

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

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
	<u>(unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,723,253	\$ 8,271,377
Accounts receivable	7,171,388	6,789,685
Inventory	903,775	393,774
Prepaid expenses and deposits	5,067,790	3,697,292
Prepaid domain name registry and ancillary services fees, current portion	44,708,041	44,614,858
Other assets	-	8,199,000
Deferred tax asset, current portion	3,243,718	2,498,196
Income taxes recoverable	<u>2,292,915</u>	<u>997</u>
Total current assets	71,110,880	74,465,179
Prepaid domain name registry and ancillary services fees, long-term portion	11,040,929	11,764,765
Property and equipment	7,126,676	1,609,787
Deferred tax asset, long-term portion	4,377,374	4,880,423
Intangible assets	14,469,677	14,202,585
Goodwill	<u>21,005,143</u>	<u>18,873,127</u>
Total assets	<u>\$ 129,130,679</u>	<u>\$ 125,795,866</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,166,135	\$ 3,579,920
Accrued liabilities	5,855,686	3,941,549
Customer deposits	5,136,909	4,461,727
Derivative instrument liability	2,027,086	1,115,805
Deferred rent, current portion	19,463	-
Loan payable, current portion	3,500,000	-
Deferred revenue, current portion	56,646,390	55,495,566
Accreditation fees payable, current portion	465,300	466,201
Income taxes payable	<u>444,053</u>	<u>473,480</u>
Total current liabilities	78,261,022	69,534,248
Derivative instrument liability, long-term portion	-	-
Deferred revenue, long-term portion	14,947,639	15,610,753
Accreditation fees payable, long-term portion	118,480	128,243
Deferred rent, long-term portion	100,864	92,878
Other liabilities	1,459,960	-
Deferred tax liability, long-term portion	4,876,691	4,787,351
Redeemable non-controlling interest	3,036,598	-
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; 10,685,599 shares issued and outstanding as of December 31, 2015 and 11,329,732 shares issued and outstanding as of December 31, 2014	14,530,633	14,130,059
Additional paid-in capital	8,526,395	29,090,058
Deficit	4,381,849	(6,955,283)
Accumulated other comprehensive income (loss)	<u>(1,109,452)</u>	<u>(622,441)</u>
Total stockholders' equity	<u>26,329,425</u>	<u>35,642,393</u>
Total liabilities and stockholders' equity	<u>\$ 129,130,679</u>	<u>\$ 125,795,866</u>

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

	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Net revenues	\$ 45,030,537	\$ 38,802,529	\$ 172,939,499	\$ 147,667,107
Cost of revenues:				
Cost of revenues	29,238,042	26,822,484	113,089,970	101,861,002
Network expenses (*)	1,326,564	1,126,779	5,464,777	4,554,635
Depreciation of property and equipment	341,252	170,714	1,144,989	699,670
Amortization of intangible assets	11,532	-	38,520	-
Total cost of revenues	<u>30,917,390</u>	<u>28,119,977</u>	<u>119,738,256</u>	<u>107,115,307</u>
Gross profit	14,113,147	10,682,552	53,201,243	40,551,800
Expenses:				
Sales and marketing (*)	5,150,010	4,016,364	18,537,810	15,394,065
Technical operations and development (*)	1,097,793	1,067,149	4,502,845	4,305,715
General and administrative (*) (note 1)	2,835,544	2,499,025	10,661,949	9,459,008
Depreciation of property and equipment	74,233	58,905	259,307	226,432
Amortization of intangible assets	56,997	51,330	224,206	596,620
Impairment of indefinite life intangible assets	137,268	-	206,116	577,145
Loss on currency forward contracts	110,912	137,855	792,900	357,760
Total expenses	<u>9,462,757</u>	<u>7,830,628</u>	<u>35,185,133</u>	<u>30,916,745</u>
Income from operations	4,650,390	2,851,924	18,016,110	9,635,055
Other income (expenses):				
Interest expense, net	87,983	(51)	(73,153)	(206,730)
Total other income (expenses)	<u>87,983</u>	<u>(51)</u>	<u>(73,153)</u>	<u>(206,730)</u>
Income before provision for income taxes	4,738,373	2,851,873	17,942,957	9,428,325
Provision for income taxes	1,643,038	992,703	6,569,227	3,054,229
Net income	<u>3,095,335</u>	<u>1,859,170</u>	<u>11,373,730</u>	<u>6,374,096</u>
Redeemable non-controlling interest	(121,759)	-	(284,509)	-
Net (earnings) loss attributable to redeemable non-controlling interest	121,759	-	284,509	-
Net income	<u>3,095,335</u>	<u>1,859,170</u>	<u>11,373,730</u>	<u>6,374,096</u>
Other comprehensive income (loss), net of tax				
Unrealized loss on hedging activities	(308,217)	(401,214)	(2,031,465)	(1,004,115)
Net amount reclassified to earnings	392,095	188,762	1,544,454	626,655
Other comprehensive income (loss) net of tax of \$46,286 and \$110,668 for the three months ended December 31, 2015 and December 31, 2014 and \$287,994 and \$196,623 for the year ended December 31, 2015 and December 31, 2014	<u>83,878</u>	<u>(212,452)</u>	<u>(487,011)</u>	<u>(377,460)</u>
Comprehensive income, net of tax for the period	<u>\$ 3,179,213</u>	<u>\$ 1,646,718</u>	<u>\$ 10,886,719</u>	<u>\$ 5,996,636</u>
Basic earnings per common share	<u>\$ 0.29</u>	<u>\$ 0.16</u>	<u>\$ 1.04</u>	<u>\$ 0.57</u>
Shares used in computing basic earnings per common share	<u>10,704,251</u>	<u>11,310,469</u>	<u>10,968,500</u>	<u>11,220,874</u>
Diluted earnings per common share	<u>\$ 0.28</u>	<u>\$ 0.16</u>	<u>\$ 1.00</u>	<u>\$ 0.54</u>
Shares used in computing diluted earnings per common share	<u>11,034,147</u>	<u>11,763,744</u>	<u>11,360,084</u>	<u>11,730,398</u>

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

Network expenses	\$ 6,651	\$ 8,541	\$ 28,915	\$ 30,938
Sales and marketing	\$ 43,627	\$ 39,074	\$ 188,035	\$ 143,514
Technical operations and development	\$ 26,593	\$ 26,536	\$ 111,239	\$ 85,904
General and administrative	\$ 70,926	\$ 51,541	\$ 197,836	\$ 282,382

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

	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 3,095,335	\$ 1,859,170	\$ 11,373,730	\$ 6,374,096
Items not involving cash:				
Depreciation of property and equipment	415,485	229,619	1,404,296	926,102
Amortization of intangible assets	68,529	51,330	262,726	596,620
Impairment of indefinite life intangible asset	137,268	-	206,116	577,145
Deferred income taxes recovery	1,154,115	(276,779)	134,861	(1,084,470)
Excess tax benefits from share-based compensation expense	-	250,555	-	-
Amortization of deferred rent	9,532	2,687	27,449	16,899
Disposal of domain names	3,515	7,301	24,066	26,878
Other income	(85,872)	-	(85,872)	-
Loss on change in the fair value of forward contracts	(24,118)	30,633	136,276	50,624
Stock-based compensation	147,797	125,692	526,025	542,738
Change in non-cash operating working capital:				
Accounts receivable	774,701	125,005	(220,188)	(1,484,282)
Inventory	(161,315)	(2,748)	(442,806)	(84,088)
Prepaid expenses and deposits	(389,949)	624,939	(1,282,054)	611,747
Prepaid domain name registry and ancillary services fees	2,699,524	1,516,718	630,653	(331,453)
Income taxes recoverable	(4,256,771)	718,357	(2,321,345)	(75,744)
Accounts payable	47,353	21,490	249,931	1,152,042
Accrued liabilities	173,903	(1,016,351)	1,691,356	28,515
Customer deposits	421,959	392,395	675,182	(39,219)
Deferred revenue	(2,819,673)	(1,871,865)	366,273	1,088,083
Accreditation fees payable	(22,089)	(20,711)	(10,664)	(14,889)
Net cash provided by operating activities	1,389,229	2,767,437	13,346,011	8,877,344
Financing activities:				
Proceeds received on exercise of stock options	65,766	93,108	803,136	1,478,924
Payment of tax obligations resulting from net exercise of stock options	(1,306,981)	-	(1,306,981)	-
Excess tax benefits from share-based compensation expense	2,030,225	133,422	3,431,017	1,888,734
Repurchase of common stock	(5,437,110)	-	(23,616,286)	(1,181,857)
Proceeds received on loan payable	-	-	3,500,000	-
Repayment of loan payable	-	-	-	(6,300,000)
Net cash (used in) provided by financing activities	(4,648,100)	226,530	(17,189,114)	(4,114,199)
Investing activities:				
Additions to property and equipment	(916,236)	(112,836)	(2,967,360)	(711,656)
Acquisition of other assets	-	(8,199,000)	-	(8,199,000)
Gross proceeds from the waiver of rights to .online registry	-	-	6,619,831	-
Additional cost of acquisition of Ting Virginia, LLC., net of cash of	-	-	(357,492)	-
Net cash (used in) provided by investing activities	(916,236)	(8,311,836)	3,294,979	(8,910,656)
Decrease in cash and cash equivalents	(4,175,107)	(5,317,869)	(548,124)	(4,147,511)
Cash and cash equivalents, beginning of period	11,898,360	13,589,246	8,271,377	12,418,888
Cash and cash equivalents, end of period	\$ 7,723,253	\$ 8,271,377	\$ 7,723,253	\$ 8,271,377
Supplemental cash flow information:				
Interest paid	\$ 46,126	\$ 143	\$ 173,197	\$ 207,777
Income taxes paid, net	\$ 592,798	\$ 447,071	\$ 3,132,105	\$ 2,172,047
Supplementary disclosure of non-cash investing activity:				
Property and equipment acquired during the period not yet paid for	\$ 217,198	\$ 66,397	\$ 217,198	\$ 66,397

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

	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
	(unaudited)		(unaudited)	
Net income for the period	\$ 3,095	\$ 1,859	\$ 11,374	\$ 6,374
Depreciation of property and equipment	415	230	1,404	927
Amortization of intangible assets	69	51	263	596
Impairment of indefinite life intangible assets	137	-	206	577
Interest expense, net	(88)	-	73	206
Provision for income taxes	1,643	993	6,570	3,055
Change in net deferred revenue ¹	(97)	(320)	1,084	863
Stock-based compensation	148	126	526	543
Loss on currency forward contracts	861	505	3,618	1,612
Adjusted EBITDA	<u>\$ 6,183</u>	<u>\$ 3,444</u>	<u>\$ 25,118</u>	<u>\$ 14,753</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 year ended December 31, 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.