TeraGo Reports Second Quarter 2019 Results

Toronto – August 6, 2019 – TeraGo Inc. ("**TeraGo**" or the "**Company**") (TSX: TGO, www.terago.ca), today announced financial and operating results for the second quarter ended June 30, 2019.

"Business activity for the second quarter was largely consistent with the first quarter of 2019 and we remain focused on managing costs this year as we enhance sales effectiveness, build our sales pipeline and broaden our sales reach through channel partnerships," said Tony Ciciretto, President and CEO of TeraGo. "ISED's recent decision permitting the future conversion of our 38 GHz spectrum to a flexible use licensing model provides much of the needed clarity to provide continuity in our business and drive value from our spectrum assets. We hope to see this rationale applied to our 24 GHz licenses as well, when ISED considers the conversion of this band to a flexible use licensing model as part of Canada's 5G spectrum plan. With the financing we secured in the second quarter, TeraGo is in strong financial position advance its 5G fixed wireless service initiatives."

Second Quarter 2019 Financial Highlights

- Total revenue decreased 10.9% to $12.2 million for the three months ended June 30, 2019 compared to $13.7 million for the same period in 2018. The decrease in revenue is primarily driven by lower connectivity revenue which decreased 13.6% to $7.6 million compared to $8.8 million for the same period in 2018. In addition, cloud and colocation revenue decreased 6.1% to $4.6 million compared to $4.9 million for the same period in 2018. The decreases were attributable to churn exceeding provisioning as a result of lower sales volume.

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

- Adjusted EBITDA[(1)(2)] increased 45.2% to $4.5 million for the three months ended June 30, 2019 compared to $3.1 million for the same period in 2018. The increase was driven by the adoption of IFRS 16 which resulted in the reclassification of certain operating lease expenses to finance costs and depreciation which are excluded from the calculation of Adjusted EBITDA.

Recent Developments

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

[(1)] Adjusted EBITDA is a Non-GAAP measure. See "Non-IFRS Measures" below.
[(2)] See "Adjusted EBITDA" for a reconciliation of net loss to Adjusted EBITDA.

- On July 3, 2019, the Company closed its previously announced bought deal offering (the "Offering"), including the exercise in full of the underwriters' over-allotment option. The Company issued and sold an aggregate of 805,000 common shares at a price of $11.00 per Common Share for gross proceeds of $8,855,000. The Company intends to use the net proceeds of the Offering to fund technical and customer trials related to 5G technology in support of launching 5G fixed wireless services in Canada and for general corporate purposes.

- On May 20, 2019, Blake Wetzel joined the Company as Chief Revenue Officer.

RESULTS OF OPERATIONS

Comparison of the three and six months ended June 30, 2019 and 2018
(in thousands of dollars, except with respect to gross profit margin, earnings per share, Backlog MRR, and ARPU)

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

(1) See "Non-IFRS Measures" below.

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

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

Operating Highlights

Backlog MRR[1]

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

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

ARPU[(1)]

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

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

Churn[(1)]

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

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

(1) See "Non-IFRS Measures"

ACCOUNTING PRONOUNCEMENTS ADOPTED in 2019

a) IFRS 16 Leases

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

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

i) Significant Accounting Policies

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

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

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

Judgments

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

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

ii) Impacts on Financial Statements

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

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

iii) Impacts on Financial results

The following table highlights some of the key impacts on our financial metrics related to IFRS 16:

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

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

(1) See "Non-IFRS Measures" below.

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

(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).

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

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, impairment of property, plant, & equipment and intangible assets, stock-based compensation and restructuring, acquisition-related and integration costs. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to operating earnings (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 six months ended June 30, 2019 and 2018. 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 six months June 30, 2019 and 2018.

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

(1) See "Non-IFRS Measures"

(2) The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

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, Wednesday, August 7, 2019, 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 unaudited financial statements for the three and six months ended June 30, 2019 and Management's Discussion & Analysis for the same period 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 August 14, 2019. To listen to the recording, call 416-621-4642 or 1-800-585-8367 and enter passcode 3528534.

About TeraGo

TeraGo owns a national spectrum portfolio of exclusive 24GHz and 38GHz wide-area spectrum licences including 2,120 MHz of spectrum across Canada's 6 largest cities. 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, Ottawa and Winnipeg.

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

TeraGo Investor Relations
Dennis Fong, LodeRock Advisors Inc.
Telephone: 1-416-282-9930
Email: ir@terago.ca

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, focus on enhancing sales effectiveness, building sales pipeline and broadening sales reach through channel partnerships, application by ISED of its rationale on its recent 38 GHz decision to the 24 GHz spectrum band, and 5G fixed wireless service initiatives. 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, future ISED decisions in upcoming Consultations being unfavourable to the Company, the technical 5G trial the Company is currently conducting may not generate the results intended, the lack of availability of suitable 5G radio equipment, the inability of the Company to successfully launch a 5G fixed wireless business, new market opportunities for 5G may not exist or require additional capital that may not be available to the Company, and those risks set forth in the "Risk Factors" section in each of the annual MD&A of the Company for the year ended December 31, 2018 and the MD&A for the three and six months ended June 30, 2019, both 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.