

Note Regarding Amended Management Discussion and Analysis

Management is filing this amended version of the Management Discussion and Analysis of the Financial Results for the Three months and Fiscal Year ended December 31, 2022 to correct immaterial presentation errors in the previous version of the MD&A that was filed on March 15, 2023.

None of these changes have any material impact to the Annual 2022 audited financial statements as reported on March 15, 2023.

Specific changes are as follows:

- In the table labelled "Selected Financial Information", expense balances labelled as "Loss on Divestiture of Assets" and "Impairment Loss on Brand" for the three months ended December 31, 2021 had been incorrectly placed in the table as having occurred in 2022. The annual amounts for both 2022 and 2021 were correctly reported and remain unchanged.
- In the table "Financial Operations" the balance labelled as "Impairment on Network Assets" (2021 - \$510) was previously included in "Other Operating Expenses" in 2021 but has now been separately disclosed to conform with the current year's (2022) presentation. The amounts were correctly reported on the audited consolidated financial statements.
- In the table "Adjusted EBITDA" certain balances in the 2022 Annual result have immaterially corrected to conform to the audited consolidated financial statements.
- Certain variance explanations, related to the above adjustments, have been updated where required throughout the document where necessary.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE MONTHS AND FISCAL YEAR ENDED DECEMBER 31, 2022

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of TERAGO Inc. All references in this MD&A to "TERAGO", the "Company", "we", "us", "our" and "our company" refer to TERAGO Inc. and its subsidiaries, unless the context requires otherwise. This MD&A is dated March 15, 2023, and should be read in conjunction with our consolidated financial statements for the twelve months ended December 31, 2022, 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 business, retention campaign and initiatives to improve customer service, additional capital expenditures, investments in products and other IT services, and the Company's 5G private network 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, 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 5G, and connectivity sectors may not be accurately projected, future ISED decisions in upcoming Consultations being unfavourable to the Company, the lack of availability of suitable 5G radio equipment, the inability of the Company to successfully launch a 5G private network 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. If any of the risks materialize, the expectations and predictions 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.

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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

- Connectivity revenues for the quarter were \$6.3 million, compared to \$6.5 million in both the prior quarter and the same quarter in the prior year. The decrease in revenues from the prior quarter and year is the result of one-time year end adjustments (\$0.3 million) made to finalize the impacts of the divestiture transaction that took place in Q1 2022. The adjustment accounts for revenues associated with certain customers that were included in the divestiture transaction which were subsequently transferred back to TERAGO. Total annual connectivity revenue for 2022 was \$25.9 million compared to \$26.3 million in the prior year (decrease of \$0.4 million). When normalizing for divestiture transferred customers, annual connectivity revenue increased by approximately \$1.4 million or 5% over 2021. Customer churn remained consistent quarter over quarter at approximately 0.9%. For the year ended December 31, 2022, churn was at 0.8% compared to 1.1% in the prior year as the Company continues to execute on its strategy of providing superior service and support versus our competitors.
- Total revenues for the three months ended December 31, 2022 were \$6.3 million compared to \$10.7 million for the same period in 2021. The decrease is the result of the divestiture transaction as \$4.2 million of the decline was from Cloud and Data Center Revenue and remaining variance in Connectivity revenue as addressed above. Total annual revenue in 2022 was \$27.6 million compared to \$43.3 million in the prior year, with the decrease being the result of the divestiture.
- Net loss decreased to \$2.4 million for the three months ended December 31, 2022, compared to a net loss of \$9.0 million for the same period in 2021. The higher net loss in the prior year was driven by a \$4.5 million impairment loss on cloud and colocation assets and liabilities that were classified as held for sale as at December 31, 2021, and a \$1.6M impairment loss on intangible assets. Net loss was \$11.6 million for the year ended December 31, 2022, compared to a net loss of \$15.2 million for the same period in 2021. Furthermore, the 2021 net loss was bolstered by \$0.8 million in government grants under the CEWS and CERS programs as a result of the COVID-19 pandemic. Such programs were not available to the Company in 2022. The improvement in net loss was driven by the factors described above.
- Adjusted EBITDA^{1,2} decreased 54.6% to \$1.2 million for the three months ended December 31, 2022, compared to \$2.6 million for the same period in 2021. The decrease was driven primarily by the impact of the divestiture transaction, including one-time year end adjustments. For the year ended December 31, 2022, Adjusted EBITDA decreased 67.5% to \$4.1 million compared to \$12.6 million for the same period in 2021. The decrease was driven primarily by the divestiture transaction and the other factors described above.

Key Developments

- On January 20, 2022, TERAGO announced it had entered into a definitive agreement to sell its cloud and colocation business lines to a subsidiary of Hut 8 Mining Corp. (Nasdaq: HUT) (TSX: HUT) for an aggregate consideration of Cdn.\$30 million in cash (\$500 remaining in escrow until July 31, 2023 subject to any indemnity claims). The transaction enables TERAGO to focus on its core wireless business and leverage TERAGO's extensive millimeter wave spectrum licenses to grow its mmWave 5G private networks for businesses. The transaction closed on January 31, 2022. The Company recorded a further \$107 as a loss on the divestiture of assets in the year ended December 31, 2022.
- On February 1, 2022, TERAGO repaid all indebtedness, liabilities and other obligations against its Term Debt Facility totaling \$20.0 million, and the Term Debt Facility was terminated. TERAGO was released and discharged

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

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from all obligations, claims, and demands under and in respect of the Term Debt Facility, other than certain provisions which expressly survive repayment of the obligations.

- On September 29, 2022, the TERAGO entered into a credit agreement (the "Credit Agreement") with CrowdOut Capital LLC (the "Lender") in the amount of USD\$ 20 million. The Credit Agreement is a draw down facility and terms include the following: Variable interest rate of Adjusted SOFR + 9.00%, serviced with monthly interest payments only for a term of 36 months. The agreement also includes a 1% annual rate standby fee for any amounts undrawn on the facility. The standby fee and interest amounts are payable monthly. On October 3, 2022, TERAGO took the initial draw of USD \$5.0 million (CDN \$6.7 million) in accordance with the Credit Agreement and to date has not made any further drawdowns. At the conclusion of the loan term, there is an exit fee payable to the Lender of up to a maximum of \$ 1 million calculated on a pro-rata basis determined by the amount of the facility that has been drawn down at the time of exit. In accordance with the Credit Agreement TERAGO also issued to the Lender 216,463 warrants for the purchase of common shares which vest on a pro-rata basis as the facility is drawn down. Each warrant will be exercisable for the purchase of one common share for a period of up to five years from the date of the Credit Agreement. The strike price for all warrants is CAD \$4.46 (based upon a 20% premium to the 30-day VWAP at the time of closing)

TERAGO OVERVIEW

TERAGO provides wireless connectivity and private 5G wireless networking services to businesses operating across Canada. The Company holds 2120 MHz of exclusive spectrum licenses in the 24 GHz and 38 GHz spectrum bands, which it utilizes to provide secure and reliable enterprise grade networking and connectivity services. TERAGO serves over 1800 Canadian and Global businesses operating in major markets across Canada, including Toronto, Montreal, Calgary, Edmonton, Vancouver, Ottawa and Winnipeg, and has been providing wireless services since 1999. For more information about TERAGO, please visit www.TERAGO.ca.

TERAGO'S NETWORK

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 data connectivity, and associated managed network 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 operate alongside their existing wireline broadband connections. TERAGO's wireless network can function as either the primary connection or as a redundant connection to wireline broadband services.

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"). 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.

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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 fibre 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.

TERAGO's Radio Frequency 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 7 largest cities and has a total coverage of approximately 23.5 million of the population in Canada (or nearly 10 million households)¹. 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.

In June 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" licenses for an equal amount of spectrum upon expiry of the current 10-year license term, or earlier upon voluntary license cancellation. Flexible use licenses 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 licenses in Canada.

In 2022 ISED published several Consultations which proposed updating ISED's approach and planned activities that could impact the Company's 24-GHz and 38-GHz spectrum licenses.

In June, 2022 ISED published a Consultation on Policy and Licensing Framework for Spectrum in the 26GHz, 28GHz and 38GHz Bands. Under this Consultation ISED sought comments on the proposed policy and licensing considerations, including auction format, rules and processes, as well as on conditions of license for spectrum in the 26, 28 and 38 GHz Bands.

In August, 2022 ISED published a Consultation on a Non-Competitive Local Licensing Framework, Including Spectrum in the 3900-3980 MHz Band and Portions of the 26, 28 and 38 GHz Bands. Under this Consultation ISED sought comments on a proposed non-competitive local (NCL) licensing framework, with the intent to apply that framework to release spectrum in the 3900-3980 MHz Band (referred to as the 3900 MHz Band) and portions of the 26, 28 GHz and 38 GHz Bands.

In September 2022, ISED published a Consultation on the Spectrum Outlook 2022 to 2026. Under this Consultation ISED sought comments on its proposed overall approach and planned activities for spectrum over the next five years. In this document, ISED proposed 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.

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_sf08436.html.

¹ Based on 2016 Canadian Census data cited by ISED.

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For further details on our licensed spectrums, please refer to the Company's most recently filed AIF on SEDAR.

Cloud and colocation divestiture

For the three months and year ended December 31, 2021, TERAGO provided businesses across Canada with cloud and colocation services. TERAGO provided and managed cloud Infrastructure as a Service ("IaaS") computing and storage solutions, data centre colocation solutions, and operated five (5) data centres across Canada. On January 31, 2022 TERAGO divested its cloud and colocation business to a subsidiary of Hut 8 Mining Corp. (Nasdaq: HUT) (TSX: HUT) for consideration of \$30 million in cash (the "Divestiture"). The Company recognized \$1.4 million of revenue in 2022 related to the Cloud and Colocation services prior to the closing of the Divestiture. The following table displays a summary of our Consolidated Statements of Comprehensive Earnings (Loss) for the three months ended December 31, 2022 and 2021 and the years ended December 31, 2022, and 2021 and a summary of select Balance Sheet data as at December 31, 2022, and 2021.

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Selected Financial Information

(in thousands of dollars, except with respect to earnings (loss) per share) (unaudited)

| | Three Months Ended December 31 | | Year Ended December 31 | |
|--|-----------------------------------|---------------------|------------------------|---------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Revenue | | | | |
| Cloud and Colocation Revenue | \$ - | \$ 4,160 | \$ 1,355 | \$ 16,956 |
| Connectivity Revenue | 6,285 | 6,535 | 25,860 | 26,347 |
| Other Revenue | 50 | - | 407 | - |
| Total Revenue | 6,335 | 10,695 | 27,622 | 43,303 |
| Expenses | | | | |
| Cost of services | 1,578 | 3,103 | 7,437 | 11,141 |
| Salaries and related costs | 2,959 | 2,955 | 12,905 | 14,565 |
| Other operating expenses | 1,021 | 2,616 | 6,283 | 7,725 |
| Amortization of intangible assets | (1) | 333 | 12 | 1,379 |
| Depreciation of network assets, property and equipment | 2,530 | 3,352 | 10,073 | 13,175 |
| | 8,087 | 12,359 | 36,710 | 47,985 |
| Earnings (loss) from operations | (1,752) | (1,664) | (9,088) | (4,682) |
| Loss on divestiture of assets | - | (4,527) | - | (4,527) |
| Impairment loss on divested assets | - | - | (107) | - |
| Impairment loss on brand | - | (1,630) | - | (1,630) |
| Impairment on network assets, property, equipment and intangible assets* | (156) | (234) | (327) | (510) |
| Foreign exchange gain (loss) | (45) | 8 | (83) | 29 |
| Finance costs | (491) | (915) | (2,089) | (3,896) |
| Finance income | 38 | 7 | 123 | 44 |
| Earnings (loss) before income taxes | (2,406) | (8,955) | (11,571) | (15,172) |
| Income Taxes | | | | |
| Income tax recovery (expense) | - | - | - | - |
| Net earning (loss) and comprehensive earnings (loss) | \$ (2,406) | \$ (8,955) | \$ (11,571) | \$ (15,172) |
| Deficit, beginning of year | \$ (113,885) | \$ (95,765) | \$ (104,720) | \$ (89,548) |
| Deficit, end of year | \$ (116,291) | \$ (104,720) | \$ (116,291) | \$ (104,720) |
| Basic earnings (loss) per share | \$ (0.12) | \$ (0.46) | \$ (0.61) | \$ (0.81) |
| Diluted earnings (loss) per share | \$ (0.12) | \$ (0.46) | \$ (0.61) | \$ (0.81) |
| Basic weighted average number of shares | | | | |
| Outstanding | 19,720 | 19,655 | 19,098 | 18,769 |
| Diluted weighted average number of shares | | | | |
| Outstanding | 19,720 | 19,655 | 19,098 | 18,769 |

*Prior year figures have been adjusted to conform with current year presentation.

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Quarter and Year Ended December 31, 2022

Selected Balance Sheet Data

| | As at December 31 | |
|---|-------------------|---------------|
| | 2022 | 2021 |
| Cash and cash equivalents | \$ 6,220 | \$ 5,481 |
| Short term investments | \$ 1,158 | \$ - |
| Accounts receivable | \$ 2,252 | \$ 1,586 |
| Prepaid expenses and other assets | \$ 1,141 | \$ 350 |
| Network assets, property and equipment | \$ 32,815 | \$ 33,990 |
| Divestiture of assets | \$ - | \$ 39,952 |
| Total Assets | \$ 55,383 | \$ 93,230 |
| Accounts Payable and accrued liabilities | \$ 4,711 | \$ 3,832 |
| Liabilities associated with divestiture of assets | \$ - | \$ 12,265 |
| Long-term debt | \$ 6,157 | \$ 19,791 |
| Other long-term liabilities | \$ - | \$ - |
| Shareholders' equity | \$ 29,599 | \$ 40,262 |

RESULTS OF OPERATIONS

Comparison of the three months and year ended December 31, 2022, and 2021
(in thousands of dollars, except with respect to gross profit margin, earnings per share, Backlog MRR, and ARPU)

| (unaudited) | Three months ended. | | Year ended. | |
|--|---------------------|-------------|-------------|-------------|
| | December 31 | | December 31 | |
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Financial | | | | |
| Cloud and Colocation Revenue | \$ - | 4,160 | 1,355 | 16,956 |
| Connectivity Revenue | \$ 6,285 | 6,535 | 25,860 | 26,347 |
| Other Revenue | \$ 50 | - | 407 | - |
| Total Revenue | \$ 6,335 | 10,695 | 27,622 | 43,303 |
| Cost of Services ¹ | \$ 1,578 | 3,103 | 7,437 | 11,141 |
| Selling, General, & Administrative Costs | \$ 3,980 | 5,571 | 19,188 | 22,290 |
| Gross profit margin ¹ | \$ 75.1% | 71.0% | 73.1% | 74.3% |
| Adjusted EBITDA ^{1,2} | \$ 1,164 | 2,564 | 4,077 | 12,558 |
| Net loss | \$ (2,406) | (8,955) | (11,571) | (15,172) |
| Basic loss per share | \$ (0.12) | (0.46) | (0.61) | (0.81) |
| Diluted loss per share | \$ (0.12) | (0.46) | (0.61) | (0.81) |
| Operating | | | | |
| <u>Backlog MRR¹</u> | | | | |
| Connectivity | \$ 178,948 | 110,481 | 178,948 | 110,481 |
| <u>Churn¹</u> | | | | |
| Connectivity | 0.9% | 0.7% | 0.8% | 1.1% |
| <u>ARPU¹</u> | | | | |
| Connectivity | \$ 1,063 | 1,043 | 1,085 | 1,035 |

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

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Quarter and Year Ended December 31, 2022

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 41.1% to \$6.3 million for the three months ended December 31, 2022, compared to \$10.7 million for the same period in 2021. Revenue decreased 36.3% to \$27.6 million for the year ended December 31, 2022, compared to \$43.3 million for the same period in 2021.

Connectivity Revenue

For the three months ended December 31, 2022, connectivity revenue decreased 3.1% to \$6.3 million compared to \$6.5 million for the same period in 2021. As discussed previously, the result of the decrease is due to the overall impacts of the divestiture and the net transfer of certain customers as part of that transaction. Revenue would have been \$6.6 million (increase of \$0.1 million over Q3 2022) if not for the one-time adjustments related to the transfer of certain customers back to TERAGO.

For the year ended December 31, 2022, connectivity revenue decreased 1.5% to \$25.9 compared to \$26.3 million for the same period in 2021. The decrease is the result of the divested customers, otherwise revenue would have increased, year over year by 5% (\$1.4 million).

Cloud and Colocation Revenue

For the three months ended December 31, 2022, cloud and colocation revenue decreased by 100.0% to \$0.0 million to \$4.2 million for the same periods in 2021. The decrease was a result of the Divestiture of these two business lines in Q1 2022.

For the year ended December 31, 2022, cloud and colocation revenue decreased 91.8% to \$1.4 million compared to \$17.0 million for the same period in 2021. The decrease was driven by the factors described above.

Other Revenues

For the three months and year ended December 31, 2022, the Company earned \$50 and \$407 in revenues respectively for providing post transaction support and other services to HUT8 as part of the Divestiture.

Cost of Services

For the three months ended December 31, 2022, cost of services decreased 48.4% to \$1.6 million from \$3.1 million in the same period in 2021. The decrease is entirely the result of the divestiture transaction.

For the year ended December 31, 2022, cost of services decreased 33.3% to \$7.4 million compared to \$11.1 million in the same period in 2021. The decrease was driven by the factor described above.

Gross profit margin was 75.1% for the three months ended December 31, 2022, compared to 71.0% in same quarter of 2021. Annual gross profit margin for 2022 was 73.1% compared to 74.3% in 2021.

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

For the three months ended December 31, 2022, SG&A decreased 28.6% to \$4.0 million (\$3.7 million net of restructuring costs) compared to \$5.6 million (\$4.9 million net of restructuring costs) for the same period in 2021. The overall decrease was the result of lower headcount and operating costs following the divestiture transaction. Restructuring costs for the three months ended December 31, 2022, were \$281 (2021 - \$710).

For the year ended December 31, 2022, SG&A decreased 13.9% to \$19.2 million (\$17.4 million net of restructuring costs) compared to \$22.3 million (\$20.6 million net of restructuring costs) for the same period in 2021. Restructuring costs for the year ended December 31, 2022, were \$1,798 (2021 - \$1,742). The decrease was driven by the factor described above. SG&A costs would have been \$23.1 million in 2021 if not for the benefits received under the CEWS and CERS grant programs.

Net loss

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Net loss decreased to \$2.4 million for the three months ended December 31, 2022, compared to a net loss of \$9.0 million for the same period in 2021. The lower net loss was driven primarily by the impacts of the Divestiture.

Net loss was \$11.6 million for the year ended December 31, 2022, compared to a net loss of \$15.2 million for the same period in 2021 (\$16.0 million when adjusted for the CEWS and CERS benefits). The lower net loss driven by the impacts of the Divestiture.

Adjusted EBITDA^{1, 2}

Adjusted EBITDA decreased 53.8% to \$1.2 million for the three months ended December 31, 2022, compared to \$2.6 million for the same period in 2021. The decrease was driven by the impacts of the Divestiture.

For the year ended December 31, 2022, Adjusted EBITDA decreased 67.5% to \$4.1 million compared to \$12.6 million for the same period in 2021 (\$11.8 million when adjusted for the CEWS and CEWS benefits). The decrease was driven by the factors described above.

The table below reconciles net loss to Adjusted EBITDA¹ for the three months and year ended December 31, 2022, and 2021.

| <i>(in thousands of dollars)</i> | Three months ended. | | Year ended. | |
|---|----------------------------|--------------------|--------------------|--------------------|
| | December 31 | | December 31 | |
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Net loss for the period | \$ (2,406) | (8,955) | \$ (11,571) | (15,172) |
| Foreign exchange loss (gain) | 45 | (8) | 83 | (29) |
| Finance costs | 491 | 915 | 2,089 | 3,896 |
| Finance income | (38) | (7) | (123) | (44) |
| Loss on divestiture of assets | - | 4,527 | - | 4,527 |
| Impairment loss on brand | - | 1,630 | - | 1,630 |
| Impairment loss on divested assets | - | - | 107 | - |
| Impairment on network assets, property, equipment, and intangibles assets* | 156 | 234 | 327 | 510 |
| Loss from operations | (1,752) | (1,664) | (9,088) | (4,682) |
| Add: | | | | |
| Depreciation of network assets, property and equipment and amortization of intangible assets* | 2,529 | 3,685 | 10,085 | 14,554 |
| Loss on disposal of network assets | - | 116 | 171 | 285 |
| Impairment of Assets and Related Charges | (9) | 188 | 423 | 496 |
| Stock-based compensation expense (recovery) | 115 | (470) | 688 | 164 |
| Restructuring, acquisition-related, integration costs and other | 281 | 710 | 1,798 | 1,742 |
| Adjusted EBITDA ¹ | \$ 1,164 | 2,564 | \$ 4,077 | 12,558 |

*Prior year figures have been adjusted to conform with current year presentation.

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

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

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Backlog MRR¹

Connectivity backlog MRR was \$178,948 as at December 31, 2022, compared to \$110,481 as at December 31, 2021. The increase in backlog is a result of a strong sales performance in signing up new customers, particularly through the Company's channel partners.

ARPU¹

For the three months ended December 31, 2022, connectivity ARPU was \$1,063 compared to \$1,043 for the same period in 2021. Increase in ARPU is result of the Company's ongoing focus to attract mid-market and large scale, predominantly multi-location customers. For the year ended December 31, 2022, connectivity ARPU was \$1,085 compared to \$1,035 for the same period in 2021. The increase was driven by the factors described above.

Churn¹

For the three months ended December 31, 2022, connectivity churn was 0.9% compared to 0.7% for the same period in 2021. While churn has slightly increased from the same quarter in the prior year, the overall annual churn rate was 0.8% compared to 1.1% in 2021. The Company will continue to focus its service and support activities on customer retention keeping churn low.

Finance costs

For the three months ended December 31, 2022, finance costs decreased 44.4% to \$0.5 million compared to \$0.9 million for the same period in 2021. The decrease was a result of the differences in the financing activities taking place in the respective periods. Costs in Q4 2022 focussed around the Crowdout debt financing whereas the prior year's cost was the result of the Divestiture and interest costs on the debt facilities in place at that time.

For the year ended December 31, 2022, finance costs declined to \$2.1 million compared to \$3.9 million for the same period in 2021. The decrease was driven by the factor described above.

Depreciation and amortization

For the year ended December 31, 2022, depreciation of network assets, property and equipment and amortization of intangibles decreased 30.8% to \$10.1 million compared to \$14.6 million for the same period in 2021. The decrease was the result of fewer amortizing assets as a result of the assets and intangibles sold or transferred by way of the Divestiture.

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

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Quarter and Year Ended December 31, 2022

Summary of Quarterly Results

All financial results are in thousands, with the exception of Earnings per Share, Gross Profit Margin¹, Backlog MRR¹, Churn Rate¹, and ARPU¹

| (unaudited) | <u>Q4 - 22</u> | <u>Q3 - 22</u> | <u>Q2 - 22</u> | <u>Q1 - 22</u> | <u>Q4 - 21</u> | <u>Q3 - 21</u> | <u>Q2 - 21</u> | <u>Q1 - 21</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Financial | | | | | | | | |
| Revenue | \$ 6,335 | 6,632 | 6,731 | 7,924 | 10,695 | 10,876 | 10,903 | 10,829 |
| Gross Profit Margin % ¹ | 75.1% | 72.9% | 72.8% | 71.8% | 71.0% | 73.9% | 75.4% | 76.8% |
| Adjusted EBITDA ^{1*} | \$ 1,164 | 782 | 1,019 | 1,113 | 2,564 | 3,198 | 3,407 | 3,389 |
| Net Profit (loss) | \$ (2,406) | (2,913) | (3,112) | (3,140) | (8,955) | (2,255) | (1,796) | (2,166) |
| Basic loss per share | \$ (0.12) | (0.15) | (0.16) | (0.16) | (0.46) | (0.11) | (0.09) | (0.13) |
| Diluted loss per share | \$ (0.12) | (0.15) | (0.16) | (0.16) | (0.46) | (0.11) | (0.09) | (0.13) |
| Basic weighted average number of shares outstanding | 19,720 | 19,700 | 19,683 | 19,669 | 19,655 | 19,635 | 19,618 | 16,773 |
| Diluted weighted average number of shares outstanding | 19,720 | 19,700 | 19,683 | 19,669 | 19,655 | 19,635 | 19,618 | 16,773 |
| Operating | | | | | | | | |
| <u>Backlog MRR¹</u> | | | | | | | | |
| Connectivity | \$ 178,948 | 138,893 | 133,436 | 126,631 | 110,481 | 102,911 | 126,834 | 131,078 |
| <u>Churn Rate¹</u> | | | | | | | | |
| Connectivity | 0.9% | 0.7% | 0.9% | 0.7% | 0.7% | 0.9% | 1.4% | 1.3% |
| <u>ARPU¹</u> | | | | | | | | |
| Connectivity | \$ 1,063 | 1,099 | 1,118 | 1,061 | 1,043 | 1,026 | 1,032* | 1,039* |

*Prior year figures have been adjusted to conform with current year presentation.

**The comparative ARPU numbers for the historic quarterly results presented above have changed to conform with the presentation of ARPU revenue allocations effective Q2 2021.

Seasonality

The Company's net customer onboarding, 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 and/or tower equipment. Typically, harsher weather in the winter months results in a reduction of productive installation days and therefore impacts the overall length of time from when a customer contract is signed to when the services are fully installed, and the customer becomes revenue generating.

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.

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

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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> (unaudited) | Three months ended. December 31 | | Year ended. December 31 | |
|---|------------------------------------|--------------|----------------------------|--------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Statement of Cash Flows Summary | | | | |
| Cash inflows and (outflows) by activity: | | | | |
| Operating activities | \$ 1,040 | 2,515 | \$ 1,253 | 9,322 |
| Investing activities | (1,697) | (1,400) | 18,825 | (7,753) |
| Financing activities | 5,096 | (2,320) | (19,339) | (1,946) |
| Net cash inflows (outflows) | 4,439 | (1,205) | 739 | (377) |
| Cash and cash equivalents, beginning of period | 1,781 | 6,686 | 5,481 | 5,858 |
| Cash and cash equivalents, end of period | \$ 6,220 | 5,481 | \$ 6,220 | 5,481 |

Operating Activities

For the three months ended December 31, 2022, cash generated from operating activities was \$1.0 million compared to \$2.5 million for the same period in 2021. For the year ended December 31, 2022, cash generated from operating activities was \$1.3 million compared to cash from operations of \$9.3 million for the same period in 2021. The overall decrease was a result of the Divestiture.

Investing Activities

For the three months ended December 31, 2022, cash used in investing activities was \$1.7 million compared to \$1.4 million for the same period in 2021. The decrease was mainly driven by the timing of customer success-based capital equipment spending compared to prior periods. For the year ended December 31, 2022, cash generated in investing activities was \$18.8 million compared to cash used of \$7.8 million for the same period in 2021. The increase was driven by proceeds from the Divestiture.

Financing Activities

For the three months ended December 31, 2022, cash generated in financing activities was \$5.1 million compared to \$2.3 million used for the same period in 2021. The increase in cash generated in financing activities was due to the CrowdOut debt financing facility secured in the current period. For the year ended December 31, 2022, cash used in financing activities was \$19.3 million compared to cash used of \$1.9 million for the same period in 2021. The higher cash used was driven by the repayment of the long-term debt financing at the beginning of Q1 2022, partially offset by the new long-term debt financing secured in Q3 2022 with proceeds from the first draw of the CrowdOut debt financing facility received in Q4 2022.

Capital Resources

As at December 31, 2022, the Company had cash and cash equivalents of \$6.2 million, compared to \$1.8 million at the beginning of the quarter and \$5.5 million at December 31, 2021. On January 31, 2022, TERAGO divested its cloud and colocation business lines to a subsidiary of Hut 8 Mining Corp. (Nasdaq: HUT) (TSX: HUT) for consideration of \$30 million in cash. The proceeds were used to repay TERAGO's term debt in full, totaling \$20.0 million, as described below, and for general corporate and working capital purposes.

As described above, the Company closed a USD \$20 million term debt facility with CrowdOut Capital. As at December 31, 2022, the Company still has USD \$15 million available to draw from the facility.

Management believes the Company's current cash, anticipated cash from operations and access to the remaining undrawn facility will be sufficient to meet its working capital and capital expenditure requirements for at least the twenty-four month period following December 31, 2022.

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Term Debt Facility

In June 2020, the Company entered into an amended and restated credit (the "Term Debt Facility") agreement with a syndicate led by Royal Bank of Canada ("RBC") to replace the Company's existing credit facilities which reduced the credit facility to \$35 million (from \$75 million) and extended the term from June 14, 2021, to June 30, 2022.

On February 1, 2022, TERAGO repaid all indebtedness, liabilities and other obligations, totaling \$20.0 million, against this credit facility, and the credit facility with RBC was terminated. TERAGO was released and discharged from all obligations, liabilities, claims and demands under and in respect of the credit facility, other than certain provisions which expressly survive repayment of the obligations.

On September 29, 2022, the TERAGO entered into a credit agreement (the "Credit Agreement") with CrowdOut Capital LLC (the "lender") in the amount of USD\$ 20 million. The Credit Agreement is a draw down facility and terms include the following: Variable interest rate of Adjusted SOFR + 9.00%, serviced with monthly interest payments only for a term of 36 months. The Credit Agreement also includes a 1% annual rate standby fee for any amounts undrawn on the facility. The standby fee and interest amounts are payable monthly. On October 3, 2022, TERAGO took the initial draw of USD \$5.0 million in accordance with the Credit Agreement and to date has not made any further drawdowns. At the conclusion of the loan term, there is an exit fee payable to the lender of up to a maximum of CAD\$ 1 million calculated on a pro-rata basis determined by the amount of the facility that has been drawn down at the time of exit. In accordance with the Credit Agreement TERAGO also issued to the lender 216,463 warrants for the purchase of common shares which vest on a pro-rata basis as the facility is drawn down. Each warrant will be exercisable for the purchase of one common share for a period of up to five years from the date of the Credit Agreement. The strike price for all warrants is CAD \$4.46 (based upon a 20% premium to the 30-day VWAP at the time of closing)

Demand Revolving credit facility

On January 31, 2022, entered into a demand revolving credit facility (the "facility") with the Royal Bank of Canada ("RBC") in order to support letters of credit required by certain landlords. At December 31, 2022, there is \$nil drawn and outstanding on the demand facility, while letters of credit issued under the facility total \$0.2 million.

Equity Offering

On April 14, 2021, TERAGO completed a Private Placement with certain institutional investors, including Cymbria Corporation, acting at the direction of its portfolio manager, EdgePoint Investment Group Inc. The Company issued and sold an aggregate of 934 thousand Series A Units, 934 thousand Series B Units and 934 thousand Series C Units of the Company at a subscription price of \$5.25 per Unit, for gross proceeds of \$14.7 million.

Contractual Obligations

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

| | 2023 | 2024 | 2025 | 2026 | 2027 | Thereafter | Total |
|---|---------------|--------------|---------------|--------------|--------------|--------------|---------------|
| Network assets, property, and equipment | \$ 3,567 | - | - | - | - | - | 3,567 |
| Other Purchase Obligations | 5,945 | 2,242 | 795 | 45 | 18 | - | 9,045 |
| Loan Principal and Success Fee Payments | - | - | 7,081 | - | - | - | 7,081 |
| Interest on debt | 1,179 | 1,179 | 884 | - | - | - | 3,242 |
| Lease liabilities | 5,027 | 4,083 | 3,178 | 2,192 | 1,265 | 1,250 | 16,995 |
| Total | 15,718 | 7,504 | 11,938 | 2,237 | 1,283 | 1,250 | 39,930 |

Off-balance Sheet Arrangements

As of December 31, 2022, the Company had no off-balance sheet arrangements.

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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 2022 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of December 31, 2022, there were 19.7 million Common Shares issued and outstanding. In addition, as of December 31, 2022, there were 500 thousand Common Shares issuable upon exercise of TERAGO stock options, 42 thousand Common Shares issuable upon vesting of restricted share units, 27 thousand Common Shares issuable upon vesting of performance share units and 216 thousand Common Shares issuable upon exercise of warrants which were issued to the lender of the debt facility secured in Q4 2022. As of the reporting date there have been no changes to the number of shares issued and outstanding.

Financial Instruments

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

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

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

Impairment of Financial Assets

The Company's financial assets measured at amortized cost consist of assets discussed in Note 18 of the financial statements.

Under IFRS 9, loss allowances are measured on either of the following bases:

- *12-month ECLs*: these are expected credit losses ("ECLs") that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables and any contract assets at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Loss allowances on financial assets measured at amortized cost are deducted from the gross carrying amount of the asset and the related impairment loss is recorded separately on the statement of comprehensive loss. The Company subsequently writes off financial assets where it is not economical to pursue recovery and when all reasonable legal avenues of pursuit for material assets have been exhausted.

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The following is a summary of the Company's significant categories of financial instruments as at December 31, 2022:

| Financial Instrument | Classification and measurement method |
|-----------------------------|--|
| Financial Assets | |
| Cash and cash equivalents | Fair Value |
| Short-term investments | Fair Value |
| Accounts Receivable | Amortized cost |
| Financial liabilities | |
| Accounts payable | Amortized cost |
| Accrued Liabilities | Amortized cost |
| Long-term debt | Amortized cost |

Other financial liabilities

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

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

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

Derivative instruments

The Company is not engaged in any derivative contracts as at December 31, 2022, or December 31, 2021

Financial Instrument Risks

Fair value of financial instruments

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Where quoted market values are not readily available, the Company may use considerable judgment to develop estimates of fair value. Accordingly, any estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange and could be materially affected by the use of different assumptions or methodologies. The Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 9 – Financial Instruments – Disclosures.

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Unobservable inputs for the asset or liability which are supported by little or no market activity

The fair values of cash and cash equivalents, short-term investments, and restricted cash, which are primarily money market and fixed income securities, are based on quoted market values. The fair values of short-term financial assets and liabilities, including accounts receivable, accounts payable and accrued liabilities, as presented in the consolidated statements of financial position, approximate their carrying amounts due to their short-term maturities. The fair value of

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long-term debt approximates its carrying value because management believes the interest rates approximate the market interest rate for similar debt with similar security.

Credit risk

The Company's cash and cash equivalents are subject to credit risk. The Company maintains cash and investment balances at large Canadian financial institutions. The Company's maximum exposure to credit risk is limited to the amount of cash and cash equivalents.

The Company, in the normal course of business, is exposed to credit risk from its customers and the accounts receivable are subject to normal industry risks. The Company attempts to manage these risks by dealing with credit worthy customers. If available, the Company reviews credit bureau ratings, bank accounts and industry references for all new customers. Customers that do not have this information available are typically placed on a pre-authorized payment plan for service or provide deposits to the Company. This risk is minimized as the Company has a diverse customer base located across various provinces in Canada.

As at December 31, 2022, and 2021, the Company had no material past due trade accounts receivable.

Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents and long-term debt. The Company is exposed to interest rate risk on its Term Credit Facility since the interest rates applicable are variable and are, therefore, exposed to cash flow risks resulting from interest rate fluctuations.

Foreign Exchange risk

The Credit Agreement with CrowdOut is denominated in U.S. dollars, meanwhile the Company reports its financial results and earns its revenues in Canadian dollars. Therefore, the changes in the US/CAD exchange rate will have an impact on the financial results of the Company but also the debt servicing and repayment.

Liquidity risk

As at December 31, 2022, the Company had cash and cash equivalents of \$6.2 million. The Company believes that its current cash and cash equivalents, along with its access to the USD \$15 million undrawn on its term facility, and anticipated cash from operations will be sufficient to meet its working capital and capital expenditure requirements for at least the twenty-four-month period following December 31, 2022. The Company continues to manage liquidity by ensuring trade turnover is consistent with the objectives of the organization as well as through cost management strategies

SIGNIFICANT ACCOUNTING ESTIMATES

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

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

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

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borrowing costs.

- (ii) *Capitalization of costs:*
Judgments and estimates are used in assessing the direct labour and other costs capitalized to network assets, property, and equipment.
- (iii) *Cash generating units:*
Judgment is required to assess the Company's determination of cash generating units for the purpose of impairment testing.
- (iv) *Impairment of non-financial assets:*
The process to calculate the recoverable amount of our cash generating unit requires use of valuation methods such as the discounted cash flow method which uses significant assumptions including expected future revenue, operating margins, capital investment, discount rate, terminal growth rate. The Company also applied judgement on the use of available market data to estimate the value of its Spectrum holdings.
- (v) *Valuation Allowance on Trade Receivables:*
In developing the estimates for an allowance against existing receivables, the Company considers general and industry economic and market conditions as well as credit information available for the customer and the aging of the account. Changes in the carrying amount due to changes in economic and market conditions could significantly affect the loss for the period. The Company applies the IFRS 9 model to record valuation allowances on Trade Receivables.
- (vi) *Stock-based compensation:*
Estimating fair value for stock-based payments requires determining the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. In valuing stock options, the Company uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Company's stock options using the Black-Scholes option pricing model including the expected life of the option, risk-free interest rate and volatility of the underlying stock.
- (vii) *Income taxes:*
A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Significant estimates are required in evaluating the recoverability of deferred tax assets. The Company's assessment is based on existing tax laws, estimates of future profitability and tax planning strategies.
- (viii) *Provisions:*
Judgment is required to assess the likelihood of an outflow of the economic benefits to settle contingencies, such as litigations or decommissioning and restoration obligations, which may require a liability to be recognized. Significant judgments include assessing estimates of future cash flows, selection of discount rates and the probability of the occurrence of future events.
- (ix) *Revenue from contracts with customers:*
The enforceable term of contracts requires estimating average contract terms based on available historical data. Significant judgements are also made in determining whether the promises to deliver certain services are considered distinct and represent separate performance obligations. In addition, evaluating whether costs incurred to obtain a contract are incremental and expected to be recoverable requires judgment based on conditions of each individual contract.
- (x) *Leases:*
Judgment is required 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. The rate at which these leases will be renewed requires estimation as most are negotiated at the time of renewal. In addition, as most of the Company's leases do not have embedded financing rates, judgment is required to arrive at

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discount rates that reflect the risk associated with each individual lease. The impact of these assumptions significantly impacts the amount of lease liabilities and right-of-use assets recognized.

- (xi) *Warrants:*
Estimating fair value for warrants requires determining the most appropriate valuation model for an issuance, which is dependent on the terms and conditions of the issuance. In valuing warrants, the Company uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Company's warrants using the Black-Scholes option pricing model including the risk-free interest rate and volatility of the underlying stock.

The warrants related to the debt facility are exchangeable for a fixed number of Company's common shares and are classified as equity. The liability is measured at its fair value using the forward curve rate of 15.62% and the warrants are measured at the residual amount of the compound financial instrument.

RISK FACTORS

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

Revenues and Operating Results Can Fluctuate

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

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

5G private networks Business launch is unsuccessful.

The Company's proposed 5G mmWave private networks business (the "**5G Private Networks 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.

In addition, the opportunities and business case for the 5G Private Networks Business has not yet been fully developed nor fully explored, and therefore no assumptions or assurances can be made that TERAGO will develop or provide 5G-services on a commercial basis. Moreover, the Company has not fully determined the capital needs, and whether such capital is available to provide 5G-related services, or whether equipment suppliers like Nokia Inc. and its competitors could be relied on to supply such standalone mmWave equipment in a manner that would support a 5G-related opportunity.

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5G mmWave private network 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 Private Networks 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 Private Networks Business.

Regulatory Risk

The Company has risks which can be collectively categorized as Regulatory Risk, consisting of the impact of future ISED Consultation with regards to Spectrum; Regulatory environment; Obtaining and maintaining licensed spectrum

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 licenses, 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 licenses. In addition, ISED also noted that when new flexible use licenses are issued, existing licensees will be issued such licenses under a new spectrum band plan which will necessitate the assignment to the Company of new frequency blocks. These new flexible licenses are also expected to cover smaller licensing areas than the existing Tier 3 license areas of current licenses. As such, the full extent of the rules and terms and conditions surrounding the Company's 38 GHz spectrum licenses when converted over to flexible use have not yet been established. The new rules, as well as terms and conditions of these licenses 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 licenses 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 licenses, severely inhibit the Company's 5G Private Networks Business plan, and therefore impact negatively on the value of the Common Shares.

Regulatory Environment

We are subject to the laws of Canada and to regulations set by regulatory authorities of the Canadian government, primarily the CRTC and ISED. Regulatory authorities may adopt new laws, policies, or regulations, or change their interpretation of existing laws, policies, or regulations, that could cause our existing authorizations to be changed or cancelled, require us to incur additional costs, or otherwise adversely affect our operations, revenue, or cost of capital.

Any currently held regulatory approvals or licences may be subject to rescission and non-renewal. Additional approvals or licences may be necessary that we may not be able to obtain on a timely basis or on terms that are not unduly burdensome. Further, if we fail to obtain or maintain particular approvals on acceptable terms, such failure could delay or prevent us from continuing to offer some or all of our current or new services, or offer new services, and adversely affect our results of operations, business prospects and financial condition. Even if we were able to obtain the necessary approvals, the licences, or other approvals we obtain may impose significant operational restrictions. The acquisition, lease, maintenance, and use of spectrum are extensively regulated in Canada.

These regulations and their application are subject to continual change as new legislation, regulations or amendments to existing regulations are adopted from time to time by governmental or regulatory authorities, including as a result of judicial interpretations of such laws and regulations. Current regulations directly affect the breadth of services we are able to offer and may impact the rates, terms, and conditions of our services.

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The breach of the conditions of a licence or applicable law, even if inadvertent, can result in the revocation, suspension, cancellation, or reduction in the term of a licence or the imposition of fines. In addition, regulatory authorities may grant new licences to third parties, resulting in greater competition in markets where we already have rights to licenced spectrum. In order to promote competition, licences may also require that third parties be granted access to our bandwidth, frequency capacity, facilities, or services. We may not be able to obtain or retain any required licence, and we may not be able to renew our licences on favourable terms, or at all.

Our internet access services may become subject to greater regulation in the future. If we become subject to proceedings before the CRTC or ISED with respect to our compliance with the relevant legislation and regulations relating to restrictions on foreign ownership and control, we could be materially adversely affected, even if it were ultimately successful in such a proceeding. There can be no assurance that a future CRTC or ISED determination or events beyond our control will not result in our ceasing to comply with the relevant legislation or regulations. If this occurs, our ability to operate as a Canadian carrier under the *Telecommunications Act* or to hold, renew or secure licences under the *Radiocommunication Act* could be jeopardized and our business, operating results and financial condition could be materially adversely affected.

Obtaining and Maintaining Licenced Spectrum in Certain Markets

To offer our internet services using licenced spectrum in Canada, we depend on our ability to acquire and maintain sufficient rights to use spectrum through ownership, long-term leases, or developmental licences in each of the markets in which we operate or intend to operate. Obtaining the necessary amount of licenced spectrum can be a long and difficult process that can be costly and require a disproportionate amount of our resources. We may not be able to acquire, lease or maintain the spectrum necessary to execute our business strategy. In addition, we may spend significant resources to acquire spectrum licences, even if the amount of spectrum actually acquired in certain markets is not adequate to deploy our network on a commercial basis in all such markets.

Using licenced spectrum, whether owned, leased, or developmental, poses additional risks to us, including:

- inability to satisfy build-out or service deployment or research and development requirements upon which our spectrum licences or leases are, or may be, conditioned;
- adverse changes to regulations or licence conditions governing our spectrum rights.
- inability to use the spectrum we have acquired or leased due to interference from licenced or licence-exempt operators in our band or in adjacent bands.
- refusal by ISED to recognize our acquisition or lease of spectrum licences from others or our investments in other licence holders.
- inability to offer new services (including 5G) or to expand existing services to take advantage of new capabilities of our network resulting from advancements in technology due to regulations governing our spectrum rights.
- inability to control leased spectrum due to contractual disputes with, or the bankruptcy or other reorganization of, the licence holders.
- failure of ISED to renew our spectrum licences as they expire and our failure to obtain extensions or renewals of spectrum leases before they expire.
- imposition by ISED of new or amended conditions of licence, or licence fees, upon the renewal of our spectrum licences or in other circumstances.
- potentially significant increases in spectrum prices, because of increased competition for the limited supply of licenced spectrum in Canada; and
- invalidation of our authorization to use all or a significant portion of our spectrum, resulting in, among other things, impairment charges related to assets recorded for such spectrum.

While the 38 GHz spectrum band has been identified by ISED as one of the bands contemplated for future use to support the deployment of 5G through a Consultation, a similar Consultation has not been issued for the 24 GHz band. The Company's 24 GHz licenses have a set expiry date in 2025. There are no guarantees that such licenses will be renewed beyond 2025 or won't be subject to any potential claw back by ISED. If the 24 GHz licenses that the Company holds are determined by ISED to not qualify for 5G use, or does qualify but with stringent conditions and terms of use, it may have a negative effect on the value of these licenses and therefore impact negatively on the value of the Company and its common shares.

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We expect ISED to make additional spectrum available from time to time. Additionally, other companies hold spectrum rights that could be made available for lease or sale. The availability of additional spectrum in the marketplace could change the market value of spectrum rights generally and, as a result, may adversely affect the value of our spectrum assets.

We also use radio equipment under individual radio licences issued by ISED, and subject to annual renewal. We may not be able to obtain the licences we require thereby jeopardizing our ability to reliably deliver our internet services. ISED may decline to renew our licences, or may impose higher fees upon renewal, or impose other conditions that adversely affect us. ISED may decide to reassign the spectrum in the bands we use to other purposes and may require that we discontinue our use of radio equipment in such bands.

Insufficient Capital

The continued growth and operation of our business may require additional funding for working capital, debt service, the enhancement and upgrade of our network, the build-out of infrastructure to expand the coverage area of our services, possible acquisitions, and possible bids to acquire spectrum licences. We may be unable to secure such funding when needed in adequate amounts or on acceptable terms, if at all.

To execute our business strategy, we may issue additional equity securities in public or private offerings, potentially at a price lower than the market price at the time of such issuance. Similarly, we may seek debt financing and we may be forced to incur significant interest expense. If we cannot secure sufficient funding, we may be forced to forego strategic opportunities or delay, scale back or eliminate network deployments, operations, acquisitions, spectrum acquisitions and other investments.

Reliance on Certain Third Parties

We rely on third-party suppliers, in some cases sole suppliers or limited groups of suppliers, to provide us with components necessary for the operation and upgrading of our network and infrastructure, as well as to develop our 5G Private Networks Business Plan. If we are unable to obtain sufficient allocations of components, our 5G initiatives and/or network expansion will be delayed, we may lose customers and our profitability will be affected. Reliance on suppliers also reduces our control over costs, delivery schedules, reliability, and quality of components. Any inability to obtain timely deliveries of quality components, or any other circumstances that would require us to seek alternative suppliers, could adversely affect our ability to expand and maintain our network or infrastructure.

In addition, the Company relies on third party partners, agents, and resellers to carry out its business. If these third parties do not honour their contractual commitments or cease to do business, it may have a significant impact on our business. Replacements for such third parties may require a lengthy period of time in order to establish a commercially comparable relationship.

The Company has recently aligned with several partners both as part of its channel program, as well as its technology program. The benefits of such partnerships have not yet been proven and an early termination of the partnerships or any unanticipated setbacks may have a material impact on the Company's business and strategic plan.

Licence-exempt Spectrum

We presently utilize licence-exempt spectrum in connection with a majority of our internet customers. Licence-exempt or "free" spectrum is available to multiple simultaneous users and may suffer bandwidth limitations, interference, and slowdowns if the number of users exceeds traffic capacity. The availability of licence-exempt spectrum is not unlimited, and others do not need to obtain permits or licences to utilize the same licence-exempt spectrum that we currently or may in the future utilize, threatening our ability to reliably deliver or expand our services. Moreover, the prevalence of licence-exempt spectrum creates low barriers to entry in our business, creating the potential for heightened competition.

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Price Sensitive Market

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

Market Demand for Available Capacity

The Company currently has available capacity in its network infrastructure and other assets. There can be no assurance that the existing or future market demand will be sufficient to fill this capacity. Should the demand for the Company's services decline or fail to increase, this may negatively affect the Company's ability to capitalize on its high operating leverage and may adversely affect the Company's future financial performance.

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

Cyber Security Risk

Our network security, data centre security and the authentication of our customer credentials are designed to protect unauthorized access to data on our network and to our data centre premises. Because techniques used to obtain unauthorized access to or to sabotage networks (including DDoS attacks) change frequently and may not be recognized until launched against a target, we may be unable to anticipate or implement adequate preventive measures against unauthorized access or sabotage. Consequently, unauthorized parties may overcome our network security and obtain access to confidential, customer or employee data on our network, including on a device connected to our network. In addition, because we own and operate our network, unauthorized access or sabotage of our network could result in damage to our network and to the computers or other devices used by our customer. An actual or perceived breach of network security or data centre security could harm public perception of the effectiveness of our security measures, adversely affect our ability to attract and retain customers, expose us to significant liability and adversely affect our business and revenue prospects.

The Company aims to mitigate and manage certain cyber security risks by employing specific policies and procedures, carrying out IT security-related audits, establishing internal controls relevant to mitigating security risks, performing certain "penetration" tests either internally or with help of third party consultants, obtaining IT security-related compliance certificates, designating a security officer that oversees the IT security of the Company, designating a privacy officer that is accountable for the Company's compliance with applicable privacy laws, using DDoS mitigation, tools and services, utilizing back-up and disaster recovery services and maintaining specific cyber liability insurance coverage to insure against cyber security incidents. The Audit Committee of Company has been tasked to periodically review the various measures management and the Company has undertaken to manage its cyber security risks.

Excessive Customer Churn

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

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

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

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Key Competitors are More Established and Have More Resources

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

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

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

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

Acquisitions and Other Strategic Transactions

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

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

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

Changes to Technologies and Standards

The industries TERAGO operates is characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction of new or alternative technology and the emergence of new industry standards may render our existing network, equipment and/or infrastructure obsolete and our services unmarketable and may exert price pressures on existing services. It is critical to our success that we be able to anticipate changes in technology or in industry standards and ensure that we can leverage such new

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technologies and standards in a timely and cost-effective manner to remain competitive from a service and cost perspective. Rapid changes in business demands may also affect the Company's internal processes where certain software tools, processes, and standards may become inefficient or obsolete. The Company may fail to keep pace with changes in these technologies and practices which may result in operational breakdowns and/or financial losses.

Investments in Development of New Technologies, Products and Services

The Company has and will continue to make significant investments in the development and introduction of new products and services that make use of the Company's network, infrastructure, and equipment. There is no assurance that the Company will be successful in implementing and marketing these new products and services (including 5G) in a reasonable time, or that they will gain market acceptance. Development could be delayed for reasons beyond our control. Alternatively, we may fail to anticipate or satisfy the demand for certain products or services or may not be able to offer or market these new products or services successfully to customers. The failure to attract customers to new products or services, cross-sell service to our existing customer base or failure to keep pace with changing consumer preferences for products or services would slow revenue growth and could have a materially adverse effect on our business, results of operations and financial condition.

Expanding, Upgrading and Maintaining Network and Infrastructure

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

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

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

Foreign Exchange

While the majority of the Company's revenues are earned in Canadian dollars, a portion of its costs, including for certain capital expenditures and SG&A are paid in U.S. dollars. As a result, the Company is exposed to currency exchange rate risks. A change in the currency exchange rate may increase or decrease the amount of Canadian dollars required to be paid by the Company for its U.S. expenditures. The Credit Agreement with CrowdOut is also denominated and serviced in U.S. dollars. The Company does not currently have any foreign exchange contracts to manage the foreign exchange risk. As a result, there can be no assurance that currency fluctuations will not have a material adverse effect on the Company.

Physical Inventory

The nature of our business requires the Company to procure, deploy, track, and maintain large volumes of specialized network equipment purchased in Canada and abroad. Equipment is frequently moved between provinces in Canada as part of provisioning. As a result, the Company is subject to inventory risk due to delays in inventory movement as well as process breakdowns in provisioning and deploying inventory to a customer site, network site, or datacentre facility. These delays may result in unintended backlog and inventory losses. The Company relies heavily on the ability of our vendors to supply us in a timely manner as well as the diligence of the Company's internal process owners to

ensure provisioning and inventory management is effective.

Interest Rates

As the Company currently borrows funds through its credit facility with variable interest rates, the Company is exposed to rising interest rates. A significant rise in interest rates may materially increase the cost of either its revolving or non-revolving credit facilities. The Company does not currently have any interest rate swap contracts to manage the interest rate risk. As a result, there can be no assurance that interest rate fluctuations will not have a material adverse effect on the Company.

Interruption or Failure of Information Technology and Communications Systems

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

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

Retention and Motivation of Personnel

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

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

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

Electrical Power and Outages

The Company's infrastructure is susceptible to electrical power outages, planned or unplanned power outages and limitations on availability of adequate power resources. Power outages can harm, and in the past, have harmed the Company's customers and its business, including extended service interruptions. While the Company attempts to limit exposure to system downtime, the Company cannot limit the Company's exposure entirely.

Litigation Risk and Intellectual Property Claims

Competitors or other persons may independently develop, patent technologies or copyright software that are substantially equivalent or superior to those we currently use or plan to use or that are necessary to permit us to deploy and operate our network, data centres or provide cloud services. Some of these patents, copyrights or rights may grant very broad protection to the owners. We cannot determine with certainty whether any existing third party intellectual property or the issuance of any third party intellectual property would require us to alter technology or software we use, obtain licences or cease certain activities. Defending against infringement claims, even meritless ones, would be time consuming, distracting and costly.

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If we are found to be infringing the proprietary rights of a third party, we could be enjoined from using such third party's rights, may be required to pay substantial royalties and damages, and may no longer be able to use the intellectual property subject to such rights on acceptable terms or at all. Failure to obtain licences to intellectual property held by third parties on reasonable terms, or at all, could delay or prevent us from providing services to customers and could cause us to expend significant resources to acquire technology which includes non-infringing intellectual property.

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

Operating Losses

We have incurred a net loss in the past several fiscal years. We cannot anticipate with certainty what our earnings, if any, will be in any future period. However, we could incur further net losses as we continue to expand our network into new and existing markets and pursue our business strategy in 5G. Accordingly, our results of operations may fluctuate significantly, which may adversely affect the value of an investment in our Common Shares. We may also invest significantly in our business before we expect cash flow from operations to be adequate to cover our anticipated expenses.

Economic and Geopolitical Risk

The market for our services depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond our control. In addition, acts of terrorism and the outbreak of hostilities and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy, pandemics, or geopolitical uncertainties may cause customers to delay or cancel projects, reduce their overall capital or operating budgets, or reduce or cancel orders for our services, which could have a material adverse effect on our business, results of operations and financial condition.

Regulation of Internet

Regulation of the Internet and the content transmitted through that medium is a topic that receives considerable political discussion from time to time, from both a "pro-regulation" and an "anti-regulation" perspective, including discussions on whether all internet traffic should be delivered equally. It is unclear as to what impact decisions made on either side of this issue by various political and governing bodies could have on us and our business or on the ability of our customers to utilize our internet services.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At December 31, 2022, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

The Company has adopted a work-from-home program since March 16, 2020. As substantially all of the Company's day-to-day activities can be fully performed by personnel working remotely, the Company is able to remain fully operational during this period, and continues to pursue revenue opportunities, execute on its product development roadmap and generate revenue from both new and existing customers. The Company has complied with applicable federal, provincial and other local regulations related to the pandemic. The Company will continue to monitor closely developments in this regard, with the health and safety of the Company's employees and management as the primary concern.

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

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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. There have been no changes to the Company's internal controls over financial reporting in the period that have materially affected or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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.

EXECUTIVE MANAGEMENT CHANGES

- Effective May 5, 2022, Philip Jones was appointed as Chief Financial Officer of the Company
- Effective March 8, 2021, Matt Gerber was appointed as Chief Executive Officer of the Company
- Effective August 5, 2021, Candice Levy, Vice President, People & Culture was no longer with the Company.
- Effective September 3, 2021, Duncan McGregor, Vice President of Operations, was no longer with the Company.
- Effective October 22, 2021, Mark Lau, Vice President Legal and General Counsel was no longer with the Company.
- Effective October 29, 2021, David Charron, Chief Financial Officer, was no longer with the Company.
- Effective October 29, 2021, Andy Ramsey was appointed as VP Finance and Interim Chief Financial Officer and effective May 31, 2022, is 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)

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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, impairment losses, 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, income taxes, impairment losses, 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, income 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 expense (recovery) and restructuring, acquisition-related and integration costs and other costs. The most directly comparable GAAP financial measure in the Company's financial statements is Earnings (loss) from Operations. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to Earnings (loss) from Operations 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

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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.