

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

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,498,296	\$ 7,723,253
Accounts receivable	11,606,638	7,171,388
Inventory	1,502,433	903,775
Prepaid expenses and deposits	6,007,725	5,067,790
Prepaid domain name registry and ancillary services fees, current portion	49,735,226	44,708,041
Income taxes recoverable	1,743,308	2,292,915
Total current assets	<u>81,093,626</u>	<u>67,867,162</u>
Prepaid domain name registry and ancillary services fees, long-term portion	11,184,655	11,040,929
Property and equipment	9,617,147	7,126,676
Deferred tax asset	5,355,575	7,621,092
Intangible assets	20,091,795	14,469,677
Goodwill	21,005,143	21,005,143
Total assets	<u>\$ 148,347,941</u>	<u>\$ 129,130,679</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,036,804	\$ 4,166,135
Accrued liabilities	4,426,617	5,855,686
Customer deposits	5,227,879	5,136,909
Derivative instrument liability, current portion	85,769	2,027,086
Deferred rent, current portion	20,854	19,463
Loan payable, current portion	1,933,110	3,500,000
Deferred revenue, current portion	63,120,230	56,646,390
Accreditation fees payable, current portion	520,033	465,300
Income taxes payable	1,447,970	444,053
Total current liabilities	<u>80,819,266</u>	<u>78,261,022</u>
Deferred revenue, long-term portion	15,246,462	14,947,639
Accreditation fees payable, long-term portion	114,962	118,480
Deferred rent, long-term portion	129,920	100,864
Loan payable, long-term portion	8,547,808	-
Other liabilities	1,073,500	1,459,960
Deferred tax liability	4,827,192	4,876,691
Redeemable non-controlling interest	3,073,642	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; 10,448,283 shares issued and outstanding as of September 30, 2016 and 10,685,599 shares issued and outstanding as of December 31, 2015	14,401,326	14,530,633
Additional paid-in capital	2,564,965	8,526,395
Retained earnings	17,595,108	4,381,849
Accumulated other comprehensive income (loss)	(46,210)	(1,109,452)
Total stockholders' equity	<u>34,515,189</u>	<u>26,329,425</u>
Total liabilities and stockholders' equity	<u>\$ 148,347,941</u>	<u>\$ 129,130,679</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(unaudited)		(unaudited)	
Net revenues	\$ 49,064,327	44,267,645	141,014,329	\$ 126,985,121
Cost of revenues:				
Cost of revenues	30,846,668	28,718,613	89,445,493	83,767,472
Network expenses (*)	1,287,620	1,421,279	3,925,377	4,138,213
Depreciation of property and equipment	278,746	324,166	976,419	803,737
Amortization of intangible assets	13,421	11,532	36,485	26,988
Total cost of revenues	32,426,455	30,475,590	94,383,774	88,736,410
Gross profit	16,637,872	13,792,055	46,630,555	38,248,711
Expenses:				
Sales and marketing (*)	5,479,445	4,517,666	15,174,619	12,548,415
Technical operations and development (*)	1,270,107	1,101,581	3,445,118	3,405,052
General and administrative (*)	2,166,217	2,607,917	7,497,752	7,826,405
Depreciation of property and equipment	178,687	63,790	328,877	185,074
Amortization of intangible assets	279,126	56,997	613,041	167,209
Impairment of indefinite life intangible assets	2,866	18,550	27,745	68,848
Loss (gain) on currency forward contracts	22,475	352,738	(96,993)	681,988
Total expenses	9,398,923	8,719,239	26,990,159	24,882,991
Income from operations	7,238,949	5,072,816	19,640,396	13,365,720
Other income (expenses):				
Interest expense, net	(135,168)	(78,959)	(301,868)	(161,136)
Other income	130,147	-	387,787	-
Total other income (expenses)	(5,021)	(78,959)	85,919	(161,136)
Income before provision for income taxes	7,233,928	4,993,857	19,726,315	13,204,584
Provision for income taxes	2,492,649	1,834,400	6,476,012	4,926,189
Net income before redeemable non-controlling interest	4,741,279	3,159,457	13,250,303	8,278,395
Redeemable non-controlling interest	(254,101)	(91,283)	(698,583)	(162,750)
Net (earnings) loss attributable to redeemable non-controlling interest	254,101	91,283	698,583	162,750
Net income for the period	4,741,279	3,159,457	13,250,303	8,278,395
Other comprehensive income (loss), net of tax				
Unrealized income (loss) on hedging activities	(58,821)	(724,336)	516,406	(1,723,247)
Net amount reclassified to earnings	131,912	364,330	546,836	1,152,359
Other comprehensive income (loss) net of tax of 41,580 and \$198,664 for the three months ended September 30, 2016 and September 30, 2015 and \$585,943 and 321,879 for the nine months ended September 30, 2016 and September 30, 2015	73,091	(360,006)	1,063,242	(570,888)
Comprehensive income, net of tax for the period	\$ 4,814,370	\$ 2,799,451	\$ 14,313,545	\$ 7,707,507
Basic earnings per common share	\$ 0.45	\$ 0.29	\$ 1.26	\$ 0.75
Shares used in computing basic earnings per common share	10,432,763	10,984,869	10,549,056	11,057,634
Diluted earnings per common share	\$ 0.45	\$ 0.28	\$ 1.23	\$ 0.72
Shares used in computing diluted earnings per common share	10,619,005	11,372,682	10,736,775	11,469,657

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

Network expenses	\$ 4,920	\$ 7,221	\$ 16,784	\$ 22,264
Sales and marketing	\$ 60,832	\$ 45,385	\$ 176,095	\$ 144,408
Technical operations and development	\$ 23,512	\$ 27,364	\$ 74,913	\$ 84,646
General and administrative	\$ 106,175	\$ 48,605	\$ 318,062	\$ 126,910

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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 4,741,279	3,159,457	13,250,303	8,278,395
Items not involving cash:				
Depreciation of property and equipment	457,433	387,956	1,305,296	988,811
Amortization of debt discount and issuance costs	8,298	-	8,298	-
Amortization of intangible assets	292,547	68,529	649,526	194,197
Impairment of indefinite life intangible asset	2,866	18,550	27,745	68,848
Deferred income taxes (recovery)	926,733	(53,085)	1,630,076	(1,019,254)
Amortization of deferred rent	13,783	7,370	30,447	17,917
Disposal of domain names	4,760	2,866	25,581	20,551
Other income	(128,820)	-	(386,460)	-
Loss (gain) on change in the fair value of forward contracts	(20,114)	99,052	(292,133)	160,394
Stock-based compensation	195,439	128,575	585,854	378,228
Change in non-cash operating working capital:				
Accounts receivable	(1,623,719)	262,149	(4,435,250)	(994,889)
Inventory	(217,741)	(123,047)	(598,658)	(281,491)
Prepaid expenses and deposits	419,939	1,000,287	(939,935)	(892,105)
Prepaid domain name registry and ancillary services fees	(1,271,948)	149,905	(5,170,911)	(2,068,871)
Income taxes recoverable	363,244	1,152,410	1,553,524	1,935,426
Accounts payable	681,303	195,002	(1,993)	202,578
Accrued liabilities	(581,495)	406,920	(1,429,069)	1,517,453
Customer deposits	(943,579)	(199,695)	90,970	253,223
Deferred revenue	1,666,291	140,850	6,772,663	3,185,946
Accreditation fees payable	14,059	(20,621)	51,215	11,425
Net cash provided by operating activities	<u>5,000,558</u>	<u>6,783,430</u>	<u>12,727,089</u>	<u>11,956,782</u>
Financing activities:				
Proceeds received on exercise of stock options	48,376	189,914	107,672	737,369
Payment of tax obligations resulting from net exercise of stock options	(76,537)	-	(318,770)	-
Excess tax benefits from share-based compensation expense	268,565	312,091	714,764	1,400,793
Repurchase of common stock	-	(9,977,495)	(7,180,257)	(18,179,176)
Proceeds received on loan payable	10,989,583	-	16,989,583	3,500,000
Repayment of loan payable	(9,062,500)	-	(9,500,000)	-
Payment of loan payable costs	(383,463)	-	(516,963)	-
Net cash provided by (used in) financing activities	<u>1,784,024</u>	<u>(9,475,490)</u>	<u>296,029</u>	<u>(12,541,014)</u>
Investing activities:				
Additions to property and equipment	(2,091,368)	(710,342)	(3,923,105)	(2,051,124)
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	-	-	-	(357,493)
Acquisition of intangible assets	(74,400)	-	(6,324,970)	-
Net cash provided by (used in) investing activities	<u>(2,165,768)</u>	<u>(710,342)</u>	<u>(10,248,075)</u>	<u>4,211,215</u>
Increase in cash and cash equivalents	4,618,814	(3,402,402)	2,775,043	3,626,983
Cash and cash equivalents, beginning of period	5,879,482	15,300,762	7,723,253	8,271,377
Cash and cash equivalents, end of period	<u>\$ 10,498,296</u>	<u>\$ 11,898,360</u>	<u>\$ 10,498,296</u>	<u>\$ 11,898,360</u>
Supplemental cash flow information:				
Interest paid	\$ 93,560	78,988	260,506	175,290
Income taxes paid, net	\$ 927,826	512,954	2,507,699	2,457,225
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	\$ 89,860	63,499	89,860	63,499

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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(unaudited)		(unaudited)	
Net income for the period	\$ 4,741	\$ 3,159	\$ 13,250	\$ 8,278
Depreciation of property and equipment	457	388	1,305	989
Amortization of intangible assets	293	69	650	194
Impairment of intangible assets	3	19	28	69
Interest expense, net	135	79	302	161
Provision for income taxes	2,493	1,834	6,476	4,926
Stock-based compensation	195	129	586	378
Unrealized loss (gain) on change in fair value of forward contracts	(20)	99	(292)	160
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	278	24	493	284
Adjusted EBITDA	<u>\$ 8,575</u>	<u>\$ 5,800</u>	<u>\$ 22,798</u>	<u>\$ 15,439</u>