

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

	September 30,	December 31,
	2014	2013
	<u>(unaudited)</u>	<u></u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,589,246	\$ 12,418,888
Accounts receivable	6,914,690	5,305,403
Inventory	391,026	309,686
Prepaid expenses and deposits	4,322,231	4,309,039
Prepaid domain name registry and ancillary services fees, current portion	45,985,103	44,209,591
Deferred tax asset, current portion	1,874,824	1,081,526
Income taxes recoverable	526,534	475,889
Total current assets	<u>73,603,654</u>	<u>68,110,022</u>
Prepaid domain name registry and ancillary services fees, long-term portion	11,911,238	11,838,579
Property and equipment	1,742,305	1,757,836
Deferred tax asset, long-term portion	5,569,900	5,370,037
Intangible assets	14,261,216	15,403,228
Goodwill	18,873,127	18,873,127
Total assets	<u>\$ 125,961,440</u>	<u>\$ 121,352,829</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,574,165	\$ 2,361,481
Accrued liabilities	4,957,900	3,913,034
Customer deposits	4,069,332	4,500,946
Derivative instrument liability	762,053	491,098
Loan payable, current portion	-	6,300,000
Deferred revenue, current portion	57,182,978	54,379,719
Accreditation fees payable, current portion	484,989	473,811
Income taxes payable	179,007	1,024,004
Total current liabilities	<u>71,210,424</u>	<u>73,444,093</u>
Deferred revenue, long-term portion	15,795,206	15,638,517
Accreditation fees payable, long-term portion	130,166	135,522
Deferred rent, long-term portion	90,191	75,979
Deferred tax liability, long-term portion	5,092,000	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; 11,301,891 shares issued and outstanding as of September 30, 2014 and 10,907,063 shares issued and outstanding as of December 31, 2013 (1)	13,984,072	11,859,267
Additional paid-in capital	28,883,823	28,632,311
Deficit	(8,814,453)	(13,329,379)
Accumulated other comprehensive income (loss)	(409,989)	(244,981)
Total stockholders' equity	<u>33,643,453</u>	<u>26,917,218</u>
Total liabilities and stockholders' equity	<u>\$ 125,961,440</u>	<u>\$ 121,352,829</u>

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

	Tucovs Inc. Consolidated Statements of Operations (Dollar amounts in U.S. dollars)		Tucovs Inc. Consolidated Statements of Operations (Dollar amounts in U.S. dollars)	
	Three months ended September 30,		Nine months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Net revenues	\$ 38,874,183	\$ 35,637,085	\$ 108,864,578	\$ 96,795,464
Cost of revenues:				
Cost of revenues	25,985,875	24,268,961	75,038,518	69,354,366
Network expenses (*)	1,139,515	1,192,450	3,427,856	3,716,471
Depreciation of property and equipment	172,019	164,283	528,956	452,711
Amortization of intangible assets	-	11,970	-	83,790
Total cost of revenues	<u>27,297,409</u>	<u>25,637,664</u>	<u>78,995,330</u>	<u>73,607,338</u>
Gross profit	11,576,774	9,999,421	29,869,248	23,188,126
Expenses:				
Sales and marketing (*)	3,593,486	2,998,419	11,377,701	8,792,091
Technical operations and development (*)	1,041,136	1,215,327	3,238,566	3,097,294
General and administrative (*)	2,639,868	1,869,668	6,293,987	5,266,997
Depreciation of property and equipment	58,685	52,972	167,527	158,833
Amortization of intangible assets	107,230	219,030	545,290	657,090
Impairment of indefinite life intangible assets	-	-	577,145	-
Loss on currency forward contracts	237,985	(28,068)	885,901	353,209
Total expenses	<u>7,678,390</u>	<u>6,327,348</u>	<u>23,086,117</u>	<u>18,325,514</u>
Income from operations	3,898,384	3,672,073	6,783,131	4,862,612
Other income (expenses):				
Interest expense, net	(63,498)	(78,966)	(206,679)	(271,756)
Total other income (expenses)	<u>(63,498)</u>	<u>(78,966)</u>	<u>(206,679)</u>	<u>(271,756)</u>
Income before provision for income taxes	3,834,886	3,593,107	6,576,452	4,590,856
Provision for income taxes	1,143,981	999,747	2,061,526	1,333,287
Net income	<u>2,690,905</u>	<u>2,593,360</u>	<u>4,514,926</u>	<u>3,257,569</u>
Other comprehensive income (loss), net of tax				
Unrealized loss on hedging activities	(437,519)	402,026	(602,901)	(71,629)
Net amount reclassified to earnings	57,701	92,308	437,893	119,237
Other comprehensive income (loss) net of tax of \$(197,852) and \$257,505 for the three months ended September 30, 2014 and September 30, 2013, and \$(85,955) and \$24,800 for the nine months ended September 30, 2014 and September 30, 2013	<u>(379,818)</u>	<u>494,334</u>	<u>(165,008)</u>	<u>47,608</u>
Comprehensive income (loss), net of tax for the period	<u>\$ 2,311,087</u>	<u>\$ 3,087,694</u>	<u>\$ 4,349,918</u>	<u>\$ 3,305,177</u>
Basic earnings per common share	<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 0.40</u>	<u>\$ 0.32</u>
Shares used in computing basic earnings per common share	<u>11,321,175</u>	<u>10,795,896</u>	<u>11,190,684</u>	<u>10,322,469</u>
Diluted earnings per common share	<u>\$ 0.23</u>	<u>\$ 0.23</u>	<u>\$ 0.39</u>	<u>\$ 0.29</u>
Shares used in computing diluted earnings per common share	<u>11,787,749</u>	<u>11,409,975</u>	<u>11,718,910</u>	<u>11,187,308</u>

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

Network expenses	\$ 6,600	\$ 8,755	\$ 22,397	\$ 22,813
Sales and marketing	\$ 37,637	\$ 32,681	\$ 104,440	\$ 93,000
Technical operations and development	\$ 22,716	\$ 21,549	\$ 59,368	\$ 57,166
General and administrative	\$ 163,759	\$ 99,801	\$ 230,841	\$ 155,904

(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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 2,690,905	\$ 2,593,360	\$ 4,514,926	\$ 3,257,569
Items not involving cash:				
Depreciation of property and equipment	230,704	217,255	696,483	611,544
Amortization of intangible assets	107,230	231,000	545,290	740,880
Impairment of indefinite life intangible asset	-	-	577,145	-
Deferred income taxes recovery	(49,214)	(99,786)	(807,691)	(78,103)
Excess tax benefits from share-based compensation expense	168,346	(1,056,014)	(250,555)	(1,056,014)
Amortization of deferred rent	1,832	7,872	14,212	17,748
Disposal of domain names	10,708	8,923	19,577	44,292
Loss (gain) on change in the fair value of forward contracts	125,305	(204,341)	19,991	361,646
Stock-based compensation	230,712	162,786	417,046	328,883
Change in non-cash operating working capital:				
Accounts receivable	4,440	758,089	(1,609,287)	(456,201)
Inventory	90,114	(150,686)	(81,340)	248,994
Prepaid expenses and deposits	613,342	543,111	(13,192)	840,006
Prepaid domain name registry and ancillary services fees	573,727	1,038,268	(1,848,171)	(344,719)
Income taxes recoverable	(227,558)	980,969	(794,101)	1,087,333
Accounts payable	326,610	92,473	1,130,552	700,194
Accrued liabilities	1,214,237	163,300	1,044,866	664,984
Customer deposits	(418,539)	(595,776)	(431,614)	(883,346)
Deferred revenue	(656,430)	(986,779)	2,959,948	989,957
Accreditation fees payable	(22,510)	(39,835)	5,822	(23,918)
Net cash (used in) provided by operating activities	<u>5,013,961</u>	<u>3,664,189</u>	<u>6,109,907</u>	<u>7,051,729</u>
Financing activities:				
Proceeds received on exercise of stock options	343,953	1,136,061	1,385,816	1,454,255
Excess tax benefits from share-based compensation expense	741,512	1,056,014	1,755,312	1,056,014
Repurchase of common stock	(1,099,571)	-	(1,181,857)	(6,537,616)
Proceeds received on loan payable	-	-	-	5,200,000
Repayment of loan payable	(5,358,333)	(600,000)	(6,300,000)	(2,000,000)
Net cash provided by (used in) financing activities	<u>(5,372,439)</u>	<u>1,592,075</u>	<u>(4,340,729)</u>	<u>(827,347)</u>
Investing activities:				
Additions to property and equipment	(216,794)	(171,442)	(598,820)	(1,090,113)
Net cash used in investing activities	<u>(216,794)</u>	<u>(171,442)</u>	<u>(598,820)</u>	<u>(1,090,113)</u>
Increase (decrease) in cash and cash equivalents	(575,272)	5,084,822	1,170,358	5,134,269
Cash and cash equivalents, beginning of period	14,164,518	6,465,126	12,418,888	6,415,679
Cash and cash equivalents, end of period	<u>\$ 13,589,246</u>	<u>\$ 11,549,948</u>	<u>\$ 13,589,246</u>	<u>\$ 11,549,948</u>
Supplemental cash flow information:				
Interest paid	\$ 64,248	\$ 92,610	\$ 207,634	\$ 289,483
Income taxes paid, net	\$ 469,248	\$ -	\$ 1,724,976	\$ 141,256
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	\$ 82,132	\$ 99,060	\$ 82,132	\$ 99,060