

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

	December 31, 2018	December 31, 2017*
	<u>(unaudited)</u>	<u>(unaudited)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,637	\$ 18,049
Accounts receivable	10,837	12,376
Inventory	3,775	2,944
Prepaid expenses and deposits	15,472	14,186
Prepaid domain name registry and ancillary services fees, current portion	87,782	103,302
Income taxes recoverable	1,423	3,004
Total current assets	<u>131,926</u>	<u>153,861</u>
Prepaid domain name registry and ancillary services fees, long-term portion	18,745	23,701
Property and equipment	48,065	24,620
Contract costs	1,390	-
Intangible assets	49,395	58,414
Goodwill	90,054	90,054
Total assets	<u>\$ 339,575</u>	<u>\$ 350,650</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 8,445	\$ 7,026
Accrued liabilities	5,899	6,412
Customer deposits	11,919	15,255
Derivative instrument liability	1,276	-
Deferred rent, current portion	21	21
Loan payable, current portion	18,400	18,290
Deferred revenue, current portion	116,734	129,155
Accreditation fees payable, current portion	985	1,175
Income taxes payable	1,668	1,226
Total current liabilities	<u>165,347</u>	<u>178,560</u>
Deferred revenue, long-term portion	26,960	31,427
Accreditation fees payable, long-term portion	250	289
Deferred rent, long-term portion	116	130
Loan payable, long-term portion	46,201	58,634
Deferred Gain	-	429
Deferred tax liability	20,925	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; 10,627,988 shares issued and outstanding as of December 31, 2018 and 10,583,879 shares issued and outstanding as of December 31, 2017	15,823	15,368
Additional paid-in capital	3,953	2,167
Retained earnings	60,810	42,676
Accumulated other comprehensive income	(810)	-
Total stockholders' equity	<u>79,776</u>	<u>60,211</u>
Total liabilities and stockholders' equity	<u>\$ 339,575</u>	<u>\$ 350,650</u>

*The Company has initially applied ASC 2014-09 (Topic 606) using the modified retrospective method. Under this method, the comparative information is not restated.

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

	Three months ended December 31,		Year ended December 31,	
	2018	2017 ¹	2018	2017 ¹
	(unaudited)		(unaudited)	
Net revenues	\$ 85,612	\$ 90,621	\$ 346,013	\$ 329,421
Cost of revenues:				
Cost of revenues	53,525	61,112	232,103	230,600
Network expenses (*)	2,256	2,260	9,846	9,324
Depreciation of property and equipment	1,601	1,014	5,298	3,142
Amortization of intangible assets	499	499	1,996	1,834
Total cost of revenues	<u>57,881</u>	<u>64,885</u>	<u>249,243</u>	<u>244,900</u>
Gross profit	27,731	25,736	96,770	84,521
Expenses:				
Sales and marketing (*)	8,434	7,372	33,063	29,423
Technical operations and development (*)	2,091	1,855	8,748	7,258
General and administrative (*)	4,804	3,468	17,710	13,594
Depreciation of property and equipment	115	100	424	585
Amortization of intangible assets	1,791	1,831	7,247	6,566
Impairment of indefinite life intangible assets	-	110	-	111
Loss (gain) on currency forward contracts	232	17	254	(98)
Total expenses	<u>17,467</u>	<u>14,753</u>	<u>67,446</u>	<u>57,439</u>
Income from operations	10,264	10,983	29,324	27,082
Other income (expenses):				
Interest expense, net	(926)	(865)	(3,687)	(3,567)
Other income, net	337	49	518	560
Total other income (expenses)	<u>(589)</u>	<u>(816)</u>	<u>(3,169)</u>	<u>(3,007)</u>
Income before provision for income taxes	9,675	10,167	26,155	24,075
Provision for income taxes	5,239	(1,032)	9,020	1,748
Net income before redeemable non-controlling interest	<u>4,436</u>	<u>11,199</u>	<u>17,135</u>	<u>22,327</u>
Redeemable non-controlling interest	-	(75)	(26)	(387)
Net income attributable to redeemable non-controlling interest	-	75	26	387
Net income for the period	<u>4,436</u>	<u>11,199</u>	<u>17,135</u>	<u>22,327</u>
Other comprehensive income, net of tax				
Unrealized income (loss) on hedging activities	(910)	(88)	(1,022)	550
Net amount reclassified to earnings	136	(234)	212	(650)
Other comprehensive income (loss) net of tax of \$ 241 and \$ 183 for the three months ended December 31, 2018 and December 31, 2017, \$ 259 and \$ - for the year ended December 31, 2018 and December 31, 2017	<u>(774)</u>	<u>(322)</u>	<u>(810)</u>	<u>(100)</u>
Comprehensive income, net of tax for the period	<u>\$ 3,662</u>	<u>\$ 10,877</u>	<u>\$ 16,325</u>	<u>\$ 22,227</u>
Basic earnings per common share	<u>\$ 0.42</u>	<u>\$ 1.06</u>	<u>\$ 1.62</u>	<u>\$ 2.12</u>
Shares used in computing basic earnings per common share	<u>10,621,181</u>	<u>10,580,429</u>	<u>10,604,722</u>	<u>10,537,356</u>
Diluted earnings per common share	<u>\$ 0.41</u>	<u>\$ 1.04</u>	<u>\$ 1.59</u>	<u>\$ 2.07</u>
Shares used in computing diluted earnings per common share	<u>10,791,940</u>	<u>10,802,817</u>	<u>10,794,170</u>	<u>10,793,622</u>

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

Network expenses	\$ 70	\$ 50	\$ 223	\$ 110
Sales and marketing	\$ 286	\$ 255	\$ 1,025	\$ 573
Technical operations and development	\$ 135	\$ 145	\$ 636	\$ 360
General and administrative	\$ 179	\$ 173	\$ 690	\$ 414

¹The Company has initially applied ASC 2014-09 (Topic 606) using the modified retrospective method. Under this method, the comparative information is not restated.

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

	Three months ended December 31,		Year ended December 31,	
	2018	2017*	2018	2017*
Cash provided by:				
Operating activities:				
Net income for the period	\$ 4,436	\$ 11,199	\$ 17,135	\$ 22,327
Items not involving cash:				
Depreciation of property and equipment	1,716	1,114	5,722	3,727
Loss on write off of property and equipment	-	-	-	17
Amortization of debt discount and issuance costs	70	69	281	273
Amortization of intangible assets	2,290	2,330	9,243	8,400
Net amortization contract costs	(7)	-	14	-
Impairment of indefinite life intangible asset	-	110	-	111
Deferred income taxes (recovery)	1,899	(326)	1,038	(3,337)
Excess tax benefits on share-based compensation expense	(165)	(181)	(697)	(2,796)
Amortization of deferred rent	(5)	-	(14)	6
Loss on disposal of domain names	271	266	341	291
Other income	(258)	(129)	(429)	(515)
Loss (gain) on change in the fair value of forward contracts	194	54	207	17
Stock-based compensation	670	623	2,574	1,457
Change in non-cash operating working capital:				
Accounts receivable	692	1,340	1,539	1,010
Inventory	(635)	5	(831)	(1,733)
Prepaid expenses and deposits	(918)	527	(1,286)	(1,642)
Prepaid domain name registry and ancillary services fees	4,699	3,460	20,476	4,030
Income taxes recoverable	2,398	(2,241)	2,691	(426)
Accounts payable	(877)	856	171	(3,826)
Accrued liabilities	(978)	(2,269)	(513)	(1,275)
Customer deposits	34	(78)	(3,336)	1,085
Deferred revenue	(4,798)	(2,610)	(16,888)	4,933
Accreditation fees payable	(60)	(38)	(229)	(238)
Net cash provided by operating activities	10,668	14,081	37,209	31,896
Financing activities:				
Proceeds received on exercise of stock options	50	48	112	222
Payment of tax obligations resulting from net exercise of stock options	(41)	(23)	(445)	(1,462)
Proceeds received on loan payable	4,500	-	7,000	86,998
Repayment of loan payable	(4,384)	(4,572)	(19,596)	(19,976)
Payment of loan payable costs	-	-	(8)	(620)
Net cash (used in) provided by financing activities	125	(4,547)	(12,937)	65,162
Investing activities:				
Additions to property and equipment	(8,480)	(3,474)	(27,919)	(12,935)
Acquisition of a portion of the minority interest in Ting Virginia, LLC	-	-	(1,200)	(2,000)
Acquisition of Enom Incorporated, net of cash	-	-	-	(76,237)
Acquisition of intangible assets	(451)	(558)	(565)	(2,942)
Net cash used in investing activities	(8,931)	(4,032)	(29,684)	(94,114)
(Decrease) increase in cash and cash equivalents	1,862	5,502	(5,412)	2,944
Cash and cash equivalents, beginning of period	10,775	12,547	18,049	15,105
Cash and cash equivalents, end of period	\$ 12,637	\$ 18,049	\$ 12,637	\$ 18,049
Supplemental cash flow information:				
Interest paid	\$ 931	\$ 871	\$ 3,712	\$ 3,587
Income taxes paid, net	\$ 1,742	\$ 1,502	\$ 7,112	\$ 7,815
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	\$ 1,462	\$ 214	\$ 1,462	\$ 214

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Reconciliation of Net income to Adjusted EBITDA
(In Thousands of US Dollars)
(unaudited)

	Three months ended December 31,		Year ended December 31,	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
Net income for the period	\$ 4,436	\$ 11,199	\$ 17,135	\$ 22,327
Depreciation of property and equipment	1,716	1,114	5,722	3,727
Amortization of intangible assets	2,290	2,330	9,243	8,400
Impairment of intangible assets	-	110	-	111
Interest expense, net	926	865	3,687	3,567
Provision for income taxes	5,239	(1,032)	9,020	1,748
Stock-based compensation	670	623	2,574	1,457
Unrealized loss (gain) on change in fair value of forward contracts	201	54	207	18
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	752	(45)	943	(804)
Acquisition and other costs ¹	403	58	1,526	806
Adjusted EBITDA	\$ <u>16,633</u>	\$ <u>15,276</u>	\$ <u>50,057</u>	\$ <u>41,357</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.