

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

|  | <b>September 30,</b> | <b>December 31,</b> |
|--|----------------------|---------------------|
|  | <b>2013</b>          | <b>2012</b>         |
|  | <b>(unaudited)</b>   | <b>(unaudited)</b>  |
| <b>Assets</b>  |                      |                     |
| Current assets:  |                      |                     |
| Cash and cash equivalents  | \$ 11,549,948        | \$ 6,415,679        |
| Accounts receivable  | 4,869,466            | 4,413,265           |
| Inventory  | 338,110              | 587,104             |
| Prepaid expenses and deposits  | 4,241,402            | 5,081,408           |
| Derivative instrument asset, current portion   | 258,188              | 412,944             |
| Prepaid domain name registry and ancillary services fees, current portion  | 45,801,683           | 45,170,167          |
| Deferred tax asset, current portion  | 672,175              | -                   |
| Income taxes recoverable   | 311,470              | 1,730,631           |
| Total current assets   | 68,042,442           | 63,811,198          |
| Derivative instrument asset, long-term portion   | 208,221              | 31,838              |
| Prepaid domain name registry and ancillary services fees, long-term portion  | 12,031,926           | 12,318,723          |
| Property and equipment   | 1,833,258            | 1,352,144           |
| Deferred tax asset, long-term portion  | 5,417,075            | 5,970,462           |
| Intangible assets  | 15,630,479           | 16,415,651          |
| Goodwill   | 18,873,127           | 18,873,127          |
| Total assets   | \$ 122,036,528       | \$ 118,773,143      |
| <b>Liabilities and Stockholders' Equity</b>  |                      |                     |
| Current liabilities:   |                      |                     |
| Accounts payable   | \$ 2,631,198         | \$ 1,928,459        |
| Accrued liabilities  | 3,187,213            | 2,522,229           |
| Customer deposits  | 4,072,325            | 4,955,671           |
| Derivative instrument liability, current portion   | 310,865              | -                   |
| Loan payable, current portion  | 6,900,000            | 3,700,000           |
| Deferred revenue, current portion  | 56,188,897           | 54,997,887          |
| Accreditation fees payable, current portion  | 497,404              | 512,847             |
| Deferred tax liability, current portion  | -                    | 914,429             |
| Income taxes payable   | 923,280              | 1,255,108           |
| Total current liabilities  | 74,711,182           | 70,786,630          |
| Deferred revenue, long-term portion  | 15,801,411           | 16,002,464          |
| Accreditation fees payable, long-term portion  | 137,117              | 145,592             |
| Deferred rent, long-term portion   | 71,898               | 54,150              |
| Deferred tax liability, long-term portion  | 5,158,000            | 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; 43,576,861 shares issued and outstanding as of September 30, 2013 and 44,322,159 shares issued and outstanding as of December 31, 2012 | 11,797,362           | 10,084,417          |
| Additional paid-in capital   | 28,520,120           | 33,931,529          |
| Deficit  | (14,252,274)         | (17,509,843)        |
| Accumulated other comprehensive income (loss)  | 91,712               | 44,104              |
| Total stockholders' equity   | 26,156,920           | 26,550,207          |
| Total liabilities and stockholders' equity   | \$ 122,036,528       | \$ 118,773,143      |

|   | Tucows Inc.<br>Consolidated Statements of Operations<br>(Dollar amounts in U.S. dollars) |                     | Tucows Inc.<br>Consolidated Statements of Operations<br>(Dollar amounts in U.S. dollars) |                     |
|---|--|---------------------|--|---------------------|
|   | Three months ended September 30,   |                     | Nine months ended September 30,  |                     |
|   | 2013<br>(unaudited)  | 2012<br>(unaudited) | 2013<br>(unaudited)  | 2012<br>(unaudited) |
| Net revenues  | \$ 35,637,085  | \$ 29,246,069       | \$ 96,795,464  | \$ 84,935,989       |
| Cost of revenues:   |  |                     |  |                     |
| Cost of revenues  | 24,268,961   | 21,446,084          | 69,354,366   | 60,833,420          |
| Network expenses (*)  | 1,192,450  | 1,158,885           | 3,716,471  | 3,629,639           |
| Depreciation of property and equipment  | 164,283  | 157,203             | 452,711  | 460,259             |
| Amortization of intangible assets   | 11,970   | 35,910              | 83,790   | 107,730             |
| Total cost of revenues  | <u>25,637,664</u>  | <u>22,798,082</u>   | <u>73,607,338</u>  | <u>65,031,048</u>   |
| Gross profit  | 9,999,421  | 6,447,987           | 23,188,126   | 19,904,941          |
| Expenses:   |  |                     |  |                     |
| Sales and marketing (*)   | 2,998,419  | 2,037,338           | 8,792,091  | 6,287,702           |
| Technical operations and development (*)  | 1,215,327  | 1,010,949           | 3,097,294  | 3,229,669           |
| General and administrative (*) (note 1)   | 1,869,668  | 1,486,323           | 5,266,997  | 5,018,178           |
| Depreciation of property and equipment  | 52,972   | 46,981              | 158,833  | 139,918             |
| Amortization of intangible assets   | 219,030  | 219,030             | 657,090  | 657,090             |
| Loss (gain) on currency forward contracts (note 1)  | (28,068)   | (615,245)           | 353,209  | (793,516)           |
| Total expenses  | <u>6,327,348</u>   | <u>4,185,376</u>    | <u>18,325,514</u>  | <u>14,539,041</u>   |
| Income from operations  | 3,672,073  | 2,262,611           | 4,862,612  | 5,365,900           |
| Other income (expenses):  |  |                     |  |                     |
| Interest expense, net   | (78,966)   | (50,228)            | (271,756)  | (145,710)           |
| Other income  | -  | -                   | -  | 529,711             |
| Total other income (expenses)   | <u>(78,966)</u>  | <u>(50,228)</u>     | <u>(271,756)</u>   | <u>384,001</u>      |
| Income before provision for income taxes  | 3,593,107  | 2,212,383           | 4,590,856  | 5,749,901           |
| Provision for income taxes  | 999,747  | 577,383             | 1,333,287  | 1,755,284           |
| Net income  | <u>2,593,360</u>   | <u>1,635,000</u>    | <u>3,257,569</u>   | <u>3,994,617</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 | 494,334  | -                   | 47,608   | -                   |
| Comprehensive income (loss) for the period  | <u>\$ 3,087,694</u>  | <u>\$ 1,635,000</u> | <u>\$ 3,305,177</u>  | <u>\$ 3,994,617</u> |
| Basic earnings per common share   | <u>\$ 0.06</u>   | <u>\$ 0.04</u>      | <u>\$ 0.08</u>   | <u>\$ 0.09</u>      |
| Shares used in computing basic earnings per common share  | <u>43,183,583</u>  | <u>45,094,678</u>   | <u>41,289,876</u>  | <u>43,362,261</u>   |
| Diluted earnings per common share   | <u>\$ 0.06</u>   | <u>\$ 0.03</u>      | <u>\$ 0.07</u>   | <u>\$ 0.08</u>      |
| Shares used in computing diluted earnings per common share  | <u>45,639,900</u>  | <u>48,411,429</u>   | <u>44,749,232</u>  | <u>49,603,870</u>   |

(\*) Stock-based compensation has been included in expenses as follows:

|                                      |           |            |            |            |
|--------------------------------------|-----------|------------|------------|------------|
| Network expenses                     | \$ 8,755  | \$ 5,979   | \$ 22,813  | \$ 18,354  |
| Sales and marketing                  | \$ 32,681 | \$ 24,116  | \$ 93,000  | \$ 67,047  |
| Technical operations and development | \$ 21,549 | \$ 15,600  | \$ 57,166  | \$ 43,490  |
| General and administrative           | \$ 99,801 | \$ 120,676 | \$ 155,904 | \$ 163,041 |

|  | 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 September 30,      |                     | Nine months ended September 30,       |                     |
|  | 2013                                  | 2012                | 2013                                  | 2012                |
|  | (unaudited)                           |                     | (unaudited)                           |                     |
| Cash provided by:  |                                       |                     |                                       |                     |
| Operating activities:  |                                       |                     |                                       |                     |
| Net income for the period  | \$ 2,593,360                          | \$ 1,635,000        | \$ 3,257,569                          | \$ 3,994,617        |
| Items not involving cash:  |                                       |                     |                                       |                     |
| Depreciation of property and equipment                             | 217,255                               | 204,184             | 611,544                               | 600,177             |
| Amortization of deferred financing charges                         | -                                     | 100                 | -                                     | 2,300               |
| Amortization of intangible assets                                  | 231,000                               | 254,940             | 740,880                               | 764,820             |
| Deferred income taxes (recovery)                                   | (99,786)                              | 228,169             | (78,103)                              | 333,111             |
| Excess tax benefits on share-based compensation expense            | (1,056,014)                           | -                   | (1,056,014)                           | -                   |
| Deferred rent  | 7,872                                 | 8,258               | 17,748                                | 21,458              |
| Acquisition of domain names  | -                                     | -                   | -                                     | (3,664)             |
| Disposal of domain names   | 8,923                                 | 15,142              | 44,292                                | 38,181              |
| Gain on disposition of intangible assets                           | -                                     | -                   | -                                     | (508,800)           |
| (Gain) loss on change in the fair value of forward contracts       | (204,341)                             | (698,781)           | 361,646                               | (1,155,147)         |
| Stock-based compensation   | 162,786                               | 166,371             | 328,883                               | 291,932             |
| Changes in non-cash operating working capital:                     |                                       |                     |                                       |                     |
| Accounts receivable  | 758,089                               | 90,239              | (456,201)                             | (946,592)           |
| Inventory  | (150,686)                             | -                   | 248,994                               | -                   |
| Prepaid expenses and deposits                                      | 543,111                               | 636,756             | 840,006                               | (1,254,712)         |
| Prepaid fees for domain name registry and ancillary services fees  | 1,038,268                             | 905,807             | (344,719)                             | (3,392,387)         |
| Income taxes recoverable/payable                                   | 980,969                               | 226,304             | 1,087,333                             | 466,885             |
| Accounts payable   | 92,473                                | 43,173              | 700,194                               | 648,250             |
| Accrued liabilities  | 163,300                               | (279,427)           | 664,984                               | 244,738             |
| Customer deposits  | (595,776)                             | (2,781)             | (883,346)                             | 62,817              |
| Deferred revenue   | (986,779)                             | (1,144,779)         | 989,957                               | 4,139,869           |
| Accreditation fees payable   | (39,835)                              | (51,839)            | (23,918)                              | (26,660)            |
| Net cash provided by operating activities                          | <u>3,664,189</u>                      | <u>2,236,836</u>    | <u>7,051,729</u>                      | <u>4,321,193</u>    |
| Financing activities:  |                                       |                     |                                       |                     |
| Proceeds received on exercise of stock options                     | 1,136,061                             | 14,186              | 1,454,255                             | 363,898             |
| Excess tax benefits on share-based compensation expense            | 1,056,014                             | -                   | 1,056,014                             | -                   |
| Repurchase of common stock   | -                                     | (1,630,643)         | (6,537,616)                           | (9,115,833)         |
| Proceeds received on loan payable                                  | -                                     | -                   | 5,200,000                             | 4,000,000           |
| Repayment of loan payable  | (600,000)                             | -                   | (2,000,000)                           | (850,000)           |
| Net cash used in financing activities                              | <u>1,592,075</u>                      | <u>(1,616,457)</u>  | <u>(827,347)</u>                      | <u>(5,601,935)</u>  |
| Investing activities:  |                                       |                     |                                       |                     |
| Additions to property and equipment                                | (171,442)                             | (162,207)           | (1,090,113)                           | (666,534)           |
| Proceeds on disposition of intangible assets                       | -                                     | -                   | -                                     | 508,800             |
| Net cash provided by (used in) investing activities                | <u>(171,442)</u>                      | <u>(162,207)</u>    | <u>(1,090,113)</u>                    | <u>(157,734)</u>    |
| Increase (decrease) in cash and cash equivalents                   | 5,084,822                             | 458,172             | 5,134,269                             | (1,438,476)         |
| Cash and cash equivalents, beginning of period                     | 6,465,126                             | 4,511,561           | 6,415,679                             | 6,408,209           |
| Cash and cash equivalents, end of period                           | <u>\$ 11,549,948</u>                  | <u>\$ 4,969,733</u> | <u>\$ 11,549,948</u>                  | <u>\$ 4,969,733</u> |
| Supplemental cash flow information:                                |                                       |                     |                                       |                     |
| Interest paid  | \$ 92,610                             | \$ 50,511           | \$ 289,483                            | \$ 146,342          |
| Supplementary disclosure of non-cash investing activity:           |                                       |                     |                                       |                     |
| Property and equipment acquired during the period not yet paid for | \$ 99,060                             | \$ 167,998          | \$ 99,060                             | \$ 167,998          |