



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

	September 30,	December 31,
	2019	2018 *
	(unaudited)	(unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,989	\$ 12,637
Accounts receivable	13,351	10,837
Inventory	3,903	3,775
Prepaid expenses and deposits	19,717	15,472
Derivative instrument asset, current portion	-	-
Prepaid domain name registry and ancillary services fees, current portion	95,614	87,782
Other assets	-	-
Income taxes recoverable	<u>2,532</u>	<u>1,423</u>
Total current assets	147,106	131,926
Prepaid domain name registry and ancillary services fees, long-term portion	17,477	18,745
Property and equipment	72,167	48,065
Right of use operating lease asset	11,028	-
Contract costs	1,398	1,390
Intangible assets	60,066	49,395
Goodwill	<u>110,100</u>	<u>90,054</u>
Total assets	<u>\$ 419,342</u>	<u>\$ 339,575</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,440	\$ 8,445
Accrued liabilities	14,445	5,899
Customer deposits	14,920	11,919
Derivative instrument liability	41	1,276
Deferred rent, current portion	-	21
Operating lease liability, current portion	1,450	-
Loan payable, current portion	-	18,400
Deferred revenue, current portion	128,138	116,734
Accreditation fees payable, current portion	977	985
Income taxes payable	<u>689</u>	<u>1,668</u>
Total current liabilities	166,100	165,347
Deferred revenue, long-term portion	26,003	26,960
Accreditation fees payable, long-term portion	224	250
Deferred rent, long-term portion	-	116
Operating lease liability, long-term portion	9,107	-
Loan payable, long-term portion	104,968	46,201
Deferred Gain	-	-
Deferred tax liability	25,941	20,925
Redeemable non-controlling interest	-	-
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; 10,572,069 shares issued and outstanding as of September 30, 2019 and 10,627,988 shares issued and outstanding as of December 31, 2018	16,492	15,823
Additional paid-in capital	106	3,953
Retained earnings	70,430	60,810
Accumulated other comprehensive income (loss)	<u>(29)</u>	<u>(810)</u>
Total stockholders' equity	86,999	79,776
Total liabilities and stockholders' equity	<u>\$ 419,342</u>	<u>\$ 339,575</u>

*The Company has initially applied ASC 2016-02 (Topic 842) using the modified retrospective method. Under this method, the comparative

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 *	2019	2018 *
	(unaudited)		(unaudited)	
Net revenues	\$ 88,129	\$ 83,519	\$ 251,199	\$ 260,401
Cost of revenues:				
Cost of revenues	55,756	55,105	162,561	178,578
Network expenses (*)	2,254	2,315	7,034	7,590
Depreciation of property and equipment	2,231	1,339	6,070	3,697
Amortization of intangible assets	314	499	802	1,497
Total cost of revenues	<u>60,555</u>	<u>59,258</u>	<u>176,467</u>	<u>191,362</u>
Gross profit	27,574	24,261	74,732	69,039
Expenses:				
Sales and marketing (*)	8,769	8,412	26,366	24,629
Technical operations and development (*)	2,876	2,207	8,151	6,657
General and administrative (*)	4,574	4,120	13,818	12,906
Depreciation of property and equipment	117	106	375	309
Loss on disposition of property and equipment	73	-	73	-
Amortization of intangible assets	2,544	1,797	6,661	5,456
Loss (gain) on currency forward contracts	20	(27)	(90)	22
Total expenses	<u>18,973</u>	<u>16,615</u>	<u>55,354</u>	<u>49,979</u>
Income from operations	8,601	7,646	19,378	19,060
Other income (expenses):				
Interest expense, net	(1,263)	(914)	(3,549)	(2,761)
Other income, net	-	(16)	-	181
Total other income (expenses)	<u>(1,263)</u>	<u>(930)</u>	<u>(3,549)</u>	<u>(2,580)</u>
Income before provision for income taxes	7,338	6,716	15,829	16,480
Provision for income taxes	<u>3,133</u>	<u>1,370</u>	<u>6,209</u>	<u>3,781</u>
Net income before redeemable non-controlling interest	4,205	5,346	9,620	12,699
Redeemable non-controlling interest	-	-	-	(26)
Net income attributable to redeemable non-controlling interest	-	-	-	26
Net income for the period	4,205	5,346	9,620	12,699
Other comprehensive income, net of tax				
Unrealized income (loss) on hedging activities	(175)	144	614	(112)
Net amount reclassified to earnings	<u>26</u>	<u>63</u>	<u>167</u>	<u>76</u>
Other comprehensive income (loss) net of tax (expense) recovery of \$47 and (\$59) for the three months ended September 30, 2019 and September 30, 2018, (\$250) and \$19 for the nine months ended September 30, 2019 and September 30, 2018 (note 5)	<u>(149)</u>	<u>207</u>	<u>781</u>	<u>(36)</u>
Comprehensive income, net of tax for the period	<u>\$ 4,056</u>	<u>\$ 5,553</u>	<u>\$ 10,401</u>	<u>\$ 12,663</u>
Basic earnings per common share	<u>\$ 0.40</u>	<u>\$ 0.50</u>	<u>\$ 0.90</u>	<u>\$ 1.20</u>
Shares used in computing basic earnings per common share	<u>10,626,754</u>	<u>10,611,579</u>	<u>10,639,544</u>	<u>10,599,243</u>
Diluted earnings per common share	<u>\$ 0.39</u>	<u>\$ 0.50</u>	<u>\$ 0.89</u>	<u>\$ 1.18</u>
Shares used in computing diluted earnings per common share	<u>10,745,834</u>	<u>10,794,297</u>	<u>10,798,099</u>	<u>10,795,668</u>

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

Network expenses	\$ 95	\$ 70	\$ 224	\$ 153
Sales and marketing	\$ 363	\$ 307	\$ 857	\$ 739
Technical operations and development	\$ 179	\$ 150	\$ 428	\$ 501
General and administrative	\$ 193	\$ 184	\$ 531	\$ 511

*The Company has initially applied ASC 2016-02 (Topic 842) using the modified retrospective method. Under this

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

	Three months ended September 30,		Nine months ended September 30	
	2019	2018 *	2019	2018 *
	(unaudited)		(unaudited)	
Cash provided by:				
Operating activities:				
Net income for the period	\$ 4,205	\$ 5,346	\$ 9,620	\$ 12,699
Items not involving cash:				
Depreciation of property and equipment	2,348	1,445	6,445	4,006
Loss on write off of property and equipment	120	-	142	-
Amortization of debt discount and issuance costs	64	72	232	211
Amortization of intangible assets	2,858	2,296	7,463	6,953
Net amortization contract costs	(61)	(29)	(8)	21
Deferred income taxes (recovery)	(170)	(369)	1,741	(861)
Excess tax benefits on share-based compensation expense	(53)	(191)	(790)	(532)
Amortization of deferred rent	-	(5)	-	(9)
Net Right of use operating assets/Operating lease liability	(54)	-	(5)	-
Loss on disposal of domain names	66	5	72	70
Other income	-	-	-	(171)
Loss (gain) on change in the fair value of forward contracts	(16)	(30)	(204)	13
Stock-based compensation	830	711	2,040	1,904
Change in non-cash operating working capital:				
Accounts receivable	(1,763)	685	(1,920)	847
Inventory	(644)	108	(128)	(196)
Prepaid expenses and deposits	(329)	874	(3,243)	(368)
Prepaid domain name registry and ancillary services fees	3,819	4,229	3,754	15,777
Income taxes recoverable	1,576	(137)	(1,299)	293
Accounts payable	(2,394)	778	(2,778)	1,048
Accrued liabilities	3,687	107	7,274	465
Customer deposits	1,394	(1,049)	873	(3,370)
Deferred revenue	(4,200)	(3,559)	(2,062)	(12,090)
Accreditation fees payable	(68)	(73)	(34)	(169)
Net cash provided by operating activities	<u>11,215</u>	<u>11,214</u>	<u>27,185</u>	<u>26,541</u>
Financing activities:				
Proceeds received on exercise of stock options	118	23	312	62
Payment of tax obligations resulting from net exercise of stock options	(20)	(116)	(544)	(404)
Repurchase of common stock	(4,986)	-	(4,986)	-
Proceeds received on loan payable	5,000	-	45,371	2,500
Repayment of loan payable	3	(4,387)	(4,600)	(15,212)
Payment of loan payable costs	2	(4)	(639)	(8)
Net cash (used in) provided by financing activities	<u>117</u>	<u>(4,484)</u>	<u>34,914</u>	<u>(13,062)</u>
Investing activities:				
Additions to property and equipment	(10,308)	(7,003)	(31,157)	(19,439)
Acquisition of a portion of the minority interest in Ting Virginia, LLC	-	-	-	(1,200)
Acquisition of Ascio Technologies Inc. (net of cash of \$1,437)	-	-	(28,024)	-
Acquisition of intangible assets	(1,038)	(113)	(3,566)	(114)
Net cash used in investing activities	<u>(11,346)</u>	<u>(7,116)</u>	<u>(62,747)</u>	<u>(20,753)</u>
(Decrease) increase in cash and cash equivalents	(14)	(386)	(648)	(7,274)
Cash and cash equivalents, beginning of period	<u>12,003</u>	<u>11,161</u>	<u>12,637</u>	<u>18,049</u>
Cash and cash equivalents, end of period	<u>\$ 11,989</u>	<u>\$ 10,775</u>	<u>\$ 11,989</u>	<u>\$ 10,775</u>
Supplemental cash flow information:				
Interest paid	\$ 1,267	\$ 919	\$ 3,561	\$ 2,781
Income taxes paid, net	\$ 1,959	\$ 1,793	\$ 6,123	\$ 5,370
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	\$ 991	\$ 382	\$ 991	\$ 382
Acquisition of intangible assets transferred from other assets	\$ 2,501	\$ -	\$ -	\$ -

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Reconciliation of Net income to Adjusted EBITDA
(In Thousands of U.S. Dollars)

(unaudited)	Three months ended September 30,		Nine months ended September 30,	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Net income for the period	\$ 4,205	\$ 5,346	\$ 9,620	\$ 12,699
Depreciation of property and equipment	2,348	1,445	6,445	4,006
Loss on disposition of property and equipment	73	-	73	-
Amortization of intangible assets	2,858	2,296	7,463	6,953
Interest expense, net	1,263	914	3,549	2,761
Provision for income taxes	3,133	1,370	6,209	3,781
Stock-based compensation	830	711	2,040	1,904
Unrealized loss (gain) on change in fair value of forward contracts	(16)	(35)	(204)	7
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	88	(269)	(402)	191
Acquisition and other costs ¹	50	80	956	1,123
Adjusted EBITDA	<u>\$ 14,832</u>	<u>\$ 11,858</u>	<u>\$ 35,749</u>	<u>\$ 33,425</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 and Ascio in March 2019. Expenses include severance or transitional costs associated with department, operational or overall company restructuring efforts, including geographic alignments.