



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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 May 5, 2020 and should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020 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 cloud and data centre businesses, retention campaign and initiatives to improve customer service, additional capital expenditures, investments in products and other IT services, and the Company's 5G technical trials and 5G fixed wireless 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, cross-selling of TeraGo's cloud services may not succeed, 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, connectivity, cloud and data centre sectors may not be accurately projected, 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, prolonged economic impacts from the current COVID-19 pandemic, 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 the predictions based on them, 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.

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

- Total revenue decreased 6.5% to \$11.6 million for the three months ended March 31, 2020 compared to \$12.4 million for the same period in 2019. The decrease in revenue was driven by lower connectivity revenue which decreased 7.6% to \$7.3 million compared to \$7.9 million for the same period in 2019. The decrease was attributable to churn exceeding provisioning as a result of lower sales volume. Cloud and colocation revenue decreased 4.4% to \$4.3 million compared to \$4.5 million for the same period in 2019. The decrease was similarly driven by churn and lower provisioning.
- Net loss was \$2.2 million for the three months ended March 31, 2020 compared to a net loss of \$1.2 million for the same period in 2019. The increase in net loss was primarily driven by the decrease in revenue and decrease in gross margin. The decrease in margin was due an increase in the cost of cloud services sold which offset cost savings from the reduction in revenue.
- Adjusted EBITDA^{1,2} decreased 21.7% to \$3.6 million for the three months ended March 31, 2020 compared to \$4.6 million for the same period in 2019. The decrease was driven primarily by the factors described in net loss above.

Key Developments

- The COVID-19 pandemic continues to impact the Canadian and global economy, including the markets in which the Company and its customers operate. In the Provinces where the Company has offices and/or data centres from which it carries out operations, its services have been identified as “essential services” and therefore the Company has been permitted to continue to operate and support its customers. Management has implemented response plans for the Company to ensure we continue to provide services to our customer base while supporting the health and well-being of TeraGo employees. These include: alternative work arrangements and work-from-home policies for back office and other non-field service employees, online education and promotion of social distancing, as well as utilizing the Company's Health and Safety committee, its Senior Leadership Team and the Board of Directors to oversee the administration of our pandemic response plan.
- Due to the uncertainty of the outcome, length, and full extent of the impact the pandemic will have at this time, Management will continue to actively monitor the impacts to the business and make appropriate adjustments to policies, practices, and spending to ensure we continue to offer our services.
- In mid-2019, TeraGo reinstated a regularly measured Net Promoter Score (“NPS”), a widely utilized industry measurement of customer loyalty and relationship with its customers. TeraGo's NPS score across Q1 2020 was a +71, which compares favourably across both Network and Cloud Operators.

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



TERAGO OVERVIEW

TeraGo provides businesses across Canada with cloud, colocation and connectivity services. The Company provides cloud Infrastructure as a Service (“IaaS”) computing and storage solutions, data centre colocation solutions, and operates five (5) data centres across Canada. With respect to the Company’s connectivity services, it owns and operates a carrier-grade, Multi-Protocol Label Switching (“MPLS”) enabled fixed wireless, IP communications network in Canada targeting businesses that require Internet access, private interconnection, and data connectivity services.

The Company provides enterprise-class cloud services to multiple high value, mid-market and enterprise customers across a variety of industry verticals, federal, provincial and municipal governments and agencies, as well as non-profit organizations. The Company is focussed on providing customers with tailored hybrid IT solutions, running their IT workloads with the appropriate mix of on-premise, data centre colocation, private and public cloud environments. It currently has strategic relationships with several technology partners that give it access to certain products and solutions to provide enterprise cloud services.

The Company’s subscription-based business model generally generates stable and predictable recurring revenue from cloud, colocation and connectivity services. Once a customer is obtained, TeraGo’s strategy is to generate incremental recurring revenue from that customer by cross-selling to bundle customers with multiple services and up-selling within services provided.

Connectivity Services	Cloud Services	Colocation Services
<ul style="list-style-type: none"> • National high performance, scalable Internet access principally via wireless and fibre optics • Active redundancy capability with bundled connectivity solution • Managed network service 	<ul style="list-style-type: none"> • Private and hybrid cloud • IaaS utility computing on virtual and dedicated compute platforms • High performance and secure data storage and archiving • Business Continuity services for critical situations • Managed Services for public and hybrid cloud offerings 	<ul style="list-style-type: none"> • Colocation services in partial, full, or customized cabinets • Managed, Private Dedicated, and Co-location hosting services • Private Vaults protected with biometrics for maximum security • Other value-added services such as hybrid cloud

TERAGO’S BUSINESS MODEL

TeraGo’s business strategy is to provide enterprise-class hybrid IT solutions tailored to the mid-market and larger businesses. The Company leverages its existing nationwide data centre footprint, private/multi-tenant cloud capabilities, all underpinned by a resilient national carrier grade network infrastructure, to align with customers’ current IT landscape. This allows customers to operate on platforms best suited for their workloads – on-premise, data centre colocation, TeraGo private and multi-tenant cloud, and AWS public cloud – all securely interconnected.

TeraGo’s customers typically sign one, two or three-year contracts. Services are billed monthly over the term of the contract.

CONNECTIVITY SERVICES

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 and data connectivity 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 are redundant to their existing wireline broadband connections.

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.

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 fiber 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.

Radio 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 6 largest cities. 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.

On June 5, 2019, 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.

In June 2018, ISED published its overall approach and planned activities for spectrum over the next five years in a document titled *Spectrum Outlook 2018 to 2022*. In such document, ISED has confirmed 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. A timeline for the release of the 38 GHz band, which has been designated as a Priority 1 band has been set for the end of 2021.

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.

For further details on our licensed spectrums, please refer to the Company's 2019 AIF.

CLOUD SERVICES

TeraGo provides cloud services that seek to meet the complex and evolving IT needs of our customers. TeraGo provides IaaS for compute, storage, disaster recovery cloud solutions and other offerings. These solutions allow the Company to compete in the cloud services market.

TeraGo offers customized cloud storage and compute offerings to customers across Canada. TeraGo cloud can offer a virtualized computing environment whereby customers can access on-demand computing without the need to acquire and maintain expensive server equipment. TeraGo can also provide offsite cloud storage for key backup and disaster recovery situations, including utilizing partnerships with software and hardware vendors such as Veeam and Solidfire. The Company has strategic relationships and partnerships with technology leaders such as Amazon Web Services, IBM, Cisco, VMware, Microsoft, and others that gives it early access to intelligence, products and solutions to provide enterprise cloud services.

COLOCATION SERVICES

TeraGo provides data centre colocation services that protect and connect our customers' valuable information assets. Customers can provision their computing equipment within shared partial cabinets or full, private cabinets, as well as customized caged space designed for their specific needs. TeraGo provides connectivity on redundant routes in and out of the facilities.

Hosting and colocation revenue is derived from set-up fees for new installations and monthly recurring charges based on the number of cabinets and/or the quantity of cage space, power requirements, managed services provided and Internet/data bandwidth requirements. Other services, such as disaster recovery services, are provided under custom contractual arrangements.

TeraGo also offers a variety of managed hosting solutions, which may require us to manage various aspects of a customer's hardware, software or operating systems in public or privately accessible environment. TeraGo offers disaster recovery services on a custom basis. These facilities can be provisioned at the data centre location and provide customers with the capability to restore office functionality with direct access to their information located in the data centre.

Our network can provide these customers Internet and/or secure private interconnections between the data centre facility and the customer's office location(s).

Data centre services customers typically include national government agencies, financial services companies, IT service providers, content and network service providers, and businesses which rely on TeraGo to store and manage their critical IT equipment and provide the ability to directly connect to the networks that enable our information-driven economy.

Data Centre Facilities

TeraGo's data centres provide IT solutions, including colocation and disaster recovery, to a roster of small and medium-sized businesses, enterprises, public sector and technology service providers. TeraGo has approximately 60,000 square feet of data centre capacity in the five (5) facilities it operates across Canada:

Mississauga, Ontario

TeraGo operates a 10,000 square foot AT 101 SOC2 Type 2 compliant data centre facility in Mississauga, Ontario that was previously managed by BlackBerry Limited and built to a tier 3 standard. This facility predominantly serves the Greater Toronto Area.

Vaughan, Ontario

TeraGo operates a 16,000 square foot AT 101 SOC2 Type 2 compliant data centre facility in Vaughan, Ontario, serving the Greater Toronto Area.

Kelowna, British Columbia

TeraGo operates its 18,000 square foot AT 101 SOC2 Type 2 compliant data centre in Kelowna named the GigaCenter. The GigaCenter is built to a tier 3 standard and the location in Kelowna is considered ideal for a data centre as the



region is considered a seismically stable geographic location, has a temperate climate and has a lower probability of both natural and man-made events that may be a risk.

Vancouver, British Columbia

TeraGo operates two AT 101 SOC2 Type 2 compliant data centre facilities in downtown Vancouver. Its first facility is approximately 7,000 square feet. The facility has redundant fibre facilities between the data centre and the 'telco hotel', 555 West Hastings, in downtown Vancouver. The second facility is 7,000 square feet and is served by TeraGo's fiber optic lines. Both facilities are used to service the Greater Vancouver Area.

RESULTS OF OPERATIONS
Comparison of the three months ended March 31, 2020 and 2019
(in thousands of dollars, except with respect to gross profit margin, earnings per share, Backlog MRR, and ARPU)

	Three months ended	
	2020	2019
Financial		
Cloud and Colocation Revenue	\$ 4,299	4,494
Connectivity Revenue	\$ <u>7,318</u>	<u>7,903</u>
Total Revenue	\$ 11,617	12,397
Cost of Services ¹	\$ 2,259	2,261
Selling, General, & Administrative Costs	\$ 6,187	5,963
Gross profit margin ³	80.6%	81.8%
Adjusted EBITDA ^{3, 2}	\$ 3,622	4,590
Net loss	\$ (2,203)	(1,188)
Basic loss per share	\$ (0.13)	(0.08)
Diluted loss per share	\$ (0.13)	(0.08)
Operating		
<u>Backlog MRR³</u>		
Connectivity	\$ 89,296	71,624
Cloud & Colocation	\$ 18,225	37,094
<u>Churn Rate³</u>		
Connectivity	1.5%	1.5%
Cloud & Colocation	1.0%	1.1%
<u>ARPU³</u>		
Connectivity	\$ 1,033	1,033
Cloud & Colocation	\$ 3,240	3,221

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 6.5% to \$11.6 million for the three months ended March 31, 2020 compared to \$12.4 million for the same period in 2019.

Connectivity Revenue

For the three months ended March 31, 2020, connectivity revenue decreased 7.6% to \$7.3 million compared to \$7.9 million for the same period in 2019. The decrease was attributable to churn exceeding provisioning as a result of lower sales volume.

Cloud and Colocation Revenue

For the three months ended March 31, 2020, cloud and colocation revenue decreased 4.4% to \$4.3 million compared to \$4.5 million for the same period in 2019. The decrease was similarly driven by churn and lower provisioning.

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



Cost of Services

For the three months ended March 31, 2020, cost of services was flat at \$2.3 million compared to the same period in 2019 which resulted in a lower gross margin. The decrease in margin was due an increase in the cost of cloud services sold which offset cost savings from the reduction in revenue.

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

For the three months ended March 31, 2020, SG&A increased 3.3% to \$6.2 million compared to \$6.0 million for the same period in 2019. The increase was due to higher corporate and selling costs than the prior year.

Net loss

Net loss was \$2.2 million for the three months ended March 31, 2020 compared to a net loss of \$1.2 million for the same period in 2019. The increase in net loss was primarily driven by the decrease in revenue and decrease in gross margin discussed above.

Adjusted EBITDA^{1, 2}

Adjusted EBITDA decreased 21.7% to \$3.6 million for the three months ended March 31, 2020 compared to \$4.6 million for the same period in 2019. The decrease was driven primarily by the factors described in net loss above.

The table below reconciles net loss to Adjusted EBITDA⁵ for the three months ended March 31, 2020 and 2019.

<i>(in thousands of dollars)</i>	Three months ended	
	March 31	
	2020	2019
Net earnings (loss) for the period	\$ (2,203)	(1,188)
Foreign exchange loss (gain)	121	(6)
Finance costs	1,516	1,415
Finance income	(55)	(25)
Earnings (loss) from operations	(621)	196
Add:		
Depreciation of network assets, property and equipment and amortization of intangible assets	3,792	3,977
Loss on disposal of network assets	45	23
Impairment of Assets and Related Charges	68	82
Stock-based Compensation Expense (Recovery)	347	342
Restructuring, acquisition-related, integration costs and other	(9)	(30)
Adjusted EBITDA³	\$ 3,622	4,590

Backlog MRR³

Connectivity backlog MRR was \$89,296 as at March 31, 2020, compared to \$71,624 as at March 31, 2019. The increase in backlog MRR is driven primarily by higher sales volume than in the prior year period.

Cloud and colocation backlog MRR was \$18,225 as at March 31, 2020 compared to \$37,094 as at March 31, 2019. The change in backlog MRR is driven primarily by the timing of customer provisioning activity

ARPU³

For the three months ended March 31, 2020 connectivity ARPU was \$1,033 compared to \$1,033 for the same period in 2019. The ARPU is consistent with the prior year period as the Company continues to focus on acquiring and retaining mid-market business customers.

For the three months ended March 31, 2020 cloud and colocation ARPU was \$3,240 compared to \$3,221 for the same period in 2019. In 2020, cloud and colocation ARPU was negatively impacted by an increase in customer count as TeraGo contracted directly with 28 customers that were previously contracted through one wholesale partner. Adjusting for this increase in customer count, cloud and colocation ARPU for the three months ended March 31, 2020

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."

would have been \$3,450 for an increase of 7.1% compared to the prior year period. The increase is due to upgrades from existing customers and churn of lower ARPU customers.

Churn¹

For the three months ended March 31, 2020, connectivity churn was 1.5% compared to 1.5% for the same period in 2019. The Company's increased retention efforts have stabilized churn levels.

For the three months ended March 31, 2020, cloud and colocation churn was 1.0% compared to 1.1% for the same period in 2019. Decreased churn levels were a result of increased retention efforts.

Finance costs

For the three months ended March 31, 2020, finance costs increased 7.1% to \$1.5 million compared to \$1.4 million for the same period in 2019. The increase was primarily a result of the unfavourable movement in the fair value of the Company's interest rate swaps contracts. The increase was partially offset by the beneficial impact of lower interest on the Company's long-term debt and lease liabilities.

Depreciation and amortization

For the three months ended March 31, 2020, depreciation of network assets, property and equipment and amortization of intangibles decreased 5.0% to \$3.8 million compared to \$4.0 million for the same period in 2019. The decrease was due to impaired and fully depreciated assets in prior periods and the impact of lower capital expenditures since the prior year period.

Summary of Quarterly Results

All financial results are in thousands, with the exception of earnings per share, Backlog MRR, and ARPU

		Q1-20	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18*	Q3-18*	Q2-18*
Financial									
Revenue	\$	11,617	11,997	11,814	12,229	12,397	12,868	14,004	13,683
Gross Profit Margin % ³		80.6%	77.5%	80.3%	80.7%	81.8%	73.0%	75.1%	74.7%
Adjusted EBITDA ³	\$	3,622	4,006	4,358	4,523	4,590	3,119	3,593	3,123
Net income/(loss)	\$	(2,203)	(2,120)	(915)	(2,771)	(1,188)	(1,972)	(47)	(1,489)
Basic income/(loss) per share	\$	(0.13)	(0.13)	(0.06)	(0.18)	(0.08)	(0.13)	(0.00)	(0.10)
Diluted income/(loss) per share	\$	(0.13)	(0.13)	(0.06)	(0.18)	(0.08)	(0.13)	(0.00)	(0.10)
Basic weighted average number of shares outstanding		16,635	16,623	16,579	15,790	15,775	15,756	15,736	14,588
Diluted weighted average number of shares outstanding		16,635	16,623	16,579	15,790	15,775	15,756	15,736	14,588
Operating									
<u>Backlog MRR³</u>									
Connectivity	\$	89,296	92,096	47,672	57,081	71,624	64,659	71,659	60,750
Cloud & Colocation	\$	18,225	18,615	37,237	17,049	37,094	31,742	30,172	67,747
<u>Churn Rate³</u>									
Connectivity		1.5%	1.4%	1.3%	1.6%	1.5%	1.4%	1.4%	1.4%
Cloud & Colocation		1.0%	0.9%	1.3%	1.7%	1.1%	1.3%	1.0%	1.5%
<u>ARPU³</u>									
Connectivity	\$	1,033	1,019	1,014	1,023	1,033	1,054	1,071	1,062
Cloud & Colocation	\$	3,240	3,393	3,248	3,185	3,221	3,138	3,049	3,336

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

Seasonality

The Company's net customer growth, 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 equipment. Typically, harsher weather in the first quarter of the year results in a reduction of productive installation days. In addition, certain customers using our cloud services may have higher usage during certain times of the year based on the seasonality of their respective businesses.

The Company's cash flow and earnings are typically impacted in the first quarter of the year due to several annual

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

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.

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>	Three months ended March 31	
	<u>2020</u>	<u>2019*</u>
Statement of Cash Flows Summary		
Cash inflows and (outflows) by activity:		
Operating activities	\$ 2,563	4,104
Investing activities	(1,987)	(1,669)
Financing activities	(1,796)	(3,247)
Net cash inflows (outflows)	(1,220)	(812)
Cash and cash equivalents, beginning of period	8,686	3,918
Cash and cash equivalents, end of period	\$ 7,466	3,106

*Note that comparative information has been corrected as per discussion in Note 2 of the Interim Condensed Consolidated Financial Statements.

Operating Activities

For the three months ended March 31, 2020, cash generated from operating activities was \$2.6 million compared to cash from operations of \$4.1 million for the same period in 2019. The decrease was due to the higher net loss and unfavourable changes in timing of collections.

Investing Activities

For the three months ended March 31, 2020, cash used in investing activities was \$2.0 million compared to cash used of \$1.7 million for the same period in 2019. The increase was primarily due to increase capital expenditures as a result of higher provisioning in the current year period.

Financing Activities

For the three months ended March 31, 2020 cash used in financing activities was \$1.8 million compared to cash used in financing activities of \$3.2 million for the same period in 2019. The increase was due to proceeds from the Company's borrowings on its acquisition facility and revolving facility for capital expenditures and short-term working capital requirements, respectively, in the current period.

Capital Resources

As at March 31, 2020, the Company had cash and cash equivalents of \$7.5 million and access to a revolving facility and acquisition funding capital as described below, subject to the terms and conditions of the credit facilities.

The Company anticipates incurring additional capital expenditures for the purchase and installation of network, colocation and cloud assets and customer premise equipment as dictated by business needs.

Management believes the Company's current cash, anticipated cash from operations, access to the undrawn portion of debt facilities and its access to additional financing in the form of debt or equity will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable near term. In light of the current COVID-19 pandemic and the impacts it has had on businesses globally, including that of the Company (see "Risk Factors)", management continues to monitor its cash position closely and has taken certain mitigation efforts to conserve its cash.

Term Debt Facility

The Company has a credit facility provided by a syndicate of lenders led by the National Bank of Canada ("NBC") which is governed by a credit agreement originally entered into in June 2014.

The total \$75.0 million facility that matures June 14, 2021 is made up of the following:

- \$10.0 million revolving facility which bears interest at prime plus a margin percent. As of March 31, 2020, \$0.6 million was drawn and outstanding on the revolving facility (December 31, 2019 - \$nil). Letters of credit issued under the facility totaled \$0.7 million as of March 31, 2020 (December 31, 2019 - \$0.7 million).
- \$40.0 million term facility which bears interest at prime or Banker's Acceptance (at the Company's option) plus a margin percent and is repayable in quarterly principal installments of \$1.0 million. This facility was fully drawn upon signing the second amended agreement.

On March 31, 2020, \$27.8 million of the term facility principal balance outstanding was in a Banker's Acceptance and the remaining \$0.2 million was at a floating rate. During 2018, the Company entered into two amended interest rate swap contracts that mature June 29, 2021. The interest rate swap contracts have not been designated as a hedge and will be marked-to-market each quarter. The fair value of the interest rate swap contracts at March 31, 2020 was a liability of \$0.6 million (December 31, 2019 - \$0.2 million) and is recorded in other long-term assets/liabilities, with a corresponding charge (recovery) for the change in fair value recorded in finance costs. The effective interest rate on the Company's long-term debt at March 31, 2020 was 5.34% which represents the Company's interest on its Banker's Acceptance net of its interest swap contracts.

As at March 31, 2020, the Company prepaid interest in the amount of \$0.3 million which represents the net settlement of the Banker's Acceptance and is recorded as a reduction in the carrying value of the debt.

- \$25.0 million available for funding acquisitions and certain capital expenditures and will bear interest at prime plus a margin percent and is repayable in quarterly principal installments of 2.5% of the aggregate amount outstanding. As of March 31, 2020, \$0.8 million was drawn and outstanding on the acquisition facility. The drawn principal balance was in a Banker's Acceptance.

Financing fees incurred as part of the Company's debt origination and modifications have been recorded as a reduction in the carrying amount of the debt and deferred and amortized using the effective interest method over the remaining term of the facility.

The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at March 31, 2020. Under this facility, the Company is subject to a cash flow sweep that could accelerate a certain amount of principal repayment based on a calculation outlined by the credit agreement not later than 120 days after the end of each fiscal year.

Equity Offering

On July 3, 2019, the Company completed an equity offering to issue and sell 805,000 common shares for gross proceeds of \$8.9 million (the "Offering"). Proceeds net of actual commissions, legal, accounting, and listing fees was \$8.1 million. The Offering was carried out pursuant to an underwriting agreement dated June 17, 2019, with a syndicate of underwriters led by TD Securities Inc., and included Canaccord Genuity Corp., Cormark Securities Inc., and Desjardins Securities Inc.

The net proceeds are being used to fund technical and customer trials related to 5G technology and for general corporate purposes. The Company's use of these proceeds as at March 31, 2020 were as follows:

Intended Use of Net Proceeds	Use of Net Proceeds as at March 31, 2020
a) Fund technical and customer trials related to 5G technology	\$0.4 million
b) General corporate purposes	\$2.3 million

The Company's intended use of these proceeds has not changed.

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 2019 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of March 31, 2020, there were 16,663 Common Shares issued and outstanding. In addition, as of March 31, 2020, there were 352 Common Shares issuable upon exercise of TeraGo stock options, 240 Common Shares issuable upon vesting of restricted share units, and 46 Common Shares issuable upon vesting of performance share units.

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 summary of the material risks that could significantly affect the financial condition, operating results or business of TeraGo, are set out below and in our management's discussion and analysis for the fiscal year ended December 31, 2019.

COVID-19 Pandemic and Public Health Emergency

The global COVID-19 pandemic has evolved rapidly in the past several months and may have a material adverse effect on the operations and financial results of the Company. The Company is currently operating under its Pandemic Response Plan which involves certain mitigation measures to reduce the spread of COVID-19, employees working from home where possible, alternative work arrangements and the elimination of in-person meetings. As of the date of this MD&A, the initial impacts of COVID-19 on the Company include lower sales volume and therefore lower revenues than otherwise would be generated as businesses have generally reduced or suspended their IT and telecommunications spend. The Company has also begun to see a limited number of requests by customers to defer monthly payments for services, or have services suspended during the COVID-19 pandemic. If sales volumes continue to materially decline due to COVID-19, or there is an increase in the number and/or dollar amounts of customers who have defaulted on their obligations to pay under their service contracts, the Company will experience a material adverse effect on its business, results of operations and financial condition.

In addition, economic conditions globally in light of COVID-19 are beyond our control. A sustained downturn in the economy 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. While a disruption in the Company's supply chain for radio equipment has not yet been experienced, a significant disruption in this supply chain due to COVID-19 will cause unintended backlog, provisioning delays and reduce the Company's ability to offer services and generate new revenue.

The full extent to which the COVID-19 pandemic may impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be predicted at this time. Many factors that will determine the extent of COVID-19's impact include the duration of the outbreak both in Canada (and to a lesser extent globally), its disruptions in supply chains and global trade, the time to recovery in the global economy and consumer confidence. Management continues to monitor the developments of COVID-19 on a daily basis and has taken steps to mitigate early impacts caused by it.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

Our President and Chief Executive Officer and Chief Financial Officer, designed or caused to be designed under their supervision, TeraGo's disclosure controls and procedures and internal control over financial reporting.

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 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.

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.

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)

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, 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, taxes, 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, 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 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 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.