TeraGo Reports Fourth Quarter and Year End 2017 Financial Results

Strategic investments drive continued shift towards Cloud and Colocation services revenue

Toronto – February 21, 2018 – TeraGo Inc. ("**TeraGo**" or the "**Company**") (TSX: TGO, www.terago.ca), today announced financial and operating results for the quarter and year ended December 31, 2017.

"In the fourth quarter, we continued to make progress with our shift to higher growth Cloud and Colocation service offerings and our turnaround is well on track," commented Tony Ciciretto, President and CEO of TeraGo. "As evidenced by record Cloud and Colocation Backlog Monthly Recurring Revenue at the end of the fourth quarter, stable churn rates, and stable ARPU, we believe the strategic investments made in 2017 have positioned TeraGo for improved financial performance in 2018."

Mr. Ciciretto added, "With a recurring revenue business model from a base of approximately 3,400 business customers, a national communications network that includes approximately 8.5 billion MHz/Pop's of 24/38 GHz millimeter wave spectrum, and five data centres to support our growth plans, we have a strong asset base and are highly focused on surfacing value for shareholders."

Financial Highlights

- Total revenue decreased 7.2% to $13.5 million for the three months ended December 31, 2017 compared to $14.6 million for the same period in 2016. Total revenue decreased 6.3% to $55.4 million for the year ended December 31, 2017, compared to $59.1 million for the same period in 2016.

- Cloud and colocation revenue decreased 1.5% to $4.7 million compared to $4.8 million for the same period in 2016. The decrease was driven by churn impacts throughout the year. However, the percentage of revenues from cloud and colocation of our total revenue have increased steadily quarter over quarter during 2017 (Q1 = 33.7%, Q2 = 34.0%, Q3 = 34.0%, Q4 = 35.0%) as the Company makes a shift towards these higher growth service offerings. Cloud and colocation revenue increased 3.6% to $18.9 million for the year ended December 31, 2017.

- Connectivity revenue decreased 10.0% to $8.8 million for the three months ended December 31, 2017 compared to $9.8 million for the same period in 2016. Connectivity revenues were impacted by a variety of factors, including churn, certain customers renewing long term contracts at lower current market rates, and lower usage revenues as certain customers have shifted to unlimited usage plans. For the year ended December 31, 2017, connectivity revenue decreased 10.7% to $36.4 million compared to $40.1 million for the same period in 2016. The decrease was driven by the factors described above.

- Net loss was $4.1 million for the three months ended December 31, 2017 compared to a net income of $0.4 million for the same period in 2016. The increase in net loss was primarily driven by the impairment charge on certain network assets, property and equipment and intangible assets to adjust the carrying amount to their recoverable amount. In addition, the Company saw a decrease in revenue, increase in cost of services, increase in other operating costs, increase in finance costs, and an increase in stock-based compensation, partially offset by lower restructuring and related costs, as well as lower depreciation and amortization.

  For the year ended December 31, 2017, net loss was $7.3 million compared to a net loss of $4.3 million for the same period in 2016. The increase in net loss was driven by the factors described above.

- Adjusted EBITDA[1] decreased to $2.9 million for the three months ended December 31, 2017 compared to $4.9 million for the same period in 2016. The decrease was primarily driven by the reduction of connectivity revenue, higher third-party costs, higher real estate fees, higher software license costs, higher salary and related costs to support strategic initiatives, and increases in other operating expenses.

  For the year ended December 31, 2017, Adjusted EBITDA[1] decreased to $12.9 million compared to $18.9 million for the same period in 2016. The decrease in Adjusted EBITDA was driven by the factors above, partially offset by higher cloud & colocation revenue.

RESULTS OF OPERATIONS

Comparison of the three and twelve months ended December 31, 2017 and 2016
(in thousands of dollars, except with respect to gross profit margin and earnings per share)

	Three months ended December 31		Years ended December 31	
	2017	2016	2017	2016
Financial				
Cloud and Colocation Revenue	$ 4,727	$ 4,798	$ 18,961	$ 18,296
Connectivity Revenue	$ 8,816	$ 9,795	$ 36,432	$ 40,790
Total Revenue	$ 13,543	$ 14,593	$ 55,392	$ 59,086
Cost of Services[1]	$ 3,544	$ 3,322	$ 14,103	$ 13,477
Gross profit margin [1]	73.8%	77.2%	74.5%	77.2%
Adjusted EBITDA[1] [2]	$ 2,937	$ 4,889	$ 12,864	$ 18,941
Income tax recovery (expense)	$ -	$ 15	$ -	$ (700)
Net Income (Loss)	$ (4,061)	$ 355	$ (7,294)	$ (4,314)
Basic loss per share	$ (0.28)	$ 0.02	$ (0.51)	$ (0.30)
Diluted loss per share	$ (0.28)	$ 0.02	$ (0.51)	$ (0.30)
Operating				
Backlog MRR[1]				
Connectivity	$ 84,191	$ 73,923	$ 84,191	$ 73,923
Cloud & Colocation	$ 291,698	$ 20,223	$ 291,698	$ 20,223
Churn Rate[1]				
Connectivity	1.6%	1.7%	1.6%	1.4%
Cloud & Colocation	1.4%	1.7%	1.6%	1.5%
ARPU[1]				
Connectivity	$ 996	$ 963	$ 980	$ 961
Cloud & Colocation	$ 3,027	$ 3,113	$ 3,106	$ 3,039

Operating Highlights

Backlog MRR[1]

- Cloud and colocation backlog MRR was $291,698 as at December 31, 2017 compared to $20,223 as at December 31, 2016. The increase is driven by growth in Cloud and Colocation sales bookings in the second half of 2017 with provisioning scheduled into 2018.

- Connectivity backlog MRR was $84,191 as at December 31, 2017, compared to $73,923 as at December 31, 2016. The change in backlog MRR is driven primarily by the timing of customer provisioning

ARPU[(1)]

- Cloud and colocation ARPU was $3,027 and $3,106, respectively, for the three and twelve months ended December 31, 2017 compared to $3,113 and $3,039 for the same period in 2016. ARPU remained relatively flat in the period, with recent large new customer colocation contracts scheduled to be provisioned in the first half of 2018.

- Connectivity ARPU was $996 and $980, respectively, for the three and twelve months ended December 31, 2017 compared to $963 and $961 for the same periods in 2016. The increase is driven by the churn of low ARPU customers, and the Company's focus on acquiring mid-market customers.

Churn[(1)]

- Cloud and colocation churn was 1.4% and 1.6%, respectively, for the three and twelve months ended December 31, 2017 compared to 1.7% and 1.5% for the same period in 2016. While the rate of churn will fluctuate based on the timing of contract renewals and product lifecycles, the Company's investments in developing a robust customer experience framework are expected to positively impact churn rates moving forward.

- Connectivity churn was 1.6% and 1.6%, respectively, for the three and twelve months ended December 31, 2017 compared to 1.7% and 1.4% for the same period in 2016. The Company continues to focus on servicing and retaining mid-market customers with churn expected to continue from lower ARPU customers due to competition at the low end of the market.

[(1)]Non-IFRS Measures

This press release contains references to “Adjusted EBITDA”, “Backlog MRR”, “ARPU”, and “churn” which are not measures prescribed by International Financial Reporting Standards (IFRS).

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

A reconciliation of net loss to Adjusted EBITDA is found below and in the MD&A for the three and twelve months ended December 31, 2017. Adjusted EBITDA does not have any standardized meaning under IFRS/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.

The table below reconciles net loss to Adjusted EBITDA(1) for the three and twelve months ended December 31, 2017 and 2016.

(in thousands of dollars)	Three months ended December 31		Year ended December 31	
	2017	**2016**	**2017**	**2016**
Net loss for the period	$ (4,061)	$ 355	$ (7,294)	$ (4,314)
Foreign exchange loss (gain)	(15)	2	(50)	(16)
Finance costs	523	379	1,698	1,882
Finance income	(17)	-	(50)	(8)
Income tax (recovery) expense	-	(15)	-	700
Earnings (loss) from operations	(3,570)	721	(5,696)	(1,756)
Add:				
Depreciation of network assets, property and equipment and amortization of intangible assets	3,492	3,651	14,324	15,325
Loss (gain) on disposal of network assets	15	85	109	397
Impairment of Assets and Related Charges	2,851	-	2,851	-
Stock-based Compensation Expense	156	16	201	866
Restructuring, acquisition-related, integration costs and other	(7)	$ 416	$ 1,075	$ 4,109
Adjusted EBITDA(1)	$ 2,937	$ 4,889	$ 12,864	$ 18,941

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

ARPU - The term “ARPU” refers to the Company’s average revenue per customer per month. 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 divided 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 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. Churn represents the number of customer cancellations per month as a percentage of total number of customers during the month. 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. 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 any churn, expressed as an average monthly rate in the period. Churn and churn rate are not recognized measures under IFRS and, accordingly, investors are cautioned in using it. TeraGo’s method of calculating churn and churn rate may differ from other issuers and, accordingly, churn may not be comparable to similar measures presented by other issuers.

Conference Call

Management will host a conference call tomorrow, Thursday, February 22, 2017, at 8:30 am ET to discuss these results.

To access the conference call, please dial 647-427-2311 or 1-866-521-4909. The audited financial statements for the three and twelve months ended December 31, 2017 and Management's Discussion & Analysis for the same periods have been filed on SEDAR at www.sedar.com. Alternatively, these documents along with a presentation in connection with the conference call can be accessed online at https://terago.ca/company/investor-relations.

An archived recording of the conference call will be available until March 1, 2018. To listen to the recording, call 416-621-4642 or 1-800-585-8367 and enter passcode 7049608.

About TeraGo

TeraGo provides businesses across Canada with cloud, colocation and connectivity services. TeraGo manages over 3,000 cloud workloads, operates five data centres in the Greater Toronto Area, the Greater Vancouver Area, and Kelowna, and owns and manages its own IP network. The Company serves business customers in major markets across Canada including Toronto, Montreal, Calgary, Edmonton, Vancouver and Winnipeg. TeraGo Networks is a Competitive Local Exchange Carrier (CLEC) and was recognized by IDC as a Major Player in MarketScape Cloud Vendor Assessment. TeraGo Networks was also selected as one of Canada's Top Small and Medium Employers for 2017.

For more information about TeraGo, please visit www.terago.ca.

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Forward-Looking Statements

This press release includes certain forward-looking statements that are made as of the date hereof. Such forward-looking statements may include, but are not limited to, statements relating to TeraGo's growth strategy, improved financial performance in 2018, shift to higher growth Cloud and Colocation service offerings, customer colocation contracts scheduled to be provisioned in the first half of 2018, acquiring mid-market customers, the Company's investments in developing a robust customer experience framework expected to positively impact churn rates moving forward, and churn expected to continue from lower ARPU customers due to competition at the low end of the market. 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. The forward-looking statements reflect the Company's views with respect to future events and is subject to risks, uncertainties and assumptions, including the risk that TeraGo's growth strategy, strategic plan, and investments will not generate the result or sustainable growth intended by management, current growth trends in the Company's cloud and data centre business and in the industry may not continue as expected or significant growth opportunities may not be available, provisioning of large colocation services agreement may be delayed or may incur more costs than the Company had intended, TeraGo may not meet the growing and complex needs of its customers, and those risks set forth in the "Risk Factors" section in the annual MD&A of the Company for the year ended December 31, 2017 available on www.sedar.com. Accordingly, readers should not place undue reliance on 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.

Except as may be required by applicable Canadian securities laws, TeraGo does not intend, and disclaims 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.