

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

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,161	\$ 18,049
Accounts receivable	12,214	12,376
Inventory	3,248	2,944
Prepaid expenses and deposits	15,428	14,186
Prepaid domain name registry and ancillary services fees, current portion	94,754	103,302
Income taxes recoverable	3,137	3,004
Total current assets	139,942	153,861
Prepaid domain name registry and ancillary services fees, long-term portion	20,701	23,701
Property and equipment	34,538	24,620
Contract costs	1,354	-
Intangible assets	53,693	58,414
Goodwill	90,054	90,054
Total assets	\$ 340,282	\$ 350,650
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,340	\$ 7,026
Accrued liabilities	6,770	6,412
Customer deposits	12,934	15,255
Derivative instrument liability	337	-
Deferred rent, current portion	21	21
Loan payable, current portion	17,721	18,290
Deferred revenue, current portion	122,976	129,155
Accreditation fees payable, current portion	1,099	1,175
Income taxes payable	1,477	1,226
Total current liabilities	170,675	178,560
Derivative instrument liability, long-term portion (note 5)	27	-
Deferred revenue, long-term portion	29,075	31,427
Accreditation fees payable, long-term portion	269	289
Deferred rent, long-term portion	126	130
Loan payable, long-term portion	51,012	58,634
Deferred Gain	258	429
Deferred tax liability	19,577	19,834
Redeemable non-controlling interest	-	1,136
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; 10,603,366 shares issued and outstanding as of June 30, 2018 and 10,583,879 shares issued and outstanding as of December 31, 2017	15,548	15,368
Additional paid-in capital	2,931	2,167
Retained earnings	51,027	42,676
Accumulated other comprehensive income	(243)	-
Total stockholders' equity	69,263	60,211
Total liabilities and stockholders' equity	\$ 340,282	\$ 350,650

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net revenues	\$ 81,087	\$ 84,223	\$ 176,882	\$ 153,791
Cost of revenues:				
Cost of revenues	54,501	59,445	123,473	108,756
Network expenses (*)	2,701	2,261	5,275	4,604
Depreciation of property and equipment	1,228	714	2,359	1,305
Amortization of intangible assets	499	455	998	836
Total cost of revenues	58,929	62,875	132,105	115,501
Gross profit	22,158	21,348	44,777	38,290
Expenses:				
Sales and marketing (*)	7,852	7,447	16,217	14,667
Technical operations and development (*)	2,355	1,798	4,450	3,492
General and administrative (*)	4,256	3,285	8,786	6,742
Depreciation of property and equipment	102	165	203	331
Loss on disposition of property and equipment	-	2	-	2
Amortization of intangible assets	1,827	1,608	3,659	2,989
Loss (gain) on currency forward contracts	52	(27)	49	(61)
Total expenses	16,444	14,278	33,364	28,162
Income from operations	5,714	7,070	11,413	10,128
Other income (expenses):				
Interest expense, net	(951)	(970)	(1,847)	(1,838)
Other income, net	73	225	197	354
Total other income (expenses)	(878)	(745)	(1,650)	(1,484)
Income before provision for income taxes	4,836	6,325	9,763	8,644
Provision for income taxes	1,228	1,083	2,411	958
Net income before redeemable non-controlling interest	3,608	5,242	7,352	7,686
Redeemable non-controlling interest	-	(117)	(26)	(243)
Net income attributable to redeemable non-controlling interest	-	117	26	243
Net income for the period	3,608	5,242	7,352	7,686
Other comprehensive income, net of tax				
Unrealized income (loss) on hedging activities	(273)	143	(256)	329
Net amount reclassified to earnings	13	(17)	13	(98)
Other comprehensive income (loss) net of tax of \$84 and and \$71 for the three months ended June 30, 2018 and June 30, 2017, \$78 and \$131 for the six months ended June 30, 2018 and June 30, 2017	(260)	126	(243)	231
Comprehensive income, net of tax for the period	\$ 3,348	\$ 5,368	\$ 7,109	\$ 7,917
Basic earnings per common share	\$ 0.34	\$ 0.50	\$ 0.69	\$ 0.73
Shares used in computing basic earnings per common share	10,597,228	10,528,219	10,592,994	10,501,407
Diluted earnings per common share	\$ 0.33	\$ 0.49	\$ 0.68	\$ 0.71
Shares used in computing diluted earnings per common share	10,803,007	10,793,031	10,797,017	10,785,685

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

Network expenses	\$ 28		\$ 3		\$ 84		\$ 8
Sales and marketing	245		61		431		120
Technical operations and development	174		58		351		119
General and administrative	168		191		327		384

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 3,608	\$ 5,242	\$ 7,352	\$ 7,686
Items not involving cash:				
Depreciation of property and equipment	1,330	879	2,562	1,636
Loss on write off of property and equipment	-	9	-	9
Amortization of debt discount and issuance costs	69	80	139	147
Amortization of intangible assets	2,326	2,064	4,657	3,825
Change in capitalized contract costs	25	-	50	-
Deferred income taxes (recovery)	(445)	(2,885)	(492)	(1,565)
Excess tax benefits on share-based compensation expense	(197)	(1,182)	(341)	(2,171)
Amortization of deferred rent	(4)	1	(4)	5
Loss on disposal of domain names	28	7	65	18
Other income	(42)	(128)	(171)	(257)
Loss (gain) on change in the fair value of forward contracts	46	(163)	43	(301)
Stock-based compensation	615	313	1,193	631
Change in non-cash operating working capital:				
Accounts receivable	471	(905)	162	(864)
Inventory	(350)	(1,267)	(304)	(1,096)
Prepaid expenses and deposits	(717)	1,186	(1,242)	(2,371)
Prepaid domain name registry and ancillary services fees	204	2,976	11,548	(2,513)
Income taxes recoverable	165	2,513	430	(147)
Accounts payable	(1,862)	(592)	270	(4,038)
Accrued liabilities	(401)	(1,818)	358	13
Customer deposits	(46)	3,152	(2,321)	3,068
Deferred revenue	1,067	(1,273)	(8,531)	8,968
Accreditation fees payable	(136)	(78)	(96)	(149)
Net cash provided by operating activities	<u>5,754</u>	<u>8,131</u>	<u>15,327</u>	<u>10,534</u>
Financing activities:				
Proceeds received on exercise of stock options	32	85	39	105
Payment of tax obligations resulting from net exercise of stock options	(141)	(609)	(288)	(1,322)
Proceeds received on loan payable	2,500	-	2,500	86,998
Repayment of loan payable	(6,253)	(4,572)	(10,825)	(10,830)
Payment of loan payable costs	-	(13)	(4)	(604)
Net cash (used in) provided by financing activities	<u>(3,862)</u>	<u>(5,109)</u>	<u>(8,578)</u>	<u>74,347</u>
Investing activities:				
Additions to property and equipment	(7,319)	(2,909)	(12,436)	(6,602)
Acquisition of a portion of the minority interest in Ting Virginia, LLC	-	-	(1,200)	(2,000)
Acquisition of Enom Incorporated, net of cash	-	-	-	(76,238)
Acquisition of intangible assets	-	-	(1)	-
Net cash used in investing activities	<u>(7,319)</u>	<u>(2,909)</u>	<u>(13,637)</u>	<u>(84,840)</u>
Decrease in cash and cash equivalents	(5,427)	113	(6,888)	41
Cash and cash equivalents, beginning of period	16,588	15,033	18,049	15,105
Cash and cash equivalents, end of period	<u>\$ 11,161</u>	<u>\$ 15,146</u>	<u>\$ 11,161</u>	<u>\$ 15,146</u>
Supplemental cash flow information:				
Interest paid	\$ 961	\$ 975	\$ 1,862	\$ 1,848
Income taxes paid, net	\$ 2,240	\$ 2,663	\$ 3,577	\$ 5,006
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	\$ 258	\$ 232	\$ 258	\$ 232

Reconciliation of Net income to Adjusted EBITDA

(Dollar amounts in thousands of U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net income for the period	\$ 3,608	\$ 5,242	\$ 7,352	\$ 7,686
Depreciation of property and equipment	1,330	879	2,562	1,636
Amortization of intangible assets	2,326	2,063	4,657	3,825
Interest expense, net	951	970	1,847	1,838
Provision for income taxes	1,228	1,083	2,411	958
Stock-based compensation	615	313	1,193	631
Unrealized loss (gain) on change in fair value of forward	46	(20)	43	(38)
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	282	(283)	459	(334)
Acquisition and other costs ¹	802	127	1,043	509
 Adjusted EBITDA	 <u>\$ 11,188</u>	 <u>\$ 10,374</u>	 <u>\$ 21,567</u>	 <u>\$ 16,711</u>

¹Acquisition and other costs represents transaction-related expenses, transitional expenses, such as duplicative post-acquisition expenses, primarily related to our acquisition of eNom in January 2017.

Expenses include severance or transitional costs associated with department, operational or overall company restructuring efforts, including geographic alignments.