



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

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 August 6, 2019 and should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 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 – Key Performance Indicators, IFRS, Additional GAAP and Non-GAAP Measures".

FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW

Financial Highlights

- Total revenue decreased 10.9% to \$12.2 million for the three months ended June 30, 2019 compared to \$13.7 million for the same period in 2018. The decrease in revenue was driven by lower connectivity revenue which decreased 13.6% to \$7.6 million compared to \$8.8 million for the same period in 2018. In addition, cloud and colocation revenue decreased 6.1% to \$4.6 million compared to \$4.9 million for the same period in 2018. The decreases were attributable to churn exceeding provisioning as a result of lower sales volume. Revenue decreased 10.2% to \$24.6 million for the six months ended June 30, 2019 compared to \$27.4 million for the same period in 2018. The decrease was driven by the factors described above.
- Net loss was \$2.8 million for the three months ended June 30, 2019 compared to a net loss of \$1.5 million for the same period in 2018. The increase in net loss was driven by a number of factors: the decrease in revenue, the impact of the adoption of IFRS 16, and the revaluation of stock based compensation from a modification from cash-settled to equity-settled as a result of amendments to the RSU plan. With the adoption of IFRS 16, the Company now recognizes all leases on balance sheet with a right-of-use asset and a corresponding lease liability. This resulted in higher depreciation and finance costs that exceed the beneficial impact of lower cost of sales and operating costs for previously recognized operating leases. The net result was an increase to net loss. Net loss was \$4.0 million for the six months ended June 30, 2019 compared to a net loss of \$2.8 million for the same period in 2018. The increase was driven by the factors described above.
- Adjusted EBITDA⁽¹⁾⁽²⁾ increased 45.2% to \$4.5 million for the three months ended June 30, 2019 compared to \$3.1 million for the same period in 2018. The increase was driven by the adoption of IFRS 16 which resulted in the reclassification of certain operating lease expenses to finance costs and depreciation which are excluded from the calculation of Adjusted EBITDA. For the six months ended June 30, 2019, Adjusted EBITDA increased 44.4% to \$9.1 million compared to \$6.3 million for the same period in 2018. The increase was driven by the factors described above.

Key Developments

- On June 5, 2019, Innovation, Science and Economic Development Canada (ISED) released its *Decision on Releasing Millimetre Wave Spectrum to Support 5G*. Among other things in its decision document, ISED reported that existing licensees of the 38 GHz band are eligible to apply for new "flexible use" licences for an equal amount of spectrum upon expiry of the current 10-year licence term, or earlier upon voluntary licence cancellation. Flexible use licences will permit licensees to deploy mobile systems to support 5G, while retaining the current ability to deploy on a fixed wireless basis. The Company holds 25 of 27 issued 38 GHz spectrum licences in Canada.
- On July 3, 2019, the Company closed its previously announced bought deal offering (the "Offering"), including the exercise in full of the underwriters' over-allotment option. The Company issued and sold an aggregate of 805,000 common shares at a price of \$11.00 per Common Share for gross proceeds of \$8,855,000. The Company intends to use the net proceeds of the Offering to fund technical and customer trials related to 5G technology in support of launching 5G fixed wireless services in Canada and for general corporate purposes.

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

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

TERAGO OVERVIEW

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

The Company provides enterprise-class cloud services to multiple high value, mid-market and enterprise customers across a variety of industry verticals, federal, provincial and municipal governments and agencies, as well as non-profit organizations. The Company is focussed on providing customers with tailored hybrid IT solutions, running their IT workloads with the appropriate mix of on-premise, data centre colocation, private and public cloud environments. It currently has strategic relationships with several technology partners that give it access to certain products and solutions to provide enterprise cloud services. The Company has aligned with Amazon Web Services (“AWS”) in preparation to provide managed public cloud services and is an AWS Consulting Partner, part of the AWS APN partner network. TeraGo has since attained the Standard Partner tier in the AWS Partner Program.

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

| Cloud Services | Colocation Services | Connectivity Services |
|---|--|---|
| <ul style="list-style-type: none"> Private and hybrid cloud IaaS utility computing on virtual and dedicated compute platforms High performance and secure data storage and archiving Business Continuity services for critical situations Managed Services for public and hybrid cloud offerings | <ul style="list-style-type: none"> 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 such as hybrid cloud | <ul style="list-style-type: none"> National high performance, scalable Internet access principally via wireless and fibre optics Active redundancy capability with bundled connectivity solution Managed network service |

TERAGO’S BUSINESS MODEL

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

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

CONNECTIVITY SERVICES

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

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

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

TeraGo offers Canadian businesses high performance unlimited and usage-based dedicated Internet access with upload and download speeds from 5 megabits per second ("Mbps") up to 1 gigabit per second ("Gbps"). 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 exclusive 24 GHz and 38 GHz wide-area spectrum licences which covers major regions throughout Canada including 2,120 MHz of spectrum across Canada's 6 largest cities. This spectrum is used to deploy point-to-point and point-to-multipoint microwave radio systems, interconnecting core hubs in ring architectures (where possible) to backhaul metro area network traffic and in the access network or "last mile" to deliver high capacity (speeds of 20Mbps to 1Gbps) IP-based services for business, government and mobile backhaul.

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

In June 2018, ISED published its overall approach and planned activities for spectrum over the next five years in a document titled *Spectrum Outlook 2018 to 2022*. In such document, ISED has confirmed that the 24 GHz band, among several others has been designated as Priority 2 for future release for commercial mobile use. A definitive timeline for the release of spectrum bands designated as Priority 2 and Priority 3 has not yet been confirmed by ISED. A timeline for the release of the 38 GHz band, which has been designated as a Priority 1 band has been set for the end of 2021.

For additional information on these Consultations and to review the response letter of the Company or other stakeholders, please refer to ISED's Consultation webpage: https://www.ic.gc.ca/eic/site/smt-gst.nsf/eng/h_sf11245.html.

For further details on our licensed spectrums, please refer to the Company's 2018 AIF.

CLOUD SERVICES

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

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

COLOCATION SERVICES

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

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

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

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

Data centre services customers typically include national government agencies, financial services companies, IT service providers, content and network service providers, and 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 IT solutions, including colocation and disaster recovery, to a roster of small and medium-sized businesses, enterprises, public sector and technology service providers. TeraGo has approximately 60,000 square feet of data centre capacity in the five (5) facilities it operates across Canada:

Mississauga, Ontario

TeraGo operates a 10,000 square foot AT 101 SOC2 Type 2 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.

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.



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.

Vancouver, British Columbia

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



RESULTS OF OPERATIONS

Comparison of the three and six months ended June 30, 2019 and 2018

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

| | Three months ended | | Six months ended | |
|--|--------------------|---------------------|------------------|---------------------|
| | June 30 | | June 30 | |
| | 2019 | 2018 ⁽³⁾ | 2019 | 2018 ⁽³⁾ |
| Financial | | | | |
| Cloud and Colocation Revenue | \$ 4,587 | 4,894 | \$ 9,081 | 9,625 |
| Connectivity Revenue | \$ <u>7,642</u> | <u>8,789</u> | \$ <u>15,545</u> | <u>17,798</u> |
| Total Revenue | \$ 12,229 | 13,683 | \$ 24,626 | 27,423 |
| Cost of Services ⁽¹⁾ | \$ 2,358 | 3,466 | \$ 4,619 | 7,021 |
| Selling, General, & Administrative Costs | \$ 7,438 | 8,093 | \$ 13,401 | 15,805 |
| Gross profit margin ⁽¹⁾ | 80.7% | 74.7% | 81.2% | 74.4% |
| Adjusted EBITDA ^{(1) (2)} | \$ 4,523 | 3,123 | \$ 9,113 | 6,252 |
| Net loss | \$ (2,771) | (1,489) | \$ (3,959) | (2,801) |
| Basic loss per share | \$ (0.18) | (0.10) | \$ (0.25) | (0.19) |
| Diluted loss per share | \$ (0.18) | (0.10) | \$ (0.25) | (0.19) |
| Operating | | | | |
| <u>Backlog MRR⁽¹⁾</u> | | | | |
| Connectivity | \$ 57,081 | 60,750 | \$ 57,081 | 60,750 |
| Cloud & Colocation | \$ 17,049 | 67,747 | \$ 17,049 | 67,747 |
| <u>Churn Rate⁽¹⁾</u> | | | | |
| Connectivity | 1.6% | 1.4% | 1.5% | 1.5% |
| Cloud & Colocation | 1.7% | 1.5% | 1.4% | 2.3% |
| <u>ARPU⁽¹⁾</u> | | | | |
| Connectivity | \$ 1,023 | 1,062 | \$ 1,028 | 1,051 |
| Cloud & Colocation | \$ 3,185 | 3,336 | \$ 3,203 | 3,210 |

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

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

(3) The Company has applied IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this method, the comparative information is not restated. See "Accounting Pronouncements Adopted in 2019" for further information.

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

Revenue

Total revenue decreased 10.9% to \$12.2 million for the three months ended June 30, 2019 compared to \$13.7 million for the same period in 2018. Revenue decreased 10.2% to \$24.6 million for the six months ended June 30, 2019 compared to \$27.4 million for the same period in 2018.

Connectivity Revenue

For the three months ended June 30, 2019, connectivity revenue decreased 13.6% to \$7.6 million compared to \$8.8 million for the same period in 2018. Connectivity revenues were impacted by a variety of factors, including churn and certain customers renewing long term contracts at lower current market rates.

For the six months ended June 30, 2019, connectivity revenue decreased 12.9% to \$15.5 compared to \$17.8 million for the same period in 2018. The decrease was driven by the factors described above.

Cloud and Colocation Revenue

For the three months ended June 30, 2019, cloud and colocation revenue decreased 6.1% to \$4.6 million compared to \$4.9 million for the same period in 2018. The decrease was attributable to churn exceeding provisioning as a result of lower sales volume.

For the six months ended June 30, 2019, cloud and colocation revenue decreased 5.2% to \$9.1 million compared to \$9.6 million for the same period in 2018. The decrease was driven by the factors described above.

Cost of Services

For the three months ended June 30, 2019, cost of services decreased 31.4% to \$2.4 million compared to \$3.5 million for the same period in 2018. The decrease was primarily the result of the adoption of IFRS 16 which resulted in certain lease costs no longer being classified as cost of services and instead through depreciation and finance costs. Excluding the impact of IFRS 16, cost of services would have been \$3.4 million compared to \$3.5 million for the same period in 2018. The decrease would have been due to the decrease in revenue.

For the six months ended June 30, 2019, cost of services decreased 34.3% to \$4.6 million compared to \$7.0 million for the same period in 2018. The decrease was driven by the factors described above. Excluding the impact of IFRS 16, cost of services would have been \$6.8 million compared to \$7.0 million for the same period in 2018. The decrease would have been due to the decrease in revenue.

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

For the three months ended June 30, 2019, SG&A decreased 8.6% to \$7.4 million compared to \$8.1 million for the same period in 2018. The decrease primarily by the adoption of IFRS 16 which resulted in certain lease costs no longer being classified as operating costs. Excluding the impact of IFRS 16, SG&A would have been \$8.1 million compared to \$8.1 million for the same period in 2018.

For the six months ended June 30, 2019, SG&A decreased 15.2% to \$13.4 million compared to \$15.8 million for the same period in 2018. The decrease primarily by the adoption of IFRS 16 which resulted in certain lease costs no longer being classified as operating costs. Excluding the impact of IFRS 16, SG&A would have been \$14.7 million compared to \$15.8 million for the same period in 2018. The decrease would have been due to the cost reduction initiatives in the prior year.

Net loss

Net loss was \$2.8 million for the three months ended June 30, 2019 compared to a net loss of \$1.5 million for the same period in 2018. The increase in net loss was driven by a number of factors: the decrease in revenue, the impact of the adoption of IFRS 16, and the revaluation of stock based compensation from a reclassification from cash-settled to equity-settled. With the adoption of IFRS 16, the Company now recognizes all leases on balance sheet with a right-of-use asset and a corresponding lease liability. This resulted in higher depreciation and finance costs that exceed the beneficial impact of lower cost of sales and operating costs for previously recognized operating leases. The net result was an increase to net loss.

Net loss was \$4.0 million for the six months ended June 30, 2019 compared to a net loss of \$2.8 million for the same period in 2018. The increase was driven by the factors described above.

Adjusted EBITDA⁽¹⁾

Adjusted EBITDA⁽¹⁾ increased 45.2% to \$4.5 million for the three months ended June 30, 2019 compared to \$3.1 million for the same period in 2018. The increase was driven by the adoption of IFRS 16 which resulted in the reclassification of certain operating lease expenses to finance costs and depreciation which are excluded from the calculation of Adjusted EBITDA. For the six months ended June 30, 2019, Adjusted EBITDA increased 44.4 % to \$9.1 million compared to \$6.3 million for the same period in 2018. The increase was driven by the factors described above.

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

The table below reconciles net loss to Adjusted EBITDA⁽¹⁾ for the three and six months June 30, 2019 and 2018.

| <i>(in thousands of dollars)</i> | Three months ended | | Six months ended | |
|--|--------------------|---------------------|------------------|---------------------|
| | June 30 | | June 30 | |
| | 2019 | 2018 ⁽²⁾ | 2019 | 2018 ⁽²⁾ |
| Net earnings (loss) for the period | \$ (2,771) | (1,489) | (3,959) | (2,801) |
| Foreign exchange loss (gain) | 81 | (10) | 75 | (6) |
| Finance costs | 1,182 | 578 | 2,597 | 1,206 |
| Finance income | (18) | (1) | (43) | (1) |
| Earnings (loss) from operations | (1,526) | (922) | (1,330) | (1,602) |
| Add: | | | | |
| Depreciation of network assets, property and equipment and amortization of intangible assets | 3,959 | 3,046 | 7,936 | 6,199 |
| Loss on disposal of network assets | 71 | 174 | 94 | 256 |
| Impairment of Assets and Related Charges | 64 | 131 | 146 | 367 |
| Stock-based Compensation Expense (Recovery) | 970 | 231 | 1,312 | 434 |
| Restructuring, acquisition-related, integration costs and other | 985 | 463 | 955 | 598 |
| Adjusted EBITDA⁽¹⁾ | \$ 4,523 | 3,123 | 9,113 | 6,252 |

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

(2) The Company has initially applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated.

Backlog MRR¹

Connectivity backlog MRR was \$57,081 as at June 30, 2019, compared to \$60,750 as at June 30, 2018. The decrease in backlog MRR is driven primarily by lower sales volume.

Cloud and colocation backlog MRR was \$17,049 as at June 30, 2019 compared to \$67,747 as at June 30, 2018. The decrease is driven by the provisioning of large colocation customers which were in the backlog as of the prior year period.

ARPU¹

For the three months ended June 30, 2019 connectivity ARPU was \$1,023 compared to \$1,047 for the same period in 2018. The ARPU is consistent with prior year period as the Company continues to focus on acquiring and retaining small to medium sized business customers. The slight decrease was due to provisioning and upgrades at lower rates. For the six months ended June 30, 2018 connectivity ARPU was \$1,028 compared to \$1,053 for the same period in 2018. The decrease was driven by the factors described above.

For the three months ended June 30, 2019 cloud and colocation ARPU was \$3,185 compared to \$3,318 for the same period in 2018. The decrease was due to the impacts of higher churn compared to the same period in 2018. For the six months ended June 30, 2019 cloud & colocation ARPU was \$3,203 compared to \$3,201 for the same period in 2018. The increase was due to the impact of higher value churn in the first half of 2018.

Churn¹

For the three months ended June 30, 2019, connectivity churn was 1.6% compared to 1.4% for the same period in 2018. The increase was driven by the continued increase in competition in the connectivity industry. For the six months ended June 30, 2019 connectivity churn was 1.5% compared to 1.5% for the same period in 2018.

For the three months ended June 30, 2019, cloud and colocation churn was 1.7% compared to 1.5% for the same period in 2018. The increase was the result of the timing of customer contract renewals. For the six months ended June 30, 2019 cloud and colocation churn was 1.4% compared to 2.3% for the same period in 2018. The decrease was due to the increased churn of lower value customers and the planned end of life services that the Company decided to cease in the first half of 2018.

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

Finance costs

For the three months ended June 30, 2019, finance costs increased 100.0% to \$1.2 million compared to \$0.6 million for the same period in 2018. The increase was primarily a result of the adoption of IFRS 16 where interest expenses on the Company's lease liabilities are now recognized in finance costs. Interest expenses on the Company's leases of \$0.7 million in the three months ended June 30, 2019 represents the financing component of its leases and are calculated using the Company's incremental borrowing rate. In addition, there was an unfavourable valuation of the Company's fixed interest rate swaps which resulted in higher finance costs. Excluding the impact of IFRS 16, finance costs would have been \$0.5 million for the three months ended June 30, 2019 compared to \$0.6 million for the same period in 2018. The decrease would have been due to the unfavourable fair value charge on the Company's interest rate swaps being higher than the impact in the current period.

For the six months ended June 30, 2019 finance costs increased 116.7% to \$2.6 million compared to \$1.2 million for the same period in 2018. The increase was due to the factors discussed above. Excluding the impact of IFRS 16, finance costs would have been \$1.2 million for the six months ended June 30, 2019 which is comparable to the same period in 2018.

Depreciation and amortization

For the three months ended June 30, 2019, depreciation of network assets, property and equipment and amortization of intangibles increased 33.3% to \$4.0 million compared to \$3.0 million for the same period in 2018. The increase is the result of the adoption of IFRS 16 where the right to use an underlying asset in a lease contract is recognized on the balance sheet as a right-of-use asset. These assets are depreciated over the term of the underlying lease on a straight-line basis, of which the Company recorded additional depreciation of \$1.4 million in the three months ended June 30, 2019. This increase was partially offset by impaired and fully depreciated assets in prior periods. Excluding the impact of IFRS 16, depreciation and amortization would have been \$2.5 million compared to \$3.0 million for the same period in 2018. The decrease would have been due to impaired and fully depreciated assets in prior periods.

For the six months ended June 30, 2019 depreciation of network assets, property and equipment and amortization of intangibles increased 27.4% to \$7.9 million compared to \$6.2 for the same period in 2018. The increase was due to the factors described above. Excluding the impact of IFRS 16, depreciation and amortization would have been \$5.1 million compared to \$6.2 million for the same period in 2018. The decrease would have been due to impaired and fully depreciated assets in prior periods.

Summary of Quarterly Results

All financial results are in thousands, with the exception of earnings per share, Backlog MRR, and ARPU

| | Q2-19 | Q1-19 | Q4-18 ⁽²⁾ | Q3-18 ⁽²⁾ | Q2-18 ⁽²⁾ | Q1-18 ⁽²⁾ | Q4-17 ⁽²⁾ | Q3-17 ⁽²⁾ |
|---|------------|---------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Financial | | | | | | | | |
| Revenue | \$ 12,229 | 12,397 | 12,868 | 14,004 | 13,683 | 13,740 | 13,543 | 13,680 |
| Gross Profit Margin % ⁽¹⁾ | 80.7% | 81.8% | 73.0% | 75.1% | 74.7% | 74.1% | 73.8% | 74.3% |
| Adjusted EBITDA ⁽¹⁾ | \$ 4,523 | 4,590 | 3,119 | 3,593 | 3,123 | 3,129 | 2,937 | 3,213 |
| Net income/(loss) | \$ (2,771) | (1,188) | (1,972) | (47) | (1,489) | (1,312) | (4,061) | (1,047) |
| Basic income/(loss) per share | \$ (0.18) | (0.08) | (0.13) | (0.00) | (0.10) | (0.09) | (0.28) | (0.07) |
| Diluted income/(loss) per share | \$ (0.18) | (0.08) | (0.13) | (0.00) | (0.10) | (0.09) | (0.28) | (0.07) |
| Basic weighted average number of shares outstanding | 15,790 | 15,775 | 15,756 | 15,736 | 14,588 | 14,391 | 14,335 | 14,334 |
| Diluted weighted average number of shares outstanding | 15,790 | 15,775 | 15,756 | 15,736 | 14,588 | 14,391 | 14,335 | 14,334 |
| Operating | | | | | | | | |
| <u>Backlog MRR⁽¹⁾</u> | | | | | | | | |
| Connectivity | \$ 57,081 | 71,624 | 64,659 | 71,659 | 60,750 | 58,336 | 84,191 | 98,345 |
| Cloud & Colocation | \$ 17,049 | 37,094 | 31,742 | 30,172 | 67,747 | 133,687 | 291,698 | 134,283 |
| <u>Churn Rate⁽¹⁾</u> | | | | | | | | |
| Connectivity | 1.6% | 1.5% | 1.4% | 1.4% | 1.4% | 1.6% | 1.6% | 1.5% |
| Cloud & Colocation | 1.7% | 1.1% | 1.3% | 1.0% | 1.5% | 3.1% | 1.4% | 1.5% |
| <u>ARPU⁽¹⁾</u> | | | | | | | | |
| Connectivity | \$ 1,023 | 1,033 | 1,054 | 1,071 | 1,062 | 1,041 | 996 | 984 |
| Cloud & Colocation | \$ 3,185 | 3,221 | 3,138 | 3,049 | 3,336 | 3,084 | 3,027 | 3,112 |

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

(2) The Company has initially applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated.

Seasonality

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

The Company's cash flow and earnings are typically impacted in the first quarter of the year due to several annual agreements requiring payments in the first quarter including annual rate increases in long-term contracts and the restart on January 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.

| <i>(in thousands of dollars)</i> | Three months ended June 30 | | Six months ended June 30 | |
|---|---------------------------------------|----------------------------------|-------------------------------------|----------------------------------|
| | <u>2019</u> | <u>2018</u>⁽¹⁾ | <u>2019</u> | <u>2018</u>⁽¹⁾ |
| Statement of Cash Flows Summary | | | | |
| Cash inflows and (outflows) by activity: | | | | |
| Operating activities | \$ 3,088 | 3,313 | \$ 6,994 | 4,883 |
| Investing activities | (1,484) | (2,468) | (2,955) | (6,081) |
| Financing activities | (3,132) | 4,699 | (6,379) | 3,397 |
| Net cash inflows (outflows) | (1,528) | 5,544 | (2,340) | 2,199 |
| Cash and cash equivalents, beginning of period | 3,106 | 3,641 | 3,918 | 6,986 |
| Cash and cash equivalents, end of period | \$ 1,578 | 9,185 | \$ 1,578 | 9,185 |

(1) The Company has initially applied IFRS 16 using the modified retrospective approach. Under this method, the comparative information is not restated.

During the preparation of the interim consolidated financial statements, the Company determined that an immaterial error occurred for certain non-cash working capital changes between cash flows from operations and cash flows used in investing activities in the three months ended March 31, 2019. The impact of the correction was a \$1,757 decrease in cash generated from operating cash flows and a corresponding decrease in cash used in investing activities for the 3 months ended March 31, 2019.

Operating Activities

For the three months ended June 30, 2019, cash generated from operating activities was \$3.1 million compared to cash from operations of \$3.3 million for the same period in 2018. The decrease in cash from operating activities is mainly due to unfavourable changes in timing of payments on non-capital expenditures, including operating costs, severance payments, and stock based compensation paid. For the six months ended June 30, 2019, cash generated from operating activities was \$7.0 million compared to cash from operations of \$4.9 million for the same period in 2018. The increase was primarily due to the reclassification of cash flows from operating activities to finance activities as a result of the adoption of IFRS 16.

Investing Activities

For the three months ended June 30, 2019, cash used in investing activities was \$1.5 million compared to cash used of \$2.5 million for the same period in 2018. The change was due to lower operational capital expenditures as well as the favourable timing of payments for capital expenditures. For the six months ended June 30, 2019, cash used in investing activities was \$3.0 million compared to cash used of \$6.1 million for the same period in 2018. The decrease was due to the factors described above.

Financing Activities

For the three months ended June 30, 2019 cash used in financing activities was \$3.1 million compared to cash generated from financing activities of \$4.7 million for the same period in 2018. The decrease was due to the equity raise done during the same period in 2018, in addition to the reclassification of cash flows from operating activities to finance activities as a result of the adoption of IFRS 16. The increase due to IFRS 16 represents payments made for lease liabilities during the period. For the six months ended June 30, 2019, cash used in financing activities was \$6.4 million compared to cash generated from financing activities of \$3.4 million for the same period in 2018. The decrease was due to the factors described above.

Capital Resources

As at June 30, 2019, the Company had cash and cash equivalents of \$1.6 million and access to an undrawn revolving facility and acquisition funding capital as described in the subsequent section below, subject to the terms and conditions of the credit facilities. In addition, on July 3, 2019, the Company completed an equity offering to issue and sell 805,000 common shares for gross proceeds of \$8,855. Proceeds net of actual and expected commissions, legal, accounting, and listing fees was \$8,008. The equity raise was carried out pursuant to an underwriting agreement dated June 17, 2019, with a syndicate of underwriters led by TD Securities Inc., and included Canaccord Genuity Corp., Cormark Securities Inc., and Desjardins Securities Inc.

The Company anticipates incurring additional capital expenditures for the purchase and installation of network, colocation and cloud assets and customer premise equipment. As economic conditions warrant, the Company may expand its network coverage into new Canadian markets and making additional investments in colocation, 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

The Company has a credit facility provided by a syndicate of lenders led by the National Bank of Canada ("NBC") which is governed by a credit agreement originally entered into in June 2014.

The total \$75.0 million facility that matures June 14, 2021 is made up of the following:

- \$10.0 million revolving facility which bears interest at prime plus a margin percent. As of June 30, 2019, \$nil amount is outstanding (December 31, 2018 - \$nil). Letters of credit issued under the facility totaled \$0.7 million as of June 30, 2019 (December 31, 2018 - \$0.7 million).
- \$40.0 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 \$1.0 million. This facility was fully drawn upon signing the second amended agreement.

On June 30, 2019, \$30.9 million of the term facility principal balance outstanding was in a Banker's Acceptance and the remaining \$0.1 million was at a floating rate. During 2018, the Company entered into two amended interest rate swap contracts that mature June 29, 2021. The interest rate swap contracts have not been designated as a hedge and will be marked-to-market each quarter. The fair value of the interest rate swap contracts at June 30, 2019 was a liability of \$0.4 million (December 31, 2018 - \$0.2 million) and is recorded in other long-term assets/liabilities, with a corresponding charge (recovery) for the change in fair value recorded in finance costs. The effective interest rate on the Company's long-term debt at June 30, 2019 was 5.34% which represents the Company's interest on its Banker's Acceptance net of its interest swap contracts.

As at June 30, 2019, the Company prepaid interest in the amount of \$0.4 million which represents the net settlement of the Banker's Acceptance and is recorded as a reduction in the carrying value of the debt.

- \$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 June 30, 2019, this facility remains undrawn.

Financing fees incurred as part of the Company's debt origination and modifications have been recorded as a reduction in the carrying amount of the debt and deferred and amortized using the effective interest method over the remaining term of the facility.

The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at June 30, 2019. Under this facility, the Company is subject to a cash flow sweep that could accelerate a certain amount of principal repayment based on a calculation outlined by the credit agreement not later than 120 days after the end of each fiscal year.

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 2018 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of August 6, 2019, there were 16,601 Common Shares issued and outstanding and one Class B Share issued and outstanding. In addition, as of August 6, 2019, there were 84 Common Shares issuable upon exercise of TeraGo stock options.

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 summary of the material risks that could significantly affect the financial condition, operating results or business of TeraGo, are set out below and in our management's discussion and analysis for the fiscal year ended December 31, 2018.

5G Fixed Wireless Business launch is unsuccessful

The Company's proposed 5G fixed wireless business (the "**5G Fixed Wireless Business**") is subject to many risks. The Company is still in the process of testing and trialing equipment that would be vital to offering any 5G fixed wireless service to its customers and there are currently no assurances that such trials will be successful, nor will there be assurances that there is suitable equipment available from vendors. As of the date hereof, the general availability of 5G equipment has been delayed in the market as reported by various partners and vendors the Company has been working with, and the continuation of trials by the Company is not expected to resume until 2020 when such equipment becomes available.

The Company has not historically serviced residential customers, having focused all of its services to business customers. As a result, should the Company launch the 5G Fixed Wireless Business to residential customers as well, it will need to adapt its sales and marketing strategy, systems, support and focus to also include this new segment of customers. The lack of experience servicing this segment of the market may cause delays or significantly increase the cost to the Company of offering 5G services.

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

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

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

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

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

ACCOUNTING PRONOUNCEMENTS ADOPTED IN 2019**a) IFRS 16 Leases**

IFRS 16 introduced a single, on-balance sheet accounting approach for leases. Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at January 1, 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Under the new standard, the Company assesses whether at contract inception, such contract contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control or use an identified asset for a period of time in exchange for consideration. The Company has also elected to apply the practical expedient to grandfather the assessment of which transactions were leases, as previously determined by IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 was only applied to contracts entered into or changed on or after January 1, 2019.

i) Significant Accounting Policies

The Company records a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. Payments included in the measurement of the liability include fixed payments and payments expected to be made where a renewal/extension option is reasonably certain to be exercised. The lease liability is subsequently increased by the interest cost and decreased by lease payments made. The liability is remeasured when there is a change in the future lease payments arising from the exercise of extension options, changes in the assessment of extension options reasonably expected to be exercised, renegotiations with lessors and contract amendments, changes in the scope of a lease due to certain contract rights being exercised, and changes in assessments of termination options reasonably expected to be exercised.

The Company elected to record the right-of-use assets based on the corresponding lease liability. In addition, the Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short term leases.

Judgments

The Company has applied judgment to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such options will impact the lease term, which significantly impacts the amount of lease liabilities and right-of-use assets recognized.

A large portion of the Company's leases include renewal options that are exercisable by the Company and not the lessor. The Company typically exercises these options when they relate to rooftop locations that service its fixed wireless network. From time to time, the Company will reassess whether these options are reasonable expected to be exercised and remeasure the lease liability accordingly.

ii) Impacts on Financial Statements

On initial transition, the Company has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Right-of-use assets and lease liabilities of \$30.5 million were recorded on January 1, 2019. In addition, the Company had previously recognized prepaid assets and deferred rent liabilities at December 31, 2018 for timing differences in contractual operating lease cash flows. Under the new standard, timing differences are recognized in the right-of-use asset and lease liability and as a result, these prepaid assets and deferred rent liabilities were adjusted through the January 1, 2019 right-of-use asset balance. There was no net impact on opening retained earnings on adoption.

The condensed consolidated interim financial statements contain a table that reconciles the Company's operating lease obligations at December 31, 2018 as previously disclosed in the Company's 2018 Consolidated Financial Statements to the IFRS 16 lease liability recognized on January 1, 2019. A reconciliation of the lease liabilities during the three and six months ended June 30, 2019 is presented in Note 9 of the consolidated interim financial statements. The weighted average discount rate applied at January 1, 2019 was 9.29%.

vi) Impacts on Financial results

The following table highlights some of the key impacts on our financial metrics discussed in the MD&A:

(In thousands)

| | Three months ended June 30, 2019 | | | |
|--|---|------------------------------|--|-----------------|
| | Balances without adoption of IFRS 16 | Effect of IFRS 16 | Balances subsequent to transition | % Change |
| Financial | | | | |
| Selling, General, & Admin Costs | \$ 8,091 | (653) | 7,438 | (8%) |
| Depreciation & Amortization | \$ 2,545 | 1,414 | 3,959 | 56% |
| Cost of Services | \$ 3,408 | (1,050) | 2,358 | (31%) |
| Finance Costs | \$ (489) | (693) | (1,182) | 142% |
| Gross Margin | \$ 8,821 | 1,050 | 9,871 | 12% |
| Adjusted EBITDA ^{(1) (2)} | \$ 2,901 | 1,622 | 4,523 | 56% |
| Net Income (Loss) | \$ (2,367) | (404) | (2,771) | 17% |
| Total Assets | \$ 80,638 | 27,087 | 107,725 | 34% |
| Total Liabilities | \$ 37,455 | 27,952 | 65,407 | 75% |
| Total Liabilities & Shareholders' Equity | \$ 80,638 | 27,087 | 107,725 | 34% |

(In thousands)

| | Six months ended June 30, 2019 | | | |
|--|---|------------------------------|--|-----------------|
| | Balances without adoption of IFRS 16 | Effect of IFRS 16 | Balances subsequent to transition | % Change |
| Financial | | | | |
| Selling, General, & Admin Costs | \$ 14,718 | (1,317) | 13,401 | (9%) |
| Depreciation & Amortization | \$ 5,109 | 2,827 | 7,936 | 55% |
| Cost of Services | \$ 6,758 | (2,139) | 4,619 | (32%) |
| Finance Costs | \$ 1,187 | 1,410 | 2,597 | 119% |
| Gross Margin | \$ 17,868 | 2,139 | 20,007 | 12% |
| Adjusted EBITDA ^{(1) (2)} | \$ 5,738 | 3,375 | 9,113 | 59% |
| Net Income (Loss) | \$ (3,178) | (781) | (3,959) | 25% |
| Total Assets | \$ 80,638 | 27,087 | 107,725 | 34% |
| Total Liabilities | \$ 37,455 | 27,952 | 65,407 | 75% |
| Total Liabilities & Shareholders' Equity | \$ 80,638 | 27,087 | 107,725 | 34% |

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

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

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

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.

Given the material impacts of IFRS 16, the Company has implemented new key controls to ensure reporting accuracy. Management has concluded that there was no material change to the design of TeraGo's internal controls over financial reporting as of June 30, 2019. 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 Mobilexchange Spectrum Inc. ("MSI") which was acquired not more than 365 days before the period ended June 30, 2019. The table below shows a summary of the financial information for MSI which is included in the three months ended financial statements of the Company as at June 30, 2019:

Non-current assets: \$5.6 million

EXECUTIVE MANAGEMENT CHANGES

Effective May 21, 2019, Blake Wetzel was appointed Chief Revenue Officer.

Effective May 31, 2019, Ron Perrotta, Vice President of Marketing & Strategy was no longer with the Company.

DEFINITIONS – KEY PERFORMANCE INDICATORS, IFRS, ADDITIONAL GAAP AND NON-GAAP MEASURES**IFRS Measures*****Cost of services***

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

Gross profit margin %

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

Other operating expenses

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

Foreign exchange gain (loss)

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

Finance costs

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

Finance income

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

Additional GAAP Measures***Earnings (loss) from operations***

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

Non-GAAP Measures***Adjusted EBITDA***

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

of our financial performance or as a measure of our liquidity and cash flows. Adjusted EBITDA does not take into account the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

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

Key Performance Indicators

Backlog MRR

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

ARPU

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

Churn

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