

TERAGO INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

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, 2017 and should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2017 and the notes thereto, our audited consolidated financial statements for the fiscal year ended December 31, 2016, including the notes thereto and our management's discussion and analysis for the year ended December 31, 2016. 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. 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, 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

Quarterly Financial Highlights

- Total revenue decreased 7.4% to \$13.7 million for the three months ended September 30, 2017 compared to \$14.8 million for the same period in 2016. The decrease in revenue is primarily driven by lower connectivity revenue, partially offset by growth in cloud and colocation revenue. Cloud and colocation revenue increased 1.7% to \$4.7 million compared to \$4.6 million for the same period in 2016. The increase was driven by greater provisioning of cloud services from new and existing customers. The percentage of revenues from cloud and colocation of our total revenue has increased to 34% in Q3 2017 compared to 31% in Q3 2016. Total revenue decreased 5.9% to \$41.9 million for the nine months ended September 30, 2017, compared to \$44.5 million for the same period in 2016.
- Net loss was \$1.0 million for the three months ended September 30, 2017 compared to a net loss of \$3.5 million for the same period in 2016. The decrease in net loss was primarily driven by the decrease in restructuring and other operating costs, lower depreciation and amortization, lower finance costs, in addition to the company recording a tax expense in Q3 2016, with nil recorded in Q3 2017. For the nine months ended September 30, 2017, net loss was \$3.2 million compared to a net loss of \$4.7 million for the same period in 2016. The decrease in net loss was driven by the factors described above.
- Adjusted EBITDA⁽¹⁾⁽²⁾ decreased to \$3.2 million for the three months ended September 30, 2017 compared to \$4.5 million for the same period in 2016. The decrease was primarily driven by the reduction in connectivity revenue, an increase in higher third party network costs, and an increase in real estate fees, partially offset by the growth of cloud and colocation revenue. For the nine months ended September 30, 2017, Adjusted EBITDA⁽¹⁾ decreased to \$9.9 million compared to \$14.1 million for the same period in 2016. The decrease was driven by the factors described above in addition to impacts of increased sales force headcount and marketing costs related to TeraGo's strategic priorities and growth initiatives.

Key Developments

- On July 10, 2017, the Company announced Mr. David Charron has been appointed as Chief Financial Officer, which took effect on September 5, 2017.
- On August 15, 2017, the Company announced that it had signed the largest data centre services agreement in Company history. The colocation agreement with a Canadian IT services provider is in respect to the Company's Vancouver Vault data centre facility.
- 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. TeraGo has participated in this Consultation by submitting its comment letter to ISED on September 14, 2017. It is pleased to see the large number of other stakeholders (both in the industry and outside of it) who have also taken the time to make submissions to this Consultation. After having reviewed many of these other submissions, it is clear to TeraGo that there is a high interest amongst various groups in the outcome of this Consultation and an appreciation for the importance that these higher frequency bands will play in both 5G deployment, and in existing fixed wireless deployments.

⁽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 quarter, 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, Mitel 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 a national spectrum portfolio of 24-GHz and 38-GHz wide-area spectrum licences which covers regions across Canada, in addition to 1,160 MHz in Canada's 6 largest cities. This spectrum is used for: point-to-point and point-to-multipoint microwave radio deployments; connecting core hubs together to create a wireless backbone where appropriate (often in a ring configuration to avoid points of failure); and in the access network or "last mile" to deliver high capacity (speeds of 10 to 1,000 Mbps) Ethernet-based links for business, government and cellular 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. For additional information on the Consultation 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.

For further details on our licensed spectrums, please refer to the Company's 2016 AIF.

RESULTS OF OPERATIONS

Comparison of the three and nine months ended September 30, 2017 and 2016
(in thousands of dollars, except with respect to gross profit margin and earnings per share)

| | Three months ended September 30 | | Nine months ended September 30 | |
|------------------------------------|------------------------------------|------------|-----------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Financial | | | | |
| Cloud and Colocation Revenue | \$ 4,705 | \$ 4,626 | \$ 14,234 | \$ 13,497 |
| Connectivity Revenue | \$ 8,975 | \$ 10,154 | \$ 27,615 | \$ 30,996 |
| Total Revenue | \$ 13,680 | \$ 14,780 | \$ 41,849 | \$ 44,493 |
| Cost of Services ⁽¹⁾ | \$ 3,511 | \$ 3,328 | \$ 10,559 | \$ 10,155 |
| Gross profit margin ⁽¹⁾ | 74.3% | 77.5% | 74.8% | 77.2% |
| Adjusted EBITDA ^{(1) (2)} | \$ 3,213 | \$ 4,481 | \$ 9,927 | \$ 14,052 |
| Income tax recovery (expense) | \$ - | \$ (704) | \$ - | \$ (715) |
| Net loss | \$ (1,047) | \$ (3,454) | \$ (3,233) | \$ (4,669) |
| Basic loss per share | \$ (0.07) | \$ (0.24) | \$ (0.23) | \$ (0.33) |
| Diluted loss per share | \$ (0.07) | \$ (0.24) | \$ (0.23) | \$ (0.33) |

(1) See "Definitions - IFRS, Additional GAAP and Non-GAAP Measures"

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

Refer to "Definitions – IFRS, Additional GAAP and Non-GAAP Measures" for a description of the components of relevant line items below.

Revenue

Total revenue decreased 7.4% to \$13.7 million for the three months ended September 30, 2017 compared to \$14.8 million for the same period in 2016. Total revenue decreased 5.9% to \$41.9 million for the nine months ended September 30, 2017, compared to \$44.5 million for the same period in 2016.

Cloud and Colocation Revenue

For the three months ended September 30, 2017, cloud and colocation revenue increased 1.7% to \$4.7 million compared to \$4.6 million for the same period in 2016. The increase was driven by greater provisioning of cloud services from new and existing customers. For the nine months ended September 30, 2017, cloud and colocation revenue increased 5.5% to \$14.2 million compared to \$13.5 million for the same period in 2016. The increase was driven by the factors described above.

Connectivity Revenue

For the three months ended September 30, 2017, connectivity revenue decreased 11.6% to \$9.0 million compared to \$10.2 million for the same period in 2016. Connectivity revenues were impacted by a variety of factors, including competition, certain customers renewing long term contracts at lower current market rates and lower usage revenues as certain customers have shifted to unlimited usage plans. For the nine months ended September 30, 2017, connectivity revenue decreased 10.9% to \$27.6 million compared to \$31.0 million for the same period in 2016. The decrease was driven by the factors described above.

Cost of services

For the three months ended September 30, 2017, cost of services increased 5.5% to \$3.5 million compared to \$3.3 million for the same period in 2016. The increase was primarily driven by higher third party network costs, and higher software costs related to the growth in cloud and colocation revenue. For the nine months ended September 30, 2017, cost of services increased 4.0% to \$10.6 million compared to \$10.2 million for the same period in 2016. The increase was driven by the factors described above, partially offset by savings from leases costs related to customer sites and savings from network costs related to these customers.

TERAGO INC.
Management's Discussion and Analysis
Quarter Ended September 30, 2017

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

For the three months ended September 30, 2017, SG&A decreased 26.3% to \$7.3 million compared to \$10.0 million for the same period in 2016. The decrease was primarily driven by decreased restructuring, acquisition-related and integration costs, an increase in proportion of capital labour activities, and recoveries of stock-based compensation related to executive-level headcount departures, partially offset by increased sales force headcount and real estate fees. For the nine months ended September 30, 2017, SG&A decreased 10.2% to \$22.6 million compared to \$25.1 million for the same period in 2016. The decrease was primarily driven by decreased restructuring, acquisition-related and integration costs, an increase in proportion of capital labour, and recoveries of stock-based compensation related to executive-level headcount departures, partially offset by increased sales force headcount, consultancy fees to support strategic initiatives, marketing costs, and recruiting fees for key management personnel.

Adjusted EBITDA⁽¹⁾

For the three months ended September 30, 2017, Adjusted EBITDA⁽¹⁾ decreased 28.3% to \$3.2 million for the three months ended September 30, 2017 compared to \$4.5 million for the same period in 2016. The decrease was primarily driven by the reduction of connectivity revenue, higher third party network costs, and increased real estate fees, partially offset by the growth of cloud and colocation revenue. For the nine months ended September 30, 2017, Adjusted EBITDA⁽¹⁾ decreased 29.4% to \$9.9 million compared to \$14.1 million for the same period in 2016. The decrease was driven by the factors described above in addition to impacts of increased sales force headcount and marketing costs related to TeraGo's strategic priorities and growth initiatives.

The table below reconciles net loss to Adjusted EBITDA⁽¹⁾ for the three and nine months ended September 30, 2017 and 2016.

| <i>(in thousands of dollars)</i> | Three months ended | | Nine months ended | |
|--|---------------------------|-----------------|--------------------------|------------------|
| | September 30 | | September 30 | |
| | 2017 | 2016 | 2017 | 2016 |
| Net loss for the period | \$ (1,047) | \$ (3,454) | \$ (3,233) | \$ (4,669) |
| Foreign exchange loss (gain) | (18) | 2 | (35) | (18) |
| Finance costs | 350 | 441 | 1,175 | 1,503 |
| Finance income | (18) | (1) | (33) | (8) |
| Income tax (recovery) expense | - | 704 | - | 715 |
| Earnings (loss) from operations | (733) | (2,308) | (2,126) | (2,477) |
| Add: | | | | |
| Depreciation of network assets, property and equipment and amortization of intangible assets | 3,564 | 3,798 | 10,832 | 11,674 |
| Loss (gain) on disposal of network assets | (1) | 52 | 94 | 312 |
| Stock-based compensation expense | 8 | 233 | 45 | 850 |
| Restructuring, acquisition-related, integration costs and other | 375 | 2,706 | 1,082 | 3,693 |
| Adjusted EBITDA⁽¹⁾ | \$ 3,213 | \$ 4,481 | \$ 9,927 | \$ 14,052 |

(1) See "Definitions - IFRS, Additional GAAP and Non-GAAP Measures"

Finance costs

For the three months ended September 30, 2017, finance costs decreased 20.6% to \$0.35 million compared to \$0.44 million for the same period in 2016. For the nine months ended September 30, 2017, finance costs decreased 21.8% to \$1.2 million compared to \$1.5 million for the same period in 2016. The decrease in both periods was driven by lower interest expense and a favourable mark to market revaluation of the Company's interest rate swap contract.

Income tax expense

For the three and nine months ended September 30, 2017, income tax expense was \$nil compared to \$0.7 million for the same periods in 2016. The income tax expense in the 2016 periods was from a reduction in the carrying value of the deferred income tax asset.

Depreciation and amortization

For the three months ended September 30, 2017, depreciation of network assets, property and equipment and amortization of intangibles decreased 6.2% to \$3.6 million compared to \$3.8 million for the same period in 2016. The decrease is mainly attributed to certain intangible assets reaching zero net book value after the three months ended September 30, 2016. For the nine months ended September 30, 2017, depreciation of network assets, property and

TERAGO INC.
Management's Discussion and Analysis
Quarter Ended September 30, 2017

equipment and amortization of intangibles decreased 7.2% to \$10.8 million compared to \$11.7 million for the same period in 2016. The decrease was driven by the factors described above.

Net loss

For the three months ended September 30, 2017, net loss was \$1.0 million compared to a net loss of \$3.5 million for the same period in 2016. The decrease in net loss was primarily driven by the decrease in SG&A, lower depreciation and amortization, lower finance costs, and lower tax expense, partially offset by the decline of connectivity revenue and the increase in cost of services. For the nine months ended September 30, 2017, net loss was \$3.2 million compared to a net loss of \$4.7 million for the same period in 2016. The decrease in net loss was driven by the factors described above.

Summary of Quarterly Results

All financial results are in thousands, with the exception of earnings per share

| | Q3-17 | Q2-17 | Q1-17 | Q4-16 | Q3-16 | Q2-16 | Q1-16 | Q4-15 |
|---|------------|---------|---------|--------|---------|--------|--------|--------|
| Revenue | \$ 13,680 | 13,892 | 14,277 | 14,593 | 14,780 | 14,784 | 14,929 | 15,102 |
| Gross Profit Margin % ⁽¹⁾ | 74.3% | 74.3% | 75.6% | 77.2% | 77.5% | 77.3% | 76.8% | 77.4% |
| Adjusted EBITDA ⁽¹⁾ | \$ 3,213 | 3,003 | 3,711 | 4,889 | 4,481 | 4,895 | 4,676 | 4,863 |
| Net income/(loss) | \$ (1,047) | (1,131) | (1,055) | 355 | (3,454) | (395) | (820) | (190) |
| Basic income/(loss) per share | \$ (0.07) | (0.08) | (0.07) | 0.02 | (0.24) | (0.03) | (0.06) | (0.01) |
| Diluted income/(loss) per share | \$ (0.07) | (0.08) | (0.07) | 0.02 | (0.24) | (0.03) | (0.06) | (0.01) |
| Basic weighted average number of shares outstanding | 14,334 | 14,283 | 14,258 | 14,223 | 14,190 | 14,159 | 14,135 | 14,065 |
| Diluted weighted average number of shares outstanding | 14,334 | 14,283 | 14,258 | 14,230 | 14,190 | 14,159 | 14,135 | 14,065 |

(1) See "Definitions - IFRS, Additional GAAP and Non-GAAP Measures" for descriptions of Gross profit margin % and Adjusted EBITDA

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.

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.

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 | |
|--|------------------------------------|---------------|-----------------------------------|---------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Statement of Cash Flows Summary | | | | |
| Cash inflows and (outflows) by activity: | | | | |
| Operating activities | \$ 2,885 | 4,787 | \$ 5,903 | 11,291 |
| Investing activities | (2,329) | (1,624) | (7,093) | (7,253) |
| Financing activities | (1,459) | (1,698) | (4,718) | (5,211) |
| Net cash inflows (outflows) | (903) | 1,465 | (5,908) | (1,173) |
| Cash and cash equivalents, beginning of period | 8,029 | 10,428 | 13,034 | 13,066 |
| Cash and cash equivalents, end of period | \$ <u>7,126</u> | <u>11,893</u> | \$ <u>7,126</u> | <u>11,893</u> |

Operating Activities

For the three months ended September 30, 2017, cash generated from operating activities was \$2.9 million compared to cash generated of \$4.8 million for the same period in 2016. The decrease in cash from operating activities is mainly due to the decrease in revenues, unfavourable changes in non-cash working capital, and higher severances paid. For the nine months ended September 30, 2017, cash generated from operating activities was \$5.9 million compared to cash generated of \$11.3 million for the same period in 2016. The decrease was driven by the factors described above.

Investing Activities

For the three months ended September 30, 2017, cash used in investing activities was \$2.3 million compared to cash used of \$1.6 million for the same period in 2016. The increase in cash used in investing activities was due to increased capital expenditures and unfavourable timing of payments for network assets, property and equipment and intangible assets. For the nine months ended September 30, 2017, cash used in investing activities was \$7.1 million compared to cash used of \$7.3 million for the same period in 2016. The increase in cash used in investing activities was mainly due to unfavourable timing of payments for network assets, property and equipment and intangible asset.

Financing Activities

For the three months ended September 30, 2017, cash used in financing activities was \$1.5 million compared to cash used of \$1.7 million for the same period in 2016. For the nine months ended September 30, 2017, cash used in financing activities was \$4.7 million compared to \$5.2 million for the same period in 2016. The decrease in cash used in financing activities is mainly due to a reduction of the Company's interest expense and a reduction of principal repayments required under the amended credit facilities, partially offset by financing fees related to the amended credit facilities.

Capital Resources

As at September 30, 2017, the Company had cash and cash equivalents of \$7.1 million and access to approximately \$35.0 million undrawn portion of its \$75 million credit facilities, 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 using wireless or fibre optics 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.

TERAGO INC.
Management's Discussion and Analysis
Quarter Ended September 30, 2017

In March 2015, the Company entered into an amended agreement with a syndicate led by NBC that increases 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 are 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 \$75.0 million facility that matures June 14, 2021 is made up of the following:

- \$10.0 million revolving facility which bears interest at prime plus a margin percent. As of September 30, 2017, \$nil amount is outstanding. Letters of credit issued under the facility totaled \$0.7 million as of September 30, 2017.
- \$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, 2017, \$37.9 million of the term facility principal was in a Banker's Acceptance and the remaining \$0.1 million was at a floating rate. In 2015, the Company entered into amended interest rate swap contracts that matures June 29, 2018. The interest rate on the Banker's Acceptance at September 30, 2017 was 3.99%. The interest rate swap contract has not been designated as a hedge and will be marked-to-market each quarter. The fair value of the interest rate swap contract at September 30, 2017 was an asset of \$0.04 million (December 31, 2016 liability of \$0.3 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.

As at September 30, 2017, 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 or Banker's Acceptance (at the Company's option) plus a margin percent and is repayable in quarterly principal installments of 2.5% of the aggregate amount outstanding. As of September 30, 2017, this facility remains undrawn.

In connection with the second amended agreement, the Company incurred financing fees of \$0.31 million, which have been deferred and will be amortized using the effective interest method over the amended term of the facility. The balance of previously incurred financing fee is also amortized over the same amended term.

The NBC facility is subject to certain financial and non-financial covenants which the Company is in compliance with at September 30, 2017. 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 11, 2015, the Company completed an equity offering to issue and sell 1,755 common shares for gross proceeds of \$10,004 (the "Offering"). Proceeds net of commissions, legal, accounting and listing fees were \$9,210. The Offering was carried out pursuant to an underwriting agreement with a syndicate of underwriters led by National Bank Financial Inc. and TD Securities Inc. and included Cormark Securities Inc., PI Financial Corp. and RBC Capital Markets.

The Company allocated \$9,210 of the intended use of net proceeds from the equity offering as follows:

| Intended Use of Net Proceeds | Allocation | Use of Net Proceeds as at September 30, 2017 |
|--|-------------------|---|
| a) Fund its continued growth strategy, which is expected to include potential strategic acquisitions | \$4.0 million | \$2.9 million |
| b) Fund operational efficiency initiatives | \$3.2 million | \$0.9 million |
| c) Invest in new product development activities, specifically in the cloud and data centre segments | \$2.0 million | \$0.6 million |

As of September 30, 2017, \$4.4 million of the net proceeds from the equity offering were used. The Company's intended use of these proceeds has not changed.

Transactions with Related Parties

Two former Directors of the Company, who retired effective June 23, 2016, also served as Chairman of the Board and a Director of a customer of the Company. Revenue from this customer for the three and nine months ended September 30, 2017 was \$nil and \$nil (2016 - \$nil and \$0.04 million), respectively. Accounts receivable from this customer as at September 30, 2017 was \$nil (2016 - \$nil).

The terms governing these related party transactions are consistent with those negotiated on an arm's length basis with non-related parties.

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 2016 Annual Information Form, a copy of which can be found on SEDAR at www.sedar.com.

As of November 7, 2017, there were 14,349 Common Shares issued and outstanding and two Class B Shares issued and outstanding. In addition, as of November 7, 2017, there were 604 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, 2016.

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:

(a) IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 which supersedes 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 standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company has a team focused on the adoption and compliance with IFRS 15. This team is responsible for determining existing policies, differences between existing policies and IFRS 15, ensuring the Company's data collection is appropriate, and communicating the upcoming changes with various stakeholders. In addition, this team is assisting with the development of processes and policies that will help ensure an effective transition and the related impacts are reliably assessed. As a result, the Company is continuing to assess the impact of this standard on its consolidated financial statements.

While the Company continues to assess all potential impacts of the new revenue recognition standard, the Company currently believes the most significant impacts will relate to expanded disclosure on revenue, performance obligations, and contract balances.

(b) IFRS 9 Financial Instruments

On July 24, 2014, the IASB issued the final publication of the IFRS 9 standard, superseding the current IAS 39, Financial Instruments: recognition and measurement ("IAS 39") standard. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard on the consolidated financial statements. The extent of the impact has not yet been determined.

(c) 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 accounting treatment for lessors will remain largely the same as under IAS 17. 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 extent of the impact of the adoption of this standard has not yet been determined.

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 2016 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.

There were no changes in the Company's internal controls over financial reporting for the three months ended September 30, 2017 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, 2017.

EXECUTIVE MANAGEMENT CHANGES

Effective August 31, 2017 Daren Hanson (Vice President, Sales) was no longer with the Company.

Effective September 5, 2017, David Charron joined the Company as Chief Financial Officer.

Effective September 18, 2017, Christine Gauthier joined the Company as Vice President, Sales.

Effective October 10, 2017, Jeffrey Yim (Vice President, Finance and Corporate Development) was no longer with the Company.

DEFINITIONS – 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, 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.