TeraGo Reports 2018 Second Quarter Financial Results

Toronto – August 8, 2018 – TeraGo Inc. ("**TeraGo**" or the "**Company**") (TSX: TGO, www.terago.ca), today announced financial and operating results for the quarter ended June 30, 2018.

"In the second quarter, growth in cloud and colocation helped to stabilize our business as we continued to provision services to customers in our backlog," said Tony Ciciretto, President and CEO of TeraGo. "With improving churn and ARPU, we are encouraged by the operating trends we are seeing in our business and we will continue to focus on managing our cost structure while making strategic investments to drive future growth."

Mr. Ciciretto added, "Over the next year, we expect industry activity around 5G wireless spectrum to pick up as ISED begins to execute its four-year plan to release spectrum for next generation services. With the proceeds from our recent equity financing, we have exercised our option to acquire six 24 GHz licenses and pending application and ISED approval will deepen our coverage in Canada's major markets. We hope to see the profile of the 24 GHz band enhanced as part of Canada's 5G roadmap like it has in the United States."

Financial Highlights

- Total revenue decreased 1.5% to $13.7 million for the three months ended June 30, 2018 compared to $13.9 million for the same period in 2017.

- Connectivity revenue decreased 4.2% to $8.8 million for the three months ended June 30, 2018 compared to $9.2 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 June 30, 2018 would have been $8.4 million or 8.2% decrease compared to $9.2 million for the same period in 2017.

- Cloud and colocation revenue increased 3.8% to $4.9 million for the three months ended June 30, 2018 compared to $4.7 million for the same period in 2017. The increase was primarily a result of higher cloud and colocation provisioning. Excluding the impact of IFRS 15 classification of revenue from cloud and colocation to connectivity, cloud and colocation revenue for the three months ended June 30, 2018 would have been $5.3 million or 11.4% increase compared to $4.7 million for the same period in 2017.

- The product mix remained steady compared to the same period in the prior year with a slight increase in Cloud and Colocation (Q2 2018 - Connectivity at 64%, Cloud & Colocation at 36%; Q2 2017 – Connectivity at 66%, Cloud and Colocation at 34%) as the Company continues to make a shift towards higher growth service offerings.

- Net loss was $1.5 million for the three months ended June 30, 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 decrease in revenue.

- Adjusted EBITDA(1)(2) increased to $3.1 million for the three months ended June 30, 2018 compared to $3.0 million for the same period in 2017. The increase was primarily driven by lower cost of services and lower SG&A as a result of cost reduction efforts.

- TeraGo delivered a notice of exercise of the purchase option the Company has with Mobilexchange Spectrum Inc. ("MSI") for certain spectrum licences that are currently leased. TeraGo continues to work with MSI to complete the spectrum acquisition for a total cost equal to $5.7 million, which is also subject to regulatory approval. In doing so, both parties have agreed to a 30 day extension on the term of the spectrum lease, which now expires on August 31, 2018.

RESULTS OF OPERATIONS

Comparison of the three and six months ended June 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 June 30			Six months ended June 30	
		2018	2017[3]		2018	2017[3]
Financial						
Cloud and Colocation Revenue	$	4,894	4,717	$	9,625	9,529
Connectivity Revenue	$	8,789	9,175	$	17,798	18,640
Total Revenue	$	13,683	13,892	$	27,423	28,169
Cost of Services[1]	$	3,466	3,565	$	7,021	7,048
Gross profit margin [1]		74.7%	74.3%		74.4%	75.0%
Adjusted EBITDA[1] [2]	$	3,123	3,003	$	6,252	6,714
Net loss	$	(1,489)	(1,131)	$	(2,801)	(2,186)
Basic loss per share	$	(0.10)	(0.08)	$	(0.19)	(0.15)
Diluted loss per share	$	(0.10)	(0.08)	$	(0.19)	(0.15)
Operating						
Backlog MRR[1]						
Connectivity	$	60,750	76,254	$	60,750	76,254
Cloud & Colocation	$	67,747	39,977	$	67,747	39,977
Churn Rate[1]						
Connectivity		1.4%	1.7%		1.5%	1.7%
Cloud & Colocation		1.5%	2.2%		2.3%	1.7%
ARPU[1]						
Connectivity	$	1,062	972	$	1,051	970
Cloud & Colocation	$	3,336	3,124	$	3,210	3,142

(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 $67,747 as at June 30, 2018 compared to $39,977 as at June 30, 2017. The increase is driven by growth in Cloud and Colocation sales bookings and offset by the provisioning of large colocation customers acquired in prior quarters.

- Connectivity backlog MRR was $60,750 as at June 30, 2018, compared to $76,254 as at June 30, 2017. The change in backlog MRR is driven primarily by bookings and the timing of customer provisioning.

ARPU[1]

- For the three months ended June 30, 2018, cloud and colocation ARPU was $3,336 compared to $3,124 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 June 30, 2018 would have been $3,592, representing growth of 15% compared to the prior period. The increase was driven by the provisioning of large new customers, as well as planned churn of low value cloud customers.

- For the three months ended June 30, 2018, connectivity ARPU was $1,062 compared to $972 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 June 30, 2018 would have been $1,016, which represents growth of 4.6% compared to the prior year period.

Churn[(1)]

- For the three months ended June 30, 2018, cloud and colocation churn was 1.5% compared to 2.2% for the same period in 2017. For the three months ended June 30, 2018, connectivity churn was 1.4% compared to 1.7% for the same period in 2017. 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.

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 and six months ended June 30, 2018.

	Three months ended June 30			Six months ended June 30		
	2018 (As reported)	2018 (Without adoption of IFRS 15)	% Change	2018 (As reported)	2018 (Without adoption of IFRS 15)	% Change

Financial								
Cloud and Colocation Revenue	$	4,894	5,264	-7.0%	$	9,625	10,303	-6.6%
Connectivity Revenue	$	8,789	8,427	4.3%	$	17,798	17,132	3.9%
Total Revenue	$	13,683	13,691	-	$	27,423	27,435	-
Adjusted EBITDA(1) (2)	$	3,123	3,120	0.1%	$	6,252	6,161	1.5%
Net Income (Loss)	$	(1,489)	(1,492)	-0.2%	$	(2,801)	(2,892)	-3.1%
Operating								
Backlog MRR(1)								
Connectivity	$	60,750	56,726	7.1%	$	60,750	56,726	7.1%
Cloud & Colocation	$	67,747	71,772	-5.6%	$	67,747	71,772	-5.6%
ARPU(1)								
Connectivity	$	1,062	1,016	4.5%	$	1,051	1,011	4.0%
Cloud & Colocation	$	3,336	3,592	-7.1%	$	3,210	3,437	-6.6%

(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 June 30, 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 and six months ended June 30, 2018 and 2017.

(in thousands of dollars)		**Three months ended June 30**			**Six months ended June 30**
		2018	**2017**(1)		**2018**	**2017**(1)
Net earnings (loss) for the period	$	(1,489)	(1,131)	$	(2,801)	(2,186)
Foreign exchange loss (gain)		(10)	(25)		(6)	(17)
Finance costs		578	354		1,206	825
Finance income		(1)	(11)		(1)	(15)
Earnings (loss) from operations		(922)	(813)		(1,602)	(1,393)
Add:						
Depreciation of network assets, property and equipment and amortization of intangible assets		3,046	3,607		6,199	7,268
Loss on disposal of network assets		174	35		256	87
Impairment of Assets and Related Charges		131	-		367	-
Stock-based Compensation Expense (Recovery)		231	184		434	37
Restructuring, acquisition-related, integration costs and other		463	(10)		598	715
Adjusted EBITDA(1)	$	3,123	3,003	$	6,252	6,714

(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, August 9, 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 and six months ended June 30, 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 August 23, 2018. To listen to the recording, call 416-621-4642 or 1-800-585-8367 and enter passcode 4885449.

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, making strategic investments to drive future growth, expectations on industry activity increasing around 5G wireless spectrum, the pending acquisition of six 24 GHz licenses, and hopes for the profile of the 24 GHz band to be enhanced as part of Canada's 5G roadmap. 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, the failure to receive ISED approval with respect to the proposed acquisition of additional spectrum, certain counterparty risks in dealing with the current holder of the 24 GHz spectrum licences from whom the Company will be acquiring the licences from, 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.