TeraGo Reports Second Quarter 2020 Financial Results

- Board of Directors Name CFO David Charron as Interim CEO and Initiates Search for New CEO to Lead Company's Next Phase of Growth -

- Industry Veteran Ken Campbell Appointed to the Board of Directors -

Toronto – August 5, 2020 – TeraGo Inc. ("**TeraGo**" or the "**Company**") (TSX: TGO, www.terago.ca), today reported financial and operating results for the second quarter ended June 30, 2020.

Second Quarter 2020 Financial Highlights

- Total revenue for the second quarter of 2020 decreased 4.9% to $11.6 million compared to $12.2 million for the same period in 2019. The decrease in total revenue was driven by customer churn exceeding provisioning activity.
- Connectivity revenue for the second quarter of 2020 decreased 3.9% to $7.3 million compared to $7.6 million for the same period in 2019. The decrease in connectivity revenue was primarily due to churn exceeding customer provisioning.
- Cloud and colocation revenue for the second quarter of 2020 decreased 4.3% to $4.4 million compared to $4.6 million for the same period in 2019. The decrease in cloud and colocation revenue was primarily driven by churn exceeding customer provisioning.
- Net loss for the second quarter of 2020 totaled $0.7 million compared to net loss of $2.8 million for the same period in 2019. The decrease in net loss was primarily driven by government grants received as a result of COVID-19, lower stock-based compensation, and lower severance charges.
- Adjusted EBITDA(1)(2) for the second quarter of 2020 increased 6.7% to $4.8 million compared to $4.5 million for the same period in 2019. The increase was primarily driven by the factors described in net loss above in addition to cost reduction efforts.

Second Quarter 2020 and Recent Operational Developments

- Amended and restated the credit agreement with The National Bank of Canada to The Royal Bank of Canada (the new administrative agent and lead lender) and The Toronto-Dominion Bank for access to a total of $35.0 million, comprising of a $30.0 million non-revolving term facility and a $5.0 million revolving operating credit facility.
- Advanced 5G fixed wireless technical trials in the Greater Toronto area utilizing 5G fixed wireless network equipment from Nokia Inc. and Customer Premise Equipment from Askey Computer Corp.
- Board of Directors name CFO David Charron as Interim CEO and initiates Search for New CEO.
- Industry veteran Ken Campbell appointed to the Board of Directors.

Management Commentary

"Our solid financial performance in the second quarter during the COVID-19 pandemic demonstrates the resiliency of our

(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.

business model and the critical services we provide our customers with as they navigate the new 'normal' operating environment," said David Charron, CFO and Interim CEO. "The success on our key operational initiatives over the last year allowed us to stabilize churn and generate strong cash flow as well as realize one of the industry's leading net promoter scores, which is a testament to our outstanding level of customer service. Additionally, our amended credit agreement strengthens our financial position by reducing our financing costs while providing us with capital to implement our strategic growth initiatives.

"As we move through the third quarter, we are encouraged by the overall sales and business development activity, particularly in our global partner channel and connectivity business. Furthermore, we continue to make good progress on our 5G technical trials with Nokia and Askey. The results we have experienced to date have been very encouraging and are in line with our expectations with the current generation of technology. Private 5G networks and broadband internet in dense urban areas continue to be the most promising 5G use cases we are exploring, and we look forward to continued testing in the second half of 2020. In the meantime, our diversified base of mid-market and enterprise customers, predictable recurring revenue and cash flow generation, as well as solid and durable liquidity position will help to ensure we successfully navigate these uncertain times."

Leadership Changes

The Board of Directors has named CFO David Charron as Interim CEO, succeeding Tony Ciciretto, effective immediately. Charron has assumed operating responsibilities and will continue to do so until a new CEO has been appointed while retaining his duties as CFO. With support from the Board of Directors and other members of the management team, TeraGo has initiated a search for a new CEO to execute on the Company's long-term growth plan.

"On behalf of the Board of Directors, we would like to thank Tony for his service to TeraGo over the last four years," said Matthew Gerber, Chair of the Board. "Tony was a key contributor towards stabilizing the business and transforming TeraGo into a leading managed cloud and connectivity solutions provider and the largest holder of millimetre wave wireless spectrum in Canada. We wish Tony all the best in his future pursuits."

As previously disclosed by the Company, the Corporate Governance Committee had been conducting a broad candidate search to identify a potential new director as part of its mandate to periodically review and plan for the composition of the Board. TeraGo concluded that search and has appointed Ken Campbell to its board of directors, effective today, to serve until the next annual meeting of shareholders.

With more than 20 years of hands-on commercial experience with several major mobile operators, Campbell has served in a range of senior leadership roles with telecom operators in North America, Europe and North Africa. Most recently, he was the Directeur General for INWI in Morocco and co-founded Mobile Klinik, Canada's leading smartphone and tablet repair network. Prior to that, Campbell served as CEO of Ooredoo in Tunisia, CEO of Wind Mobile in Canada, CEO of Bite in Lithuania and Latvia, and held commercial and marketing positions for Vodafone, Ooredoo, and Orascom. Campbell holds an MBA from the London Business School and a Bachelor of Arts (Honours Economics) from Carleton University in Ottawa, Canada. He is currently a Senior Adviser with Paris-based PMP Conseil.

In conjunction with Campbell's appointment as a new director, the Company is formally announcing the retirement of long-time board member James Sanger, who has served on the board for seven years.

"I'd like to extend a warm welcome to Ken who is a great addition to the Board with his varied international experiences and relevant industry skillset," commented Gerber. "On behalf of the Board and management team, we send our gratitude and appreciation to Jim for his long-term service, leadership and substantial contributions. We look forward to benefiting from the contributions and expertise a seasoned veteran like Ken brings to the Board."

RESULTS OF OPERATIONS

Comparison of the three months ended June 30, 2020 and 2019

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

		Three months ended June 30		Six months ended June 30	
		2020	**2019**	**2020**	**2019**
Financial					
Cloud and Colocation Revenue	$	4,397	4,587	8,696	9,081
Connectivity Revenue	$	7,251	7,642	14,569	15,545
Total Revenue	$	11,648	12,229	23,265	24,626

Cost of Services[3]	$	2,328	2,358	4,587	4,619
Selling, General, & Administrative Costs	$	5,205	7,438	11,392	13,401
Gross profit margin[3]		80.0%	80.7%	80.3%	81.2%
Adjusted EBITDA[3, 4]	$	4,828	4,523	8,450	9,113
Net loss	$	(656)	(2,771)	(2,859)	(3,959)
Basic loss per share	$	(0.04)	(0.18)	(0.17)	(0.25)
Diluted loss per share	$	(0.04)	(0.18)	(0.17)	(0.25)
Operating					
Backlog MRR[3]					
Connectivity	$	86,903	57,081	86,903	57,081
Cloud & Colocation	$	18,864	17,049	18,864	17,049
Churn Rate[3]					
Connectivity		1.7%	1.6%	1.6%	1.5%
Cloud & Colocation		1.1%	1.7%	1.0%	1.4%
ARPU[3]					
Connectivity	$	1,041	1,023	1,037	1,028
Cloud & Colocation	$	3,255	3,185	3,248	3,203

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

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

Second Quarter Operating Highlights

Backlog Monthly Recurring Revenue (MRR)[(1)]

- Connectivity backlog MRR was $86,903 as of June 30, 2020, compared to $57,081 as of June 30, 2019. The increase in backlog MRR was driven primarily by higher sales volume than in the prior year period.

- Cloud and colocation backlog MRR was $18,864 as of June 30, 2020 compared to $17,049 as of June 30, 2019. The change in backlog MRR was driven primarily by the timing of customer provisioning activity.

Average Revenue per User (ARPU)[(1)]

- For the three months ended June 30, 2020 connectivity ARPU was $1,041 compared to $1,023 for the same period in 2019. The ARPU is slightly higher than the prior year period as the Company continues to focus on acquiring and retaining mid-market business customers. For the six months ended June 30, 2020 connectivity ARPU was $1,037 compared to $1,028 for the same period in 2019. The increase was driven by the factors described above.

- For the three months ended June 30, 2020 cloud and colocation ARPU was $3,255 compared to $3,185 for the same period in 2019. The increase is due to upgrades from existing customers and churn of lower ARPU customers. For the six months ended June 30, 2020 cloud & colocation ARPU was $3,248 compared to $3,203 for the same period in 2019. The increase was driven by the factors described above.

Churn[(1)]

- For the three months ended June 30, 2020, connectivity churn was 1.7% compared to 1.6% for the same period in 2019. The slight increase in churn was driven by a limited number of customer closures or restructuring of physical locations. For the six months ended June 30, 2020 connectivity churn was 1.6% compared to 1.5% for the same period in 2019. The increase was driven by the factors described above.

- For the three months ended June 30, 2020, cloud and colocation churn was 1.1% compared to 1.7% for the same period in 2019. Decreased churn levels were a result of increased retention efforts. For the six months ended June 30, 2020 cloud and colocation churn was 1.0% compared to 1.4% for the same period in 2019. The decrease was driven by the factors described above.

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

4 See "Adjusted EBITDA" for a reconciliation of net loss to Adjusted EBITDA

See “Non-IFRS Measures” below.

Conference Call

Management will host a conference call on Thursday, August 6, 2020, at 9:00 a.m. Eastern Time to discuss these results.

To access the conference call, please dial 647-427-2311 or 866-521-4909. Please call the conference telephone number 15 minutes prior to the start time so that you are in the queue for an operator to assist in registering and patching you through. The Financial Statements and Management’s Discussion & Analysis for the quarter ended June 30, 2020, 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 August 13, 2020. To listen to the recording, call 416-621-4642 or 800-585-8367 and enter passcode 9784764.

(1) Non-IFRS Measures

This press release contains references to “Cost of Services”, “Gross Profit Margin”, “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 ended June 30, 2020. 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 for the three months ended June 30, 2020 and 2019.

(in thousands of dollars)		Three months ended June 30			Six months ended June 30	
		2020	**2019**		**2020**	**2019**
Net earnings (loss) for the period	$	(656)	(2,771)	$	(2,859)	(3,959)
Foreign exchange loss (gain)		33	81		154	75
Finance costs		1,093	1,182		2,609	2,597
Finance income		(28)	(18)		(83)	(43)
Earnings (loss) from operations		442	(1,526)		(179)	(1,330)
Add:						
Depreciation of network assets, property and equipment and amortization of intangible assets		3,673	3,959		7,465	7,936
Loss on disposal of network assets		30	71		75	94
Impairment of Assets and Related Charges		108	64		176	146
Stock-based Compensation Expense (Recovery)		417	970		764	1,312
Restructuring, acquisition-related, integration costs and other		158	985		149	955
Adjusted EBITDA[3]	$	4,828	4,523	$	8,450	9,113

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.

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 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 the pending new CEO search process undertaken by the Company, 5G fixed wireless trials being conducted with Nokia and Askey and future progress, the timing and length of such trials and future customer trials, encouraging sales and business development activity for the third quarter of 2020, TeraGo becoming one of the first operators to launch commercial 5G FWA services, and TeraGo's ability to mitigate the risks and negative impacts of the current COVID-19 pandemic. 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 each of the annual MD&A of the Company for the year ended December 31, 2019 and the MD&A for the three and six months ended June 30, 2020, both 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 identify and appoint a qualified and suitable new CEO within a reasonable period, the inability to complete successful 5G technical trials with Nokia and Askey, the impacts and restrictions caused by the COVID-19 pandemic are prolonged which may further delay customer trials and/or cause a negative impact on future financial results of the Company, TeraGo's Pandemic Response Plan may not mitigate all impacts of COVID-19, the results of the 5G trials not being satisfactory to TeraGo or any of its technology partners, regulatory requirements may delay or inhibit the trial, the economic viability of any potential services that may result from the trial, the ability for TeraGo to finance and support any new market opportunities that may present itself, and industry competitors who may have superior technology or are quicker to take advantage of 5G technology. 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.