



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

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 August 10, 2021 and should be read in conjunction with our unaudited consolidated financial statements for the three and six months ended June 30, 2021 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 business, 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, 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 predictions 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 6.0% to \$10.9 million for the three months ended June 30, 2021 compared to \$11.6 million for the same period in 2020. The decrease in revenue was driven by lower connectivity revenue which decreased 10.8% to \$6.6 million compared to \$7.4 million for the same period in 2020. The decrease in connectivity revenue was partially offset with growth in cloud and colocation revenue, which increased 2.4% to \$4.3 million compared to the prior year period. The growth in cloud and colocation revenue was driven by new customer acquisition and upgrades from existing customers. Total revenue decreased 6.9% to \$21.7 million for the six months ended June 30, 2021 compared to \$23.3 million in the same period in 2020. The decrease was driven by the factors described above.
- Net loss for the three months ended June 30, 2021 was \$1.8 million compared to a loss of \$0.7 million in the same period in 2020. The higher net loss was driven by lower revenues, higher cost of services due to the mix of services sold, and lower government grants received due to COVID-19. Net loss was \$4.0 million for the six months ended June 30, 2021, compared to a net loss of \$2.9 million for the same period in 2020. The higher net loss was driven by the factors described above.
- Adjusted EBITDA^{1,2} decreased 29.2% to \$3.4 million for the three months ended June 30, 2021 compared to \$4.8 million for the same period in 2020. The decrease was driven primarily by the decrease in revenue, higher cost of services due to the mix of services sold, and lower government grants received due to COVID-19. For the six months ended June 30, 2021, Adjusted EBITDA decreased 22.4% to \$6.6 million compared to \$8.5 million for the same period in 2020. The decrease was driven by the factors described above.

Key Developments

- On April 21, 2021, the Company issued and sold an aggregate of 934 thousand Series A Units, 934 thousand Series B Units and 934 thousand Series C Units of the Company at a subscription price of \$5.25 per Unit, for gross proceeds of \$14.7 million, all by way of a private placement (the "Private Placement") to certain institutional investors, including Cymbria Corporation, acting at the direction of its portfolio manager, EdgePoint Investment Group Inc.
- On June 21, 2021, TeraGo entered into an amending agreement with each of Royal Bank of Canada and The Toronto-Dominion Bank to further amend the previously executed credit agreement dated June 30, 2020. The parties agreed, among other things, to extend the maturity of the Credit Agreement to June 30, 2023.
- TeraGo's Net Promoter Score ("NPS"), a widely utilized industry measurement of customer loyalty and relationships with its customers was +79 across Q2 2021, which compares favourably across both Network and Cloud Operators.
- The COVID-19 pandemic continues to impact the Canadian and global economy, including the markets in which the Company and its customers operate. The Company's offices and data centres remain open and in operation to support its customers. Management continues to operate under its pandemic response plan for the Company to ensure it continues to provide services to the 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, mandated face coverings at its data centres and other facilities attended by customers and vendors, 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 the 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.

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 managed network connectivity, managed cloud, and colocation services. The Company provides and manages 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, data connectivity, and associated managed network services.

The Company provides enterprise-class cloud and connectivity 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 focused on providing customers with tailored connectivity and 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 connectivity and cloud services.

The Company’s subscription-based business model 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.

Network 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 services 	<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 connectivity and hybrid IT solutions tailored to mid-market and larger businesses. The Company leverages its existing nationwide data centre footprint and 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 Azure and AWS public clouds – all securely interconnected.

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

NETWORK 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 data connectivity, and associated managed network 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 fibre 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 and has a total coverage of approximately 23.8 million of the population in Canada (or nearly 10 million households)¹. 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, Innovation, Science, and Economic Development Canada ("ISED"), released its *Decision on Releasing Millimetre Wave Spectrum to Support 5G*. Among other things in its decision document, ISED reported that existing licensees of the 38 GHz band are eligible to apply for new "flexible use" licences for an equal amount of spectrum upon expiry of the current 10-year licence term, or earlier upon voluntary licence cancellation. Flexible use licences will permit licensees to deploy mobile systems to support 5G, while retaining the current ability to deploy on a fixed wireless basis. The Company holds 25 of 27 issued 38 GHz spectrum licences in Canada.

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

¹ Based on 2016 Canadian Census data cited by ISED.

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 was previously set for the end of 2021 but is now subject to delay due to the COVID-19 pandemic.

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 2020 AIF as filed on SEDAR.

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, Zerto and Pure Storage. The Company has strategic relationships and partnerships with technology leaders such as 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 feet 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 fibre optic lines. Both facilities are used to service the Greater Vancouver Area.

RESULTS OF OPERATIONS

Comparison of the three and six months June 30, 2021 and 2020

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

	Three months ended June		Six months ended June 30	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Financial				
Cloud and Colocation Revenue *	\$ 4,324	4,203 *	8,427	8,321 *
Connectivity Revenue *	\$ <u>6,579</u>	<u>7,445</u> *	<u>13,305</u>	<u>14,944</u> *
Total Revenue	\$ 10,903	11,648	21,732	23,265
Cost of Services ¹	\$ 2,683	2,328	5,197	4,587
Selling, General, & Administrative Costs	\$ 5,377	5,205	11,281	11,392
Gross profit margin ¹	75.4%	80.0%	76.1%	80.3%
Adjusted EBITDA ^{1,2}	\$ 3,369	4,828	6,602	8,450
Net loss	\$ (1,796)	(656)	(3,962)	(2,859)
Basic loss per share	\$ (0.09)	(0.04)	(0.22)	(0.17)
Diluted loss per share	\$ (0.09)	(0.04)	(0.22)	(0.17)
Operating				
<u>Backlog MRR¹</u>				
Connectivity	\$ 126,834	86,903	126,834	86,903
Cloud & Colocation	\$ 15,454	18,864	15,454	18,864
<u>Churn Rate¹</u>				
Connectivity	1.4%	1.7%	1.4%	1.6%
Cloud & Colocation	1.1%	1.1%	1.3%	1.0%
<u>ARPU^{1*}</u>				
Connectivity	\$ 1,032	1,069 *	1,035	1,065 *
Cloud & Colocation	\$ 3,722	3,108 *	3,591	3,105 *

*The three and six months 2020 comparative numbers for Cloud and Colocation Revenue, Connectivity Revenue, and ARPU have changed to conform with the presentation of revenue stream allocations for Q2 2021.

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 6.0% to \$10.9 million for the three months ended June 30, 2021 compared to \$11.6 million for the same period in 2020. Total revenue decreased 6.9% to \$21.7 million for the six months ended June 30, 2021 compared to \$23.3 million for the same period in 2020.

Connectivity Revenue

For the three months ended June 30, 2021, connectivity revenue decreased 10.8% to \$6.6 million compared to \$7.4 million for the same period in 2020. The decrease was attributable to churn exceeding customer provisioning.

For the six months ended June 30, 2021, connectivity revenue decreased 10.7% to \$13.3 million compared to \$14.9 million for the same period in 2020. The decrease was driven by the factors described above.

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

Cloud and Colocation Revenue

For the three months ended June 30, 2021, cloud and colocation revenue increased 2.4% to \$4.3 million compared to \$4.2 million for the same period in 2020. The increase was driven by new customer acquisition and upgrades from existing customers.

For the six months ended June 30, 2021, cloud and colocation revenue increased 1.2% to \$8.4 million compared to \$8.3 million for the same period in 2020. The increase was driven by the factors described above.

Cost of Services

For the three months ended June 30, 2021, cost of services increased 17.4% to \$2.7 million compared to \$2.3 million in the same period in 2020. The increase was driven primarily by an increase in the cost of cloud services.

For the six months ended June 30, 2021, cost of services increased 13.0% to \$5.2 million from \$4.6 million in the prior year period. The increase was due to an increase in the cost of cloud services and a change in the mix of connectivity services sold.

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

For the three months ended June 30, 2021, SG&A increased 3.8% to \$5.4 million compared to \$5.2 million for the same period in 2020. The increase was driven by a \$0.7 million reduction in Government grants received due to COVID-19 in the current period, which was partially offset with lower corporate expenses in the current period.

For the six months ended June 30, 2020, SG&A decreased 0.9% to \$11.3 million compared to \$11.4 million for the same period in 2020. The decrease was due to lower corporate, marketing, and travel expenses.

Net loss

Net loss for the three months ended June 30, 2021 was \$1.8 million compared to a loss of \$0.7 million in the same period in 2020. The higher net loss was driven by lower revenues, higher cost of services due to the mix of services sold, as well as lower government grants received due to COVID-19.

Net loss was \$4.0 million for the six months ended June 30, 2021, compared to a net loss of \$2.9 million for the same period in 2020. The higher net loss was driven by the factors described above.

Adjusted EBITDA^{1, 2}

Adjusted EBITDA decreased 29.2% to \$3.4 million for the three months ended June 30, 2021 compared to \$4.8 million for the same period in 2020. The decrease was driven primarily by the decrease in revenue, higher cost of services due to the mix of services sold, and lower government grants received due to COVID-19.

For the six months ended June 30, 2021, Adjusted EBITDA decreased 22.4% to \$6.6 million compared to \$8.5 million for the same period in 2020. The decrease was driven by the factors described above.

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."

The table below reconciles net loss to Adjusted EBITDA¹ for the three and six months ended June 30, 2021 and 2020.

<i>(in thousands of dollars)</i>	Three months ended		Six months ended	
	June 30		June 30	
	2021	2020	2021	2020
Net earnings (loss) for the period	\$ (1,796)	(656)	\$ (3,962)	(2,859)
Foreign exchange loss (gain)	(19)	33	(40)	154
Finance costs	1,049	1,093	2,052	2,609
Finance income	(12)	(28)	(24)	(83)
Earnings (loss) from operations	(778)	442	(1,974)	(179)
Add:				
Depreciation of network assets, property and equipment and amortization of intangible assets	3,621	3,673	7,228	7,465
Loss on disposal of network assets	117	30	123	75
Impairment of assets and related charges	70	108	227	176
Stock-based compensation expense (recovery)	250	417	479	764
Restructuring, acquisition-related, integration costs and other	89	158	519	149
Adjusted EBITDA¹	\$ 3,369	4,828	\$ 6,602	8,450

Backlog MRR¹

Connectivity backlog MRR was \$126,834 as at June 30, 2021, compared to \$86,903 as at June 30, 2020. The increase in backlog MRR was driven primarily by higher sales volume compared to the prior year period.

Cloud and colocation backlog MRR was \$15,454 as at June 30, 2021 compared to \$18,864 as at June 30, 2020. The slight decrease in backlog MRR is driven by the timing of sales bookings and provisioning activities.

ARPU¹

For the three months ended June 30, 2021 connectivity ARPU was \$1,032 compared to \$1,069 for the same period in 2020. ARPU decreased slightly due to customer contract renewals at lower rates. For the six months ended June 30, 2021 connectivity ARPU was \$1,035 compared to \$1,065 for the same period in 2020. The decrease was driven by the factors described above.

For the three months ended June 30, 2021 cloud and colocation ARPU was \$3,722 compared to \$3,108 for the same period in 2020. The increase is due to customer upgrades and cross-selling activities as well as the churn of lower ARPU customers. For the six months ended June 30, 2021 cloud & colocation ARPU was \$3,591 compared to \$3,105 for the same period in 2020. The increase was driven by the factors described above.

Churn¹

For the three months ended June 30, 2021, connectivity churn was 1.4% compared to 1.7% for the same period in 2020. The decrease is due to elevated customer churned recorded in the prior year period due to customer closures and restructuring related to the COVID-19 pandemic. For the six months ended June 30, 2021 connectivity churn was 1.4% compared to 1.6% for the same period in 2020. The decrease was driven by the factors described above.

For the three months ended June 30, 2021, cloud and colocation churn was flat at 1.1%. For the six months ended June 30, 2021 cloud and colocation churn was 1.3% compared to 1.0% for the same period in 2020. The increase in churn was due to a higher churn rate of low ARPU small business customers in the first quarter of 2021, which subsequently stabilized in the second quarter.

Finance costs

For the three months ended June 30, 2021, finance costs decreased 9.1% to \$1.0 million compared to \$1.1 million in the prior year period. The decrease was due to unfavourable movements in the fair value of the Company's interest rate swaps in the prior year period, and financing fees incurred in the prior year related to the Company's credit facility

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

extension. For the six months ended June 30, 2021, finance costs decreased 19.2% to \$2.1 million from \$2.6 million in the prior period due to the factors described above.

Depreciation and amortization

For the three months ended June 30, 2021 depreciation of network assets, property and equipment and amortization of intangibles decreased 2.7% to \$3.6 million compared to \$3.7 million for the same period in 2020. The decrease was due to impaired and fully depreciated assets. For the six months ended June 30, 2021, depreciation and amortization decreased 4.0% to \$7.2 million from \$7.5 million in the prior period due to the factors described above.

Summary of Quarterly Results

All financial results are in thousands, with the exception of Earnings per Share, Gross Profit Margin, Backlog MRR, Churn Rate, and ARPU

		Q2-21	Q1-21	Q4-20	Q3-20	Q2-20	Q1-20	Q4-19	Q3-19
Financial									
Revenue	\$	10,903	10,829	10,904	11,279	11,648	11,617	11,997	11,814
Gross Profit Margin % ¹		75.4%	76.8%	75.0%	77.8%	80.0%	80.6%	77.5%	80.3%
Adjusted EBITDA ¹	\$	3,369	3,233	3,695	3,775	4,828	3,622	4,006	4,358
Net income/(loss)	\$	(1,796)	(2,166)	(2,221)	(3,179)	(656)	(2,203)	(2,120)	(915)
Basic income/(loss) per share	\$	(0.09)	(0.13)	(0.13)	(0.19)	(0.04)	(0.13)	(0.13)	(0.06)
Diluted income/(loss) per share	\$	(0.09)	(0.13)	(0.13)	(0.19)	(0.04)	(0.13)	(0.13)	(0.06)
Basic weighted average number of shares outstanding		19,618	16,773	16,750	16,715	16,670	16,635	16,623	16,579
Diluted weighted average number of shares outstanding		19,618	16,733	16,750	16,715	16,670	16,635	16,623	16,579
Operating									
<u>Backlog MRR¹</u>									
Connectivity	\$	126,834	131,078	129,676	113,231	86,903	89,296	92,096	47,672
Cloud & Colocation	\$	15,454	34,518	56,437	31,935	18,864	18,225	18,615	37,237
<u>Churn Rate¹</u>									
Connectivity		1.4%	1.3%	1.4%	1.4%	1.7%	1.5%	1.4%	1.3%
Cloud & Colocation		1.1%	1.6%	1.0%	0.9%	1.1%	1.0%	0.9%	1.3%
<u>ARPU¹ *</u>									
Connectivity	\$	1,032	1,039 *	1,057 *	1,056 *	1,069 *	1,060 *	1,051 *	1,041 *
Cloud & Colocation	\$	3,722	3,460 *	3,416 *	3,323 *	3,108 *	3,103 *	3,223 *	3,103 *

*The comparative ARPU numbers for the historic quarterly results presented above have changed to conform with the presentation of ARPU revenue allocations for Q2 2021.

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 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.

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

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 June 30		Six months ended June 30	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Statement of Cash Flows Summary				
Cash inflows and (outflows) by activity:				
Operating activities	\$ 2,229	4,776	\$ 4,220	7,339
Investing activities	(2,273)	(1,814)	(4,463)	(3,801)
Financing activities	<u>7,036</u>	<u>(1,132)</u>	<u>4,245</u>	<u>(2,928)</u>
Net cash inflows (outflows)	6,992	1,830	4,002	610
Cash and cash equivalents, beginning of period	<u>2,868</u>	<u>7,466</u>	<u>5,858</u>	<u>8,686</u>
Cash and cash equivalents, end of period	\$ <u>9,860</u>	<u>9,296</u>	\$ <u>9,860</u>	<u>9,296</u>

Operating Activities

For the three months ended June 30, 2021, cash generated from operating activities was \$2.2 million compared to cash from operating activities of \$4.8 million for the same period in 2020. The decrease was primarily due to lower income from operations, higher stock compensation payments, and unfavourable movements in working capital due to the timing of cash payments to suppliers and vendors. For the six months ended June 30, 2021, cash generated from operating activities was \$4.2 million compared to cash from operations of \$7.4 million for the same period in 2020. The decrease was due to the factors described above.

Investing Activities

For the three months ended June 30, 2021, cash used in investing activities was \$2.3 million compared to cash used of \$1.8 million for the same period in 2020. The increase was driven by increased capital expenditures due to higher customer provisioning in the current year period. For the six months ended June 30, 2021, cash used in investing activities was \$4.5 million compared to cash used of \$3.8 million for the same period in 2020. The increase was due to the factors described above.

Financing Activities

For the three months ended June 30, 2021 cash generated from financing activities was \$7.0 million compared to cash used from financing activities of \$1.1 million for the same period in 2020. The increase in cash from financing activities was due to proceeds received from the issuance of common shares and warrants through the Private Placement, partially offset with higher repayment of long-term debt. For the six months ended June 30, 2021, cash generated from financing activities was \$4.2 million compared to cash used of \$2.9 million for the same period in 2020. The increase was due to the factors described above.

Capital Resources

As at June 30, 2021, the Company had cash and cash equivalents of \$9.9 million and access to a revolving facility 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 at least the twelve-month period following June 30, 2021. 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)", the Company continues to monitor its cash position closely and has taken certain mitigation efforts to

conserve its cash, implement cost saving measures and avail itself of available Government support programs.

Term Debt Facility

In June 2020, the Company entered into an amended and restated credit agreement with a syndicate led by Royal Bank of Canada ("RBC") to replace the Company's existing credit facilities which reduced the credit facility to \$35.0 million (from \$75.0 million) and extended the term from June 14, 2021 to June 30, 2022. Effective June 30, 2020, National Bank of Canada ceased to be an administrative agent and a lender to the Company and assigned its right and obligations to RBC, in its capacity as administrative agent.

In June 2021, the Company entered into an amending agreement with the syndicate led by RBC to extend the term of the Company's credit facility to June 30, 2023.

The total \$35.0 million facility that matures June 30, 2023 is made up of the following:

- \$5.0 million revolving facility which bears interest at prime plus a margin percent. As of June 30, 2021, \$nil was drawn and outstanding on the revolving facility. Letters of credit issued under the facility totaled \$0.6 million as of June 30, 2021 (December 31, 2020 - \$0.6 million).
- \$30.0 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 \$0.56 million. This facility was fully drawn upon signing the amended and restated credit agreement.

At June 30, 2021, \$22.4 million of the term facility principal balance outstanding was in a banker's acceptance bearing interest at prime plus a margin percent and the remaining \$0.1 million was in a prime rate loan. The effective interest on the Company's long-term debt on June 30, 2021 was 4.16%.

The amended and restated RBC facility is subject to certain financial and non-financial covenants which were substantially carried over from the previous credit agreement and the Company is in compliance with at June 30, 2021. 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.

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 2020 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of August 10, 2021, there were 19,633 thousand Common Shares issued and outstanding. In addition, as of August 10, 2021 there were 522 thousand Common Shares issuable upon exercise of TeraGo stock options, 84 thousand Common Shares issuable upon vesting of restricted share units, 62 thousand Common Shares issuable upon vesting of performance share units, and 1,401 thousand Common Shares issuable upon exercise of warrants which were issued to certain institutional investors pursuant to the Private Placement.

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 in our management's discussion and analysis for the fiscal year ended December 31, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

Our 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.

The Company has adopted a work-from-home program as of March 16, 2020. As substantially all of the Company's day-to-day activities can be fully performed by personnel working remotely, the Company is able to remain fully operational during this period, and continues to pursue revenue opportunities, execute on its product development roadmap and generate revenue from both new and existing customers. The Company has complied with applicable federal, provincial and other local regulations related to the pandemic. The Company will continue to monitor closely developments in this regard, with the health and safety of the Company's employees and management as the primary concern. Due to the fluidity of the COVID-19 pandemic and the uncertainty of its magnitude, outcome and duration, the Company is unable to definitively quantify its potential impact.

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. There have been no changes to the Company's internal controls over financial reporting in the period that have materially affected or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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.