TERAGO INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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 March 17, 2016 and should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2015 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, the growth in the TeraGo's cloud and data centre businesses, retention campaign and initiatives to improve customer service, additional capital expenditures, investments in data centres and other IT services and the integration of RackForce Networks Inc. ("RackForce") and Codeninja Ltd. (doing business as "BoxFabric") into the Company. 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, the Company not being able to realize the anticipated benefits and synergies from combining and integrating RackForce Networks Inc. and BoxFabric into TeraGo's existing business 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 increased by 19.6% to $15.1 million for the three months ended December 31, 2015 compared to $12.6 million for the same period in 2014. The increase in revenue is primarily driven by the growth in the Company's cloud and data centre services resulting from the acquisitions of RackForce and BoxFabric. The Company continues its transition to focus on cloud and data centre services. The percentage of revenues from cloud and data centre services as a percentage of our total revenue have increased steadily quarter over quarter during 2015 (Q2 = 26%, Q3 = 27%, Q4 = 28%).

  For the year ended December 31, 2015, total revenue increased by 11.7% to $57.7 million compared to $51.2 million for the same period in 2014. On a year over year basis, the growth in the Company's cloud and data centre services were partially offset by a decline in network and voice services associated with the loss of a wireless entrant customer. Excluding revenues of $1.9 million attributable to a wireless entrant customer in the year ended December 31, 2014, network and voice revenues for the year ended December 31, 2015 decreased by 2.9% or $1.3 million compared to the same period in 2014.

- Adjusted EBITDA increased 23.1% to $4.9 million for the three months ended December 31, 2015 compared to $4.0 million for the same period in 2014. The increase reflects the revenue growth described above, reductions in personnel costs and RackForce synergies obtained from the Company's restructuring efforts in prior periods offset by the introduction of costs associated with owning RackForce.
- Net loss was $0.2 million and $2.8 million for the three months and year end ended December 31, 2015 compared to a net loss of $1.1 million and $3.9 million for the same periods in 2014. For the three months ended December 31, 2015 net loss was positively impacted compared to the prior period by revenue growth in the cloud and data centre services associated with the RackForce acquisition and lower restructuring, acquisition-related and integration costs, offset by incremental depreciation/amortization costs associated with the acquired RackForce assets and higher finance costs to finance the acquisition of RackForce. For the year ended December 31, 2015, net loss compared to the same period in the prior year was positively impacted by similar factors identified in the three months ended December 31, 2015 including the recognition of $ 1.1 million of deferred income taxes resulting from the expected utilization of deferred tax assets following the acquisition of RackForce, offset by higher restructuring, acquisition-related and integration costs in 2015 compared to the same period in 2014

Key Developments

- On March 27, 2015, TeraGo acquired Kelowna-based RackForce, a Canadian enterprise cloud service provider, under which TeraGo Networks Inc. ("TeraGo Networks"), a wholly owned subsidiary of TeraGo, purchased all of the issued and outstanding shares of RackForce.

- On September 18, 2015, the Company closed a share purchase agreement to acquire 100% of the shares of Ottawa-based BoxFabric. BoxFabric provides cloud and managed services, including the delivery of mission critical IS/IT systems and applications, broadband network connectivity, related professional services, and technical support to a range of clients including federal and provincial government entities, hospitals, non-profit organizations and private enterprises.

- On March 6, 2015, TeraGo entered into an amendment agreement to its credit facilities with its lenders whereby effective on the closing date of the acquisition of RackForce, The Toronto-Dominion Bank became a party to the credit agreement along with existing lenders, National Bank of Canada and Royal Bank of Canada. The total credit facilities available to TeraGo increased from $50.0 million to an aggregate amount of $85.0 million consisting of a $10.0 million revolving operating credit facility, a $50.0 million non-revolving term credit facility and a $25.0 million non-revolving acquisitions and capital expenditure facility.

- On June 11, 2015, the Company completed an equity offering to issue and sell 1,755,000 common shares for gross proceeds of $10.0 million. The offering provides the Company financial flexibility to execute on its growth strategy, fund operational efficiency activities and invest in new product development initiatives.

- TeraGo Networks was recognized in the Major Players Category the IDC MarketScape: Canadian Hybrid Cloud Services 2015 Vendor Assessment report which is prepared by International Data Corporation (IDC) Canada. The

Assessment profiles the leading vendors in the Canadian hybrid cloud market and covers their competencies in cloud computing.

- TeraGo Networks was named in CIO Review's 20 Most Promising IT Infrastructure Solution Providers list for its expertise in delivering agility to manage data and IT Infrastructure. The positioning is based on the evaluation of TeraGo capability to efficiently address customers secure data flow and management requirements. The annual list of companies in the IT industry is selected by a panel of experts and members of CIO Review's editorial board to recognize and promote technology entrepreneurship.

- In February 2016, the Company announced that it will enhance its VMware-based cloud services across Canada. As part of its expanded collaboration with VMware, the Company will receive earlier access to new technology and platform updates from VMware, enabling it to accelerate the development and deployment of VMware vCloud powered services. The collaboration enables the Company's faster time-to-market delivery of enhanced VMware based cloud solutions.

- The Company's 2015 Net Promoter Score ("NPS"), a widely utilized industry measurement of customer satisfaction as measured by a third party research firm, remained a positive score at the close of the year. This compares favourably with the large incumbent providers, who according to the same survey had an average score of -29.

- The Company launched data centre colocation services in Winnipeg, Manitoba based on strong demand from customers.

- TeraGo was selected as one of Canada's Top Small and Medium Employers for 2015 which recognizes small and medium enterprises in Canada that lead in creating exceptional workplaces. TeraGo was selected as a Top Employer based on a list of criteria including the physical workplace environment, atmosphere, benefits, vacation, community involvement and training and skills development.

- Once again, TeraGo earned a place on the Top 250 Canadian Information and Communication Technology (ICT) Companies List as published by Branham 300. It is the Company's fourth consecutive year in the Top 250 and it has improved its ranking on the list each year.

- TeraGo Networks was presented with the Canadian Telecommunications Employer of Choice (EOC) Recognition Award for 2015. This is the second year in a row that TeraGo has been awarded this honour. The annual award is part of a national program dedicated to identifying, recognizing and promoting the best employers in the Canadian telecommunications industry.

- TeraGo Networks was a finalist in the Canadian HR Awards for the second year in a row in the Best Health and Wellness Strategy and Best Recruitment Strategy categories.

TERAGO OVERVIEW

TeraGo, operating through its wholly-owned subsidiaries TeraGo Networks, RackForce and BoxFabric, provides businesses across Canada with data and voice communications services, data centre colocation and hosting services through its seven (7) data centres as well as cloud Infrastructure as a Service ("IaaS") computing and storage solutions. With respect to the Company's data and voice communications services, it owns and operates a carrier-grade, Multi-Protocol Label Switching ("MPLS") enabled fixed wireless, IP communications network in Canada targeting businesses that require Internet access and data connectivity services.

Subsequent to its acquisitions of RackForce and BoxFabric, the Company now provides enterprise cloud services nationally and globally to multiple high value enterprise customers across a variety of verticals, including secondary and post-secondary education, hospitals, federal and provincial governments and non-profit organizations. The Company specializes in managing enterprise cloud services including IaaS and Platform as a Service ("PaaS") with network. It currently has strategic relationships with several technology partners that give it access to certain products and solutions to provide enterprise cloud services.

The Company's subscription-based business model generates stable and predictable recurring revenue from network services, data services, voice services, and cloud services. The Company offers its network and voice services across Canada and its data and cloud services globally. Once a customer is obtained, TeraGo's strategy is to generate incremental recurring revenue from that customer by: adding new customer locations, increasing service capacity supplied to existing locations, increasing data centre cabinet space and power and/or providing additional services, as applicable.

Cloud Services	Data Centre Services	Network and Voice Services
• Private and hybrid cloud • IaaS utility computing on virtual and dedicated compute platforms • High performance and secure data storage and archiving • Backup and recovery services for critical situations • Multiple managed services related to hybrid cloud offerings	• Colocation services in partial, full, or customized cabinets • Managed, Private Dedicated, and Co-location hosting services • Private Vaults protected with biometrics for maximum security • Other value added services	• National high performance, scalable Internet access principally via wireless with fibre optic in selected strategic areas • Active redundancy capability with bundled connectivity solution • Unified communications • Managed network service

TERAGO'S BUSINESS MODEL

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

TeraGo's customers typically sign one, two or three-year contracts. The majority of new customers sign contracts for three years or more. Services are billed monthly or quarterly over the term of the contract.

With its entry into data centre services and cloud services, TeraGo has built an operating platform to service the IT solutions sector. Cross selling opportunities to the customer base, while leveraging the Company's carrier grade network has augmented and diversified the Company's revenue base.

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") for compute, storage, disaster recovery cloud solutions and other offerings either on a direct or indirect basis. These solutions allow the Company to compete in the cloud services market.

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

DATA CENTRE AND MANAGED SERVICES

TeraGo provides data centre 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.

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

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

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

Data centre 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 Centre Facilities

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

Vaughan, Ontario
TeraGo operates a 16,000 square foot AT 101 SOC2 Type 2 certified data centre facility in Vaughan, Ontario, serving the Greater Toronto Area. This data centre and its operations were purchased in May 2013 when the Company acquired Data Centres Canada Inc.

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

Vancouver, British Columbia
TeraGo operates two AT 101 SOC2 Type 2 certified data centre 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 centre 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 lines. Both facilities are used to service the Greater Vancouver Area.

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

Winnipeg, Manitoba
TeraGo provides data centre services to its customers in central Canada through a data centre in Winnipeg. Colocation services, via the data centre facility, are provided through an agreement that TeraGo has with a local operator.

Ottawa, Ontario
TeraGo provides data centre services to its customers in Ottawa, Ontario through a Tier III AT 101 SOC 1 Type 2 certified data centre. Colocation services, via the data centre facility, are provided through an agreement that TeraGo has with a local operator.

NETWORK 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.

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

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

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

Quality of Service Capabilities

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

Radio Spectrum

24-GHz and 38-GHz Wide-area Licences
The Company owns a national spectrum portfolio of 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 2015 AIF**.**

VOICE SERVICES

TeraGo provides a number of unified communications services and 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.

SELECTED ANNUAL INFORMATION

The following table displays a summary of our Consolidated Statements of Comprehensive Earnings (Loss) for the three months ended December 31, 2015 and 2014 and the years ended December 31, 2015, 2014 and 2013 and a summary of select Balance Sheet data as at December 31, 2015, 2014 and 2013

(in thousands of dollars, except with respect to earnings (loss) per share)		**Three months ended December 31**			**Years ended December 31**		
		2015	**2014**		**2015**	**2014**	**2013**
Revenue							
Cloud and Data Centre Revenue	$	4,235	1,010	$	13,166	3,402	1,574
Network and Voice Revenue		10,867	11,619		44,554	47,827	49,852
Total Revenue		15,102	12,629		57,720	51,229	51,426
Expenses							
Cost of services		3,420	2,620		13,159	10,102	9,752
Salaries and related costs		4,707	5,016		20,587	20,747	17,250
Other operating expenses		2,667	2,322		10,062	9,003	7,971
Amortization of intangible assets		1,016	674		3,697	2,781	2,550
Depreciation of network assets, property and equipment		2,934	2,652		11,400	10,479	9,729
		14,744	13,284		58,905	53,112	47,252
Earnings (loss) from operations		358	(655)		(1,185)	(1,883)	4,174
Foreign exchange loss		(11)	(41)		(171)	(84)	(63)
Finance costs		(544)	(381)		(2,624)	(1,990)	(1,126)
Finance income		11	3		37	30	36
Earnings (loss) before income taxes		(186)	(1,074)		(3,943)	(3,927)	3,021
Income taxes							
Income tax recovery (expense)		(4)	-		1,133	-	1,288
Net earnings (loss) and comprehensive earnings (loss)	$	(190)	(1,074)	$	(2,810)	(3,927)	4,309
Deficit, beginning of year		(58,643)	(54,945)		(56,019)	(52,092)	(56,401)
Deficit, end of year	$	(58,833)	(56,019)	$	(58,829)	(56,019)	(52,092)
Basic earnings (loss) per share	$	(0.01)	(0.09)	$	(0.23)	(0.34)	0.38
Diluted earnings (loss) per share	$	(0.01)	(0.09)	$	(0.23)	(0.34)	0.36
Basic weighted average number of shares outstanding		14,065	11,676		12,252	11,588	11,423
Diluted weighted average number of shares outstanding		14,065	11,676		12,252	11,588	11,809

Selected Balance Sheet Data		**As at December 31 2015**		**2014**		**2013**
Cash and cash equivalents	$	13,066	$	2,866	$	2,137
Short term investments	$	-	$	-	$	452
Accounts receivable	$	3,306	$	2,908	$	2,933
Prepaid expenses and other assets	$	3,351	$	2,431	$	2,382
Network assets, property and equipment	$	48,520	$	41,774	$	41,042
Total Assets	$	110,002	$	69,561	$	70,558
Accounts payable and accrued liabilities	$	9,128	$	7,401	$	6,008
Long-term debt	$	45,781	$	18,794	$	19,112
Other long-term liabilities	$	2,163	$	1,382	$	864
Shareholders' equity	$	52,215	$	41,413	$	43,526

RESULTS OF OPERATIONS

Comparison of the three months and year ended December 31, 2015 and 2014
(in thousands of dollars, except with respect to gross profit margin and loss per share)

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Financial				
Cloud and Data Centre Revenue	$ 4,235	$ 1,010	$ 13,166	$ 3,402
Network and Voice Revenue	$ 10,867	$ 11,619	$ 44,554	$ 47,827
Total Revenue	$ 15,102	$ 12,629	$ 57,720	$ 51,229
Cost of Services (1)	$ 3,420	$ 2,620	$ 13,159	$ 10,102
Gross profit margin (1)	77.4%	79.3%	77.2%	80.3%
Adjusted EBITDA (1) (2)	$ 4,863	$ 3,954	$ 18,403	$ 16,167
Income tax recovery (expense)	$ (4)	$ -	$ 1,133	$ -
Net loss	$ (190)	$ (1,074)	$ (2,810)	$ (3,927)
Basic loss per share	$ (0.01)	$ (0.09)	$ (0.23)	$ (0.34)
Diluted loss per share	$ (0.01)	$ (0.09)	$ (0.23)	$ (0.34)

(1) See "Definitions - IFRS, Additional GAAP and NON-GAAP Measures"

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

Revenue
Total revenue increased by 19.6% to $15.1 million for the three months ended December 31, 2015 compared to $12.6 million for the same period in 2014. The increase in revenue is primarily driven by the growth in the Company's cloud and data centre services resulting from the acquisitions of RackForce and BoxFabric. The Company continues its transition to focus on cloud and data centre services. The percentage of revenues from cloud and data centre services as a percentage of our total revenue have increased steadily quarter over quarter during 2015 (Q2 = 26%, Q3 = 27%, Q4 = 28%).

For the year ended December 31, 2015, total revenue increased by 11.7% to $57.7 million compared to $51.2 million for the same period in 2014. On a year over year basis, the growth in the Company's cloud and data centre services were partially offset by a decline in network and voice services associated with the loss of a wireless entrant customer. Excluding revenues of $1.9 million attributable to a wireless entrant customer in the year ended December 31, 2014, network and voice revenues for the year ended December 31, 2015 decreased by 2.9% or $1.3 million compared to the same period in 2014.

Cost of services
Cost of services increased to $3.4 million and $13.2 million for the three months and the year ended December 31, 2015, respectively, compared with $2.6 million and $10.1 million for the same periods in 2014. The increase is mainly due to introduction of costs associated with owning RackForce. To a lesser extent, higher utilities costs associated with increased data centre utilization also contributed to the increase compared to the prior year.

Salaries and related costs and other operating expenses ("SG&A")
SG&A expenses increased to $7.4 million and $30.6 million for the three months and year ended Dec 31, 2015, respectively, compared with $7.3 million and $29.8 million for the same periods in 2014. The increase in both periods is directly attributable to the introduction of costs associated with the RackForce operations, mainly offset by a decrease in personnel costs associated with certain headcount reductions and other operational efficiency initiatives.

Adjusted EBITDA
Adjusted EBITDA increased 23.1% to $4.9 million for the three months ended December 31, 2015 compared to $4.0 million for the same period in 2014. For the year ending December 31, 2015, Adjusted EBITDA increased by 13.8% to $18.4 million compared to $16.2 million for the same period in 2014. The increase in both periods is a results of the revenue gains described above, reductions in personnel costs and RackForce synergies obtained from the Company's restructuring efforts in prior periods offset by the introduction of costs associated with owning RackForce.

The table below reconciles net loss to Adjusted EBITDA for the three months and year ended December 31, 2015 and 2014.

(in thousands of dollars)		Three months ended December 31			Year ended December 31	
		2015	2014		2015	2014
Net loss for the period	$	(190)	(1,074)	$	(2,814)	(3,927)
Foreign exchange loss		11	41		171	84
Finance costs		544	381		2,624	1,990
Finance income		(11)	(3)		(37)	(30)
Income tax (recovery) expense		4	-		(1,129)	-
Earnings (loss) from operations		358	(655)		(1,185)	(1,883)
Add:						
Depreciation of network assets, property and equipment and amortization of intangible assets		3,950	3,326		15,097	13,260
Loss on disposal of network assets		135	94		266	643
Stock-based compensation expense		266	376		1,272	1,973
Restructuring, acquisition-related and integration costs		154	813		2,953	2,174
Adjusted EBITDA (1)	$	4,863	3,954	$	18,403	16,167

(1) See "Definitions – IFRS, Additional GAAP and Non-GAAP Measures"

Income tax expense (recovery)
During the year ended December 31, 2015, management reviewed the tax implication of its acquisitions in the year. Management determined it probable that the tax benefit of $1.1 million for the year ended December 31, 2015 (associated with previously unrecognized tax losses) would have future taxable income available against which it can be utilized. The deferred tax asset was determined based on existing laws, estimates of future probability based on financial forecasts and tax planning strategies.

Finance costs
Finance costs increased $0.2 million and $0.1 million for the three months and the year ended December 31, 2015 compared to the same periods in 2014. The increase in both periods was driven by higher debt levels associated with the cash proceeds drawn on the amended credit facility to finance the acquisition of RackForce and the mark to market impact of revaluing the Company's interest rate swap contract on the drawn credit facility.

Depreciation and amortization
Depreciation of network assets, property and equipment and amortization of intangibles increased to $4.0 million and $15.1 million for the three months and the year ended December 31, 2015 compared with $3.3 million and $13.3 million for the same periods in 2014. The increase in both periods is mainly attributed to the depreciation and amortization of RackForce acquired intangible and cloud and data centre infrastructure.

Stock based compensation expense
Stock based compensation expense decreased to $0.3 million and $1.3 million for three months and the year ended December 31, 2015 compared with $0.4 million and $2.0 million for the same periods in 2014. The improvement for the three months ended December 31, 2015 is mainly due to a decrease in stock option expense associated with fewer options vesting in the period vs. the prior year, partially offset by higher stock based director fees and performance share unit fees. In addition, the stock based compensation expense for the year end December 31, 2014 included a one-time stock based compensation expense of $0.6 million that was incurred in Q1 2014 related to a former officer of the Company.

Net loss
Net loss was $0.2 million and $2.8 million for the three months and year end ended December 31, 2015, compared to a net loss of $1.1 million and $3.9 million for the same periods in 2014. For the three months ended December 31, 2015 net loss was positively impacted by revenue growth in the cloud and data centre services associated with the RackForce acquisition and lower restructuring, acquisition-related and integration costs, offset by incremental depreciation/amortization costs associated with the acquired RackForce assets and higher finance costs to finance the acquisition of RackForce compared to the same period in 2014. For the year ended December 31, 2015, net loss compared to the same period in the prior year was positively impacted by similar factors identified in the three months ended December 31, 2015 including the recognition of $ 1.1 million of deferred income taxes resulting from the expected utilization of deferred tax assets following the acquisition of RackForce, offset by higher restructuring, acquisition-related and integration costs in 2015 compared to the same period in 2014.

Summary of Quarterly Results

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

		Q4 -15	Q3 -15	Q2 -15	Q1 -15	Q4 -14	Q3 -14	Q2-14	Q1-14
Revenue	$	15,102	15,272	15,110	12,236	12,629	12,545	13,182	12,874
Gross Profit Margin % (1)		77.4%	76.3%	76.6%	78.9%	79.3%	79.9%	81.8%	80.0%
Adjusted EBITDA (1)	$	4,863	5,313	4,529	3,696	3,954	4,081	4,330	3,802
Net loss	$	(190)	(432)	(2,176)	(16)	(1,074)	(225)	(1,535)	(1,093)
Basic loss per share	$	(0.01)	0.03	(0.17)	(0.00)	(0.09)	(0.02)	(0.13)	(0.10)
Diluted loss per share	$	(0.01)	0.03	(0.17)	(0.00)	(0.09)	(0.02)	(0.13)	(0.10)
Basic weighted average number of shares outstanding		14,065	13,966	12,476	11,734	11,676	11,620	11,566	11,490
Diluted weighted average number of shares outstanding		14,065	13,966	12,476	11,734	11,676	11,620	11,566	11,490

(1) See "Definitions – IFRS, Additional GAAP and Non-GAAP Measures"

Seasonality

The Company's net customer growth, with respect to its network business, is typically impacted adversely by weather conditions as the majority of new customer locations require the installation of rooftop equipment. Typically, harsher weather in the first quarter of the year results in a reduction of productive installation days.

The Company's cash flow and earnings are typically impacted in the first quarter of the year due to several annual agreements requiring payments in the first quarter including annual rate increases in long-term contracts and the restart on January 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**	
		2015	**2014**		**2015**	**2014**
Statement of Cash Flows Summary						
Cash inflows and (outflows) by activity:						
Operating activities	$	5,212	3,893	$	15,686	13,625
Investing activities		(1,307)	(2,482)		(41,089)	(11,592)
Financing activities		(1,482)	(1,777)		35,603	(1,304)
Net cash inflows (outflows)		2,423	(366)		10,200	729
Cash and cash equivalents, beginning of period		10,643	3,232		2,866	2,137
Cash and cash equivalents, end of period	$	13,066	2,866	$	13,066	2,866

Operating Activities

For the three months and the year ended December 31, 2015, cash generated from operating activities was $5.2 million and $15.7 million, respectively, compared to cash generated of $3.9 million and $13.6 million for the same periods in 2014. The increase in cash from operating activities for both periods is due to higher earnings from operations and favourable changes to non-cash working capital compared to the prior year.

Investing Activities
Cash used in investing activities was $1.3 million and $41.1 million for the three months and year ended December 31, 2015, respectively, compared to cash used of $2.5 million and $11.6 million for the same periods in 2014. The decrease in cash used during the three month period vs. prior year is mainly due to higher network related capital expenditures in the prior year. The increase in cash used during the year vs. prior year is primarily due the acquisitions of RackForce in Q1 2015 ($30.3 million) and BoxFabric in Q3 2015, offset by lower network related capital expenditures

Financing Activities
Cash used in financing activities was $1.5 million and $1.8 million for the three months ended December 31, 2015 and the same period in 2014, respectively. Cash generated from financing activities was $35.6 million and cash used in financing activities was $1.3 million for the year ended December 31, 2015 and 2014, respectively. The decrease in cash used from financing activities during the three month period vs. prior year is mainly an increase in cash proceeds from the exercise of stock options. The increase in cash generated from financing activities during the year ended December 31, 2015 vs. prior year is primarily due to the $31.5 million in cash proceeds drawn from the Company's amended credit facility in Q1 2015 along with the $9.2 million net cash proceeds received from the equity offering in Q2 2015.

Capital Resources
As at December 31, 2015, the Company had cash and cash equivalents of $13.1 million and access to the $34.3 million undrawn portion of its $85.0 million Credit Facilities.

The Company anticipates incurring additional capital expenditures for the purchase and installation of network, data centre and cloud 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 centres, cloud and other IT services through acquisitions or expansion.

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

In March 2015, the Company entered into an amended agreement with the syndicate led by NBC that increases the credit facility by $35.0 million ($30.0 million increase to the term debt facility and $5.0 million increase to the revolving facility) and extended the term from June 6, 2017 to June 30, 2018. Other terms are substantially consistent with the existing credit facilities.

The total $85.0 million facility that matures June 30, 2018 is made up of the following:

- $10.0 million revolving facility which bears interest at prime plus a margin percent. As of December 31, 2015, $nil amount is outstanding. Letters of credit outstanding under the facility totaled $0.7 million as of December 31, 2015.

- $50.0 million term facility which bears interest at prime or Banker's Acceptance (at the Company's option) plus a margin percent and is repayable in quarterly principal installments of $1.3 million starting June 30, 2015. This facility was fully drawn upon signing the amended agreement.

  On December 31, 2015, $46.2 million of the term facility principal was in a Banker's Acceptance and the remaining $0.1 million is at a floating rate. During 2015, the Company entered into amended interest rate swap contracts that mature June 29, 2018 to fix the interest rate on the entire Banker's Acceptance at an average rate of 4.24%. The interest rate swap contract has not been designated as a hedge and will be marked-to-market each quarter. The fair value of the interest rate swap contract at December 31, 2015 was a liability of $0.6 million (December 31, 2014 – ($0.1 million)) and is recorded in other long-term liabilities, with a corresponding charge for the change in fair value recorded in finance costs.

  As at December 31, 2015, the Company prepaid interest in the amount of $0.4 million which represents the net settlement of the Banker's Acceptance.

- $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, 2015, this facility remains undrawn.

In connection with the amended agreement, 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 facility. The balance of previously incurred financing fees are amortized over the same amended term.

The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at December 31, 2015. 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. At December 31, 2015, the calculation resulted in the Company exceeding the ratio that triggers the cash flow sweep by 0.03. Based on these results, the Company requested the lenders to forego the $862 cash flow sweep for the year ended December 31, 2015, to which the lenders agreed to subsequent to year end.

Management believes the Company's current cash, anticipated cash from operations, access to the undrawn portion of debt facilities and its access to additional financing in the form of debt or equity will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable future.

Equity Offering

On June 11, 2015, the Company completed an equity offering to issue and sell 1,755 common shares for gross proceeds of $10.0 million (the "Offering"). Proceeds net of commissions, legal, accounting and listing fees were $9.2 million. The Offering was carried out pursuant to an underwriting agreement with a syndicate of underwriters led by National Bank Financial Inc. and TD Securities Inc. and included Cormark Securities Inc., PI Financial Corp. and RBC Capital Markets.

The Company intends to allocate $9.2 million of the net proceeds from the equity offering as follows:

Intended Use of Net Proceeds	Allocation	Use of Net Proceeds December 31, 2015
a) Fund its continued growth strategy, which is expected to include potential strategic acquisitions	$4.0 million	$1.1 million
b) Fund operational efficiency initiatives	$3.2 million	-
c) Invest in new product development activities, specifically in the cloud and data centre segments	$2.0 million	-

As of December 31, 2015, $1.1 million of the net proceeds from the equity offering were used to fund the acquisition of BoxFabric in Q3 2015. The Company's intended use of these proceeds has not changed.

Contractual Obligations

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

		Amount
2016	$	10,535
2017		8,507
2018		5,856
2019		4,282
2020		3,359
Thereafter		5,094
	$	37,633

Off-Balance Sheet Arrangements

As of December 31, 2015, the Company had no off-balance sheet arrangements apart from operating leases noted above.

Transactions with Related Parties

Two Directors of the Company also serve as Chairman of the Board and a Director of a customer of the Company. Revenue from this customer for the years ended December 31, 2015 and 2014 was $0.1 million and $0.1 million, respectively. Accounts receivable from this customer as at December 31, 2015 and 2014 was $0.01 million in both periods.

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 2015 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of March 17, 2016, there were 14,134 Common Shares issued and outstanding and two Class B Shares issued and outstanding. In addition, as of March 17, 2016, there were 682 Common Shares issuable upon exercise of TeraGo stock options.

Restricted Cash

(a) Indemnity

On June 18, 2007, two former officers exchanged 287 and 63 options respectively to purchase Common Shares, at an exercise price of $4 per share with options to purchase 189 and 41 Common Shares at nil exercise price. The exchanged options had a value equal to the original options on the date of the exchange. On June 18, 2007, these options were exercised to facilitate Common Share ownership and as a result, the two officers received 189 and 41 Common Shares, respectively, pursuant to such exercise. The Company provided the officers with an indemnity with a combined maximum coverage of $1.0 million to cover any potential negative personal tax consequences that might arise as a result of the early exercise of these options. Under the indemnity agreement, which expired June 2015, the restricted cash was to be segregated for the period of the indemnity and invested in a guaranteed investment certificate.

During the third quarter of 2009, the Company received notice of a claim from one of the former officers against the restricted cash balance relating to the sale of the 41 Common Shares. The notice of claim was settled in 2010 for $0.2 million.

In 2014, the Company received a notice of a claim against the tax indemnity from the other 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. During 2015, the Company settled the claim with the former officer for $0.6 million.

(b) Funds held in escrow

As at December 31, 2015, $0.2 million is held in escrow by the Company related to the acquisition of BoxFabric.

Financial Instruments

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

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

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

The following is a summary of the Company's significant categories of financial instruments as at December 31, 2015:

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, accounts receivable and restricted cash.

(i) ***Cash and Cash Equivalents & Restricted Cash***
Cash and cash equivalents and restricted cash 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 and restricted cash are carried at amortized cost.

(ii) ***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 the statement of comprehensive 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 loss and reflected in an allowance account against the financial asset.

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

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

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

Derivative instruments
The Company uses an interest rate swap contract to manage the risk associated with the fluctuations of interest rates on its 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 net loss for the year.

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 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 the interest rate swap contract is based on broker quotes and therefore, these contracts are measured using Level 2 inputs. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

Credit risk

The Company's cash and cash equivalents and restricted cash subject the Company to credit risk. The Company 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 the 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, 2015 and 2014, 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, 2015, the operating line of credit balance was $nil. The drawn term facility as at December 31, 2015 was $46.3 million, $46.2 million of which was held in a Bankers Acceptance. During the year, the Company entered into amended interest rate swap contracts that mature June 29, 2018 to fix the interest rate on the Banker's Acceptance at an average rate of 4.24%. The remaining $0.1 million drawn 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 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, 2015, the Company had cash and cash equivalents of $13.1 million. The Company has access to the $34.3 million undrawn portion of its $85 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 U.S. dollar. The Company believes this risk is minimal and does not use financial instruments to hedge these risks. A one cent appreciation in the U.S dollar to Canadian dollar foreign exchange rate would have resulted in a decrease in income of $34 for the year end December 31, 2015.

SIGNIFICANT ACCOUNTING ESTIMATES

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

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

(i) Estimates of useful lives of network assets, property and equipment and intangible assets:
Management's judgment involves consideration of intended use, industry trends and other factors in determining the expected useful lives of depreciable assets, to determine depreciation methods, the asset's residual value and whether an asset is a qualifying asset for the purposes of capitalizing borrowing costs.

(ii) Capitalization of costs:
Judgments and estimates are used in assessing the direct labour and other costs capitalized to network assets, property and equipment.

(iii) Cash generating units:
Judgment is required to assess the Company's determination of cash generating units for the purpose of impairment testing.

(iv) Impairment of non-financial assets:
The process to calculate the recoverable amount of our cash generating unit requires use of valuation methods such as the discounted cash flow method which uses assumptions of key variables including future cash flows, discount rate and terminal growth rates.

(v) 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.

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

(vii) 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 estimate of future cash flows expected to be derived from the assets acquired.

(viii) 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.

(ix) Provisions:
Judgment is required to assess the likelihood of an outflow of the economic benefits to settle contingencies, such as litigation 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.

RISK FACTORS

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

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

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

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 centres 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.

Integration and Anticipated Benefits Pursuant to the Acquisition of RackForce and BoxFabric

On March 27, 2015, the Company completed the acquisition of RackForce and on September 18, 2015, the Company completed the acquisition of BoxFabric (collectively the "Acquisitions"). The Company may not be able to fully realize the anticipated future benefits and synergies of the Acquisitions on a timely basis or at all. The Acquisitions involve challenges and risks, including risks that the transactions do not advance TeraGo's business strategy or that the Company will not realize a satisfactory return. The potential failure of the due diligence processes to identify significant problems, liabilities or other shortcomings or challenges with respect to assets of RackForce and BoxFabric including customer contracts, condition of the equipment acquired, intellectual property, revenue recognition or other accounting practices, taxes, corporate governance and internal controls, regulatory compliance, employee, supplier or partner disputes or issues and other legal and financial contingencies could decrease or eliminate the anticipated benefits and synergies of the Acquisitions and could negatively affect the Company's future business and financial results.

The overall success of the Acquisitions will depend, in part, on the Company's ability to realize the anticipated benefits and synergies from combining and integrating the RackForce and BoxFabric businesses into TeraGo's existing business. In particular, the Company's offering of cloud services is relatively new and the limited experience of management in providing cloud services prior to the Acquisitions may limit the full benefits or continued growth of such business. Integration of RackForce and BoxFabric requires significant management attention and expansion of TeraGo's staff in operations, marketing, sales and general and administrative functions. The Company may have difficulties in the integration of the acquired company's departments, systems, including accounting, human resource and other administrative systems, technologies, books and records, and procedures, as well as in maintaining uniform standards, controls, including internal control over financial reporting required by Canadian securities laws and related procedures and policies. If we cannot integrate the Acquisitions successfully, it could have a material adverse impact on our business, financial condition and results of operations.

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

Price Sensitive Market
The competitive market in which the Company conducts its business could require the Company to reduce its prices. If competitors offer discounts on certain products or services in an effort to recapture or gain market share or to sell other products, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would likely reduce the Company's margins and could adversely affect operating results. Some of the Company's competitors may bundle services that compete with the Company for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, limit the prices that the Company can charge for its products. If the Company cannot offset price reductions with a corresponding increase in volume, bundling of services or with lower spending, then the reduced revenues resulting from lower prices would adversely affect the Company's margins and operating results.

Market Demand for Available Capacity
The Company currently has available capacity in its data centres and intends to expand its footprint in the cloud and data centre 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 cloud and data centre services decline or fail to increase, this may negatively affect the Company's ability to capitalize on its high operating leverage and may adversely affect the Company's future financial performance.

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

Security Risk
Our network security, data centre security and the authentication of our customer credentials are designed to protect unauthorized access to data on our network and to our data centre premises. Because techniques used to obtain unauthorized access to or to sabotage networks 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 centre security could harm public perception of the effectiveness of our security measures, adversely affect our ability to attract and retain customers, expose us to significant liability and adversely affect our business prospects.

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

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

service announcements and changes in pricing policy by us or our competitors.

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

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

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

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

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

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

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

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

Changes to Technologies and Standards
The industries TeraGo operates is characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction of new or alternative technology and the emergence of new industry standards may render our existing network, equipment and/or infrastructure obsolete and our services unmarketable and may exert price pressures on existing services. It is critical to our success that we be able to anticipate changes in technology or in industry standards and ensure that we can leverage such new technologies and standards in a timely and cost-effective manner to remain competitive from a service and cost perspective.

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 customers. The failure to attract customers to new products or services, cross-sell service to our existing customer base or failure to keep pace with changing consumer preferences for products or services would slow revenue growth and could have a materially adverse effect on our business, results of operations and financial condition.

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

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

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

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 majority of 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. 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.

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

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

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

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

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

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

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

Litigation Risk and Intellectual Property Claims
Competitors or other persons may independently develop, patent technologies or copyright software that are substantially equivalent or superior to those we currently use or plan to use or that are necessary to permit us to deploy and operate our network, data centres or provide cloud services. Some of these patents, copyrights or rights may grant very broad protection to the owners. We cannot determine with certainty whether any existing third party intellectual property or the issuance of any third party intellectual property would require us to alter technology or software we use, obtain licences or cease certain activities. Defending against infringement claims, even meritless ones, would be time consuming, distracting and costly.
If we are found to be infringing the proprietary rights of a third party, we could be enjoined from using such third party's rights, may be required to pay substantial royalties and damages, and may no longer be able to use the intellectual property subject to such rights on acceptable terms or at all. Failure to obtain licences to intellectual property held by

third parties on reasonable terms, or at all, could delay or prevent us from providing services to customers and could cause us to expend significant resources to acquire technology which includes non-infringing intellectual property.

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

Operating Losses
We 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 and 2015. Our accumulated deficit at December 31, 2015 was $58.8 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 cloud and data centre services. Accordingly, our results of operations may fluctuate significantly, which may adversely affect the value of an investment in our Common Shares. We may also invest significantly in our business before we expect cash flow from operations to be adequate to cover our anticipated expenses.

Economic and Geopolitical Risk
The market for our services depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond our control. In addition, acts of terrorism and the outbreak of hostilities and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy 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

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, 2015, and could have an impact on future periods.

Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

On May 12, 2014 the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, which explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset. The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are highly correlated or when the intangible asset is expressed as a measure of revenue. The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 15 Revenue from Contracts with Customers
On May 28, 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 currently effective for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of this standard on the consolidated financial statements. The extent of the impact of IFRS 15 has not yet been determined.

IFRS 9 Financial Instruments

On July 24, 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. The extent of the impact has not yet been determined.

IAS 1 Presentation of Financial Statements

On December 18, 2014, the IASB issued amendments to IAS as part of its initiative to improve presentation and disclosure in financial reports. The amendments, which clarify that information should not be obscured by aggregating or providing immaterial information, are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on its consolidated financial statements.

IFRS 16 Leases

On January 23, 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception.

The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The extent of the impact of the adoption of this standard has not yet been determined.

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 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

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

There were no changes in the Company's internal controls over financial reporting during the three months and the year ended December 31, 2015 that have materially affected or are reasonably likely to materially affect internal controls over financial reporting. Management has concluded that there are no material weaknesses relating to the design of TeraGo's internal controls over financial reporting as of December 31, 2015. In accordance with Section 3.3 of National Instrument 52-109 – Certificate of Disclosure in Issuers' Annual and Interim Filings, the Company has limited the design of disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of RackForce which was acquired not more than 365 days before the end of year ended December 31, 2015.

The table below shows a summary of the financial information for RackForce which is included in the year end condensed consolidated financial statements of the Company as at December 31, 2015:

Current assets	$ 1,690
Non-current assets	$ 35,237
Current liabilities	($ 1,047)
Non-current liabilities	($ 166)

EXECUTIVE MANAGEMENT CHANGES

Effective April 6, 2015, Greg Larnder (Vice President of Sales) was no longer with the Company

Effective November 9, 2015, Daren Hansen was hired as Vice President of Sales

DEFINITIONS – IFRS, ADDITIONAL GAAP AND NON-GAAP MEASURES

IFRS Measures

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

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

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

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

Finance costs
Finance costs consist of interest charged on our short- and long-term debt, amortization of deferred financing costs including expenses associated with closing our long-term debt facility and accretion expense on the Company's

decommissioning and restoration obligations. The deferred financing costs are amortized using the effective interest method over the term of the loan.

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

Additional GAAP Measures

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

Non-GAAP Measures

Adjusted EBITDA
The term "EBITDA" refers to earnings before deducting interest, taxes, depreciation and amortization. The Company believes that Adjusted EBITDA 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 Adjusted EBITDA as earnings before deducting interest, taxes, depreciation and amortization, foreign exchange gain or loss, finance costs, finance income, gain or loss on disposal of network assets, property and equipment, stock-based compensation and restructuring, acquisition-related and integration costs. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to operating earnings or net earnings determined in accordance with IFRS as an indicator of our financial performance or as a measure of our liquidity and cash flows. Adjusted EBITDA does not take into account the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

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