TeraGo Reports First Quarter 2019 Results

Toronto – May 8, 2019 – TeraGo Inc. ("**TeraGo**" or the "**Company**") (TSX: TGO, www.terago.ca), today announced financial and operating results for the first quarter ended March 31, 2019.

"In the first quarter of 2019, we continued to manage costs to deliver $4.6 million in Adjusted EBITDA and positive free cash flow," said Tony Ciciretto, President and CEO of TeraGo. "Our focus this year will be to stabilize the topline through new sales and channel initiatives while maximizing capital efficiency to remain well positioned to surface value from our spectrum assets as the 5G opportunity unfolds."

First Quarter 2019 Financial Highlights

- Total revenue decreased 9.8% to $12.4 million for the three months ended March 31, 2019 compared to $13.7 million for the same period in 2018. The decrease in revenue is primarily driven by lower connectivity revenue which decreased 12.3% to $7.9 million compared to $9.0 million for the same period in 2018. In addition, cloud and colocation revenue decreased 5.0% to $4.5 million compared to $4.7 million for the same period in 2018. The decreases were attributable to churn exceeding provisioning as a result of lower sales volume.

- Net loss was $1.2 million for the three months ended March 31, 2019 compared to a net loss of $1.3 million for the same period in 2018. The decrease in net loss was driven by a number of factors: the reduction in headcount in the second half of 2018, lower cost of sales and other operating expenses due to cost reduction efforts, lower severance expenses, lower impairment charges, and lower depreciation & amortization from impaired assets and assets fully amortized in prior periods; partially offset by the decrease in revenue and net negative impact of the adoption of IFRS 16.

- Adjusted EBITDA[(1)][(2)] increased 46.7% to $4.6 million for the three months ended March 31, 2019 compared to $3.1 million for the same period in 2018. The increase was driven by the adoption of IFRS 16 which resulted in the reclassification of certain operating lease expenses to finance costs and depreciation which are excluded from the calculation of Adjusted EBITDA.

Recent Developments

- On March 11, 2019, Geoff Kereluik joined the Company as Vice President, Sales.

- TeraGo Networks was recognized in the Major Players Category of the IDC MarketScape for Canadian Datacenter Operations and Management Service Providers 2019 Vendor Assessment (IDC # CA44463419, April 2019) report which is prepared by International Data Corporation (IDC) Canada. The assessment profiles leading vendors in the Canadian data centres and managed services markets and covers their competencies for these two services.

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(1) See Non-IFRS Measures below "Adjusted EBITDA".
(2) See "Adjusted EBITDA" below for a reconciliation of net loss to Adjusted EBITDA.

RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2019 and 2018
(in thousands of dollars, except with respect to gross profit margin, earnings per share, Backlog MRR, and ARPU)

		Three months ended March 31	
		2019	**2018**[3]
Financial			
Cloud and Colocation Revenue	$	4,494	4,731
Connectivity Revenue	$	7,903	9,009
Total Revenue	$	12,397	13,740
Cost of Services	$	2,261	3,555
Selling, General, & Administrative Costs	$	5,963	7,712
Gross profit margin		81.8%	74.1%
Adjusted EBITDA[1] [2]	$	4,590	3,129
Net loss	$	(1,188)	(1,312)
Basic loss per share	$	(0.08)	(0.09)
Diluted loss per share	$	(0.08)	(0.09)
Operating			
Backlog MRR[1]			
Connectivity	$	71,624	58,336
Cloud & Colocation	$	37,094	133,687
Churn Rate[1]			
Connectivity		1.5%	1.6%
Cloud & Colocation		1.1%	3.1%
ARPU[1]			
Connectivity	$	1,033	1,041
Cloud & Colocation	$	3,221	3,084

(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 16 on January 1, 2019 using the modified retrospective approach. Under this method, the comparative information is not restated. See “Accounting Pronouncements Adopted in 2019” for further information.

Operating Highlights

Backlog MRR[1]

- Connectivity backlog MRR was $71,624 as at March 31, 2019, compared to $58,336 as at March 31, 2018. The increase in backlog MRR is driven primarily by growth in bookings and the timing of customer provisioning.

- Cloud and colocation backlog MRR was $37,094 as at March 31, 2019 compared to $133,687 as at March 31, 2018. The decrease is driven by the provisioning of large colocation customers which were in the backlog as of the prior year period.

ARPU[1]

- For the three months ended March 31, 2019 Connectivity ARPU was $1,033 compared to $1,041 for the same period in 2018. The ARPU is consistent with prior year period as the Company continues to focus on acquiring and retaining small to medium sized business customers.

For the three months ended March 31, 2019 cloud and colocation ARPU was $3,221 compared to $3,084 for the same period in 2018. The increase was driven by the provisioning of large customers in the first half of 2018, as well as the churn of low value cloud customers.

Churn[(1)]

- For the three months ended March 31, 2019, connectivity churn was 1.5% compared to 1.6% for the same period in 2018. The decrease was driven by favourable impacts of the Company's investment in developing a robust customer experience framework.

- For the three months ended March 31, 2019, cloud and colocation churn was 1.1% compared to 3.1% for the same period in 2018. The decrease was the result of ongoing churn management efforts, as well as increased churn in the prior year period due to end of life services that the Company ceased in the prior year period.

ACCOUNTING PRONOUNCEMENTS ADOPTED in 2019

a) IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting approach for leases. Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at January 1, 2019. Therefore, comparative information has not been restated and continues to be reported under IAS 17.

Under the new standard, the Company assesses whether at contract inception, such contract contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control or use an identified asset for a period of time in exchange for consideration. The Company has also elected to apply the practical expedient to grandfather the assessment of which transactions were leases, as previously determined by IAS 17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 was only applied to contracts entered into or changed on or after January 1, 2019.

i) Significant Accounting Policies

The Company records a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. Payments included in the measurement of the liability include fixed payments and payments expected to be made where an renewal/extension option is reasonably certain to be exercised. The lease liability is subsequently increased by the interest cost and decreased by lease payments made. The liability is remeasured when there is a change in the future lease payments arising from the exercise of extension options, changes in the assessment of extension options reasonably expected to be exercised, renegotiations with lessors and contract amendments, changes in the scope of a lease due to certain contract rights being exercised, and changes in assessments of termination options reasonably expected to be exercised.

Judgments

The Company has applied judgment to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such options will impact the lease term, which significantly impacts the amount of lease liabilities and right-of-use assets recognized.

A large portion of the Company's leases include renewal options that are exercisable by the Company and not the lessor. The Company typically exercises these options when they relate to rooftop locations that service its fixed wireless network. From time to time, the Company will reassess whether these options are reasonable expected to be exercised and remeasure the lease liability accordingly.

ii) Impacts on Financial Statements

On initial transition, the Company has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. The Company elected to record the right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease liabilities of $31,457 were recorded on January 1, 2019. In addition, the Company had previously recognized prepaid assets and deferred rent liabilities for timing differences in contractual operating lease cash flows. Under the new standard, timing differences are recognized in the lease liability and as a result, these prepaid assets and deferred rent liabilities were derecognized and the impact was recorded through opening retained earnings.

vi) Impacts on Financial results

The following table highlights some of the key impacts on our financial metrics related to IFRS 16:

		Three months ended March 31, 2019			
		Balances without adoption of IFRS 16	**Effect of IFRS 16**	**Balances subsequent to transition**	**% Change**
Financial					
Selling, General, & Admin Costs	$	6,627	(664)	5,963	-10%
Depreciation & Amortization	$	2,564	1,413	3,977	55%
Cost of Services	$	3,350	(1,089)	2,261	-33%
Finance Costs	$	698	717	1,415	103%
Gross Margin	$	9,047	1,089	10,136	12%
Adjusted EBITDA(1) (2)	$	2,837	1,753	4,590	62%
Net Income (Loss)	$	(811)	(377)	(1,188)	46%
Total Assets	$	82,519	28,643	111,162	35%
Total Liabilities	$	38,491	29,020	67,511	75%
Total Shareholder's Equity	$	82,519	28,643	111,162	35%

(1) See Non-IFRS Measures below.

(2) See "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, 2019. 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 March 31, 2019 and 2018.

(in thousands of dollars)		**Three months ended March 31**	
		2019	**2018**(2)
Net earnings (loss) for the period	$	(1,188)	(1,312)
Foreign exchange loss (gain)		(6)	4
Finance costs		1,415	628
Finance income		(25)	0
Earnings (loss) from operations		196	(680)
Add:			
Depreciation of network assets, property and equipment and amortization of intangible assets		3,977	3,153
Loss on disposal of network assets		23	82
Impairment of Assets and Related Charges		82	236
Stock-based Compensation Expense (Recovery)		342	203
Restructuring, acquisition-related, integration costs and other		(30)	135
Adjusted EBITDA(1)	$	4,590	3,129

(1) See "Non-IFRS Measures"

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

Backlog MRR - 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 9, 2019, 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, 2019 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 16, 2019. To listen to the recording, call 416-621-4642 or 1-800-585-8367 and enter passcode 8153689.

About TeraGo

TeraGo owns a national spectrum portfolio of exclusive 24GHz and 38GHz wide-area spectrum licences including 2,120 MHz of spectrum across Canada's 6 largest cities. 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, Ottawa and Winnipeg.

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, focus on stabilizing topline revenue through new sales and channel initiatives, maximizing capital efficiency, and surfacing value from spectrum assets for 5G opportunities. 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, ISED decisions in the various Consultations that TeraGo has participated in being unfavourable to the Company, the continued technical 5G trial the Company is currently conducting may not generate the results intended or experiences delays, new market opportunities for 5G may not exist or require additional capital that may not be available 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, 2018 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.