

Tucows Inc.
Consolidated Balance Sheets
(Dollar amounts in U.S. dollars)

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,418,888	\$ 6,415,679
Accounts receivable	5,305,403	4,413,265
Inventory	309,686	587,104
Prepaid expenses and deposits	4,309,039	5,081,408
Derivative instrument asset, current portion	-	412,944
Prepaid domain name registry and ancillary services fees, current portion	44,209,591	45,170,167
Deferred tax asset, current portion	1,081,526	-
Income taxes recoverable	475,889	1,730,631
Total current assets	<u>68,110,022</u>	<u>63,811,198</u>
Derivative instrument asset, long-term portion	-	31,838
Prepaid domain name registry and ancillary services fees, long-term portion	11,838,579	12,318,723
Property and equipment	1,757,836	1,352,144
Deferred tax asset, long-term portion	5,370,037	5,970,462
Intangible assets	15,403,228	16,415,651
Goodwill	18,873,127	18,873,127
Total assets	<u>\$ 121,352,829</u>	<u>\$ 118,773,143</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,361,481	\$ 1,928,459
Accrued liabilities	3,913,034	2,522,229
Customer deposits	4,500,946	4,955,671
Derivative instrument liability, current portion	491,098	-
Loan payable, current portion	6,300,000	3,700,000
Deferred revenue, current portion	54,379,719	54,997,887
Accreditation fees payable, current portion	473,811	512,847
Deferred tax liability, current portion	-	914,429
Income taxes payable	1,024,004	1,255,108
Total current liabilities	<u>73,444,093</u>	<u>70,786,630</u>
Deferred revenue, long-term portion	15,638,517	16,002,464
Accreditation fees payable, long-term portion	135,522	145,592
Deferred rent, long-term portion	75,979	54,150
Deferred tax liability, long-term portion	5,141,500	5,234,100
Stockholders' equity:		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding	-	-
Common stock - no par value, 250,000,000 shares authorized; 10,907,063 shares issued and outstanding as of December 31, 2013 and 11,080,034 shares issued and outstanding as of December 31, 2012 (1)	11,859,267	10,084,417
Additional paid-in capital	28,632,311	33,931,529
Deficit	(13,329,379)	(17,509,843)
Accumulated other comprehensive income (loss)	(244,981)	44,104
Total stockholders' equity	<u>26,917,218</u>	<u>26,550,207</u>
Total liabilities and stockholders' equity	<u>\$ 121,352,829</u>	<u>\$ 118,773,143</u>

(1) Common stock issued and outstanding reflects the 1-for-4 reverse split of common shares that became effective December 31, 2013.

	Tucows Inc.		Tucows Inc.	
	Consolidated Statements of Cash Flows		Consolidated Statements of Cash Flows	
	(Dollar amounts in U.S. dollars)		(Dollar amounts in U.S. dollars)	
	Three months ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 922,895	\$ 429,525	\$ 4,180,464	\$ 4,424,142
Items not involving cash:				
Depreciation of property and equipment	231,876	201,883	843,420	802,060
Loss on write off of property and equipment	-	118,944	-	118,944
Amortization of deferred financing charges	-	-	-	2,300
Amortization of intangible assets	219,940	254,940	959,910	1,019,760
Deferred income taxes (recovery)	(169,268)	499,625	(247,371)	832,736
Excess tax benefits on share-based compensation expense	(34,157)	-	(1,090,171)	-
Deferred rent	4,081	6,205	21,829	27,663
Acquisition of domain names	-	-	-	(3,664)
Disposal of domain names	8,221	12,662	52,513	50,843
Gain on disposition of intangible assets	-	-	-	(508,800)
(Gain) loss on change in the fair value of forward contracts	134,561	54,986	496,207	(1,100,161)
Stock-based compensation	102,020	68,767	430,903	360,699
Changes in non-cash operating working capital:				
Accounts receivable	(435,937)	413,511	(892,138)	(533,081)
Inventory	28,424	(173,894)	277,418	(381,507)
Prepaid expenses and deposits	(67,637)	(278,001)	772,369	(1,325,100)
Prepaid fees for domain name registry and ancillary services fees	1,785,439	1,712,684	1,440,720	(1,679,703)
Income taxes recoverable/payable	(63,695)	(233,573)	1,023,638	233,312
Accounts payable	(170,657)	283,217	529,537	931,467
Accrued liabilities	725,821	302,852	1,390,805	547,590
Customer deposits	428,621	689,955	(454,725)	752,772
Deferred revenue	(1,972,072)	(2,315,219)	(982,115)	1,824,650
Accreditation fees payable	(25,188)	(26,831)	(49,106)	(53,491)
Net cash provided by operating activities	<u>1,652,378</u>	<u>2,022,238</u>	<u>8,704,107</u>	<u>6,343,431</u>
Financing activities:				
Proceeds received on exercise of stock options	37,919	54,210	1,492,174	418,108
Excess tax benefits on share-based compensation expense	34,157	-	1,090,171	-
Repurchase of common stock	-	-	(6,537,616)	(9,115,833)
Proceeds received on loan payable	-	-	5,200,000	4,000,000
Repayment of loan payable	(600,000)	(300,000)	(2,600,000)	(1,150,000)
Net cash used in financing activities	<u>(527,924)</u>	<u>(245,790)</u>	<u>(1,355,271)</u>	<u>(5,847,725)</u>
Investing activities:				
Additions to property and equipment	(255,514)	(330,502)	(1,345,627)	(997,036)
Proceeds on disposition of intangible assets	-	-	-	508,800
Net cash used in investing activities	<u>(255,514)</u>	<u>(330,502)</u>	<u>(1,345,627)</u>	<u>(488,236)</u>
Increase in cash and cash equivalents	868,940	1,445,946	6,003,209	7,470
Cash and cash equivalents, beginning of period	11,549,948	4,969,733	6,415,679	6,408,209
Cash and cash equivalents, end of period	<u>\$ 12,418,888</u>	<u>\$ 6,415,679</u>	<u>\$ 12,418,888</u>	<u>\$ 6,415,679</u>
Supplemental cash flow information:				
Interest paid	\$ 83,370	\$ 99,504	\$ 372,853	\$ 97,369
Supplementary disclosure of non-cash investing activity:				
Property and equipment acquired during the period not yet paid for	\$ -	\$ 96,515	\$ -	\$ 96,515

	Tucows Inc.		Tucows Inc.	
	Consolidated Statements of Operations		Consolidated Statements of Operations	
	(Dollar amounts in U.S. dollars)		(Dollar amounts in U.S. dollars)	
	Three months ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Net revenues	\$ 33,139,440	\$ 29,790,912	\$ 129,934,904	\$ 114,726,901
Cost of revenues:				
Cost of revenues	23,605,955	22,003,975	92,960,321	82,837,395
Network expenses (*)	1,119,468	1,295,419	4,835,939	4,925,058
Depreciation of property and equipment	175,262	151,381	627,973	611,640
Amortization of intangible assets	-	35,910	83,790	143,640
Total cost of revenues	<u>24,900,685</u>	<u>23,486,685</u>	<u>98,508,023</u>	<u>88,517,733</u>
Gross profit	8,238,755	6,304,227	31,426,881	26,209,168
Expenses:				
Sales and marketing (*)	3,348,945	2,413,744	12,141,036	8,701,446
Technical operations and development (*)	1,061,309	1,073,151	4,158,603	4,302,820
General and administrative (*) (note 1)	1,937,898	1,592,641	7,204,895	6,610,819
Depreciation of property and equipment	56,614	50,502	215,447	190,420
Loss on disposition of property and equipment	-	118,944	-	118,944
Amortization of intangible assets	219,030	219,030	876,120	876,120
Loss (gain) on currency forward contracts (note 1)	322,911	110,665	676,120	(682,851)
Total expenses	<u>6,946,707</u>	<u>5,578,677</u>	<u>25,272,221</u>	<u>20,117,718</u>
Income from operations	1,292,048	725,550	6,154,660	6,091,450
Other income (expenses):				
Interest expense, net	(83,101)	(47,153)	(354,857)	(192,863)
Other income	-	-	-	529,711
Total other income (expenses)	<u>(83,101)</u>	<u>(47,153)</u>	<u>(354,857)</u>	<u>336,848</u>
Income before provision for income taxes	1,208,947	678,397	5,799,803	6,428,298
Provision for income taxes	286,052	248,872	1,619,339	2,004,156
Net income	<u>922,895</u>	<u>429,525</u>	<u>4,180,464</u>	<u>4,424,142</u>
Other comprehensive income, net of tax of \$257,505 for the three months ended September 30, 2013 and \$24,800 for the nine months ended September 30, 2013	(336,693)	44,104	(289,085)	44,104
Comprehensive income (loss) for the period	<u>\$ 586,202</u>	<u>\$ 473,629</u>	<u>\$ 3,891,379</u>	<u>\$ 4,468,246</u>
Basic earnings per common share (1)	<u>\$ 0.08</u>	<u>\$ 0.04</u>	<u>\$ 0.40</u>	<u>\$ 0.39</u>
Shares used in computing basic earnings per common share (1)	<u>10,900,842</u>	<u>11,064,045</u>	<u>10,468,250</u>	<u>11,458,216</u>
Diluted earnings per common share (1)	<u>\$ 0.08</u>	<u>\$ 0.04</u>	<u>\$ 0.37</u>	<u>\$ 0.36</u>
Shares used in computing diluted earnings per common share (1)	<u>11,538,283</u>	<u>11,930,942</u>	<u>11,281,409</u>	<u>12,283,736</u>
(*) Stock-based compensation has been included in expenses as follows:				
Network expenses	\$ 8,851	\$ 6,126	\$ 31,664	\$ 24,480
Sales and marketing	\$ 36,302	\$ 25,121	\$ 129,302	\$ 92,168
Technical operations and development	\$ 21,634	\$ 15,651	\$ 78,800	\$ 59,141
General and administrative	\$ 35,233	\$ 21,869	\$ 191,137	\$ 184,910

(1) Net earnings per common share reflects the 1-for-4 reverse split of common shares that became effective December 31, 2013.