

# TUCOWS FINANCIAL STATEMENTS, Q3 2005

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

	September 30, 2005	December 31, 2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,315,332	\$ 13,914,988
Short-term investments	7,771,453	-
Restricted cash (note 1)	300,000	460,398
Interest receivable	115,739	-
Accounts receivable	1,362,887	1,111,082
Prepaid expenses and deposits	1,687,766	2,156,702
Prepaid domain name registry and ancillary services fees, current portion	18,001,418	15,601,786
Deferred tax asset, current portion	1,000,000	1,000,000
Total current assets	40,554,595	34,244,956
Prepaid domain name registry and ancillary services fees, long-term portion	7,445,536	6,471,916
Property and equipment	1,412,753	1,017,237
Deferred tax asset, long-term portion	2,000,000	2,000,000
Intangible assets	1,065,120	1,242,240
Goodwill	1,951,067	964,467
Investment	353,737	353,737
Cash held in escrow	619,082	1,009,650
Total assets	\$ 55,401,890	\$ 47,304,203

## Liabilities and Stockholders' Equity

Current liabilities:			
Accounts payable	\$	1,715,409	\$ 1,483,543
Accrued liabilities		1,743,843	2,688,738
Customer deposits		2,169,890	2,247,262
Deferred revenue, current portion		26,561,381	23,648,381
Accreditation fees payable, current portion		366,143	144,483
Total current liabilities		32,556,666	30,212,407
Deferred revenue, long term portion		10,758,080	9,602,599
Accreditation fees payable, long term portion		78,212	31,816
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; 71,840,267 shares issued and outstanding at September 30, 2005 and 66,817,250 shares issued and outstanding at December 31, 2004		12,354,168	9,541,277
Additional Paid-in Capital		50,061,866	50,061,866
Deficit		(50,407,102)	(52,145,762)
Total stockholders' equity		12,008,932	7,457,381
Total liabilities and stockholders' equity	\$	55,401,890	\$ 47,304,203

Note 1:

The restricted cash of \$300,000 represents margin security against a series of forward exchange contracts.

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net revenues	\$ 12,054,796	\$ 12,381,326	\$ 35,858,640	\$ 33,195,200
Cost of revenues	7,676,713	7,654,475	22,484,530	20,658,200
Gross profit	4,378,083	4,726,851	13,374,110	12,537,000
Operating expenses:				

Sales and marketing (*)	1,150,674	1,370,932	3,669,185	3,716,192
Technical operations and development	1,468,624	1,107,590	4,147,467	3,259,882
General and administrative(*)	820,860	1,388,421	3,358,347	3,295,996
Depreciation of property and equipment	213,422	187,158	732,165	817,475
Amortization of intangible assets	59,040	59,040	177,120	98,720
<b>Total operating expenses</b>	<b>3,712,620</b>	<b>4,113,141</b>	<b>12,084,284</b>	<b>11,188,265</b>
Income from operations	665,463	613,710	1,289,826	1,348,735
Other income				
Interest income, net	122,755	56,549	296,859	136,285
Total other income	122,755	56,549	296,859	136,285
Income before provision for income taxes	788,218	670,259	1,586,685	1,485,020
Provision for (recovery of) income taxes	-	(150,432)	(151,975)	(150,432)
Net income for the period	\$ 788,218	\$ 820,691	\$ 1,738,660	\$ 1,635,452
Basic earnings per common share	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.02
Shares used in computing basic earnings per common share	69,602,723	66,800,369	68,126,691	65,831,258
Diluted earnings per common share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
Shares used in computing diluted earnings per common share	73,145,627	68,458,596	72,243,523	68,099,907

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

Sales and marketing	\$ -	\$ -	\$ -	\$ 16,834
General and administrative	\$ -	\$ -	\$ -	\$ 3,759

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

Three months ended  
September 30

Nine months ended  
September 30

	September 30,		September 30,	
	2005	2004	2005	2004
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 788,218	\$ 820,691	\$ 1,738,660	\$ 1,635,362
Items not involving cash:				
Depreciation of property and equipment	213,422	187,158	732,165	817,475
Amortization of intangible assets	59,040	59,040	177,120	98,720
Unrealized change in the fair value of forward contracts	(290,177)	(97,512)	(182,549)	(188,775)
Stock-based compensation	-	-	-	20,593
Change in non-cash operating working capital:				
Interest receivable	(115,739)	-	(115,739)	-
Accounts receivable	(91,828)	(382,631)	(251,805)	(456,915)
Prepaid expenses and deposits	240,682	68,578	651,485	179,193
Prepaid domain name registry and ancillary services fees	(535,643)	369,522	(3,373,252)	(2,926,678)
Accounts payable	292,579	61,324	231,866	(287,933)
Accrued liabilities	(269,556)	668,181	(944,895)	445,699
Customer deposits	31,497	(167,189)	(77,372)	(163,589)
Deferred revenue	674,016	(460,375)	4,068,481	3,916,585
Accreditation fees payable	(204,296)	-	268,056	-
Cash provided by operating activities	792,215	1,126,787	2,922,221	3,089,737
Financing activities:				
Proceeds received on exercise of stock options	65,177	81,581	251,616	726,050
Net proceeds received on issuance of common stock, net of issue costs	2,024,025	-	1,574,675	-
Cash provided by financing activities	2,089,202	81,581	1,826,291	726,050
Investing activities:				
Additions to property and equipment	(301,604)	(143,239)	(1,127,681)	(496,489)
Investment in short-term investments	-	-	(7,771,453)	-
(Decrease) increase in restricted cash - being margin security against forward exchange contracts	(300,000)	148,750	160,398	(80,000)
Acquisition of Boardtown Corporation				

Acquisition of Boardtown Corporation, net of cash acquired	-	-	-	(2,019,510)
Decrease (increase) in cash held in escrow	(2,320)	-	390,568	(1,000,000)
Cash (used in) provided by investing activities	(603,924)	5,511	(8,348,168)	(3,595,999)
Increase (decrease) in cash and cash equivalents	2,277,493	1,213,879	(3,599,656)	219,788
Cash and cash equivalents, beginning of period	8,037,839	11,918,720	13,914,988	12,912,811
Cash and cash equivalents, end of period	\$ 10,315,332	\$ 13,132,599	\$ 10,315,332	\$ 13,132,599
Supplemental cash flow information:				
Interest paid	\$ -	\$ 113	\$ 300	\$ 166
Supplemental disclosure of non-cash investing and financing activities:				
Common stock issued on the acquisition of Boardtown Corporation	\$ 285,238	\$ -	\$ 986,601	\$ 274,540