TeraGo Reports Fourth Quarter and Full Year 2019 Results

Toronto – February 20, 2020 – TeraGo Inc. ("**TeraGo**" or the "**Company**") (TSX: TGO, www.terago.ca), today reported financial and operating results for the fourth quarter and full year ended December 31, 2019.

"As our financial and operational results for 2019 demonstrate, we executed on our plan to manage costs, generate strong Adjusted EBITDA[1] and cash flow, while realizing key milestones on our 5G fixed wireless growth strategy," said Tony Ciciretto, President and CEO of TeraGo. "We also continue to innovate our product portfolio with the recent launch of TeraGo Internet 50/10 and SD-WAN. These new products will allow our customers to leverage state-of-the-art technology for a more reliable and flexible internet connectivity along with a more centralized and advanced networking solution. Our technical trials with Nokia equipment for 5G business network solutions, in the Greater Toronto Area, is on schedule and we look forward to the launching of customer trials in the second quarter. We remain laser-focused on extracting the value out of our 24 and 38 GHz spectrum assets and believe we have a significant time-to-market advantage to be one of the first Canadian carriers to launch 5G fixed wireless services."

Fourth Quarter 2019 Financial Highlights

- Total revenue for the fourth quarter of 2019 decreased 7% to $12.0 million compared to $12.9 million for the same period in 2018. The decrease in total revenue was primarily due to lower sales volume.

- Connectivity revenue for the fourth quarter of 2019 decreased 13% to $7.3 million compared to $8.4 million for the same period in 2018. The decrease in connectivity revenue was primarily due to higher churn and certain customers renewing long-term contracts at lower current market rates.

- Cloud and colocation revenue for the fourth quarter of 2019 increased 4% to $4.7 million compared to $4.5 million for the same period in 2018 which partially offset the decrease in connectivity revenue. The increase in cloud and colocation revenue was primarily due to the beneficial impact in non-recurring revenue recognized from a one-time customer termination fee in the quarter.

- Net loss for the fourth quarter of 2019 totaled $2.1 million compared to net loss of $2.0 million for the same period in 2018. The increase in net loss was driven by the adoption of IFRS 16. With the adoption of IFRS 16, the Company now recognizes all leases on its 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 a higher net loss in the fourth quarter of 2019.

- Adjusted EBITDA[1][2] for the fourth quarter of 2019 increased 29% to $4.0 million compared to $3.1 million for the same period in 2018. The increase in adjusted EBITDA was driven primarily by the adoption of IFRS 16 that resulted in the reclassification of certain operating lease expenses to finance costs and depreciation, which are excluded from the calculation of adjusted EBITDA.

Fourth Quarter 2019 and Recent Operational Developments

- Partnered with Nokia for 5G Fixed Wireless trials in the Greater Toronto Area.

- Introduced TeraGo Internet 50/10, a fibre-like fixed wireless solution that delivers flexible and reliable internet connectivity to Canadian business customers.

- Launched SD-WAN in partnership with NetFortris, a new and advanced networking solution that brings next-generation technology to business customers across Canada.

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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.

Full Year 2019 Financial Highlights

- Total revenue for 2019 decreased 11% to $48.4 million compared to $54.3 million in 2018.
- Connectivity revenue for 2019 decreased 13% to $30.4 million compared to $35.0 million in 2018. The decrease in connectivity revenue was primarily due to higher churn and certain customers renewing long-term contracts at lower current market rates.
- Cloud and colocation revenue for 2019 decreased 6% to $18.1 million compared to $19.3 million in 2018. The decrease in cloud and colocation revenue was primarily due to customer churn in the second half of 2018 resulting in lower revenue entering 2019.
- Net loss for 2019 totaled $7.0 million compared to net loss of $4.8 million in 2018. The increase in net loss was driven by the adoption of IFRS 16. With the adoption of IFRS 16, the Company now recognizes all leases on its 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 a higher net loss in 2019.
- Adjusted EBITDA for 2019 increased 35% to $17.5 million compared to $13.0 million in 2018. The increase in adjusted EBITDA was driven primarily by the adoption of IFRS 16 that resulted in the reclassification of certain operating lease expenses to finance costs and depreciation, which are excluded from the calculation of adjusted EBITDA.

RESULTS OF OPERATIONS

Comparison of the three months and years ended December 31, 2019 and 2018

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

		Three months ended December 31			Year ended December 31	
		2019	2018[3]		2019	2018[3]
Financial						
Cloud and Colocation Revenue	$	4,706	4,475	$	18,064	19,290
Connectivity Revenue	$	7,291	8,393	$	30,373	35,005
Total Revenue	$	11,997	12,868	$	48,437	54,295
Cost of Services[1]	$	2,704	3,473	$	9,647	13,982
Selling, General, & Administrative Costs	$	6,628	7,906	$	25,825	31,142
Gross profit margin [1]		77.5%	73.0%		80.1%	74.2%
Adjusted EBITDA[1] [2]	$	4,006	3,119	$	17,477	12,964
Net loss	$	(2,120)	(1,972)	$	(6,994)	(4,820)
Basic loss per share	$	(0.13)	(0.13)	$	(0.43)	(0.32)
Diluted loss per share	$	(0.13)	(0.13)	$	(0.43)	(0.32)
Operating						
Backlog MRR[1]						
Connectivity	$	92,096	64,659	$	92,096	64,659
Cloud & Colocation	$	18,615	31,742	$	18,615	31,742
Churn Rate[1]						
Connectivity		1.4%	1.4%		1.4%	1.5%
Cloud & Colocation		0.9%	1.3%		1.3%	1.9%
ARPU[1]						
Connectivity	$	1,019	1,054	$	1,022	1,053
Cloud & Colocation	$	3,393	3,138	$	3,262	3,147

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

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

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

Fourth Quarter and Full Year 2019 Operating Highlights

Backlog Monthly Recurring Revenue (MRR)(1)

- Connectivity backlog MRR was $92,096 as of December 31, 2019, compared to $64,659 as of December 31, 2018. The increase in connectivity backlog MRR was driven primarily by higher sales volume than in the prior year period.

- Cloud and colocation backlog MRR was $18,615 as of December 31, 2019 compared to $31,742 as of December 31, 2018. The decrease in cloud and colocation backlog MRR was driven by lower sales volume than in the prior period.

Average Revenue per User (ARPU)(1)

- For the three months ended December 31, 2019, connectivity ARPU was $1,019 compared to $1,054 for the same period in 2018. For the year ended December 31, 2019, connectivity ARPU was $1,022 compared to $1,053 in 2018. The decrease in connectivity ARPU for the fourth quarter and full year 2019 was due to provisioning and renewals at lower rates. The Company continues to focus on securing and retaining mid-market business customers.

- For the three months ended December 31, 2019 cloud and colocation ARPU was $3,393 compared to $3,138 in 2018. For the year ended December 31, 2019, cloud and colocation ARPU was $3,262 compared to $3,147 in 2018. The increase in cloud and colocation ARPU for the fourth quarter and full year of 2019 was due to upgrades from existing customers and churn of lower ARPU customers.

Churn(1)

- For the three months ended December 31, 2019, connectivity churn was 1.4% compared to 1.4% for the same period in 2018. The Company's increased retention efforts have stabilized churn levels. For the year ended December 31, 2019 connectivity churn was 1.4% compared to 1.5% in 2018.

- For the three months ended December 31, 2019, cloud and colocation churn was 0.9% compared to 1.3% for the same period in 2018. For the year ended December 31, 2019 cloud and colocation churn was 1.3% compared to 1.9% for the same period in 2018. The decrease in cloud and colocation churn levels for the fourth quarter and full year 2019 was the result of increased retention efforts.

(1) See "Non-IFRS Measures”

Conference Call

Management will host a conference call on, Friday, February 21, 2020, at 8:30 a.m. Eastern Time to discuss these results.

To access the conference call, please dial 647-427-2311 or 1-866-521-4909. The Financial Statements and Management's Discussion & Analysis for the fiscal year ended December 31, 2019, along with a presentation in connection with the conference call will be made available on the Company's website at https://terago.ca/company/investor-relations/.

An archived recording of the conference call will be available until February 28, 2020. To listen to the recording, call 416-621-4642 or 1-800-585-8367 and enter passcode 5599345.

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 2019 audited consolidated 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 year ended December 31, 2019 is presented in Note 11 of the 2019 audited consolidated 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 discussed in the MD&A:

(In thousands)		**Three months ended December 31, 2019**			
		Balances without adoption of IFRS 16	**Effect of IFRS 16**	**Balances subsequent to transition**	**% Change**
Financial					
Selling, General, & Admin Costs	$	7,211	(583)	6,628	(8%)
Depreciation & Amortization	$	2,409	1,339	3,748	56%
Cost of Services	$	3,851	(1,147)	2,704	(30%)
Finance Costs	$	(418)	(672)	(1,090)	161%
Gross Margin	$	8,146	1,147	9,293	14%
Adjusted EBITDA[(1) (2)]	$	2,421	1,585	4,006	65%
Net Income (Loss)	$	(1,838)	(281)	(2,119)	15%
Total Assets	$	84,432	26,245	110,677	31%
Total Liabilities	$	35,025	27,547	62,572	79%
Total Liabilities & Shareholders' Equity	$	84,432	26,245	110,677	31%

(In thousands)		**Year ended December 31, 2019**			
		Balances without adoption of IFRS 16	**Effect of IFRS 16**	**Balances subsequent to transition**	**% Change**
Financial					
Selling, General, & Admin Costs	$	28,306	(2,481)	25,825	(9%)
Depreciation & Amortization	$	9,987	5,300	15,287	53%
Cost of Services	$	13,918	(4,271)	9,647	(31%)
Finance Costs	$	2,015	2,754	4,769	137%
Gross Margin	$	34,519	4,271	38,790	12%
Adjusted EBITDA[(1) (2)]	$	10,950	6,527	17,477	60%
Net Income (Loss)	$	(5,692)	(1,302)	(6,994)	23%
Total Assets	$	84,432	26,245	110,677	31%
Total Liabilities	$	35,025	27,547	62,572	79%
Total Liabilities & Shareholders' Equity	$	84,432	26,245	110,677	31%

[(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 months and years ended December 31, 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 months and years ended December 31, 2019 and 2018.

(in thousands of dollars)		**Three months ended December 31**		**Year ended December 31**	
		2019	**2018(2)**	**2019**	**2018(2)**
Net earnings (loss) for the period	$	(2,120)	(1,972)	(6,994)	(4,820)
Foreign exchange loss (gain)		28	20	69	2
Finance costs		1,090	766	4,769	2,315
Finance income		(82)	(53)	(166)	(81)
Earnings (loss) from operations		(1,084)	(1,239)	(2,322)	(2,584)
Add:					
Depreciation of network assets, property and equipment and amortization of intangible assets		3,748	2,728	15,287	11,755
Loss on disposal of network assets		93	397	296	757
Impairment of Assets and Related Charges		625	333	808	764
Stock-based Compensation Expense (Recovery)		341	279	1,984	963
Restructuring, acquisition-related, integration costs and other		283	621	1,424	1,309
Adjusted EBITDA(1)	$	4,006	3,119	17,477	12,964

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

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

Backlog 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.

About TeraGo

TeraGo owns a national spectrum portfolio of exclusive 24 GHz and 38 GHz 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 news 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 regarding TeraGo becoming one of the first operators to launch commercial 5G fixed wireless services, technical and customer trials with Nokia 5G equipment, and extracting value out of spectrum assets. All such statements constitute "forward-looking information" as defined under, applicable Canadian securities laws. Any statements contained herein that are not statements of historical facts constitute forward-looking information. The forward-looking statements reflect the Company's views with respect to future events and is subject to risks, uncertainties and assumptions, including those risks set forth in the "Risk Factors" sections in the annual MD&A of the Company for the year ended December 31, 2019, available on www.sedar.com under the Company's corporate profile. Factors that could cause actual results or events to differ materially include the inability to complete successful technical trials currently underway, the economic viability of any potential services that may result from current trials, the ability for TeraGo to finance and support any new market opportunities that may present itself, industry competitors who may have superior technology, spectrum assets or are quicker to take advantage of 5G technology, new product launches not resonating with customers or having the success that the Company anticipated, and the inability of the Company to convert sales pipeline and backlog MRR to sales revenue. Accordingly, readers should not place undue reliance on forward-looking statements as several 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.