

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

	March 31,	December 31,
	2016	2015
	(unaudited)	(unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,010,849	\$ 7,723,253
Accounts receivable	8,061,898	7,171,388
Inventory	1,142,862	903,775
Prepaid expenses and deposits	5,320,714	5,067,790
Derivative instrument asset, current portion	102,560	-
Prepaid domain name registry and ancillary services fees, current portion	45,281,450	44,708,041
Income taxes recoverable	1,529,003	2,292,915
Total current assets	<u>71,449,336</u>	<u>67,867,162</u>
Prepaid domain name registry and ancillary services fees, long-term portion	11,265,440	11,040,929
Property and equipment	7,357,131	7,126,676
Deferred tax asset	6,847,730	7,621,092
Other assets	6,054,546	-
Intangible assets	14,371,943	14,469,677
Goodwill	21,005,143	21,005,143
Total assets	<u>\$ 138,351,269</u>	<u>\$ 129,130,679</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,510,071	\$ 4,166,135
Accrued liabilities	5,404,440	5,855,686
Customer deposits	4,956,986	5,136,909
Derivative instrument liability	519,381	2,027,086
Deferred rent, current portion	20,742	19,463
Loan payable, current portion	9,281,250	3,500,000
Deferred revenue, current portion	57,809,241	56,646,390
Accreditation fees payable, current portion	477,365	465,300
Income taxes payable	906,595	444,053
Total current liabilities	<u>83,886,071</u>	<u>78,261,022</u>
Deferred revenue, long-term portion	15,293,370	14,947,639
Accreditation fees payable, long-term portion	117,034	118,480
Deferred rent, long-term portion	111,500	100,864
Other liabilities	1,331,140	1,459,960
Deferred tax liability	4,860,191	4,876,691
Redeemable non-controlling interest	3,048,896	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; 10,594,733 shares issued and outstanding as of March 31, 2016 and 10,685,599 shares issued and outstanding as of December 31, 2015	14,445,114	14,530,633
Additional paid-in capital	6,676,096	8,526,395
Retained earnings	8,807,789	4,381,849
Accumulated other comprehensive income (loss)	(225,932)	(1,109,452)
Total stockholders' equity	<u>29,703,067</u>	<u>26,329,425</u>
Total liabilities and stockholders' equity	<u>\$ 138,351,269</u>	<u>\$ 129,130,679</u>

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

Three months ended March 31,
2016 **2015**
(unaudited)

Net revenues	\$ 45,610,413	\$ 40,467,833
Cost of revenues:		
Cost of revenues	28,850,473	26,821,374
Network expenses (*)	1,232,931	1,222,096
Depreciation of property and equipment	346,753	199,642
Amortization of intangible assets	11,532	3,924
Total cost of revenues	<u>30,441,689</u>	<u>28,247,036</u>
Gross profit	15,168,724	12,220,797
Expenses:		
Sales and marketing (*)	5,285,624	3,799,175
Technical operations and development (*)	1,176,360	1,114,195
General and administrative (*) (note 1)	2,404,927	2,468,022
Depreciation of property and equipment	73,268	59,262
Amortization of intangible assets	56,997	53,215
Impairment of indefinite life intangible assets	20,985	12,493
Loss (gain) on currency forward contracts	<u>(110,757)</u>	<u>304,024</u>
Total expenses	<u>8,907,404</u>	<u>7,810,386</u>
Income from operations	6,261,320	4,410,411
Other income (expenses):		
Interest expense, net	(46,172)	(24,775)
Other income	<u>128,820</u>	<u>-</u>
Total other income (expenses)	<u>82,648</u>	<u>(24,775)</u>
Income before provision for income taxes	6,343,968	4,385,636
Provision for income taxes	<u>1,905,730</u>	<u>1,551,693</u>
Net income	<u>4,438,238</u>	<u>2,833,943</u>
Redeemable non-controlling interest	(170,792)	(21,482)
Net (earnings) loss attributable to redeemable non-controlling interest	170,792	21,482
Net income	<u>4,438,238</u>	<u>2,833,943</u>
Other comprehensive income (loss), net of tax		
Unrealized loss on hedging activities	547,963	(983,448)
Net amount reclassified to earnings	<u>335,557</u>	<u>438,656</u>
Other comprehensive income (loss) net of tax of \$483,704 and \$319,878 for the three months ended March 31, 2016 and March 31, 2015.	<u>883,520</u>	<u>(544,792)</u>
Comprehensive income, net of tax for the period	<u>\$ 5,321,758</u>	<u>\$ 2,289,151</u>
Basic earnings per common share	<u>\$ 0.42</u>	<u>\$ 0.25</u>
Shares used in computing basic earnings per common share	<u>10,674,036</u>	<u>11,142,628</u>
Diluted earnings per common share	<u>\$ 0.41</u>	<u>\$ 0.24</u>
Shares used in computing diluted earnings per common share	<u>10,861,582</u>	<u>11,580,047</u>

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

Network expenses	\$ 6,795	\$ 7,023
Sales and marketing	\$ 54,878	\$ 50,495
Technical operations and development	\$ 26,398	\$ 28,378
General and administrative	\$ 112,157	\$ 39,152

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

	Three months ended March 31,	
	2016	2015
	(unaudited)	
Cash provided by:		
Operating activities:		
Net income for the period	\$ 4,438,238	\$ 2,833,943
Items not involving cash:		
Depreciation of property and equipment	420,021	258,904
Amortization of intangible assets	68,529	57,139
Impairment of indefinite life intangible asset	20,985	12,493
Deferred income taxes recovery	273,159	(164,250)
Amortization of deferred rent	11,915	(2,492)
Disposal of domain names	8,220	6,328
Other income	(128,820)	-
Loss on change in the fair value of forward contracts	(243,042)	158,793
Stock-based compensation	200,228	125,048
Change in non-cash operating working capital:		
Accounts receivable	(890,510)	(168,585)
Inventory	(239,087)	(113,150)
Prepaid expenses and deposits	(252,924)	(1,299,778)
Prepaid domain name registry and ancillary services fees	(797,920)	(1,462,844)
Income taxes recoverable	1,226,454	661,768
Accounts payable	549,796	117,566
Accrued liabilities	(451,246)	(59,220)
Customer deposits	(179,923)	(136,443)
Deferred revenue	1,508,582	2,061,510
Accreditation fees payable	10,619	51,027
Net cash provided by operating activities	<u>5,553,274</u>	<u>2,937,757</u>
Financing activities:		
Proceeds received on exercise of stock options	19,558	247,983
Payment of tax obligations resulting from net exercise of stock options	(36,685)	-
Excess tax benefits from share-based compensation expense	61,360	412,642
Repurchase of common stock	(2,180,279)	(7,712,145)
Proceeds received on loan payable	6,000,000	3,500,000
Repayment of loan payable	(218,750)	-
Net cash provided by (used in) financing activities	<u>3,645,204</u>	<u>(3,551,520)</u>
Investing activities:		
Additions to property and equipment	(856,336)	(191,762)
Deposit on Melbourne IT assets	(6,054,546)	-
Gross proceeds from the waiver of rights to .online registry	-	6,619,832
Remaining payment for the acquisition of Ting Virginia, LLC., net of cash of \$21,423	-	(407,493)
Net cash (used in) provided by investing activities	<u>(6,910,882)</u>	<u>6,020,577</u>
Decrease in cash and cash equivalents	2,287,596	5,406,814
Cash and cash equivalents, beginning of period	<u>7,723,253</u>	<u>8,271,377</u>
Cash and cash equivalents, end of period	<u>\$ 10,010,849</u>	<u>\$ 13,678,191</u>
Supplemental cash flow information:		
Interest paid	\$ 46,381	\$ 38,893
Income taxes paid, net	\$ 329,169	\$ 564,139
Supplementary disclosure of non-cash investing activity:		
Property and equipment acquired during the period not yet paid for	\$ 11,338	\$ 66,798

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

	Three months ended March 31,	
	2016	2015
	(unaudited)	
Net income for the period	\$ 4,438	\$ 2,834
Depreciation of property and equipment	420	259
Amortization of intangible assets	69	57
Impairment of intangible assets	21	12
Interest expense, net	46	25
Provision for income taxes	1,906	1,552
Change in net deferred revenue ¹	673	691
Stock-based compensation	200	125
Loss (gain) on foreign currency transactions	(287)	1,222
Adjusted EBITDA	\$ 7,486	\$ 6,777

(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 three months ended March 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.

