TeraGo Reports 2018 First Quarter Financial Results

Toronto – May 9, 2018 – TeraGo Inc. ("**TeraGo**" or the "**Company**") (TSX: TGO, www.terago.ca), today announced financial and operating results for the quarter ended March 31, 2018.

"In the first quarter, we made solid progress to stabilize the business and our focus on retaining and attracting higher value customers has led to improvement in ARPU," said Tony Ciciretto, President and CEO of TeraGo. "The strategic investments made over the past year are beginning to contribute to our financial results as we provision services to customers from our backlog at the end fourth quarter of 2017."

Mr. Ciciretto added, "We are also closely monitoring the future development of 5G in Canada and are focused on leveraging our 24/38 GHz spectrum assets to surface value as the process unfolds. In February, we submitted a comment letter to ISED in response to a consultation on their overall approach and planned activities for spectrum over the next five years. We look forward to ISED's upcoming decision on the use of 38 GHz millimeter wave spectrum for 5G, and hope to see the 24 GHz band added as part of ISED's roadmap for 5G in the future."

Financial Highlights

- Total revenue decreased 3.8% to $13.7 million for the three months ended March 31, 2018 compared to $14.3 million for the same period in 2017.

- Cloud and colocation revenue decreased 1.7% to $4.7 million for the three months ended March 31, 2018 compared to $4.8 million for the same period in 2017. This decrease was primarily as a result of the reclassification of certain revenue in 2018 from cloud and colocation to connectivity for the first time adoption of IFRS 15, Revenue from Contracts with Customers, while prior period results have not been restated. Had the prior revenue classification method been used, cloud and colocation revenue would have been $5.0 million, an increase of 4.7% from the same period in 2017.

- Connectivity revenue decreased 4.8% to $9.0 million for the three months ended March 31, 2018 compared to $9.5 million for the same period in 2017. Connectivity revenues were impacted by a variety of factors, including churn, certain customers renewing long term contracts at lower current market rates partially offset by the positive impact of reclassifications as a result of the first time adoption of IFRS 15. Had the prior revenue classification method been used, connectivity revenue would have been $8.7 million, a decrease of 8.0% from the same period in 2017.

- Net loss was $1.3 million for the three months ended March 31, 2018 compared to a net loss of $1.1 million for the same period in 2017. The increase in net loss was primarily driven by the impairment charge on property and equipment for certain network assets associated with our connectivity services. In addition, the Company saw a decrease in revenue, increase in cost of services, increase in other operating costs, increase in finance costs, and an increase in stock-based compensation, partially offset by lower restructuring and related costs, as well as lower depreciation and amortization.

- Adjusted EBITDA[(1)(2)] decreased to $3.1 million for the three months ended March 31, 2018 compared to $3.7 million for the same period in 2017. The decrease was primarily driven by lower revenue and increases in other operating expenses partially offset by lower overall salary and related costs.

RESULTS OF OPERATIONS

Comparison of the three months March 31, 2018 and 2017
(in thousands of dollars, except with respect to gross profit margin, earnings per share, Backlog MRR, and ARPU)

		Three months ended March 31		
		2018		**2017**[3]
Financial				
Cloud and Colocation Revenue	$	4,731	$	4,812
Connectivity Revenue	$	9,009	$	9,465
Total Revenue	$	13,740	$	14,277
Cost of Services	$	3,555	$	3,483
Gross profit margin		74.1%		75.6%
Adjusted EBITDA[1] [2]	$	3,129	$	3,711
Net Income (Loss)	$	(1,312)	$	(1,055)
Basic loss per share	$	(0.09)	$	(0.07)
Diluted loss per share	$	(0.09)	$	(0.07)
Operating				
Backlog MRR[1]				
Connectivity	$	58,336	$	69,518
Cloud & Colocation	$	133,687	$	33,962
Churn Rate[1]				
Connectivity		1.6%		1.7%
Cloud & Colocation		3.1%		1.2%
ARPU[1]				
Connectivity	$	1,041	$	968
Cloud & Colocation	$	3,084	$	3,160

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

(2) See definition of "Adjusted EBITDA" below 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.

Operating Highlights

Backlog MRR[1]

- Cloud and colocation backlog MRR was $133,687 as at March 31, 2018 compared to $33,962 as at March 31, 2017. The increase is driven by growth in Cloud and Colocation sales bookings in recent quarters with a number of customer contracts scheduled to be provisioned in 2018.

- Connectivity backlog MRR was $58,336 as at March 31, 2018, compared to $69,518 as at March 31, 2017. The change in backlog MRR is driven primarily by bookings and the timing of customer provisioning.

ARPU[1]

- For the three months ended March 31, 2018 cloud and colocation ARPU was $3,084 compared to $3,160 for the same period in 2017. The decline in ARPU is due to the adoption of IFRS 15 in 2018. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, ARPU for the three months ended March 31, 2018 would have been $3,282, representing growth of 3.9% compared to the prior period driven by the partial provisioning of large new customers, as well as planned churn of low value cloud customers.

- For the three months ended March 31, 2018 connectivity ARPU was $1,041 compared to $968 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 March 31, 2018 would have been $1,005, which represents growth of 3.8% compared to the prior year period.

Churn[1]

- For the three months ended March 31, 2018, cloud and colocation churn was 3.1% compared to 1.2% for the same period in 2017. The increase is largely as result of low value customer churn on legacy and end of life services that the Company has decided to cease during the three months ended March 31, 2018. Excluding customer churn due to the ceasing of these legacy and end of life services, cloud and colocation churn was approximately 1.7% for the three months ended March 31, 2018.

- For the three months ended March 31, 2018, connectivity churn was 1.6% compared to 1.7% for the same period in 2017. The Company continues to focus on servicing and retaining mid-market customers with churn expected to continue from lower ARPU customers due to competition at the low end of the market.

ACCOUNTING PRONOUNCEMENTS ADOPTED IN 2018

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 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 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.

The following table highlights some of the key impacts on our financial metrics discussed in the press release. For a full description of the accounting pronouncements adopted in 2018, please refer to the Management's Discussion & Analysis report for the three months ended March 31, 2018.

					Three months ended March 31
Financial		**2018 (As reported)**		**2018 (Without adoption of IFRS 15)**	**% Change**
Cloud and Colocation Revenue	$	4,731	$	5,039	-6.1%
Connectivity Revenue	$	9,009	$	8,705	3.5%
Total Revenue	$	13,740	$	13,744	-
Adjusted EBITDA[1] [2]	$	3,129	$	3,041	2.9%

Net Income (Loss)	$	(1,312)	$	(1,400)	-6.3%
Operating					
Backlog MRR[1]					
Connectivity	$	58,336	$	56,678	2.9%
Cloud & Colocation	$	133,687	$	135,345	-1.2%
ARPU[1]					
Connectivity	$	1,041	$	1,005	3.6%
Cloud & Colocation	$	3,084	$	3,282	-6.0%

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

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

[1]Non-IFRS Measures

This press release contains references to "Adjusted EBITDA", "Backlog MRR", "ARPU", and "churn" which are not measures prescribed by International Financial Reporting Standards (IFRS).

Adjusted EBITDA - The Company believes that Adjusted EBITDA is useful additional information to management, the Board and investors as it provides an indication of the operational results generated by its business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and amortization and it excludes items that could affect the comparability of our operational results and could potentially alter the trends analysis in business performance. Excluding these items does not necessarily imply they are non-recurring, infrequent or unusual. Adjusted EBITDA is also used by some investors and analysts for the purpose of valuing a company. The Company calculates Adjusted EBITDA as earnings before deducting interest, taxes, depreciation and amortization, foreign exchange gain or loss, finance costs, finance income, gain or loss on disposal of network assets, property and equipment, impairment of property, plant, & equipment and intangible assets, stock-based compensation and restructuring, acquisition-related and integration costs. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to operating earnings (losses) or net earnings (losses) determined in accordance with IFRS as an indicator of our financial performance or as a measure of our liquidity and cash flows. Adjusted EBITDA does not take into account the impact of working capital changes, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

A reconciliation of net loss to Adjusted EBITDA is found below and in the MD&A for the three months ended March 31, 2018. Adjusted EBITDA does not have any standardized meaning under IFRS/GAAP. TeraGo's method of calculating Adjusted EBITDA may differ from other issuers and, accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other issuers.

The table below reconciles net loss to Adjusted EBITDA[1] for the three months and year ended March 31, 2018 and 2017.

(in thousands of dollars)	Three months ended March 31	
	2018	**2017**[1]
Net earnings (loss) for the period	$ (1,312)	$ (1,055)
Foreign exchange loss (gain)	4	7
Finance costs	628	471
Finance income	-	(4)
Earnings (loss) from operations	(680)	(581)
Add:		
Depreciation of network assets, property and equipment and amortization of intangible assets	3,153	3,661
Loss on disposal of network assets	82	51
Impairment of Assets and Related Charges	236	-
Stock-based Compensation Expense (Recovery)	203	(147)
Restructuring, acquisition-related, integration costs and other	135	$ 727
Adjusted EBITDA	$ 3,129	$ 3,711

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

Backlog MRR - The term “Backlog MRR” is a measure of contracted monthly recurring revenue (MRR) from customers that have not yet been provisioned. The Company believes backlog MRR is useful additional information as it provides an indication of future revenue. Backlog MRR is not a recognized measure under IFRS and may not translate into future revenue, and accordingly, investors are cautioned in using it. The Company calculates backlog MRR by summing the MRR of new customer contracts and upgrades that are signed but not yet provisioned, as at the end of the period. TeraGo’s method of calculating backlog MRR may differ from other issuers and, accordingly, backlog MRR may not be comparable to similar measures presented by other issuers.

ARPU - The term “ARPU” refers to the Company’s average revenue per customer per month. The Company believes that ARPU is useful supplemental information as it provides an indication of our revenue from an individual customer on a per month basis. ARPU is not a recognized measure under IFRS and, accordingly, investors are cautioned that ARPU should not be construed as an alternative to revenue determined in accordance with IFRS as an indicator of our financial performance. The Company calculates ARPU by dividing our total revenue before revenue from early terminations divided by the number of customers in service during the period and we express ARPU as a rate per month. TeraGo’s method of calculating ARPU may differ from other issuers and, accordingly, ARPU may not be comparable to similar measures presented by other issuers.

Churn - The term “churn” or “churn rate” is a measure, expressed as a percentage of customer cancellations in a particular month. Churn represents the number of customer cancellations per month as a percentage of total number of customers during the month. The Company believes that the churn rate is useful supplemental information as it provides an indication of future revenue decline and is a measure of how well the business is able to renew and keep existing customers on their existing service offerings. The Company calculates churn by dividing the number of customer cancellations during a month by the total number of customers at the end of the month before any churn, expressed as an average monthly rate in the period. Churn and churn rate are not recognized measures under IFRS and, accordingly, investors are cautioned in using it. TeraGo’s method of calculating churn and churn rate may differ from other issuers and, accordingly, churn may not be comparable to similar measures presented by other issuers.

Conference Call

Management will host a conference call tomorrow, Thursday, May 10, 2018, at 8:30 am ET to discuss these results.

To access the conference call, please dial 647-427-2311 or 1-866-521-4909. The unaudited financial statements for the three months ended March 31, 2018 and Management's Discussion & Analysis for the same period have been filed on SEDAR at www.sedar.com. Alternatively, these documents along with a presentation in connection with the conference call can be accessed online at https://terago.ca/company/investor-relations.

An archived recording of the conference call will be available until May 18, 2018. To listen to the recording, call 416-621-4642 or 1-800-585-8367 and enter passcode 1793037.

About TeraGo

TeraGo provides businesses across Canada with cloud, colocation and connectivity services. TeraGo manages over 3,000 cloud workloads, operates five data centres in the Greater Toronto Area, the Greater Vancouver Area, and Kelowna, and owns and manages its own IP network. The Company serves business customers in major markets across Canada including Toronto, Montreal, Calgary, Edmonton, Vancouver and Winnipeg. TeraGo Networks is a Competitive Local Exchange Carrier (CLEC) and was recognized by IDC as a Major Player in MarketScape Cloud Vendor Assessment. TeraGo Networks was also selected as one of Canada's Top Small and Medium Employers for 2017.

For more information about TeraGo, please visit www.terago.ca.

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Forward-Looking Statements

This press release includes certain forward-looking statements that are made as of the date hereof. Such forward-looking statements may include, but are not limited to, statements relating to TeraGo's growth strategy, progress in stabilizing the business and our focus on retaining and attracting higher value customers, leveraging our 24/38 GHz spectrum assets to surface value, the pending ISED decision on 38 GHz millimeter wave spectrum for 5G, and the hoping that 24 GHz band being added as part of ISED's roadmap for 5G in the future. 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. The forward-looking statements reflect the Company's views with respect to future events and is subject to risks, uncertainties and assumptions, including the risk that TeraGo's growth strategy, strategic plan, and investments will not generate the result or sustainable growth intended by management, current growth trends in the Company's cloud and data centre business and in the industry may not continue as expected or significant growth opportunities may not be available, provisioning of large colocation services agreement may be delayed or may incur more costs than the Company had intended, TeraGo may not meet the growing and complex needs of its customers, ISED decisions in the various Consultations that TeraGo has participated in being unfavourable to the Company, and those risks set forth in the "Risk Factors" section in the annual MD&A of the Company for the year ended December 31, 2017 available on www.sedar.com. Accordingly, readers should not place undue reliance on 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. Except as may be required by applicable Canadian securities laws, TeraGo does not intend, and disclaims any obligation, to update or revise any forward-looking statements whether in words, oral or written as a result of new information, future events or otherwise.