

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

	<u>September 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
	<u>(unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,898,360	\$ 8,271,377
Accounts receivable	7,946,089	6,789,685
Inventory	742,460	393,774
Prepaid expenses and deposits	4,677,841	3,697,292
Prepaid domain name registry and ancillary services fees, current portion	47,060,627	44,614,858
Other assets	-	8,199,000
Deferred tax asset, current portion	3,767,702	2,498,196
Income taxes recoverable	15,611	997
Total current assets	<u>76,108,690</u>	<u>74,465,179</u>
Prepaid domain name registry and ancillary services fees, long-term portion	11,387,867	11,764,765
Property and equipment	6,472,226	1,609,787
Deferred tax asset, long-term portion	5,151,914	4,880,423
Intangible assets	14,678,989	14,202,585
Goodwill	21,005,143	18,873,127
Total assets	<u>\$ 134,804,829</u>	<u>\$ 125,795,866</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,965,083	\$ 3,579,920
Accrued liabilities	5,681,783	3,941,549
Customer deposits	4,714,950	4,461,727
Derivative instrument liability	2,005,634	1,115,805
Deferred rent, current portion	15,139	-
Loan payable, current portion	3,500,000	-
Deferred revenue, current portion	59,077,575	55,495,566
Accreditation fees payable, current portion	485,491	466,201
Income taxes payable	2,423,520	473,480
Total current liabilities	<u>81,869,175</u>	<u>69,534,248</u>
Derivative instrument liability, long-term portion	175,734	-
Deferred revenue, long-term portion	15,336,127	15,610,753
Accreditation fees payable, long-term portion	120,378	128,243
Deferred rent, long-term portion	95,656	92,878
Other liabilities	1,545,832	-
Deferred tax liability, long-term portion	4,974,814	4,787,351
Redeemable non-controlling interest	3,024,349	-
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; 10,727,380 shares issued and outstanding as of September 30, 2015 and 11,329,732 shares issued and outstanding as of December 31, 2014	14,160,189	14,130,059
Additional paid-in capital	13,397,142	29,090,058
Deficit	1,298,763	(6,955,283)
Accumulated other comprehensive income (loss)	(1,193,330)	(622,441)
Total stockholders' equity	<u>27,662,764</u>	<u>35,642,393</u>
Total liabilities and stockholders' equity	<u>\$ 134,804,829</u>	<u>\$ 125,795,866</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Net revenues	\$ 44,551,909	\$ 38,874,183	\$ 127,908,962	\$ 108,864,578
Cost of revenues:				
Cost of revenues	28,779,882	25,985,875	83,851,928	75,038,518
Network expenses (*)	1,421,279	1,139,515	4,138,213	3,427,856
Depreciation of property and equipment	324,166	172,019	803,737	528,956
Amortization of intangible assets	11,532	-	26,988	-
Total cost of revenues	<u>30,536,859</u>	<u>27,297,409</u>	<u>88,820,866</u>	<u>78,995,330</u>
Gross profit	14,015,050	11,576,774	39,088,096	29,869,248
Expenses:				
Sales and marketing (*)	4,740,662	3,593,486	13,387,800	11,377,701
Technical operations and development (*)	1,101,581	1,041,136	3,405,052	3,238,566
General and administrative (*) (note 1)	2,607,916	2,727,626	7,826,405	6,959,984
Depreciation of property and equipment	63,790	58,685	185,074	167,527
Amortization of intangible assets	56,997	107,230	167,209	545,290
Impairment of indefinite life intangible assets	18,550	-	68,848	577,145
Loss on currency forward contracts	352,738	150,227	681,988	219,904
Total expenses	<u>8,942,234</u>	<u>7,678,390</u>	<u>25,722,376</u>	<u>23,086,117</u>
Income from operations	5,072,816	3,898,384	13,365,720	6,783,131
Other income (expenses):				
Interest expense, net	(78,959)	(63,498)	(161,136)	(206,679)
Total other income (expenses)	<u>(78,959)</u>	<u>(63,498)</u>	<u>(161,136)</u>	<u>(206,679)</u>
Income before provision for income taxes	4,993,857	3,834,886	13,204,584	6,576,452
Provision for income taxes	1,834,400	1,143,981	4,926,189	2,061,526
Net income	<u>3,159,457</u>	<u>2,690,905</u>	<u>8,278,395</u>	<u>4,514,926</u>
Redeemable non-controlling interest	(91,283)	-	(162,750)	-
Net (earnings) loss attributable to redeemable non-controlling interest	91,283	-	162,750	-
Net income	<u>3,159,457</u>	<u>2,690,905</u>	<u>8,278,395</u>	<u>4,514,926</u>
Other comprehensive income (loss), net of tax				
Unrealized loss on hedging activities	(724,336)	(437,519)	(1,723,248)	(602,901)
Net amount reclassified to earnings	364,330	57,701	1,152,359	437,893
Other comprehensive income (loss) net of tax of \$198,664 and \$197,852 for the three months ended September 30, 2015 and September 30, 2014 and \$334,280 and \$85,955 for the nine months ended September 30, 2015 and September 30, 2014	<u>(360,006)</u>	<u>(379,818)</u>	<u>(570,889)</u>	<u>(165,008)</u>
Comprehensive income, net of tax for the period	<u>\$ 2,799,451</u>	<u>\$ 2,311,087</u>	<u>\$ 7,707,506</u>	<u>\$ 4,349,918</u>
Basic earnings per common share	<u>\$ 0.29</u>	<u>\$ 0.24</u>	<u>\$ 0.75</u>	<u>\$ 0.40</u>
Shares used in computing basic earnings per common share	<u>10,984,869</u>	<u>11,321,175</u>	<u>11,057,634</u>	<u>11,190,684</u>
Diluted earnings per common share	<u>\$ 0.28</u>	<u>\$ 0.23</u>	<u>\$ 0.72</u>	<u>\$ 0.39</u>
Shares used in computing diluted earnings per common share	<u>11,372,682</u>	<u>11,787,749</u>	<u>11,469,657</u>	<u>11,718,910</u>

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

Network expenses	\$ 7,221	\$ 6,600	\$ 22,264	\$ 22,397
Sales and marketing	\$ 45,385	\$ 37,637	\$ 144,408	\$ 104,440
Technical operations and development	\$ 27,364	\$ 22,716	\$ 84,646	\$ 59,368
General and administrative	\$ 48,605	\$ 163,759	\$ 126,910	\$ 230,841

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 3,159,457	\$ 2,690,905	\$ 8,278,395	\$ 4,514,926
Items not involving cash:				
Depreciation of property and equipment	387,956	230,704	988,811	696,483
Amortization of intangible assets	68,529	107,230	194,197	545,290
Impairment of indefinite life intangible asset	18,550	-	68,848	577,145
Deferred income taxes recovery	(53,085)	(49,214)	(1,019,254)	(807,691)
Excess tax benefits from share-based compensation expense	-	168,346	-	(250,555)
Amortization of deferred rent	7,370	-	17,917	14,212
Disposal of domain names	2,866	10,708	20,551	19,577
Loss on change in the fair value of forward contracts	99,052	125,305	160,394	19,991
Stock-based compensation	128,575	230,712	378,228	417,046
Change in non-cash operating working capital:				
Accounts receivable	262,149	4,440	(994,889)	(1,609,287)
Inventory	(123,047)	90,114	(281,491)	(81,340)
Prepaid expenses and deposits	1,000,287	613,342	(892,105)	(13,192)
Prepaid domain name registry and ancillary services fees	149,905	573,727	(2,068,871)	(1,848,171)
Income taxes recoverable	1,152,410	(227,558)	1,935,426	(794,101)
Accounts payable	195,002	326,610	202,578	1,130,552
Accrued liabilities	406,920	1,214,237	1,517,453	1,044,866
Customer deposits	(199,695)	(418,539)	253,223	(431,614)
Deferred revenue	140,850	(656,430)	3,185,946	2,959,948
Accreditation fees payable	(20,621)	(22,510)	11,425	5,822
Net cash provided by operating activities	6,783,430	5,013,961	11,956,782	6,109,907
Financing activities:				
Proceeds received on exercise of stock options	189,914	343,953	737,369	1,385,816
Excess tax benefits from share-based compensation expense	312,091	741,512	1,400,793	1,755,312
Repurchase of common stock	(9,977,495)	(1,099,571)	(18,179,176)	(1,181,857)
Proceeds received on loan payable	-	-	3,500,000	-
Repayment of loan payable	-	(5,358,333)	-	(6,300,000)
Net cash used in financing activities	(9,475,490)	(5,372,439)	(12,541,014)	(4,340,729)
Investing activities:				
Additions to property and equipment	(710,342)	(216,794)	(2,051,124)	(598,820)
Gross proceeds from the waiver of rights to .online registry	-	-	6,619,832	-
Additional cost of acquisition of Ting Virginia, LLC., net of cash of \$21,423	-	-	(357,493)	-
Net cash provided by (used in) investing activities	(710,342)	(216,794)	4,211,215	(598,820)
Increase (decrease) in cash and cash equivalents	(3,402,402)	(575,272)	3,626,983	1,170,358
Cash and cash equivalents, beginning of period	15,300,762	14,164,518	8,271,377	12,418,888
Cash and cash equivalents, end of period	\$ 11,898,360	\$ 13,589,246	\$ 11,898,360	\$ 13,589,246
Supplemental cash flow information:				
Interest paid	\$ 78,988	\$ 64,248	\$ 175,290	\$ 207,634
Income taxes paid, net	\$ 512,954	\$ 469,248	\$ 2,457,225	\$ 1,724,976
Supplementary disclosure of non-cash investing activity:				
Property and equipment acquired during the period not yet paid for	\$ 63,499	\$ 82,132	\$ 63,499	\$ 82,132

Tucows Inc.
Reconciliation of Net income to Adjusted EBITDA
(In Thousands of US Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Net income for the period	\$ 3,159	\$ 2,691	\$ 8,278	\$ 4,515
Depreciation of property and equipment	388	231	989	696
Amortization of intangible assets	69	107	194	545
Impairment of indefinite life intangible assets	19	-	69	577
Interest expense, net	79	63	161	207
Provision for income taxes	1,834	1,144	4,926	2,062
Change in net deferred revenue ¹	289	- 15	1,181	1,183
Stock-based compensation	129	231	378	417
Loss on currency forward contracts	942	443	2,757	1,107
Adjusted EBITDA	<u>\$ 6,908</u>	<u>\$ 4,895</u>	<u>\$ 18,933</u>	<u>\$ 11,309</u>

(1) Net deferred revenue comprises the change in deferred revenue, net of prepaid domain name registry and other Internet services fees, to reflect the material amount of cash we collect and pay for domain registrations and other Internet services at the time of activation. Net deferred revenue for the nine months ended September 30, 2015, includes a benefit of \$0.1 million as a result of the translation of deferred revenue and prepaid domain name registry and other Internet services fees to our reporting currency of US dollars.