TERAGO INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 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 November 12, 2015 and should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2015 and the notes thereto, our audited consolidated financial statements for the fiscal year ended December 31, 2014, including the notes thereto and our management's discussion and analysis for the year ended December 31, 2014. 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. 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

Quarterly Financial Highlights

- Total revenue increased 21.7% to $15.3 million for the three months ended September 30, 2015 compared to $12.5 million for the same period in 2014. The improvement in revenue is primarily driven by the growth in the Company's cloud and data centre services acquired from the acquisition of RackForce and partially offset by a decline in the network and voice services associated with the loss of the wireless entrant customer. Excluding revenues of $0.2 million received related to the loss of a wireless customer in the three months ended September 30, 2014, network and voice revenues declined by $0.4 million from the comparative period.

  For the three months ended September 30, 2015, cloud and data centre revenue increased 403% compared to the same period in 2014 and represented 27.3% of the Company's total revenue mix. The Company continues its transition to focus on higher growth cloud and data centre services.

- EBITDA increased 30.2% to $5.3 million for the three months ended September 30, 2015 compared to $4.1 million for the same period in 2014. The increase is a result of the revenue gains described above, reductions in personnel costs and RackForce synergies from the Company's restructuring efforts in prior period offset by the introduction of costs associated with managing the RackForce operations.
- Net loss was $0.4 million for the three months ended September 30, 2015 compared to a net loss of $0.2 million for the same period in 2014. Net loss was impacted by personnel and operational cost realignment initiatives associated with the RackForce acquisition and the optimization of the network and voice services, incremental depreciation/amortization costs linked to the acquired RackForce assets and higher finance costs related to the amended credit facility in Q1 2015 used to finance the purchase of RackForce.

Key Developments

- On September 18, 2015, the Company closed a share purchase agreement to acquire 100% of the shares of Ottawa-based Codeninja Ltd., which operates as BoxFabric ("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.

- TeraGo 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 Inc. ("TNI"), RackForce Networks Inc. ("RackForce"), and BoxFabric provides businesses across Canada with data and voice communications services, data centre colocation and hosting services through its eight (8) 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
• Public, 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 is building an operating platform to service the IT solutions sector. Cross selling opportunities to the customer base, while leveraging the Company's carrier grade network is expected to augment and diversify the Company's revenue base.

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. Located in one of our tier 3 facilities, the 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 SERVICES

TeraGo offers colocation and hosting at its eight geographically diverse tiers 1-3 data centre locations across Canada. 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.

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 64,000 square feet of data centre capacity in eight facilities across Canada:

Vaughan, Ontario
TeraGo operates a 16,000 square foot AT 101 SOC2 Type 1 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 tier 3 AT 101 SOC2 Type 1 certified data centre facility in Mississauga, Ontario that was previously managed by BlackBerry Limited. This facility will predominantly serve the Greater Toronto Area.

Vancouver, British Columbia
TeraGo operates two AT 101 SOC2 Type 1 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 GigaCentre tier 3 AT 101 SOC2 Type 2 certified data centre in Kelowna. The location of the GigaCentre 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. In addition, TeraGo operates a second facility in Kelowna with approximately 6,000 square feet of space.

Winnipeg, Manitoba
TeraGo provides data centre services to its customers in central Canada through a tier 1 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 3 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 2014 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.

RESULTS OF OPERATIONS

Comparison of the three and nine months ended September 30, 2015 and 2014
(in thousands of dollars, except with respect to gross profit margin, earnings per share and operating metrics)

	Three months ended September 30		Nine months ended September 30	
	2015	**2014**	**2015**	**2014**
Financial				
Cloud and Data Centre Revenue	$ 4,171	$ 829	$ 8,931	$ 2,391
Network and Voice Revenue	$ 11,101	$ 11,716	$ 33,687	$ 36,209
Total Revenue	$ 15,272	$ 12,545	$ 42,618	$ 38,600
Cost of Services (1)	$ 3,618	$ 2,518	$ 9,739	$ 7,484
Gross profit margin (1)	76.3%	79.9%	77.1%	80.6%
EBITDA (1) (2)	$ 5,313	$ 4,081	$ 13,538	$ 12,215
Earnings (loss) from operations	$ 369	$ 124	$ (1,543)	$ (1,228)
Net loss	$ (432)	$ (225)	$ (2,624)	$ (2,853)
Basic loss per share	$ (0.03)	$ (0.02)	$ (0.22)	$ (0.25)
Diluted loss per share	$ (0.03)	$ (0.02)	$ (0.22)	$ (0.25)

(1) See "Definitions - IFRS, Additional GAAP and NON-GAAP Measures" for descriptions of Cost of Services, Gross profit margin % and EBITDA

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

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

Revenue
Total revenue increased 21.7% to $15.3 million for the three months ended September 30, 2015 compared to $12.5 million for the same period in 2014. Total revenue increased 10.4% to $42.6 million for the nine months ended September 30, 2015 compared to $38.6 million for the same period in 2014.

Cloud and Data Centre Revenue
Growth in the Company's cloud and data centre services was primarily driven from the acquisition of RackForce. For the three months ended September 30, 2015, cloud and data centre revenue increased 403% compared to the same period in 2014 and represented 27.3% of the Company's total revenue mix.

Network and Voice Revenue
Revenues associated with the loss of the wireless customer were $nil for the three and nine months ended September 30, 2015 compared to $0.2 million and $1.8 million for the same periods in 2014. Excluding wireless revenues to this customer, network and voice revenues for the three and nine months ending September 30, 2015 declined $0.4 million and $0.7 million, respectively, compared to the same periods in 2014.

Cost of services
Cost of services increased to $3.6 million and $9.7 million for the three and nine months ended September 30, 2015, respectively, compared with $2.5 million and $7.5 million for the same periods in 2014. The increase is mainly due to

introduction of costs associated with running the RackForce operations. To a lesser extent, higher utilities costs linked to 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 $23.3 million for the three and nine months ended September 30, 2015, respectively, compared with $6.6 million and $22.4 million for the same periods in 2014. The increase in both periods is directly attributable to the introduction of cost associated with the RackForce operations mainly offset by a decrease in personnel costs associated with certain headcount reductions and other operational efficiency initiatives.

EBITDA

EBITDA increased by 30.2% to $5.3 million for the three months ended September 30, 2015 compared to $4.1 million for the same period in 2014. For the nine months ended September 30, 2015 EBITDA increased by 10.8% to $13.5 million compared to the $12.2 million for the same period in 2014. The increase in both periods is a result of the revenue gains described above, reductions in personnel costs and RackForce synergies from the Company's restructuring efforts in previous periods offset by the introduction of costs associated with managing the RackForce operations.

The table below reconciles net loss to EBITDA for the three and nine months ended September 30, 2015 and 2014.

(in thousands of dollars)	**Three months ended September 30**		**Nine months ended September 30**	
	2015	**2014**	**2015**	**2014**
Net loss for the period	$ (432)	$ (225)	$ (2,624)	$ (2,853)
Foreign exchange loss	66	42	160	43
Finance costs	845	311	2,080	1,609
Finance income	(16)	(4)	(26)	(27)
Income tax recovery	(94)	-	(1,133)	-
Earnings (loss) from operations	369	124	(1,543)	(1,228)
Add:				
Depreciation of network assets, property and equipment and amortization of intangible assets	3,932	3,315	11,147	9,934
Loss on disposal of network assets	44	174	131	549
Stock-based compensation expense	336	370	1,006	1,599
	$ 4,681	**$** 3,983	**$** 10,741	**$** 10,854
Restructuring, acquisition-related and integration costs	632	98	2,797	1,361
EBITDA (1)	**$** 5,313	**$** 4,081	**$** 13,538	**$** 12,215

(1) See "Definitions - IFRS, Additional GAAP and Non-GAAP Measures" for description of EBITDA

Income tax recovery

During the three and nine months ended September 30, 2015, management reviewed the tax implication of its acquisitions. Management determined it probable that the tax benefit of $0.1 million and $1.1 million for the three and nine months ended September 30, 2015, respectively, (associated with previously unrecognized tax losses) would have future taxable income available against which they 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 $0.5 million and $0.5 million for the three and nine months ended September 30, 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 in Q1 2015 to finance the purchase 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 $3.9 million and $11.1 million for the three and nine months ended September 30, 2015 compared with $3.3 million and $9.9 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 $1.0 million for the three and nine months ended September 30, 2015 compared to $0.4 million and $1.6 million for the same periods in 2014. The improvement for the three months ended September 30, 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. The improvement for the nine months ended September 30, 2015 is mainly due to a one-time stock based compensation expense that was incurred in Q1 2014 related to a former officer of the Company.

Net loss
Net loss was $0.4 million and $2.6 million for the three and nine months ended September 30, 2015, compared to a net loss of $0.2 million and $2.9 million for the same periods in 2014. For the three months ended September 30, 2015 net loss was impacted by personnel and operational cost realignment initiatives associated with the RackForce acquisition and the optimization of the network and voice business, incremental depreciation/amortization costs linked with the acquired Rackforce assets and higher finance costs related to the amended credit facility in Q1 2015 used to finance the purchase of RackForce. For the nine months ended September 30, 2015, net loss vs. the same period in the prior year was impacted by the same factors identified in the three months ended September 30, 2015, but was positively offset by the recognition of $1.1 million of deferred income taxes resulting from the expected utilization of deferred tax assets following the acquisition of RackForce and BoxFabric.

Summary of Quarterly Results

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

		Q3 - 15	Q2 - 15	Q1 - 15	Q4 - 14	Q3 - 14	Q2-14	Q1-14	Q4-13
Revenue	$	15,272	15,110	12,236	12,629	12,545	13,182	12,874	12,909
Gross Profit Margin %[1]		76.3%	76.6%	78.9%	79.3%	79.9%	81.8%	80.0%	79.4%
EBITDA[1]	$	5,313	4,529	3,696	3,954	4,081	4,330	3,802	4,306
Net loss	$	(432)	(2,176)	(16)	(1,074)	(225)	(1,535)	(1,093)	(734)
Basic loss per share	$	(0.03)	(0.17)	(0.00)	(0.09)	(0.02)	(0.13)	(0.10)	(0.06)
Diluted loss per share	$	(0.03)	(0.17)	(0.00)	(0.09)	(0.02)	(0.13)	(0.10)	(0.06)
Basic weighted average number of shares outstanding		13,966	12,476	11,734	11,676	11,620	11,566	11,490	11,446
Diluted weighted average number of shares outstanding		13,966	12,476	11,734	11,676	11,620	11,566	11,490	11,446

(1) See "Definitions - IFRS, Additional GAAP and Non-GAAP Measures" for descriptions of Gross profit margin % and EBITDA

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 September 30		Nine months ended September 30	
	2015	**2014**	**2015**	**2014**
Statement of Cash Flows Summary				
Cash inflows and (outflows) by activity:				
Operating activities	$ 4,124	$ 4,610	$ 10,474	$ 9,732
Investing activities	(3,823)	(2,683)	(39,782)	(9,110)
Financing activities	(1,421)	(711)	37,085	473
Net cash inflows (outflows)	(1,120)	1,216	7,777	1,095
Cash and cash equivalents, beginning of period	11,763	2,016	2,866	2,137
Cash and cash equivalents, end of period	$ 10,643	$ 3,232	$ 10,643	$ 3,232

Operating Activities
For the three and nine months ended September 30, 2015, cash generated from operating activities was $4.1 million and $10.5 million, respectively, compared to cash generated of $4.6 million and $9.7 million for the same periods in 2014. The decrease in cash from operating activities in three month ended September 30, 2015 is mainly due to changes in non-cash working capital during the period partially offset by higher earnings from operations compared to the prior year. The increase in cash from operating activities in the nine months ended September 30, 2015 is mainly due to changes in non-cash working capital during the period partially offset by lower earnings from operations compared to the prior year.

Investing Activities
Cash used in investing activities was $3.8 million and $39.8 million for the three and nine months ended September 30, 2015, respectively, compared to cash used of $2.7 million and $9.1 million for the same periods in 2014. The increase in cash invested during the three month period vs. prior year is mainly due to the acquisition of BoxFabric ($1.1 million impact). The increase in cash invested during the nine month period vs. prior year is primarily due to the acquisition of RackForce in Q1 2015 ($31.0 million impact) and BoxFabric in Q3 2015.

Financing Activities
Cash used in financing activities was $1.4 million and $0.7 million for the three months ended September 30, 2015 and the same period in 2014, respectively. Cash generated from financing activities was $37.1 million and $0.5 million for the nine months ended September 30, 2015 and 2014, respectively. The increase in cash used from financing activities during the three months period vs. prior year is mainly due to higher debt and interest payments associated with from the amended credit facility to finance the RackForce purchase. The increase in cash generated from financing activities during the nine months period 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 September 30, 2015, the Company had cash and cash equivalents of $10.6 million and access to the $35.0 million undrawn portion of its $85 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.

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

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

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

The total $85,000 facility that matures June 30, 2018 is made up of the following:

- $10,000 revolving facility which bears interest at prime plus a margin percent. As of September 30, 2015, $nil amounts are outstanding. Letters of credit outstanding under the facility totaled $655 as of September 30, 2015.

- $50,000 term facility which bears interest at prime or Banker's Acceptance (at the Company's option) plus a margin percent and is repayable in quarterly principal installments of $1,250 starting June 30, 2015. This facility was fully drawn upon signing the amended agreement.

  On September 30, 2015, $47,300 of the term facility principal was in a Banker's Acceptance and the remaining $200 is at a floating rate. On September 30, 2014, the Company entered into an interest rate swap contract that matures June 6, 2017 to fix the interest on $18,400 of the Banker's Acceptance at 4.54% based on current debt ratio levels. During the nine months ended September 30, 2015, 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 interest rate swap contract has not been designated as a hedge and will be marked-to-market each period. The fair value of the interest rate swap contract at September 30, 2015 was a liability of ($689) (December 31, 2014 – ($123)) and is recorded in other long-term liabilities with a corresponding charge for the change in fair value recorded in finance costs.

  During Q3 2015, the Company prepaid interest in the amount of $422 which represents the net settlement of the Banker's Acceptance.

- $25,000 available for funding acquisitions and will bear interest at prime or Banker's Acceptance (at the Company's option) plus a margin percent and is repayable in quarterly principal installments of 2.5% of the aggregate amount outstanding. As of September 30, 2015, this facility remains undrawn.

In connection with the amended agreement, the Company incurred financing fees of $379 which have been deferred and amortized using the effective interest method over the amended term of the facility. The balance of previously incurred financing fee is also 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 September 30, 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.

Equity Offering
On June 11, 2015, the Company completed an equity offering to issue and sell 1,755 common shares for gross proceeds of $10,004 (the "Offering"). Proceeds net of commissions, legal, accounting and listing fees were $9,210. 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 $9,210 of the net proceeds from the equity offering as follows:

	Intended Use of Net Proceeds	Allocation ($)	Use of Net Proceeds September 30, 2015 ($)
a)	Fund its continued growth strategy, which is expected to include potential strategic acquisitions	4,000	1,100
b)	Fund operational efficiency initiatives	3,210	-
c)	Invest in new product development activities, specifically in the cloud and data centre segments	2,000	-

As of September 30, 2015, $1,100 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.

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 three and nine months ended September 30, 2015 was $17 and $51 (2014 - $18 and $50), respectively. Accounts receivable from this customer as at September 30, 2015 was $5 (2014 - $2).

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

Share Capital

TeraGo's authorized share capital consists of an unlimited number of Common Shares, an unlimited number of Class A Non-Voting Shares and two Class B Shares. A detailed description of the rights, privileges, restrictions and conditions attached to the authorized shares is included in the Company's 2014 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of November 12, 2015, there were 14,022 Common Shares issued and outstanding and two Class B Shares issued and outstanding. In addition, as of November 12, 2015, there were 779 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, respectively, at $0 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 $1,000 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 expires in 2015 (if there are no outstanding claims), the restricted cash is segregated for the period of the indemnity and is invested in a guaranteed investment certificate.

In 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 $179.

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 $821 maximum allocated to the former officer and recorded stock-based compensation expense and accrued liability of $630 related to this claim in the first quarter of 2014. During the nine months ended September 30, 2015, the Company made a payment to the former officer to settle the accrued balance. As at September 30, 2015, $171 is held as restricted cash and $nil is recorded in accounts payable and accrued liabilities. Final settlement of the indemnity is expected by the end of 2015.

(b) Funds held in escrow

As at September 30, 2015, $190 is held in escrow by the Company pending finalization of working capital adjustments in the acquisition of BoxFabric.

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 risk factors set out below are in addition to and supplements the summary of the material risks that could significantly affect the financial condition, operating results or business of TeraGo, as set out in our management's discussion and analysis for the fiscal year ended December 31, 2014.

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 business is providing 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.

UPCOMING ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

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

(a) 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.

(b) IFRS 15 Revenue from Contracts with Customers

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

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

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

The standard is 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 has not yet been determined.

(c) IFRS 9 Financial Instruments

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

The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on the consolidated financial statements. The extent of the impact has not yet been determined.

CRITICAL ACCOUNTING ESTIMATES

The unaudited condensed interim consolidated financial statements are in compliance with International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. Estimates and assumptions are continuously evaluated and are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience. However, actual outcomes may differ from the amounts included in the consolidated financial statements.

The preparation of financial statements in accordance with IAS 34 also requires management to exercise judgement in applying the Company's accounting policies.

The Company's critical accounting estimates have been set out in note 2 of the Company's 2014 Consolidated Financial Statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

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

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

TeraGo's internal control over financial reporting are designed to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP. TeraGo's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of TeraGo; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the Company's GAAP, and that receipts and expenditures of TeraGo are being made only in accordance with authorizations of management and directors of TeraGo; and (iii) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of TeraGo's assets that could have a material effect on TeraGo's financial statements.

The control framework used to design TeraGo's internal control over financial reporting is based on the Internal Control – Integrated Framework 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 nine ended September 30, 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 September 30, 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 the interim period ended September 30, 2015.

The table below shows a summary of the financial information for RackForce which is included in the interim condensed consolidated financial statements of the Company as at September 30, 2015:

Current assets	$ 1,559
Non-current assets	$ 35,313
Current liabilities	($ 1,625)
Non-current liabilities	($ 182)

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

EBITDA
The Company believes that EBITDA is useful additional information to management, the Board and investors as it provides an indication of the operational results generated by its business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and amortization. The Company believes that EBITDA is useful additional information to management, the Board and investors as it excludes items that could affect the comparability of our operational results and could potentially alter the trends analysis in business performance. Excluding these items does not imply they are non-recurring. The Company calculates EBITDA as earnings before deducting 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 EBITDA should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of our financial performance or as a measure of our liquidity and cash flows. EBITDA does not take into account the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

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