TeraGo Reports Third Quarter 2019 Results

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

"We remained focused on managing costs in the third quarter, generating positive Adjusted EBITDA[(1)] and cash flow from operations ahead of our plans to invest in 5G growth initiatives," said Tony Ciciretto, President and CEO of TeraGo. "As we look to initiate 5G fixed wireless trials in 2020, we have assembled a dedicated team to build an ecosystem and develop strategic partnerships. With increased momentum and support for 5G fixed wireless equipment based on the NR standard following the completion of the 24 GHz auction in the US, we are excited about the potential for 5G to open up new customer and market opportunities for TeraGo as the largest holder of millimetre wave spectrum in Canada."

Third Quarter 2019 Financial Highlights

- Total revenue decreased 15.7% to $11.8 million for the three months ended September 30, 2019 compared to $14.0 million for the same period in 2018.

- Connectivity revenue decreased 14.8% to $7.5 million for the three months ended September 30, 2019 compared to $8.8 million for the same period in 2018. Connectivity revenues were impacted by a variety of factors, including churn and certain customers renewing long term contracts at lower current market rates.

- Cloud and colocation revenue decreased 17.3% to $4.3 million for the three months ended September 30, 2019, compared to $5.2 million for the same period in 2018. The decrease was due to a $0.7 million beneficial impact in non-recurring revenue recognized from a one-time customer termination fee in the prior year period.

- Net loss was $0.9 million for the three months ended September 30, 2019 compared to a net loss of $nil million for the same period in 2018. The increase in net loss was driven by the decrease in revenue and the impact of the adoption of IFRS 16. 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 22.2% to $4.4 million for the three months ended September 30, 2019 compared to $3.6 million for the same period in 2018. The increase was driven primarily 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 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 is using 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.

- The Company announced a new partnership with U.S.-based Converged Network Services Group (CNSG). CNSG designs and delivers of complete technology solutions to its customers and the new partnership will facilitate CNSG's entrance into the Canadian cloud market.

- The Company has appointed Irv Witte as Vice President, 5G Program to manage and lead the Company's 5G strategy and development program.

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

RESULTS OF OPERATIONS

Comparison of the three and nine months ended September 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 September 30			Nine months ended September 30	
		2019	**2018[3]**		**2019**	**2018[3]**
Financial						
Cloud and Colocation Revenue	$	4,277	5,190	$	13,358	14,815
Connectivity Revenue	$	7,537	8,814	$	23,082	26,612
Total Revenue	$	11,814	14,004	$	36,440	41,427
Cost of Services[1]	$	2,324	3,488	$	6,943	10,509
Selling, General, & Administrative Costs	$	5,795	7,431	$	19,196	23,236
Gross profit margin [1]		80.3%	75.1%		80.9%	74.6%
Adjusted EBITDA[1] [2]	$	4,358	3,593	$	13,471	9,845
Net loss	$	(915)	(47)	$	(4,874)	(2,848)
Basic loss per share	$	(0.06)	(0.00)	$	(0.30)	(0.19)
Diluted loss per share	$	(0.06)	(0.00)	$	(0.30)	(0.19)
Operating						
Backlog MRR[1]						
Connectivity	$	47,672	71,659	$	47,672	71,659
Cloud & Colocation	$	37,237	30,172	$	37,237	30,172
Churn Rate[1]						
Connectivity		1.3%	1.4%		1.5%	1.5%
Cloud & Colocation		1.3%	1.0%		1.4%	1.9%
ARPU[1]						
Connectivity	$	1,014	1,071	$	1,023	1,058
Cloud & Colocation	$	3,248	3,049	$	3,218	3,156

(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 $47,672 as at September 30, 2019, compared to $71,659 as at September 30, 2018. The decrease in backlog MRR is driven primarily by lower sales volume.

- Cloud and colocation backlog MRR was $37,237 as at September 30, 2019 compared to $30,172 as at September 30, 2018. The increase is driven by higher sales volume of services that have not yet been provisioned.

ARPU[1]

- For the three months ended September 30, 2019 connectivity ARPU was $1,014 compared to $1,071 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 renewals at lower rates.

- For the three months ended September 30, 2019 cloud and colocation ARPU was $3,248 compared to $3,049 for the same period in 2018. The increase is due to upgrades from existing customers and churn of lower ARPU customers.

Churn[1]

- For the three months ended September 30, 2019, connectivity churn was 1.3% compared to 1.4% for the same period in 2018. The decrease was driven by lower churn volume as a result of increased retention efforts.

- For the three months ended September 30, 2019, cloud and colocation churn was 1.3% compared to 1.0% for the same period in 2018. Cloud and colocation churn will fluctuate quarter to quarter depending on the timing of customer contract renewals, with the churn rate for the three months ended September 30, 2019 falling within the range of historic churn results.

(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.

<u>Judgments</u>
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 nine months ended September 30, 2019 is presented in Note 9 of the consolidated interim financial statements. The weighted average discount rate applied at January 1, 2019 was 9.29%.

vi) Impacts on Financial results

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

(In thousands)		Three months ended September 30, 2019			
		Balances without adoption of IFRS 16	Effect of IFRS 16	Balances subsequent to transition	% Change
Financial					
Selling, General, & Admin Costs	$	6,376	(581)	5,795	(9%)
Depreciation & Amortization	$	2,469	1,134	3,603	46%
Cost of Services	$	3,309	(985)	2,324	(30%)
Finance Costs	$	(410)	(672)	(1,082)	164%
Gross Margin	$	8,505	985	9,490	12%
Adjusted EBITDA[(1) (2)]	$	2,791	1,567	4,358	56%
Net Income (Loss)	$	(675)	(240)	(915)	36%
Total Assets	$	86,205	26,158	112,363	30%
Total Liabilities	$	35,303	27,177	62,480	77%
Total Liabilities & Shareholders' Equity	$	86,205	26,158	112,363	30%

(In thousands)		Nine months ended September 30, 2019			
		Balances without adoption of IFRS 16	Effect of IFRS 16	Balances subsequent to transition	% Change
Financial					
Selling, General, & Admin Costs	$	21,094	(1,898)	19,196	(9%)
Depreciation & Amortization	$	7,578	3,961	11,539	52%
Cost of Services	$	10,067	(3,124)	6,943	(31%)
Finance Costs	$	1,597	2,082	3,679	130%
Gross Margin	$	26,373	3,124	29,497	12%
Adjusted EBITDA[(1) (2)]	$	8,529	4,942	13,471	58%
Net Income (Loss)	$	(3,853)	(1,021)	(4,874)	26%
Total Assets	$	86,205	26,158	112,363	30%
Total Liabilities	$	35,303	27,177	62,480	77%
Total Liabilities & Shareholders' Equity	$	86,205	26,158	112,363	30%

(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 nine months ended September 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 nine months September 30, 2019 and 2018.

(in thousands of dollars)		Three months ended September 30		Nine months ended September 30	
		2019	**2018(2)**	**2019**	**2018(2)**
Net earnings (loss) for the period	$	(915)	(47)	(4,874)	(2,848)
Foreign exchange loss (gain)		(34)	(12)	41	(18)
Finance costs		1,082	343	3,679	1,549
Finance income		(41)	(27)	(84)	(28)
Earnings (loss) from operations		92	257	(1,238)	(1,345)
Add:					
Depreciation of network assets, property and equipment and amortization of intangible assets		3,603	2,828	11,539	9,027
Loss on disposal of network assets		109	104	203	360
Impairment of Assets and Related Charges		37	64	183	431
Stock-based Compensation Expense (Recovery)		331	250	1,643	684
Restructuring, acquisition-related, integration costs and other		186	90	1,141	688
Adjusted EBITDA(1)	$	4,358	3,593	13,471	9,845

(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 on, Thursday, November 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 nine months ended September 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 November 14, 2019. To listen to the recording, call 416-621-4642 or 1-800-585-8367 and enter passcode 1688335.

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.

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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, initiating 5G fixed wireless trials in 2020, building a 5G ecosystem and developing strategic partnerships, and new customer and market opportunities for TeraGo. 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 nine months ended September 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.