

INDEX TO FINANCIAL STATEMENTS
Consolidated Financial Statements of Tucows Inc.

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Report of the Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Turows Inc.

Opinion on Internal Control over Financial Reporting

We have audited Turows Inc.'s (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of Turows Inc. as of December 31, 2017 and December 31, 2016, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017 and the related notes (collectively, the consolidated financial statements), and our report dated March 6, 2018 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired eNom, Incorporated during 2017, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, eNom, Incorporated's internal control over financial reporting associated with total assets of \$83 million and total revenues of \$111 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2017. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of eNom, Incorporated.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting in Item 9A of Form-10K for the fiscal year ended December 31, 2017. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulation of the Securities and Exchange Commission and the PCAOB and in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 6, 2018

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Tuowus Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Tuowus Inc. (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standard of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our reported dated March 6, 2018 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2(t) to the consolidated financial statements, on January 1, 2017, the Company adopted Accounting Standards Update (“ASU”) No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* and ASU No. 2016-09, *Stock Compensation (Topic 718)*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB and in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

We have served as the Company’s auditor since 2000.

Toronto, Canada

March 6, 2018

Tucows Inc.

Consolidated Balance Sheets

(Dollar amounts in U.S. dollars)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,049,164	\$ 15,105,075
Accounts receivable, net of allowance for doubtful accounts of \$168,409 as of December 31, 2017 and \$164,145 as of December 31, 2016	12,376,104	10,925,622
Inventory	2,944,246	1,210,789
Prepaid expenses and deposits	14,185,586	6,250,555
Derivative instrument asset, current portion (note 6)	-	172,888
Prepaid domain name registry and ancillary services fees, current portion	103,302,472	49,396,737
Income taxes recoverable	3,003,873	220,451
Total current assets	<u>153,861,445</u>	<u>83,282,117</u>
Prepaid domain name registry and ancillary services fees, long-term portion	23,700,931	10,993,156
Property and equipment (note 4)	24,620,298	13,450,438
Deferred tax asset (note 9)	-	5,708,725
Intangible assets (note 5)	58,414,178	19,973,793
Goodwill (note 5)	90,053,483	21,005,143
Total assets	<u>\$ 350,650,335</u>	<u>\$ 154,413,372</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,026,282	\$ 4,786,645
Accrued liabilities	6,412,578	7,098,905
Customer deposits	15,255,305	5,418,622
Deferred rent, current portion	20,991	20,854
Loan payable, current portion (note 8)	18,289,853	2,233,110
Deferred revenue, current portion	129,154,622	62,795,079
Accreditation fees payable, current portion	1,174,733	528,027
Income taxes payable	1,226,157	1,548,121
Total current liabilities	<u>178,560,521</u>	<u>84,429,363</u>
Deferred revenue, long-term portion	31,426,906	15,053,977
Accreditation fees payable, long-term portion	288,755	115,084
Deferred rent, long-term portion	129,777	124,202
Loan payable, long-term portion (note 8)	58,634,174	8,015,698
Deferred gain	429,400	944,680
Deferred tax liability (note 9)	19,833,678	4,827,192
Redeemable non-controlling interest (note 3 (a))	1,136,390	3,086,090
Stockholders' equity (note 10)		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding	-	-
Common stock - no par value, 250,000,000 shares authorized; 10,583,879 shares issued and outstanding as of December 31, 2017 and 10,461,574 shares issued and outstanding as of December 31, 2016	15,368,161	14,460,500
Additional paid-in capital	2,166,768	2,857,921
Retained earnings	42,675,805	20,399,511
Accumulated other comprehensive income	-	99,154
Total stockholders' equity	<u>60,210,734</u>	<u>37,817,086</u>
Total liabilities and stockholders' equity	<u>\$ 350,650,335</u>	<u>\$ 154,413,372</u>
Commitments and contingencies (note 15)		
Subsequent events (note 17)		

See accompanying notes to consolidated financial statements

Tucows Inc.

Consolidated Statements of Comprehensive Income

(Dollar amounts in U.S. dollars)

	Year ended December 31,		
	2017	2016	2015
Net revenues (note 16)	\$ 329,420,741	\$ 189,818,932	\$ 171,686,779
Cost of revenues (note 16)			
Cost of revenues	230,599,632	120,186,962	112,980,685
Network expenses	9,324,454	5,210,500	5,464,777
Depreciation of property and equipment	3,142,398	1,319,819	1,144,988
Amortization of intangible assets (note 5)	1,833,628	48,017	38,520
Total cost of revenues	<u>244,900,112</u>	<u>126,765,298</u>	<u>119,628,970</u>
Gross profit	84,520,629	63,053,634	52,057,809
Expenses:			
Sales and marketing	29,422,984	20,754,752	17,394,376
Technical operations and development	7,257,720	4,494,819	4,502,845
General and administrative	13,593,901	11,404,793	10,661,949
Depreciation of property and equipment	585,424	503,864	259,307
Amortization of intangible assets (note 5)	6,566,308	905,157	224,206
Impairment of indefinite life intangible assets (note 5)	111,251	42,673	206,116
Loss (gain) on currency forward contracts (note 7)	(98,227)	(98,977)	792,900
Total expenses	<u>57,439,361</u>	<u>38,007,081</u>	<u>34,041,699</u>
Income from operations	27,081,268	25,046,553	18,016,110
Other income (expense):			
Interest expense, net	(3,567,156)	(449,838)	(159,025)
Other income, net (note 13)	560,656	516,209	85,872
Total other income (expense)	<u>(3,006,500)</u>	<u>66,371</u>	<u>(73,153)</u>
Income before provision for income taxes	24,074,768	25,112,924	17,942,957
Provision for income taxes (note 9)	1,748,174	9,045,770	6,569,227
Net income before redeemable non-controlling interest	22,326,594	16,067,154	11,373,730
Redeemable non-controlling interest	(386,995)	(871,493)	(284,509)
Net income attributable to redeemable non-controlling interest	386,995	871,493	284,509
Net income for the period	22,326,594	16,067,154	11,373,730
Other comprehensive income (loss), net of tax			
Unrealized income (loss) on hedging activities (note 7)	550,347	567,816	(2,031,465)
Net amount reclassified to earnings (note 7)	(649,501)	640,790	1,544,454
Other comprehensive income (loss) net of tax of \$56,406 and \$668,637 for the year ended December 31, 2017 and December 31, 2016 (note 7)	<u>(99,154)</u>	<u>1,208,606</u>	<u>(487,011)</u>
Comprehensive income for the period	<u>\$ 22,227,440</u>	<u>\$ 17,275,760</u>	<u>\$ 10,886,719</u>
Basic earnings per common share (note 14)	<u>\$ 2.12</u>	<u>\$ 1.53</u>	<u>\$ 1.04</u>
Shares used in computing basic earnings per common share (note 14)	<u>10,537,356</u>	<u>10,524,856</u>	<u>10,968,500</u>
Diluted earnings per common share (note 14)	<u>\$ 2.07</u>	<u>\$ 1.50</u>	<u>\$ 1.00</u>
Shares used in computing diluted earnings per common share (note 14)	<u>10,793,622</u>	<u>10,713,595</u>	<u>11,360,084</u>

See accompanying notes to consolidated financial statements

Tucows Inc.

Consolidated Statements of Stockholders' Equity

(Dollar amounts in U.S. dollars)

	Common stock		Additional	Retained	Accumulated	Total
	Number	Amount	paid in	earnings	other	stockholders'
			capital	(deficit)	comprehensive	equity
					income (loss)	
Balances, December 31, 2014	11,329,732	14,130,059	29,090,058	(6,955,283)	(622,441)	\$ 35,642,393
Exercise of stock options	517,998	1,784,112	(980,976)	-	-	803,136
Shares deducted from exercise of stock options for payment of withholding taxes and exercise consideration	(99,675)	-	(1,306,981)	-	-	(1,306,981)
Repurchase and retirement of shares (note 10)	(1,062,456)	(1,383,538)	(22,232,748)	-	-	(23,616,286)
Income tax effect related to stock options exercised	-	-	3,431,017	-	-	3,431,017
Stock-based compensation (note 11)	-	-	526,025	-	-	526,025
Net income	-	-	-	11,373,730	-	11,373,730
Accretion of redeemable non-controlling interest in Ting Virginia, LLC. (note 3)	-	-	-	(36,598)	-	(36,598)
Other comprehensive income (loss)	-	-	-	-	(487,011)	(487,011)
Balances, December 31, 2015	10,685,599	14,530,633	8,526,395	4,381,849	(1,109,452)	26,329,425
Exercise of stock options	109,963	350,506	(204,116)	-	-	146,390
Shares deducted from exercise of stock options for payment of withholding taxes and exercise consideration	(25,572)	-	(363,285)	-	-	(363,285)
Repurchase and retirement of shares (note 10)	(308,416)	(420,639)	(6,759,618)	-	-	(7,180,257)
Income tax effect related to stock options exercised	-	-	859,111	-	-	859,111
Stock-based compensation (note 11)	-	-	799,434	-	-	799,434
Net income	-	-	-	16,067,154	-	16,067,154
Accretion of redeemable non-controlling interest in Ting Virginia, LLC. (note 3(a))	-	-	-	(49,492)	-	(49,492)
Other comprehensive income (loss)	-	-	-	-	1,208,606	1,208,606
Balances, December 31, 2016	10,461,574	14,460,500	2,857,921	20,399,511	99,154	37,817,086
Exercise of stock options	172,759	907,661	(686,074)	-	-	221,587
Shares deducted from exercise of stock options for payment of withholding taxes and exercise consideration	(50,454)	-	(1,461,651)	-	-	(1,461,651)
Stock-based compensation (note 11)	-	-	1,456,572	-	-	1,456,572
Net income	-	-	-	22,326,594	-	22,326,594
Accretion of redeemable non-controlling interest in Ting Virginia, LLC.	-	-	-	(50,300)	-	(50,300)
Other comprehensive income (loss)	-	-	-	-	(99,154)	(99,154)
Balances, December 31, 2017	10,583,879	\$ 15,368,161	\$ 2,166,768	\$ 42,675,805	\$ -	\$ 60,210,734

See accompanying notes to consolidated financial statements

Tucows Inc.

Consolidated Statements of Cash Flows

(Dollar amounts in U.S. dollars)

	2017	Year ended December 31, 2016	2015
Cash provided by:			
Operating activities:			
Net income for the period	\$ 22,326,594	\$ 16,067,154	\$ 11,373,730
Items not involving cash:			
Depreciation of property and equipment	3,727,822	1,823,683	1,404,296
Loss on write off of property and equipment	16,951	-	-
Amortization of debt discount and issuance costs	273,010	31,166	-
Amortization of intangible assets	8,399,936	953,174	262,726
Impairment of indefinite life intangible asset	111,251	42,673	206,116
Deferred income taxes (recovery)	(3,336,824)	1,194,232	134,861
Excess tax benefits on share-based compensation expense	(2,796,171)	859,111	3,431,017
Amortization of deferred rent	5,712	24,729	27,449
Loss on disposal of domain names	290,793	29,691	24,066
Other income	(515,280)	(515,280)	(85,872)
Loss (gain) on change in the fair value of forward contracts	17,328	(322,732)	136,276
Stock-based compensation	1,456,572	799,434	526,025
Change in non-cash operating working capital:			
Accounts receivable	1,009,620	(3,754,234)	(220,188)
Inventory	(1,733,457)	(307,014)	(442,806)
Prepaid expenses and deposits	(1,642,016)	(1,182,765)	(1,282,054)
Prepaid domain name registry and ancillary services fees	4,030,485	(4,640,923)	630,653
Income taxes recoverable	(426,068)	3,176,532	(2,321,345)
Accounts payable	(3,825,526)	390,887	249,931
Accrued liabilities	(1,274,773)	1,243,219	1,691,356
Customer deposits	1,084,933	281,713	675,182
Deferred revenue	4,933,478	6,255,027	366,273
Accreditation fees payable	(237,730)	59,331	(10,664)
Net cash provided by operating activities	<u>31,896,640</u>	<u>22,508,808</u>	<u>16,777,028</u>
Financing activities:			
Proceeds received on exercise of stock options	221,587	146,390	803,136
Payment of tax obligations resulting from net exercise of stock options	(1,461,651)	(363,285)	(1,306,981)
Repurchase of common stock	-	(7,180,257)	(23,616,286)
Proceeds received on loan payable	86,998,000	16,989,583	3,500,000
Repayment of loan payable	(19,975,574)	(9,758,276)	-
Payment of loan payable costs	(620,217)	(513,665)	-
Net cash provided by (used in) financing activities	<u>65,162,145</u>	<u>(679,510)</u>	<u>(20,620,131)</u>
Investing activities:			
Additions to property and equipment	(12,934,872)	(7,917,822)	(2,967,360)
Proceeds on waiver of rights to .online registry	-	-	6,619,831
Remaining payment for the acquisition of Ting Virginia, LLC., net of cash of \$21,423	-	-	(357,492)
Acquisition of a portion of the minority interest in Ting Virginia, LLC (note 3(a))	(2,000,000)	-	-
Acquisition of Enom Incorporated, net of cash (note 3(b))	(76,237,460)	-	-
Acquisition of intangible assets	(2,942,364)	(6,529,654)	-
Net cash used in investing activities	<u>(94,114,696)</u>	<u>(14,447,476)</u>	<u>3,294,979</u>
Increase in cash and cash equivalents	2,944,089	7,381,822	(548,124)
Cash and cash equivalents, beginning of period	15,105,075	7,723,253	8,271,377
Cash and cash equivalents, end of period	<u>\$ 18,049,164</u>	<u>\$ 15,105,075</u>	<u>\$ 7,723,253</u>
Supplemental cash flow information:			
Interest paid	\$ 3,587,554	\$ 420,298	\$ 173,197
Income taxes paid, net	\$ 7,815,208	\$ 3,766,664	\$ 3,132,105
Supplementary disclosure of non-cash investing and financing activities:			
Property and equipment acquired during the period not yet paid for	\$ 213,836	\$ 446,821	\$ 217,198

See accompanying notes to consolidated financial statements

Tucows Inc.

Notes to Consolidated Financial Statements

(Dollar Amounts in U.S. dollars)

1. Organization of the Company:

Tucows Inc. (the "Company") provides simple useful services that help people unlock the power of the Internet. The Company provides US consumers and small businesses with mobile phone services nationally and high-speed fixed Internet access in selected towns. The Company is also a global distributor of Internet services, including domain name registration, digital certificates, and email. It provides these services primarily through a global Internet-based distribution network of Internet Service Providers, web hosting companies and other providers of Internet services to end-users.

2. Significant accounting policies:

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are stated in U.S. dollars, except where otherwise noted.

(a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

The Company has reclassified certain prior period income statement amounts and related notes to conform to the financial statement presentation adopted in the current year. As a result of these reclassifications, there were no changes to previously reported Income from operations, Net income, Earnings per share, or on previously reported Consolidated Balance Sheets or Consolidated Statements of Cash Flows.

(b) Use of estimates

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, management evaluates its estimates, including those related to amounts recognized for carrying values of revenues, bad debts, goodwill and intangible assets which require estimates of future cash flows and discount rates, income taxes, contingencies and litigation, and estimates of credit spreads for determination of the fair value of derivative instruments. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances at the time they are made. Under different assumptions or conditions, the actual results will differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of the Company's control.

(c) Cash and cash equivalents

All highly liquid investments, with an original term to maturity of three months or less are classified as cash and cash equivalents. Cash and cash equivalents are stated at cost which approximates market value.

(d) Inventory

Inventory primarily consists of mobile devices, mobile sim cards and related accessories, and Internet optical network terminals and are stated at the lower of cost or net realizable value. Cost is determined based on actual cost of the mobile device, accessory shipped or optical network terminals.

The net realizable value of inventory is analyzed on a regular basis. This analysis includes assessing obsolescence, sales forecasts, product life cycle, marketplace and other considerations. If assessments regarding the above factors adversely change, we may be required to write down the value of inventory.

(e) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided on a straight-line basis so as to depreciate the cost of depreciable assets over their estimated useful lives at the following rates:

Asset	Rate
Computer equipment	30%
Computer software	33 ¹ / ₃ - 100%
Furniture and equipment	20%
Vehicles and tools	20%
Fiber network (years)	15
Customer equipment and installations (years)	3
Leasehold improvements	Over term of lease
Assets under construction	N/A

The Company reviews the carrying values of its property and equipment for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated undiscounted future cash flows expected to result from the use of the group of assets and their eventual disposition is less than their carrying amount, they are considered to be impaired. The amount of the impairment loss recognized is measured as the amount by which the carrying value of the asset exceeds the fair value of the asset, with fair value being determined based upon discounted cash flows or appraised values, depending on the nature of the assets.

Additions to the fiber network are recorded at cost, including all material, labor, vehicle and installation and construction costs and certain indirect costs associated with the construction of cable transmission and distribution facilities. While the Company's capitalization is based on specific activities, once capitalized, costs are tracked by fixed asset category at the fiber network level and not on a specific asset basis. For assets that are retired, the estimated historical cost and related accumulated depreciation is removed.

(f) Derivative Financial Instruments

The Company uses derivative financial instruments to manage foreign currency exchange risk. The Company accounts for these instruments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, "Derivatives and Hedging" ("Topic 815"), which requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value as of the reporting date. Topic 815 also requires that changes in our derivative financial instruments' fair values be recognized in earnings, unless specific hedge accounting and documentation criteria are met (i.e. the instruments are accounted for as hedges). The Company recorded the effective portions of the gain or loss on derivative financial instruments that were designated as cash flow hedges in accumulated other comprehensive income in our accompanying Consolidated Balance Sheets. Any ineffective or excluded portion of a designated cash flow hedge, if applicable, is recognized in net income.

For certain contracts, the Company has not complied with the documentation standards required for its forward foreign exchange contracts to be accounted for as hedges and has, therefore, accounted for such forward foreign exchange contracts at their fair values with the changes in fair value recorded in net income.

The fair value of the forward exchange contracts is determined using an estimated credit adjusted mark-to-market valuation which takes into consideration the Company's and the counterparty's credit risk. The valuation technique used to measure the fair values of the derivative instruments is a discounted cash flow technique, with all significant inputs derived from or corroborated by observable market data, as no quoted market prices exist for the derivative instruments. The discounted cash flow techniques use observable market inputs, such as foreign currency spot and forward rates.

(g) Goodwill and Other Intangible assets

Goodwill

Goodwill represents the excess of purchase price over the fair values assigned to the net assets acquired in business combinations. The Company does not amortize goodwill. Impairment testing for goodwill is performed annually in the fourth quarter of each year or more frequently if impairment indicators are present. Impairment testing is performed at the operating segment level. The Company has determined that it has two operating segments, Domain Services and Network Access services.

The Company performs a qualitative assessment to determine whether there are events or circumstances which would lead to a determination that it is more likely than not that goodwill has been impaired. If, after this qualitative assessment, the Company determines that it is not more likely than not that goodwill has been impaired, then no further quantitative testing is necessary. In performance of the qualitative test, an evaluation is made of the impact of various factors to the expected future cash flows attributable to its operating segments and to the assumed discount rate which would be used to present value those cash flows. Consideration is given to factors such as, macro-economic and industry and market conditions including the capital markets and the competitive environment amongst others. In the event that the qualitative tests indicate that there may be impairment, quantitative impairment testing is required.

In performance of the quantitative test, the Company uses a discounted cash flow or income approach in which future expected cash flows at the operating segment level are converted to present value using factors that consider the timing and risk of the future cash flows. The estimate of cash flows used is prepared on an unleveraged debt-free basis. The discount rate reflects a market-derived weighted average cost of capital. The Company believes that this approach is appropriate because it provides a fair value estimate based upon the Company's expected long-term operating and cash flow performance for its operating segment. The projections are based upon the Company's best estimates of projected economic and market conditions over the related period including growth rates, estimates of future expected changes in operating margins and cash expenditures.

Other significant estimates and assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital. If assumptions and estimates used to allocate the purchase price or used to assess impairment prove to be inaccurate, future asset impairment charges could be required.

Intangibles Assets not subject to amortization

Intangible assets not subject to amortization consist of surname domain names and direct navigation domain names. While the domain names are renewed annually, through payment of a renewal fee to the applicable registry, the Company has the exclusive right to renew these names at its option. Renewals occur routinely and at a nominal cost. Moreover, the Company has determined that there are currently no legal, regulatory, contractual, economic or other factors that limit the useful life of these domain names on an aggregate basis and accordingly treat the portfolio of domain names as indefinite life intangible assets. The Company re-evaluates the useful life determination for domain names in the portfolio each year to determine whether events and circumstances continue to support an indefinite useful life.

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The Company reviews individual domain names in the portfolio for potential impairment throughout the fiscal year in determining whether a particular name should be renewed. Impairment is recognized for names that are not renewed. The Company performs a qualitative assessment of the portfolio of domain names on an aggregate basis in the fourth quarter of each year, to determine whether it is more likely than not that the fair market value of the portfolio of domain names was less than the carrying amount. As part of the assessment, certain qualitative factors are considered, including macro-economic conditions, industry and market conditions, levels of advertising revenue generated by the names in the portfolio, non-renewal of names, as well as other factors. If there are indications of impairment following the qualitative impairment testing, further quantitative impairment testing would be necessary. The fair value of the intangibles in the operating segment is determined using an income approach consistent with that utilized for goodwill impairment testing outlined above. Where the fair value of the aggregated portfolio of domain names is less than the aggregated carrying amount of the portfolio, impairment is recognized.

Intangible Assets subject to amortization

Intangible assets subject to amortization, consist of brand, customer relationships, technology and network rights and are amortized on a straight-line basis over their estimated useful lives as follows:

	(in years)		
Technology	2		
Brand	7		
Customer relationships	4	-	7
Network rights	15		

The Company continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful lives of its intangible assets subject to amortization may warrant revision or that the remaining balance of such assets may not be recoverable. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable.

(h) Revenue recognition

The Company's revenues are derived from domain name registration fees on both a wholesale and retail basis, the sale of domain names, the provisioning of other Internet services and advertising revenue. Amounts received in advance of meeting the revenue recognition criteria described below are recorded as deferred revenue.

(i) Domain Services

The Company earns registration fees in connection with each new, renewed and transferred-in registration and from providing provisioning of other Internet services to resellers and registrars on a monthly basis. Service has been provided in connection with registration fees once the Company has confirmed that the requested domain name has been appropriately recorded in the registry under contractual performance standards.

Domain names are generally purchased for terms of one to ten years. Registration fees charged for domain name registration and provisioning services are recognized on a straight-line basis over the life of the contracted term. Other Internet services that are provisioned for annual periods or longer, are recognized on a straight-line basis over the life of the contracted term. Other Internet services that are provisioned on a monthly basis are recognized as services are provided.

The Company is an ICANN accredited registrar. Thus, the Company is the primary obligor with our reseller and retail registrant customers and are responsible for the fulfillment of our registrar services to those parties. As a result, the Company reports revenue in the amount of the fees we receive directly from our reseller and retail registrant customers. Our reseller customers maintain the primary obligor relationship with their retail customers, establish pricing and retain credit risk to those customers. Accordingly, the Company does not recognize any revenue related to transactions between our reseller customers and their ultimate retail customers.

For arrangements with multiple deliverables, the Company allocates revenue to each deliverable if the delivered item(s) has value to the customer on a standalone basis and, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. The fair value of the selling price for a deliverable is determined using a hierarchy of (1) Company specific objective and reliable evidence, then (2) third-party evidence, then (3) best estimate of selling price. The Company allocates any arrangement fee to each of the elements based on their relative selling prices.

Revenue generated from the sale of domain names, earned from transferring the rights to domain names under the Company's control, are recognized once the rights have been transferred and payment has been received in full, except where a fixed contract has been negotiated, in which case revenues are recognized once all the terms of the contract have been satisfied.

The Company also generates advertising and other revenue through its online libraries of shareware, freeware and online services presented on its website. Advertising revenue includes revenue derived from cost per action advertising links we display on third party websites who provide syndicated pay-per-click advertising on Domain Expiry Stream domains and the Company's Portfolio Domains. In addition, the Company uses third party partners to derive pay-per-click advertising on the Tucows.com website. Advertising revenue is recognized on a monthly basis based on the number of cost-per-action services that were provided in the month.

Impression based advertising revenue and other revenues are recognized ratably over the period in which it is presented. To the extent that minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues until the guaranteed impressions are achieved.

(ii) Network Access Services

The Company derives revenues from the provisioning of mobile phone and fixed Internet access services primarily through its Ting website. These revenues are recognized once services have been provided. Revenues for wireless services are billed based on the actual amount of monthly services utilized by each customer during their billing cycle on a postpaid basis. Revenues for fixed Internet access services are billed on a fixed monthly basis based on the service plan selected. The Company's billing cycle for each customer is computed based on the customer's activation date. As a result, the Company estimates the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period. In addition, revenues associated with the sale of wireless devices and accessories and Internet hardware to subscribers are recognized when title and risk of loss is transferred to the subscriber and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

In those cases, where payment is not received at the time of sale, additional conditions for recognition of revenue are that the collection of the related accounts receivable is reasonably assured and the Company has no further performance obligations. The Company records costs that reflect expected refunds, rebates and credit card charge-backs as a reduction of revenues at the time of the sale based on historical experiences and current expectations.

The Company establishes provisions for possible uncollectible accounts receivable and other contingent liabilities which may arise in the normal course of business. Historically, credit losses have been within the Company's expectations and the provisions the Company has established have been appropriate. However, the Company has, on occasion, experienced issues which have led to accounts receivable not being fully collected. Should these issues occur more frequently, additional provisions may be required.

(i) Deferred revenue

Deferred revenue primarily relates to the unearned portion of revenues received in advance related to the unexpired term of registration fees from domain name registrations and other domain related Internet services, on both a wholesale and retail basis, net of external commissions.

(j) Accreditation fees payable

In accordance with ICANN rules, the Company has elected to pay ICANN fees incurred on the registration of Generic Top-Level Domains on an annual basis. Accordingly, accreditation fees that relate to registrations completed prior to ICANN rendering a bill are accrued and reflected as accreditation fees payable.

(k) Prepaid domain name registry fees

Prepaid domain name registry and other Internet services fees represent amounts paid to registries, and country code domain name operators for updating and maintaining the registries, as well as to suppliers of other Internet services. Domain name registry and other Internet services fees are recognized on a straight-line basis over the life of the contracted registration term.

(l) Translation of foreign currency transactions

The Company's functional currency is the United States dollar. Monetary assets and liabilities of the Company and of its wholly owned subsidiaries that are denominated in foreign currencies are translated into United States dollars at the exchange rates prevailing at the balance sheet dates. Non-monetary assets and liabilities are translated at the historical exchange rates. Transactions included in operations are translated at the rate at the date of the transactions.

(m) Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the year that includes the enactment date. A valuation allowance is recorded if it is not "more likely than not" that some portion of or all of a deferred tax asset will be realized.

The Company recognizes the impact of an uncertain income tax position at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority and includes consideration of interest and penalties. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. The liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date.

The Company is entitled to earn investment tax credits (“ITCs”), which are credits related to specific qualifying expenditures as prescribed by Canadian Income Tax legislation. These ITCs relate primarily to research and development expenses. The ITCs are recognized as a reduction in income tax expense once the Company has reasonable assurance that the amounts will be realized.

(n) Stock-based compensation

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that is ultimately expected to vest, reduced for estimated forfeitures.

(o) Earnings per common share

Basic earnings per common share has been calculated on the basis of net income for the year divided by the weighted average number of common shares outstanding during each year. Diluted earnings per share gives effect to all dilutive potential common shares outstanding at the end of the year assuming that they had been issued, converted or exercised at the later of the beginning of the year or their date of issuance. In computing diluted earnings per share, the treasury stock method is used to determine the number of shares assumed to be purchased from the conversion of common share equivalents or the proceeds of the exercise of options.

(p) Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, accounts receivable and forward foreign exchange contracts. Cash equivalents consist of deposits with major commercial banks, the maturities of which are three months or less from the date of purchase. With respect to accounts receivable, the Company performs periodic credit evaluations of the financial condition of its customers and typically does not require collateral from them. The counterparty to any forward foreign exchange contracts is a major commercial bank which management believes does not represent a significant credit risk. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historical trends and other information.

(q) Fair value measurement

Fair value of financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities
- Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities
- Level 3—No observable pricing inputs in the market

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The fair value of cash and cash equivalents, accounts receivable, accounts payable, accreditation fees payable, customer deposits and accrued liabilities (level 2 measurements) approximate their carrying values due to the relatively short periods to maturity of the instruments.

The fair value of the derivative financial instruments is determined using an estimated credit-adjusted mark-to-market valuation (a level 2 measurement) which takes into consideration the Company and the counterparty credit risk.

(r) Investments

The Company accounts for investment in entities over which they have ability to exert significant influence, but do not control and are not the primary beneficiary of, including NameJet, using the equity method of accounting. The Company includes the proportionate share of earnings (loss) of the equity method investees in other income in the statements of operations and comprehensive income. The proportional shares of affiliate earnings or losses accounted for under the equity method of accounting were not material for all periods presented.

(s) Segment reporting

The Company operates in two operating segments, Domain Services and Network Access Services.

The Company's Domain Services revenues are attributed to the country in which the contract originates. Revenues from domain names issued under the OpenSRS brand from the Toronto, Canada location are attributed to Canada because it is impracticable to determine the country of the customer. Revenues from domain names issued under the eNom brand from the Kirkland, Washington location are attributable to the United States because it is impracticable to determine the country of the customer. The Company's Network Access Services which consist primarily of mobile telephony services, as well as the provisioning of high speed Internet access, Internet hosting and consulting services, which are generated primarily through its business operations in the United States.

The Company's assets are located in Canada, the United States and Germany.

(t) Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

On January 1, 2017, the Company adopted Accounting Standards Updates ("ASU") No. 2016-05, *Derivatives and Hedging (Topic 815)* and ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. The adoption of these updates did not have a significant impact on the consolidated financial statements.

In January 2017, the Company adopted Accounting Standards Update ("ASU") No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-01"), which simplifies the current two-step test to determine the amount, if any, of goodwill impairment. This update removes the second step of the quantitative test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The update was applied to the Company's goodwill impairment evaluation for the year ended December 31, 2017.

On January 1, 2017, the Company also adopted ASU No. 2016-09, *Stock Compensation (Topic 718)*, which simplifies the presentation of several aspects of the accounting for employee share-based payment transactions. The areas for simplification include the income tax consequences, accounting for forfeitures, and classification on the statement of cash flows. The impacts of the adoption of ASU 2016-09 on our consolidated financial statements are as follows:

- *Accounting for Income Taxes* – the standard requires that all excess tax benefits and tax deficiencies related to employee share-based payments are recognized through income tax expense on a prospective basis, which resulted in the recognition of \$2.8 million in excess tax benefits as a reduction of tax expense related to employee share-based payments for the year ended December 31, 2017.
- *Cash Flow Classification* – as a result of the new standard, all excess tax benefits related to employee share-based payments which have been historically shown as a financing activity, should now be presented as an operating activity along with other income tax cash flows. Additionally, the standard requires that cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. The Company elected to apply both changes on a retrospective basis such that the comparative period is presented on a consistent basis as the current presentation; and
- *Forfeitures* – the standard allows for an entity-wide accounting policy election to either estimate the number of awards that are not expected to vest because the requisite service period will not be rendered, or to account for forfeitures as they occur. Prior to the adoption of ASU 2016-09 the Company estimated forfeitures for the purpose of accounting for stock-based compensation. Beginning January 1, 2017, the Company utilized the election to account for forfeitures as incurred. In accordance with the provisions of the new standard, the change has been adopted on a modified retrospective basis; however, the cumulative adjustment to opening retained earnings was immaterial.

Recent Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU 2017-01")*, which clarified the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendment update provides a screen to determine when a series of integrated activities is not a business. If the screen is not met, it first requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and second removes the evaluation of whether a market participant could replace the missing elements. This ASU is effective for annual and interim reporting periods beginning after December 15, 2017. The Company is currently in the process of evaluating the impact that the adoption of ASU 2017-01 will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09")*, which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). The amendments may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective).

The Company will adopt ASU 2014-09 in the first quarter of 2018 and apply the modified retrospective approach. While we are continuing to assess all potential impacts of the standard, the Company currently does not expect any significant impact on its consolidated financial statements related to the adoption of the new standard for the following reasons:

Domain Services: Most of the Company's contracts related to Domain Services would individually be considered single "performance obligations" measured over the period of service, which is consistent with the revenue recognition policy under US GAAP.

Network Access: The vast majority of revenue generated by the Network Access segment is related to mobile service contracts. Billings and "performance obligations" related to mobile service contracts are synchronized because mobile services are offered exclusively on a month-to-month basis without long-term commitments, device subsidization or financing arrangements embedded in the mobile service contract.

However, the Company does expect to recognize changes related to Contract Acquisition costs related to certain retail Domain and Network Access sales. Topic 606 requires the deferral and amortization of "incremental" costs incurred to obtain a contract where the associated contract duration is greater than one year. The Company's applicable contract acquisition costs include commissions paid to sales employees, commissions paid to marketing partners and marketing credits issued to existing customers for referring new customers. Under current U.S. GAAP, the Company expenses the aforementioned commissions and marketing credits as operating expenses.

The Company will continue to assess the impact of Topic 606 as it works through the adoption in 2018, and there remain areas still to be fully concluded upon. Further, there remain ongoing interpretive reviews, which may alter the Company's conclusions and the financial impact of Topic 606.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"), which better aligns an entity's risk management activities and financial reporting for hedging relationship through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The new standard expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and hedged item in the financial statements. This ASU is effective for annual and interim reporting periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact that the adoption of ASU 2017-12 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. ASU 2016-02 requires the recognition on the balance sheet of a lease liability to make lease payments by lessees and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance will also require significant additional disclosure about the amount, timing and uncertainty of cash flows from leases. In January 2018, the FASB issued an update through ASU No. 2018-02, *Leases (Topic 842)* which provides practical expedients for land easements that exist or expired before adoption of Topic 842. The new lease guidance is effective for annual and interim reporting periods beginning after December 15, 2018 (January 1, 2019 for the Company). The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company will adopt this guidance in the first quarter of fiscal 2019 and is in the process of evaluating the impact of the adoption of ASU 2016-02 will have on its consolidated financial statements.

3. Acquisitions:

(a) Blue Ridge Websoft

On February 27, 2015, Ting Fiber, Inc., one of the Company's wholly owned subsidiaries, acquired a 70% ownership interest in the newly formed Ting Virginia, LLC and its subsidiaries, Blue Ridge Websoft, LLC (doing business as Blue Ridge Internet Works), Fiber Roads, LLC and Navigator Network Services, LLC (the "BRI Group") for consideration of approximately \$3.5 million. Ting Virginia, LLC was an independent Internet service provider in Charlottesville, Virginia.

On February 1, 2017, under the terms of a call option in the agreement, Ting Fiber, Inc. acquired an additional 20% interest in Ting Virginia, LLC from the selling shareholders (the "Minority Shareholders") for consideration of \$2.0 million. The Company recorded the \$2.0 million payment as a reduction in the carrying value of Redeemable non-controlling interest. Following the exercise of the call option, the Minority Shareholders chose not to exercise their right to put their remaining 10% interest in Ting Virginia, LLC to Ting Fiber, Inc. The Minority Shareholders retain the right, on the fourth anniversary of the closing date (February 27, 2019), to exercise their put option under which Ting Fiber, Inc. would be obligated to purchase their remaining interest for \$120,000 per percentage point of the additional equity interest acquired.

The Company has determined that the put option is embedded within the non-controlling interest shares that are subject to the put options. The redemption feature requires classification of the Minority Shareholders' Interest in the Consolidated Balance Sheets outside of equity under the caption "Redeemable non-controlling interest". As at December 31, 2017, the value of the Redeemable non-controlling interest is \$1.1 million and is being accreted to the redemption value of \$1.2 million through February 27, 2019.

On February 13, 2018, the Company purchased the remaining 10% ownership interest in Ting Virginia, LLC (Note 17 Subsequent events).

(b) eNom, Incorporated

On January 20, 2017, the Company entered into a Stock Purchase Agreement (the “Purchase Agreement”) with its indirect wholly owned subsidiary, Tucows (Emerald), LLC, Rightside Group, Ltd., and Rightside Operating Co., pursuant to which Tucows (Emerald), LLC purchased from Rightside Operating Co. all of the issued and outstanding capital stock of eNom, Incorporated (“eNom”), a domain name registrar business. The acquisition provides Tucows additional scale and efficiency opportunities across its domain registrar operations. The purchase price was \$77.8 million, which represented the agreed upon purchase of \$83.5 million less an amount of \$5.7 million related to the working capital deficiency acquired. The purchase price and the majority of the related acquisition costs was financed through borrowings under Facility D of the 2017 Amended Credit Facility agreement (note 8).

The Company has prepared a final purchase price allocation of the assets acquired and the liabilities assumed of eNom based on management’s best estimates of fair value. The final purchase price reflects the final appraisals, valuations and analyses of the fair value of the acquired assets and assumed liabilities.

The following table shows the final allocation of the purchase price for eNom to the acquired identifiable assets and liabilities assumed:

Goodwill	\$	69,048,340
Cash		1,594,217
Brand		12,400,000
Developed technology		3,900,000
Customer relationships		28,000,000
Prepaid domain registry fees		70,643,994
Other assets		10,170,789
Total assets		195,757,340
Deferred Revenue		(77,798,994)
Deferred Tax Liabilities		(24,223,276)
Other liabilities		(15,903,393)
Total liabilities		(117,925,663)
Consideration Paid	\$	<u>77,831,677</u>

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As required by ASC 805, Business Combinations, the Company has recorded deferred revenue at fair value at the acquisition date, which was determined by estimating the costs associated with customer support services and prepaid domain name registration fees to fulfill the contractual obligations over the remaining life of the contract at the acquisition date plus a normal profit margin.

The goodwill related to this acquisition is primarily attributable to synergies expected to arise from the acquisition and is not deductible for tax purposes.

In connection with this acquisition, the Company incurred total acquisition related costs of \$0.3 million which is included in General & Administrative expenses in the Consolidated Statements of Comprehensive Income for the year ended December 31, 2017 (2016: \$0.5 million).

The amount of eNom's revenues and net income included in our Consolidated Statements of Comprehensive Income for the year ended December 31, 2017 are \$110.8 million and \$5.1 million, respectively. The net income includes certain expenses that have been allocated to eNom's results, as separately identifiable expenses are not available because of our continued efforts at fully integrating eNom's operations within our combined company.

The following table presents selected unaudited pro forma information for the Company assuming the acquisition of eNom had occurred as of January 1, 2016. This unaudited pro forma information does not purport to represent what the Company's actual results would have been if the acquisition had occurred as of the date indicated or what results would be for any future periods.

	Unaudited	
	Twelve months ended December 31,	
	2017	2016
Net revenues	\$ 333,882,963	\$ 338,591,378
Net income	21,954,421	2,175,915
Basic earnings per common share	2.09	0.21
Diluted earnings per common share	\$ 2.04	\$ 0.21

4. Property and equipment:

Property and equipment consist of the following:

	December 31, 2017	December 31, 2016
Computer equipment	\$ 12,312,120	\$ 8,122,420
Computer software	1,449,480	1,277,972
Furniture and equipment	1,308,171	1,168,691
Vehicles and tools	1,305,900	830,543
Fiber network	14,052,618	7,095,971
Customer equipment and installations	6,774,031	3,889,581
Leasehold improvements	170,619	110,453
	<u>37,372,939</u>	<u>22,495,631</u>
Less:		
Accumulated depreciation	12,752,641	9,045,193
	<u>\$ 24,620,298</u>	<u>\$ 13,450,438</u>

Depreciation of property and equipment:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Depreciation of property and equipment	\$ 3,727,822	\$ 1,823,683	\$ 1,404,296

During the year ended December 31, 2017, property, plant and equipment with a net book value of \$16,951 was written off. During the years ended December 31, 2016 and 2015, no property, plant and equipment were written off.

5. Goodwill and Other Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed in our acquisitions.

The Company's Goodwill balance is \$90.1 million as of December 31, 2017, up \$69.0 million from December 31, 2016, as a result of the acquisition of eNom (note 3(b)). The Company's goodwill relates 98% (\$88.0 million) to its Domain Services operating segment and 2% (\$2.1 million) to its Network Access Services operating segment.

Goodwill is not amortized, but is subject to an annual impairment test. The Company performed an impairment analysis as outlined in note 2(g) and there were no indications of impairment in the 2017 and 2016 impairment tests.

Other Intangible Assets:

Intangible assets consist of acquired brand, technology, customer relationships, surname domain names, direct navigation domain names and network rights. The Company considers its intangible assets consisting of surname domain names and direct navigation domain names as indefinite life intangible assets. The Company has the exclusive right to these domain names as long as the annual renewal fees are paid to the applicable registry. Renewals occur routinely and at a nominal cost. The indefinite life intangible assets are not amortized, but are subject to impairment assessments performed throughout the year. During 2017, we assessed that certain domain names that were originally acquired in the June 2006 acquisition of Mailbank.com Inc. that were up for renewal, should not be renewed. During the year ended December 31, 2017, domain names, with a book value of \$0.1 million, were not renewed and were recorded as an impairment of indefinite life intangible assets. During the year ended December 31, 2016 domain names, with a book value of \$42,673, were not renewed and were recorded as impairments of indefinite life intangible assets. Impairment of \$0.2 million was recorded for the year ended December 31, 2015.

Intangible assets, comprising brand, technology, customer relationships and network rights are being amortized on a straight-line basis over periods of four to fifteen years.

On January 20, 2017, the Company acquired eNom, a wholesale and retail domain registrar. The Company acquired the assets and liabilities of eNom including wholesale and retail brands, proprietary technology and the existing customer relationships. The Company has accounted for these on a fair value basis and each intangible asset is being amortized over the estimated useful life. The amortization for the brands, technology and customer relationships are 7, 2 and 7 years, respectively. See note 3(b) for further details.

On September 19, 2017, the Company acquired the consumer related assets of Otono, Networks Inc. for consideration of \$2.6 million and assumed working capital liabilities of \$1.4 million. The intangible assets acquired relate to customer relationships and are being amortized on a straight-line basis over a period of 7 years.

In Fiscal 2017, the Company also completed two smaller domain related asset acquisitions, primarily domain hosting customer relationships, for a total consideration of \$0.3 million. These assets have been assigned to Customer Relationships and are being amortized over 7 years.

Acquired intangible assets consist of the following:

Amortization period	Surname domain names	Direct navigation domain names	Brand	Customer relationships	Technology	Network rights	Total
	indefinite life	indefinite life	7 years	4 - 7 years	2 years	15 years	
Balances, December 31, 2015	\$ 11,339,355	\$ 1,897,318	\$ 79,670	\$ 499,854	\$ -	\$ 653,480	\$ 14,469,677
Acquisition of customer relationships	-	-	-	6,529,654	-	-	6,529,654
Additions to/(disposals from) domain portfolio, net	(6,166)	(23,525)	-	-	-	-	(29,691)
Impairment of indefinite life intangible assets	(37,968)	(4,705)	-	-	-	-	(42,673)
Amortization expense	-	-	(74,460)	(830,697)	-	(48,017)	(953,174)
Balances December 31, 2016	\$ 11,295,221	\$ 1,869,088	\$ 5,210	\$ 6,198,811	\$ -	\$ 605,463	\$ 19,973,793
Reclassifications	-	-	43,620	(45,509)	-	1,889	-
Acquisition of Enom (note 3(b))	-	-	12,400,000	28,000,000	3,900,000	-	44,300,000
Acquisition of consumer related assets of Otono Networks, Inc.	-	-	-	2,622,670	-	-	2,622,670
Acquisition of customer relationships	-	-	-	319,694	-	-	319,694
Additions to/(disposals from) domain portfolio, net	(38,291)	(252,501)	-	-	-	-	(290,792)
Impairment of indefinite life intangible assets	-	(111,251)	-	-	-	-	(111,251)
Amortization expense	-	-	(1,656,040)	(4,910,268)	(1,787,500)	(46,128)	(8,399,936)
Balances December 31, 2017	\$ 11,256,930	\$ 1,505,336	\$ 10,792,790	\$ 32,185,398	\$ 2,112,500	\$ 561,224	\$ 58,414,178

The following table shows the estimated amortization expense for each of the next 5 years, assuming no further additions to acquired intangible assets are made:

	Year ending December 31,
2018	\$ 9,246,620
2019	7,335,572
2020	7,173,072
2021	7,173,072
2022	7,173,072
Thereafter	7,550,504
Total	\$ 45,651,912

6. Fair value measurement:

For financial assets and liabilities recorded in our financial statements at fair value we utilize a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

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The following table provides a summary of the fair values of the Company's derivative instruments measured at fair value on a recurring basis as at December 31, 2017:

	December 31, 2017			Assets at Fair Value
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	
Derivative instrument asset	\$ —	\$ —	\$ —	\$ —
Total Assets	\$ —	\$ —	\$ —	\$ —

The following table provides a summary of the fair values of the Company's derivative instruments measured at fair value on a recurring basis as at December 31, 2016:

	December 31, 2016			Liabilities at Fair Value
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	
Derivative instrument liability	\$ —	\$ 172,888	\$ —	\$ 172,888
Total Liabilities	\$ —	\$ 172,888	\$ —	\$ 172,888

7. Derivative instruments and hedging activities:*Foreign currency forward contracts*

In October 2012, the Company entered into a hedging program with a Canadian chartered bank to limit the potential foreign exchange fluctuations incurred on its future cash flows related to a portion of payroll, rent and payments to Canadian domain name registry suppliers that are denominated in Canadian dollars and are expected to be paid by its Canadian operating subsidiary. As part of its risk management strategy, the Company uses derivative instruments to hedge a portion of the foreign exchange risk associated with these costs. The Company does not use these forward contracts for trading or speculative purposes. These forward contracts typically mature between one and eighteen months.

The Company has designated certain of these transactions as cash flow hedges of forecasted transactions under ASC Topic 815. For certain contracts, as the critical terms of the hedging instrument, and of the entire hedged forecasted transaction, are the same, in accordance with ASC Topic 815, the Company has been able to conclude that changes in fair value and cash flows attributable to the risk of being hedged are expected to completely offset at inception and on an ongoing basis. Accordingly, unrealized gains or losses on the effective portion of these contracts have been included within other comprehensive income. The fair value of the contracts, as of December 31, 2017 and 2016, is recorded as derivative instrument assets or liabilities. For certain contracts where the hedged transactions are no longer probable to occur, the loss on the associated forward contract is recognized in earnings.

As of December 31, 2017, the Company did not hold any forward contracts to sell U.S. dollars. As of December 31, 2016, the Company held \$26.6 million, of which \$24.0 million met the requirements of ASC Topic 815 and were designated as hedges.

Fair value of derivative instruments and effect of derivative instruments on financial performance

The effect of these derivative instruments on our consolidated financial statements as of, and for the year ended December 31, 2017 and 2016, were as follows (amounts presented do not include any income tax effects).

Fair value of derivative instruments in the consolidated balance sheets (see note 6)

Derivatives	Balance Sheet Location	December 31, 2017 Assets at Fair Value	December 31, 2016 Assets at Fair Value
Foreign currency forward contracts designated as cash flow hedges	Derivative instruments	\$ —	\$ 155,560
Foreign currency forward contracts not designated as cash flow hedges	Derivative instruments	\$ —	\$ 17,328
Total foreign currency forward contracts	Derivative instruments	\$ —	\$ 172,888

Movement in AOCI balance for the year ended December 31, 2017

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance – December 31, 2016	\$ 155,560	\$ (56,406)	\$ 99,154
Other comprehensive income (loss) before reclassifications	863,425	(313,078)	550,347
Amount reclassified from accumulated other comprehensive income	(1,018,985)	369,484	(649,501)
Other comprehensive income (loss) for the year ended December 31, 2017	<u>(155,560)</u>	<u>56,406</u>	<u>(99,154)</u>
Ending AOCI balance – December 31, 2017	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Movement in AOCI balance for the year ended December 31, 2016

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance – December 31, 2015	\$ (1,721,683)	\$ 612,231	\$ (1,109,452)
Other comprehensive income (loss) before reclassifications	871,925	(304,109)	567,816
Amount reclassified from accumulated other comprehensive income	1,005,318	(364,528)	640,790
Other comprehensive income (loss) for the year ended December 31, 2016	<u>1,877,243</u>	<u>(668,637)</u>	<u>1,208,606</u>
Ending AOCI balance – December 31, 2016	<u>\$ 155,560</u>	<u>\$ (56,406)</u>	<u>\$ 99,154</u>

Movement in AOCI balance for the year ended December 31, 2015

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance – December 31, 2014	\$ (946,676)	\$ 324,235	\$ (622,441)
Other comprehensive income (loss) before reclassifications	(3,171,740)	1,140,275	(2,031,465)
Amount reclassified from accumulated other comprehensive income	2,396,733	(852,279)	1,544,454
Other comprehensive income (loss) for the year ended December 31, 2015	<u>(775,007)</u>	<u>287,996</u>	<u>(487,011)</u>
Ending AOCI balance – December 31, 2015	<u>\$ (1,721,683)</u>	<u>\$ 612,231</u>	<u>\$ (1,109,452)</u>

Effects of derivative instruments on income and other comprehensive income (OCI)

Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI, net of tax, on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income, (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (ineffective Portion and Amount Excluded from Effectiveness)
Foreign currency forward contracts – year ended December 31, 2017	\$ (99,154)	Operating expenses Cost of revenues	\$ 878,519 \$ 140,466	Operating expenses	\$ -
		Operating expenses	\$ (736,616)		
Foreign currency forward contracts – year ended December 31, 2016	\$ 1,208,606	Cost of revenues	\$ (221,460)	Operating expenses	\$ (47,242)
		Operating expenses	\$ (1,870,818)		
Foreign currency forward contracts – year ended December 31, 2015	\$ (487,011)	Cost of revenues	\$ (525,916)	Operating expenses	\$ (294,113)

In addition to the above, for those foreign currency forward contracts not designated as hedges, the Company has recorded a gain of \$0.1 million upon settlement in the consolidated statement of comprehensive income with no contracts outstanding at December 31, 2017. The Company has recorded a loss of \$0.2 million upon settlement and a gain of \$0.3 million for the change in fair value of outstanding contracts for the year ended December 31, 2016, in the consolidated statement of comprehensive income. The Company has recorded a loss of \$0.5 million upon settlement and a loss of \$0.1 million for the change in fair value of outstanding contracts for the year ended December 31, 2015, in the consolidated statement of comprehensive income.

8. Loan payable:

2017 Amended Credit Facility

On January 20, 2017, the Company entered into an amended and restated secured Credit Agreement (the “2017 Amended Credit Agreement”) with Bank of Montreal (“BMO” or the “Administrative Agent”), Royal Bank of Canada and Bank of Nova Scotia (collectively with “Lenders”) under which the Company increased its access to funds to an aggregate of \$140 million. This amendment and restatement to the Company’s 2016 Credit Facility (defined below), among other things, reduced the existing Tucows non-revolving facility (such existing non-revolving facility, together with other existing facilities, the “Existing Facilities”) from \$40.0 million to \$35.5 million, and established a new non-revolving credit facility of \$84.5 million (the “Facility D”). The Company immediately drew down \$84.5 million under Facility D to fund the acquisition of eNom (note 3(b)). The “2016 Credit Facility” refers to the credit facility established under the Company’s secured credit agreement (the “2016 Credit Agreement”) among the Company, BMO and the Lenders, dated as of August 18, 2016.

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In connection with the 2017 Amended Credit Agreement, the Company incurred \$0.6 million of fees paid to lenders and debt issuance costs, which have been reflected as a reduction to the carrying amount of the loan payable and will be amortized over the term of the credit facility agreement.

The obligations of the Company under the 2017 Amended Credit Facility are secured by a first priority lien on substantially all of the personal property and assets of the Company.

The 2017 Amended Credit Facility has a four-year term. Under the 2017 Amended Credit Facility, the Company has access to an aggregate of up to \$140 million in funds that are available as follows:

- a \$5 million revolving credit facility (“Facility A”);
- a \$15 million revolving reducing term facility (“Facility B”);
- a \$35.5 million non-revolving facility (“Facility C”); and
- a \$84.5 million non-revolving facility (“Facility D”).

Borrowings under the 2017 Amended Credit Facility accrue interest and standby fees at variable rates based on borrowing elections by the Company and the Company’s Total Funded Debt to EBITDA as described below. The purpose of Facility A is for general working capital and general corporate requirements, while Facility B and Facility C support share repurchases, acquisitions and capital expenditures associated with the Company’s Fiber to the Home program (“FTTH”). Facility D was provided and used for the acquisition of eNom.

The repayment terms for Facility A require monthly interest payments with any final principal payment becoming due upon maturity of the 2017 Amended Credit Facility. Under the repayment terms for Facility B, at December 31st of each year, balances drawn during the year that remain outstanding will become payable on a quarterly basis commencing the first quarter of the following year, for the period of amortization based on the purpose of the draw. For Facilities C and D, each draw will become payable beginning the first full quarter post initial draw for the period of amortization based on the purpose of the draw. The amortization periods for Facilities B, C and D are based on the purposes of the draws as follows: draws for share repurchases are repaid over four years, draws for acquisitions over five years and draws for FTTH capital expenditures over seven years. The 2017 Amended Credit Facility also includes a mechanism that is triggered based on the Company’s Total Funded Debt to EBITDA calculation at the end of each fiscal year. If Total Funded Debt to EBITDA exceeds 2.25:1 at December 31 of each year during the term, the Company is obligated to make a repayment of 50% of Excess Cash Flow as defined under the agreement.

The 2017 Amended Credit Facility contains customary representations and warranties, affirmative and negative covenants, and events of default. The 2017 Amended Credit Facility requires that the Company to comply with the following financial covenants at all times, which are to be calculated on a rolling four quarter basis: (i) maximum Total Funded Debt to EBITDA Ratio of 3.00:1 until September 30, 2017, 2.50:1 until September 30, 2018 and 2.25:1 thereafter; and (ii) minimum Fixed Charge Coverage Ratio of 1.20:1. Further, the Company’s maximum annual Capital Expenditures cannot exceed \$32.8 million per year, which limit will be reviewed on an annual basis. In addition, funded share repurchases are not to exceed \$20 million, or up to \$40 million so long as the total loans related to share repurchases do not exceed 1.5 times of trailing twelve months EBITDA. As at and for the year ended December 31, 2017, the Company was in compliance with these covenants.

On June 6, 2017, the Company entered into the First Amendment to First Amended and Restated Credit Agreement (the “First Amendment”) with BMO and the Lenders. Among other things, the First Amendment (i) increases the amount available for borrowing under “Facility C,” a committed, non-revolving credit facility by \$502,500, which was the portion of Facility D which was not used by the Company to fund its acquisition of eNom and was cancelled in accordance with the Credit Agreement, (ii) allows the Company to maintain bank accounts with Commonwealth Bank of Australia, subject to certain restrictions, (iii) provides for an extension of time for the Company to transfer its bank accounts from Silicon Valley Bank, and (iv) amends the definition of “EBITDA” to provide for an add-back in respect of certain liabilities.

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On December 5, 2017, the Company entered into the Interim Amendment to First Amended and Restated Credit Agreement (the “Interim Amendment”) with BMO and the Lenders. The Interim Amendment provides that BMO and the Bank of Nova Scotia may establish corporate credit card facilities with the Company and amends the definition of “Obligations” to include an aggregate amount of up to \$5,000,000 of the credit card facilities in the definition of Obligations.

On January 24, 2018, subsequent to year-end, the Company entered into the Second Interim Amendment to First Amended and Restated Credit Agreement (the “Second Interim Amendment”) with BMO and the Lenders (note 17(b)).

Borrowings under the 2017 Amended Credit Facility will accrue interest and standby fees based on the Company’s Total Funded Debt to EBITDA ratio and the availment type as follows:

Availment type or fee	If Total Funded Debt to EBITDA is:			
	Less than 1.00	Greater than or equal to 1.00 and less than 2.00	Greater than or equal to 2.00 and less than 2.25	Greater than or equal to 2.25
Canadian dollar borrowings based on Bankers’ Acceptance or U.S. dollar borrowings based on LIBOR (Margin)	2.00%	2.25%	2.75%	3.25%
Canadian or U.S. dollar borrowings based on Prime Rate or U.S. dollar borrowings based on Base Rate (Margin)	0.75%	1.00%	1.50%	2.00%
Standby fees	0.40%	0.45%	0.55%	0.65%

The following table summarizes the Company’s borrowings under the credit facilities:

	December 31, 2017	December 31, 2016
Facility B	-	\$ 6,000,000
Facility C	5,930,338	4,731,306
Facility D	71,823,300	-
Less: unamortized debt discount and issuance costs	(829,611)	(482,498)
Total loan payable	76,924,027	10,248,808
Less: loan payable, current portion	18,289,853	2,233,110
Loan payable, long-term portion	58,634,174	\$ 8,015,698

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The following table summarizes our scheduled principal repayments as of December 31, 2017:

Principal repayments	
2018	18,289,853
2019	18,289,853
2020	18,103,004
2021	17,542,457
2022	4,867,757
Thereafter	660,714
	<u>\$ 77,753,638</u>

Other Credit Facilities

Prior to the Company entering into the 2016 Credit Facility, the Company had credit agreements (collectively the “Amended Credit Facility”) with BMO that were amended on November 19, 2012, and which provided it with access to two revolving demand loan facilities (the “2012 Demand Loan Facilities”), a treasury risk management facility, an operating demand loan and a credit card facility. In connection with the 2016 Credit Facility, the Company repaid its outstanding indebtedness of the 2012 Demand Loan Facilities. With the settlement of the outstanding indebtedness, the 2012 Demand Loan Facilities and the operating demand loan were simultaneously terminated and the outstanding balances were fully repaid through advances on the 2016 Credit Facility. The Company continues to have access to the treasury risk management facility and credit card facility.

The treasury risk management facility under the Amended Credit Facility provides for a \$3.5 million settlement risk line to assist the Company with hedging Canadian dollar exposure through foreign exchange forward contracts and/or currency options. Under the terms of the Amended Credit Facility, the Company may enter into such agreements at market rates with terms not to exceed 18 months. As of December 31, 2017, the Company held nil contracts to trade U.S. dollars in exchange for Canadian dollars (note 7).

During fiscal 2017, the Company entered into a corporate credit card program with the Bank of Nova with credit limits of \$1.0 million for US Dollar credit cards and CDN\$0.5 million for Canadian Dollar credit cards.

9. Income taxes:

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate of 34% to income before provision for income taxes as a result of the following:

	2017	Year ended December 31, 2016	2015
Income for the year before provision for income taxes	<u>\$ 24,074,768</u>	<u>\$ 25,112,924</u>	<u>\$ 17,942,957</u>
Computed tax expense	8,185,420	8,538,245	6,100,605
Increase (reduction) in income tax expense resulting from:			
State income taxes	656,603	530,803	265,489
Effect of the decrease in Federal tax rate on deferred taxes	(10,036,080)	-	-
Valuation allowance on pre-2017 Foreign Tax Credits	1,275,937	-	-
Non-creditable 2017 Foreign Tax	2,903,400	-	-
Excess tax benefits on share-based compensation expense	(2,796,171)	-	-
Permanent differences	1,635,611	290,327	278,959
Others	(76,546)	(313,605)	(75,826)
Provision for income taxes	<u>\$ 1,748,174</u>	<u>\$ 9,045,770</u>	<u>\$ 6,569,227</u>

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to: (1) reducing the U.S. federal corporate tax rate from 35% to 21% ; (2) changing rules related to uses and limitations of net operating loss carry forwards created in tax years beginning after December 31, 2017; (3) bonus depreciation that will allow for full expensing of qualified property; (4) creating a new limitation on deductible interest expense; (5) eliminating the corporate alternative minimum tax; and (6) new tax rules related to foreign operations.

We have calculated, as a provisional estimate, a net \$5.8 million non-cash tax benefit through income from continuing operations for the re-measurement impact related to the changes in tax laws included in the Tax Act. The primary driver of this re-measurement was the result of the reduction in the corporate tax rate from 35% to 21% which resulted in our recognizing, based on the rates at which they are expected to reverse in the future, a \$10.0 million non-cash tax benefit through income from continuing operations for the re-measurement of our deferred tax assets and liabilities. This amount was partially offset by our recording a valuation allowance of \$1.3 million related to prior year Foreign Tax Credits that we have determined are no longer more likely than not to be used as the tax rate in the jurisdiction where these Foreign Tax Credits is generated is higher than the 21% corporate tax rate. In addition, the impact of the prepaid registry fee deduction, more fully described below, together with the reduction in the tax rate to 21% make it unlikely we will be able to claim the fiscal 2017 foreign taxes paid in future years and as such opted to utilize the foreign taxes paid as a deduction for 2017 income tax purposes, the net negative effect of which is a \$2.9 million addition to income tax expense. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was less than \$0.1 million.

On December 22, 2017, the SEC issued guidance to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The completion of our 2017 income tax returns, future guidance and additional information and interpretations with the respect to the Tax Act may cause us to adjust the provisional amounts recorded as of December 31, 2017. In accordance with the SEC's guidance, we will record such adjustments as current tax expense in the period in which relevant guidance or additional information becomes available and our analysis is complete.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2017, and 2016 are presented below:

	December 31, 2017	December 31, 2016
Deferred tax assets (liabilities):		
Deferred tax assets:		
Deferred revenue	\$ 7,573,276	\$ 5,482,080
Foreign tax credits	1,275,937	1,275,937
Amortization	(1,936,615)	(2,184,944)
Net operating losses	2,544,862	-
Accruals, including foreign exchange and other	517,493	1,135,652
Sub-total Deferred tax assets	9,974,953	5,708,725
Valuation allowance	(1,275,937)	-
Total deferred tax assets	\$ 8,699,016	\$ 5,708,725
Deferred tax liabilities:		
Prepaid registry fees and expenses	\$ (18,051,222)	\$ -
Limited life intangible assets	(7,371,264)	(120,232)
Indefinite life intangible assets	(3,110,208)	(4,706,960)
Total deferred tax liability	\$ (28,532,694)	\$ (4,827,192)
Net deferred tax asset (liability)	\$ (19,833,678)	\$ 881,533

In connection with the eNom acquisition, we acquired deferred tax liabilities primarily composed of prepaid registry fees. As a result, we aligned our tax methodology pertaining to the deductibility of prepaid registry fees for our legacy domain services.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates, and tax planning strategies in making this assessment.

We believe it is more likely than not that our remaining deferred tax assets, net of the valuation allowance, will be realized based on current income tax laws, including those modified by the Tax Act, and expectations of future taxable income stemming from the reversal of existing deferred tax liabilities.

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The Company had approximately \$15,000 of total gross unrecognized tax benefit as of December 31, 2017, and \$0.1 million as of December 31, 2016, which if recognized would favorably affect its income tax rate in future periods. The remaining unrecognized tax benefit relates primarily to insignificant U.S. state taxes.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in tax expense. The Company did not have any significant interest and penalties accrued as of December 31, 2017, and December 31, 2016.

Unrecognized tax benefits decreased by \$0.1 million as the tax authorities finalized their review and settled prior years' taxes owing in Pennsylvania.

The following is a reconciliation of Tucows' change in uncertain tax position:

	December 31, 2017	December 31, 2016
Total Gross Unrecognized Tax Benefits		
Balance, beginning of year	\$ 117,000	\$ 117,000
Change in uncertain tax benefits	(102,000)	—
Balance, end of year	\$ 15,000	\$ 117,000

10. Common shares:

The Company's authorized common share capital is 250 million shares of common stock without nominal or par value. On December 31, 2017, there were 10,583,879 shares of common stock outstanding (2016: 10,461,574).

Repurchase of common shares:

(a) Normal Course Issuer Bids:

On February 14, 2018, the Company announced that its Board of Directors approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. Refer to Note 17 – Subsequent Events.

On March 1, 2017, the Company announced that its Board of Directors approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. Under this buyback program, the Company may repurchase up to \$40 million of its common stock in the open market. No repurchases were made under the program which ended February 14, 2018.

On February 9, 2016, the Company announced a stock buyback program. Under this buyback program, the Company may repurchase up to \$40 million of its common stock in the open market. Purchases were made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 10, 2016 and terminated on February 9, 2017. The company repurchased 308,416 shares under this program during the year ended December 31, 2016 for a total \$7.2 million.

On February 11, 2015, the Company announced a stock buyback program. Under this buyback program, the Company may repurchase up to \$20 million of the Company's common stock over the 12-month period that commenced on February 11, 2015. The Company repurchased 231,047 shares under this program during the three months ended December 31, 2015 for a total of \$5.4 million. The Company repurchased 868,549 shares under this program during the year ended December 31, 2015 for a total of \$20.0 million.

(b) Modified Dutch Tender Offers:

On January 7, 2015, the Company successfully concluded a modified "Dutch auction tender offer" that was previously announced in December 2014. Under the terms of the offer, the Company repurchased an aggregate of 193,907 shares of its common stock at a purchase price of \$18.50 per share, for a total of \$3.6 million, excluding transaction costs of approximately \$0.1 million. The purchase price and all transaction costs were funded from available cash. All shares purchased in the tender offer received the same price and all shares repurchased were immediately retired.

(c) Net Exercise of Stock Options

Our current equity-based compensation plans include provisions that allow for the “net exercise” of stock options by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. These transactions are accounted for by the Company as a purchase and retirement of shares and are included in the table on the following page as common stock received in connection with share-based compensation.

The following table summarizes our share repurchase activity for the periods covered below:

	Year Ended December 31,		
	2017	2016	2015
Common stock repurchased on the open market or through tender offer			
Number of shares	—	308,416	1,062,456
Aggregate market value of shares (in thousands)	\$ —	\$ 7,180	\$ 23,616
Average price per share	\$ —	\$ 23.28	\$ 22.23
Common stock received in connection with share-based compensation			
Number of shares	50,454	25,572	99,675
Aggregate market value of shares (in thousands)	\$ 2,602	\$ 634	\$ 2,335
Average price per share	\$ 51.58	\$ 24.80	\$ 23.42

11. Stock option plans:

The Company’s 1996 Stock Option Plan (the “1996 Plan”) was established for the benefit of the employees, officers, directors and certain consultants of the Company. The maximum number of common shares which may be set aside for issuance under the 1996 Plan was 2,787,500 shares, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company when required by law or regulatory authority. Generally, options issued under the 1996 Plan vest over a four-year period. The 1996 Plan expired on February 25, 2006; no options were issued from this plan after that date.

On November 22, 2006, the shareholders of the Company approved the Company’s 2006 Equity Compensation Plan (the “2006 Plan”), which was amended and restated effective July 29, 2010 and which serves as a successor to the 1996 Plan. The 2006 Plan has been established for the benefit of the employees, officers, directors and certain consultants of the Company. The maximum number of common shares which have been set aside for issuance under the 2006 Plan is 1.25 million shares. On October 8, 2010, the 2006 Plan was amended to increase the number of shares which have been set aside for issuance by an additional 0.475 million shares to 1.725 million shares. In September 2015, the 2006 Plan was amended to increase the number of shares which have been set aside for issuance by an additional 0.75 million shares to 2.475 million shares. Generally, options issued under the 2006 Plan vest over a four-year period and have a term not exceeding seven years, except for automatic formula grants of non-qualified stock options, which vest after one year and have a five-year term. Prior to the September 2015 amendment to the 2006 Plan, automatic formula grants of non-qualified stock options vested immediately upon grant.

Our current equity-based compensation plans include provisions that allow for the “net exercise” of stock options by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. These transactions are accounted for by the Company as a purchase and retirement of shares.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Because option-pricing models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. The assumptions presented in the table below represent the weighted average of the applicable assumption used to value stock options at their grant date. The Company calculates expected volatility based on historical volatility of the Company’s common shares. The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on historical exercise experience. The Company evaluated historical exercise behavior when determining the expected term assumptions. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The Company determines the expected dividend yield percentage by dividing the expected annual dividend by the market price of Tu cows Inc. common shares at the date of grant.

The fair value of stock options granted during the years ended December 31, 2017, 2016 and 2015 was estimated using the following weighted average assumptions:

	Year ended December 31,		
	2017	2016	2015
Volatility	41.6%	66.1%	44.1%
Risk-free interest rate	1.8%	1.3%	1.3%
Expected life (in years)	4.55	4.3	4.0
Dividend yield	—%	—%	—%
The weighted average grant date fair value for options issued, with the exercise price equal to market value on the date of grant	\$ 20.08	\$ 11.18	\$ 7.40

Details of stock option transactions are as follows:

	Year ended December 31, 2017		Year ended December 31, 2016		Year ended December 31, 2015	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Outstanding, beginning of period	474,501	\$ 12.67	513,366	\$ 9.24	976,062	\$ 5.41
Granted	370,025	54.10	81,750	22.66	67,500	21.26
Exercised	(172,759)	7.88	(109,963)	3.79	(517,998)	3.53
Forfeited	(18,196)	37.70	(9,902)	16.80	(10,323)	13.30
Expired	—	—	(750)	3.76	(1,875)	2.40
Outstanding, end of period	653,571	36.69	474,501	12.67	513,366	9.24
Options exercisable, end of period	243,771	\$ 14.79	332,192	\$ 10.08	321,155	\$ 6.49

As of December 31, 2017, the exercise prices, weighted average remaining contractual life of outstanding options and intrinsic values were as follows:

Exercise price	Options outstanding				Options exercisable			
	Number outstanding	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value	Number exercisable	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value
\$ 2.92 - \$ 8.92	91,133	\$ 6.63	1.6	\$ 5,779,404	91,133	\$ 6.63	1.6	\$ 5,779,404
\$ 10.16 - \$ 19.95	120,913	16.30	3.5	6,499,346	92,638	15.87	3.3	5,018,978
\$ 21.10 - \$ 27.53	81,000	23.65	4.2	3,758,393	55,000	24.61	3.8	2,499,313
\$ 35.25 - \$ 37.35	14,375	35.89	5.4	491,062	5,000	35.25	6.0	174,000
\$ 43.15 - \$ 47.00	18,500	44.19	6.1	478,400	—	—	—	—
\$ 53.20 - \$ 55.65	327,650	55.41	6.4	4,795,160	—	—	—	—
	653,571	\$ 36.69	4.9	\$ 21,801,765	243,771	\$ 14.79	2.8	\$ 13,471,695

Total unrecognized compensation cost relating to unvested stock options at December 31, 2017, prior to the consideration of expected forfeitures, is approximately \$6.5 million and is expected to be recognized over a weighted average period of 3.0 years.

The total intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 was \$7.6 million, \$2.4 million and \$9.6 million, respectively. Cash received from the exercise of stock options during the years ended December 31, 2017, 2016 and 2015 was \$0.2 million, \$0.1 million and \$0.8 million respectively.

The Company recorded stock-based compensation amounting to \$1.5 million, \$0.8 million and \$0.5 million for the years ended December 31, 2017, 2016 and 2015 respectively. Stock-based compensation has been included in operating expenses as follows:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Network expenses	\$ 109,988	\$ 21,704	\$ 28,915
Sales and marketing	571,682	236,063	188,035
Technical operations and development	360,415	98,059	111,239
General and administrative	414,487	443,608	197,836
	\$ 1,456,572	\$ 799,434	\$ 526,025

12. Foreign exchange:

A foreign exchange gain amounting to \$0.7 million has been recorded in general and administrative expenses during the year ended December 31, 2017. A foreign exchange loss amounting to \$0.1 million has been recorded in general and administrative expenses during the year ended December 31, 2016. A foreign exchange loss amounting to \$0.3 million has been recorded in general and administrative expenses during the year ended December 31, 2015.

13. Other income, net:

In February 2015, we waived our rights under the proposed joint venture to operate the .online registry and instead entered into a Joint Marketing agreement with our venture partners under which our original capital contributions have been returned and a set of go-forward marketing arrangements have been created instead. Under the terms of the agreement, the Company has undertaken to provide certain marketing support for .online registry and has agreed to certain volume commitments during the term of the agreement. The Joint Marketing Agreement is for a term of three years and commenced in November 2015. The Company generated a gain of \$1.5 million for waiving its rights and entering the Joint Marketing Agreement. The gain is being recognized over the term of three years. An amount of \$0.5 million of this gain was recognized for the years ended December 31, 2017 and 2016, respectively, and an amount of \$0.1 million was recognized for the year ended December 31, 2015.

14. Earnings per common share:

The following table reconciles the numerators and denominators of the basic and diluted earnings per common share computation:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Numerator for basic and diluted earnings per common share:			
Net income for the year	\$ 22,326,594	\$ 16,067,154	\$ 11,373,730
Denominator for basic and diluted earnings per common share:			
Basic weighted average number of common shares outstanding	10,537,356	10,524,856	10,968,500
Effect of stock options	256,266	188,739	391,584
Diluted weighted average number of shares outstanding	10,793,622	10,713,595	11,360,084
Basic earnings per common share	\$ 2.12	\$ 1.53	\$ 1.04
Diluted earnings per common share	\$ 2.07	\$ 1.50	\$ 1.00

Options to purchase 341,650 common shares were outstanding during 2017 (2016: 76,750; 2015: 75,050) but were not included in the computation of diluted income per common share because the options' exercise price was greater than the average market price of the common shares for the year.

15. Commitments and contingencies:

(a) The Company has several non-cancelable lease and purchase obligations primarily for general office facilities, service contracts for mobile telephone services and equipment that expire over the next ten years. Future minimum payments under these agreements are as follows:

Contractual Obligations for the year ending December 31,	Contractual Lease Obligations	Purchase Obligations	Total Obligations
2018	\$ 1,989,000	\$ 34,405,000	\$ 36,394,000
2019	1,569,000	12,121,000	13,690,000
2020	1,119,000	553,000	1,672,000
2021	455,000	31,000	486,000
2022	348,000	28,000	376,000
Thereafter	1,857,000	227,000	2,084,000
	\$ 7,337,000	\$ 47,365,000	\$ 54,702,000

Rental expense under operating lease agreements was \$1.9 million, \$1.2 million and \$1.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

(b) On February 9, 2015 Ting Fiber, Inc. (“Ting”) entered into a lease and network operation agreement with the City of Westminster, Maryland (the “City”) relating to the deployment of a new fiber network throughout the Westminster area (“WFN”).

Under the agreement, the City will finance, construct, and maintain the WFN which will be leased to Ting for a period of ten years. The network will be constructed in phases, the scope and timing of which shall be determined by the City, in cooperation with Ting.

Under the terms of the agreement, Ting may be required to advance funds to the City in the event of a quarterly shortfall between the City’s revenue from leasing the network to Ting and the City’s debt service requirements relating to financing of the network. Ting could be responsible for shortfalls between \$50,000 and \$150,000 per quarter. In Fiscal 2016, the City has entered into financing for the construction of the WFN which allows the City to draw up to \$21.0 million, from their lenders, over the next five years with interest only payments during that period with a loan maturity of 30 years. As of December 31, 2017, the City has drawn \$7.5 million and City’s revenues from TING exceed the City’s debt service requirements. The Company does not believe it will be responsible for any shortfall in Fiscal 2018.

(c) In the normal course of its operations, the Company becomes involved in various legal claims and lawsuits. The Company intends to vigorously defend these claims. While the final outcome with respect to any actions outstanding or pending as of December 31, 2017 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company’s financial position.

Namecheap

On August 30, 2017, Namecheap, Inc. (“Namecheap”) filed a complaint against the Company, eNom, Inc., and unknown John Does in the United States District Court for the Western District of Washington alleging breach of contract, breach of the implied duty of good faith and fair dealing, and unjust enrichment (the “Namecheap Federal Action”). Namecheap voluntarily dismissed the Namecheap Federal Action without prejudice on October 10, 2017. That same day, Namecheap filed a substantially similar complaint against Tucows Inc., eNom, LLC, and unknown John Does alleging breach of contract and breach of the implied duty of good faith and fair dealing in Washington State Court, King County (the “Namecheap State Action”). In the Namecheap State Action, Namecheap sought preliminary and ultimate equitable relief by way of the transfer of approximately 2.65 million domain names from the eNom, LLC platform to the Namecheap platform using BTAPPA. By Order dated November 15, 2017, the Court granted Namecheap’s Motion for Preliminary Injunction and the Company complied therewith in taking steps with Namecheap towards the BTAPPA. The Court ordered Namecheap to post a bond against damages sustained by the Company. The Company sought clarification from the Court on one BTAPPA requirement which the Court provided in the January 5, 2018 Order. The BTAPPA transfer was initiated on January 8, 2018 and completed on January 16, 2018. In addition to the equitable relief it has sought, Namecheap also seeks direct and consequential damages in the Namecheap State Action. The Company believes that the claims lack merit and intends to continue to defend them vigorously. The Company does not believe that this litigation is a material pending legal proceeding.

16. Segment Reporting:

(a) We are organized and managed based on two operating segments which are differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate and are described as follows:

1. Network Access Services - This segment derives revenue from the sale of mobile phones, telephony services high speed Internet access, Internet hosting and consulting services to individuals and small businesses primarily through the Ting website. Revenues are generated in the United States.
2. Domain Services – This segment includes wholesale and retail domain name registration services, value added services and portfolio services. The Company primarily earns revenues from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations; the sale of retail Internet domain name registration and email services to individuals and small businesses; and by making its portfolio of domain names available for sale or lease. Domain Services revenues are attributed to the country in which the contract originates, primarily Canada.

The Chief Executive Officer is the chief operating decision maker and regularly reviews the operations and performance by segment. The chief operating decision maker reviews gross profit as a key measure of performance for each segment and to make decisions about the allocation of resources. Sales and marketing expenses, technical operations and development expenses, general and administrative expenses, depreciation of property and equipment, amortization of intangibles assets, impairment of indefinite life intangible assets, loss on currency forward contracts, other income (expense), and provision for income taxes, are organized along functional lines and are not included in the measurement of segment profitability. Total assets and total liabilities are centrally managed and are not reviewed at the segment level by the chief operating decision maker. The Company follows the same accounting policies for the segments as those described in note 2 to these consolidated financial statements.

Information by reportable segments, which is regularly reported to the chief operating decision maker is as follows:

	Network Access	Domain Name Services	Consolidated Totals
Year ended December 31, 2017			
Net Revenues	\$ 88,710,902	\$ 240,709,839	\$ 329,420,741
Cost of revenues			
Cost of revenues	48,706,531	181,893,101	230,599,632
Network expenses	1,861,319	7,463,135	9,324,454
Depreciation of property and equipment	2,202,052	940,346	3,142,398
Amortization of intangible assets	46,128	1,787,500	1,833,628
Total cost of revenues	52,816,030	192,084,082	244,900,112
Gross Profit	35,894,872	48,625,757	84,520,629
Expenses:			
Sales and marketing			29,422,984
Technical operations and development			7,257,720
General and administrative			13,593,901
Depreciation of property and equipment			585,424
Amortization of intangible assets			6,566,308
Impairment of indefinite life intangible assets			111,251
Loss (gain) on currency forward contracts			(98,227)
Income from operations			27,081,268
Other income (expenses), net			(3,006,500)
Income before provision for income taxes			\$ 24,074,768

	Network Access	Domain Name Services	Consolidated Totals
Year ended December 31, 2016			
Net Revenues	\$ 73,778,951	\$ 116,039,981	\$ 189,818,932
Cost of revenues			
Cost of revenues	37,939,683	82,247,279	120,186,962
Network expenses	1,398,899	3,811,601	5,210,500
Depreciation of property and equipment	977,395	342,424	1,319,819
Amortization of intangible assets	48,017	-	48,017
Total cost of revenues	40,363,994	86,401,304	126,765,298
Gross Profit	33,414,957	29,638,677	63,053,634
Expenses:			
Sales and marketing			20,754,752
Technical operations and development			4,494,819
General and administrative			11,404,793
Depreciation of property and equipment			503,864
Amortization of intangible assets			905,157
Impairment of indefinite life intangible assets			42,673
Loss (gain) on currency forward contracts			(98,977)
Income from operations			25,046,553
Other income (expenses), net			66,371
Income before provision for income taxes			\$ 25,112,924

	Network Access	Domain Name Services	Consolidated Totals
Year ended December 31, 2015			
Net Revenues	\$ 60,974,265	\$ 110,712,514	\$ 171,686,779
Cost of revenues			
Cost of revenues	34,133,569	78,847,116	112,980,685
Network expenses	698,960	4,765,817	5,464,777
Depreciation of property and equipment	447,644	697,344	1,144,988
Amortization of intangible assets	38,520	-	38,520
Total cost of revenues	<u>35,318,693</u>	<u>84,310,277</u>	<u>119,628,970</u>
Gross Profit	25,655,572	26,402,237	52,057,809
Expenses:			
Sales and marketing			17,394,376
Technical operations and development			4,502,845
General and administrative			10,661,949
Depreciation of property and equipment			259,307
Amortization of intangible assets			224,206
Impairment of indefinite life intangible assets			206,116
Loss on currency forward contracts			792,900
Income from operations			<u>18,016,110</u>
Other income (expenses), net			(73,153)
Income before provision for income taxes			<u>\$ 17,942,957</u>

(b) The following is a summary of the Company's revenue earned from each significant revenue stream:

	Year ended December 31,		
	2017	2016	2015
Network Access Services:			
Mobile Services	\$ 83,885,054	\$ 70,127,294	\$ 57,685,554
Other Services	4,825,848	3,651,657	3,288,711
Total Network Access Services	<u>88,710,902</u>	<u>73,778,951</u>	<u>60,974,265</u>
Domain Services:			
Wholesale			
Domain Services	183,731,385	89,009,546	84,934,519
Value Added Services	18,572,774	9,169,721	9,298,978
Total Wholesale	<u>202,304,159</u>	<u>98,179,267</u>	<u>94,233,497</u>
Retail			
Portfolio	31,649,000	14,629,949	12,637,498
Total Domain Services	<u>6,756,680</u>	<u>3,230,765</u>	<u>3,841,519</u>
	<u>240,709,839</u>	<u>116,039,981</u>	<u>110,712,514</u>
	<u>\$ 329,420,741</u>	<u>\$ 189,818,932</u>	<u>\$ 171,686,779</u>

During the years ended December 31, 2017, 2016 and 2015, no customer accounted for more than 10% of total revenue. As at December 31, 2017, 2016 and 2015 no customers accounted for more than 10% of accounts receivable.

Transactions with the Company's equity investees generated revenue of approximately \$4.9 million for the year ended December 31, 2017.

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(c) The following is a summary of the Company's cost of revenues from each significant revenue stream:

	Year ended December 31,		
	2017	2016	2015
Network Access Services:			
Mobile Services	\$ 45,335,276	\$ 35,914,882	\$ 32,615,416
Other Services	3,371,255	2,024,801	1,518,153
Total Network Access Services	<u>48,706,531</u>	<u>37,939,683</u>	<u>34,133,569</u>
Domain Services:			
Wholesale			
Domain Services	161,012,532	72,947,730	70,633,267
Value Added Services	2,383,627	1,918,165	2,023,341
Total Wholesale	<u>163,396,159</u>	<u>74,865,895</u>	<u>72,656,608</u>
Retail			
Portfolio	17,346,138	6,765,237	5,494,550
Total Domain Services	<u>1,150,804</u>	<u>616,147</u>	<u>695,958</u>
Network Expenses:			
Network, other costs	9,324,454	5,210,500	5,464,777
Network, depreciation and amortization costs	4,976,026	1,367,836	1,183,508
	<u>14,300,480</u>	<u>6,578,336</u>	<u>6,648,285</u>
	<u>\$ 244,900,112</u>	<u>\$ 126,765,298</u>	<u>\$ 119,628,970</u>

(d) The following is a summary of the Company's property and equipment by geographic region:

	December 31, 2017	December 31, 2016
Canada	\$ 1,176,371	\$ 1,010,427
United States	23,417,435	12,398,961
Germany	26,492	41,050
	<u>\$ 24,620,298</u>	<u>\$ 13,450,438</u>

(e) The following is a summary of the Company's amortizable intangible assets by geographic region:

	December 31, 2017	December 31, 2016
Canada	\$ 7,748,940	\$ 5,850,596
United States	37,783,202	633,798
Germany	119,770	325,090
	<u>\$ 45,651,912</u>	<u>\$ 6,809,484</u>

(f) The following is a summary of the Company's deferred tax asset, net of valuation allowance, by geographic region:

	December 31, 2017	December 31, 2016
Canada	\$ -	\$ 5,708,725
	<u>\$ -</u>	<u>\$ 5,708,725</u>

(g) Valuation and qualifying accounts:

<u>Allowance for doubtful accounts excluding provision for credit notes</u>	<u>Balance at beginning of period</u>	<u>Charged to (recovered) costs and expenses</u>	<u>Write-offs during period</u>	<u>Balance at end of period</u>
Year ended December 31, 2017	\$ 164,145	\$ 4,264	\$ -	\$ 168,409
Year ended December 31, 2016	\$ 122,095	\$ 42,050	\$ -	\$ 164,145

17. Subsequent events:

- a. On January 5, 2018, King County Superior court (Washington) granted Namecheap Inc. a preliminary injunction requiring the Company to bulk transfer 2.65 million domain names to Namecheap's credentials. The Company completed the transfer by January 16, 2018. As a result of the bulk transfer, the Company will recognize in the first quarter of 2018 \$14.6 million of revenue and \$14.5 million of cost of revenues sold related to previously deferred revenue and deferred prepaid registry fees.
- b. On January 24, 2018, the Company entered into the Second Interim Amendment to First Amended and Restated Credit Agreement (the "Second Interim Amendment") with BMO and the Lenders. The Second Interim Amendment provides that certain defined terms in Section 1.01 of the Credit Agreement are added and updated to reflect the inclusion of liabilities to Sprint Mobile similar to the previous inclusion of T-Mobile liabilities. The Second Interim Amendment also permits Tucows to retain bank accounts with Silicon Valley Bank with the aggregate amount held in such accounts not to exceed \$3.0 million.
- c. On February 14, 2018, the Company announced that its Board of Directors has approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. Purchases will be made exclusively through the facilities of the NASDAQ Capital Market. The stock buyback program commenced on February 14, 2018 and will terminate on or before February 13, 2019. The previously announced \$40 million buyback program for the period March 1, 2017 to February 28, 2018 was terminated on February 14, 2018.
- d. On February 13, 2018, the Company entered into an agreement with the Minority Shareholders of Ting Virginia, LLC pursuant to which the Minority Shareholders could immediately exercise their put option to sell their remaining 10% ownership interest in Ting Virginia, LLC for \$1.2 million. The put option was simultaneously exercised and the Company paid \$1.2 million for the remaining 10% ownership interest and Ting Virginia, LLC became a wholly-owned subsidiary of the Company.

18. Selected Quarterly Financial Data (Unaudited):

	December 31	September 30	June 30	March 31
	(in thousands, except for per share data)			
2017				
Total revenues	\$ 90,621	\$ 85,008	\$ 84,223	\$ 69,568
Gross profit	25,736	20,494	21,347	16,944
Net income	11,199	3,439	5,241	2,446
Earnings per share:				
Basic	\$ 1.06	\$ 0.33	\$ 0.50	\$ 0.23
Diluted	1.04	0.32	0.49	0.23
2016				
Total revenues	\$ 48,805	\$ 49,064	\$ 47,204	\$ 44,746
Gross profit	16,423	16,638	15,645	14,348
Net income	2,817	4,741	4,071	4,438
Earnings per share:				
Basic	\$ 0.27	\$ 0.45	\$ 0.39	\$ 0.42
Diluted	0.26	0.45	0.38	0.41