, Montreal, Niagara/St. Catharines, Ottawa, Red Deer, Steinbach, Toronto, Vancouver, Victoria, Windsor/Leamington, and Winnipeg.

For further details on licensed spectrums, please refer to the Company's 2013 Annual Information Form.

DATA CENTER AND IT SERVICES

TeraGo provides data center services that protect and connect our customers' most valued 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. Multiple service providers provide connectivity on redundant routes in and out of the facilities.

TeraGo also 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.

TeraGo also intends to provide several IT solutions to customers either on an indirect or direct basis. Many of these solutions will be cloud-based, and will allow the Company to compete in the lucrative Platform as a Service ("PaaS") and Infrastructure as a Service ("IaaS") markets.

Our broadband 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.

Growth Potential

With its entry into this business, TeraGo is building an operating platform to benefit from the growing data center and colocation solutions sector. TeraGo believes the growth potential for data center services is significant. Cross selling opportunities within the TeraGo/Data Centers Canada customer base, leveraging our proven customer acquisition channels, as well as capitalizing on the Company's carrier grade broadband network will accelerate revenue growth. In addition, growth will be achieved through current data center customers continued expansion as their business and data requirements grow. TeraGo also expects that it can generate incremental demand for its broadband access services from data center services customers and eventually, its cloud services customers.

Data Center Facilities

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 facility provides data center solutions, including colocation and disaster recovery, to a roster of small and medium-sized businesses, enterprises, public sector and technology service providers. The Vaughan facility has room to expand as business needs dictate.

Vancouver, British Columbia

TeraGo has acquired a 5,058 square foot expandable to 7,000 square foot data center facility in Vancouver, British Columbia. This will be utilized to service the greater Vancouver area. The facility has redundant fibre facilities between the data center and the 'telco hotel', 555 West Hastings, in downtown Vancouver. In April 2014, the Company announced that it has continued to expand its data center business in Western Canada through the

acquisition of an additional 7,000 square foot data center facility in downtown Vancouver that is served by TeraGo fibre optic line. This brings TeraGo's total amount of data center capacity in downtown Vancouver to 14,000 square feet. The first facility will be conditioned to accept new customers within the second quarter of 2014 and the second facility within the third quarter of 2014.

RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2014 and 2013

(in thousands of dollars, except with respect to gross profit margin, earnings per share and operating metrics)

	Three months ended	
	March 31	
	2014	2013
Financial		
Revenue	\$ 12,874	\$ 12,570
Cost of Services ⁽¹⁾	\$ 2,874	\$ 2,770
Gross profit margin ⁽¹⁾	77.7%	78.0%
EBITDA ⁽¹⁾⁽²⁾	\$ 3,291	\$ 4,333
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$ 3,802	\$ 4,333
Earnings (loss) from operations ⁽¹⁾⁽³⁾	\$ (760)	\$ 1,539
Net earnings (loss)	\$ (1,093)	\$ 1,340
Basic earnings (loss) per share	\$ (0.10)	\$ 0.12
Diluted earnings (loss) per share	\$ (0.10)	\$ 0.11
Operating⁽⁴⁾		
Churn rate ⁽¹⁾	1.01%	1.21%
Customer locations in service	6,475	6,563
ARPU ⁽¹⁾	\$ 615	\$ 624
Number of employees	190	187
<p>⁽¹⁾ See "DEFINITIONS - Key Performance Indicators, IFRS, Additional GAAP and NON-GAAP Measures" for descriptions of Cost of Services, Gross profit margin %, EBITDA, Adjusted EBITDA, Earnings (loss) from Operations, Churn and ARPU</p> <p>⁽²⁾ See "EBITDA" for a reconciliation of net earnings (loss) to EBITDA and Adjusted EBITDA</p> <p>⁽³⁾ Earnings (loss) from operations is defined as earnings (loss) before foreign exchange, finance costs/ (income) and taxes.</p> <p>⁽⁴⁾ Operating results related to churn rate, customer locations in service and ARPU exclude results for DCC.</p>		

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

Revenue

Total revenue increased 2.4% to \$12.9 million for the three months ended March 31, 2014 compared to \$12.6 million for the same period in 2013.

Service revenue increased by 3.4% to \$12.7 million for the three months ended March 31, 2014 compared to \$12.3 million for the same period in 2013. The increase in service revenue was driven primarily by revenue from the data center partially offset by a reduction in access revenue. Total customer locations in service decreased to 6,475 as at March 31, 2014 compared to 6,563 as at March 31, 2013. Revenue from the data center was \$0.8 million for the three months ended March 31, 2014.

Installation revenue was \$0.2 million for the three months ended March 31, 2014 compared to \$0.3 million for the same period in 2013.

ARPU from access customers decreased to \$615 for the three months ended March 31, 2014 compared to \$624 for the same period in 2013. The decrease in ARPU was driven primarily by lower usage revenue in the quarter as the Company offers incentives in the form of free or discounted usage packages to increase our customer renewal rate, the result of the retention program launched by the Company for customers coming to the end of contract term by offering them lower pricing in exchange for long-term contract renewals as well as the impact of competitive pricing on both customer renewals and new sales. The Company believes the current retention campaign will help long-term

revenue growth by offering more complimentary services such as data center and IT services to its existing base.

The average monthly churn rate was 1.01% for the three months ended March 31, 2014 compared to 1.21% for the same period in 2013 primarily as a result of the enhanced retention focus now in place. Management continues to focus on retention initiatives and offerings, customer service, the needs of small and medium-sized businesses (“SMB”) and renewed sales activity with competitive product offerings in addition to monitoring customer creditworthiness and churn levels.

Gross profit margin

For the three months ended March 31, 2014, gross profit margin was 77.7% compared to 78.0% for the same period in 2013. This decrease is primarily due to an increase in property access costs.

Salaries and related costs-other and other operating items (“SG&A”)

For the three months ended March 31, 2014, SG&A expenses increased to \$7.5 million compared to \$5.4 million for the same period in 2013. The increase was primarily due to higher stock-based compensation of \$0.6 million relating to a tax indemnity claim by a former officer, restructuring costs due to a re-aligning of Company strategy and acquisition costs, selective investments in sales and marketing and higher utility and facilities expenses from the operations of the data centre. As of March 31, 2014, the number of direct sales personnel was 32 compared to 28 as of March 31, 2013.

EBITDA and Adjusted EBITDA

Adjusted EBITDA for the three months ended March 31, 2014 was \$3.8 million compared to \$4.3 million for the same period in 2013, a decrease of 12%. EBITDA for the three months ended March 31, 2014 was \$3.3 million compared to \$4.3 million for the same period in 2013, a decrease of 24%. The adjusted EBITDA decrease was due to a decrease in access revenue and selective investments in sales and marketing as discussed above. The decrease in EBITDA also included restructuring costs due to a re-aligning of Company strategy and acquisition related costs related to searching for new opportunities. This is in line with management’s expectation as the Company continued to focus on transforming into a multi-product IT service company. Consistent with prior years, EBITDA and Adjusted EBITDA for the quarter ended March 31, 2014 is impacted due to the seasonal nature of certain expenses. See Seasonality on the following page.

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

(in thousands of dollars)	Three months ended	
	March 31	
	2014	2013
Net earnings (loss) for the period	\$ (1,093)	\$ 1,340
Foreign exchange loss	33	19
Finance costs	319	188
Finance income	(19)	(8)
Earnings (loss) from operations	<u>(760)</u>	<u>1,539</u>
Add:		
Depreciation of network assets, property and equipment and amortization of intangible assets	3,288	2,846
Loss (gain) on disposal of network assets	12	(39)
Stock-based compensation expense (recovery)	751	(13)
EBITDA¹	<u>\$ 3,291</u>	<u>\$ 4,333</u>
Restructuring, acquisition-related and integration costs	511	-
Adjusted EBITDA¹	<u>\$ 3,802</u>	<u>\$ 4,333</u>

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

Depreciation and amortization

For the three months ended March 31, 2013 depreciation of network assets, property and equipment and amortization of intangibles increased by 16% to \$3.3 million compared to \$2.8 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.

Deferred income taxes

The Company reviewed and updated the assumptions and projections regarding future profitability as at March 31, 2014. Based on management's analysis, no additional deferred income tax assets resulting from temporary tax differences were recognized in the three months ended March 31, 2014.

Earnings (loss) from operations

For the three months ended March 31, 2014, loss from operations was \$0.8 million compared to earnings from operations of \$1.5 million for the same period in 2013. The changes are due to the items noted above.

Net earnings (loss)

For the three months ended March 31, 2014, net loss was \$1.1 million compared to net earnings of \$1.3 million for the same period in 2013. The changes are due to the items noted above.

Summary of Quarterly Results

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

	Q1-14	Q4-13	Q3-13	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12
Revenue	\$ 12,874	\$ 12,909	\$ 13,168	\$ 12,779	\$ 12,570	\$ 12,567	\$ 12,340	\$ 12,256
Gross Profit Margin % ¹	77.7%	77.0%	79.0%	78.2%	78.0%	77.9%	77.5%	77.8%
EBITDA ¹	\$ 3,291	\$ 3,043	\$ 5,001	\$ 4,129	\$ 4,333	\$ 3,967	\$ 4,099	\$ 3,854
Adjusted EBITDA ¹	\$ 3,802	\$ 4,306	\$ 5,140	\$ 4,585	\$ 4,333	\$ 3,967	\$ 4,099	\$ 3,854
Net earnings (loss) ¹	\$ (1,093)	\$ (734)	\$ 1,602	\$ 2,101	\$ 1,340	\$ 3,245	\$ 713	\$ 687
Basic earnings (loss) per share	\$ (0.10)	\$ (0.06)	\$ 0.14	\$ 0.18	\$ 0.12	\$ 0.29	\$ 0.06	\$ 0.06
Diluted earnings (loss) per share	\$ (0.10)	\$ (0.06)	\$ 0.13	\$ 0.18	\$ 0.11	\$ 0.27	\$ 0.06	\$ 0.06
Basic weighted average number of shares outstanding	11,490	11,446	11,430	11,419	11,397	11,345	11,322	11,309
Diluted weighted average number of shares outstanding	11,490	11,446	11,884	11,962	11,960	11,892	11,843	11,817

¹See 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. 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 in 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 the issuance of equity securities and long-term debt.

The table below outlines selected balance sheet accounts, and a summary of cash inflows and outflows by activity.

(in thousands of dollars, except with respect to Working capital ratio and Days sales outstanding)	Three months ended	
	March 31	
	2014	2013
Statement of Cash Flows Summary		
Cash inflows and (outflows) by activity:		
Operating activities	\$ 2,450	\$ 2,645
Investing activities	(2,803)	(3,374)
Financing activities	(906)	280
Net cash inflows (outflows)	(1,259)	(449)
Cash and cash equivalents, beginning of period	2,137	1,469
Cash and cash equivalents, end of period	\$ 878	\$ 1,020
		March 31
	2014	2013
Key Ratios		
Working capital (deficiency)	\$ (8,020)	\$ (1,544)
Working capital ratio	0.46	0.85
Days sales outstanding	19	20

Cash from Operations

For the three months ended March 31, 2014, cash generated from operating activities was \$2.5 million compared to \$2.6 million for the same period in 2013. The decrease in cash generated from operating activities for the three months ended March 31, 2014 is principally from a net loss driven primarily from an increase of SG&A expenses and the payment of \$0.2 million for the Company's outstanding PSUs that vested. This is partially offset by the change in working capital, in particular, the increase in accounts payable and accrued liabilities for the purchase of data center and fibre optic equipment received last few days of the first quarter of 2014.

Cash used in Investing

Cash used in investing activities for the three months ended March 31, 2014 includes the purchase or construction of fibre optic network, data center equipment purchase, the purchase and installation of equipment related to our network build, upgrade and sparing activity, the purchase and installation of customer premise equipment, the purchase of property and equipment such as computer hardware and software, and the redemption of short-term investments.

For the three months ended March 31, 2014, additions to fibre optic and wireless network assets, property and equipment, excluding amounts related to changes in non-cash working capital, was \$4.0 million compared to \$2.1 million for the same period in 2013. The increase in capital spending is primarily attributable to new equipment related to upgrading intercity core network, purchase of newly constructed fibre-optic core network adding over twelve fibre serviced high density on-net buildings in downtown Vancouver, data centers improvement and investing in evolutionary radio upgrades. For the three months ended March 31, 2014 and 2013, additions to intangibles and other assets, excluding amounts related to the changes in non-cash working capital were \$0.3 million.

For the three months ended March 31, 2014, the Company had redeemed net \$0.4 million of short-term investments compared to an investment of net \$1.0 million for the same period in 2013.

Cash from Financing

For the three months ended March 31, 2014, cash used in financing activities of \$0.9 million was primarily due to \$1.5 million of repayment of the term debt facility and capital lease obligations and finance costs partially offset by a draw of \$0.6 million from the senior term-debt facility.

For the three months ended March 31, 2013, cash generated from financing activities of \$0.3 million was primarily due to the drawdown of \$1.0 million from the term-debt facility offset by \$0.8 million of repayment of the term debt

facility and capital lease obligations.

Capital Resources

As at March 31, 2014, the Company had cash and cash equivalents and short-term investments of \$1.0 million and access to the \$19.0 million undrawn portion of its \$41.8 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.

The Company entered into an agreement in May 2011 with the Royal Bank of Canada ("RBC") that provides credit facilities totaling \$19.0 million, which was amended in May 2012 to \$20.0 million. In April 2013, the Company entered into an agreement with RBC that provides additional credit facilities of \$27.0 million on terms substantially consistent with the existing credit facilities. When the agreement was amended in April 2013, the balance of the credit facilities consisted of \$11.8 million of existing drawn facilities which were extended in term, an existing \$3.0 million operating line of credit which was undrawn, and added \$27.0 million in new senior term debt facilities which is available to support investment in the Company's enhanced business plan. These facilities are principally secured by a general security agreement over the Company's assets.

The amended facilities available to the Company are for the following corporate purposes:

- \$3.0 million operating line of credit that bears interest at a floating rate of prime plus 1.65%;
- \$5.3 million used to repay the drawn portion of TeraGo's previous senior term credit facility, which bears interest at the rate of 4.74% and is repayable in monthly principal installments of \$0.1 million starting October 2011 and matures September 2016. This facility is fully drawn;
- \$3.5 million used to finance a previous acquisition of which \$2.6 million bears interest at 4.61% and \$1.0 million bears interest at 3.97% and is repayable in monthly principal installments of \$0.1 million starting June 2011 and matures May 2016. This facility is fully drawn;
- \$2.1 million used for general working capital purposes to fund continued growth of which \$0.7 million bears interest at 4.31% and \$1.4 million bears interest at 4.35% and is repayable in monthly principal installments of \$75 thousand starting April 2012 and matures August 2015. This facility is fully drawn;
- \$0.9 million available for general working capital purposes to fund continued growth, which bears interest at the rate of 3.98% and is repayable in monthly principal installments of \$31 thousand and matures August 2015. This facility is fully drawn;
- \$8.0 million to finance capital expenditure investments and related expenses in respect of new fibre and wireless network builds including upgrades repayable in monthly installments of \$0.1 million. In December 2013, \$0.9 million was drawn for capital expenditure investments which bears interest at 4.30% and is repayable in monthly principal installments of \$15 thousand starting January 2014. In January 2014, \$0.6 million was drawn for capital expenditure investments which bears interest at 4.17% and is repayable in monthly principal installments of \$9 thousand starting March 2014;
- \$6.0 million to finance capital investments and related expenses for new fibre networks for municipalities, utilities, schools, hospitals or other business/ enterprise customers repayable in monthly installments of \$0.1 million. This facility is undrawn as at March 31, 2014;
- \$13.0 million to finance acquisitions repayable in monthly installments of up to \$0.2 million once fully drawn. On May 31, 2013, \$9.5 million was drawn for the purchase of DCC which bears interest at 4.17% and is repayable in monthly principal installments of \$0.2 million starting June 2013.

For the undrawn facilities, TeraGo has the option of choosing floating interest rates, ranging from prime plus 1.80% to 1.95%, or a fixed rate once they are drawn.

No amounts have been drawn on the \$3.0 million operating facility as at March 31, 2014 (December 31, 2013 – \$nil).

These facilities are subject to covenants which include maintaining minimum and maximum financial ratios which has not changed as a result of these new facilities. As of March 31, 2014, the Company is in compliance with these covenants.

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 March 31, 2014 that are due in each of the next five years and thereafter.

	Less than					
	1 year	1 - 3 years	4-5 years	After 5 years	Total	
Principal payments on long-term debt	\$ 6,357	\$ 10,007	\$ 2,191	\$ -	\$ 18,555	
Operating leases	4,740	8,657	3,959	3,217	20,573	
Purchase obligations	4,203	-	-	-	4,203	
Total	\$ 15,300	\$ 18,664	\$ 6,150	\$ 3,217	\$ 43,331	

Off-Balance Sheet Arrangements

As of March 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 Canlan Ice Sports Corporation whose Chairman of the Board of Directors, Grant Ballantyne, is one of the Directors of the Company. Revenue from this customer for the three months ended March 31, 2014 was \$16 thousand (2013 - \$13 thousand). Accounts receivable from this customer as at March 31, 2014 was \$4 thousand (2013 - \$nil).

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

Share Capital

As of March 31, 2014, there were 11,552,398 Common Shares and two Class B Shares outstanding.

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 9 of the Company's 2013 Consolidated Financial Statements and the indemnity period expires in June, 2015. Subsequent to March 31, 2014, the Company received a notice of a claim against the tax indemnity from the former officer relating to the sale of 189,496 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 during the three months ended March 31, 2014. The offsetting liability is included in Accounts payable and accrued liabilities.

RECENT ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

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

(i) Financial Instruments

In November 2009, the IASB issued IFRS 9, Financial Instruments ("IFRS 9") and in October 2010, the IASB published amendments to IFRS 9. IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date was changed to January 1, 2018.

(ii) Annual Improvements to IFRSs 2010-2013 Cycle – various standards

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014.

The Company is assessing the impact of these new standards on its consolidated financial statements.

CONTROLS AND PROCEDURES

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

SIGNIFICANT REGULATORY DEVELOPMENTS

Consultation on Spectrum Utilization Policies and Technical Requirements Related to Backhaul Spectrum in Various Bands

On November 30, 2012, Industry Canada released its consultation on spectrum utilization policies and technical requirements related to backhaul spectrum in various bands. The consultation seeks comments on the possibility of making additional spectrum available for backhaul, as well as views on updating standards and policies. Submissions were due by April 22, 2013 and Industry Canada provided interested parties with an opportunity to reply to comments from other parties until May 24, 2013. The Company has submitted its response in relation to this consultation.

EXECUTIVE MANAGEMENT CHANGES

Effective January 16, 2014, the Company announced that its Board of Directors has appointed Stewart Lyons, President and CEO of the company and a member of the Board of Directors.

Effective February 4, 2014, the Company announced that its Board of Directors has appointed Joe Prodan, Chief Financial Officer of the company.

Effective January 13, 2014, the Company announced that Ian Thorburn was appointed the Vice President of Legal.

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 location. The Company believes that ARPU is useful supplemental information as it provides an indication of our revenue from an individual customer location on a per month basis. ARPU is not a recognized measure under IFRS and, accordingly, investors are cautioned that ARPU should not be construed as an alternative to revenue determined in accordance with IFRS as an indicator of our financial performance. The Company calculates ARPU by dividing our service revenue by the average number of customer locations 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 locations terminated in a particular month. Churn represents the number of customer locations disconnected per month as a percentage of total number of customer locations in service during the month. The Company calculates churn by dividing the number of customer locations disconnected during a period by the total number of customer locations in service 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.

Installation revenue

Customers are also charged a one-time set-up fee for installation services. The installation fee charged to customers typically decreases with longer-term contracts.

Cost of Services

Cost of services consists of Operating expenses and Salaries and related costs – 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.

Operating expenses

Operating expenses consists of expenses related to delivering service to customers and servicing the operations of our networks. These expenses include costs for the lease of intercity facilities to connect our cities, Internet transit and peering costs paid to other carriers, network real estate lease expense, spectrum lease expenses and network maintenance expenses.

Other operating items

Other operating items 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, 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 and Adjusted EBITDA***

The term "EBITDA" refers to earnings before deducting interest, taxes, depreciation and amortization. The Company believes that EBITDA and Adjusted EBITDA are 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 Adjusted 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. In addition, the Company excludes restructuring, acquisition-related and integration costs in its calculation of Adjusted EBITDA. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to operating earnings or net earnings determined in accordance with IFRS as an indicator of our financial performance or as a measure of our liquidity and cash flows. EBITDA and Adjusted EBITDA do 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 and Adjusted EBITDA may differ from other issuers and, accordingly, EBITDA and Adjusted 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 and Adjusted EBITDA.