

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

	June 30, 2016	December 31, 2015
	<u>(unaudited)</u>	<u>(unaudited)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,879,482	\$ 7,723,253
Accounts receivable	9,982,919	7,171,388
Inventory	1,284,692	903,775
Prepaid expenses and deposits	6,427,664	5,067,790
Derivative instrument asset, current portion	73,617	-
Prepaid domain name registry and ancillary services fees, current portion	48,350,997	44,708,041
Income taxes recoverable	<u>1,326,355</u>	<u>2,292,915</u>
Total current assets	73,325,726	67,867,162
Prepaid domain name registry and ancillary services fees, long-term portion	11,296,936	11,040,929
Property and equipment	7,939,984	7,126,676
Deferred tax asset	6,339,848	7,621,092
Other assets	133,500	-
Intangible assets	20,317,568	14,469,677
Goodwill	<u>21,005,143</u>	<u>21,005,143</u>
Total assets	<u>\$ 140,358,705</u>	<u>\$ 129,130,679</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,312,273	\$ 4,166,135
Accrued liabilities	5,008,112	5,855,686
Customer deposits	6,171,458	5,136,909
Derivative instrument liability	294,170	2,027,086
Deferred rent, current portion	20,854	19,463
Loan payable, current portion	9,062,500	3,500,000
Deferred revenue, current portion	61,337,998	56,646,390
Accreditation fees payable, current portion	505,175	465,300
Income taxes payable	<u>667,773</u>	<u>444,053</u>
Total current liabilities	86,380,313	78,261,022
Deferred revenue, long-term portion	15,362,403	14,947,639
Accreditation fees payable, long-term portion	115,761	118,480
Deferred rent, long-term portion	116,137	100,864
Other liabilities	1,202,320	1,459,960
Deferred tax liability	4,843,153	4,876,691
Redeemable non-controlling interest	3,061,244	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; 10,422,453 shares issued and outstanding as of June 30, 2016 and 10,685,599 shares issued and outstanding as of December 31, 2015	14,295,907	14,530,633
Additional paid-in capital	2,234,541	8,526,395
Retained earnings	12,866,227	4,381,849
Accumulated other comprehensive income (loss)	<u>(119,301)</u>	<u>(1,109,452)</u>
Total stockholders' equity	29,277,374	26,329,425
Total liabilities and stockholders' equity	<u>\$ 140,358,705</u>	<u>\$ 129,130,679</u>

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Net revenues	\$ 47,466,381	\$ 42,889,220	\$ 93,076,794	\$ 83,357,053
Cost of revenues:				
Cost of revenues	29,849,661	28,250,672	58,700,134	55,072,046
Network expenses (*)	1,404,826	1,494,838	2,637,757	2,716,934
Depreciation of property and equipment	350,920	279,929	697,673	479,571
Amortization of intangible assets	11,532	11,532	23,064	15,456
Total cost of revenues	31,616,939	30,036,971	62,058,628	58,284,007
Gross profit	15,849,442	12,852,249	31,018,166	25,073,046
Expenses:				
Sales and marketing (*)	5,435,033	4,847,963	10,720,657	8,647,138
Technical operations and development (*)	998,651	1,189,276	2,175,011	2,303,471
General and administrative (*)	2,926,608	2,750,466	5,331,535	5,218,488
Depreciation of property and equipment	76,922	62,022	150,190	121,284
Amortization of intangible assets	276,918	56,997	333,915	110,212
Impairment of indefinite life intangible assets	3,894	37,805	24,879	50,298
Loss (gain) on currency forward contracts	(8,711)	25,227	(119,468)	329,251
Total expenses	9,709,315	8,969,756	18,616,719	16,780,142
Income from operations	6,140,127	3,882,493	12,401,447	8,292,904
Other income (expenses):				
Interest expense, net	(120,528)	(57,402)	(166,700)	(82,177)
Other income	128,820	-	257,640	-
Total other income (expenses)	8,292	(57,402)	90,940	(82,177)
Income before provision for income taxes	6,148,419	3,825,091	12,492,387	8,210,727
Provision for income taxes	2,077,633	1,540,096	3,983,363	3,091,789
Net income	4,070,786	2,284,995	8,509,024	5,118,938
Redeemable non-controlling interest	(273,690)	(49,985)	(444,482)	(71,467)
Net (earnings) loss attributable to redeemable non-controlling interest	273,690	49,985	444,482	71,467
Net income	4,070,786	2,284,995	8,509,024	5,118,938
Other comprehensive income (loss), net of tax				
Unrealized loss on hedging activities	27,264	(38,046)	575,227	(998,912)
Net amount reclassified to earnings	79,367	371,955	414,924	788,029
Other comprehensive income (loss) net of tax of \$60,659 and \$184,262 for the three months ended June 30, 2016 and June 30, 2015 and \$544,363 and \$135,616 for the six months ended June 30, 2016 and June 30, 2015	106,631	333,909	990,151	(210,883)
Comprehensive income, net of tax for the period	\$ 4,177,417	\$ 2,618,904	\$ 9,499,175	\$ 4,908,055
Basic earnings per common share	\$ 0.39	\$ 0.21	\$ 0.80	\$ 0.46
Shares used in computing basic earnings per common share	10,541,659	11,047,136	10,607,843	11,094,618
Diluted earnings per common share	\$ 0.38	\$ 0.20	\$ 0.79	\$ 0.44
Shares used in computing diluted earnings per common share	10,733,860	11,456,670	10,797,458	11,518,105

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

Network expenses	\$ 5,069	\$ 8,020	\$ 11,864	\$ 15,043
Sales and marketing	\$ 60,385	\$ 48,528	\$ 115,263	\$ 99,023
Technical operations and development	\$ 25,003	\$ 28,904	\$ 51,401	\$ 57,282
General and administrative	\$ 99,730	\$ 39,153	\$ 211,887	\$ 78,305

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 4,070,786	\$ 2,284,995	\$ 8,509,024	\$ 5,118,938
Items not involving cash:				
Depreciation of property and equipment	427,842	341,951	847,863	600,855
Amortization of intangible assets	288,450	68,529	356,979	125,668
Impairment of indefinite life intangible asset	3,894	37,805	24,879	50,298
Deferred income taxes recovery	430,184	(801,919)	703,343	(966,169)
Amortization of deferred rent	4,749	13,039	16,664	10,547
Disposal of domain names	12,601	11,357	20,821	17,685
Other income	(128,820)	-	(257,640)	-
Loss (gain) on change in the fair value of forward contracts	(28,977)	(97,451)	(272,019)	61,342
Stock-based compensation	190,187	124,605	390,415	249,653
Change in non-cash operating working capital:				
Accounts receivable	(1,921,021)	(1,088,453)	(2,811,531)	(1,257,038)
Inventory	(141,830)	(45,294)	(380,917)	(158,444)
Prepaid expenses and deposits	(1,106,950)	(592,614)	(1,359,874)	(1,892,392)
Prepaid domain name registry and ancillary services fees	(3,101,043)	(755,932)	(3,898,963)	(2,218,776)
Income taxes recoverable	(36,174)	121,248	1,190,280	783,016
Accounts payable	(1,233,092)	(109,990)	(683,296)	7,576
Accrued liabilities	(396,328)	1,169,753	(847,574)	1,110,533
Customer deposits	1,214,472	589,361	1,034,549	452,918
Deferred revenue	3,597,790	983,586	5,106,372	3,045,096
Accreditation fees payable	26,537	(18,981)	37,156	32,046
Net cash provided by operating activities	2,173,257	2,235,595	7,726,531	5,173,352
Financing activities:				
Proceeds received on exercise of stock options	37,209	299,472	56,767	547,455
Payment of tax obligations resulting from net exercise of stock options	(203,019)	-	(239,704)	-
Excess tax benefits from share-based compensation expense	384,839	676,060	446,199	1,088,702
Repurchase of common stock	(4,999,978)	(489,536)	(7,180,257)	(8,201,681)
Proceeds received on loan payable	-	-	6,000,000	3,500,000
Repayment of loan payable	(218,750)	-	(437,500)	-
Payment of credit facility renegotiation costs	(133,500)	-	(133,500)	-
Net cash provided by (used in) financing activities	(5,133,199)	485,996	(1,487,995)	(3,065,524)
Investing activities:				
Additions to property and equipment	(975,401)	(1,149,020)	(1,831,737)	(1,340,782)
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	-	50,000	-	(357,493)
Acquisition of intangible assets	(196,024)	-	(6,250,570)	-
Net cash provided by (used in) investing activities	(1,171,425)	(1,099,020)	(8,082,307)	4,921,557
Increase in cash and cash equivalents	(4,131,367)	1,622,571	(1,843,771)	7,029,385
Cash and cash equivalents, beginning of period	10,010,849	13,678,191	7,723,253	8,271,377
Cash and cash equivalents, end of period	\$ 5,879,482	\$ 15,300,762	\$ 5,879,482	\$ 15,300,762
Supplemental cash flow information:				
Interest paid	\$ 120,566	\$ 57,409	\$ 166,947	\$ 96,302
Income taxes paid, net	\$ 1,274,739	\$ 1,380,448	\$ 1,591,959	\$ 1,944,470
Supplementary disclosure of non-cash investing activity:				
Property and equipment acquired during the period not yet paid for	\$ 46,632	\$ 70,577	\$ 46,632	\$ 70,577

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Net income for the period	\$ 4,071	\$ 2,285	\$ 8,509	\$ 5,119
Depreciation of property and equipment	428	342	848	601
Amortization of intangible assets	288	69	357	126
Impairment of intangible assets	4	38	25	50
Interest expense, net	121	57	167	82
Provision for income taxes	2,078	1,540	3,983	3,092
Stock-based compensation	190	125	390	250
Loss (gain) on foreign currency transactions ⁽¹⁾	(68)	(107)	(354)	321
Adjusted EBITDA	<u>\$ 7,112</u>	<u>\$ 4,349</u>	<u>\$ 13,925</u>	<u>\$ 9,641</u>

⁽¹⁾ Loss (gain) on unrealized foreign currency transactions comprises of the Loss (gain) on change in the fair value of forward contracts and the Loss (gain) on foreign exchange revaluation of our foreign denominated monetary assets and liabilities. For three months ended June 30, 2016, the Company experienced a gain of less than \$0.1 million on change in fair value contracts compared to a gain of \$0.1 million for the three months ended June 30, 2015 as compared to a gain of \$0.3 million for the six months ended June 30, 2016 and a loss of \$0.1 million for the six months ended June 30, 2015. During the three and six months ended June 30, 2016 and 2015, we experienced gains on foreign exchange revaluation of our foreign denominated monetary assets and liabilities of less than \$0.1 million, respectively.