

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains, in addition to historical information, forward-looking statements by us with regard to our expectations as to financial results and other aspects of our business that involve risks and uncertainties and may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “should,” “anticipate,” “believe,” “plan,” “estimate,” “expect” and “intend,” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this report include statements regarding, among other things: the competition we expect to encounter as our business develops and competes in a broader range of Internet services; the Company's foreign currency requirements, specifically for the Canadian dollar; Mobile Services Platform, and fixed Internet access subscriber growth and retention rates; our belief regarding the underlying platform for our domain services, our expectation regarding the trend of sales of domain names and advertising; our expectations regarding portfolio revenue, our belief that, by increasing the number of services we offer, we will be able to generate higher revenues; our expectation regarding litigation; the potential impact of current and pending claims on our business; our valuations of certain deferred tax assets; our expectation to collect our outstanding receivables, net of our allowance for doubtful accounts; our expectation regarding fluctuations in certain expense and cost categories; our expectations regarding our unrecognized tax; our expectations regarding cash from operations to fund our business; the impact of cancellations of or amendments to market development fund programs under which we receive funds, our expectation regarding our ability to manage realized gains/losses from foreign currency contracts; the impact of the COVID-19 pandemic on our business, operations and financial performance; and general business conditions and economic uncertainty. These statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Many factors affect our ability to achieve our objectives and to successfully develop and commercialize our services including:

- Our ability to continue to generate sufficient working capital to meet our operating requirements;
- Our ability to service our debt commitments;
- Our ability to maintain a good working relationship with our vendors and customers;
- The ability of vendors to continue to supply our needs;
- Actions by our competitors;
- Our ability to attract and retain qualified personnel in our business;
- Our ability to effectively manage our business;
- The effects of any material impairment of our goodwill or other indefinite-lived intangible assets;
- Our ability to obtain and maintain approvals from regulatory authorities on regulatory issues;
- Our ability to invest in the build-out of fiber networks into selected towns and cities to provide Internet access services to residential and commercial customers while maintaining the development and sales of our established services;
- Adverse tax consequences such as those related to changes in tax laws or tax rates or their interpretations, including with respect to the impact of the Tax Cuts and Jobs Act of 2017;
- The application of judgment in determining our global provision for income taxes, deferred tax assets or liabilities or other tax liabilities given the ultimate tax determination is uncertain;
- Our ability to effectively integrate acquisitions;
- Our ability to monitor, assess and respond to the rapidly changing impacts of the COVID-19 pandemic. Our current assessment of expected impacts has been included below as part of the Opportunities, Challenges & Risks section.
- Our ability to collect anticipated payments from DISH in connection with the 10-year payment stream that is a function of the margin generated by the transferred subscribers over a 10-year period pursuant to the terms of the DISH Purchase Agreement;
- Pending or new litigation; and
- Factors set forth under the caption “Item 1A Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed with the SEC on March 3, 2021 (the “2020 Annual Report”).

As previously disclosed the under the caption “Item 1A Risk Factors” in our 2020 Annual Report, data protection regulations may impose legal obligations on us that we cannot meet or that conflict with our ICANN contractual requirements.

This list of factors that may affect our future performance and financial and competitive position and the accuracy of forward-looking statements is illustrative, but it is by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All forward-looking statements included in this document are based on information available to us as of the date of this document, and we assume no obligation to update these cautionary statements or any forward-looking statements, except as required by law. These statements are not guarantees of future performance.

We qualify all the forward-looking statements contained in this Quarterly Report on Form 10-Q by the foregoing cautionary statements.

OVERVIEW

Our mission is to provide simple useful services that help people unlock the power of the Internet.

We accomplish this by reducing the complexity of our customers' experience as they access the Internet (at home or on the go) and while using Internet services such as domain name registration, email and other Internet services. During the first quarter of 2021, the Company completed a reorganization of its reporting structure into three operating and reportable segments: Fiber Internet Services, Mobile Services and Domain Services. Previously, we disclosed two operating and reportable segments: Network Access Services and Domain Services. The change to our reportable operating segments was the result of a shift in our business and management structures that was initiated in 2020 and completed during the first quarter of 2021. The operations supporting what was previously known as our Network Access Services segment have become increasingly distinct between our mobile services (which includes both retail mobile MVNO based services and wholesale MSE services) and our fiber Internet services which were also included in our Network Access Services segment. We are now both organized and managed, and also report our financial results as three segments: Fiber Internet Services, Mobile Services and Domain Services. The three segments are differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate.

Our management regularly reviews our operating results on a consolidated basis, principally to make decisions about how we utilize our resources and to measure our consolidated operating performance. To assist us in forecasting growth and to help us monitor the effectiveness of our operational strategies, our management regularly reviews revenues, operating results and performance for each of our service offerings in order to gain more depth and understanding of the key business metrics driving our business. Commencing in the first quarter of 2021, our Chief Executive Officer (CEO), who is also our chief operating decision maker, reviewed the operating results of Mobile Services and Fiber Internet Services as two distinct segments in order to make key operating decisions as well as evaluate segment performance. Accordingly, effective January 1, 2021 we report Fiber Internet Services, Mobile Services and Domain Services revenue separately. Additionally, we have adjusted segment reporting to include adjusted EBITDA as a key measure of segment performance in addition to our existing key measure of segment performance, gross profit.

For the three months ended September 30, 2021 and September 30, 2020, we reported revenue of \$75.9 million and \$74.3 million, respectively.

For the nine months ended September 30, 2021 and September 30, 2020, we reported revenue of \$221.9 million and \$240.4 million, respectively.

Fiber Internet Services

Fiber Internet Services includes the provision of fixed high-speed Internet access services and other revenues, including billing solutions to small ISPs.

The Company also derives revenue from the sale of fixed high-speed Internet access, Ting Internet, in select towns throughout the United States, with further expansion underway to both new and existing Ting towns. Our primary sales channel of Ting Internet is through the Ting website. The primary focus of Ting Internet is to provide reliable Gigabit Internet services to consumer and business customers. Revenues from Ting Internet are all generated in the U.S. and are provided on a monthly basis. Ting Internet services have no fixed contract terms.

Mobile Services

Mobile Services includes the provision of Mobile Services Enabler ("MSE") platform and professional services, as well as the sale of retail mobile phone and retail telephone services for a small subset of retail customers.

On August 1, 2020, the Company and its wholly owned Subsidiary Ting, Inc. entered into an Asset Purchase Agreement (the "DISH Purchase Agreement") with DISH pursuant to which Ting sold substantially all of its legacy retail mobile customer relationships, and mobile handset and SIM inventory to DISH and granted DISH the right to use and an option to purchase the Ting brand. The transferred assets under the DISH Purchase Agreement did not include the technology platforms and related intellectual property and infrastructure necessary to enable or support the mobile customers. The Company retained the assets used to provide MSE platform and other professional services to DISH, as discussed below. Revenues from our retail mobile services, MSE platform and professional services are all generated in the U.S. and are provided on a monthly basis. Our MSE customer agreements have set contract lengths with the underlying Mobile Virtual Network Operator ("MVNO"). As part of the DISH Purchase Agreement, as a form of consideration for the sale of the customer relationships, the Company receives a payout on the margin associated with the legacy customer base sold to DISH. This has been classified as Other Income and not considered revenue in the current period.

Domain Services

Domain Services includes wholesale and retail domain name registration services, as well as value added services derived through our OpenSRS, eNom, Ascio, EPAG and Hover brands. We earn revenues primarily from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations. In addition, we earn revenues from the sale of retail domain name registration and email services to individuals and small businesses. Domain Services revenues are attributed to the country in which the contract originates, which is primarily in Canada and the U.S for OpenSRS and eNom brands. Ascio domain services contracts and EPAG agreements primarily originate in Europe.

Our primary distribution channel is a global network of approximately 36,000 resellers that operate in over 150 countries and who typically provide their customers, the end-users of Internet-based services, with solutions for establishing and maintaining an online presence. Our primary focus is serving the needs of this network of resellers by providing the broadest portfolio of generic top-level domain ("gTLD") and the country code top-level domain options and related services, a white-label platform that facilitates the provisioning and management of domain names, a powerful Application Program Interface, easy-to-use interfaces, comprehensive management and reporting tools, and proactive and attentive customer service. Our services are integral to the solutions that our resellers deliver to their customers. We provide "second tier" support to our resellers by email, chat and phone in the event resellers experience issues or problems with our services. In addition, our Network Operating Center proactively monitors all services and network infrastructure to address deficiencies before customer services are impacted.

We believe that the underlying platforms for our services are among the most mature, reliable and functional reseller-oriented provisioning and management platforms in our industry, and we continue to refine, evolve and improve these services for both resellers and end-users. Our business model is characterized primarily by non-refundable, up-front payments, which lead to recurring revenue and positive operating cash flow.

Wholesale, primarily branded as OpenSRS, eNom, EPAG and Ascio, derives revenue from its domain service and from providing value-added services. The OpenSRS, eNom, EPAG and Ascio domain services manage 25.4 million domain names under the Tucows, eNom, EPAG and Ascio ICANN registrar accreditations and for other registrars under their own accreditations, which has increased by 0.4 million domain names since September 30, 2020. The increase is driven by increased registrations experienced by our brands during COVID-19, as more businesses established an online presence, offset by the continued erosion of registrations related to non-core customers from our eNom brand.

Value-Added Services include hosted email which provides email delivery and webmail access to millions of mailboxes, Internet security services, WHOIS privacy, publishing tools and other value-added services. All of these services are made available to end-users through a network of 36,000 web hosts, ISPs, and other resellers around the world. In addition, we also derive revenue by monetizing domain names which are near the end of their lifecycle through advertising or auction sale.

Retail, primarily the Hover and eNom portfolio of websites, including eNom, and eNom Central, derive revenues from the sale of domain name registration, email services to individuals and small businesses. Retail also includes our Personal Names Service – based on over 36,000 surname domains – that allows roughly two-thirds of Americans to purchase a surname-based email address. The retail segment now includes the sale of the rights to its portfolio of surname domains used in connection with our Realnames email service, however the Company expects surname portfolio revenue to materially decline through Fiscal 2021 and thereafter. Retail also includes our Exact Hosting Service, that provides Linux hosting services for websites of individuals and small businesses.

KEY BUSINESS METRICS AND NON-GAAP MEASURES

We regularly review a number of business metrics, including the following key metrics and non-GAAP measures, to assist us in evaluating our business, measure the performance of our business model, identify trends impacting our business, determine resource allocations, formulate financial projections and make strategic business decisions. The following tables set forth the key business metrics which we believe are the primary indicators of our performance for the periods presented:

Adjusted EBITDA

Tucows reports all financial information in accordance with United States generally accepted accounting principles (“GAAP”). Along with this information, to assist financial statement users in an assessment of our historical performance, we typically disclose and discuss a non-GAAP financial measure, adjusted EBITDA, on investor conference calls and related events that exclude certain non-cash and other charges as we believe that the non-GAAP information enhances investors’ overall understanding of our financial performance. Please see discussion of adjusted EBITDA in the Results of Operations section below.

Ting Internet

	September 30,	
	2021	2020
	(in '000's)	
Ting Internet accounts under management	23	14
Ting Internet serviceable addresses (1)	75	50

(1) Defined as premises to which Ting infrastructure, or Ting's network partner Westminster, have the capability to provide a customer connection in a service area.

Domain Services

	For the Three Months Ended September 30,(1)	
	2021	2020
	(in 000's)	
Total new, renewed and transferred-in domain name registrations provisioned	4,145	4,460
Domains under management		

(1) For a discussion of these period-to-period changes in the domains provisioned and domains under management and how they impacted our financial results see the Net Revenues discussion below.

Domain Services

	For the Nine Months Ended September 30,(1)	
	2021	2020
	(in 000's)	
Total new, renewed and transferred-in domain name registrations provisioned	13,371	13,963
Domains under management		

(1) For a discussion of these period-to-period changes in the domains provisioned and domains under management and how they impacted our financial results see the Net Revenues discussion below.

Domain Services

	September 30,	
	2021	2020
	(in 000's)	
Registered using Registrar Accreditation belonging to the Tucows Group	19,195	19,598
Registered using Registrar Accreditation belonging to Resellers	6,235	5,429
Total domain names under management	25,430	25,027

OPPORTUNITIES, CHALLENGES AND RISKS

Our revenue is primarily realized in U.S. dollars and a major portion of our operating expenses are paid in Canadian dollars. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material effect on our business, financial condition and results from operations. In particular, we may be adversely affected by a significant weakening of the U.S. dollar against the Canadian dollar on a quarterly and an annual basis. Our policy with respect to foreign currency exposure is to manage our financial exposure to certain foreign exchange fluctuations with the objective of neutralizing some or all of the impact of foreign currency exchange movements by entering into foreign exchange forward contracts to mitigate the exchange risk on a portion of our Canadian dollar exposure. We may not always enter into such forward contracts and such contracts may not always be available and economical for us. Additionally, the forward rates established by the contracts may be less advantageous than the market rate upon settlement.

Fiber Internet Services

As an ISP, we have invested and expect to continue to invest in new fiber to the home (“FTTH”) deployments in select markets in the United States. The investments are a reflection of our ongoing efforts to build FTTH network via public-private partnerships in communities we identify as having strong, unmet demand for FTTH services. Given the significant upfront build and operational investments for these FTTH deployments, there is risk that future technological and regulatory changes as well as competitive responses from incumbent local providers, may result in us not fully recovering these investments.

The communications industry continues to compete on the basis of network reach and performance, types of services and devices offered, and price.

Mobile Services

The prior year sale of substantially all of the Company’s mobile customer base and pivot from MVNO to MSE was a strategic shift for our Mobile Services segment. At this time, DISH is our sole customer and represents 100% of our MSE platform and professional services revenues until such time that we are able to scale our services to other customers interested in our enablement services. With all our MSE platform and professional services revenues concentrated with one customer, we are exposed to significant risk if we are unable to maintain this customer relationship or establish new relationships in the future. Additionally, our revenues as an MSE are directly tied to the subscriber volumes of DISH’s MVNO or MNO networks, so our profitability is contingent on the ability of DISH to continue to add subscribers onto our platform.

Additionally, as described above, the Company is entitled to a long-term payment stream that is a function of the margin generated by the transferred subscribers over the 10-year term of the DISH Purchase agreement. This consideration structure may not prove to be successful or profitable in the long-term to us if the existing subscriber base churns at an above average rate. Additionally, given DISH controls the revenues and costs incurred associated with the acquired subscribers, there could arise a situation where profitability for the subscriber base is diminished either by lower price points or cost inflation.

As part of the transactions contemplated by the DISH Purchase agreement in the prior year, the Company retained a small number of customer accounts associated with one MNO agreement that was not reassigned to DISH at time of sale. We continue to be subject to the minimum revenue commitments previously agreed to with this excluded MNO agreement. The Company is able to continue adding customers under the excluded MNO network working with DISH in order to meet the commitment. However, with no direct ability to change customer pricing or renegotiate contract costs or terms, the Company may be unable to meet the minimum commitments with this MNO partner and could incur significant and recurring penalties until such a time that the contract is complete. These penalties would negatively impact our operational performance and financial results if enforced by the MNO.

Domain Services

The increased competition in the market for Internet services in recent years, which we expect will continue to intensify in the short and long term, poses a material risk for us. As new registrars are introduced, existing competitors expand service offerings and competitors offer price discounts to gain market share, we face pricing pressure, which can adversely impact our revenues and profitability. To address these risks, we have focused on leveraging the scalability of our infrastructure and our ability to provide proactive and attentive customer service to aggressively compete to attract new customers and to maintain existing customers.

Substantially all of our Domain Services revenue is derived from domain name registrations and related value-added services from wholesale and retail customers using our provisioning and management platforms. The market for wholesale registrar services is both price sensitive and competitive and is evolving with the introduction of new gTLDs, particularly for large volume customers, such as large web hosting companies and owners of large portfolios of domain names. We have a relatively limited ability to increase the pricing of domain name registrations without negatively impacting our ability to maintain or grow our customer base. Growth in our Domain Services revenue is dependent upon our ability to continue to attract and retain customers by maintaining consistent domain name registration and value-added service renewal rates and to grow our customer relationships through refining, evolving and improving our provisioning platforms and customer service for both resellers and end-users. In addition, we also generate revenue through pay-per-click advertising and through the OpenSRS Domain Expiry Stream. The revenue associated with names sales and advertising has recently experienced flat to declining trends due to the uncertainty around the implementation of ICANN’s New gTLD Program, lower traffic and advertising yields in the marketplace, which we expect to continue.

From time-to-time certain of our vendors provide us with market development funds to expand or maintain the market position for their services. Any decision by these vendors to cancel or amend these programs for any reason may result in payments in future periods not being commensurate with what we have achieved during past periods.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. There have been no material changes to the critical accounting policies and estimates as previously disclosed in Part II, Item 7 of our 2020 Annual Report. For further information on our critical accounting policies and estimates, see Note 3 – Recent Accounting Pronouncements to the consolidated financial statements of the Company in Part I, Item 1 in this Quarterly Report on Form 10-Q.

Current COVID-19 Response

Our Employees

Tucows is a global business and has long encouraged a culture of remote work even prior to this global pandemic. Since the onset of this pandemic, all employees who could conceivably work from home were and continue to be encouraged to do so. Tucows continues to actively and strongly encourage its workforce to heed travel, vaccination, and all other emergency advisories, including social distancing and where appropriate, self-isolation. Given our experience with remote work prior to COVID-19, we have not and do not expect to have productivity issues while the overwhelming majority of our office-based workforce is dispersed. For the small group of employees who are required to travel for work or who are unable work from home during this time, including our order fulfillment and Fiber installation teams, many of whom work in the field or fulfillment centers, they are required to be vaccinated, practice social distancing and to continue to follow hygiene best practices and safety protocols as outlined by the Centers for Disease Control and Prevention. In the prior year, the Ting Fiber Internet team established an installation solution for our employees and customers that minimizes risks associated with person-to-person contact and they continue to effectively deploy this installation solution currently.

Our Customers

We recognize the important role we play within the Internet space and are committed to continue providing quality service during the COVID-19 outbreak. Across our three segments, Domain Name Services and our Mobile Services segments do not rely on in-person interaction or the supply chain in the same way physical products and services do. We continue to provide uninterrupted services for all Domains and Mobile related services. Our Fiber Internet business does not have bandwidth caps or other such limitations. Likewise, our networks are built with the capacity to accommodate future needs. To help our customers remain connected at home during this time, we upgraded all our lower-tier fiber customers to symmetrical gigabit access at no charge. Any additional traffic from our customers working from home has not had and is not expected to have any negative impact on connectivity. As discussed above, our modified safe-install solution was implemented in early May 2020. Even with a Fiber Internet install solution that minimizes contact risks and vaccinated service personnel, customers may be unwilling to have service personnel visit their homes or offices.

Our Community

Tucows believes the Internet is essential infrastructure and an immensely powerful tool, especially in times of crises where coordination is essential. From an early point in the current global crisis, it was clear to us that we were going to need to do something new and different in how we responded to COVID-19 related domain registrations. We developed a strategy of compliance activities that encompassed three major components: (i) identification, (ii) assessment for harm, and (iii) stakeholder engagement. In order to provide Internet access and assistance to residents of cities and towns that are part of the Ting Fiber network, we have set up free, fiber-fed, drive-up Wi-Fi hotspots. These hotspots enable those with no home Internet access, or insufficient access, to access critical services like online learning and telehealth services, work remotely, check in on and access vital health, government and other services and generally access information. These hotspots will remain in operation as long as they are needed and as long as it is safe and prudent to do so. We have not experienced any material resource constraints nor do we foresee requiring any material expenditures to continue to implement our business continuity plans described above.

Current and expected COVID-19 Impacts

Financial & Operational Impacts

Further to the below discussion within this Quarterly Report around the financial condition and results of operations for the current period financial results, the current impact from COVID-19 has been limited so far in 2021. Over the past year, we've monitored the situation and its impacts on our businesses but have ultimately seen trends stabilize, with continued recovery in U.S. markets due to large-scale vaccination programs. Management continues to assess the impact regularly but expects limited impact through the remainder of 2021, should the COVID-19 pandemic persist. On a segment basis, our current assessment is as follows:

Fiber Internet Services:

As discussed above, the Ting Internet team established a smart-install solution at the start of the pandemic. This smart-install solution is faster and more efficient than our existing process, all while protecting the health and safety of our employees and customers alike. Although new customer installations initially slowed at the start of the pandemic, we are now seeing returned growth in both subscribers under management as well as serviceable addresses relative to the prior quarter.

Mobile Services:

The Company now only retains a small subset of customers to which it continues to provide retail mobile services. COVID-19 has impacted the demand for our Mobile Services as customer usage patterns have changed, which has had a corresponding negative impact on our revenues over the past year. However, we do not expect the impact to significantly worsen over the coming months or year, as we have seen usage normalize during the current period due to seasonally warmer weather and continued vaccine roll-out across the U.S. Our new MSE platform and professional services businesses are completely online and do not rely on physical storefronts to attract or service customers' needs. We are prepared to continue providing uninterrupted Mobile related enablement services to our MVNO customers. We have not and do not expect a negative COVID-19 impact on our new MSE platform and professional services revenue, nor do we expect any impact to substantially worsen over the coming months.

Domain Services:

Domain Services are foundational to the functioning of the Internet. Services like individual and wholesale domain names, email and hosting do not rely on in-person interaction or the supply chain in the same way physical products and services do. We have not experienced any negative COVID-19 related impacts, either financially or operationally for Domains related services, across our OpenSRS, eNom, Ascio, EPAG & Hover brands. As more businesses faced the reality of prolonged physical shutdown and moved to establish an online presence, we have seen growth in this segment over the course of the pandemic, where total domains under management increased by 1.5 million since March 31, 2020. This growth rate in domains under management was driven by the pandemic, and may not be sustained in the future as domain registrations plateau and renewal rates slow. Our results of operations for the current period financial results are in line with management's expectation for the period given product, customer mix and current brand trajectories. We will continue to monitor the impact but do not foresee any negative financial or operational impacts associated with this segment.

Liquidity & Financial Resource Impacts

For a complete assessment of our liquidity and covenant positions please reference the relevant discussions within this Quarterly Report. We have experienced no significant change to our liquidity position or credit risk as a result of the financial and operational impacts related to COVID-19, as discussed above. Our cost or access to funding sources has not changed and is not reasonably likely to change in the near future as a result of the pandemic. Our sources and uses of cash have not been materially impacted and there is no known material uncertainty about our ongoing ability meet covenants or repayment terms of our credit agreements at this time.

Internal Controls over Financial Reporting

Tucows has long encouraged a culture of remote work even prior to COVID-19. Our financial reporting systems and our internal controls over financial reporting and disclosure controls and procedures are already adapted for a remote work environment. There have been no changes during the current period that, as a result of COVID-19, would affect our ability to maintain these systems and controls.

COVID-19 Related Assistance & Support

Currently, Tucows has not received any form of financial or resource related assistance from any government or local authority. There do exist programs in the regions in which we operate that are designed to support corporations like Tucows during this time, primarily in the form employee wage subsidization. Tucows will continue to review the applicability of these programs but does not expect to seek any assistance.

Accounting Policy Impacts

After monitoring the COVID-19 pandemic over the past year and assessing the impacts on our business as discussed above, Tucows does not anticipate a material impairment with respect to goodwill, intangible assets, long-lived assets, or right of use assets. We will continue to monitor the impacts closely as the situation continues to evolve and will approach the situation with cautious optimism about economic recovery resulting from widespread vaccination programs and will be mindful of any emerging risks as they arise. We do not foresee any changes in accounting judgements in relation to COVID-19 that will have a material impact on our financial statements.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AS COMPARED TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

NET REVENUES

Fiber Internet Services

Fiber Internet Services derive revenues from providing Ting Internet to individuals and small businesses in select cities. In addition, we provide billing, provisioning and customer care software solutions to ISPs through our Platypus billing software. Ting Internet access contracts provide customers Internet access at their home or business through the installation and use of our fiber optic network. Ting Internet contracts are generally prepaid and grant customers with unlimited bandwidth based on a fixed price per month basis.

Ting Internet services are primarily contracted through the Ting website, for one month at a time and contain no commitment to renew the contract following each customer's monthly billing cycle. The Company's billing cycle for all Ting Internet access customers is computed based on the customer's activation date. Since consideration is collected before the service period, revenue is initially deferred and recognized as the Company performs its obligation to provide Internet access within each reporting period. In addition, revenues associated with the sale of 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, revenue is not recognized until contract inception unless the collection of the related accounts receivable is reasonably assured. 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.

Mobile Services

Retail Mobile Services

Ting Mobile wireless usage contracts grant customers access to standard talk, text and data mobile services. Ting Mobile contracts are billed based on the customer's selected rate plan, which can either be usage based or an unlimited plan. All rate plan options are charged to customers on a postpaid, monthly basis at the end of their billing cycle. As discussed previously, in the prior year the Company sold substantially all of its retail mobile customer relationships, and mobile handset and SIM inventory to DISH and granted the right to use and option to purchase the Ting brand. The Company only retains a small subset of customers to which it continues to provide retail mobile services. All future revenues associated with Retail Mobile Services stream will only be for this subset of customers retained by Ting, Inc.

Ting Mobile services are primarily contracted through the Ting website, for one month at a time and contain no commitment to renew the contract following each customer's monthly billing cycle. The Company's billing cycle for all Ting Mobile customers is computed based on the customer's activation date. In order to recognize revenue as the Company satisfies its obligations, we compute 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 are recognized when title and risk of loss is transferred to the customer and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

As a form of consideration for the sale of the customer relationships, the Company receives a payout on the margin associated with the legacy customer base sold to DISH, over a period of 10 years. This has been classified as Other Income and not considered revenue in the current period.

Mobile Platform Services

Tucows' MSE platform provides network access, provisioning and billing services for MVNOs as well as a fixed number of professional service hours. Our MVNO customers are billed monthly, on a postpaid basis. The monthly fees are variable, based on the volume of their subscribers utilizing the platform during a given month, to which minimums may apply. Customers may also be billed fixed platform fees and granted fixed credits as part of the consideration for long-term contracts. Consideration received for MSE platform services is allocated to MSE services and professional services and recognized as each service obligation is fulfilled. Fixed fees for Mobile Platform Services are recognized into revenue evenly over the service period, while variable usage fees are recognized each month as they are consumed. Professional services revenue is recognized as the hours of professional services granted to the customer are used or expire. When consideration for Mobile Platform Services is received before the service is delivered, the revenue is initially deferred and recognized only as the Company performs its obligation to provide services. Likewise, if Mobile Platform Services are delivered before the Company has the unconditional right to invoice the customer, revenue is recognized as a Contract Asset.

Other Professional Services

This revenue stream includes any other professional services, including transitional services, earned in connection with Tucows' new MSE business. These are billed to our customers monthly at set and established rates for services provided in period. The Company recognizes revenue over this new revenue stream as the Company satisfies its obligations to provide professional services.

Domain Services

Wholesale - Domain Services

Domain registration contracts, which can be purchased for terms of one to ten years, provide our resellers and retail registrant customers with the exclusive right to a personalized internet address from which to build an online presence. The Company enters into domain registration contracts in connection with each new, renewed and transferred-in domain registration. At the inception of the contract, the Company charges and collects the registration fee for the entire registration period. Though fees are collected upfront, revenue from domain registrations are recognized rateably over the registration period as domain registration contracts contain a 'right to access' license of IP, which is a distinct performance obligation measured over time. The registration period begins once the Company has confirmed that the requested domain name has been appropriately recorded in the registry under contractual performance standards.

Historically, our wholesale domain service has constituted the largest portion of our business and encompasses all of our services as an accredited registrar related to the registration, renewal, transfer and management of domain names. In addition, this service fuels other revenue categories as it often is the initial service for which a reseller will engage us, enabling us to follow on with other services and allowing us to add to our portfolio by purchasing names registered through us upon their expiration. Domain services will continue to be the largest portion of our business and will further fuel our ability to sell add-on services.

The Company is an ICANN accredited registrar. Thus, the Company is the primary obligor with our reseller and retail registrant customers and is 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.

Wholesale – Value-Added Services

We derive revenue from domain related value-added services like digital certifications, WHOIS privacy and hosted email and by providing our resellers and retail registrant customers with tools and additional functionality to be used in conjunction with domain registrations. All domain related value-added services are considered distinct performance obligations which transfer the promised service to the customer over the contracted term. Fees charged to customers for domain related value-added services are collected at the inception of the contract, and revenue is recognized on a straight-line basis over the contracted term, consistent with the satisfaction of the performance obligations.

We also derive revenue from other value-added services, which primarily consists of proceeds from the OpenSRS, eNom and Ascio domain expiry streams.

Retail

We derive revenues mainly from Hover and eNom's retail properties through the sale of retail domain name registration and email services to individuals and small businesses. The Company also provides Linux hosting services for websites through its Exact Hosting brand. The retail segment now includes the sale of the rights to its portfolio of surname domains used in connection with our Realnames email service, however the Company expects surname portfolio revenue to materially decline through Fiscal 2021 and thereafter.

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The following table presents our net revenues, by revenue source (*Dollar amounts in thousands of U.S. dollars*):

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Fiber Internet Services:				
Fiber Internet Services	\$ 6,672	\$ 4,657	\$ 17,868	\$ 13,379
Mobile Services:				
Retail mobile services	2,309	7,019	6,872	44,734
Mobile platform services	3,564	376	6,370	376
Other professional services	2,619	1,457	6,536	1,457
Total Mobile	8,492	8,852	19,778	46,567
Domain Services:				
Wholesale				
Domain Services	47,081	47,261	141,954	139,430
Value Added Services	4,862	4,380	15,424	13,429
Total Wholesale	51,943	51,641	157,378	152,859
Retail				
Total Domain Services	8,786	9,161	26,837	27,613
	60,729	60,802	184,215	180,472
	\$ 75,893	\$ 74,311	\$ 221,861	\$ 240,418
Increase over prior period	\$ 1,582		\$ (18,557)	
Increase - percentage	2%		(8)%	

The following table presents our revenues, by revenue source, as a percentage of total revenues (*Dollar amounts in thousands of U.S. dollars*):

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Fiber Internet Services:				
Fiber Internet Services	9%	6%	8%	6%
Network Access Services:				
Mobile Services				
Retail mobile services	3%	9%	3%	19%
Mobile platform services	5%	1%	3%	0%
Other professional services	3%	2%	3%	1%
Total Mobile	11%	12%	9%	20%
Domain Services:				
Wholesale				
Domain Services	62%	64%	64%	57%
Value Added Services	6%	6%	7%	6%
Total Wholesale	68%	70%	71%	63%
Retail				
Total Domain Services	12%	12%	12%	11%
	80%	82%	83%	74%
	100%	100%	100%	100%

Total net revenues for the three months ended September 30, 2021 increased by \$1.6 million, or 2%, to \$75.9 million from \$74.3 million when compared to the three months ended September 30, 2020. The three-month increase in revenue was driven by Fiber Internet Services, a result of the attraction of additional customers to Ting Internet from the continued buildout of our Fiber network footprint across the United States. This accounted for an increase of \$2.0 million to total revenues in the current period. This increase was partially offset by reduced revenues attributable to both our Mobile Services and Domain Services segments of \$0.4 million and \$0.1 million, respectively. For Mobile Services, this segment was impacted by both the sale of the majority of the customer base of Ting Mobile to DISH Wireless and the shutdown of Roam Mobility brands in late Fiscal 2020. When compared to the three months ended September 30, 2020, the Mobile Services segment in the current period looks different as a result of our shift from MVNO to MSE. As part of the DISH Purchase Agreement, as a form of consideration for the sale of the customer relationships, the Company receives a payout on the margin associated with the legacy customer base sold to DISH over the 10-year term of the agreement. This has been classified as Other Income and not considered revenue in the current period. For Domain Services, this is reflective of the normalization of domain name registration growth observed as a result of the COVID-19 pandemic.

Total net revenues for the nine months ended September 30, 2021 decreased by \$18.5 million, or 8%, to \$221.9 million from \$240.4 million when compared to the nine months ended September 30, 2020. The nine-month decrease in revenue was primarily driven by \$26.8 million of reduced revenues attributable to our Mobile Services segment that was impacted by both the sale of the majority of the customer base of Ting Mobile to DISH Wireless and the shutdown of Roam Mobility brands in late Fiscal 2020. When compared to the nine months ended September 30, 2020, the Mobile Services segment in the current period looks different as a result of our shift from MVNO to MSE. As part of the DISH Purchase Agreement, as a form of consideration for the sale of the customer relationships, the Company receives a payout on the margin associated with the legacy customer base sold to DISH over the 10-year term of the agreement. This has been classified as Other Income and not considered revenue in the current period. This decrease in overall revenues is partially offset by increases from both Fiber Internet Services and Domain Services of \$4.5 million and \$3.7 million, respectively. For Fiber Internet Services, this is a result of the attraction of additional customers to Ting Internet from the continued buildout of our Fiber network footprint across the United States. For Domain Services, this is reflective of the cumulative wholesale registration growth observed as a result of the COVID-19 pandemic creating the need for an online presence.

Deferred revenue from domain name registrations and other Mobile and Internet services at September 30, 2021 decreased by \$0.2 million to \$152.0 million from \$152.2 million at December 31, 2020. This decrease was primarily driven by Mobile Services, accounting for \$0.9 million of the decrease due to the recognition of previously deferred, bundled professional services revenues. These professional services revenues were recognized as the Company performed its obligation to provide these services to DISH during the first year of the DISH Purchase Agreement. This decrease from Mobile Services was partially offset by an increase of \$0.4 million in deferred revenue from Fiber Internet Services, driven by an increased customer base relative to December 31, 2020; as well as a small increase from Domain services registrations of \$0.3 million.

No customer accounted for more than 10% of total revenue during the three and nine months ended September 30, 2021 or the three and nine months ended September 30, 2020. DISH accounted for 48% of total accounts receivable as at September 30, 2021 and 59% of total accounts receivable as at December 31, 2020. Though a significant portion of the Company's domain services revenues are prepaid by our customers, where the Company does collect receivables, significant management judgment is required at the time revenue is recorded to assess whether the collection of the resulting receivables is reasonably assured. On an ongoing basis, we assess the ability of our customers to make required payments. Based on this assessment, we expect the carrying amount of our outstanding receivables, net of allowance for doubtful accounts, to be fully collected.

Fiber Internet Services

Revenues from Ting Internet and billing solutions generated \$6.7 million in revenue during the three months ended September 30, 2021, up \$2.0 million or 43% compared to the three months ended September 30, 2020. This growth is driven by subscriber growth across our Fiber network relative to the three months ended September 30, 2020, as well as the continued expansion of our Ting Internet footprint to new Ting towns throughout the United States.

Revenues from Ting Internet and billing solutions generated \$17.9 million in revenue during the nine months ended September 30, 2021, up \$4.5 million or 34% compared to the nine months ended September 30, 2020. This growth is driven by subscriber growth across our Fiber network relative to the nine months ended September 30, 2020, as well as the continued expansion of our Ting Internet footprint to new Ting towns throughout the United States.

As of September 30, 2021, Ting Internet had access to 75,000 serviceable addresses and 23,000 active subscribers under its management compared to having access to 50,000 serviceable addresses and 14,000 active subscribers under its management as of September 30, 2020. These figures include the increase in serviceable addresses and subscribers attributable to the acquisition of Cedar Holdings Group, Incorporated ("Cedar") in January 2020.

Mobile Services

Retail Mobile Services

Net revenues from Retail Mobile Services for the three months ended September 30, 2021 decreased by \$4.7 million or 67% to \$2.3 million as compared to the three months ended September 30, 2020. This decrease is a result of the significant changes to our Mobile Services segment that occurred during Fiscal 2020 as we transitioned from MVNO to MSE. These changes include both the shutdown of the Roam Mobility brands in the second quarter of 2020 followed by the sale of substantially all of the Ting Mobile customer base on August 1, 2020 to DISH. Ting Mobile accounts for substantially all of this decrease (of which \$0.8 million is reduced device revenues and \$3.7 million relates to service revenues), followed by Roam Mobility at less than \$0.3 million of the total decrease.

Net revenues from Retail Mobile Services for the nine months ended September 30, 2021 decreased by \$37.9 million or 85% to \$6.9 million as compared to the nine months ended September 30, 2020. This decrease is a result of the significant changes to our Mobile Services segment that occurred during Fiscal 2020 as we transitioned from MVNO to MSE. These changes include both the shutdown of the Roam Mobility brands in the second quarter of 2020 followed by the sale of substantially all of the Ting Mobile customer base on August 1, 2020 to DISH. Ting Mobile accounts for substantially all of this decrease (of which \$4.4 million is reduced device revenues and \$32.1 million relates to service revenues), followed by Roam Mobility at \$1.3 million of the total decrease.

The revenues earned from Retail Mobile Services for three and nine months ended September 30, 2021 is only reflective of the mobile telephony services and device revenues associated with the small group of customers retained by the Company from the sale of the historically larger Ting Mobile customer base to DISH. As mentioned above, the payout the Company receives from the aforementioned sale has been classified as Other Income and not considered revenue in the current period.

Mobile Platform Services

Net revenues from Mobile Platform Services for the three months ended September 30, 2021 increased by \$3.2 million to \$3.6 million as compared to the three months ended September 30, 2020. Similarly, net revenues from Mobile Platform Services for the nine months ended September 30, 2021 increased by \$6.0 million to \$6.4 million as compared to the nine months ended September 30, 2020. These increases are both a result of the new MSE business created as a result of the DISH Purchase Agreement in the prior year. Only two months of comparable revenues existed for the three and nine months ended September 30, 2020. During the current period, the net revenues recognized include both platform fee billings as well as revenues recognized from the previous deferral of bundled professional fees offered in connection with Mobile Platform Services. The Company has satisfied its obligations to provide any bundled professional services revenues recognized in the current period. Tucows' MSE platform provides network access, provisioning and billing services for MVNOs, of which DISH is currently our sole customer.

Other Professional Services

Net revenues from Other Professional Services for the three months ended September 30, 2021 increased by \$1.1 million or 80% to \$2.6 million as compared to the three months ended September 30, 2020. Similarly, net revenues from Other Professional Services for the nine months ended September 30, 2021 increased by \$5.0 million or 349% to \$6.5 million as compared to the nine months ended September 30, 2020. These increases are both a result of the new MSE business created as a result of the DISH Purchase Agreement in the prior year. Only two months of comparable revenues existed for the three and nine months ended September 30, 2020. Tucows' professional services include both standalone technology services development work and other transitional services including sales, marketing, customer support, order fulfillment, and data analytics for MVNOs, of which DISH is currently our sole customer.

Domain Services

Wholesale - Domain Services

During the three months ended September 30, 2021, Wholesale domain services revenue decreased by \$0.2 million to \$47.1 million, when compared to the three months ended September 30, 2020. Decreases from Wholesale domain registration of \$0.3 million were driven from eNom, which continues to see a decline in registrations by non-core customers, offset by a slight increase in revenues from OpenSRS, EPAG, and Ascio brands of \$0.1 million driven by COVID-19 registration growth relative to the three months ended September 30, 2020.

During the nine months ended September 30, 2021, Wholesale domain services revenue increased by \$2.6 million or 2% to \$142.0 million, when compared to the nine months ended September 30, 2020. Increases from Wholesale domain registration of \$4.6 million from OpenSRS, EPAG, and Ascio brands driven by cumulative COVID-19 registration growth were offset by decreases of \$2.0 million from the eNom brands, which continues to see a decline in registrations by non-core customers relative to the nine months ended September 30, 2020.

Total domains that were managed under the OpenSRS, eNom, EPAG, and Ascio domain services increased by 0.4 million domain names to 25.4 million as of September 30, 2021, when compared to 25.0 million at September 30, 2020. The increase is a driven by the growth in registrations over this period as a result of the COVID-19 pandemic, as discussed above.

Wholesale - Value Added Services

During the three months ended September 30, 2021, value-added services revenue increased by \$0.5 million to \$4.9 million compared to the three months ended September 30, 2020. The increase was primarily driven by increased expiry revenue of \$0.6 million and to a lesser extent from email revenues of \$0.1 million, from OpenSRS, eNom, Ascio brands and their respective domain expiry streams. These increases were partially offset by other small decreases in Digital Certificates, and Other revenues of \$0.2 million.

During the nine months ended September 30, 2021, value-added services revenue increased by \$2.0 million to \$15.4 million compared to the nine months ended September 30, 2020. The increase was primarily driven by increased expiry revenue of \$2.2 million and to a lesser extent from email revenues of \$0.4 million, from both OpenSRS, eNom, Ascio brands and their respective domain expiry streams. These increases were partially offset by other small decreases in Digital Certificates, and Other revenues of \$0.6 million.

Retail

During the three months ended September 30, 2021, retail domain services revenue decreased by \$0.4 million or 4% to \$8.8 million compared to the three months ended September 30, 2020. This was driven by decreased revenues related to retail domain name registrations of \$0.3 million and decreased Realnames and surname portfolio sales of \$0.2 million. These decreases were partially offset by a small increase in Exact Hosting revenues of less than \$0.1 million. The Company expects all Realnames surname portfolio related sales to materially decline in Fiscal 2021 and thereafter.

During the nine months ended September 30, 2021, retail domain services revenue decreased by \$0.8 million or 3% to \$26.8 million compared to the nine months ended September 30, 2020. This was driven by decreased revenues related to Realnames email service and related surname portfolio sales of \$0.6 million, as well as a small decrease in retail domain registrations of less than \$0.2 million. The Company expects all Realnames surname portfolio related sales to materially decline in Fiscal 2021 and thereafter.

COST OF REVENUES

Fiber Internet Services

Cost of revenues primarily includes the costs for provisioning high speed Internet access, which is comprised of network access fees paid to third-parties to use their network, leased circuit costs to directly support enterprise customers, the personnel and related expenses (net of capitalization) related to the physical planning, design, construction and build out of the physical Fiber network and as well as personnel and related expenses (net of capitalization) related to the installation, repair, maintenance and overall field service delivery of the Fiber business. Hardware costs include the cost of equipment sold to end customers, including routers, ONTs, and IPTV products, and any inventory adjustments on this inventory. Other costs include field vehicle expenses, small sundry equipment and supplies consumed in building the Fiber network and fees paid to third-party service providers primarily for printing services in connection with billing services to ISPs.

Mobile Services

Retail Mobile Services

Cost of revenues for Retail Mobile Services includes the costs of provisioning mobile services, which is primarily our customers' voice, messaging, data usage provided by our Network Operator, and the costs of providing mobile phone hardware, which is the cost of mobile phone devices and SIM cards sold to our customers, order fulfillment related expenses, and inventory write-downs.

Mobile Platform Services

Cost of revenues, if any, to provide the MSE Platform services including network access, provisioning and billing services for MVNOs. This includes the amortization of any capitalized contract fulfillment costs over the period consistent with the pattern of transferring network access, provisioning and billing services to which the cost relates.

Other Professional Services

Cost of revenues to provide professional services, including transitional services, to our MVNO customers to help support their businesses. This includes any personnel and contractor fees for any client service resources retained by the Company. Only a subset of the Company's employee base provides professional services to our MVNO customers. This cost reflects that group of resources.

Domain Services

Wholesale - Domain Services

Cost of revenues for domain registrations represents the amortization of registry and accreditation fees on a basis consistent with the recognition of revenues from our customers, namely rateably over the term of provision of the service. Registry fees, the primary component of cost of revenues, are paid in full when the domain is registered, and are initially recorded as prepaid domain registry fees. This accounting treatment reasonably approximates a recognition pattern that corresponds with the provision of the services during the period. Market development funds that do not represent a payment for distinct goods or services provided by the Company, and thus do not meet the criteria for revenue recognition under ASU 2014-09, are reflected as cost of goods sold and are recognized as earned.

Wholesale - Value-Added Services

Costs of revenues for value-added services include licensing and royalty costs related to the provisioning of certain components of related to hosted email and fees paid to third-party hosting services. Fees payable for trust certificates are amortized on a basis consistent with the provision of service, generally one year, while email hosting fees and monthly printing fees are included in cost of revenues in the month they are incurred.

Retail

Costs of revenues for our provision and management of Internet services through our retail sites, Hover.com and the eNom branded sites, include the amortization of registry fees on a basis consistent with the recognition of revenues from our customers, namely rateably over the term of provision of the service. Registry fees, the primary component of cost of revenues, are paid in full when the domain is registered, and are recorded as prepaid domain registry fees and are expensed rateably over the renewal term. Costs of revenues for our surname portfolio represent the amortization of registry fees for domains added to our portfolio over the renewal period, which is generally one year, the value attributed under intangible assets to any domain name sold and any impairment charges that may arise from our assessment of our domain name intangible assets.

Network expenses

Network expenses include personnel and related expenses related to the network operations, IT infrastructure and supply chain teams that support our various business segments. It also includes network depreciation and amortization, communication and productivity tool costs, and equipment maintenance costs. Communication and productivity tool costs includes collaboration, customer support, bandwidth, co-location and provisioning costs we incur to support the supply of all our services.

The following table presents our cost of revenues, by revenue source:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Fiber Internet Services:				
Fiber Internet Services	\$ 3,653	\$ 1,682	\$ 9,314	\$ 5,063
Mobile Services:				
Retail mobile services	1,701	3,440	4,242	21,957
Mobile platform services	120	-	271	-
Other professional services	1,813	1,267	5,219	1,267
Total Mobile	3,634	4,707	9,732	23,224
Domain Services:				
Wholesale				
Domain Services	37,109	36,812	110,593	109,635
Value Added Services	688	689	1,867	2,178
Total Wholesale	37,797	37,501	112,460	111,813
Retail				
Total Domain Services	44,556	44,440	133,554	133,208
Network Expenses:				
Network, other costs	3,445	2,612	10,295	7,513
Network, depreciation and amortization costs	4,643	3,315	12,688	9,902
Network, impairment	241	113	302	1,638
Total Network Expenses	8,329	6,040	23,285	19,053
	<u>\$ 57,869</u>	<u>\$ 54,370</u>	<u>\$ 168,145</u>	<u>\$ 172,361</u>

The following table presents our cost of revenues, as a percentage of total cost of revenues for the periods presented:

	<u>For the Three Months Ended</u> <u>September 30,</u>		<u>For the Nine Months Ended</u> <u>September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Fiber Internet Services:				
Fiber Internet Services	6%	3%	6%	3%
Mobile Services:				
Retail mobile services	3%	6%	3%	13%
Mobile platform services	0%	0%	0%	0%
Other professional services	3%	2%	3%	1%
Total Mobile	6%	8%	6%	14%
Domain Services:				
Wholesale				
Domain Services	65%	69%	65%	64%
Value Added Services	1%	1%	1%	1%
Total Wholesale	66%	70%	66%	65%
Retail				
Total Domain Services	74%	78%	74%	72%
Network Expenses:				
Network, other costs	6%	5%	6%	4%
Network, depreciation and amortization costs	8%	6%	8%	6%
Network, impairment	0%	0%	0%	1%
	14%	11%	14%	11%
	100%	100%	100%	100%

Total cost of revenues for the three months ended September 30, 2021, increased by \$3.5 million, or 6%, to \$57.9 million from \$54.4 million in the three months ended September 30, 2020. The three-month increase in cost of revenues was primarily driven by \$2.3 million of additional costs from Network Expenses, which increased as a result of the expansion of the Company's increased network infrastructure costs associated with the continuing expansion of the Ting Fiber footprint and an increase in communication and productivity tool costs across our service lines. In addition to this increase in Network Expenses, total cost of revenues increased by an additional \$2.0 million attributable to our Fiber Internet Services segment. As discussed above in the Net Revenues section, our Fiber Internet Services segment has continued to add both serviceable addresses and active subscriptions relative to the three months ended September 30, 2020. These increases were furthered by a small increase of \$0.3 million of additional costs attributable to our Domain Services segment. This increase is a result of recognition of registration costs from previously deferred billed costs related to the strong performance and additions to domains under management as a result of the COVID-19 pandemic. These increases were partially offset by a decrease in cost of revenues of \$1.1 million from our Mobile Services Segment. As discussed previously, our Mobile Services segment was impacted by both the sale of the majority of the customer base of Ting Mobile to DISH Wireless and the shutdown of Roam Mobility brands in late Fiscal 2020. When compared to the three months ended September 30, 2020, the Mobile Services segment in the current period looks different as a result of our shift from MVNO to MSE. Both these factors contribute to the three months ended September 30, 2021 having significantly lower costs.

Total cost of revenues for the nine months ended September 30, 2021, decreased by \$4.3 million, or 2%, to \$168.1 million from \$172.4 million in the nine months ended September 30, 2020. The nine-month decrease in cost of revenues was primarily driven by \$13.5 million of reduced costs attributable to our Mobile Services segment. As discussed above in the Net Revenue section, our Mobile Services segment was impacted by both the sale of the majority of the customer base of Ting Mobile to DISH Wireless and the shutdown of Roam Mobility brands in late Fiscal 2020. When compared to the nine months ended September 30, 2020, the Mobile Services segment in the current period looks different as a result of our shift from MVNO to MSE. Both these factors contribute to the nine months ended September 30, 2021 having significantly lower costs. This decrease in overall cost of revenues is partially offset by increases from Fiber Internet Services costs, Network Expenses costs as well as increases in Domain Services costs of \$4.3 million, \$4.2 million, and \$0.8 million respectively. This increase from Fiber Internet Services is related to the continued expansion of both serviceable addresses and active subscriptions, which is aligned with the discussion above in the Net Revenue section for the segment. The increase from Network Expenses is a result of the expansion of the Company's increased network infrastructure associated with the continuing expansion of the Ting Fiber footprint and an increase in communication and productivity tool costs across our service lines. Domain Services costs of revenues increased as a result of recognition of registration costs from previously deferred billed costs related to the strong performance and additions to domains under management as a result of the COVID-19 pandemic.

Deferred costs of fulfillment as of September 30, 2021 increased by \$2.1 million, or 2%, to \$113.2 million from \$111.1 million at December 31, 2020. This increase was primarily driven by Mobile Services, accounting for \$2.3 million of the increase which is due to the increase in current period costs incurred in connection with the fulfillment of our MSE agreement and other professional services with DISH. This increase was partially offset by a decrease in deferred costs of fulfillment related to domain name registration and service renewals of \$0.2 million, decreasing as registration costs are recognized from previously deferred billed costs from registrations from the COVID-19 pandemic. Relative to COVID-19 pandemic levels, we have since seen slowing growth in additions and renewals to domains under management so far in Fiscal 2022, which has appropriately translated to less deferred costs of fulfillment for our Domain Services segment.

Fiber Internet Services

During the three months ended September 30, 2021, costs related to provisioning high speed Internet access and billing solutions increased \$2.0 million or 118%, to \$3.7 million as compared to \$1.7 million during three months ended September 30, 2020. The increase in costs were primarily driven by increased direct costs, bandwidth and colocation costs related to the continued expansion of the Ting Fiber network. Although directionally aligned with the experienced growth in revenue over the same period, the outpaced increase in cost of revenues for Fiber Internet services is a result of the necessary upfront investment and expenditure needed to build out the network in advance of anticipated revenue growth in any particular location.

During the nine months ended September 30, 2021, costs related to provisioning high speed Internet access and billing solutions increased \$4.2 million or 82%, to \$9.3 million as compared to \$5.1 million during nine months ended September 30, 2020. The increase in costs were primarily driven by increased direct costs and, bandwidth and colocation costs related to the continued expansion of the Ting Fiber network. Although directionally aligned with the experienced growth in revenue over the same period, the outpaced increase in cost of revenues for Fiber Internet services is a result of the necessary upfront investment and expenditure needed to build out the network in advance of anticipated revenue growth in any particular location.

Mobile Services

Retail Mobile Services

Cost of revenues from Retail Mobile Services for the three months ended September 30, 2021 decreased by \$1.7 million or 51%, to \$1.7 million from \$3.4 million in the three months ended September 30, 2020. Consistent with the above discussion around net revenues, this decrease is a result of the significant changes to our Mobile Services segment that occurred during Fiscal 2020 as we transitioned from MVNO to MSE. Ting Mobile accounts for \$1.7 million of this decrease (of which \$0.8 million is reduced device costs and \$0.9 million relates to reduced service costs), followed by Roam Mobility at less than \$0.1 million of the total decrease. The cost of revenues incurred from Retail Mobile Services for three months ended September 30, 2021 is only reflective of the mobile telephony services and device costs associated with the small group of customers retained by the Company from the sale of the historically larger Ting Mobile customer base to DISH.

Cost of revenues from Retail Mobile Services for the nine months ended September 30, 2021 decreased by \$17.7 million or 81%, to \$4.2 million from \$22.0 million in the nine months ended September 30, 2020. Consistent with the above discussion around net revenues, this decrease is a result of the significant changes to our Mobile Services segment that occurred during Fiscal 2020 as we transitioned from MVNO to MSE. Ting Mobile accounts for \$16.9 million of this decrease (of which \$5.0 million is reduced device costs and \$11.9 million relates to reduced service costs), followed by Roam Mobility at less than \$0.8 million of the total decrease. The cost of revenues incurred from Retail Mobile Services for nine months ended September 30, 2021 is only reflective of the mobile telephony services and device costs associated with the small group of customers retained by the Company from the sale of the historically larger Ting Mobile customer base to DISH. The decline also included reduced minimum commitment charges which decreased by \$0.3 million as compared to the nine months ended September 30, 2020.

Mobile Platform Services

Cost of revenues from Mobile Platform Services for the three months ended September 30, 2021 increased to \$0.1 million as compared to nil for the three months ended September 30, 2020. Cost of revenues from Mobile Platform Services for the nine months ended September 30, 2021 increased to \$0.3 million as compared to nil for the nine months ended September 30, 2020. These increases are both a result of the new MSE business created as a result of the DISH Purchase Agreement in the prior year. Only two months of comparable cost of revenues existed for the three and nine months ended September 30, 2020. Tucows' MSE platform provides network access, provisioning and billing services for MVNOs, of which DISH is currently our sole customer. Costs incurred represent the amortization of previously capitalized costs incurred to fulfill the DISH MSE agreement over the term of the agreement.

Other Professional Services

Cost of revenues from Other Professional Services for the three months ended September 30, 2021 increased to \$1.8 million as compared to the three months ended September 30, 2020. Cost of revenues from Other Professional Services for the nine months ended September 30, 2021 increased to \$5.2 million as compared to the nine months ended September 30, 2020. These increases are both a result of the new MSE business created as a result of the DISH Purchase Agreement in the prior year. Only two months of comparable cost of revenues existed for the three and nine months ended September 30, 2020. Tucows' professional services include standalone technology services development and other transitional services including sales, marketing, customer support, order fulfillment, and data analytics for MVNOs, of which DISH is currently our sole customer. Costs incurred represent the personnel and related expenses of employees providing professional services to DISH.

Domain Services

Wholesale - Domain Services

Costs for Wholesale domain services for the three months ended September 30, 2021 increased by \$0.3 million to \$37.1 million, when compared to the three months ended September 30, 2020. Consistent with the above discussion around net revenues, this increase in costs is aligned to the strong performance and additions to domains under management as a result of the COVID-19 pandemic; as registration costs are recognized from previously deferred billed costs.

Costs for Wholesale domain services for the nine months ended September 30, 2021 increased by \$1.0 million to \$110.6 million, when compared to the nine months ended September 30, 2020. Consistent with the above discussion around net revenues, this increase in costs is aligned to the strong performance and additions to domains under management as a result of the COVID-19 pandemic; as registration costs are recognized from previously deferred billed costs. The Company experienced increases in wholesale domain registration costs of \$2.0 million from OpenSRS, EPAG and Ascio brands, offset by decreases of \$1.0 million from the eNom brand which has seen a decline in registrations over the period.

Wholesale - Value-Added Services

Costs for wholesale value-added services for the three months ended September 30, 2021 remained flat at \$0.7 million, when compared to the three months ended September 30, 2020. This was driven by decreases in Digital Certificates and Other revenues of \$0.1 million during the three months ended September 30, 2020, offset by a small increase in Expiry stream costs.

Costs for wholesale value-added services for the nine months ended September 30, 2021 decreased by \$0.3 million to \$1.9 million, when compared to the nine months ended September 30, 2020. This was driven by decreases in Digital Certificates, Email and Other services of \$0.3 million during the nine months ended September 30, 2020.

Retail

Costs for retail domain services for the three months ended September 30, 2021 increased by less than \$0.1 million to \$4.5 million, when compared to the three months ended September 30, 2020. This was driven by increased costs related to Exact Hosting.

Costs for retail domain services for the nine months ended September 30, 2021 increased by \$0.2 million to \$13.4 million, when compared to the nine months ended September 30, 2020. This was driven by increased costs related to Exact Hosting.

Network Expenses

Network costs for the three months ended September 30, 2021 increased by \$2.3 million to \$8.3 million when compared to the three months ended September 30, 2020. The three-month increase was driven by increased depreciation of \$1.6 million as a result of the Company's increased network infrastructure associated with the continuing expansion of the Ting Fiber footprint, followed by increased network costs of \$0.8 million from Fiber Internet Services and Mobile Services segments, as well as a small increase in impairment of property plant and equipment of \$0.1 million. These increases were partially offset by a decrease from amortization charges of \$0.3 million driven by the full amortization of the Ascio Technology intangible asset acquired in 2019.

Network costs for the nine months ended September 30, 2021 increased by \$4.2 million to \$23.3 million when compared to the nine months ended September 30, 2020. The nine-month increase was driven by increased depreciation of \$3.5 million as a result of the Company's increased network infrastructure associated with the continuing expansion of the Ting Fiber footprint, followed by increased network costs of \$2.8 million from Fiber Internet Services and Mobile Services segments. These increases were partially offset by a decrease from impairment charges of \$1.3 million, where the nine months ended September 30, 2020 included a significant charge for Ting TV, a product under development for Ting Fiber that was discontinued. This was followed by a decrease in amortization charges of \$0.6 million driven by the full amortization of the Ascio Technology intangible asset acquired in 2019.

SALES AND MARKETING

Sales and marketing expenses consist primarily of personnel costs. These costs include commissions and related expenses of our sales, product management, public relations, call center, support and marketing personnel. Other sales and marketing expenses include customer acquisition costs, advertising and other promotional costs.

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
	2021	2020	2021	2020
Sales and marketing	\$ 9,892	\$ 8,318	\$ 27,579	\$ 26,521
Increase over prior period	\$ 1,574		\$ 1,058	
Increase - percentage	19%		4%	
Percentage of net revenues	13%	11%	12%	11%

Sales and marketing expenses for the three months ended September 30, 2021 increased by \$1.6 million, or 19%, to \$9.9 million as compared to the three months ended September 30, 2020. This three-month increase primarily related to increased marketing related costs to drive active subscription growth given the increase in serviceable addresses available to our Fiber Internet Services segment. In addition to the increased spending on marketing related costs, both personnel and facility costs for our Ting Fiber teams increased driven by the expansion of our Ting Fiber internet footprint and workforce in select Ting towns across the U.S.

Sales and marketing expenses for the nine months ended September 30, 2021 increased by \$1.1 million, or 4%, to \$27.6 million as compared to the nine months ended September 30, 2020. This nine-month increase primarily related to increased salaries and benefits driven by an expanding workforce and wage inflation focused on our Fiber Internet teams, as well as an increase in costs related to stock-based compensation expenses to attract and retain labor. In addition to personnel related expenses, facility costs increased driven by the expansion of our Ting Fiber internet footprint and workforce in select Ting towns across the U.S.

TECHNICAL OPERATIONS AND DEVELOPMENT

Technical operations and development expenses consist primarily of personnel costs and related expenses required to support the development of new or enhanced service offerings and the maintenance and upgrading of existing infrastructure. This includes expenses incurred in the research, design and development of technology that we use to register domain names, network access services, email, retail, domain portfolio and other Internet services, as well as to distribute our digital content services. All technical operations and development costs are expensed as incurred.

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
	2021	2020	2021	2020
Technical operations and development	\$ 3,742	\$ 3,162	\$ 10,044	\$ 8,980
Increase over prior period	\$ 580		\$ 1,064	
Increase - percentage	18%		12%	
Percentage of net revenues	5%	4%	5%	4%

Technical operations and development expenses for the three months ended September 30, 2021 increased by \$0.6 million, or 18%, to \$3.7 million when compared to the three months ended September 30, 2020. The increase in costs relates primarily to increased spending on external contractors to provide development resources to assist our internal shared services and engineering teams with development aspects of the MSE platform.

Technical operations and development expenses for the nine months ended September 30, 2021 increased by \$1.1 million, or 12%, to \$10.0 million when compared to the nine months ended September 30, 2020. The increase in costs relates primarily to increased spending on external contractors to provide development resources to assist our internal shared services and engineering teams with development aspects of the MSE platform. In addition to increased spending on external contractors, a slight increase in salaries and benefits driven by an expanding workforce and wage inflation focused on our shared services and engineering teams contributed to the overall increase in costs for the period along with stock-based compensation expenses to attract and retain labor.

GENERAL AND ADMINISTRATIVE

General and administrative expenses consist primarily of compensation and related costs for managerial and administrative personnel, fees for professional services, public listing expenses, rent, foreign exchange and other general corporate expenses.

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
	2021	2020	2021	2020
General and administrative	\$ 5,069	\$ 4,868	\$ 15,232	\$ 15,074
Increase over prior period	\$ 201		\$ 158	
Increase - percentage	4%		1%	
Percentage of net revenues	7%	7%	7%	6%

General and administrative expenses for the three months ended September 30, 2021 increased by \$0.2 million, or 4% to \$5.1 million as compared to the three months ended September 30, 2020. The increase was primarily driven increases in personnel and related expenses as well as stock-based compensation expenses in order to attract, retain and scale core administrative teams including Human Resources and Finance to meet projected Company growth. These increases were partially offset by reduced Mobile Services credit card fees and bad debt charges as a result of the DISH Purchase Agreement that closed in the prior year, as well as a decrease in facility related costs.

General and administrative expenses for the nine months ended September 30, 2021 increased by \$0.1 million, or 1% to \$15.2 million, as compared to the nine months ended September 30, 2020. The increase was primarily driven increases in personnel and related expenses as well as stock-based compensation expenses in order to attract, retain and scale core administrative teams including Human Resources and Finance to meet projected Company growth. These increases were partially offset by reduced Mobile Services credit card fees and bad debt charges as a result of the DISH Purchase Agreement that closed in the prior year, as well as a decrease in facility related costs.

DEPRECIATION OF PROPERTY AND EQUIPMENT

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
	2021	2020	2021	2020
Depreciation of property and equipment	\$ 136	\$ 125	\$ 384	\$ 363
Increase over prior period	\$ 11		\$ 21	
Increase - percentage	9%		6%	
Percentage of net revenues	0%	0%	0%	0%

Depreciation costs remained flat for the three months ended September 30, 2021 at \$0.1 million when compared to the three months ended September 30, 2020.

Depreciation costs remained flat for the nine months ended September 30, 2021 at \$0.4 million when compared to the nine months ended September 30, 2020.

AMORTIZATION OF INTANGIBLE ASSETS

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
	2021	2020	2021	2020
Amortization of intangible assets	\$ 2,267	\$ 2,315	\$ 6,909	\$ 7,766
Decrease over prior period	\$ (48)		\$ (857)	
Decrease - percentage	(2)%		(11)%	
Percentage of net revenues	3%	3%	3%	3%

Amortization of intangible assets for the three months ended September 30, 2021 remained flat at \$2.3 million as compared to the three months ended September 30, 2020.

Amortization of intangible assets for the nine months ended September 30, 2021 decreased by \$0.9 million to \$6.9 million as compared to the nine months ended September 30, 2020. The decrease is driven by write-off of Mobile Services related intangible assets in connection with the both the sale of the Ting Mobile customer base and the shutdown of Roam Mobility in the prior year. Network rights, brand and customer relationships acquired in connection with the following acquisitions are amortized on a straight-line basis over a range of two to seven years: eNom in January 2017, Ascio in March 2019, and Cedar in January 2020.

IMPAIRMENT OF DEFINITE LIFE INTANGIBLE ASSETS

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
	2021	2020	2021	2020
Impairment of definite life intangible assets	\$ -	\$ -	\$ -	\$ 1,431
Decrease over prior period	\$ -		\$ (1,431)	
Decrease - percentage	N/A%		(100)%	
Percentage of net revenues	-%	-%	-%	1%

Impairment of definite life intangible assets for the nine months ended September 30, 2021 decreased by \$1.4 million as compared to the nine months ended September 30, 2020. The decrease is driven by the write-off of Roam Mobility brands customer relationships that were written off in the prior year when the Company decided to shut down the related businesses as a result of lack of demand for SIM-enabled roaming services due to the COVID-19 pandemic.

LOSS (GAIN) ON CURRENCY FORWARD CONTRACTS

Although our functional currency is the U.S. dollar, a major portion of our fixed expenses are incurred in Canadian dollars. Our goal with regard to foreign currency exposure is, to the extent possible, to achieve operational cost certainty, manage financial exposure to certain foreign exchange fluctuations and to neutralize some of the impact of foreign currency exchange movements. Accordingly, we enter into foreign exchange contracts to mitigate the exchange rate risk on portions of our Canadian dollar exposure.

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
	2021	2020	2021	2020
Loss (gain) on currency forward contracts	\$ (87)	\$ (159)	\$ (277)	\$ (99)
Increase over prior period	\$ 72		\$ (178)	
Increase - percentage	45%		180%	
Percentage of net revenues	0%	0%	0%	0%

The Company recorded a net gain of \$0.1 million on the change in fair value of outstanding contracts as well as realized on matured contracts during the three months ended September 30, 2021, compared to a net gain of \$0.2 million during the three months ended September 30, 2020.

The Company recorded a net gain of \$0.3 million on the change in fair value of outstanding contracts as well as realized on matured contracts during the nine months ended September 30, 2021, compared to a net gain of \$0.1 million during the nine months ended September 30, 2020.

At September 30, 2021, our balance sheet reflects a derivative instrument asset of \$0.1 million and a liability of \$0.5 million as a result of our existing foreign exchange contracts. Until their respective maturity dates, these contracts will fluctuate in value in line with movements in the Canadian dollar relative to the U.S. dollar.

OTHER INCOME (EXPENSES)

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
	2021	2020	2021	2020
Other income (expense), net	\$ 4,300	\$ 244	\$ 12,385	\$ (1,924)
Increase over prior period	\$ 4,056		\$ 14,309	
Increase - percentage	1,662%		(744)%	
Percentage of net revenues	6%	0%	6%	1%

Other Income during the three months ended September 30, 2021 increased by \$4.1 million when compared to the three months ended September 30, 2020. This was primarily due to the \$4.5 million increase due to the gain on sale of Ting Customer Assets to DISH in the current period. As described above, the Company receives a payout on the margin associated with the legacy customer base sold to DISH over the 10-year term of the agreement, as form of consideration for the sale of the legacy customer relationships. In addition to this, an offsetting factor in the increase was higher interest incurred on our Amended 2019 Credit Facility (as defined below) with the majority of the borrowings used to support the build-out of the Ting Fiber network. Other expense consists primarily of the interest we incur in connection with our Amended 2019 Credit Facility. The interest incurred primarily relates to our loan balances obtained to fund the acquisition of eNom, Ascio and Cedar and funding for expenditures associated with the Company's Fiber to the Home build program.

Other Income during the nine months ended September 30, 2021 increased by \$14.3 million when compared to the nine months ended September 30, 2020. This was primarily due to the \$14.7 million increase due to the gain on sale of Ting Customer Assets to DISH in the current period. As described above, the Company receives a payout on the margin associated with the legacy customer base sold to DISH over the 10-year term of the agreement, as form of consideration for the sale of the legacy customer relationships. Offsetting this increase was higher interest incurred on our Amended 2019 Credit Facility with the majority of the borrowings used to support the build-out of the Ting Fiber network due to lower variable interest rates relative to the prior year. Other expense consists primarily of the interest we incur in connection with our Amended 2019 Credit Facility. The interest incurred primarily relates to our loan balances obtained to fund the acquisition of eNom, Ascio and Cedar and funding for expenditures associated with the Company's Fiber to the Home build program.

INCOME TAXES

The following table presents our provision for income taxes for the periods presented:

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended September	
	September 30,		30,	
	2021	2020	2021	2020
Provision for income taxes	\$ (299)	\$ 840	\$ 665	\$ 2,390
Decrease in provision over prior period	\$ (1,139)		\$ (1,725)	
Decrease - percentage	(136)%		(72)%	
Effective tax rate	-28%	54%	11%	39%

We operate in various tax jurisdictions, and accordingly, our income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another jurisdiction. Our ability to use income tax loss carry forwards and future income tax deductions is dependent upon our operations in the tax jurisdictions in which such losses or deductions arise. Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement carrying values and tax base of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

For the three months ended September 30, 2021, we recorded an income tax recovery of \$0.3 million on income before income taxes of 1.1 million, using an estimated effective tax rate for Fiscal 2021 adjusted for certain minimum state taxes as well as the inclusion of a \$0.2 million tax recovery related to ASU 2016-09, which requires all excess tax benefits and tax deficiencies related to employee share-based payments to be recognized through income tax expense. Our effective tax rate for the three months ended September 30, 2021 is impacted by discrete adjustments resulting from foreign exchange and mark-to-market adjustments. Comparatively, for the three months ended September 30, 2020, we recorded an income tax expense of \$0.8 million on income before taxes of \$1.6 million, using an estimated effective tax rate for Fiscal 2020 and reflecting a \$0.3 million tax expense related to ASU 2016-09.

For the nine months ended September 30, 2021, we recorded an income tax expense of \$0.7 million on income before income taxes of \$6.0 million, using an estimated effective tax rate for Fiscal 2021 adjusted for certain minimum state taxes as well as the inclusion of a \$0.4 million tax recovery related to ASU 2016-09, which requires all excess tax benefits and tax deficiencies related to employee share-based payments to be recognized through income tax expense. Our effective tax rate for the nine months ended September 30, 2021 is impacted by discrete adjustments resulting from finalization of prior period tax filings, foreign exchange and mark-to-market adjustments. Comparatively, for the nine months ended September 30, 2020, we recorded an income tax expense of \$2.4 million on income before taxes of \$6.1 million, using an estimated effective tax rate for Fiscal 2020 and reflecting a \$0.1 million tax expense related to ASU 2016-09.

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 projected future taxable income, uncertainties related to the industry in which the Company operates, and tax planning strategies in making this assessment.

We recognize accrued interest and penalties related to income taxes in income tax expense. We did not have significant interest and penalties accrued at September 30, 2021 and December 31, 2020, respectively.

ADJUSTED EBITDA

We believe that the provision of this supplemental non-GAAP measure allows investors to evaluate the operational and financial performance of our core business using similar evaluation measures to those used by management. We use adjusted EBITDA to measure our performance and prepare our budgets. Since adjusted EBITDA is a non-GAAP financial performance measure, our calculation of adjusted EBITDA may not be comparable to other similarly titled measures of other companies; and should not be considered in isolation, as a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. Because adjusted EBITDA is calculated before recurring cash charges, including interest expense and taxes, and is not adjusted for capital expenditures or other recurring cash requirements of the business, it should not be considered as a liquidity measure. See the Consolidated Statements of Cash Flows included in the attached financial statements. Non-GAAP financial measures do not reflect a comprehensive system of accounting and may differ from non-GAAP financial measures with the same or similar captions that are used by other companies and/or analysts and may differ from period to period. We endeavor to compensate for these limitations by providing the relevant disclosure of the items excluded in the calculation of adjusted EBITDA to net income based on GAAP, which should be considered when evaluating the Company's results. Tucows strongly encourages investors to review its financial information in its entirety and not to rely on a single financial measure.

Our adjusted EBITDA definition excludes depreciation, amortization of intangible assets, income tax provision, interest expense (net), accretion of contingent consideration, stock-based compensation, asset impairment, gains and losses from unrealized foreign currency transactions and costs that are one-time in nature and not indicative of on-going performance (profitability), including acquisition and transition costs. Gains and losses from unrealized foreign currency transactions removes the unrealized effect of the change in the mark-to-market values on outstanding foreign currency contracts not designated in accounting hedges, as well as the unrealized effect from the translation of monetary accounts denominated in non-U.S. dollars to U.S. dollars.

The following table reconciles adjusted EBITDA to net income:

Reconciliation of Adjusted EBITDA to Income before Provision for Income Taxes (In Thousands of US Dollars) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Adjusted EBITDA	\$ 12,205	\$ 13,270	\$ 36,083	\$ 38,124
Depreciation of property and equipment	4,758	3,110	12,728	9,255
Impairment and loss on disposition of property and equipment	470	113	536	1,638
Amortization of intangible assets	2,288	2,645	7,253	8,776
Impairment of definite life intangible assets	-	-	-	1,431
Write-down on disposal of Ting Mobile customer assets	-	3,513	-	3,513
Interest expense, net	1,169	760	3,108	2,756
Accretion of contingent consideration	96	86	287	258
Stock-based compensation	1,126	1,016	3,357	2,664
Unrealized loss (gain) on change in fair value of forward contracts	249	(175)	606	(263)
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	72	81	178	479
Acquisition and other costs ¹	901	565	2,034	1,520
Income before provision for income taxes	<u>\$ 1,076</u>	<u>\$ 1,556</u>	<u>\$ 5,996</u>	<u>\$ 6,097</u>

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

Adjusted EBITDA decreased by \$1.1 million to \$12.2 million for the three months ended September 30, 2021 when compared to the three months ended September 30, 2020. The decrease in adjusted EBITDA from period-to-period was primarily driven by the increased investment in Ting Fiber due to the ramp of expenditures related to the Fiber network build and expansion plan; and from slightly decreased contribution from Domain Services. These decreases were partially offset by increased contribution from Mobile Services Mobile Services due to the gain on sale of Ting Customer Assets earned as Other Income and new MSE Platform revenues growing in the current period.

Adjusted EBITDA decreased by \$2.0 million to \$36.1 million for the nine months ended September 30, 2021 when compared to the nine months ended September 30, 2020. The decrease in adjusted EBITDA from period-to-period was primarily driven by the increased investment in Ting Fiber due to the ramp of expenditures related to the Fiber network build and expansion plan. This decrease was partially offset by increased contributions from both Mobile Services due to the gain on sale of Ting Customer Assets earned as Other Income and new MSE Platform revenues growing in the current period and from Domain Services; due to strong performance and additions to domains under management as a result of the COVID-19 pandemic.

OTHER COMPREHENSIVE INCOME (LOSS)

To mitigate the impact of the change in fair value of our foreign exchange contracts on our financial results, in October 2012 we began applying hedge accounting for the majority of the contracts we need to meet our Canadian dollar requirements on a prospective basis.

The following table presents other comprehensive income for the periods presented:

<i>(Dollar amounts in thousands of U.S. dollars)</i>	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Other comprehensive income (loss)	\$ (1,385)	\$ 775	\$ (2,624)	\$ 898
Decrease over prior period	\$ (2,160)		\$ (3,522)	
Decrease - percentage	(279)%		(392)%	
Percentage of net revenues	(2)%	1%	(1)%	0%

The impact of the fair value adjustments on outstanding hedged contracts for the three months ended September 30, 2021 was a gain in OCI before reclassifications of \$0.5 million as compared to a loss in OCI of \$0.7 million before reclassifications for the three months ended September 30, 2020.

The net amount reclassified to earnings during the three months ended September 30, 2021 was a gain of \$0.9 million compared to a loss of less than \$0.1 million during the three months ended September 30, 2020.

The impact of the fair value adjustments on outstanding hedged contracts for the nine months ended September 30, 2021 was a loss in OCI before reclassifications of \$0.1 million as compared to a loss in OCI of \$0.6 million before reclassifications for the nine months ended September 30, 2020.

The net amount reclassified to earnings during the nine months ended September 30, 2021 was a gain of \$2.7 million compared to a loss of \$0.3 million during the nine months ended September 30, 2020.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2021, our cash and cash equivalents balance decreased by \$2.8 million when compared to December 31, 2020. Our principal uses of cash were \$50.1 million for the continued investment in property and equipment driven by Ting Fiber expansion, \$2.0 million related to an investment in an unrelated entity, \$0.4 million related to the payment of tax obligations from net exercise of stock options, and \$0.2 million related to the acquisition of intangible assets. These uses of cash were partially offset by \$28.0 million proceeds received from the drawdown of the Amended 2019 Credit Facility, \$19.1 million from cash provided from operating activities and \$2.8 million from the proceeds received on the exercise of stock options.

Amended 2019 Credit Facility

On June 14, 2019, the Company and its wholly-owned subsidiaries, Tucows.com Co., Ting Fiber, Inc., Ting Inc., Tucows (Delaware) Inc. and Tucows (Emerald), LLC, entered into an Amended and Restated Senior Secured Credit Agreement with RBC, as administrative agent, and lenders party thereto (collectively with RBC, the “Lenders”) under which the Company has access to an aggregate of up to \$240 million in funds, which consists of \$180 million guaranteed credit facility and a \$60 million accordion facility. On November 27, 2019, the Company entered into Amending Agreement No. 1 to the Amended and Restated Senior Secured Credit Agreement (collectively with the Amended and Restated Senior Secured Credit Agreement, the “Amended 2019 Credit Facility”) to amend certain defined terms in connection with the Cedar acquisition.

The Amended 2019 Credit Facility replaced a secured Credit Agreement dated January 20, 2017 with Bank of Montreal, RBC and Bank of Nova Scotia.

The obligations of the Company under the Amended 2019 Credit Agreement are secured by a first priority lien on substantially all of the personal property and assets of the Company and has a four-year term, maturing on June 13, 2023.

Second Amended 2019 Credit Facility

Subsequent to September 30, 2021, the Company entered into a Second Amended 2019 Credit Agreement. For further discussion, please see Note 19 – Subsequent events to the consolidated financial statements of the Company in Part I, Item 1 in this Quarterly Report on Form 10-Q.

Cash Flow from Operating Activities

Net cash inflows from operating activities during the nine months ended September 30, 2021 totaled \$19.1 million, a decrease of 44% when compared to the nine months ended September 30, 2020.

Net income, after adjusting for non-cash charges, during the nine months ended September 30, 2021 was \$25.2 million, a decrease of 17% when compared to the prior year. Net income included non-cash charges and recoveries of \$19.9 million such as depreciation, amortization, stock-based compensation, loss (gain) on change in fair value of currency forward contracts, net right of use operating asset or liability, accretion of contingent consideration, amortization of debt discount and issuance costs, impairment of property and equipment, loss on disposal of domain names, net amortization of contract costs, excess tax benefits on stock-based compensation, and deferred income taxes (recovery). In addition, changes in our working capital used net cash of \$6.1 million. Utilized cash of \$11.2 million from the changes in contract assets, income taxes recoverable, deferred costs of fulfillment, prepaid expenses and deposits, inventory, customer deposits, deferred revenue and accreditation fees payable were offset by positive contributions of \$4.9 million from movements in accounts receivable, accounts payable and accrued liabilities.

Cash Flow from Financing Activities

Net cash inflows from financing activities during the nine months ended September 30, 2021 totaled \$30.5 million, an increase of 1084% when compared to the nine months ended September 30, 2020. Total cash inflows were driven by \$28.0 million of proceeds received from drawdown of the Credit Facility, as well as \$2.8 million from proceeds received on exercise of stock options. These cash inflows were partially offset by \$0.4 million related to the payment of tax obligations resulting from the net exercise of stock options.

Cash Flow from Investing Activities

Investing activities during the nine months ended September 30, 2021 used net cash of \$52.3 million, an increase of 26% when compared to the nine months ended September 30, 2020. Cash outflows of \$50.1 million related to the investment in property and equipment, primarily to support the continued expansion of our Fiber footprint. The Company continues to invest in our existing Ting Towns of Centennial, Colorado, Charlottesville, Virginia, Fuquay-Varina, North Carolina, Wake Forest, North Carolina, Holly Springs, North Carolina, Sandpoint, Idaho, Rolesville, North Carolina and Culver City, California as we seek to extend both our current network and expand to new markets. We expect our capital expenditures on building and expanding our fiber network to continue to increase during Fiscal 2021. In addition to investment in property and equipment, the current period used \$2.0 million for an investment in an unrelated entity, and \$0.2 million for the acquisition of other intangible assets.

Based on our operations, we believe that our cash flow from operations and credit facilities will be adequate to meet our anticipated requirements for working capital, capital expenditures and our interest payments for at least the next 12 months.

We may need additional funds or seek other financing arrangements to facilitate more rapid expansion, develop new or enhance existing products or services, respond to competitive pressures or acquire or invest in complementary businesses, technologies, services or products. We may also evaluate potential acquisitions of other businesses, products and technologies. We currently have no commitments or agreements regarding the acquisition of other businesses. If additional financing is required, we may need additional equity or debt financing and any additional financing may be dilutive to existing investors. We may not be able to raise funds on acceptable terms, or at all.

Off Balance Sheet Arrangements

As of September 30, 2021, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Contractual Obligations

In our 2020 Annual Report, we disclosed our contractual obligations. As of September 30, 2021, other than the items mentioned above, there have been no other material changes to those contractual obligations outside the ordinary course of business.