



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

September 30,
2020
(unaudited)

December 31,
2019
(unaudited)

Assets

Current assets:

Cash and cash equivalents	\$ 10,155	\$ 20,393
Accounts receivable	12,623	14,564
Inventory	1,139	3,457
Prepaid expenses and deposits	13,703	13,478
Derivative instrument asset, current portion	2,402	731
Prepaid domain name registry and ancillary services fees, current portion	95,694	91,252
Income taxes recoverable	3,553	1,800
Total current assets	<u>139,269</u>	<u>145,675</u>

Prepaid domain name registry and ancillary services fees, long-term portion	17,546	17,915
Property and equipment	109,767	82,121
Right of use operating lease asset	11,625	11,335
Contract costs	359	1,400
Intangible assets	50,087	57,654
Goodwill	116,270	109,818
Total assets	<u>\$ 444,923</u>	<u>\$ 425,918</u>

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 8,552	\$ 6,671
Accrued liabilities	9,525	9,373
Customer deposits	14,372	14,074
Derivative instrument liability	135	-
Operating lease liability, current portion	1,692	1,413
Deferred revenue, current portion	128,569	123,101
Accreditation fees payable, current portion	975	952
Income taxes payable	881	1,324
Total current liabilities	<u>164,701</u>	<u>156,908</u>

Derivative instrument liability	112	-
Deferred revenue, long-term portion	25,661	26,202
Accreditation fees payable, long-term portion	200	216
Operating lease liability, long-term portion	9,679	9,424
Loan payable	113,672	113,503
Other long-term liability	3,330	-
Deferred tax liability	27,187	25,471

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; 10,593,514 shares issued and outstanding as of September 30, 2020 and 10,585,159 shares issued and outstanding as of December 31, 2019	19,989	16,633
Additional paid-in capital	983	880
Retained earnings	78,038	76,208
Accumulated other comprehensive income (loss)	1,371	473
Total stockholders' equity	<u>100,381</u>	<u>94,194</u>
Total liabilities and stockholders' equity	<u>\$ 444,923</u>	<u>\$ 425,918</u>

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,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net revenues	\$ 74,311	\$ 88,129	\$ 240,418	\$ 251,199
Cost of revenues:				
Cost of revenues	48,330	55,756	153,308	162,561
Network expenses (*)	2,612	2,254	7,513	7,034
Depreciation of property and equipment	2,985	2,231	8,892	6,070
Amortization of intangible assets	330	314	1,010	802
Impairment of property and equipment	113	-	1,638	-
Total cost of revenues	<u>54,370</u>	<u>60,555</u>	<u>172,361</u>	<u>176,467</u>
Gross profit	19,941	27,574	68,057	74,732
Expenses:				
Sales and marketing (*)	8,318	8,769	26,521	26,366
Technical operations and development (*)	3,162	2,876	8,980	8,151
General and administrative (*)	4,868	4,574	15,074	13,818
Depreciation of property and equipment	125	117	363	375
Loss on disposition of property and equipment	-	73	-	73
Amortization of intangible assets	2,315	2,544	7,766	6,661
Impairment of definite life intangible assets	-	-	1,431	-
Loss (gain) on currency forward contracts	(159)	20	(99)	(90)
Total expenses	<u>18,629</u>	<u>18,973</u>	<u>60,036</u>	<u>55,354</u>
Income from operations	1,312	8,601	8,021	19,378
Other income (expenses):				
Interest expense, net	(760)	(1,263)	(2,756)	(3,549)
Gain on sale of Ting Customer Assets, net	1,090	-	1,090	-
Other income	(86)	-	(258)	-
Total other income (expenses)	<u>244</u>	<u>(1,263)</u>	<u>(1,924)</u>	<u>(3,549)</u>
Income before provision for income taxes	1,556	7,338	6,097	15,829
Provision for income taxes	840	3,133	2,390	6,209
Net income for the period	<u>716</u>	<u>4,205</u>	<u>3,707</u>	<u>9,620</u>
Other comprehensive income, net of tax				
Unrealized income (loss) on hedging activities	729	(175)	609	614
Net amount reclassified to earnings	46	26	289	167
Other comprehensive income (loss) net of tax expense (income) of \$230 and (\$47) for the three	<u>775</u>	<u>(149)</u>	<u>898</u>	<u>781</u>
Comprehensive income, net of tax for the period	<u>\$ 1,491</u>	<u>\$ 4,056</u>	<u>\$ 4,605</u>	<u>\$ 10,401</u>
Basic earnings per common share	<u>\$ 0.07</u>	<u>\$ 0.40</u>	<u>\$ 0.35</u>	<u>\$ 0.90</u>
Shares used in computing basic earnings per common share	<u>10,577,731</u>	<u>10,626,754</u>	<u>10,585,785</u>	<u>10,639,544</u>
Diluted earnings per common share	<u>\$ 0.07</u>	<u>\$ 0.39</u>	<u>\$ 0.35</u>	<u>\$ 0.89</u>
Shares used in computing diluted earnings per common share	<u>10,682,808</u>	<u>10,745,834</u>	<u>10,679,162</u>	<u>10,798,099</u>

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

Network expenses	\$ 138	\$ 95	\$ 333	\$ 224
Sales and marketing	\$ 456	\$ 363	\$ 1,203	\$ 857
Technical operations and development	\$ 208	\$ 179	\$ 558	\$ 428
General and administrative	\$ 214	\$ 193	\$ 570	\$ 531

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,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by:				
Operating activities:				
Net income for the period	\$ 716	\$ 4,205	\$ 3,707	\$ 9,620
Items not involving cash:				
Depreciation of property and equipment	3,110	2,348	9,255	6,445
Loss on write off/impairment of property and equipment	113	120	1,638	142
Amortization of debt discount and issuance costs	68	64	202	232
Amortization of intangible assets	2,645	2,858	8,776	7,463
Net amortization contract costs	(15)	(61)	109	(8)
Accretion of contingent consideration	86	-	258	-
Impairment of definite life intangible asset	-	-	1,431	-
Foreign exchange impact of impairment of definite life intangible asset	-	-	223	-
Deferred income taxes (recovery)	180	(170)	(927)	1,741
Excess tax benefits on share-based compensation expense	(164)	(53)	(508)	(790)
Net Right of use operating assets/Operating lease liability	137	(54)	249	(5)
Loss on disposal of domain names	-	66	15	72
Loss (gain) on change in the fair value of forward contracts	(175)	(16)	(263)	(204)
Disposal of Ting Mobile customer assets	3,513	-	3,513	-
Stock-based compensation	1,016	830	2,664	2,040
Change in non-cash operating working capital:				
Accounts receivable	118	(1,763)	2,670	(1,920)
Inventory	(123)	(644)	1,681	(128)
Prepaid expenses and deposits	2,905	(329)	(317)	(3,243)
Prepaid domain name registry and ancillary services fees	984	3,819	(4,073)	3,754
Income taxes recoverable	(2,475)	1,576	(1,681)	(1,299)
Accounts payable	509	(2,394)	759	(2,778)
Accrued liabilities	(668)	3,687	(334)	7,274
Customer deposits	69	1,394	463	873
Deferred revenue	(1,070)	(4,200)	4,927	(2,062)
Accreditation fees payable	(47)	(68)	7	(34)
Net cash provided by operating activities	<u>11,432</u>	<u>11,215</u>	<u>34,444</u>	<u>27,185</u>
Financing activities:				
Proceeds received on exercise of stock options	632	118	678	312
Payment of tax obligations resulting from net exercise of stock options	(132)	(20)	(479)	(544)
Repurchase of common stock	-	(4,986)	(3,281)	(4,986)
Proceeds received on loan payable	-	5,000	-	45,371
Repayment of loan payable	-	3	-	(4,600)
Payment of loan payable costs	-	2	(32)	(639)
Net cash (used in) provided by financing activities	<u>500</u>	<u>117</u>	<u>(3,114)</u>	<u>34,914</u>
Investing activities:				
Additions to property and equipment	(10,636)	(10,308)	(32,729)	(31,157)
Acquisition of Cedar Holdings Group (net of cash of \$66)	-	-	(8,770)	-
Acquisition of Ascio Technologies (net of cash of \$1)	-	-	-	(28,024)
Acquisition of intangible assets	-	(1,038)	(69)	(3,566)
Net cash used in investing activities	<u>(10,636)</u>	<u>(11,346)</u>	<u>(41,568)</u>	<u>(62,747)</u>
Increase (decrease) in cash and cash equivalents	1,296	(14)	(10,238)	(648)
Cash and cash equivalents, beginning of period	<u>8,859</u>	<u>12,003</u>	<u>20,393</u>	<u>12,637</u>
Cash and cash equivalents, end of period	<u>\$ 10,155</u>	<u>\$ 11,989</u>	<u>\$ 10,155</u>	<u>\$ 11,989</u>
Supplemental cash flow information:				
Interest paid	\$ 635	\$ 1,267	\$ 2,638	\$ 3,561
Income taxes paid, net	\$ 3,249	\$ 1,959	\$ 5,449	\$ 6,123
Supplementary disclosure of non-cash investing and financing activities:				
Property and equipment acquired during the period not yet paid for	\$ 1,697	\$ 991	\$ 1,697	\$ 991
Fair value of shares issued for acquisition of Cedar Holdings Group	\$ -	\$ -	\$ 2,000	\$ -
Fair value of contingent consideration for acquisition of Cedar Holdings Group	\$ -	\$ -	\$ 3,072	\$ -
Acquisition of intangible assets transferred from other assets	\$ -	\$ 2,501	\$ -	\$ -

Tucoys Inc. Reconciliation of Net income to Adjusted EBITDA (Dollar amounts in thousands of U.S. dollars)	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income for the period	\$ 716	\$ 4,205	\$ 3,707	\$ 9,620
Depreciation of property and equipment	3,110	2,348	9,255	6,445
Impairment of property and equipment	113	-	1,638	-
Loss on disposal of property and equipment	-	73	-	73
Amortization of intangible assets	2,645	2,858	8,776	7,463
Disposal of Ting Mobile customer assets	3,513	-	3,513	-
Impairment of definite life intangible asset	-	-	1,431	-
Interest expense, net	760	1,263	2,756	3,549
Accretion of contingent consideration	86	-	258	-
Provision for income taxes	840	3,133	2,390	6,209
Stock-based compensation	1,016	830	2,664	2,040
Unrealized loss (gain) on change in fair value of forward contracts	(175)	(16)	(263)	(204)
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	81	88	479	(402)
Acquisition and other costs ¹	565	50	1,520	956
Adjusted EBITDA	\$ 13,270	\$ 14,832	\$ 38,124	\$ 35,749

¹Acquisition and other costs represents transaction-related expenses, transitional expenses, such as duplicative post-acquisition expenses, primarily related to our acquisition of Ascio in March 2019 and Cedar in January 2020 and disposition of certain Ting Mobile assets in August 2020. Expenses include severance or transitional costs associated with department, operational or overall company restructuring efforts, including geographic alignments.