

INDEX TO FINANCIAL STATEMENTS
Consolidated Financial Statements of Tucows Inc.

	Pages
Consolidated Financial Statements of Tucows Inc.	<u>1</u>
Report of Independent Registered Public Accounting Firm (KPMG LLP, Toronto, Ontario, PCAOB ID: 85)	<u>2</u>
Report of Independent Registered Public Accounting Firm (KPMG LLP, Toronto, Ontario, PCAOB ID: 85)	<u>3</u>
Consolidated Balance Sheets as of December 31, 2021 and 2020	<u>5</u>
Consolidated Statements of Comprehensive Income for the years ended December 31, 2021, 2020 and 2019	<u>6</u>
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021, 2020 and 2019	<u>7</u>
Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019	<u>8</u>
Notes to Consolidated Financial Statements	<u>9</u>

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Tucows, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Tucows Inc.'s and subsidiaries (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated March 1, 2022 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Simply Bits LLC. ("Simply Bits") Company during 2021, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, Simply Bits' internal control over financial reporting associated with 1% of total assets and less than 1% of total revenues included in the consolidated financial statements of the Company as of and for the year ended December 31, 2021. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Simply Bits.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting in Item 9A of the Form 10-K for the fiscal year-ended December 31, 2021. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants
Vaughan, Canada
March 1, 2022

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Tucows, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Tucows, Inc. (the Company) as of December 31, 2021 and 2020, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Evaluation of sufficiency of audit evidence over revenue

As discussed in Note 10 to the consolidated financial statements, the Company's revenues are derived from (a) the provisioning of retail fiber internet services in the Fiber Internet Services segment, (b) the provisioning of wholesale mobile platform services, professional services and the provisioning of retail mobile services in the Mobile Services segment; and (c) domain name registration contracts, other domain related value-added services, domain sale contracts, and other advertising revenue in the Domain Services segment. The Company earned \$304,337 thousand in revenues for the year ended December 31, 2021, of which \$245,576 thousand were generated in the Domain Services segment, \$26,445 thousand in the Fiber Internet Services Segment and \$32,316 thousand in the Mobile Services segment.

We identified the evaluation of the sufficiency of audit evidence over revenue as a critical audit matter. This matter required especially subjective auditor judgment because of the multiple revenue streams, the related revenue recognition processes, and the number of information technology (IT) applications involved. This included determining the nature and extent of audit evidence obtained over each selected revenue stream, and the need to involve information technology professionals with specialized skills and knowledge to assist with the performance of certain procedures.

The following are the primary procedures we performed to address this critical audit matter. For each revenue stream we selected, we evaluated the design and tested the operating effectiveness of certain internal controls related to the processing and recording of revenue. We assessed the recorded revenue by selecting a sample of transactions and comparing the amounts recognized to underlying systems, records and/or other relevant and reliable third party data. We involved IT professionals with specialized skills and knowledge to assist in the testing of certain IT systems and related controls and reports that are used by the Company in its revenue recognition process. We evaluated the sufficiency of the audit evidence obtained over revenue by assessing the results of procedures performed.

Business combination - Valuation of acquired intangible assets.

As discussed in Note 3(d) to the consolidated financial statements, on November 8, 2021, the Company acquired 100% of Simply Bits, LLC via an Agreement and Plan of Merger with one of our wholly owned subsidiaries. The purchase price was \$25.0 million, plus a purchase price adjustment of approximately \$0.8 million relating to a working capital surplus and the estimated fair value of contingent consideration, for net purchase consideration of \$25.8 million. The Company identified customer relationships as an acquired intangible asset and have determined the fair value of the customer relationships to be \$9,160 thousand. As discussed in note 2 (b) to the consolidated financial statements the Company estimated the fair value of customer relationships acquired in a business combination based on the income approach. The income approach is a valuation technique that calculates the fair value of an intangible asset on the present value of future cash flows that the asset can be expected to generate over its remaining life. This valuation involves significant subjectivity and estimation uncertainty, including assumptions related to the future revenues attributable to acquired customer relationships, customer attrition rate, and discount rates.

We identified the valuation of customer relationships acquired in the business combination with Simply Bits, LLC as a critical audit matter. Significant auditor judgment and attention was required due to the significant measurement uncertainty in the assumptions related to future revenues attributable to acquired customers, attrition rates and the discount rate used to determine the fair value. Further, specialized skills, knowledge and experience were required to assess certain assumptions.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's valuation of customer relationships. This included controls related to management's determination of the assumptions identified above. We evaluated the future revenues attributable to acquired customer relationships and the customer attrition rates by considering past performance of the acquired business and the Company's forecasts. We involved valuation professionals with specialized skills and knowledge to assist in evaluating the discount rate by comparing it against a range that was independently developed using publicly available market data for comparable companies where possible.

/s/ KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants
We have served as the Company's auditor since 2000.
Vaughan, Canada
March 1, 2022

Tucows Inc.

Consolidated Balance Sheets

(Dollar amounts in thousands of U.S. dollars)

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,105	\$ 8,311
Accounts receivable, net of allowance for doubtful accounts of \$541 as of December 31, 2021 and \$222 as of December 31, 2020	14,579	15,540
Contract asset, current portion	778	-
Inventory	3,277	1,875
Prepaid expenses and deposits	20,986	16,845
Derivative instrument asset, current portion (note 7)	299	3,860
Deferred costs of fulfillment, current portion (note 11 (b))	94,506	93,467
Income taxes recoverable	3,474	1,302
Total current assets	<u>147,004</u>	<u>141,200</u>
Deferred costs of fulfillment, long-term portion (note 11 (b))	18,205	17,599
Derivative instrument asset, long-term portion (note 7)	278	-
Property and equipment (note 4)	172,662	117,530
Right of use operating lease asset	17,515	11,238
Deferred costs of acquisition (note 11 (a))	1,079	362
Investments	2,012	-
Deferred tax asset (note 9)	22	226
Intangible assets (note 5)	50,409	47,444
Goodwill (note 5)	130,410	116,304
Total assets	<u>\$ 539,596</u>	<u>\$ 451,903</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 10,016	\$ 6,329
Accrued liabilities	15,240	10,235
Customer deposits	16,974	15,402
Derivative instrument liability, current portion (note 7)	125	99
Operating lease liability, current portion (note 12)	3,150	1,761
Deferred revenue, current portion (note 10)	124,116	127,336
Accreditation fees payable, current portion	882	940
Income taxes payable	102	863
Other current liabilities	3,078	-
Total current liabilities	<u>173,683</u>	<u>162,965</u>
Derivative instrument liability, long-term portion (note 7)	-	114
Deferred revenue, long-term portion (note 10)	23,677	24,909
Accreditation fees payable, long-term portion	170	195
Operating lease liability, long-term portion (note 12)	11,853	9,179
Loan payable, long-term portion (note 8)	190,748	121,733
Other long-term liability (note 3 (c))	1,804	3,416
Deferred tax liability (note 9)	22,569	24,694
Stockholders' equity (note 13)		
Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding	-	-
Common stock - no par value, 250,000,000 shares authorized; 10,747,417 shares issued and outstanding as of December 31, 2021 and 10,612,414 shares issued and outstanding as of December 31, 2020	28,515	20,798
Additional paid-in capital	2,764	1,458
Retained earnings	83,470	80,106
Accumulated other comprehensive income (loss) (note 7)	343	2,336
Total stockholders' equity	<u>115,092</u>	<u>104,698</u>
Total liabilities and stockholders' equity	<u>\$ 539,596</u>	<u>\$ 451,903</u>
Commitments and contingencies (note 18)		
Subsequent events (note 20)		

See accompanying notes to consolidated financial statements

Tucows Inc.

Consolidated Statements of Comprehensive Income

(Dollar amounts in thousands of U.S. dollars, except per share amounts)

	Year ended December 31,		
	2021	2020	2019
Net revenues (note 10)	\$ 304,337	\$ 311,202	\$ 337,145
Cost of revenues (note 10)			
Cost of revenues	193,039	200,401	217,579
Network expenses	14,769	10,194	9,190
Depreciation of property and equipment (note 4)	17,452	12,144	8,475
Amortization of intangible assets (note 5)	583	1,340	1,124
Impairment of property and equipment (note 4)	201	1,638	-
Total cost of revenues	<u>226,044</u>	<u>225,717</u>	<u>236,368</u>
Gross profit	78,293	85,485	100,777
Expenses:			
Sales and marketing	39,471	34,274	34,270
Technical operations and development	14,310	12,427	9,717
General and administrative	22,370	20,268	17,880
Depreciation of property and equipment (note 4)	534	488	486
Loss (gain) on disposition of property and equipment	234	(17)	73
Amortization of intangible assets (note 5)	9,424	10,080	9,209
Impairment of definite life intangible assets (note 5)	-	1,431	-
Gain on currency forward contracts (note 7)	(277)	(383)	(198)
Total expenses	<u>86,066</u>	<u>78,568</u>	<u>71,437</u>
Income from operations	(7,773)	6,917	29,340
Other income (expenses):			
Interest expense, net	(4,617)	(3,611)	(4,769)
Gain on sale of Ting customer assets, net (note 16)	20,030	7,612	-
Other expense, net	(370)	(158)	-
Total other income (expenses)	<u>15,043</u>	<u>3,843</u>	<u>(4,769)</u>
Income before provision for income taxes	7,270	10,760	24,571
Provision for income taxes (note 9)	<u>3,906</u>	<u>4,985</u>	<u>9,173</u>
Net income for the period	3,364	5,775	15,398
Other comprehensive income, net of tax			
Unrealized income (loss) on hedging activities (note 7)	572	1,653	1,101
Net amount reclassified to earnings (note 7)	(2,565)	210	182
Other comprehensive income (loss) net of tax expense (recovery) of (\$595) and \$550 and \$411 for the years ended December 31, 2021, 2020 and 2019 (note 7)	<u>(1,993)</u>	<u>1,863</u>	<u>1,283</u>
Comprehensive income, net of tax for the period	<u>\$ 1,371</u>	<u>\$ 7,638</u>	<u>\$ 16,681</u>
Basic earnings per common share (note 17)	<u>\$ 0.32</u>	<u>\$ 0.55</u>	<u>\$ 1.45</u>
Shares used in computing basic earnings per common share (note 17)	<u>10,662,337</u>	<u>10,590,684</u>	<u>10,623,799</u>
Diluted earnings per common share (note 17)	<u>\$ 0.31</u>	<u>\$ 0.54</u>	<u>\$ 1.43</u>
Shares used in computing diluted earnings per common share (note 17)	<u>10,817,468</u>	<u>10,692,281</u>	<u>10,772,812</u>

See accompanying notes to consolidated financial statements

Tucows Inc.

Consolidated Statements of Stockholders' Equity

(Dollar amounts in thousands of U.S. dollars)

	Common stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Number	Amount				
Balances, December 31, 2018*	10,627,988	\$ 15,823	\$ 3,953	\$ 60,810	\$ (810)	\$ 79,776
Exercise of stock options	80,319	967	(572)	-	-	395
Shares deducted from exercise of stock options for payment of withholding taxes and exercise consideration	(21,332)	-	(548)	-	-	(548)
Repurchase and retirement of shares (note 13(a))	(101,816)	(157)	(4,829)	-	-	(4,986)
Stock-based compensation (note 14)	-	-	2,876	-	-	2,876
Net income	-	-	-	15,398	-	15,398
Other comprehensive income (loss) (note 7)	-	-	-	-	1,283	1,283
Balances, December 31, 2019	10,585,159	16,633	880	76,208	473	94,194
Exercise of stock options	113,132	2,290	(1,305)	-	-	985
Shares deducted from exercise of stock options for payment of withholding taxes and exercise consideration	(48,013)	-	(556)	-	-	(556)
Repurchase and retirement of shares (note 13(a))	(70,238)	(125)	(1,279)	(1,877)	-	(3,281)
Acquisition of Cedar Networks	32,374	2,000	-	-	-	2,000
Stock-based compensation (note 14)	-	-	3,718	-	-	3,718
Net income	-	-	-	5,775	-	5,775
Other comprehensive income (loss) (note 7)	-	-	-	-	1,863	1,863
Balances, December 31, 2020	10,612,414	20,798	1,458	80,106	2,336	104,698
Exercise of stock options	180,827	7,588	(2,770)	-	-	4,818
Shares deducted from exercise of stock options for payment of withholding taxes and exercise consideration	(45,824)	-	(387)	-	-	(387)
Stock-based compensation (note 14)	-	129	4,463	-	-	4,592
Net income	-	-	-	3,364	-	3,364
Other comprehensive income (loss) (note 7)	-	-	-	-	(1,993)	(1,993)
Balances, December 31, 2021	10,747,417	\$ 28,515	\$ 2,764	\$ 83,470	\$ 343	\$ 115,092

*The Company has initially applied ASC 2016-02 (Topic 842) on January 1, 2019 (note 2(u)). The accounting standard was adopted using the modified retrospective method, under this method the comparative period was not restated.

See accompanying notes to consolidated financial statements

Tucows Inc.

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

	Year ended December 31,		
	2021	2020	2019
Cash provided by:			
Operating activities:			
Net income for the period	\$ 3,364	\$ 5,775	\$ 15,398
Items not involving cash:			
Depreciation of property and equipment	17,986	12,632	8,961
Loss on write off of property and equipment	201	1,638	142
Amortization of debt discount and issuance costs	300	269	297
Amortization of intangible assets	10,007	11,420	10,333
Net amortization contract costs	(717)	106	(10)
Accretion of contingent consideration	383	344	-
Other	-	223	-
Impairment of definite life intangible asset	-	1,431	-
Deferred income taxes (recovery)	(1,328)	(3,939)	1,285
Excess tax benefits on share-based compensation expense	(1,554)	(861)	(634)
Net Right of use operating assets/Operating lease liability	(2,204)	205	(32)
Loss on disposal of domain names	1	17	114
Loss (gain) on change in the fair value of forward contracts	606	(500)	(313)
Write-down on disposal of Ting Mobile customer assets and contract costs	-	3,513	-
Stock-based compensation	4,592	3,718	2,876
Change in non-cash operating working capital:			
Accounts receivable	1,586	(281)	(3,015)
Contract asset	(778)	-	-
Inventory	(787)	945	318
Prepaid expenses and deposits	(3,974)	(3,459)	2,904
Deferred costs of fulfillment	(1,645)	(1,899)	7,678
Income taxes recoverable	(1,394)	908	(89)
Accounts payable	4,068	(902)	(1,221)
Accrued liabilities	4,857	376	2,329
Customer deposits	645	1,493	27
Deferred revenue	(4,495)	2,942	(6,900)
Accreditation fees payable	(83)	(33)	(67)
Net cash provided by operating activities	29,637	36,081	40,381
Financing activities:			
Proceeds received on exercise of stock options	4,818	985	395
Payment of tax obligations resulting from net exercise of stock options	(387)	(556)	(548)
Repurchase of common stock	-	(3,281)	(4,986)
Proceeds received on loan payable	69,000	8,000	57,371
Repayment of loan payable	-	-	(8,130)
Payment of loan payable costs	(296)	(32)	(641)
Net cash (used in) provided by financing activities	73,135	5,116	43,461
Investing activities:			
Additions to property and equipment	(73,175)	(44,437)	(44,070)
Proceeds on disposal of property and equipment	510	-	-
Acquisition of Ascio Technologies, net of cash of \$1,437 (note 3(a))	-	-	(28,450)
Acquisition of Cedar Holdings Group, net of cash of \$66 (note 3(b))	-	(8,770)	-
Acquisition of Uniregistry, (note 3(c))	(2,499)	-	-
Acquisition of Simply Bits, net of cash of \$801 (note 3(d))	(24,028)	-	-
Acquisition of other intangible assets	(774)	(72)	(3,566)
Investment in securities	(2,012)	-	-
Net cash used in investing activities	(101,978)	(53,279)	(76,086)
Increase (decrease) in cash and cash equivalents	794	(12,082)	7,756
Cash and cash equivalents, beginning of period	8,311	20,393	12,637
Cash and cash equivalents, end of period	\$ 9,105	\$ 8,311	\$ 20,393
Supplemental cash flow information:			
Interest paid	\$ 4,485	\$ 3,573	\$ 4,785
Income taxes paid, net	\$ 8,828	\$ 8,926	\$ 7,941
Supplementary disclosure of non-cash investing and financing activities:			
Property and equipment acquired during the period not yet paid for	\$ 99	\$ 1,129	\$ 548
Fair value of shares issued for acquisition of Cedar Holdings Group	\$ -	\$ 2,000	\$ -
Fair value of contingent consideration for acquisition of Cedar Holdings Group	\$ -	\$ 3,072	\$ -

See accompanying notes to consolidated financial statements

Tucows Inc.

Notes to Consolidated Financial Statements

(Dollar amounts in thousands of U.S. dollars, except per share amounts)

1. Organization of the Company:

Tucows Inc. (referred to throughout this report as the “Company”, “Tucows”, “we”, “us” or through similar expressions) provides simple useful services that help people unlock the power of the Internet. The Company provides US consumers and small businesses with mobile phone services nationally and high-speed fixed Internet access in selected towns. The Company offers Mobile Service Enabler (“MSE”) solutions, as well as professional services to other retail mobile providers. The Company is also a global distributor of Internet services, including domain name registration, digital certificates, and email. It provides these services primarily through a global Internet-based distribution network of Internet Service Providers, web hosting companies and other providers of Internet services to end-users.

2. Significant Accounting Policies:

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

(a) Basis of presentation

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

(b) Use of estimates

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, management evaluates its judgements and estimates, including those related to the allocation of MSE platform service consideration between multiple performance obligations, the recoverability of goodwill and intangible assets which requires judgement over qualitative indicators of impairment and loss contingencies. For acquired customer relationships, the Company estimates the fair value based on the income approach. The income approach is a valuation technique that calculates the fair value of an intangible asset based on the present value of future cash flows expected to be generated over the remaining useful life of the asset. This valuation involves significant subjectivity and estimation uncertainty, including assumptions related to future revenues attributable to acquired customer relationships, attrition rates and discount rates. Management bases its estimates on historical experience, available market information as applicable, and on various other assumptions that are believed to be reasonable under the circumstances at the time they are made. Under different assumptions or conditions, the actual results will differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of the Company’s control.

(c) Cash and cash equivalents

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

(d) Inventory

Inventory primarily consists of Internet optical network terminals and customer installation equipment. To a lesser extent, inventory also includes mobile devices, mobile sim cards and related accessories. All inventory is stated at the lower of cost or net realizable value. Cost is determined based on actual cost of the mobile device, accessory shipped or optical network terminals.

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

(e) Property and equipment

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

Asset	Rate
Computer equipment	30%
Computer software	33 1/3 - 100%
Furniture and equipment	20%
Vehicles and tools	20%
Fiber network (years)	15
Customer equipment and installations (years)	3
Leasehold improvements	Over term of lease
Capitalized internal use software (years)	3 - 7

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

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

Additions to land are recorded at cost, and include any direct costs associated with the purchase, as well as any direct costs incurred to bring it to the condition necessary for its intended use, such as legal fees associated with the acquisition and the cost of permanent improvements. Land is not depreciated.

We capitalize costs for software to be used internally when we enter the application development stage. This occurs when we complete the preliminary project stage, management authorizes and commits to funding the project, and it is feasible that the project will be completed and the software will perform the intended function. We cease to capitalize costs related to a software project when it enters the post implementation and operation stage.

Costs capitalized during the application development stage consist of payroll and related costs for employees who are directly associated with, and who devote time directly to, a project to develop software for internal use. External contractor costs who are directly associated with, and who devote time directly to, a project to develop software for internal use are also capitalized. Generally, we do not capitalize any general and administrative or overhead costs or costs incurred during the application development stage related to research and development, training or data conversion costs. Research and development costs and data conversion costs may be capitalized as Costs to fulfill a contract, if they relate to a specific professional services customer contract (see Note 11 - Costs to obtain and fulfill a contract). Costs related to upgrades and enhancements to internal-use software, if those upgrades and enhancements result in additional functionality, are capitalized. If upgrades and enhancements do not result in additional functionality, those costs are expensed as incurred.

The capitalized software development costs are generally to be amortized using the straight-line method over a 3 to 7-year period. In determining and reassessing the estimated useful life over which the cost incurred for the software should be amortized, we consider the effects of obsolescence, technology, competition and other economic factors.

(f) Derivative Financial Instruments

The Company uses derivative financial instruments to manage foreign currency exchange risk. The Company also uses pay-fixed, receive-variable interest rate swap with a Canadian chartered bank to limit the potential interest rate fluctuations incurred on its future cash flows related to variable interest payments on the Credit facility.

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

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

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

(g) Goodwill and Other Intangible assets

Goodwill

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

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

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

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

Intangibles Assets Not Subject to Amortization

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

[Table of Contents](#)

The Company reviews individual domain names in the portfolio for potential impairment throughout the fiscal year in determining whether a particular name should be renewed. Impairment is recognized for names that are not renewed.

Intangible Assets Subject to Amortization

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

	(in years)
Technology	2 - 7
Brand	7
Customer relationships	3 - 7
Network rights	15

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

(h) Revenue recognition

See “Note 10 – Revenue” for a description of the Company’s revenue recognition policy and a further description of the principal activities – separated by reportable segments – from which the Company generates its revenue.

(i) Contract balances

The Company accounts for contract assets and liabilities (deferred revenue) on a contract-by-contract basis, with each contract presented as either a net contract asset or a net contract liability accordingly. Contract assets are recorded for services delivered under contracts, to the extent that the services delivered exceed the services which have been billed to the customer at the reporting date. Contract assets are transferred to receivables when the rights to consideration become unconditional. Contract assets primarily relate to long-term mobile platform services contracts. Deferred revenue primarily relates to the unearned portion of revenues received in advance related to the unexpired term of registration fees from domain name registrations and other domain related Internet services, on both a wholesale and retail basis, net of external commissions. To a lesser extent, deferred revenue also includes a portion of the transaction price received from other professional services.

(j) Contract Costs

See “Note 11 – Costs to obtain and fulfill a contract” for a description of the Company’s contract cost recognition policy.

(k) Leases

See note 2(u) for the Company’s adoption of ASC 842 on January 1, 2019.

Under ASC 842, we determine if an arrangement is a lease at inception. Our lease agreements generally contain lease and non-lease components. Payments under our lease arrangements are primarily fixed. Non-lease components primarily include payments for maintenance and utilities. We combine fixed payments for non-lease components with lease payments and account for them together as a single lease component which increases the amount of our lease assets and liabilities.

Certain lease agreements contain variable payments, which are expensed as incurred and not included in the lease assets and liabilities. These amounts include payments affected by payments contingent on the number of Ting internet subscribers connected to a leased fiber network, and payments for maintenance and utilities.

We have elected to consider leases with a term of 12 months or less as short-term, and as such these have not been recognized on the balance sheet. We recognize lease expense for short-term leases on a straight-line basis over the lease term.

Lease assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is our incremental borrowing rate, because the interest rate implicit in our leases is not readily determinable. Our incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. Our lease terms include periods under options to extend or terminate the lease when it is reasonably certain that we will exercise that option. We generally use the base, non-cancelable, lease term when determining the lease assets and liabilities. Lease assets also include any prepaid lease payments.

Operating lease expense is recognized on a straight-line basis over the lease term.

(l) Accreditation fees payable

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

(m) Translation of foreign currency transactions

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

(n) Income taxes

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

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

(o) Stock-based compensation

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

(p) Earnings per common share

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

(q) Concentration of credit risk

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

(r) Fair value measurement

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

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

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

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

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

(s) Investments

The Company accounts for investment in entities over which it has the ability to exert significant influence, but does not control and is not the primary beneficiary of, using the equity method of accounting. The Company includes the proportionate share of earnings (loss) of the equity method investees in Other Income in the Consolidated Statements of Comprehensive Income. The proportional shares of affiliate earnings or losses accounted for under the equity method of accounting were not material for all periods presented. Equity investments without readily determinable fair value include ownership rights that do not provide the Company with control or significant influence. Such equity investments are recorded at cost, less any impairment, and adjusted for subsequent observable price changes as of the date that an observable transaction takes place. Subsequent adjustments are recorded in other income (expense), net.

(t) Segment reporting

The Company operates in three operating segments, Fiber Internet Services, Mobile Services and Domain Services. No operating segments have been aggregated to determine our reportable segments.

Our reportable operating segments and their principal activities consist of the following:

Fiber Internet Services	This segment derives revenue from the retail high speed Internet access to individuals and small businesses primarily through the Ting website, and other revenues including billing solutions to small ISPs. Revenues are generated in the United States.
Mobile Services	This segment derives revenue from MSE platform services and professional services to wholesale customers. This segment also derives revenue from the retail sale of mobile phones, retail telephony services to individuals and small businesses primarily through the Ting website. Revenues are generated in the United States.
Domain Services	This segment includes wholesale and retail domain name registration services, value added services and portfolio services. The Company primarily earns revenues from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations; the sale of retail Internet domain name registration and email services to individuals and small businesses. Domain Services revenues are attributed to the country in which the contract originates, primarily Canada and the United States.

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

(u) Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

ASU 2016-02: Adoption of Leases (Topic 842)

The Company adopted ASU No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02") as of January 1, 2019.

The Company has elected to apply ASU 2016-02 using the modified retrospective approach with the transition relief provided by ASC 2018-11, which allows the Company to use January 1, 2019 as the date of initial application. As a result, the 2018 comparative period has not been restated and continue to be reported under Topic 840.

The Company elected the practical expedient to use hindsight when considering the likelihood that lessee options to extend or terminate a lease or purchase the underlying asset will be exercised, and in assessing the impairment of right-of-use assets.

The Company elected the practical expedient not to separate non-lease components from the associated lease components for its existing datacenter, corporate offices and fiber-optic cable leases at transition.

As a result of adopting ASU 2016-02, the most significant effects were the recognition of a right-of-use ("ROU") asset and lease liability related to operating leases of approximately \$8.8 million and approximately \$8.3 million, respectively at January 1, 2019. The difference between the ROU asset and lease liability of \$0.5 million was due to the net reclassification of previously deferred rent and prepaid expenses of approximately \$0.1 million and approximately \$0.6 million, respectively to the ROU asset. There was no impact on opening retained earnings on adoption. The adoption of ASU 2016-02 did not have a significant impact on our consolidated statements of comprehensive income or our consolidated statements of cash flows.

Recent Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"), which provides optional guidance for a limited period of time to ease the potential burden of reference rate reform on financial reporting. The amendments in ASU 2020-04 apply to contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate. The following optional expedients for applying the requirements of certain Topics or Industry Subtopics in the Codification are permitted for contracts that are modified because of reference rate reform and that meet certain scope guidance:

- a) Modifications of contracts within the scope of Topics 310, Receivables, and 470, Debt, should be accounted for by prospectively adjusting the effective interest rate.
- b) Modifications of contracts within the scope of Topic 842, Leases, should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required under those Topics for modifications not accounted for as separate contracts.
- c) Modifications of contracts do not require an entity to reassess its original conclusion about whether that contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract under Subtopic 815-15, Derivatives and Hedging— Embedded Derivatives

The amendments in ASU 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently charged interest and standby fees associated with its Amended 2019 Credit Facility (as defined below) based on LIBOR which are partially hedged by interest rate swaps, which are also based on LIBOR. Both the credit facility agreement and the interest rate swaps will need to be amended when an alternative reference rate is chosen, at which time we may adopt some of the practical expedients provided by ASU 2020-04.

3. Acquisitions:

(a) Ascio

On March 18, 2019, the Company entered into an Asset Purchase Agreement with its indirect wholly owned subsidiary, Ting Fiber, Inc., and NetNames European Holdings ApS, CSC Administrative Services Limited UK, and Corporation Service Company (“CSC”), pursuant to which Ting Fiber, Inc. purchased from CSC all of the equity of Ascio Technologies, Inc. (“Ascio”), a domain registrar business, and all of CSC’s assets related to that business. The final purchase price was \$29.9 million, which represented the agreed upon purchase of \$29.44 million plus an amount of \$0.45 million related to the estimated working capital deficiency acquired.

All definite life intangible assets acquired, including brand, developed technology and customer relationships will be amortized over 7 years.

The goodwill related to this acquisition is primarily attributable to synergies expected to arise from the acquisition and is deductible for US tax purposes but non-deductible for Danish tax purposes.

In connection with this acquisition, the Company incurred total acquisition related costs of \$0.5 million of which \$0.3 million and \$0.2 million were included in General & Administrative expenses in the consolidated statements of operations and comprehensive income during Fiscal 2019 and Fiscal 2018, respectively.

(b) Cedar

In the fourth quarter of 2019, the Company entered into a Stock Purchase Agreement to purchase all of the issued and outstanding shares of Cedar Holdings Group, Incorporated (“Cedar”), a fiber Internet provider business based in Durango, Colorado. The transaction closed on January 1, 2020, following receipt of all regulatory approvals. The purchase price was \$14.1 million, less a purchase price adjustment of approximately \$0.2 million relating to a working capital deficit and the estimated fair value of contingent consideration, for net purchase consideration of \$13.9 million. In addition to \$9.0 million cash consideration due at closing, the Company also issued 32,374 (\$2.0 million) of Tucows Inc. shares with a two-year restriction period at closing. Included in the agreement is contingent consideration totaling up to \$4.0 million, due on the 24th and 36th month anniversaries of the closing of the transaction dependent upon the achievement of certain milestones as defined in the Share Purchase Agreement. The fair value of the contingent consideration was determined to be \$3.1 million using a discount rate of 11.2%. On January 2, 2022, the Company paid \$2 million with respect to the 24th month anniversary contingent payments.

The following table shows the final allocation of the purchase price for Cedar to the acquired identifiable assets and liabilities assumed (*thousands of U.S. dollars*):

Cash Consideration, including working capital adjustment	\$	8,836
Share-based payment		2,000
Fair value of contingent payments		3,072
Total estimated purchase price		13,908
Cash and Cash Equivalents		66
Accounts Receivables, net		13
Other current assets		22
Property and equipment		4,661
Right of use operating lease		18
Customer relationships		4,640
Network rights		750
Total identifiable assets		10,170
Accounts payable and accrued liabilities		(362)
Deferred tax liability		(2,373)
Operating lease liability		(13)
Total liabilities assumed		(2,748)
Total net assets (liabilities) assumed		7,422
Total goodwill	\$	6,486

The amortization period for the customer relationships and network rights are 7 and 15 years, respectively.

(c) Uniregistry

On October 1, 2021, the Company acquired the domain registry related assets of UNR Corp., UNR Inc. and Uni Naming and Registry Ltd. (each a seller and collectively “UNR”). The purchase price was \$3.0 million, less a purchase price adjustment of approximately \$0.5 million relating to a working capital deficit, for net purchase consideration of \$2.5 million.

Cash Consideration, including working capital adjustment	\$	2,499
Total estimated purchase price		2,499
Accounts Receivables, net		538
Other current assets		23
Technology		3,039
Total identifiable assets		3,600
Accounts payable and accrued liabilities		1,101
Total liabilities assumed		1,101
Total net assets (liabilities) assumed		2,499
Total goodwill	\$	-

The technology assets acquired are amortized over periods of 5 - 7 years.

The amount of revenue recognized since the acquisition date included in the consolidated statements of operations and comprehensive income statement for Fiscal 2021 is \$0.2 million.

[Table of Contents](#)

The net income recognized since the acquisition date included in the consolidated statements of operations and comprehensive income for Fiscal 2021 is gain of less than \$0.1 million.

In connection with this acquisition, the Company incurred nil acquisition related costs.

(d) Simply Bits

On November 8, 2021, the Company acquired 100% of Simply Bits, LLC via an Agreement and Plan of Merger with one of our wholly owned subsidiaries. The purchase price was \$25.0 million, plus a purchase price adjustment of approximately \$0.8 million relating to a working capital surplus and the estimated fair value of contingent consideration, for net purchase consideration of \$25.8 million. Included in the agreement is contingent consideration totaling up to \$1.0 million, due 60 days from December 31, 2021, which is subject to the acquired entity meeting certain revenue targets in fiscal 2021. The purchase price allocation is preliminary and may differ from the final purchase price allocation, and these differences may be material. Revisions to the allocations will occur as additional information about the fair value of assets and liabilities becomes available. The final purchase price allocations will be completed within one year from the acquisition date.

Cash Consideration, including working capital adjustment	\$	24,829
Fair value of contingent payments		953
Total estimated purchase price		25,782
Cash and Cash Equivalents		801
Accounts Receivables, net		87
Other current assets		759
Property and equipment		1,684
Right of use operating lease		1,804
Customer relationships		9,160
Total identifiable assets		14,295
Accounts payable and accrued liabilities		307
Deferred tax liability		20
Operating lease liability		1,794
Other liabilities		498
Total liabilities assumed		2,619
Total net assets (liabilities) assumed		11,676
Total goodwill	\$	14,106

The amortization period for the customer relationships is 7 years.

The goodwill related to this acquisition is primarily attributable to synergies expected to arise from the acquisition.

The amount of revenue recognized since the acquisition date included in the consolidated statements of operations and comprehensive income statement for Fiscal 2021 is \$1.4 million.

The net income recognized since the acquisition date included in the consolidated statements of operations and comprehensive income for Fiscal 2021 is loss of less than \$0.1 million.

On a proforma basis, the revenues and net income for Simply Bits for Fiscal 2021 would be \$9.1 million and \$1.7 million respectively had the acquisition occurred on January 1, 2021. This pro forma information is unaudited and does not purport to represent what the Company's actual results would have been if the acquisition had occurred as of the date indicated or what results would be for any future periods.

In connection with this acquisition, the Company incurred total acquisition related costs of \$0.2 million were included in General & Administrative expenses in the consolidated statements of operations and comprehensive income during Fiscal 2021.

4. Property and Equipment:

Property and equipment consist of the following (Dollar amounts in thousands of U.S. dollars):

	December 31, 2021	December 31, 2020
Computer equipment	\$ 34,465	\$ 25,029
Computer software	1,921	1,760
Capitalized internal use software	10,660	2,835
Furniture and equipment	1,418	1,314
Vehicles and tools	6,569	4,476
Fiber network	109,500	66,766
Customer equipment and installations	22,027	13,332
Land	1,123	1,634
Buildings	9,096	-
Assets under construction	29,414	36,720
Leasehold improvements	548	475
	<u>226,741</u>	<u>154,341</u>
Less:		
Accumulated depreciation	54,079	36,811
	<u>\$ 172,662</u>	<u>\$ 117,530</u>

Depreciation of property and equipment (Dollar amounts in thousands of U.S. dollars):

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
Depreciation of property and equipment	\$ 17,986	\$ 12,632	\$ 8,961

During the year ended December 31, 2021, property, plant and equipment with a net book value of \$0.2 million was written off and included in impairment of property and equipment in the consolidated statement of comprehensive income.

During the year ended December 31, 2020, property, plant and equipment with a net book value of \$1.6 million related to Ting TV, a product under development for Ting Fiber was written off and included in impairment of property and equipment in the consolidated statement of comprehensive income.

During the year ended December 31, 2019, property, plant and equipment with a net book value of \$0.1 was written off and included in impairment of property and equipment in the consolidated statement of comprehensive income.

5. Goodwill and Other Intangible Assets

Goodwill

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

Goodwill consists of the following (Dollar amounts in thousands of U.S. dollars):

	Fiber Internet Services	Mobile Services	Domain Services	Total
Balances, December 31, 2019	\$ 2,132	\$ -	\$ 107,686	\$ 109,818
Cedar Technologies Inc. acquisition	6,486	-	-	6,486
Balances, December 31, 2020	\$ 8,618	\$ -	\$ 107,686	\$ 116,304
Simply Bits, LLC acquisition	14,106	-	-	14,106
Balances, December 31, 2021	\$ 22,724	\$ -	\$ 107,686	\$ 130,410

The Company's Goodwill balance is \$130.4 million as of December 31, 2021 and \$116.3 million as of December 31, 2020. The Company's goodwill relates 83% (\$107.7 million) to its Domain Services operating segment and 17% (\$22.7 million) to its Fiber Internet Services operating segment.

Goodwill is not amortized, but is subject to an annual impairment test. The Company performed an impairment analysis as outlined in "Note 2(g) – Significant Accounting Policies" and there were no indications of impairment for Fiscal 2021 and Fiscal 2020.

Other Intangible Assets:

Intangible assets consist of acquired brand, technology, customer relationships, surname domain names, direct navigation domain names and network rights. The Company considers its intangible assets consisting of surname domain names and direct navigation domain names as indefinite life intangible assets. The Company has the exclusive right to these domain names as long as the annual renewal fees are paid to the applicable registry. Renewals occur routinely and at a nominal cost. The indefinite life intangible assets are not amortized, but are subject to impairment assessments performed throughout the year. During Fiscal 2021, we assessed whether certain domain names that were originally acquired in the June 2006 acquisition of Mailbank.com Inc. that were up for renewal, should not be renewed. During the years ended December 31, 2021, December 31, 2020, and December 31, 2019, no impairment of indefinite life intangible assets was recorded.

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

In June 2020, in light of developments in the economy and the business and leisure travel industries as a result of the COVID-19 pandemic, the Company decided to discontinue the operation of Roam Mobility. As a consequence of the decision to shut down its Roam Mobility operations, the Company has recorded an impairment loss associated with Roam Mobility customer relationships of \$1.4 million during the year ended December 31, 2020.

In August 2020, the Company sold the mobile customer accounts that are marketed and sold under the Ting brand (other than certain customer accounts associated with one network operator), and as such de-recognized any capitalized customer relationships associated with those accounts. See Note 16 - Other income, for more information.

Throughout Fiscal 2020, the Company purchased several non-exclusive land easements, totaling \$0.1 million, which are necessary for the Company to install fiber internet infrastructure in conjunction with its Fiber Internet business.

Acquired intangible assets consist of the following (Dollar amounts in thousands of U.S. dollars):

Amortization period	Surname domain names	Direct navigation domain names	Brand	Customer relationships	Technology	Network rights	Total
	indefinite life	indefinite life	7 years	3 - 7 years	2 - 7 years	15 years	
Balances, December 31, 2019	\$ 11,164	\$ 1,145	\$ 9,091	\$ 34,269	\$ 1,516	\$ 469	\$ 57,654
Cedar Technologies Inc. acquisition	-	-	-	4,640	-	750	5,390
Additions to/(disposals from) domain portfolio, net	(7)	(10)	-	-	-	-	(17)
Impairment of definite life intangible asset	-	-	-	(1,431)	-	-	(1,431)
Other	-	-	-	(223)	-	-	(223)
Write-down of Ting Mobile customer relationships	-	-	-	(2,581)	-	-	(2,581)
Acquisition of Network rights	-	-	-	-	-	72	72
Amortization expense	-	-	(2,070)	(8,010)	(1,242)	(98)	(11,420)
Balances December 31, 2020	\$ 11,157	\$ 1,135	\$ 7,021	\$ 26,664	\$ 274	\$ 1,193	\$ 47,444
Simply Bits acquisition	-	-	-	9,160	-	-	9,160
Uniregistry acquisition	-	-	-	-	3,039	-	3,039
Acquisition of customer relationship	-	-	-	224	-	-	224
Acquisition of brand	-	-	59	-	-	-	59
Acquisition of technology	-	-	-	-	491	-	491
Additions to/(disposals from) domain portfolio, net	(1)	-	-	-	-	-	(1)
Amortization expense	-	-	(2,070)	(7,414)	(412)	(111)	(10,007)
Balances December 31, 2021	\$ 11,156	\$ 1,135	\$ 5,010	\$ 28,634	\$ 3,392	\$ 1,082	\$ 50,409

The following table shows the estimated amortization expense for each of the next 5 years and thereafter, assuming no further additions to acquired intangible assets are made (Dollar amounts in thousands of U.S. dollars):

	Year ending December 31,
2022	\$ 11,340
2023	10,567
2024	5,144
2025	4,603
2026	3,066
Thereafter	3,398
Total	\$ 38,118

6. Fair Value Measurement:

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

Equity investments without readily determinable fair value include ownership rights that do not provide the Company with control or significant influence. Such equity investments are recorded at cost, less any impairment, and adjusted for subsequent observable price changes as of the date that an observable transaction takes place. Subsequent adjustments are recorded in other income (expense), net.

The following table provides a summary of the fair values of the Company's derivative instruments measured at fair value on a recurring basis as at December 31, 2021 (Dollar amounts in thousands of U.S. dollars):

	December 31, 2021			
	Fair Value Measurement Using			Assets at Fair value
	Level 1	Level 2	Level 3	
Derivative instrument asset, net	\$ -	\$ 452	\$ -	\$ 452
Total Assets, net	\$ -	\$ 452	\$ -	\$ 452

The following table provides a summary of the fair values of the Company's derivative instruments measured at fair value on a recurring basis as at December 31, 2020 (Dollar amounts in thousands of U.S. dollars):

	December 31, 2020			
	Fair Value Measurement Using			Assets at Fair value
	Level 1	Level 2	Level 3	
Derivative instrument asset, net	\$ -	\$ 3,647	\$ -	\$ 3,647
Total Assets, net	\$ -	\$ 3,647	\$ -	\$ 3,647

7. Derivative Instruments and Hedging Activities:

Foreign currency forward contracts

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

In May 2020, the Company entered into a pay-fixed, receive-variable interest rate swap with a Canadian chartered bank to limit the potential interest rate fluctuations incurred on its future cash flows related to variable interest payments on the Credit facility. The notional value of the interest rate swap was \$70 million. The Company does not use these forward contracts for trading or speculative purposes. The contract is coterminous with the Credit facility, maturing in June 2023.

The Company has designated certain of these transactions as cash flow hedges of forecasted transactions under ASC Topic 815. For certain contracts, as the critical terms of the hedging instrument, and of the entire hedged forecasted transaction, are the same, in accordance with ASC Topic 815, the Company has been able to conclude that changes in fair value and cash flows attributable to the risk of being hedged are expected to completely offset at inception and on an ongoing basis. Accordingly, unrealized gains or losses on the effective portion of these contracts have been included within other comprehensive income. The fair value of the contracts, as of December 31, 2021 and December 31, 2020, is recorded as derivative instrument assets or liabilities. For certain contracts where the hedged transactions are no longer probable to occur, the loss on the associated forward contract is recognized in earnings.

As of December 31, 2021, the notional amount of forward contracts that the Company held to sell U.S. dollars in exchange for Canadian dollars was \$25.2 million, of which \$25.2 million met the requirements of ASC Topic 815 and were designated as hedges.

As of December 31, 2020 the notional amount of forward contracts that the Company held to sell U.S. dollars in exchange for Canadian dollars was \$31.8 million, of which \$26.8 million met the requirements of ASC Topic 815 and were designated as hedges.

As of December 31, 2021, we had the following outstanding forward contracts to trade U.S. dollars in exchange for Canadian dollars:

Maturity date (Dollar amounts in thousands of U.S. dollars)	Notional amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Fair value
January - March 2022	11,518	1.2561	(82)
April - June 2022	6,453	1.2801	73
July - September 2022	3,779	1.2801	39
October - December 2022	3,476	1.2801	32
	<u>\$ 25,226</u>	<u>1.2691</u>	<u>\$ 62</u>

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

The effect of these derivative instruments on our consolidated financial statements as of, and for the years ended December 31, 2021 and 2020, were as follows (amounts presented do not include any income tax effects).

Fair value of derivative instruments in the consolidated balance sheets (see "Note 6 – Fair Value Measurement")

Derivatives (Dollar amounts in thousands of U.S. dollars)	Balance Sheet Location	As of December 31, 2021 Fair Value Asset	As of December 31, 2020 Fair Value Asset
Foreign Currency forward contracts designated as cash flow hedges (net)	Derivative instruments	\$ 62	\$ 3,254
Interest rate swap contract designated as a cash flow hedge (net)	Derivative instruments	390	(213)
Foreign Currency forward contracts not designated as cash flow hedges (net)	Derivative instruments	-	606
Total foreign currency forward contracts and interest rate swaps (net)	Derivative instruments	<u>\$ 452</u>	<u>\$ 3,647</u>

Movement in AOCI balance for the year ended December 31, 2021 (Dollar amounts in thousands of U.S. dollars)

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance - December 31, 2020	\$ 3,038	\$ (702)	\$ 2,336
Other comprehensive income (loss) before reclassifications	794	(222)	572
Amount reclassified from AOCI	(3,382)	817	(2,565)
Other comprehensive income (loss) for the year ended December 31, 2021	(2,588)	595	(1,993)
Ending AOCI Balance - December 31, 2021	<u>\$ 450</u>	<u>\$ (107)</u>	<u>\$ 343</u>

Movement in AOCI balance for the year ended December 31, 2020 (Dollar amounts in thousands of U.S. dollars)

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance - December 31, 2019	\$ 625	\$ (152)	\$ 473
Other comprehensive income (loss) before reclassifications	2,142	(489)	1,653
Amount reclassified from AOCI	271	(61)	210
Other comprehensive income (loss) for the year ended December 31, 2020	2,413	(550)	1,863
Ending AOCI Balance - December 31, 2020	\$ 3,038	\$ (702)	\$ 2,336

Movement in AOCI balance for the year ended December 31, 2019 (Dollar amounts in thousands of U.S. dollars)

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance - December 31, 2018	\$ (1,069)	\$ 259	\$ (810)
Other comprehensive income (loss) before reclassifications	1,454	(353)	1,101
Amount reclassified from AOCI	240	(58)	182
Other comprehensive income (loss) for the year ended December 31, 2019	1,694	(411)	1,283
Ending AOCI Balance - December 31, 2019	\$ 625	\$ (152)	\$ 473

Effects of derivative instruments on income and other comprehensive income (OCI) (Dollar amounts in thousands of U.S. dollars)

Derivatives in Cash Flow Hedging Relationship	Amount of Gain or (Loss) Recognized in OCI, net of tax, on Derivative	Location of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income
Foreign currency forward contracts for the year ended December 31, 2021	\$ (2,203)	Operating expenses Cost of revenues	\$ 2,652 \$ 615
Interest rate swap contract for the year ended December 31, 2021	\$ 210	Interest expense, net	\$ 115
Foreign currency forward contracts for the year ended December 31, 2020	\$ 2,026	Operating expenses Cost of revenues	\$ (188) \$ (66)
Interest rate swap contract for the year ended December 31, 2020	\$ (163)	Interest expense, net	\$ (17)
Foreign currency forward contracts for the year ended December 31, 2019	\$ 1,283	Operating expenses Cost of revenues	\$ (197) \$ (43)
Interest rate swap contract for the year ended December 31, 2019	\$ -	Interest expense, net	\$ -

In addition to the above, for those foreign currency forward contracts not designated as hedges, the Company recorded the following fair value adjustments on settled and outstanding contracts (Dollar amounts in thousands of U.S. dollars):

Forward currency contracts not designated as hedges:	2021	Year Ended December 31, 2020	2019
Gain (loss) on settlement	883	(117)	(115)
Gain (loss) on change in fair value	(606)	500	313

8. Loan Payable:

Second Amended 2019 Credit Facility

On October 26, 2021, the Company entered into a Second Amended and Restated Senior Secured Credit Agreement (the “Second Amended 2019 Credit Agreement”) with the Lenders and Toronto-Dominion Bank (collectively the “New Lenders”) to, among other things, increase the existing revolving credit facility from \$180 million to \$240 million. The Amended Credit Agreement provides the Company with access to an aggregate of \$240 million in committed funds. The Amended Credit Agreement also provides for two additional interest rate tiers if the Company exceeds a 3.50x Total Funded Debt to Adjusted EBITDA Ratio.

In connection with the Second Amended 2019 Credit Facility, the Company incurred \$0.3 million of fees related to the debt issuance, which have been reflected as a reduction to the carrying amount of the loan payable and will be amortized over the term of the credit facility agreement.

Amended 2019 Credit Facility

On June 14, 2019, the Company and its wholly-owned subsidiaries, Tu cows.com Co., Ting Fiber, Inc., Ting Inc., Tu cows (Delaware) Inc. and Tu cows (Emerald), LLC entered into an Amended and Restated Senior Secured Credit Agreement (the “Amended 2019 Credit Facility”) with Royal Bank (“RBC”), as administrative agent, and lenders party thereto (collectively with RBC, the “Lenders”) under which the Company had access to an aggregate of up to \$240 million in funds, which consisted of \$180 million guaranteed credit facility and a \$60 million accordion facility. The Amended 2019 Credit Facility replaced the Company’s 2017 Amended Credit Facility.

In connection with the Amended 2019 Credit Facility, the Company incurred \$0.3 million of fees paid to the Lenders and \$0.2 million of legal fees related to the debt issuance. Of these fees, \$0.4 million are debt issuance costs, which have been reflected as a reduction to the carrying amount of the loan payable and will be amortized over the term of the credit facility agreement and \$0.1 million were recorded in General and administrative expenses for the year ended December 31, 2019.

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.

Credit Facility Terms

The Second Amended 2019 Credit Facility is revolving with interest only payments with no scheduled repayments during the term.

The Second Amended 2019 Credit Facility contains customary representations and warranties, affirmative and negative covenants, and events of default. The Second Amended 2019 Credit Facility requires that the Company to comply with the following financial covenants at all times, which are to be calculated on a rolling four quarter basis: (i) maximum Total Funded Debt to Adjusted EBITDA Ratio of 4.50:1.00 until March 31, 2023 and 4.00:1.00 thereafter; and (ii) minimum Interest Coverage Ratio of 3.00:1.00. As at and for the periods ending December 31, 2021 and December 31, 2020 the Company was in compliance with these covenants.

Borrowings under the Second Amended 2019 Credit Facility will accrue interest and standby fees based on the Company’s Total Funded Debt to Adjusted EBITDA ratio and the availment type as follows:

Availment type or fee	If Total Funded Debt to EBITDA is:					
	Less than 2.00	Greater than or equal to 2.00 and less than 2.50	Greater than or equal to 2.50 and less than 3.00	Greater than or equal to 3.00 and less than 3.50	Greater than or equal to 3.50 and less than 4.00	Greater than or equal to 4.00
Canadian dollar borrowings based on Bankers’ Acceptance or U.S. dollar borrowings based on LIBOR (Margin)	1.75%	2.25%	2.50%	2.75%	3.00%	3.25%
Canadian or U.S. dollar borrowings based on Prime Rate or U.S. dollar borrowings based on Base Rate (Margin)	0.50%	1.00%	1.25%	1.50%	1.75%	2.00%
Standby fees	0.35%	0.45%	0.50%	0.55%	0.60%	0.65%

The following table summarizes the Company’s borrowings under the credit facilities (Dollar amounts in thousands of U.S. dollars):

	December 31, 2021	December 31, 2020
Revolver	191,400	122,400
Less: unamortized debt discount and issuance costs	(652)	(667)
Total loan payable	190,748	121,733
Less: loan payable, current portion	-	-
Loan payable, long-term portion	190,748	121,733

The following table summarizes our scheduled principal repayments as of December 31, 2021 (Dollar amounts in thousands of U.S. dollars):

2021	-
2022	-
2023	191,400
	<u>\$ 191,400</u>

9. Income Taxes:

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate of 21% for the years ended December 31, 2021, December 31, 2020 and December 31, 2019, to income before provision for income taxes as a result of the following (Dollar amounts in thousands of U.S. dollars):

	Year ended December 31,		
	2021	2020	2019
Income for the year before provision for income taxes	\$ 7,270	\$ 10,760	\$ 24,571
Computed federal tax expense	1,527	2,259	5,160
Increase (decrease) in income tax expense resulting from:			
State income taxes	314	303	526
Foreign earnings	382	(175)	(444)
Changes in valuation allowance	2,300	1,867	5,277
Expired business tax credits	-	1,044	-
Excess tax benefits on share-based compensation	(1,556)	(407)	(634)
Permanent differences	205	(161)	16
Others	734	255	(728)
Provision for income taxes	\$ 3,906	\$ 4,985	\$ 9,173

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

In Fiscal 2021, the Company did not utilize the bonus depreciation with respect to its continued investment in the Ting Fiber business. Despite this, due to the reduction in tax rate to 21%, it is unlikely we will ultimately be able to fully claim the Fiscal 2021 foreign taxes paid in future years as a foreign tax credit. As such, we have taken a valuation allowance on foreign tax credits not utilized for 2021 income tax purposes, the net negative effect of which is a \$2.3 million addition to income tax expense.

In Fiscal 2020, the Company did not utilize the bonus depreciation with respect to its continued investment in the Ting Fiber business. Despite this, due to the reduction in tax rate to 21%, it is unlikely we will ultimately be able to fully claim the Fiscal 2020 foreign taxes paid in future years as a foreign tax credit. As such, we have taken a valuation allowance on foreign tax credits not utilized for 2020 income tax purposes and net operating losses not expected to be utilized in the future, the net negative effect of which is a \$2.9 million addition to income tax expense.

In Fiscal 2019, the Company was able to utilize the bonus depreciation with respect to its continued investment in the Ting Fiber business. The impact of this, together with the reduction in tax rate to 21%, make it unlikely we will ultimately be able to fully claim the Fiscal 2019 foreign taxes paid in future years. In addition, the Company generated net operating losses of \$0.3 million which it does not expect to be able to utilize in the future. As such, we have taken a valuation allowance on foreign tax credits not utilized for 2019 income tax purposes and net operating losses not expected to be utilized in the future, the net negative effect of which is a \$5.3 million addition to income tax expense.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2021, and December 31, 2020 are presented below (Dollar amounts in thousands of U.S. dollars):

	December 31, 2021	December 31, 2020
Deferred tax assets (liabilities):		
Deferred tax assets:		
Foreign tax credits and general business credits	\$ 13,531	\$ 11,203
Deferred revenue	5,694	5,739
Net operating losses	537	1,452
Accruals, including foreign exchange and other	2,991	792
Sub-total Deferred tax assets	22,753	19,186
Valuation allowance	(13,531)	(11,232)
Total deferred tax assets	\$ 9,222	\$ 7,954
Deferred tax liabilities:		
Prepaid registry fees and expenses	\$ (18,165)	\$ (16,909)
Amortization	(6,578)	(7,083)
Limited life intangible assets	(3,229)	(4,327)
Indefinite life intangible assets	(2,969)	(2,847)
Foreign branch deferred tax liabilities	(828)	(1,256)
Total deferred tax liability	\$ (31,769)	\$ (32,422)
Net deferred tax asset (liability)	\$ (22,547)	\$ (24,468)

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

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

The Company had nil total gross unrecognized tax benefits as of both December 31, 2021 and December 31, 2020.

The Company recognizes interest and penalties related to income tax matters within the provision for income taxes. No material interest and penalties were recognized as of December 31, 2021 and December 31, 2020.

10. Revenue:

Significant accounting policy

The Company's revenues are derived from (a) the provisioning of retail fiber Internet services in our Fiber Internet Services segment, (b) the provisioning of wholesale mobile platform services, professional services and the provisioning of retail mobile services in our Mobile Services segment; and from (c) domain name registration contracts, other domain related value-added services, domain sale contracts, and other advertising revenue in our Domain Services segment. Amounts received in advance of meeting the revenue recognition criteria described below are recorded as deferred revenue. All products are generally sold without the right of return or refund.

Revenue is measured based on consideration specified in a contract with a customer and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

Nature of goods and services

The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments. See Note 19 – Segment Reporting for more information.

(a) Fiber Internet Services

The Company generates Fiber Internet Services revenues primarily through the provisioning of fixed high-speed Internet access, Ting Internet, as well as billing solutions to Internet Service Providers ("ISPs").

Fiber Internet services (Ting Internet) 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. Because consideration is collected before the service period, revenue is initially deferred and recognized as the Company performs its obligation to provide Internet access. Though the Company does *not* consider the installation of fixed Internet access to be a distinct performance obligation, the fees related to installation are immaterial and therefore revenue is recognized as billed.

Ting Internet access 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 customers is computed based on the customer's activation date. 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 at 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.

(b) Mobile Services

The Company generates Mobile Services revenues through the provisioning of mobile services to wholesale and retail customers. Mobile services consist of mobile platform services provided to wholesale customers to whom we also provide other professional services. Mobile services also consist of retail services provided to Ting Mobile customers.

Mobile platform services agreements contain both MSE services and professional services. MSE services represent a single promise to provide continuous access (i.e. a stand-ready performance obligation) to the platform and software solutions. As each month of providing access to the platform is substantially the same and the customer simultaneously receives and consumes the benefits as access is provided, the performance obligation is comprised of a series of distinct service periods. Consideration for these arrangements includes both a fixed component and a variable component that varies each month depending on the number of subscribers hosted on the platform. These professional services can include implementation, training, consulting or software development/modification services. Revenues from arrangements to provide professional services are generally distinct from the other promises in the contract(s) and are recognized as the related services are performed. Consideration payable under the professional service arrangements is included with the variable consideration from the mobile platform services, which would represent variable consideration estimated using the most likely amount based on the range of hours expected to be incurred in providing the services. Where consideration for professional services is included in the consideration for mobile platform services, the Company estimates the standalone selling price ("SSP") for professional services based on observable standalone sales, and applies the residual approach to estimate the SSP for mobile platform services. The total variable consideration is estimated at contract inception (considering any constraints that *may* apply and updating the estimates as new information becomes available) and the transaction price is allocated to the performance obligations based on the relative SSP basis and recognized over the period to which it relates.

Other professional services consist of professional service arrangements that are billed separately on a time-and-materials basis as well as revenues from the Transitional Services Agreement (“TSA”) with DISH Wireless L.L.C. (“DISH”). For professional services billed separately on a time-and-materials basis, revenues are recognized based on the actual hours of services provided. Under the TSA, the Company will provide certain other services such as customer service, marketing and fulfillment services. DISH has the option to terminate services provided under the TSA throughout the term of the agreement, which is for five years effective August 1, 2020. Consideration payable under this arrangement is based on cost plus margin, and revenues are recognized as the services are provided to DISH each month under the ‘as-invoiced’ practical expedient.

Retail mobile services (Ting Mobile) wireless usage contracts grant customers access to standard talk, text and data mobile services. Some Ting Mobile contracts are billed based on the actual amount of monthly services utilized by each customer during their billing cycle. Voice minutes, text messages and megabytes of data are each billed separately based on a tiered pricing program. Some contracts are billed a flat rate for unlimited talk and text plus a fixed amount of data. All customers are billed on a postpaid basis. The Company recognizes revenue for Ting Mobile usage based on the actual amount of monthly services utilized by each customer.

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 and Ting Internet 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 and Internet hardware to subscribers are recognized when title and risk of loss is transferred to the subscriber and shipment has occurred. Incentive marketing credits given to customers are recorded as a reduction of revenue.

In those cases, where payment is not received at the time of sale, revenue is not recognized at 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.

(b) 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.

Domain related value-added services like digital certifications, WHOIS privacy and hosted email provide 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.

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.

Advertising revenue is derived through domain parking monetization, whereby the Company contracts with third-party Internet advertising publishers to direct web traffic from the Company’s domain expiry stream domains and Internet portfolio domains to advertising websites. Compensation from Internet advertising publishers is calculated variably on a cost-per-action basis based on the number of advertising links that have been visited in a given month. Given that the variable consideration is calculated and paid on a monthly basis, no estimation of variable consideration is required.

Disaggregation of Revenue

The following is a summary of the Company’s revenue earned from each significant revenue stream (Dollar amounts in thousands of U.S. dollars):

	2021	2020	2019
Fiber Internet Services:			
Fiber Internet Services	\$ 26,445	\$ 18,428	\$ 11,006
Mobile Services:			
Retail mobile services	9,395	46,540	84,657
Mobile platform services	11,912	564	-
Other professional services	11,009	3,416	-
Total Mobile	32,316	50,520	84,657
Domain Services:			
Wholesale			
Domain Services	189,091	186,893	182,957
Value Added Services	20,942	18,526	18,922
Total Wholesale	210,033	205,419	201,879
Retail			
	35,543	36,835	39,603
Total Domain Services	245,576	242,254	241,482
	<u>\$ 304,337</u>	<u>\$ 311,202</u>	<u>\$ 337,145</u>

As of December 31, 2021, one customer represented 46% of total accounts receivable. As of December 31, 2020 one customer represented 59% of total accounts receivable. At December 31, 2019 no customer accounted for more than 10% of total accounts receivable.

During the years ended December 31, 2021, December 31, 2020 and December 31, 2019 no customer accounted for more than 10% of total revenue.

[Table of Contents](#)

The following is a summary of the Company's cost of revenue from each significant revenue stream (Dollar amounts in thousands of U.S. dollars):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Fiber Internet Services:			
Fiber Internet Services	\$ 12,120	\$ 6,982	\$ 3,928
Mobile Services:			
Retail mobile services	6,012	22,942	44,415
Mobile platform services	419	56	-
Other professional services	7,000	2,970	-
Total Mobile	<u>13,431</u>	<u>25,968</u>	<u>44,415</u>
Domain Services:			
Wholesale			
Domain Services	147,213	146,788	148,530
Value Added Services	2,544	3,016	2,986
Total Wholesale	<u>149,757</u>	<u>149,804</u>	<u>151,516</u>
Retail	17,731	17,647	17,720
Total Domain Services	<u>167,488</u>	<u>167,451</u>	<u>169,236</u>
Network Expenses:			
Network, other costs	14,769	10,194	9,190
Network, depreciation and amortization costs	18,035	13,484	9,599
Network, impairment	201	1,638	-
Total Network Expenses	<u>33,005</u>	<u>25,316</u>	<u>18,789</u>
	<u>\$ 226,044</u>	<u>\$ 225,717</u>	<u>\$ 236,368</u>

Contract Balances

The following table provides information about contract liabilities (deferred revenue) from contracts with customers. The Company accounts for contract assets and liabilities on a contract-by-contract basis, with each contract presented as either a net contract asset or a net contract liability accordingly.

Given that Company's long-term contracts with customers are billed in advance of service, the Company's contract liabilities relate to amounts recorded as deferred revenues. The Company does not have material streams of contracted revenue that have not been billed.

Deferred revenue primarily relates to the portion of the transaction price received in advance related to the unexpired term of domain name registrations and other domain related value-added services, on both a wholesale and retail basis, net of external commissions.

The opening balance of deferred revenue was \$152.2 million as of January 1, 2021. Significant changes in deferred revenue were as follows (Dollar amounts in thousands of U.S. dollars):

	Year ended December 31, 2021	
Balance, beginning of period	\$	152,245
Deferred revenue		245,101
Recognized revenue		(249,553)
Balance, end of period	<u>\$</u>	<u>147,793</u>

Remaining Performance Obligations:

As the Company fulfills its performance obligations, the following table includes revenues expected to be recognized in the future related performance obligations that are unsatisfied (or partially unsatisfied) as at December 31, 2021 (Dollar amounts in thousands of U.S. dollars)

For professional services and internet access services, where the performance obligation is part of contracts that have an original expected duration of one year or less, the Company has elected to apply a practical expedient to not disclose revenues expected to be recognized in the future related performance obligations that are unsatisfied (or partially unsatisfied) (Dollar amounts in thousands of US dollars).

	Year ended December 31, 2021
	\$ 121,773
2022	10,678
2023	5,056
2024	3,090
2025	1,908
2026	2,945
Thereafter	\$ 145,450
Total	<u>\$ 145,450</u>

11. Costs to obtain and fulfill a contract

(a) Deferred costs of acquisition

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the period of benefit of those costs to be longer than one year and those costs are expected to be recoverable under the term of the contract. We have identified certain sales incentive programs that meet the requirements to be capitalized, and therefore, capitalized them as contract costs in the amount of \$1.1 million at December 31, 2021.

Capitalized contract acquisition costs are amortized into operating expense based on the transfer of goods or services to which the assets relate which typically range from two – ten years. For the year ended December 31, 2021, the Company capitalized \$1.1 million and also amortized \$0.4 million of contract costs, respectively. The breakdown of the movement in the deferred costs of acquisition balance for the year ended December 31, 2021 is as follows (Dollar amounts in thousands of U.S. dollars):

	Year ended December 31, 2021
Balance, beginning of period	\$ 362
Capitalization of costs	1,086
Amortization of costs	(369)
Balance, end of period	<u>\$ 1,079</u>

When the amortization period for costs incurred to obtain a contract with a customer is less than one year, we have elected to apply a practical expedient to expense the costs as incurred. These costs include our internal sales compensation program and certain partner sales incentive programs.

(b) Deferred costs of fulfillment

Deferred costs to fulfill contracts generally consist of domain registration costs which have been paid to a domain registry, and are capitalized as deferred costs of fulfillment. These costs are deferred and amortized over the life of the domain which generally ranges from one to ten years. To a lesser degree, deferred costs to fulfill contracts also include certain research, design and data migration costs associated with specific professional services contracts. All deferred professional services costs are deferred over the term of the customer contract. For the year ended December 31, 2021, the Company capitalized \$173.0 million and also amortized \$171.5 million of contract costs. There were no impairment losses recognized in relation to the costs capitalized during the year ended December 31, 2021. Amortization expense is primarily included in cost of revenue. The breakdown of the movement in the deferred costs of fulfillment balance for the year ended December 31, 2021 is as follows (Dollar amounts in thousands of U.S. dollars).

	Year ended December 31, 2021
Balance, beginning of period	\$ 111,066
Deferral of costs	173,018
Recognized costs	(171,464)
Balance, end of period	<u>\$ 112,620</u>

12. Leases

We lease datacenters, corporate offices, antenna tower and fiber-optic cables under operating leases. The Company does not have any leases classified as finance leases.

Our leases have remaining lease terms of 1 year to 19 years, some of which may include options to extend the leases for up to 5 years, and some of which may include options to terminate the leases within 1 year.

The components of lease expense were as follows (Dollar amounts in thousands of U.S. dollars):

	Year Ended December 31, 2021	Year Ended December 31, 2020
Operating Lease Cost (leases with a total term greater than 12 months)	\$ 2,840	\$ 2,195
Short-term Lease Cost (leases with a total term of 12 months or less)	117	501
Variable Lease Cost	763	589
Total Lease Cost	\$ 3,720	\$ 3,285

Lease Cost is presented in general and administrative expenses and direct cost of revenues within our consolidated statements of operations and comprehensive income.

Information related to leases was as follows (Dollar amounts in thousands of U.S. dollars):

	Year Ended December 31, 2021	Year Ended December 31, 2020
<i>Supplemental cashflow information:</i>		
Operating Lease - Operating Cash Flows (Fixed Payments)	\$ 5,120	\$ 2,332
Operating Lease - Operating Cash Flows (Liability Reduction)	\$ 2,468	\$ 1,952
New ROU Assets - Operating Leases	\$ 9,032	\$ 2,798
<i>Supplemental balance sheet information related to leases:</i>		
Weighted Average Discount Rate	3.09%	3.60%
Weighted Average Remaining Lease Term	7.74 yrs	8.35 yrs

Maturity of lease liability as of December 31, 2021 (Dollar amounts in thousands of U.S. dollars):

	December 31, 2021
2022	\$ 3,514
2023	3,508
2024	2,567
2025	1,737
2026	1,174
Thereafter	4,186
Total future lease payments	16,686
Less interest	1,683
Total	\$ 15,003

Operating lease payments include payments under the non-cancellable term, without any additional amounts related to options to extend lease terms that are reasonably certain of being exercised.

As of December 31, 2021, we not entered into any lease agreements that have not yet commenced, and therefore are not included in the lease liability.

The Company has elected to use the single exchange rate approach when accounting for lease modifications. Under the single exchange rate approach, the entire right of use asset is revalued at the date of modification in the Company's functional currency provided the re-measurement is *not* considered a separate contract or if the re-measurement is related to change the lease term or assessment of a lessee option to purchase the underlying asset being exercised.

13. Common Shares

The Company's authorized common share capital is 250 million shares of common stock without nominal or par value. On December 31, 2021, there were 10,747,417 shares of common stock outstanding (December 31, 2020: 10,612,414).

Repurchase of common shares:

(a) Normal Course Issuer Bids:

2022 Stock Buyback Program

On February 10, 2022, the Company announced that its Board of Directors ("Board") has approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. The \$40 million buyback program commenced on February 11, 2022 and is expected to terminate on February 10, 2023. Please see "Note 20 – Subsequent Events" for more information on the 2022 stock buyback program.

2021 Stock Buyback Program

On February 9, 2021, the Company announced that its Board of Directors ("Board") has approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. The \$40 million buyback program commenced on February 10, 2021 and terminated on February 9, 2022. The Company did not repurchase shares under this program.

2020 Stock Buyback Program

On February 12, 2020, the Company announced that its Board has approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. The \$40 million buyback program commenced on February 13, 2020 and terminated on February 9, 2021. During year ended December 31, 2020, the Company repurchased 70,238 shares under this program for total consideration of \$3.3 million.

2019 Stock Buyback Program

On February 13, 2019, the Company announced that its Board has approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. The \$40 million buyback program commenced on February 14, 2019 and terminated on February 12, 2020. During the year ended December 31, 2019, the Company repurchased 101,816 shares under this program, for a total of \$5.0 million. During the year ended December 31, 2020 no repurchases were made under this program.

2018 Stock Buyback Program

On February 14, 2018, the Company announced that its Board approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. The \$40 million buyback program commenced on February 14, 2018 and terminated on February 13, 2019. No repurchases were made under this program.

(b) Net Exercise of Stock Options

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

The following table summarizes our share repurchase activity for the periods covered below (Dollar amounts in thousands of US dollars, except for share data):

	Year Ended December 31,		
	2021	2020	2019
Common stock repurchased on the open market or through tender offer			
Number of shares	-	70,238	101,816
Aggregate market value of shares (in thousands)	\$ -	\$ 3,281	\$ 4,986
Average price per share	\$ -	\$ 46.70	\$ 48.97
Common stock received in connection with share-based compensation			
Number of shares	45,824	48,013	21,332
Aggregate market value of shares (in thousands)	\$ 3,669	\$ 2,957	\$ 1,510
Average price per share	\$ 80.07	\$ 61.58	\$ 70.77

14. Stock Option Plans:

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

On November 22, 2006, the shareholders of the Company approved the Company’s 2006 Equity Compensation Plan (the “2006 Plan”), which was amended and restated effective July 29, 2010 and which serves as a successor to the 1996 Plan. The 2006 Plan has been established for the benefit of the employees, officers, directors and certain consultants of the Company. The maximum number of common shares which have been set aside for issuance under the 2006 Plan is 1.25 million shares. On October 8, 2010, the 2006 Plan was amended to increase the number of shares which have been set aside for issuance by an additional 0.475 million shares to 1.725 million shares. In September 2015, the 2006 Plan was amended to increase the number of shares which have been set aside for issuance by an additional 0.75 million shares to 2.475 million shares. In November 2020, the 2006 Plan was amended to increase the number of shares which have been set aside for issuance by an additional 1.53 million shares to 4.0 million shares. Generally, options issued under the 2006 Plan vest over a four-year period and have a term not exceeding seven years, except for automatic formula grants of non-qualified stock options, which vest after one year and have a five-year term. Prior to the September 2015 amendment to the 2006 Plan, automatic formula grants of non-qualified stock options vested immediately upon grant.

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

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

The fair value of stock options granted during the years ended December 31, 2021, December 31, 2020 and December 31, 2019 was estimated using the following weighted average assumptions:

	Year Ended December 31,		
	2021	2020	2019
Volatility	35.7%	39.0%	36.5%
Risk-free interest rate	0.8%	1.8%	2.0%
Expected life (in years)	4.60	4.54	4.50
Dividend yield	0.0%	0.0%	0.0%
The weighted average grant date fair value for options issued, with the exercise price equal to market value on the date of grant	\$ 24.83	\$ 19.98	\$ 20.20

Details of stock option transactions are as follows:

	Year Ended December 31, 2021		Year Ended December 31, 2020		Year Ended December 31, 2019	
	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share
Outstanding, beginning of period	845,020	\$ 55.31	754,497	\$ 49.94	702,337	\$ 43.80
Granted	282,625	79.30	239,325	61.21	180,800	60.56
Exercised	(179,321)	45.04	(113,132)	30.53	(80,319)	16.90
Forfeited	(41,240)	65.72	(26,468)	60.29	(31,986)	59.35
Expired	(2,933)	60.70	(9,202)	58.96	(16,335)	47.51
Outstanding, end of period	904,151	64.36	845,020	55.31	754,497	49.94
Options exercisable, end of period	415,925	\$ 56.44	401,345	\$ 49.21	356,066	\$ 40.64

As of December 31, 2021, the exercise prices, weighted average remaining contractual life of outstanding options and intrinsic values were as follows:

Exercise price	Options outstanding				Options exercisable			
	Number outstanding	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value	Number exercisable	Weighted average exercise price per share	Weighted average remaining contractual life (years)	Aggregate intrinsic value
\$19.95 - \$19.95	7,000	\$ 19.95	1.1	\$ 447	7,000	\$ 19.95	1.1	\$ 447
\$21.10 - \$21.10	20,892	21.10	1.0	1,310	20,892	21.10	1.0	1,310
\$46.90 - \$48.00	12,000	47.31	4.0	438	6,000	47.17	2.7	220
\$51.82 - \$59.98	227,340	55.59	2.6	6,418	215,315	55.58	2.5	6,080
\$60.01 - \$68.41	345,294	62.02	4.6	7,528	154,018	63.11	4.2	3,189
\$72.50 - \$79.51	275,125	78.68	6.2	1,413	12,700	72.61	5.9	142
\$80.61 - \$82.07	16,500	81.27	6.8	42	-	-	-	-
	<u>904,151</u>	\$ 64.36	4.5	\$ 17,596	<u>415,925</u>	\$ 56.44	3.1	\$ 11,388

Total unrecognized compensation cost relating to unvested stock options at December 31, 2021, prior to the consideration of expected forfeitures, is approximately \$9.5 million and is expected to be recognized over a weighted average period of 2.6 years.

The total intrinsic value of options exercised during the years ended December 31, 2021, December 31, 2020 and December 31, 2019 was \$6.4 million, \$3.7 million and \$3.9 million, respectively. Cash received from the exercise of stock options during the years ended December 31, 2021, December 31, 2020 and December 31, 2019 was \$4.8 million, \$1.0 million and \$0.4 million respectively.

The Company recorded stock-based compensation amounting to \$4.6 million, \$3.7 million and \$2.9 million for the years ended December 31, 2021, 2020 and 2019 respectively. Stock-based compensation has been included in operating expenses as follows (Dollar amounts in thousands of US dollars):

	Year Ended December 31,		
	2021	2020	2019
Network expenses	\$ 531	\$ 472	\$ 307
Sales and marketing	1,941	1,678	1,251
Technical operations and development	824	756	596
General and administrative	1,296	812	722
	<u>\$ 4,592</u>	<u>\$ 3,718</u>	<u>\$ 2,876</u>

15. Foreign Exchange:

A foreign exchange loss amounting to \$0.4 million has been recorded in general and administrative expenses during the year ended December 31, 2021. A foreign exchange loss amounting to \$1.0 million has been recorded in general and administrative expenses during the year ended December 31, 2020. A foreign exchange gain amounting to \$0.4 million has been recorded in general and administrative expenses during the year ended December 31, 2019.

16. Other Income (Expenses):

On August 1, 2020, the Company entered into an Asset Purchase Agreement (the “Purchase Agreement”), by and between the Company and DISH Wireless L.L.C.(“DISH”). Under the Purchase Agreement and in accordance with the terms and conditions set forth therein, the Company sold to DISH its mobile customer accounts that are marketed and sold under the Ting brand (other than certain customer accounts associated with one network operator) (“Transferred Assets”). For a period of 10 years following the execution of the Purchase Agreement, DISH will pay a monthly fee to the Company generally equal to an amount of net revenue received by DISH in connection with the transferred customer accounts minus certain fees and expenses, as further set forth in the Purchase Agreement. During the year ended December 31, 2021, the Company earned \$20.0 million under the Purchase Agreement.

On August 1, 2020, the Company derecognized intangible assets and capitalized contract costs associated with the Transferred Assets in the amount of \$3.5 million. As an accounting policy, the Company only records contingent consideration when the consideration is resolved. As such the Company will continue to record contingent consideration in Other income as the consideration is invoiced on a monthly basis over the 10-year period following the execution of the Purchase Agreement. The gain is presented net of the original cost base of the Transferred Assets:

	For the twelve months ended		
	2021	2020	2019
Write-down of Ting Mobile intangible assets	\$ -	\$ (2,581)	\$ -
Write-down of Ting Mobile contract costs	-	(932)	-
Income earned on sale of Transferred Assets	20,030	11,125	-
Gain on sale of Ting customer assets	<u>\$ 20,030</u>	<u>\$ 7,612</u>	<u>\$ -</u>

17. Earnings Per Common Share:

The following table reconciles the numerators and denominators of the basic and diluted earnings per common share computation (Dollar amounts in thousands of US dollars, except for share data):

	Year ended December 31,		
	2021	2020	2019
Numerator for basic and diluted earnings per common share:			
Net income for the period	\$ 3,364	\$ 5,775	\$ 15,398
Denominator for basic and diluted earnings per common share:			
Basic weighted average number of common shares outstanding	10,662,337	10,590,684	10,623,799
Effect of outstanding stock options	155,132	101,597	149,013
Diluted weighted average number of shares outstanding	<u>10,817,468</u>	<u>10,692,281</u>	<u>10,772,812</u>
Basic earnings per common share	<u>\$ 0.32</u>	<u>\$ 0.55</u>	<u>\$ 1.45</u>
Diluted earnings per common share	<u>\$ 0.31</u>	<u>\$ 0.54</u>	<u>\$ 1.43</u>

Options to purchase 39,889 common shares were outstanding during 2021 (2020: 83,177; 2019: 547,372) but were not included in the computation of diluted income per common share because the options’ exercise price was greater than the average market price of the common shares for the year.

18. Commitments and Contingencies:

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

Contractual Obligations for the year ending December 31,	Contractual Lease Obligations	Debt Obligations	Capital Purchase Obligations	Purchase Obligations (1) (2)	Total Obligations
2022	\$ 3,514	\$ -	\$ 21,484	\$ 12,869	\$ 37,867
2023	3,508	191,400	-	15,802	210,710
2024	2,567	-	-	19,736	22,303
2025	1,737	-	-	3,299	5,036
2026	1,174	-	-	495	1,669
Thereafter	4,186	-	-	3,232	7,418
	<u>\$ 16,686</u>	<u>\$ 191,400</u>	<u>\$ 21,484</u>	<u>\$ 55,433</u>	<u>\$ 285,003</u>

(1) Purchase obligations include all other legally binding service contracts for mobile telephone services and other operational agreements to be delivered during Fiscal 2022 and subsequent years.

(2) Purchase obligations include minimum revenue commitments of \$45.2 million with the Company's MNO partner between 2022 and 2025.

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

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

Under the terms of the agreement, Ting may be required to advance funds to the City in the event of a quarterly shortfall between the City's revenue from leasing the network to Ting and the City's debt service requirements relating to financing of the network. Ting could be responsible for shortfalls between \$50,000 and \$150,000 per quarter. In Fiscal 2016, the City has entered into financing for the construction of the WFN which allows the City to draw up to \$21.0 million, from their lenders, over the next five years with interest only payments during that period with a loan maturity of 30 years. As of December 31, 2021, the City has drawn \$16.2 million and the City's revenues from Ting exceed the City's debt service requirements. The Company does not believe it will be responsible for any shortfall in Fiscal 2022.

(c) On September 17, 2018 Ting entered into a non-exclusive access and use agreement with SiFi Networks Fullerton, LLC ("SiFi"). The agreement memorializes a long-term (15-year) relationship wherein Ting will be granted the non-exclusive right to act as an Internet service provider for a fiber-optic network to be constructed in the city of Fullerton, California. Under the terms of the agreement, SiFi is fully responsible for constructing, operating and maintaining a wholesale fiber-optic network, as well as the financing of those activities.

Ting is responsible for paying a fee per subscriber to SiFi. Through a "take or pay" arrangement, Ting has agreed to certain minimum charges based on minimum subscriber rates. These minimum fees are variable based on the percentage completion of the fiber optic network, and thus have not been considered an unconditional purchase obligation for the purposes of the table in Note 18(a).

(d) On November 4, 2019 Ting entered into an access and use agreement with Netly, LLC ("Netly"). The agreement memorializes a long-term (12-year) relationship wherein Ting will be granted the right to act as an Internet service provider for fiber-optic networks to be constructed in and around the cities of Solana Beach, California. Under the terms of the agreement, Ting will have a 3-year "Headstart" period over each completed segment of the network, whereby Ting shall be the exclusive provider of services to subscribers during the "Headstart" period. Netly is fully responsible for constructing, operating and maintaining a wholesale fiber optic network, as well as the financing of those activities.

Ting is responsible for paying a fee per subscriber to Netly, as well as an unlit door fee for each serviceable address not subscribed. Through a "take or pay" arrangement, Ting has agreed to certain minimum charges based on minimum subscriber rates. To the extent that construction of the fiber optic network is complete, our minimum commitments have been included in the contractual lease obligations of the table in Note 18 (a). With respect to future obligations based on the future construction of the fiber optic network, these minimum fees are variable and thus have not been considered an unconditional purchase obligation for the purposes of the table in Note 18(a).

(e) On January 7, 2022, Ting Fiber, Inc., entered into a 25 year lease agreement with Colorado Springs Utilities ("CSU"), a municipally owned utility. The lease agreement names Ting Fiber the anchor tenant on a city-wide fiber network that is intended to pass 200,000 homes in Colorado Springs, Colorado. CSU expects to begin construction of the fiber network by the third quarter of 2022. The lease obligates Ting, and its ultimate parent Tucows, Inc., to pay a per month fee for addresses passed by the network (as they are passed and become serviceable for customers to connect to the network) and for certain fiber infrastructure, including co-location space. Total costs of the lease, over its twenty-five-year term, are approximately \$593,000,000 based on a fully completed fiber-to-the-home network, however the minimum fees are variable based on the percentage completion of the fiber optic network, and thus have not been considered an unconditional purchase obligation for the purposes of the table in Note 18(a).

(f) In the normal course of its operations, the Company becomes involved in various legal claims and lawsuits. The Company intends to vigorously defend these claims. While the final outcome with respect to any actions or claims outstanding or pending as of December 31, 2021 cannot be predicted with certainty, management does not believe that the resolution of these claims, individually or in the aggregate, will have a material adverse effect on the Company's financial position.

19. Segment Reporting:

(a) We are organized and managed based on three operating segments which are differentiated primarily by their services, the markets they serve and the regulatory environments in which they operate. No operating segments have been aggregated to determine our reportable segments.

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 operationally distinct between our mobile services (which includes both retail mobile MNVO based services and wholesale MSE services) and our fiber Internet services which were also included in our Network Access Services segment. As a result, commencing in the first quarter of 2021, our Chief Executive Officer ("CEO"), who is also our chief operating decision maker, reviews 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. Certain corporate costs are excluded from segment EBITDA results as they are centrally managed and not monitored by or reported to our CEO by segment, including Finance, Human Resources, Legal, Corporate IT, depreciation and amortization expense or impairments, interest expense, stock-based compensation and other income and expense items not monitored as part of our segment operations. Our comparative period financial results have also been reclassified to reflect the reorganized segment structure.

Our reportable operating segments and their principal activities consist of the following:

1. **Fiber Internet Services** - This segment derives revenue from the retail high speed Internet access to individuals and small businesses primarily through the Ting website, and other revenues including billing solutions to small ISPs. Revenues are generated in the United States.
2. **Mobile Services** – This segment derives revenue from MSE platform services and professional services to wholesale customers. This segment also derives revenue from the retail sale of mobile phones, retail telephony services to individuals and small businesses primarily through the Ting website. Revenues are generated in the United States.
3. **Domain Services** – This segment includes wholesale and retail domain name registration services, value added services and portfolio services. The Company primarily earns revenues from the registration fees charged to resellers in connection with new, renewed and transferred domain name registrations; the sale of retail Internet domain name registration and email services to individuals and small businesses. Domain Services revenues are attributed to the country in which the contract originates, primarily Canada and the United States.

Key measure of segment performance:

The Chief Executive Officer of Tucows Inc. ("CEO"), as the chief operating decision maker, regularly reviews the operations and performance by segment. The CEO reviews segment gross margin and adjusted EBITDA (as defined below) as (i) key measures of performance for each segment and (ii) to make decisions about the allocation of resources.

During the first quarter of 2021, the Company changed its key measures of segment performance to segment gross margin and adjusted EBITDA. Previously, we disclosed one key measure of segment performance, gross profit.

The change to our key measures of segment performance was also a result of shift in our business and management structures that were completed in the first quarter of 2021, which created more distinction between the operations supporting each reportable operating segment. As a result, commencing in the first quarter of 2021, our CEO, who is also our chief operating decision maker now regularly reviews segment gross margin and segment adjusted EBITDA to evaluate segment performance and make key operating decisions.

The CEO is the chief operating decision maker and regularly reviews the operations and performance by segment. The CEO reviews gross profit as (i) a key measure of performance for each segment and (ii) to make decisions about the allocation of resources. Sales and marketing expenses, technical operations and development expenses, general and administrative expenses, depreciation of property and equipment, amortization of intangibles assets, impairment of indefinite life intangible assets, gain on currency forward contracts and other expense net are organized along functional lines and are not included in the measurement of segment profitability. Total assets and total liabilities are centrally managed and are not reviewed at the segment level by the CEO. The Company follows the same accounting policies for the segments as those described in "Note 2 – Significant Accounting Policies", and "Note 10 – Revenue".

Information by reportable segments (with the exception of disaggregated revenue, which is discussed in "Note 10 – Revenue"), which is regularly reported to the chief operating decision maker, and the reconciliations thereof to our income before taxes, are set out in the following tables (Dollar amounts in thousands of US dollars):

For the Year Ended December 31, 2021

	Fiber Internet Services	Mobile Services	Domain Services	Corporate	Consolidated Totals
Net Revenues	\$ 26,445	\$ 32,316	\$ 245,576	\$ -	\$ 304,337
Direct cost of revenues	12,120	13,431	167,488	-	193,039
Segment Gross Margin	14,325	18,885	78,088	-	111,298
Adjusted EBITDA	\$ (13,835)	\$ 26,006	\$ 50,236	\$ (13,586)	\$ 48,821

For the Year Ended December 31, 2020

	Fiber Internet Services	Mobile Services	Domain Services	Corporate	Consolidated Totals
Net Revenues	\$ 18,428	\$ 50,520	\$ 242,254	\$ -	\$ 311,202
Direct cost of revenues	6,982	25,968	167,451	-	200,401
Segment Gross Margin	11,446	24,552	74,803	-	110,801
Adjusted EBITDA	\$ (4,020)	\$ 18,769	\$ 48,057	\$ (11,834)	\$ 50,972

For the Year Ended December 31, 2019

	Fiber Internet Services	Mobile Services	Domain Services	Corporate	Consolidated Totals
Net Revenues	\$ 11,006	\$ 84,657	\$ 241,482	\$ -	\$ 337,145
Direct cost of revenues	3,928	44,415	169,236	-	217,579
Segment Gross Margin	7,078	40,242	72,246	-	119,566
Adjusted EBITDA	\$ (3,986)	\$ 18,120	\$ 47,544	\$ (9,773)	\$ 51,905

Reconciliation of Adjusted EBITDA to Income before Provision for Income Taxes

(In Thousands of US Dollars)

(unaudited)

	Twelve months ended December 31,		
	2021 (unaudited)	2020 (unaudited)	2019 (unaudited)
Adjusted EBITDA	\$ 48,821	\$ 50,972	\$ 51,905
Depreciation of property and equipment	17,986	12,632	8,961
Impairment and loss on disposition of property and equipment	435	1,621	73
Amortization of intangible assets	10,007	11,420	10,333
Impairment of definite life intangible assets	-	1,431	-
Write-down on disposal of Ting Mobile customer assets	-	3,513	-
Interest expense, net	4,617	3,611	4,769
Accretion of contingent liability	383	344	-
Stock-based compensation	4,592	3,718	2,876
Unrealized loss (gain) on change in fair value of forward contracts	606	(500)	(313)
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	219	461	(581)
Acquisition and other costs ¹	2,706	1,961	1,216
Income before provision for income taxes	\$ 7,270	\$ 10,760	\$ 24,571

¹ Acquisition and other costs represents transaction-related expenses, transitional expenses, such as redundant post-acquisition expenses, primarily related to our acquisition of Cedar in January 2020 and Simply Bits in November 2021 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.

[Table of Contents](#)

(b) The following is a summary of the Company's cost of revenues from each significant revenue stream (Dollar amounts in thousands of US dollars):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Fiber Internet Services:			
Fiber Internet Services	\$ 12,120	\$ 6,982	\$ 3,928
Mobile Services:			
Retail mobile services	6,012	22,942	44,415
Mobile platform services	419	56	-
Other professional services	7,000	2,970	-
Total Mobile	13,431	25,968	44,415
Domain Services:			
Wholesale			
Domain Services	147,213	146,788	148,530
Value Added Services	2,544	3,016	2,986
Total Wholesale	149,757	149,804	151,516
Retail	17,731	17,647	17,720
Total Domain Services	167,488	167,451	169,236
Network Expenses:			
Network, other costs	14,769	10,194	9,190
Network, depreciation and amortization costs	18,035	13,484	9,599
Network, impairment	201	1,638	-
Total Network Expenses	33,005	25,316	18,789
	<u>\$ 226,044</u>	<u>\$ 225,717</u>	<u>\$ 236,368</u>

(c) The following is a summary of the Company's property and equipment by geographic region (Dollar amounts in thousands of US dollars):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Canada	\$ 1,994	\$ 2,521
United States	170,630	114,968
Europe	38	41
	<u>\$ 172,662</u>	<u>\$ 117,530</u>

(d) The following is a summary of the Company's amortizable intangible assets by geographic region (Dollar amounts in thousands of US dollars):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Canada	\$ 1,386	\$ 2,385
United States	36,732	32,767
	<u>\$ 38,118</u>	<u>\$ 35,152</u>

[Table of Contents](#)

- (e) The following is a summary of the Company's deferred tax asset, net of valuation allowance, by geographic region (Dollar amounts in thousands of US dollars):

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Canada	\$ 22	\$ -
Germany	-	226
	<u>\$ 22</u>	<u>\$ 226</u>

- (f) Valuation and qualifying accounts (Dollar amounts in thousands of US dollars):

<u>Allowance for doubtful accounts</u>	<u>Balance at beginning of period</u>	<u>Charged to costs and expenses</u>	<u>Write-offs during period</u>	<u>Balance at end of period</u>
Year Ended December 31, 2021	\$ 222	\$ 319	\$ -	\$ 541
Year Ended December 31, 2020	\$ 131	\$ 91	\$ -	\$ 222

20. Subsequent Events:

On February 10, 2022, the Company announced that its Board of Directors ("Board") has approved a stock buyback program to repurchase up to \$40 million of its common stock in the open market. The \$40 million buyback program commenced on February 11, 2022 and is expected to be terminated on February 10, 2023. The previously announced \$40 million buyback program for the period February 10, 2021 to February 9, 2022 was terminated. According to the terms of our Second Amended 2019 Credit Facility, share repurchases require the Lenders' consent if the Company's Total Funded Debt to Adjusted EBITDA ratio exceeds 2.00:1.

21. Selected Quarterly Financial Data (Unaudited):

	<u>December 31</u>	<u>September 30</u>	<u>June 30</u>	<u>March 31</u>
	(in thousands, except for per share data)			
2021				
Total revenues	\$ 82,476	\$ 75,893	\$ 75,093	\$ 70,875
Gross profit	24,577	18,024	18,239	17,453
Net income	(1,967)	1,375	1,807	2,149
Earnings per share:				
Basic	\$ (0.18)	\$ 0.13	\$ 0.17	\$ 0.20
Diluted	(0.18)	0.13	0.17	0.20
2020				
Total revenues	\$ 70,784	\$ 74,311	\$ 82,122	\$ 83,985
Gross profit	17,428	19,941	22,966	25,150
Net income	2,068	716	157	2,834
Earnings per share:				
Basic	\$ 0.19	\$ 0.07	\$ 0.01	\$ 0.27
Diluted	0.19	0.07	0.01	0.26