

TUCOWS FINANCIAL STATEMENTS, Q2 2006

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

	June 30, 2006	December 31, 2005
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,539,713	\$ 17,348,088
Short-term investments	-	1,771,569
Restricted cash	422,458	60,000
Interest receivable	5,027	39,574
Accounts receivable	3,658,609	1,439,329
Prepaid expenses and deposits	2,830,814	1,999,820
Prepaid domain name registry and other Internet services fees, current portion	21,142,361	18,175,988
Cash held in escrow	584,382	-
Deferred tax asset, current portion	1,000,000	1,000,000
Total current assets	36,183,364	41,834,368
Prepaid domain name registry and other Internet services fees, long-term portion	8,907,236	7,701,939
Deferred acquisition costs	-	46,034
Property and equipment	5,654,796	1,542,671
Deferred tax asset, long-term portion	2,000,000	2,000,000
Intangible assets	18,848,118	1,006,080
Goodwill	5,694,046	1,951,067

Investment	353,737	353,737
Cash held in escrow	1,781,342	621,412
Total assets	\$ <u>79,422,639</u>	\$ <u>57,057,308</u>

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 5,405,505	\$ 1,655,195
Accrued liabilities	3,009,736	1,417,035
Customer deposits	2,844,894	2,276,637
Deferred revenue, current portion	30,608,344	26,790,166
Accreditation fees payable, current portion	505,539	651,811
Note payable	2,122,930	-
Total current liabilities	44,496,948	32,790,844

Deferred revenue, long-term portion	12,621,678	11,079,537
Accreditation fees payable, long-term portion	132,222	94,785
Note payable	6,000,000	-

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; 75,667,220 shares issued and outstanding at June 30, 2006 and 71,945,303 shares issued and outstanding at December 31, 2005	15,265,182	12,403,422
Additional paid-in capital	50,210,366	50,061,866
Deficit	(49,303,757)	(49,373,146)
Total stockholders' equity	16,171,791	13,092,142
Total liabilities and stockholders' equity	\$ <u>79,422,639</u>	\$ <u>57,057,308</u>

Tucows Inc.
Consolidated Statements of Operations
(Dollar amounts in U.S. dollars)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net revenues	\$ 15,678,856	\$ 12,002,138	\$ 30,965,976	\$ 23,803,844
Cost of revenues:				
Cost of revenues (*)	10,066,262	7,586,612	19,994,116	14,807,817
Depreciation of property and equipment	669,256	124,143	1,194,175	206,080
Amortization of intangible assets	38,538	-	77,078	-
Total cost of revenues	10,774,056	7,710,755	21,265,369	15,013,897
Gross profit	4,904,800	4,291,383	9,700,607	8,789,947
Operating expenses:				
Sales and marketing (*)	1,572,290	1,166,058	3,031,446	2,518,511
Technical operations and development (*)	2,090,723	1,356,058	4,411,439	2,678,843
General and administrative (*)	948,464	1,146,725	2,567,517	2,537,487
Depreciation of property and equipment	45,041	152,726	82,091	312,663
Amortization of intangible assets	112,591	59,040	205,884	118,080
Total operating expenses	4,769,109	3,880,607	10,298,377	8,165,584
Income (loss) from operations	135,691	410,776	(597,770)	624,363
Other income:				
Interest income, net	102,662	96,856	205,553	174,104
Other income	-	-	473,606	-
Total other income	102,662	96,856	679,159	174,104

Income before provision for income taxes	238,353	507,632	81,389	798,467
Provision for (recovery of) income taxes	12,000	-	12,000	(151,975)
Net income for the period	\$ <u>226,353</u>	\$ <u>507,632</u>	\$ <u>69,389</u>	\$ <u>950,442</u>
Basic earnings per share	\$ <u>-</u>	\$ <u>0.01</u>	\$ <u>-</u>	\$ <u>0.01</u>
Shares used in computing basic earnings per common share	<u>72,527,662</u>	<u>65,991,867</u>	<u>72,555,539</u>	<u>67,376,440</u>
Diluted earnings per share	\$ <u>-</u>	\$ <u>0.01</u>	\$ <u>-</u>	\$ <u>0.01</u>
Shares used in computing diluted earnings per common share	<u>74,704,791</u>	<u>68,744,679</u>	<u>74,540,626</u>	<u>71,763,526</u>

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

Cost of revenues	\$ 3,100	\$ -	\$ 5,500	\$ -
Sales and marketing	\$ 18,600	\$ -	\$ 36,000	\$ -
Technical operations and development	\$ 27,300	\$ -	\$ 51,000	\$ -
General and administrative	\$ 29,300	\$ -	\$ 56,000	\$ -

Tucows Inc.
Reconciliation of EBITDA and Adjusted EBITDA
(Dollar amounts in U.S. dollars)
(unaudited)

Three months ended June 30,		Six months ended June 30,	
2006	2005	2006	2005

Net income for the period	\$ 226,353	\$ 507,632	\$ 69,389	\$ 950,442
Depreciation of property and equipment	714,297	276,870	1,276,266	518,743
Amortization of intangible assets	151,129	59,040	282,962	118,080
Interest income, net	(102,662)	(96,856)	(205,553)	(174,104)
Provision for (recovery of) income taxes	12,000	-	12,000	(151,975)
EBITDA	1,001,117	746,686	1,435,064	1,261,186
Adjustments to EBITDA (1)				
Change in prepaid fees for domain name registry and other Internet services fees	(1,858,622)	(835,394)	(4,171,670)	(2,837,609)
Change in deferred revenue	2,151,830	888,976	5,196,350	3,394,465
Transitional costs	464,579	-	1,278,842	-
Other income	-	-	(473,606)	-
Subtotal Adjustments to EBITDA	757,787	53,582	1,829,916	556,856
Adjusted EBITDA	\$ 1,758,904	\$ 800,268	\$ 3,264,980	\$ 1,818,042

(1) Adjustments to EBITDA

We define Adjusted EBITDA as net income adjusted for depreciation, amortization, interest, taxes and further adjusted for certain cash and non-cash charges. For the six months ended June 30, 2006, we incurred \$1,278,842 of transitional costs in connection with our acquisition of the Hosted Messaging assets of Critical Path. In addition, during the six months ended June 30, 2006, we received \$473,606 in connection with settlements related to patents we acquired in the merger with Infonautics in 2001. The net amount of cash we collected for domain registrations and other Internet services paid for the full term at the time of activation and deferred, amounted to \$1,024,680 for the six months ended June 30, 2006 compared to \$556,856 for the six months ended June 30, 2005.

Tucows Inc.
Consolidated Statements of Cash Flows
(Dollar amounts in U.S. dollars)
(unaudited)

Three months ended June 30,		Six months ended June 30,	
2006	2005	2006	2005

Cash provided by (used in):

Operating activities:

Net income for the period	\$ 226,353	\$ 507,632	\$ 69,389	\$ 950,442
Items not involving cash:				
Depreciation of property and equipment	714,297	276,870	1,276,266	518,743
Amortization of intangible assets	151,129	59,040	282,962	118,080
Unrealized change in the fair value of forward exchange contracts	(378,846)	-	(195,902)	107,628
Stock-based compensation	78,300	-	148,500	-
Change in non-cash operating working capital:				
Interest receivable	(3,047)	-	34,547	-
Accounts receivable	(335,071)	(8,380)	(2,162,713)	(159,977)
Prepaid expenses and deposits	(24,292)	83,467	(20,879)	410,803
Prepaid fees for domain name registry and other Internet services fees	(1,858,622)	(835,394)	(4,171,670)	(2,837,609)
Accounts payable	2,577,875	(103,675)	3,070,542	(60,713)
Accrued liabilities	(259,966)	335,452	1,067,114	(675,339)
Customer deposits	420,423	(30,742)	568,257	(108,869)
Deferred revenue	2,151,830	888,976	5,196,350	3,394,465
Accreditation fees payable	(240,100)	301,495	(108,836)	472,352
Cash provided by operating activities	3,220,263	1,474,741	5,053,927	2,130,006
Financing activities:				
Proceeds received on exercise of stock options	27,401	5,416	55,410	186,439
Cash provided by financing activities	27,401	5,416	55,410	186,439
Investing activities:				
Additions to property and equipment	(2,405,146)	(625,169)	(3,291,425)	(826,077)
Decrease (increase) in investment in short-term investments	72,000	(7,771,453)	1,771,569	(7,771,453)
Decrease (increase) in restricted cash - being margin security against forward exchange contracts	190,042	-	(362,458)	460,398
Acquisition of Mailbank.com Inc., net of cash acquired	(5,830,902)	-	(5,830,902)	-
Acquisition of Hosted Messaging Assets, net of cash acquired	163,969	-	(6,419,485)	-

(Decrease) increase in cash held in escrow	(18,507)	396,604	(1,785,011)	392,888
Cash (used in) investing activities	(7,828,544)	(8,000,018)	(15,917,712)	(7,744,244)
Decrease in cash and cash equivalents	(4,580,880)	(6,519,861)	(10,808,375)	(5,427,799)
Cash and cash equivalents, beginning of period	11,120,593	15,007,050	17,348,088	13,914,988
Cash and cash equivalents, end of period	\$ <u>6,539,713</u>	\$ <u>8,487,189</u>	\$ <u>6,539,713</u>	\$ <u>8,487,189</u>