

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

	December 31,	December 31,
	2016	2015
	(unaudited)	(unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,105,075	\$ 7,723,253
Accounts receivable	10,925,622	7,171,388
Inventory	1,210,789	903,775
Prepaid expenses and deposits	6,250,555	5,067,790
Derivative instrument asset, current portion	172,888	-
Prepaid domain name registry and ancillary services fees, current portion	49,396,737	44,708,041
Income taxes recoverable	220,451	2,292,915
Total current assets	<u>83,282,117</u>	<u>67,867,162</u>
Prepaid domain name registry and ancillary services fees, long-term portion	10,993,156	11,040,929
Property and equipment	13,450,438	7,126,676
Deferred tax asset	5,708,725	7,621,092
Intangible assets	19,973,793	14,469,677
Goodwill	21,005,143	21,005,143
Total assets	<u>\$ 154,413,372</u>	<u>\$ 129,130,679</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,786,645	\$ 4,166,135
Accrued liabilities	7,098,905	5,855,686
Customer deposits	5,418,622	5,136,909
Derivative instrument liability, current portion	-	2,027,086
Deferred rent, current portion	20,854	19,463
Loan payable, current portion	2,233,110	3,500,000
Deferred revenue, current portion	62,795,079	56,646,390
Accreditation fees payable, current portion	528,027	465,300
Income taxes payable	1,548,121	444,053
Total current liabilities	<u>84,429,363</u>	<u>78,261,022</u>
Deferred revenue, long-term portion	15,053,977	14,947,639
Accreditation fees payable, long-term portion	115,084	118,480
Deferred rent, long-term portion	124,202	100,864
Loan payable, long-term portion	8,015,698	-
Other liabilities	944,680	1,459,960
Deferred tax liability	4,827,192	4,876,691
Redeemable non-controlling interest	3,086,090	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; 10,461,574 shares issued and outstanding as of December 31, 2016 and 10,685,599 shares issued and outstanding as of December 31, 2015	14,460,500	14,530,633
Additional paid-in capital	2,857,921	8,526,395
Retained earnings	20,399,511	4,381,849
Accumulated other comprehensive income (loss)	99,154	(1,109,452)
Total stockholders' equity	<u>37,817,086</u>	<u>26,329,425</u>
Total liabilities and stockholders' equity	<u>\$ 154,413,372</u>	<u>\$ 129,130,679</u>

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

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Net revenues	\$ 48,804,603	\$ 44,706,681	\$ 189,818,932	\$ 171,686,779
Cost of revenues:				
Cost of revenues	30,741,469	29,213,212	120,186,962	112,980,685
Network expenses (*)	1,285,123	1,326,564	5,210,500	5,464,777
Depreciation of property and equipment	343,400	341,252	1,319,819	1,144,988
Amortization of intangible assets	11,532	11,532	48,017	38,520
Total cost of revenues	32,381,524	30,892,560	126,765,298	119,628,970
Gross profit	16,423,079	13,814,121	63,053,634	52,057,809
Expenses:				
Sales and marketing (*)	5,580,133	4,850,984	20,754,752	17,394,376
Technical operations and development (*)	1,049,701	1,097,793	4,494,819	4,502,845
General and administrative (*)	3,907,041	2,835,540	11,404,793	10,661,949
Depreciation of property and equipment	174,987	74,233	503,864	259,307
Amortization of intangible assets	292,116	56,997	905,157	224,206
Impairment of indefinite life intangible assets	14,928	137,268	42,673	206,116
Loss (gain) on currency forward contracts	(1,984)	110,912	(98,977)	792,900
Total expenses	11,016,922	9,163,727	38,007,081	34,041,699
Income from operations	5,406,157	4,650,394	25,046,553	18,016,110
Other income (expenses):				
Interest expense, net	(147,970)	2,112	(449,838)	(159,025)
Other income	128,422	85,872	516,209	85,872
Total other income (expenses)	(19,548)	87,984	66,371	(73,153)
Income before provision for income taxes	5,386,609	4,738,378	25,112,924	17,942,957
Provision for income taxes	2,569,758	1,643,038	9,045,770	6,569,227
Net income before redeemable non-controlling interest	2,816,851	3,095,340	16,067,154	11,373,730
Redeemable non-controlling interest	(172,910)	(121,759)	(871,493)	(284,509)
Net (earnings) loss attributable to redeemable non-controlling interest	172,910	121,759	871,493	284,509
Net income for the period	2,816,851	3,095,340	16,067,154	11,373,730
Other comprehensive income (loss), net of tax				
Unrealized income (loss) on hedging activities	51,410	(308,217)	567,816	(2,031,465)
Net amount reclassified to earnings	93,954	392,095	640,790	1,544,454
Other comprehensive income (loss) net of tax of \$82,694 and \$46,284 for the three months ended December 31, 2016 and December 31, 2015 and \$668,637 and \$287,996 for the year ended December 31, 2016 and December 31, 2015	145,364	83,878	1,208,606	(487,011)
Comprehensive income, net of tax for the period	\$ 2,962,215	\$ 3,179,218	\$ 17,275,760	\$ 10,886,719
Basic earnings per common share	\$ 0.27	\$ 0.29	\$ 1.53	\$ 1.04
Shares used in computing basic earnings per common share	10,452,765	10,704,251	10,524,856	10,968,500
Diluted earnings per common share	\$ 0.26	\$ 0.28	\$ 1.50	\$ 1.00
Shares used in computing diluted earnings per common share	10,642,853	11,034,147	10,713,595	11,360,084

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

Network expenses	\$ 4,920	\$ 6,651	\$ 21,704	\$ 28,915
Sales and marketing	\$ 59,968	\$ 43,627	\$ 236,063	\$ 188,035
Technical operations and development	\$ 23,146	\$ 26,593	\$ 98,059	\$ 111,239
General and administrative	\$ 125,546	\$ 70,926	\$ 443,608	\$ 197,836

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

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 2,816,851	\$ 3,095,335	\$ 16,067,154	\$ 11,373,730
Items not involving cash:				
Depreciation of property and equipment	518,387	415,485	1,823,683	1,404,296
Amortization of debt discount and issuance costs	22,868	-	31,166	-
Amortization of intangible assets	303,648	68,529	953,174	262,726
Impairment of indefinite life intangible asset	14,928	137,268	42,673	206,116
Deferred income taxes	(435,844)	1,154,115	1,194,232	134,861
Amortization of deferred rent	(5,718)	9,532	24,729	27,449
Disposal of domain names	4,110	3,515	29,691	24,066
Other income	(128,820)	(85,872)	(515,280)	(85,872)
Loss (gain) on change in the fair value of forward contracts	(30,599)	(24,118)	(322,732)	136,276
Stock-based compensation	213,580	147,797	799,434	526,025
Change in non-cash operating working capital:				
Accounts receivable	681,016	774,701	(3,754,234)	(220,188)
Inventory	291,644	(161,315)	(307,014)	(442,806)
Prepaid expenses and deposits	(242,830)	(389,949)	(1,182,765)	(1,282,054)
Prepaid domain name registry and ancillary services fees	529,988	2,699,524	(4,640,923)	630,653
Income taxes recoverable	1,623,008	(4,256,771)	3,176,532	(2,321,345)
Accounts payable	392,880	47,353	390,887	249,931
Accrued liabilities	2,672,288	173,903	1,243,219	1,691,356
Customer deposits	190,743	421,959	281,713	675,182
Deferred revenue	(517,636)	(2,819,673)	6,255,027	366,273
Accreditation fees payable	8,116	(22,089)	59,331	(10,664)
Net cash provided by operating activities	8,922,608	1,389,229	21,649,697	13,346,011
Financing activities:				
Proceeds received on exercise of stock options	38,718	65,767	146,390	803,136
Payment of tax obligations resulting from net exercise of stock options	(44,515)	(1,306,981)	(363,285)	(1,306,981)
Excess tax benefits from share-based compensation expense	144,347	2,030,224	859,111	3,431,017
Repurchase of common stock	-	(5,437,110)	(7,180,257)	(23,616,286)
Proceeds received on loan payable	-	-	16,989,583	3,500,000
Repayment of loan payable	(258,276)	-	(9,758,276)	-
Payment of loan payable costs	3,298	-	(513,665)	-
Net cash provided by (used in) financing activities	(116,428)	(4,648,100)	179,601	(17,189,114)
Investing activities:				
Additions to property and equipment	(3,994,717)	(916,236)	(7,917,822)	(2,967,360)
Proceeds on waiver of rights to .online registry	-	-	-	6,619,831
Remaining payment for the acquisition of Ting Virginia, LLC., net of cash of \$21,423	-	-	-	(357,492)
Acquisition of intangible assets	(204,684)	-	(6,529,654)	-
Net cash provided by (used in) investing activities	(4,199,401)	(916,236)	(14,447,476)	3,294,979
Increase (decrease) in cash and cash equivalents	4,606,779	(4,175,107)	7,381,822	(548,124)
Cash and cash equivalents, beginning of period	10,498,296	11,898,360	7,723,253	8,271,377
Cash and cash equivalents, end of period	\$ 15,105,075	\$ 7,723,253	\$ 15,105,075	\$ 7,723,253
Supplemental cash flow information:				
Interest paid	\$ 126,760	\$ 46,126	\$ 420,298	\$ 173,197
Income taxes paid, net	\$ 1,258,966	\$ 592,798	\$ 3,766,664	\$ 3,132,105
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	\$ 446,821	\$ 217,198	\$ 446,821	\$ 217,198

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

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Net income for the period	\$ 2,817	\$ 3,095	\$ 16,067	\$ 11,374
Depreciation of property and equipment	518	415	1,824	1,404
Amortization of intangible assets	304	69	953	263
Impairment of intangible assets	15	137	43	206
Interest expense, net	148	(2)	450	159
Provision for income taxes	2,570	1,643	9,046	6,569
Stock-based compensation	214	148	799	526
Unrealized loss (gain) on change in fair value of forward contracts	(31)	(24)	(323)	136
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	336	27	829	311
Acquisition and integration costs ¹	442	-	442	-
Adjusted EBITDA	<u>\$ 7,333</u>	<u>\$ 5,508</u>	<u>\$ 30,130</u>	<u>\$ 20,948</u>

¹Acquisition and integration costs represent costs incurred in connection with the acquisition of eNom, Incorporated in January 2017. These costs are primarily comprised of professional fees for legal, accounting and other services.