



November 19, 2018

Re: Refined interim MD&A for the interim period ended September 30, 2018

The enclosed interim MD&A for the interim period ended September 30, 2018 has been refiled with a correction to a typo on the first page which previously referenced an incorrect date of August 8, 2018 as being the date of the MD&A. This has been corrected to read November 7, 2018.

Yours truly,

TeraGo Inc.

/s/ Mark Lau

Mark Lau

VP Legal & General Counsel

TERAGO INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

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 November 7, 2018 and should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2018 and the notes thereto, our audited consolidated financial statements for the fiscal year ended December 31, 2017, including the notes thereto and our management's discussion and analysis for the year ended December 31, 2017. 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 – 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 data centres, products and other IT services, and the planned acquisition (the "**MSI Acquisition**") of Mobilexchange Spectrum Inc. and Mobilexchange Spectrum Holdings Inc. (collectively, "**MSI**"). 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 cloud and data centre sectors may not be accurately projected, the outcome of the ISED 5G Consultation may not be favourable to the Company, the partnership with AWS not resulting in a favourable outcome, the inability to satisfy closing conditions contained in the share purchase agreement for the MSI Acquisition and those risks set forth in the "Risk Factors" section of this MD&A and other uncertainties and potential events. In particular, 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 increased 2.4% to \$14.0 million for the three months ended September 30, 2018 compared to \$13.7 million for the same period in 2017. The increase in revenue is primarily higher cloud and colocation revenue which increased 10.3% to \$5.2 million compared to \$4.7 million for the same period in 2017. The increase was attributable to the beneficial impact of \$0.7 million in non-recurring revenue resulting from a one-time customer termination fee. The increase was partially offset by lower connectivity revenue of \$8.8 million or a decline of 1.8% compared to \$9.0 million in the same period in 2017. Revenue decreased 1.0% to \$41.4 million for the nine months ended September 30, 2018 compared to \$41.9 million for the same period in 2017. The decrease was driven by the decrease in connectivity revenue, partially offset by higher cloud & colocation revenue.
- Net income (loss) was \$nil for the three months ended September 30, 2018 compared to a net loss of \$1.0 million for the same period in 2017. The decrease in net loss was primarily driven by the increase in revenue and lower depreciation & amortization. Net loss was \$2.8 million for the nine months ended September 30, 2018 compared to a net loss of \$3.2 million for the same period in 2017. The decrease was a result of lower restructuring and related costs and lower depreciation & amortization, partially offset by lower revenue and higher property, plant, & equipment disposition and impairment charges.
- Adjusted EBITDA⁽¹⁾⁽²⁾ increased to \$3.6 million for the three months ended September 30, 2018 compared to \$3.2 million for the same period in 2017. The increase was primarily driven by higher revenue. Adjusted EBITDA decreased to \$9.8 million for the nine months ended September 30, 2018 compared to \$9.9 million for the same period in 2017. The decrease was primarily driven by the decrease in revenue.

Key Developments

- On September 21, 2018, the Company announced that it has entered into a definitive share purchase agreement under which the Company will acquire all of the issued and outstanding shares of MSI for aggregate cash consideration of \$5.7 million. The acquisition is being funded through net proceeds of TeraGo's bought deal equity financing which previously closed on June 18, 2018. The MSI Acquisition will provide TeraGo with six 24 GHz spectrum licenses totaling 960 MHz in Canada's six largest cities covering approximately 3.1 billion MHz-Pop.
- On October 10, 2018, the Company announced that it will be initiating a technical trial in the Greater Toronto Area utilizing fixed wireless 5G millimeter wave equipment from PHAZR Inc. The trial will utilize TeraGo's licensed spectrum in the 24 GHz frequency band.
- On November 1, 2018, the Company received a letter from ISED setting out its approval for the deemed transfer of the six 24 GHz spectrum licences currently held by MSI, pursuant to an application that was filed in connection with the MSI Acquisition.

⁽¹⁾ Adjusted EBITDA is a Non-GAAP measure. See "Definitions - 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 has aligned with Amazon Web Services (“AWS”) in preparation to provide managed public cloud services and is an AWS Consulting Partner, part of the AWS APN partner network. During the year, TeraGo attained the Standard Partner tier in the AWS Partner Program.

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.

Cloud Services	Colocation Services	Connectivity 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 	<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

TERAGO’S BUSINESS MODEL

TeraGo’s business strategy is to provide enterprise-class hybrid IT solutions tailored to the mid-market. The Company leverages its existing nationwide data centre footprint, VMware private/multi-tenant cloud and AWS, 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. The majority of new customers sign contracts for three years or more. Services are billed monthly over the term of the contract.

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 small and medium 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 certified 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 certified 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 certified 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 certified data centre facilities in downtown Vancouver. Its first facility is 5,000 square feet and is expandable to 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.

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, 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"). Unlike asymmetrical DSL services offered by many of our competitors, TeraGo provides services that are symmetrical, hence customers can have the same high speed broadband performance whether uploading or downloading. 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 and leases a national spectrum portfolio of exclusive 24GHz and 38GHz 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.

In June 2017, Innovation, Science and Economic Development Canada (ISED) issued the Consultation on Releasing Millimetre Wave Spectrum to Support 5G. This Consultation contemplates the future use of certain millimetre wave spectrum to support the deployment of 5th generation (5G) wireless networks and systems. The spectrum bands identified by ISED includes (amongst others) the 38 GHz band which TeraGo currently holds licences in. As of the date, hereof, the Company has submitted a comment letter in response to the Consultation and final decisions from ISED on this Consultation are yet to be released.

In October 2017, ISED issued the *Consultation on the Spectrum Outlook 2018 to 2022*. This Consultation seeks comments from stakeholders on ISED's overall approach and planned activities for spectrum over the next five years. This Consultation references the 24 GHz band, among several other bands, being considered for release in the future for mobile use. As of the date, hereof, the Company has submitted a comment letter in response to the Consultation and final decisions from ISED on this Consultation are yet to be released.

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_sf11245.html.

On September 18, 2018, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of MSI for aggregate cash consideration of \$5.7 million. MSI is the current holder of six 24 GHz spectrum licenses totaling 960 MHz from whom the Company currently leases from. The acquisition is being funded through the net proceeds of TeraGo's bought deal equity offering which previously closed on June 18, 2018.

Closing of the MSI Acquisition is expected to occur in November 2018, subject to customary closing conditions and as a result, has not yet been reflected in the Company's financial statements.

For further details on our licensed spectrums, please refer to the Company's 2017 AIF.

RESULTS OF OPERATIONS

Comparison of the three and nine months ended September 30, 2018 and 2017
(in thousands of dollars, except with respect to gross profit margin, earnings per share, Backlog MRR, and ARPU)

	Three months ended September 30		Nine months ended September 30	
	2018	2017 ⁽³⁾	2018	2017 ⁽³⁾
Financial				
Cloud and Colocation Revenue	\$ 5,190	4,705	\$ 14,815	14,234
Connectivity Revenue	\$ 8,814	8,975	\$ 26,612	27,615
Total Revenue	\$ 14,004	13,680	\$ 41,427	41,849
Cost of Services ⁽¹⁾	\$ 3,488	3,511	\$ 10,509	10,559
Gross profit margin ⁽¹⁾	75.1%	74.3%	74.6%	74.8%
Adjusted EBITDA ^{(1) (2)}	\$ 3,593	3,213	\$ 9,845	9,927
Net loss	\$ (47)	(1,047)	\$ (2,848)	(3,233)
Basic loss per share	\$ (0.00)	(0.07)	\$ (0.19)	(0.23)
Diluted loss per share	\$ (0.00)	(0.07)	\$ (0.19)	(0.23)
Operating				
<u>Backlog MRR⁽¹⁾</u>				
Connectivity	\$ 71,659	98,345	\$ 71,659	98,345
Cloud & Colocation	\$ 30,172	134,283	\$ 30,172	134,283
<u>Churn Rate⁽¹⁾</u>				
Connectivity	1.4%	1.5%	1.5%	1.6%
Cloud & Colocation	1.0%	1.5%	1.9%	1.6%
<u>ARPU⁽¹⁾</u>				
Connectivity	\$ 1,071	984	\$ 1,058	975
Cloud & Colocation	\$ 3,049	3,112	\$ 3,156	3,132

(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

(3) The Company has applied IFRS 15 on January 1, 2018 using the cumulative effect method. Under this method, the comparative information is not restated. See "Accounting Pronouncements Adopted in 2018" for further information.

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 increased 2.4% to \$14.0 million for the three months ended September 30, 2018 compared to \$13.7 million for the same period in 2017. Total revenue decreased 1.0% to \$41.4 million for the nine months ended September 30, 2018, compared to \$41.9 million for the same period in 2017.

Cloud and Colocation Revenue

For the three months ended September 30, 2018, cloud and colocation revenue increased 10.3% to \$5.2 million compared to \$4.7 million for the same period in 2017. The increase was attributable to the beneficial impact of \$0.7 million in non-recurring revenue resulting from a one-time customer termination fee. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, cloud and colocation revenue for the three months ended September 30, 2018 would have been \$5.6 million or 19.4% increase compared to \$4.7 million for the same period in 2017.

For the nine months ended September 30, 2018, cloud and colocation revenue increased 4.1% to \$14.8 million compared to \$14.2 million for the same period in 2017. The increase was driven by factors described above. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, cloud and colocation revenue for the nine months ended September 30, 2018 would have been \$15.9 million or 11.9% increase compared to \$14.2 million for the same period in 2017.

TERAGO INC.
Management's Discussion and Analysis
Quarter Ended September 30, 2018

Connectivity Revenue

For the three months ended September 30, 2018, connectivity revenue decreased 1.8% to \$8.8 million compared to \$9.0 million for the same period in 2017. Connectivity revenues were impacted by a variety of factors, including churn and certain customers renewing long term contracts at lower current market rates partially offset by the positive impact of reclassifications as a result of first time adoption of IFRS 15. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, connectivity revenue for the three months ended September 30, 2018 would have been \$8.4 million or 6.8% decrease compared to \$8.8 million for the same period in 2017.

For the nine months ended September 30, 2018, connectivity revenue decreased 3.6% to \$26.6 million compared to \$27.6 million for the same period in 2017. The decrease was driven by factors described above. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, connectivity revenue for the nine months ended September 30, 2018 would have been \$25.5 million or 7.7% decrease compared to \$27.6 million for the same period in 2017.

Net loss

Net income (loss) was \$nil for the three months ended September 30, 2018 compared to a net loss of \$1.0 million for the same period in 2017. The decrease in net loss was primarily driven by the increase in revenue and lower depreciation & amortization. Net loss was \$2.8 million for the nine months ended September 30, 2018 compared to a net loss of \$3.2 million for the same period in 2017. The decrease was a result of lower restructuring and related costs and lower depreciation & amortization, partially offset by lower revenue and higher property, plant, & equipment disposition and impairment charges.

Adjusted EBITDA⁽¹⁾

Adjusted EBITDA increased to \$3.6 million for the three months ended September 30, 2018 compared to \$3.2 million for the same period in 2017. The increase was primarily driven by higher revenue. Adjusted EBITDA decreased to \$9.8 million for the nine months ended September 30, 2018 compared to \$9.9 million for the same period in 2017. The decrease was primarily driven by the decrease in revenue year to date.

The table below reconciles net loss to Adjusted EBITDA⁽¹⁾ for the three and nine months September 30, 2018 and 2017.

<i>(in thousands of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2018	2017⁽²⁾	2018	2017⁽²⁾
Net earnings (loss) for the period	\$ (47)	(1,047)	\$ (2,848)	(3,233)
Foreign exchange loss (gain)	(12)	(18)	(18)	(35)
Finance costs	343	350	1,549	1,175
Finance income	(27)	(18)	(28)	(33)
Earnings (loss) from operations	257	(733)	(1,345)	(2,126)
Add:				
Depreciation of network assets, property and equipment and amortization of intangible assets	2,828	3,564	9,027	10,832
Loss on disposal of network assets	104	(1)	360	94
Impairment of Assets and Related Charges	64	-	431	-
Stock-based Compensation Expense (Recovery)	250	8	684	45
Restructuring, acquisition-related, integration costs and other	90	375	688	1,082
Adjusted EBITDA⁽¹⁾	\$ 3,593	3,213	\$ 9,845	9,927

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

(2) The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

Backlog MRR

Cloud and colocation backlog MRR was \$30,172 as at September 30, 2018 compared to \$134,283 as at September 30, 2017. The decrease is driven by the provisioning of large colocation customers acquired in prior quarters, partially offset by new customer backlog.

Connectivity backlog MRR was \$71,659 as at September 30, 2018, compared to \$98,345 as at September 30, 2017. The change in backlog MRR is driven primarily by bookings and the timing of customer provisioning.

ARPU

For the three months ended September 30, 2018 cloud and colocation ARPU was \$3,049 compared to \$3,112 for the same period in 2017. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, ARPU for the three months ended September 30, 2018 would have been \$3,358, representing growth of 7.9% compared to the prior period. The increase was driven by the provisioning of large customers in the first half of 2018, as well as planned churn of low value cloud customers. For the nine months ended September 30, 2018 cloud and colocation ARPU was \$3,156 compared to \$3,132 for the same period in 2017. The increase was driven by factors described above.

For the three months ended September 30, 2018 Connectivity ARPU was \$1,071 compared to \$984 for the same period in 2017. The increase in ARPU is driven by the continued churn of low value ARPU customers, as well as the impact of the adoption of IFRS 15. Excluding the impact of IFRS 15 on the classification of revenue from cloud and colocation to connectivity, connectivity ARPU for the three months ended September 30, 2018 would have been \$1,015, which represents growth of 3.1% compared to the prior year period. For the nine months ended September 30, 2018 connectivity ARPU was \$1,058 compared to \$975 for the same period in 2017. The increase was driven by factors described above.

Churn

For the three months ended September 30, 2018, cloud and colocation churn was 1.0% compared to 1.5% for the same period in 2017. For the nine months ended September 30, 2018, cloud and colocation churn was 1.9% compared to 1.6% for the same period in 2017. The increase was driven by low value customer churn on legacy and end of life services that the Company decided to cease in the first quarter of 2018. While the rate of churn will fluctuate based on the timing of contract renewals and product lifecycles, the Company's investments in developing a robust customer experience framework have begun to yield positive results on the Company's churn rate.

For the three months ended September 30, 2018, connectivity churn was 1.4% compared to 1.6% for the same period in 2017. For the nine months ended September 30, 2018, connectivity churn was 1.5% compared to 1.6% for the same period in 2017. The decrease was driven by favourable impacts of the Company's investment in developing a robust customer experience framework.

Finance costs

For the nine months ended September 30, 2018, finance costs increased 31.8% to \$1.5 million compared to \$1.2 million for the same period in 2017. The increase was a result of the fair valuation of the new interest rate swap contracts.

Depreciation and amortization

For the three months ended September 30, 2018, depreciation of network assets, property and equipment and amortization of intangibles decreased 20.7% to \$2.8 million compared to \$3.6 million for the same period in 2017. The decrease is mainly attributed to impairment charges and assets reaching zero net book value earlier in the year. For the nine months ended September 30, 2018, depreciation of network assets, property and equipment and amortization of intangibles decreased 16.7% to \$9.0 million compared to \$10.8 million for the same period in 2017. The decrease was a result of the factors described above.

TERAGO INC.
Management's Discussion and Analysis
Quarter Ended September 30, 2018

Summary of Quarterly Results

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

	Q3-18 ⁽²⁾	Q2-18 ⁽²⁾	Q1-18 ⁽²⁾	Q4-17 ⁽²⁾	Q3-17 ⁽²⁾	Q2-17 ⁽²⁾	Q1-17 ⁽²⁾	Q4-16 ⁽²⁾
Financial								
Revenue	\$ 14,004	13,683	13,740	13,543	13,680	13,892	14,277	14,593
Gross Profit Margin % ⁽¹⁾	75.1%	74.7%	74.1%	73.8%	74.3%	74.3%	75.6%	77.2%
Adjusted EBITDA ⁽¹⁾	\$ 3,593	3,123	3,129	2,937	3,213	3,003	3,711	4,889
Net income/(loss)	\$ (47)	(1,489)	(1,312)	(4,061)	(1,047)	(1,131)	(1,055)	355
Basic income/(loss) per share	\$ (0.00)	(0.10)	(0.09)	(0.28)	(0.07)	(0.08)	(0.07)	0.02
Diluted income/(loss) per share	\$ (0.00)	(0.10)	(0.09)	(0.28)	(0.07)	(0.08)	(0.07)	0.02
Basic weighted average number of shares outstanding	15,736	14,588	14,391	14,335	14,334	14,283	14,258	14,223
Diluted weighted average number of shares outstanding	15,736	14,588	14,391	14,335	14,334	14,283	14,258	14,230
Operating								
<u>Backlog MRR⁽¹⁾</u>								
Connectivity	\$ 71,659	60,750	58,336	84,191	98,345	76,254	69,518	73,923
Cloud & Colocation	\$ 30,172	67,747	133,687	291,698	134,283	39,977	33,962	20,223
<u>Churn Rate⁽¹⁾</u>								
Connectivity	1.4%	1.4%	1.6%	1.6%	1.5%	1.7%	1.7%	1.7%
Cloud & Colocation	1.0%	1.5%	3.1%	1.4%	1.5%	2.2%	1.2%	1.7%
<u>ARPU⁽¹⁾</u>								
Connectivity	\$ 1,071	1,062	1,041	996	984	972	968	963
Cloud & Colocation	\$ 3,049	3,336	3,084	3,027	3,112	3,124	3,160	3,113

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

(2) The Company has initially applied IFRS 15 using the cumulative effect method. 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 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.

TERAGO INC.
Management's Discussion and Analysis
Quarter Ended September 30, 2018

The table below is a summary of cash inflows and outflows by activity.

<i>(in thousands of dollars)</i>	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Statement of Cash Flows Summary				
Cash inflows and (outflows) by activity:				
Operating activities	\$ 3,271	2,885	8,254	5,903
Investing activities	(1,464)	(2,329)	(7,545)	(7,093)
Financing activities	(1,504)	(1,459)	1,793	(4,718)
Net cash inflows (outflows)	303	(903)	2,502	(5,908)
Cash and cash equivalents, beginning of period	9,185	8,029	6,986	13,034
Cash and cash equivalents, end of period	\$ 9,488	7,126	9,488	7,126

Operating Activities

For the three months ended September 30, 2018, cash generated from operating activities was \$3.3 million compared to cash from operations of \$2.9 million for the same period in 2017. The increase in cash from operating activities is mainly due to higher adjusted EBITDA, partially offset by unfavourable changes in working capital. For the nine months ended September 30, 2018, cash generated from operating activities was \$8.1 million compared to \$5.9 million for the same period in 2017. The increase is primarily due to significant restructuring and severance related payments paid in 2017 with no similar payments in 2018.

Investing Activities

For the three months ended September 30, 2018, cash used in investing activities was \$1.5 million compared to cash used of \$2.3 million for the same period in 2017. The decrease in cash used in investing activities was due lower capital expenditures and favourable changes in the timing of payments for purchases of capital expenditures in 2018 compared to 2017. For the nine months ended September 30, 2018, cash used in investing activities was \$7.5 million compared to \$7.1 million for the same period in 2017. The increase was due to higher overall capital expenditures in 2018 to provision large deals, partially offset by favourable changes in timing of payments for capital purchases in 2018 compared to 2017.

Financing Activities

For the nine months ended September 30, 2018 cash generated from financing activities was \$1.9 million compared to cash used in financing activities of \$4.7 million for the same period in 2017. The increase was due to the successful completion of the equity offering in the second quarter of 2018, which raised \$6.1 million, net of expenditures.

Capital Resources

As at September 30, 2018, the Company had cash and cash equivalents of \$9.5 million and access to an undrawn revolving facility and acquisition funding capital as described in the subsequent section 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 economic conditions warrant, the Company may expand its network coverage into new Canadian markets and making additional investments in colocation, cloud and other IT services through acquisitions or expansion.

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 future.

Term Debt Facility

In June 2014, the Company entered into an agreement with a syndicate led by the National Bank of Canada ("NBC") to provide a \$50.0 million credit facility that is principally secured by a general security agreement over the Company's assets.

In March 2015, the Company entered into an amended agreement with the syndicate led by NBC that increased the credit facility by \$35.0 million (\$30.0 million increase to the term debt facility and \$5.0 million increase to the revolving facility) and extended the term from June 6, 2017 to June 30, 2018. Other terms were substantially consistent with the existing credit facilities.

In June 2017, the Company entered into a second amended agreement with the syndicate led by NBC that reduced the term debt facility from \$50.0 million to \$40.0 million (as a result of principal previously repaid), reduced the quarterly principal installment from \$1.25 million to \$1.0 million and extended the term from June 30, 2018 to June 14, 2021. Other terms were substantially consistent with the existing credit facilities.

The total \$75,000 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 September 30, 2018, \$nil amount is outstanding (2017 - \$nil). Letters of credit issued under the facility totaled \$0.7 million as of September 30, 2018 (2017 - \$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 September 30, 2018, \$33.8 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. In 2018, the Company entered into 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 September 30, 2018 was a liability of \$0.01 million (December 31, 2017 – asset of \$0.03 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 September 30, 2018 was 5.34% which represents the Company's interest on its Banker's Acceptance net of its interest swap contracts.

As at September 30, 2018, the Company prepaid interest in the amount of \$0.4 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 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 September 30, 2018, this facility remains undrawn.

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 September 30, 2018. 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 June 18, 2018, the Company completed the Offering to issue and sell 1,303 common shares for gross proceeds of \$6,906. Proceeds net of actual and expected additional commissions, legal, accounting and listing fees was \$6,067. The Offering was carried out pursuant to an underwriting agreement dated June 4, 2018 with a syndicate of underwriters led by TD Securities Inc., and included Cormark Securities Inc. and Desjardins Securities Inc.

The Company intends to use the net proceeds of the Offering to fund its acquisition of MSI as further described in Overview – Key Developments.

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 2017 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of November 7, 2018, there were 15,754 Common Shares issued and outstanding and two Class B Shares issued and outstanding. In addition, as of November 7, 2018, there were 70 Common Shares issuable upon exercise of TeraGo stock options.

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, 2017.

ACCOUNTING PRONOUNCEMENTS ADOPTED IN 2018

a) IFRS 15 Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. IFRS 15 supersedes the existing standards and interpretations including IAS 18, Revenue and IFRIC 13, Customer Loyalty Programmes. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs.

The Company applied IFRS 15 using the cumulative effect method, i.e. by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at January 1, 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18.

The Company has implemented several processes and policies to ensure the consistent, timely, and appropriate allocation of revenue between performance obligations in contracts with customers.

The adoption of IFRS 15 did not affect the Company's cash flows from operating, investing, or financing activities. Furthermore, the impact on timing of revenue recognition was not material as the treatment of revenue for services rendered over time, which is the method under which Company satisfies the majority of its performance obligations, is consistent under IFRS 15 and IAS 18. The details of the significant changes and quantitative impact of the changes are outlined in Note 3 of the Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2018.

i) Sale of Bundled Services

The Company offers customers bundled connectivity, colocation, and cloud services. Revenue from these arrangements were previously classified on the nature of the contract. Under IFRS 15, total consideration in contracts with customers are allocated to distinct performance obligations based on their stand-alone selling prices. The Company determined the stand-alone selling price to be the list price at which the Company sells connectivity, and colocation & cloud services. As a result of the allocation of performance obligations under IFRS 15, certain amounts that would have been classified as cloud & colocation revenue are now presented as connectivity revenue.

ii) Service Credits

The Company has obligations for credits under its contracts with customers when certain criteria are met. Credits are recognized net of revenue recognized and presented in total revenue on the statement of comprehensive income.

iii) Contract Costs

IFRS 15 requires certain contract acquisition costs to be recognized as an asset on the statement of financial position and amortized into income over time. The Company typically incurs internal or external sales commissions fees to obtain contracts with customers. Prior to the adoption of IFRS 15, the Company had expensed all commission costs as incurred. The Company now capitalizes these commission fees as costs of obtaining a contract when they are incremental and expected to be recovered. These costs are amortized consistently with the pattern of revenue for the related contracts and are recorded in salaries and related costs on the statement of comprehensive loss.

Contract costs are presented separately as an asset on the consolidated statement of financial position. The Company has opted not to use practical expedients under the cumulative effect method and as a result, the current portion of contract costs are presented in current assets. The current portion represent amounts expected to be amortized in the next 12 months. The Company had to make significant judgments and estimates when estimating certain contract costs incurred in prior years that continue to be incremental and recoverable in the current period.

iv) Contract Assets

Contract assets arise primarily as a result of services offered and provided in advance of payments received from a customer. From time to time, the Company will offer promotions which will give rise to contract assets. These arrangements are recorded in other long-term assets on the balance sheet with current and long-term amounts presented separately on the statement of financial position. The current portion represents the performance obligation to be satisfied and recognized as revenue in the next twelve months.

v) Contract Liabilities

Contract liabilities arise primarily as a result of payment made in advance of providing services to a customer. The Company had previously presented these arrangements as deferred revenue. These payments are now presented as contract liabilities with current and long-term amounts presented separately on the statement of financial position. The current portion represents the performance obligation to be satisfied and recognized in revenue in the next 12 months.

vi) Impacts on Financial results

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

	Three months ended September 30			Nine months ended September 30		
	<u>2018 (As reported)</u>	<u>2018 (Without adoption of IFRS 15)</u>	<u>% Change</u>	<u>2018 (As reported)</u>	<u>2018 (Without adoption of IFRS 15)</u>	<u>% Change</u>
Financial						
Cloud and Colocation Revenue	\$ 5,190	5,618	-7.6%	\$ 14,815	15,921	-6.9%
Connectivity Revenue	\$ 8,814	8,363	5.4%	\$ 26,612	25,495	4.4%
Total Revenue	\$ 14,004	13,981	-	\$ 41,427	41,416	-
Adjusted EBITDA ^{(1) (2)}	\$ 3,593	3,502	2.6%	\$ 9,845	9,663	1.9%
Net Income (Loss)	\$ (47)	(138)	-65.9%	\$ (2,848)	(3,030)	-6.0%
Operating						
<u>Backlog MRR⁽¹⁾</u>						
Connectivity	\$ 71,659	72,837	-1.6%	\$ 71,659	72,837	-1.6%
Cloud & Colocation	\$ 30,172	30,672	-1.6%	\$ 30,172	30,672	-1.6%
<u>ARPU⁽¹⁾</u>						
Connectivity	\$ 1,071	1,015	5.5%	\$ 1,058	1,012	4.5%
Cloud & Colocation	\$ 3,049	3,358	-9.2%	\$ 3,156	3,411	-7.5%

(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

vii) Use of estimates

The Company used estimates in the following areas:

- Determining the enforceable term of contracts required estimating average contract terms based on available historical data
- Significant judgments in determining whether the promises to deliver certain services are considered distinct and represent separate performance obligations
- Evaluating whether costs incurred to obtain a contract were incremental and expected to be recoverable

b) IFRS 9 Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9 Financial Instruments. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The adoption of this standard did not have a material effect on our consolidated financial statements.

i) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The Company's financial assets measured at amortized cost consist of trade receivables.

Under IFRS 9, loss allowances are measured on either of the following bases:

- *12-month ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances for trade receivables and any contract assets at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired.

ii) Measurement of loss allowances

For trade receivables, the Company uses historic actual credit losses as the basis for estimating ECLs and uniformly applies this estimate to its gross balance net of balances already fully impaired at each reporting date. The Company believes this amount to best estimate the expected credit losses.

iii) Presentation of loss allowances

Loss allowances on financial assets measured at amortized cost are deducted from the gross carrying amount of the asset and the related impairment loss is recorded separately on the statement of comprehensive income.

UPCOMING ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

Certain new standards, interpretations, amendments and improvements to existing standards have been issued by the IASB. The standards impacted that may be applicable to the Company are as follows:

IFRS 16 Leases

On January 13, 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset

as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception.

The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Company has a dedicated team to assess the impact of IFRS 16 and the team has started gathering the information necessary to evaluate the impact of the standard. The team is expected to quantify the impact of the standard upon completion of their assessment.

CRITICAL ACCOUNTING ESTIMATES

The unaudited condensed interim consolidated financial statements are in compliance with International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. Estimates and assumptions are continuously evaluated and are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience. However, actual outcomes may differ from the amounts included in the consolidated financial statements.

The preparation of financial statements in accordance with IAS 34 also requires management to exercise judgement in applying the Company's accounting policies.

The Company's critical accounting estimates have been set out in Note 2 of the Company's 2017 Consolidated Financial Statements.

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.

The Company has implemented several controls to ensure the consistent, timely, and appropriate recognition of revenue in accordance with the implementation of IFRS 15. There were no other changes in the Company's internal controls over financial reporting for the three ended September 30, 2018 that have materially affected or are reasonably

likely to materially affect internal controls over financial reporting. Management has concluded that there are no material weaknesses relating to the design of TeraGo's internal controls over financial reporting as of September 30, 2018.

EXECUTIVE MANAGEMENT CHANGES

Effective August 15, 2018, Christopher Taylor was appointed as Vice President, Product Management and Business Development, having previously served as Director, Product Management to the Company.

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.