

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

	June 30, 2014	December 31, 2013
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,164,518	\$ 12,418,888
Accounts receivable	6,919,130	5,305,403
Inventory	481,140	309,686
Prepaid expenses and deposits	4,935,573	4,309,039
Prepaid domain name registry and ancillary services fees, current portion	46,379,230	44,209,591
Deferred tax asset, current portion	1,250,468	1,081,526
Income taxes recoverable	631,632	475,889
Total current assets	74,761,691	68,110,022
Prepaid domain name registry and ancillary services fees, long-term portion	12,090,838	11,838,579
Property and equipment	1,693,720	1,757,836
Deferred tax asset, long-term portion	5,814,675	5,370,037
Intangible assets	14,379,154	15,403,228
Goodwill	18,873,127	18,873,127
Total assets	\$ 127,613,205	\$ 121,352,829
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,185,060	\$ 2,361,481
Accrued liabilities	3,743,663	3,913,034
Customer deposits	4,487,871	4,500,946
Derivative instrument liability	59,077	491,098
Loan payable, current portion	5,358,333	6,300,000
Deferred revenue, current portion	57,609,511	54,379,719
Accreditation fees payable, current portion	505,645	473,811
Income taxes payable	194,303	1,024,004
Total current liabilities	75,143,463	73,444,093
Deferred revenue, long-term portion	16,025,103	15,638,517
Accreditation fees payable, long-term portion	132,020	135,522
Deferred rent, long-term portion	88,359	75,979
Deferred tax liability, long-term portion	5,108,500	5,141,500
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; 11,240,992 shares issued and outstanding as of June 30, 2014 and 10,907,063 shares issued and outstanding as of December 31, 2013 (1)	13,513,124	11,859,267
Additional paid-in capital	29,138,165	28,632,311
Deficit	(11,505,358)	(13,329,379)
Accumulated other comprehensive income (loss)	(30,171)	(244,981)
Total stockholders' equity	31,115,760	26,917,218
Total liabilities and stockholders' equity	\$ 127,613,205	\$ 121,352,829

(1) Shares issued and outstanding at both June 30, 2014 and December 31, 2013 reflects the 1-for-4 reverse split of common shares that became effective on December 31, 2013.

	Tucows Inc. Consolidated Statements of Operations (Dollar amounts in U.S. dollars)		Tucows Inc. Consolidated Statements of Operations (Dollar amounts in U.S. dollars)	
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Net revenues	\$ 35,588,001	\$ 31,173,357	\$ 69,990,395	\$ 61,158,379
Cost of revenues:				
Cost of revenues	24,736,004	23,007,506	49,052,643	45,085,405
Network expenses (*)	1,144,697	1,269,808	2,288,341	2,524,021
Depreciation of property and equipment	173,963	151,356	356,937	288,428
Amortization of intangible assets	-	35,910	-	71,820
Total cost of revenues	<u>26,054,664</u>	<u>24,464,580</u>	<u>51,697,921</u>	<u>47,969,674</u>
Gross profit	9,533,337	6,708,777	18,292,474	13,188,705
Expenses:				
Sales and marketing (*)	3,762,441	2,946,586	7,784,215	5,793,672
Technical operations and development (*)	1,107,532	748,137	2,197,430	1,881,967
General and administrative (*) (note 1)	1,886,319	1,698,697	3,654,119	3,397,329
Depreciation of property and equipment	52,538	54,922	108,842	105,861
Amortization of intangible assets	219,030	219,030	438,060	438,060
Impairment of indefinite life intangible assets	326,457	-	577,145	-
Loss on currency forward contracts	96,545	146,639	647,916	381,277
Total expenses	<u>7,450,862</u>	<u>5,814,011</u>	<u>15,407,727</u>	<u>11,998,166</u>
Income from operations	2,082,475	894,766	2,884,747	1,190,539
Other income (expenses):				
Interest expense, net	<u>(69,348)</u>	<u>(93,428)</u>	<u>(143,181)</u>	<u>(192,790)</u>
Total other income (expenses)	<u>(69,348)</u>	<u>(93,428)</u>	<u>(143,181)</u>	<u>(192,790)</u>
Income before provision for income taxes	2,013,127	801,338	2,741,566	997,749
Provision for income taxes	<u>665,945</u>	<u>213,708</u>	<u>917,545</u>	<u>333,540</u>
Net income	<u>1,347,182</u>	<u>587,630</u>	<u>1,824,021</u>	<u>664,209</u>
Other comprehensive income (loss), net of tax				
Unrealized loss on hedging activities	370,868	(260,941)	7,687	(446,726)
Net amount reclassified to earnings	<u>59,409</u>	<u>-</u>	<u>207,123</u>	<u>-</u>
Other comprehensive income (loss) net of tax of \$111,897 and \$133,761 for the three months ended June 30, 2014 and June 30, 2013, and \$224,137 and \$230,538 for the six months ended June 30, 2014 and June 30, 2013 (2013 : \$96,777)	<u>430,277</u>	<u>(260,941)</u>	<u>214,810</u>	<u>(446,726)</u>
Comprehensive income (loss), net of tax for the period	<u>\$ 1,777,459</u>	<u>\$ 326,689</u>	<u>\$ 2,038,831</u>	<u>\$ 217,483</u>
Basic earnings per common share	<u>\$ 0.12</u>	<u>\$ 0.06</u>	<u>\$ 0.16</u>	<u>\$ 0.07</u>
Shares used in computing basic earnings per common share	<u>11,219,101</u>	<u>10,080,815</u>	<u>11,124,357</u>	<u>10,081,831</u>
Diluted earnings per common share	<u>\$ 0.11</u>	<u>\$ 0.05</u>	<u>\$ 0.16</u>	<u>\$ 0.06</u>
Shares used in computing diluted earnings per common share	<u>11,729,547</u>	<u>11,069,713</u>	<u>11,684,529</u>	<u>11,073,504</u>
(*) Stock-based compensation has been included in expenses as follows:				
Network expenses	\$ 6,916	\$ 7,932	\$ 15,797	\$ 14,058
Sales and marketing	\$ 30,804	\$ 33,909	\$ 66,803	\$ 60,319
Technical operations and development	\$ 18,447	\$ 20,370	\$ 36,652	\$ 35,617
General and administrative	\$ 29,190	\$ 29,044	\$ 67,082	\$ 56,103

(1) Shares used in computing earnings per share as well as earnings per common share reflects the 1-for-4 reverse split of common shares that became effective on December 31, 2013.

	Tucows Inc.		Tucows Inc.	
	Consolidated Statements of Cash Flows		Consolidated Statements of Cash Flows	
	(Dollar amounts in U.S. dollars)		(Dollar amounts in U.S. dollars)	
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 1,347,182	\$ 587,630	\$ 1,824,021	\$ 664,209
Items not involving cash:				
Depreciation of property and equipment	226,501	206,278	465,779	394,289
Amortization of intangible assets	219,030	254,940	438,060	509,880
Impairment of indefinite life intangible asset	326,457	-	577,145	-
Deferred income taxes (recovery)	(415,246)	113,748	(758,477)	21,683
Excess tax benefits from share-based compensation expense	594,899	-	(418,901)	-
Amortization of deferred rent	9,168	4,372	12,380	9,876
Disposal of domain names	7,247	20,876	8,869	35,369
Loss (gain) on change in the fair value of forward contracts	(192,460)	114,846	(105,314)	565,987
Stock-based compensation	85,357	91,255	186,334	166,097
Change in non-cash operating working capital:				
Accounts receivable	(350,806)	(665,972)	(1,613,727)	(1,214,290)
Inventory	28,293	121,380	(171,454)	399,680
Prepaid expenses and deposits	(259,698)	635,193	(626,534)	296,895
Prepaid domain name registry and ancillary services fees	(606,215)	(341,273)	(2,421,898)	(1,382,987)
Income taxes recoverable	(133,242)	(2,789)	(566,543)	106,364
Accounts payable	(866,473)	1,797	803,942	607,721
Accrued liabilities	253,027	1,025,886	(169,371)	501,684
Customer deposits	16,054	273,851	(13,075)	(287,570)
Deferred revenue	867,445	557,152	3,616,378	1,976,736
Accreditation fees payable	(21,755)	(28,082)	28,332	15,917
Net cash (used in) provided by operating activities	<u>1,134,765</u>	<u>2,971,088</u>	<u>1,095,946</u>	<u>3,387,540</u>
Financing activities:				
Proceeds received on exercise of stock options	130,782	279,685	1,041,863	318,194
Excess tax benefits on share-based compensation expense	-	-	1,013,800	-
Repurchase of common stock	-	-	(82,286)	(6,537,616)
Proceeds received on loan payable	-	-	-	5,200,000
Repayment of loan payable	(325,000)	(600,000)	(941,667)	(1,400,000)
Net cash provided by (used in) financing activities	<u>(194,218)</u>	<u>(320,315)</u>	<u>1,031,710</u>	<u>(2,419,422)</u>
Investing activities:				
Additions to property and equipment	(313,281)	(471,966)	(382,026)	(918,671)
Net cash used in investing activities	<u>(313,281)</u>	<u>(471,966)</u>	<u>(382,026)</u>	<u>(918,671)</u>
Increase (decrease) in cash and cash equivalents	627,266	2,178,807	1,745,630	49,447
Cash and cash equivalents, beginning of period	13,537,252	4,286,319	12,418,888	6,415,679
Cash and cash equivalents, end of period	<u>\$ 14,164,518</u>	<u>\$ 6,465,126</u>	<u>\$ 14,164,518</u>	<u>\$ 6,465,126</u>
Supplemental cash flow information:				
Interest paid	\$ 69,437	\$ 97,369	\$ 143,386	\$ 196,873
Income taxes paid, net	\$ 588,916	\$ 198,462	\$ 1,258,540	\$ 187,313
Supplementary disclosure of non-cash investing activity:				
Property and equipment acquired during the period not yet paid for	\$ 19,637	\$ 4,864	\$ 19,637	\$ 4,864