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Consolidated Financial Statements of Tucows Inc.

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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, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2022, 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, 2022 and 2021, 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, 2022, and the related notes (collectively, the consolidated financial statements, and our report dated March 15, 2023 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to the operation of internal controls over the capitalization of certain costs has been identified and included in management's assessment. The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2022 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

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. 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 15, 2023

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, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, 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, 2022, 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 15, 2023 expressed an adverse 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 Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates 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 a critical audit matter 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 matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

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, through Ting, (b) the CSP solutions and professional services through Wavelo; and from (c) domain name registration contracts, other domain related value-added services, domain sale contracts, and other advertising revenue through Tucows Domains Services. The Company earned \$321,142 thousand in revenues for the year ended December 31, 2022, of which \$243,158 thousand were generated in the Tucows Domains segment, \$42,425 thousand in the Ting Segment, \$24,344 thousand in the Wavelo segment and \$11,215 thousand in Tucows Corporate 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.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

We have served as the Company's auditor since 2001.

Vaughan, Canada

March 15, 2023

Tucows Inc.

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

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,496	\$ 9,105
Accounts receivable, net of allowance for doubtful accounts of \$693 as of December 31, 2022 and \$541 as of December 31, 2021	18,404	14,579
Contract asset, current portion	5,159	778
Inventory	7,284	3,277
Prepaid expenses and deposits	17,005	20,986
Derivative instrument asset, current portion (note 7)	1,903	299
Deferred costs of fulfillment, current portion (note 11 (b))	94,198	94,506
Income taxes recoverable	2,471	3,474
Total current assets	169,920	147,004
Contract asset, long-term portion (note 10)	2,328	-
Deferred costs of fulfillment, long-term portion (note 11(b))	16,476	18,205
Derivative instrument asset, long-term portion (note 7)	-	278
Investments	2,012	2,012
Deferred tax asset	-	22
Property and equipment (note 4)	281,495	172,662
Right of use operating lease asset	20,489	17,515
Contract costs	1,827	1,079
Intangible assets (note 5)	39,790	50,409
Goodwill (note 5)	130,410	130,410
Total assets	\$ 664,747	\$ 539,596
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 17,171	\$ 10,016
Accrued liabilities	22,653	15,240
Customer deposits	15,783	16,974
Derivative instrument liability, current portion (note 7)	389	125
Operating lease liability, current portion (note 12)	4,642	3,150
Deferred revenue, current portion (note 10)	122,894	124,116
Accreditation fees payable, current portion	809	882
Income taxes payable	2,248	102
Other current liabilities	1,600	3,078
Total current liabilities	188,189	173,683
Deferred revenue, long-term portion (note 10)	22,237	23,677
Accreditation fees payable, long-term portion	142	170
Operating lease liability, long-term portion (note 12)	12,438	11,853
Loan payable, long-term portion (note 8)	238,930	190,748
Redeemable preferred shares (note 13)	90,434	-
Other long-term liability (note 3 (a))	-	1,804
Deferred tax liability (note 9)	15,720	22,569
Stockholders' equity (note 14)		
Common stock - no par value, 250,000,000 shares authorized; 10,817,110 shares issued and outstanding as of December 31, 2022 and 10,747,417 shares issued and outstanding as of December 31, 2021	31,868	28,515
Additional paid-in capital	8,106	2,764
Retained earnings	55,899	83,470
Accumulated other comprehensive income (loss) (note 7)	784	343
Total stockholders' equity	96,657	115,092
Total liabilities and stockholders' equity	\$ 664,747	\$ 539,596
Commitments and contingencies (note 19)		
Subsequent events (note 21)		

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,		
	2022	2021	2020
Net revenues (note 10)	\$ 321,142	\$ 304,337	\$ 311,202
Cost of revenues (note 10)			
Cost of revenues	196,268	193,039	200,401
Network expenses	17,433	14,769	10,194
Depreciation of property and equipment (note 4)	27,589	17,452	12,144
Amortization of intangible assets (note 5)	1,512	583	1,340
Impairment of property and equipment (note 4)	92	201	1,638
Total cost of revenues	<u>242,894</u>	<u>226,044</u>	<u>225,717</u>
Gross profit	78,248	78,293	85,485
Expenses:			
Sales and marketing	53,937	39,471	34,274
Technical operations and development	14,187	14,310	12,427
General and administrative	30,845	22,370	20,268
Depreciation of property and equipment (note 4)	598	534	488
Loss (gain) on disposition of property and equipment	461	234	(17)
Amortization of intangible assets (note 5)	9,882	9,424	10,080
Impairment of definite life intangible assets (note 5)	-	-	1,431
Gain on currency forward contracts (note 7)	-	(277)	(383)
Total expenses	<u>109,910</u>	<u>86,066</u>	<u>78,568</u>
Income from operations	(31,662)	(7,773)	6,917
Other income (expenses):			
Interest expense, net	(14,456)	(4,617)	(3,611)
Income earned on sale of transferred assets, net (note 17)	18,507	20,030	7,612
Other expense, net	(177)	(370)	(158)
Total other income (expenses)	<u>3,874</u>	<u>15,043</u>	<u>3,843</u>
Income before provision for income taxes	(27,788)	7,270	10,760
Provision for income taxes (note 9)	(217)	3,906	4,985
Net income (loss) for the period	(27,571)	3,364	5,775
Other comprehensive income, net of tax			
Unrealized income (loss) on hedging activities (note 7)	418	572	1,653
Net amount reclassified to earnings (note 7)	23	(2,565)	210
Other comprehensive income (loss) net of tax expense (recovery) of \$141, (\$595) and \$550 for the years ended December 31, 2022, 2021 and 2020 (note 7)	<u>441</u>	<u>(1,993)</u>	<u>1,863</u>
Comprehensive income (loss), net of tax for the period	<u>\$ (27,130)</u>	<u>\$ 1,371</u>	<u>\$ 7,638</u>
Basic earnings per common share (note 18)	<u>\$ (2.56)</u>	<u>\$ 0.32</u>	<u>\$ 0.55</u>
Shares used in computing basic earnings per common share (note 18)	<u>10,769,280</u>	<u>10,662,337</u>	<u>10,590,684</u>
Diluted earnings per common share (note 18)	<u>\$ (2.56)</u>	<u>\$ 0.31</u>	<u>\$ 0.54</u>
Shares used in computing diluted earnings per common share (note 18)	<u>10,769,280</u>	<u>10,817,468</u>	<u>10,692,281</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, 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 14(a))	(70,238)	(125)	(1,279)	(1,877)	-	(3,281)
Acquisition of Cedar Networks (note 3 (a))	32,374	2,000	-	-	-	2,000
Stock-based compensation (note 15)	-	-	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 15)	-	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
Exercise of stock options	40,459	1,593	(497)	-	-	1,096
Shares deducted from exercise of stock options for payment of withholding taxes and exercise consideration	(3,053)	-	-	-	-	-
Stock-based compensation (note 15)	32,287	1,760	5,839	-	-	7,599
Net income	-	-	-	(27,571)	-	(27,571)
Other comprehensive income (loss) (note 7)	-	-	-	-	441	441
Balances, December 31, 2022	10,817,110	31,868	8,106	55,899	784	96,657

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,		
	2022	2021	2020
Cash provided by:			
Operating activities:			
Net income (loss) for the period	\$ (27,571)	\$ 3,364	\$ 5,775
Items not involving cash:			
Depreciation of property and equipment	28,187	17,986	12,632
Impairment of property and equipment	92	201	1,638
Amortization of debt discount and issuance costs	685	300	269
Amortization of intangible assets	11,394	10,007	11,420
Net amortization contract costs	(748)	(717)	106
Accretion of contingent consideration	248	383	344
Other	-	-	223
Impairment of definite life intangible asset	-	-	1,431
Deferred income taxes (recovery)	(6,981)	(1,328)	(3,939)
Excess tax benefits on share-based compensation expense	(193)	(1,554)	(861)
Net Right of use operating assets/Operating lease liability	(897)	(2,204)	205
Loss on disposal of domain names	7	1	17
Accretion of redeemable preferred shares	3,896	-	-
Loss (gain) on change in the fair value of forward contracts	281	606	(500)
Amortization of discontinued cash flow hedge from Accumulated other income	(761)	-	-
Write-down on disposal of Ting Mobile customer assets and contract costs	-	-	3,513
Stock-based compensation	7,599	4,592	3,718
Remeasurement of contingent consideration	(400)	-	-
Change in non-cash operating working capital:			
Accounts receivable	(3,825)	1,586	(281)
Contract assets	(6,709)	(778)	-
Inventory	(4,007)	(787)	945
Prepaid expenses and deposits	3,981	(3,974)	(3,459)
Deferred costs of fulfillment	2,037	(1,645)	(1,899)
Income taxes recoverable	3,355	(1,394)	908
Accounts payable	6,754	4,068	(902)
Accrued liabilities	7,411	4,857	376
Customer deposits	(1,191)	645	1,493
Deferred revenue	(2,667)	(4,495)	2,942
Accreditation fees payable	(101)	(83)	(33)
Net cash provided by (used in) operating activities	19,876	29,637	36,081
Financing activities:			
Proceeds received on exercise of stock options	1,096	4,818	985
Proceeds from redeemable preferred shares	87,500	-	-
Deferred Preferred Financing Costs	(1,016)	-	-
Payment of tax obligations resulting from net exercise of stock options	-	(387)	(556)
Repurchase of common stock	-	-	(3,281)
Proceeds received on loan payable	48,300	69,000	8,000
Payment of loan payable costs	(748)	(296)	(32)
Contingent consideration for acquisitions	(3,125)	-	-
Net cash (used in) provided by financing activities	132,007	73,135	5,116
Investing activities:			
Additions to property and equipment	(136,710)	(73,175)	(44,437)
Proceeds on disposal of property and equipment	-	510	-
Acquisition of Cedar Holdings Group, net of cash of \$66 (note 3(a))	-	-	(8,770)
Acquisition of Uniregistry, (note 3(b))	-	(2,499)	-
Acquisition of Simply Bits, net of cash of \$801 (note 3(c))	-	(24,028)	-
Acquisition of other intangible assets	(782)	(774)	(72)
Investment in securities	-	(2,012)	-
Net cash used in investing activities	(137,492)	(101,978)	(53,279)
Increase (decrease) in cash and cash equivalents	14,391	794	(12,082)
Cash and cash equivalents, beginning of period	9,105	8,311	20,393
Cash and cash equivalents, end of period	\$ 23,496	\$ 9,105	\$ 8,311
Supplemental cash flow information:			
Interest paid	\$ 10,289	\$ 4,485	\$ 3,573
Income taxes paid, net	\$ 3,883	\$ 8,828	\$ 8,926
Supplementary disclosure of non-cash investing and financing activities:			
Property and equipment acquired during the period not yet paid for	\$ 501	\$ 99	\$ 1,129
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 high-speed fixed Internet access in selected towns. The Company also offers platform services which provide solutions to support Communication Service Providers (“CSPs”) including subscription and billing management, network orchestration and provisioning, individual developer tools, and other professional services. 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 MONOS 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. 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, SOFR 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, Ting, Wavelo and Tucows Domains .

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, industry and market conditions including the capital markets, the competitive environment, in addition to other internal factors including changes to our market capitalization, cash inflows, obligations and access to capital of our segments . 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.

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) Contract Modifications

Contracts may be amended to account for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new, or changes existing, enforceable rights and obligations. When contract modifications create new performance obligations and the increase in consideration approximates the standalone selling price for services related to such new performance obligations as adjusted for specific facts and circumstances of the contract, the modification is considered to be a separate contract. If a contract modification is not accounted for as a separate contract, the Company accounts for the promised services not yet transferred at the date of the contract modification (the remaining promised services) prospectively, as if it were a termination of the existing contract and the creation of a new contract, if the remaining services are distinct from the services transferred on or before the date of the contract modification. The Company accounts for a contract modification as if it were a part of the existing contract if the remaining services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. In such case the effect that the contract modification has on the transaction price, and on the entity’s measure of progress toward complete satisfaction of the performance obligation, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the contract modification (the adjustment to revenue is made on a cumulative catch-up basis).

(l) Leases

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.

(m) 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.

(n) 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.

(o) 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 likely that 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.

(p) Redeemable preferred shares

See "Note 13 - Redeemable preferred shares" for the description and treatment of the Company's Series A Preferred Unit Purchase Agreement.

(q) 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. The Company recognizes stock based compensation for both public company stock and private subsidiary stock - see "Note 15. Stock Option Plans."

(r) 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.

(s) 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.

(t) 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.

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(u) 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.

(v) Segment reporting

The Company operates in three operating segments, Ting, Wavelo and Tucows Domains. No operating segments have been aggregated to determine our reportable segments.

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

Ting	This segment derives revenue from the retail high speed Internet access to individuals and small businesses primarily through the Ting website. Revenues are generated in the United States
Wavelo	This segment derives revenue from platform and other professional services related to communication service providers, including Mobile Network Operators and Internet Service Providers, and are primarily generated in the United States.
Tucows Domains	This segment includes wholesale and retail domain name registration services and value added 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.

Our segmented results include shared services allocations, including a profit margin, from Tucows Corporate for Finance, Human Resources and other technical services, to the operating units. In addition, Wavelo charges Ting a subscriber based monthly charge services rendered. Financial impacts from these allocations and cross segment charges are eliminated as part of the Tucows Corporate results.

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

(w) Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

None.

Recent Accounting Pronouncements Not Yet Adopted

None.

3. Acquisitions:

(a) 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 was contingent consideration totaling up to \$4.0 million, with was 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. In December of 2022, the Company notified the seller that pursuant to the agreement it would withhold \$0.4 million from the final payment to indemnify the Company against tax liabilities related to periods prior to the closing date. The fair value of the contingent consideration was determined to be \$3.1 million using a discount rate of 11.2%. On January 3, 2023, the Company paid \$1.6 million in relation to the 36th month anniversary contingent payment.

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

(b) 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 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.

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(c) 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 was contingent consideration totaled up to \$1.0 million, which was due 60 days from December 31, 2021 and was paid in 2022.

Cash Consideration, including working capital adjustment	\$	24,829
Fair value of contingent payments		953
Total 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.

4. Property and Equipment:

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

	December 31, 2022	December 31, 2021
Computer equipment	\$ 43,440	\$ 34,465
Computer software	1,935	1,921
Capitalized internal use software	25,172	10,660
Furniture and equipment	1,708	1,418
Vehicles and tools	9,144	6,569
Fiber network	168,587	109,500
Customer equipment and installations	36,382	22,027
Land	1,109	1,123
Buildings	8,864	9,096
Assets under construction	62,588	29,414
Leasehold improvements	624	548
	<u>359,553</u>	<u>226,741</u>
Less:		
Accumulated depreciation	78,058	54,079
	<u>\$ 281,495</u>	<u>\$ 172,662</u>

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

	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2020
Depreciation of property and equipment	\$ 28,187	\$ 17,986	\$ 12,632

During the year ended December 31, 2022, property, plant and equipment with a net book value of \$0.1 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, 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 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):

	Ting	Wavelo	Tucows Domains	Total
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
Balances, December 31, 2022	\$ 22,724	\$ -	\$ 107,686	\$ 130,410

The Company's Goodwill balance is \$130.4 million as of December 31, 2022 and \$130.4 million as of December 31, 2021. The Company's goodwill relates 83% (\$107.7 million) to its Tucows Domains operating segment and 17% (\$22.7 million) to its Ting 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 2022 and Fiscal 2021.

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 2022, 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, 2022, December 31, 2021, and December 31, 2020, 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.

Throughout 2022, the Company purchased customer relationship assets through hosting agreements whereby customer assets and domain names were obtained. These customer assets are being amortized over seven 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 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 17 - Other income, for more information.

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, 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
Acquisition of customer relationship	-	-	-	782	-	-	782
Additions to/(disposals from) domain portfolio, net	(1)	(6)	-	-	-	-	(7)
Amortization expense	-	-	(2,070)	(8,603)	(622)	(99)	(11,394)
Balances December 31, 2022	\$ 11,155	\$ 1,129	\$ 2,940	\$ 20,813	\$ 2,770	\$ 983	\$ 39,790

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,
2023	\$ 10,375
2024	5,411
2025	4,205
2026	2,648
2027	1,616
Thereafter	3,251
Total	\$ 27,506

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, 2022 (Dollar amounts in thousands of U.S. dollars):

	December 31, 2022			
	Fair Value Measurement Using			Assets at Fair value
	Level 1	Level 2	Level 3	
Derivative instrument asset, net	\$ -	\$ 1,514	\$ -	\$ 1,514
Total Assets, net	\$ -	\$ 1,514	\$ -	\$ 1,514

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

7. Derivative Instruments and Hedging Activities:

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are foreign exchange rate risk and interest rate risk.

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. 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 Second Amended 2019 Credit Facility. The notional value of the interest rate swap was \$70 million.

The Company does not use hedging forward contracts for trading or speculative purposes. The foreign exchange contracts typically mature between one and twelve months, and the interest rate swap matures in June 2023.

The Company has designated certain of these foreign exchange transactions as cash flow hedges of forecasted transactions under ASU 2017-12, Derivatives and Hedging (Topic 815) (“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. The Company designated the interest rate swap as a cash flow hedge of expected future interest payments at the inception of the contract. Accordingly, for the foreign exchange, unrealized gains or losses on the effective portion of these contracts were included within other comprehensive income and reclassified to earnings when the hedged transaction is settled. Cash flows from hedging activities were classified under the same category as the cash flows from the hedged items in the consolidated statements of cash flows. The fair value of the contracts, as of December 31, 2022 and December 31, 2021, 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.

During the third quarter of fiscal year 2022, the Company elected to discontinue its application of hedge accounting to its interest rate swaps prospectively. The derivatives continue to be carried at fair value in the accompanying Consolidated Balance Sheets with changes in their fair value from the date of discontinuance recognized in current period earnings in Interest expense, net in the Consolidated Statements of Operations and Comprehensive Income. Amounts previously accumulated in Accumulated other comprehensive income prior to discontinuance will continue to be realized over the remaining term of the underlying forecasted interest payments as a component of Accumulated other comprehensive income in Stockholders’ equity and the amounts in AOCI as of the date of the hedge discontinuance will be recorded into interest expense over the original term of the hedged debt. Prior to the discontinuance, for the interest rate swap contracts, unrealized gains or losses on the effective portion of these contracts had been included within other comprehensive income and reclassified to earnings when the hedged transaction is settled.

As of December 31, 2022, the notional amount of forward contracts that the Company held to sell U.S. dollars in exchange for Canadian dollars was \$49.7 million, of which \$49.7 million met the requirements of ASC Topic 815 and were designated as hedges.

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 \$31.8 million, of which \$26.8 million met the requirements of ASC Topic 815 and were designated as hedges.

As of December 31, 2022, we had the following outstanding forward contracts to trade U.S. dollars in exchange for Canadian dollars:

<u>Maturity date (Dollar amounts in thousands of U.S. dollars)</u>	<u>Notional amount of U.S. dollars</u>	<u>Weighted average exchange rate of U.S. dollars</u>	<u>Fair value</u>
January - March 2023	15,132	1.3283	(270)
April - June 2023	13,074	1.3385	(119)
July - September 2023	11,332	1.3633	113
October - December 2023	10,150	1.3744	192
	<u>\$ 49,688</u>	1.3484	<u>\$ (84)</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, 2022 and 2021, 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”)

<u>Derivatives (Dollar amounts in thousands of U.S. dollars)</u>	<u>Balance Sheet Location</u>	<u>As of December 31, 2022 Fair Value Asset</u>	<u>As of December 31, 2021 Fair Value Asset</u>
Foreign Currency forward contracts designated as cash flow hedges (net)	Derivative instruments	\$ (84)	\$ 62
Interest rate swap contract designated as a cash flow hedge (net)	Derivative instruments	1,598	390
Foreign Currency forward contracts not designated as cash flow hedges (net)	Derivative instruments	-	-
Total foreign currency forward contracts and interest rate swaps (net)	Derivative instruments	<u>\$ 1,514</u>	<u>\$ 452</u>

Movement in AOCI balance for the year ended December 31, 2022 (Dollar amounts in thousands of U.S. dollars)

	Gains and losses on cash flow hedges	Tax impact	Total AOCI
Opening AOCI balance - December 31, 2021	\$ 450	\$ (107)	\$ 343
Other comprehensive income (loss) before reclassifications	550	(132)	418
Amount reclassified from AOCI	793	(193)	600
Amortization of discontinued cash flow hedge	(761)	184	(577)
Other comprehensive income (loss) for the year ended December 31, 2022	582	(141)	441
Ending AOCI Balance - December 31, 2022	\$ 1,032	\$ (248)	\$ 784

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	\$ 450	\$ (107)	\$ 343

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

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
		Operating expenses	\$ (691)
Foreign currency forward contracts for the year ended December 31, 2022	\$ (1,014)	Cost of revenues	\$ (171)
Interest rate swap contract for the year ended December 31, 2022	\$ 1,430	Interest expense, net	\$ 69
		Operating expenses	\$ 2,652
Foreign currency forward contracts for the year ended December 31, 2021	\$ (2,203)	Cost of revenues	\$ 615
Interest rate swap contract for the year ended December 31, 2021	\$ (210)	Interest expense, net	\$ 115
		Operating expenses	\$ (188)
Foreign currency forward contracts for the year ended December 31, 2020	\$ 2,026	Cost of revenues	\$ (66)
Interest rate swap contract for the year ended December 31, 2020	\$ (163)	Interest expense, net	\$ (17)

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:	2022	Year Ended December 31, 2021	2020
Gain (loss) on settlement	\$ -	\$ 883	\$ (117)
Gain (loss) on change in fair value	-	(606)	500
	\$ -	\$ 277	\$ 383

For those interest rate swap 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):

Interest rate swap contracts not designated as hedges:	Year Ended December 31,		
	2022	2021	2020
Gain (loss) on matured swaps	\$ 777	\$ -	\$ -
Gain (loss) on change in fair value on unsettled swaps	(281)	-	-
	\$ 496	\$ -	\$ -

8. Loan Payable:

Amended 2019 Credit Facility

On June 14, 2019, the Company and its wholly-owned subsidiaries, Tucows.com Co., Ting Fiber, Inc., Ting Inc., Tucows (Delaware) Inc. and Tucows (Emerald), LLC entered into an Amended and Restated Senior Secured Credit Agreement (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, 2024.

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 Second Amended Credit 2019 Agreement provides the Company with access to an aggregate of \$240 million in committed funds. The Second Amended 2019 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.

Third Amended 2019 Credit Facility

On August 8, 2022, the Company entered into a Third Amended and Restated Senior Secured Credit Agreement (the "Amended Credit Agreement") with its existing syndicate of lenders (the Lenders). The Amended Credit Agreement continue to provide the Company with access to an aggregate of \$240 million in committed funds (the Credit Facility). Under the Amended Credit Agreement, and in connection with the Unit Purchase Agreement (as defined in Note 13 - Redeemable preferred shares), the Lenders agreed that Ting Fiber Inc. (converted to Ting LLC) and its wholly owned subsidiaries ceased to be Guarantors under the Credit Facility and shall automatically be released from the respective guarantee and security documents, including a release of the Lenders' security interests and liens upon the assets of such entities. Additionally, the Amended Credit Agreement extended the maturity of the Credit Facility to June 14, 2024. The Company was subject to 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 4.00:1.00 until September 29, 2023 and 3.75:1.00 thereafter; and (ii) minimum Interest Coverage Ratio of 3.00:1.00. The financial covenant calculations will exclude the financial results of Ting Fiber Inc. (converted to Ting LLC) and its wholly owned subsidiaries. The Amended Credit Agreement also requires the Company to comply with other customary terms and conditions. The Amended Credit Agreement added SOFR loans as a form of advance available under the Credit Facility to replace LIBOR rate advances, and such SOFR Loans may bear interest based on Adjusted Daily Simple SOFR (defined to be the applicable SOFR rate published by the Federal Reserve bank of New York plus 0.10% per annum subject to a floor of zero) or Adjusted Term SOFR (defined to be the applicable SOFR rate published by CME Group Benchmark Administration Limited plus 0.10% for one-month, 0.15% for three-months, and 0.25% for six-months per annum).

On March 14, 2023, the Company entered into an Amending Agreement No.2 to the Third Amended and Restated Senior Secured Credit Agreement (the "Credit Agreement Amendment") with its existing syndicate of lenders as more fully described in Note 21(c) - Subsequent events.

Credit Facility Terms

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

The Amended Credit Facility Agreement contains customary representations and warranties, affirmative and negative covenants, and events of default. The Amended Credit Agreement was entered into in August 2022 which required 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 4.00:1.00 until September 29, 2023; (ii) 3.75:100 thereafter and; (iii) minimum Interest Coverage Ratio of 3.00:1.00. As at and for the periods ending December 31, 2022 and December 31, 2021 the Company was in compliance with these covenants.

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Borrowings under the Amended Credit Agreement will accrue interest and standby fees based on the Company's Total Funded Debt to Adjusted EBITDA ratio and the availability type as follows:

Availability type or fee	If Total Funded Debt to EBITDA is:					
	Less than 1.75	Greater than or equal to 1.75 and less than 2.25	Greater than or equal to 2.25 and less than 2.75	Greater than or equal to 2.75 and less than 3.25	Greater than or equal to 3.25 and less than 3.75	Greater than or equal to 3.75
Canadian dollar borrowings based on Bankers' Acceptance or U.S. dollar borrowings based on SOFR (Margin)	1.50%	1.75%	2.25%	2.50%	2.75%	3.00%
Canadian or U.S. dollar borrowings based on Prime Rate or U.S. dollar borrowings based on Base Rate (Margin)	0.25%	0.50%	1.0%	1.25%	1.50%	1.75%
Standby fees	0.30%	0.35%	0.45%	0.50%	0.55%	0.60%

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

	December 31, 2022	December 31, 2021
Revolver	\$ 239,700	\$ 191,400
Less: unamortized debt discount and issuance costs	(770)	(652)
Total loan payable	238,930	190,748
Less: loan payable, current portion	-	-
Loan payable, long-term portion	\$ 238,930	\$ 190,748

The following table summarizes our scheduled principal repayments as of December 31, 2022 (Dollar amounts in thousands of U.S. dollars):

2023	-
2024	239,700
	\$ 239,700

Each reporting period, the Company assesses its ability to continue as a going concern for one year from the date the financial statements are issued. The Company's evaluation includes its ability to meet its future contractual obligations and other conditions and events that may impact liquidity.

As of December 31, 2022, the Company had cash and cash equivalents of \$23.5M. In the next 12 months, Excluding Ting has lease commitments of \$0.9 million and other operating expense commitments of \$17.6 million and no capital expenditure commitments. We believe that the current cash and cash equivalents and capital commitments along with operating cash flows will be sufficient to fund operations, loan repayments and cash flow requirements for the next twelve months.

In the long-term, we may seek additional financing to accelerate the growth of our Wavelo business, repurchase shares or future acquisitions.

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, 2022, December 31, 2021 and December 31, 2020, 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,		
	2022	2021	2020
Income (loss) for the year before provision for income taxes	\$ (27,788)	\$ 7,270	\$ 10,760
Computed federal tax expense	(5,836)	1,527	2,259
Increase (decrease) in income tax expense resulting from:			
State income taxes	845	314	303
Foreign earnings	386	382	(175)
Changes in valuation allowance	4,023	2,300	1,867
Expired business tax credits	-	-	1,044
Shortfall (excess) tax benefits on share-based compensation	138	(1,556)	(407)
Permanent differences	(112)	205	(161)
Others	339	734	255
Provision (recovery) for income taxes	\$ (217)	\$ 3,906	\$ 4,985

Our effective tax rate is mainly driven by changes in valuation allowance on foreign tax credits that we are not expected to realize in future years

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2022, and December 31, 2021 are presented below (Dollar amounts in thousands of U.S. dollars):

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Foreign tax credits	\$ 17,554	\$ 13,531
Deferred revenue	5,349	5,694
Net operating losses	2,468	537
Interest limitation	1,047	-
Amortization	379	-
Accruals, including foreign exchange and other	3,909	2,991
Total deferred tax assets	30,706	22,753
Valuation allowance	(17,554)	(13,531)
Total deferred tax assets	\$ 13,152	\$ 9,222
Deferred tax liabilities:		
Prepaid registry fees and expenses	\$ (17,941)	\$ (18,165)
Investment in partnership	(6,727)	
Amortization	-	(6,578)
Indefinite life intangible assets	(2,968)	(3,229)
Limited life intangible assets	(629)	(2,969)
Foreign branch deferred tax liabilities	(607)	(828)
Total deferred tax liability	\$ (28,872)	\$ (31,769)
Net deferred tax assets (liabilities)	\$ (15,720)	\$ (22,547)

The enactment of the Tax Cuts and Jobs Act since 2017 in combination of the change in the geographical mix of income have a material impact on our ability to utilize the foreign tax credits, and we have determined that it is not more likely than not that we will ultimately be able to fully utilize the existing foreign taxes paid as foreign tax credits in future years. Therefore, a full valuation allowance is recorded against the deferred tax assets on foreign tax credits. Should our operating results continue to improve and projections to show utilization of the foreign tax credits, we would take the positive evidence into consideration and reassess our valuation allowance position.

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, 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, 2022 and December 31, 2021.

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, 2022 and December 31, 2021.

10. Revenue:

Significant accounting policy

The Company's revenues are derived from (a) the provisioning of retail fiber Internet services through Ting, (b) the CSP solutions and professional services through Wavelo; and from (c) domain name registration contracts, other domain related value-added services, domain sale contracts, and other advertising revenue through Tucows Domains Services. Certain revenues are disclosed under Tucows Corporate as they are considered non-core business activities including Mobile Retail Services, Transition Services Agreement ("TSA") revenue and eliminations of intercompany revenue. 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.

In the third quarter of 2022, the Company renamed its three operating and reportable segments to reflect their branded names: Ting, Wavelo and Tucows Domains, previously called Fiber Internet Services, Platform Services and Domain Services, respectively. There were no changes to the activities or financial results attributed to each segment.

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 20 – Segment Reporting for more information.

(a) Ting

The Company generates Ting revenues primarily through the provisioning of fixed high-speed Internet access, Ting Internet.

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) Wavelo

The Company generates Wavelo revenues by providing billing and provisioning platform services to Communication Service Providers ("CSPs") to whom we also provide other professional services.

Platform service agreements contain both platform services and professional services. Platform services offer a variety of solutions that support CSPs, including subscription and billing management, network orchestration and provisioning, and individual developer tools through a single, cloud based service. Consideration under platform service arrangements includes both a variable component that changes each month depending on the number of subscribers hosted on the platform, as well as fixed payments and credits. The Company recognizes variable subscriber fees, including variable amounts in excess of substantive minimum fees where appropriate, as the fees are invoiced. Platform services represent a single promise to provide continuous access (i.e. a stand-ready performance obligation) to the platform. 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. Professional services provided under platform service arrangements can include implementation, training, consulting or software development/modification services. Revenues related to professional services are distinct from the other promises in the contract(s) and are recognized as the related services are performed, on the basis of hours consumed. Consideration is allocated between the platform services and professional services performance obligations by estimating the standalone selling price ("SSP") of each performance obligation. The Company estimates the SSP of professional services based on observable standalone sales. The SSP of platform services is derived using the residual approach by estimating the total contract consideration and subtracting the SSP of professional services. Total contract consideration is estimated at contract inception, considering any constraints that may apply and updating the estimates as new information becomes available.

Other professional services consist of professional service arrangements with platform services customers which are billed based on separate Statement of Work ("SOW") arrangements for bespoke feature development. Revenues for professional services contracted through separate SOWs are recognized at a point-in-time when the final acceptance criteria have been met.

(c) Tucows Domains

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, website hosting 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.

The Company also sells the rights to the Company’s portfolio domains or names acquired through the Company’s domain expiry stream. Revenue generated from sale of domain name contracts, containing a distinct performance obligation to transfer the domain name rights under the Company’s control, is generally recognized once the rights have been transferred and payment has been received in full.

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):

	2022	2021	2020
Ting:			
Fiber Internet Services	\$ 42,425	\$ 25,327	\$ 17,151
Wavelo:			
Platform Services	22,594	13,031	1,839
Other professional services	1,750	3,750	-
Total Wavelo	24,344	16,781	1,839
Tucows Domains:			
Wholesale			
Domain Services	187,542	189,091	186,893
Value Added Services	20,712	20,942	18,526
Total Wholesale	208,254	210,033	205,419
Retail	34,904	35,543	36,835
Total Tucows Domains	243,158	245,576	242,254
Tucows Corporate:			
Mobile Services and eliminations	11,215	16,653	49,958
	<u>\$ 321,142</u>	<u>\$ 304,337</u>	<u>\$ 311,202</u>

As of December 31, 2022, one customer represented 46% of total accounts receivable. 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.

During the years ended December 31, 2022, December 31, 2021 and December 31, 2020 no customer accounted for more than 10% of total revenue.

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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):

	2022	2021	2020
Ting:			
Fiber Internet Services	\$ 17,004	\$ 12,035	\$ 6,856
Wavelo:			
Platform Services	1,294	504	183
Other professional services	1,632	804	-
Total Wavelo	2,926	1,308	183
Tucows Domains:			
Wholesale			
Domain Services	147,894	147,213	146,788
Value Added Services	2,514	2,544	3,016
Total Wholesale	150,408	149,757	149,804
Retail	16,482	17,731	17,647
Total Tucows Domains	166,890	167,488	167,451
Tucows Corporate:			
Mobile Services and eliminations	9,448	12,208	25,911
Network Expenses:			
Network, other costs	17,433	14,769	10,194
Network, depreciation and amortization costs	29,101	18,035	13,484
Network, impairment	92	201	1,638
Total Network Expenses	46,626	33,005	25,316
	<u>\$ 242,894</u>	<u>\$ 226,044</u>	<u>\$ 225,717</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 \$147.8 million as of January 1, 2022. Significant changes in deferred revenue were as follows (Dollar amounts in thousands of U.S. dollars):

	Year ended December 31, 2022
Balance, beginning of period	\$ 147,793
Deferred revenue	257,127
Recognized revenue	(259,789)
Balance, end of period	<u>\$ 145,131</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, 2022 (Dollar amounts in thousands of U.S. dollars)

	December 31, 2022
2023	\$ 120,083
2024	10,033
2025	4,715
2026	2,871
2027	1,781
Thereafter	2,837
Total	\$ 142,320

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).

Although domain registration contracts are deferred over the lives of the individual contracts, which can range from one to ten years, approximately 80 percent of our deferred revenue balance related to domain contracts is expected to be recognized within the next twelve months.

Deferred revenue related to Exact hosting contracts is also deferred over the lives of the individual contracts, which are expected to be fully recognized within the next twelve months.

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 and other customer acquisition fees that meet the requirements to be capitalized, and therefore, capitalized them as contract costs in the amount of \$1.8 million at December 31, 2022.

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, 2022, the Company capitalized \$1.5 million and also amortized \$0.7 million of contract costs, respectively. The breakdown of the movement in the deferred costs of acquisition balance for the year ended December 31, 2022 is as follows (Dollar amounts in thousands of U.S. dollars):

	Year ended December 31, 2022
Balance, beginning of period	\$ 1,079
Capitalization of costs	1,494
Amortization of costs	(746)
Balance, end of period	\$ 1,827

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, certain partner sales incentive programs and other customer acquisition fees.

(b) Deferred costs of fulfillment

Deferred costs to fulfill contracts primarily 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. The Company also defers certain technology design and data migration costs it incurs to fulfil its performance obligations contained in our platform services arrangements. For the year ended December 31, 2022, the Company capitalized \$169.5 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, 2022. 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, 2022 is as follows (Dollar amounts in thousands of U.S. dollars).

	Year ended December 31, 2022
Balance, beginning of period	\$ 112,711
Deferral of costs	169,457
Recognized costs	(171,494)
Balance, end of period	\$ 110,674

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, 2022	Year Ended December 31, 2021
Operating Lease Cost (leases with a total term greater than 12 months)	\$ 4,200	\$ 2,840
Short-term Lease Cost (leases with a total term of 12 months or less)	244	117
Variable Lease Cost	1,223	763
Total Lease Cost	\$ 5,667	\$ 3,720

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, 2022	Year Ended December 31, 2021
<i>Supplemental cashflow information:</i>		
Operating Lease - Operating Cash Flows (Fixed Payments)	\$ 4,896	\$ 5,120
Operating Lease - Operating Cash Flows (Liability Reduction)	\$ 3,984	\$ 2,468
New ROU Assets - Operating Leases	\$ 6,726	\$ 9,032
<i>Supplemental balance sheet information related to leases:</i>		
Weighted Average Discount Rate	4.14%	3.09%
Weighted Average Remaining Lease Term	6.56 yrs	7.74 yrs

Maturity of lease liability as of December 31, 2022 (Dollar amounts in thousands of U.S. dollars):

	December 31, 2022
2023	\$ 5,198
2024	4,657
2025	3,186
2026	1,669
2027	951
Thereafter	3,218
Total future lease payments	18,879
Less interest	1,799
Total	\$ 17,080

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, 2022, 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. Redeemable preferred shares:

The Company entered into a Series A Preferred Unit Purchase Agreement (the "Unit Purchase Agreement") with Generate TF Holdings, LLC, a Delaware limited liability company ("Generate") on August 8, 2022 (the "Effective Date"), and closed the transaction contemplated thereby on August 11, 2022 (the "Transaction Close") pursuant to which the Company issued and sold 10,000,000 units of its Series A Preferred Units to Generate at a cash purchase price of \$6.00 per unit ("Initial Funding"). Under the Unit Purchase Agreement, after the Transaction Close until the third anniversary of the Effective Date (the "End Date") the Company will, upon the achievement of pre-determined operational and financial drawdown milestones issue and sell in subsequent fundings an aggregate of 23,333,333.34 units of additional Series A Preferred Units on the same terms and conditions as in the Initial Funding ("Milestone Fundings"). The investment provided the Company with \$60 million of capital upon the Initial Funding, with an additional \$140 million of capital commitments available to The Company over the subsequent three-year period if the milestones are achieved. From the Transaction Close until the earlier of (i) the End Date and (ii) the date upon which Generate has paid \$140 million pursuant to Milestone Fundings, the Company is required to pay Generate a standby fee at a rate of 0.50% of any portion of the unpaid \$140 million capital commitment which will be paid quarterly. The Series A Preferred Units accrue a preferred return to the holder at a rate of 15% per annum, subject to adjustments based on the value of approved projects under the Equity Capital Contribution Agreement (the "ECC Agreement"). The preferred return on the Series A Preferred Units purchased under the Unit Purchase Agreement may be adjusted down to a floor of 13% or up to a ceiling of 17% per annum based on commitment and contribution amounts under the ECC Agreement. The preferred return accrues daily, and is compounded quarterly. The preferred return accrued during the first two years is not payable unless and until the Series A Preferred Units are redeemed. The preferred return accrued after the second anniversary of the Transaction Close is payable by the Company quarterly. If the Company should redeem the Series A Preferred Units prior to the fourth anniversary of the Transaction Close, the Company is required to pay a make-whole premium, which is calculated as the cumulative and compounded preferred return that would have accrued (at the preferred return rate in effect immediately prior to such redemption) on the outstanding unreturned capital balance with respect to the Series A Preferred Units through and including the six-year anniversary of the Transaction Close had such Series A Preferred Unit not been redeemed, discounted at an agreed upon treasury rate plus 50 basis points, compounded quarterly (the "Make-Whole-Premium").

The Company's Amended and Restated Limited Liability Company Agreement (the "LLC Agreement"), states that in the event that (i) the Company fails to pay the preferred return for two consecutive quarters, (ii) the Company fails to pay the redemption price in connection with any redemption of the Series A Preferred Units, (iii) the Company materially breaches its obligations under the LLC Agreement, (iv) there occurs an event of default (or similar term) under Tucows Inc.'s or its affiliates' credit agreement, (v) there occurs material breach if not cured or otherwise remedied in accordance with the terms of any credit facility (taking into account any cure periods), by the Company or any of its Subsidiaries under any debt facilities where the Company or any of its Subsidiaries incurs indebtedness for borrowed money, or (vi) the Company breaches any covenant under the Unit Purchase Agreement, Generate has the option to either (i) convert Series A Preferred Units based on the Redemption Price into common units of the Company based on the then applicable conversion price ; or (ii) compelling the sale of certain assets of the Company or its subsidiaries of equal value to the Redemption Price.

Under the terms of the LLC Agreement, the Company is mandatorily required to redeem the redeemable preferred shares prior to the earliest of (i) a sale of the Company, (ii) a public offering, (iii) an event of default (or similar term) by Tucows Inc. or any of its affiliates under, (iv) a material breach if not cured or otherwise remedied in accordance with the terms of any credit facility (taking into account any cure periods), by the Company or any of its Subsidiaries under any debt facilities where the Company or any of its Subsidiaries incurs indebtedness for borrowed money, (v) the Company failed to pay the preferred return for two consecutive quarters, and (vi) the six-year anniversary of the Transaction Close. Due to the fact that the redeemable preferred shares are mandatorily redeemable, the redeemable preferred units are classified as a liability in the accompanying consolidated balance sheets. The liability was initially recorded at fair value and subsequently recorded at the present value of the settlement amount, which includes the preferred return payments required until the instrument's expected maturity on the sixth anniversary of the Transaction Close, August 10, 2028 using the implicit rate of return of the instrument, 15%. The Company recorded and \$3.9 million accretion expense on the redeemable preferred shares for the year ended December 31, 2022, recorded as interest expense, net in the accompanying consolidated statements of operations and comprehensive income (loss).

The Company incurred \$0.8 million of legal fees related to the redeemable preferred share issuance, which have been reflected as a reduction to the carrying amount of the redeemable preferred unit balance and will be amortized to interest expense, net in the accompanying consolidated statements of operations and comprehensive income (loss) over the expected six-year term instrument.

On December 5, 2022, the Company issued and sold an additional 4,583,333 units of its Series A Preferred Units to Generate at a cash purchase price of \$6.00 per unit. The Milestone Funding provided the Company with an additional \$27.5 million of capital. As of December 31, 2022, the remaining capital commitment on the Unit Purchase Agreement was \$112.5 million.

The redeemable preferred units have an aggregate liquidation preference of \$87.5 million, plus any accrued and unpaid preferred return thereon, plus a Make-Whole Premium should redemption occur before the fourth anniversary of the Transaction Date and are senior to the Ting Fiber, LLC common shares with respect to sale, dissolution, liquidation or winding up of the Company.

On January 30, 2023, the Company issued and sold an additional 5,000,000 units of its Series A Preferred Units to Generate at a cash purchase price of \$6.00 per unit. The Milestone Funding provided the Company with an additional \$30.0 million of capital. See "Note 21(b) - Subsequent Events" for more information on the Milestone Funding.

The following table summarizes the Company's borrowings under the preferred share agreement (Dollar amounts in thousands of U.S. dollars):

	December 31, 2022	December 31, 2021
Opening Balance	\$ -	\$ -
Add: Funding at Transaction Close	60,000	
Add: Milestone Funding	27,500	
Add: Accretion of redeemable preferred shares	3,896	
Less: Deferred Preferred Financing Costs	(962)	-
Total Redeemable Preferred Shares	<u>\$ 90,434</u>	<u>\$ -</u>

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The following table summarizes our scheduled repayments as of December 31, 2022 (Dollar amounts in thousands of U.S. dollars):

2023	\$	-
2024		6,882
2025		17,691
2026		17,691
2027 and thereafter		144,822
	\$	<u>187,086</u>

14. Common Shares

The Company's authorized common share capital is 250 million shares of common stock without nominal or par value. On December 31, 2022, there were 10,817,110 shares of common stock outstanding (December 31, 2021: 10,747,417).

Repurchase of common shares:

(a) Normal Course Issuer Bids:

2023 Stock Buyback Program

On February 9, 2023, 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, 2023 and is expected to be terminated on February 9, 2024. Please see "Note 21 (a) - Subsequent Events" for more information on the 2023 stock buyback program.

2022 Stock Buyback Program

On February 10, 2022, the Company announced that its Board of Directors ("Board") have 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 terminated on February 10, 2023. The Company did not repurchase shares under this program.

2021 Stock Buyback Program

On February 9, 2021, the Company announced that its Board of Directors ("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 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.

(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,		
	2022	2021	2020
Common stock repurchased on the open market or through tender offer			
Number of shares	-	-	70,238
Aggregate market value of shares (in thousands)	\$ -	\$ -	\$ 3,281
Average price per share	\$ -	\$ -	\$ 46.70
Common stock received in connection with share-based compensation			
Number of shares	3,053	45,824	48,013
Aggregate market value of shares (in thousands)	\$ 197	\$ 3,669	\$ 2,957
Average price per share	\$ 64.67	\$ 80.07	\$ 61.58

15. Stock Option Plans:

2006 Tucows Equity Compensation Plan

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 initially 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 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 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 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 ("Company Option") 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 Company Options granted during the years ended December 31, 2022, December 31, 2021 and December 31, 2020 was estimated using the following weighted average assumptions:

	Year Ended December 31,		
	2022	2021	2020
Volatility	34.9%	35.7%	39.0%
Risk-free interest rate	3.4%	0.8%	1.8%
Expected life (in years)	4.60	4.60	4.54
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	\$ 14.93	\$ 24.83	\$ 19.98

Details of Company Option transactions are as follows:

	Year Ended December 31, 2022		Year Ended December 31, 2021		Year Ended December 31, 2020	
	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	904,151	\$ 64.36	845,020	\$ 55.31	754,497	\$ 49.94
Granted	262,980	42.15	282,625	79.30	239,325	61.21
Exercised	(40,459)	31.95	(179,321)	45.04	(113,132)	30.53
Forfeited	(55,234)	68.11	(41,240)	65.72	(26,468)	60.29
Expired	(34,690)	58.92	(2,933)	60.70	(9,202)	58.96
Outstanding, end of period	1,036,748	59.97	904,151	64.36	845,020	55.31
Options exercisable, end of period	520,679	\$ 62.74	415,925	\$ 56.44	401,345	\$ 49.21

As of December 31, 2022, the exercise prices, weighted average remaining contractual life of outstanding options and intrinsic values were for Company Options 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
\$30.70 - \$30.74	20,000	\$ 30.71	6.9	\$ 64	-	\$ -	-	\$ -
\$40.04 - \$48.00	236,830	42.37	6.1	-	7,000	47.29	2.1	-
\$51.82 - \$59.98	198,508	55.72	1.7	-	192,958	55.72	1.6	-
\$60.01 - \$68.41	316,485	62.08	3.6	-	222,878	62.67	3.3	-
\$70.13 - \$79.51	248,425	78.41	5.2	-	90,906	77.59	4.9	-
\$80.61 - \$82.07	16,500	81.27	5.8	-	6,937	81.60	5.8	-
	<u>1,036,748</u>	<u>\$ 59.97</u>	<u>4.3</u>	<u>\$ 64</u>	<u>520,679</u>	<u>\$ 62.74</u>	<u>3.0</u>	<u>\$ -</u>

Total unrecognized compensation cost relating to unvested Company Options at December 31, 2022, prior to the consideration of expected forfeitures, is approximately \$8.2 million and is expected to be recognized over a weighted average period of 2.6 years.

The total intrinsic value of Company Options exercised during the years ended December 31, 2022, December 31, 2021 and December 31, 2020 was \$0.8 million, \$6.4 million and \$3.7 million, respectively. Cash received from the exercise of stock options during the years ended December 31, 2022, December 31, 2021 and December 31, 2020 was \$1.1 million, \$4.8 million and \$1.0 million respectively.

2022 Wavelo Equity Compensation Plan

On November 9, 2022 the Board of Wavelo approved Wavelo's Equity Compensation Plan (ECP), which has been established for the benefit of the employees, officers, directors and certain consultants of Wavelo or Tucows. The Wavelo stock options were introduced in order to provide variable compensation that helps retain executives and ensures that our executives' interests are aligned with those stakeholders of the business to grow long-term value. Wavelo is a wholly owned subsidiary of Tucows. The maximum number of Wavelo common shares which have been set aside for issuance under the 2022 Plan is 20 million shares, currently there are 100 million shares outstanding. The options issued under the ECP primarily vest over a period of three years and have a 7-year term. For the initial grants under the plan, the first 25% became exercisable within three months and vesting ratably monthly thereafter, after the third year. Compensation costs for awards of stock-based compensation settled in shares are determined based on the fair value of share-based instrument at the time of the grant and are recognized as expense over the vesting period of the share-based instrument. The Company recognizes forfeitures as they occur.

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 the actual volatility of comparable publicly traded companies. 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 assumes the expected dividend yield to be zero.

The fair value of stock options granted during the year ended December 31, 2022 was estimated using the following weighted average assumptions:

	Year Ended December 31,		
	2022	2021	2020
Volatility	40.7%	N/A	N/A
Risk-free interest rate	4.4%	N/A	N/A
Expected life (in years)	4.16	N/A	N/A
Dividend yield	0.0%	N/A	N/A
The weighted average grant date fair value for options issued, with the exercise price equal to fair value of subsidiary shares on the date of grant	\$ 0.49	N/A	N/A

Details of Wavelo's stock option transactions are as follows:

	Year Ended December 31, 2022		Year Ended December 31, 2021		Year Ended December 31, 2020	
	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	-	\$ -	N/A	N/A	N/A	N/A
Granted	15,975,528	1.27	N/A	N/A	N/A	N/A
Exercised	-	-	N/A	N/A	N/A	N/A
Forfeited	-	-	N/A	N/A	N/A	N/A
Expired	-	-	N/A	N/A	N/A	N/A
Outstanding, end of period	15,975,528	1.27	N/A	N/A	N/A	N/A
Options exercisable, end of period	-	\$ -	N/A	N/A	N/A	N/A

As of December 31, 2022, the exercise prices, weighted average remaining contractual life of outstanding options and intrinsic values were for Wavelo stock options 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
\$0.00 - \$1.27	15,975,528	\$ 1.27	6.9	\$ -	-	-	-	\$ -
	15,975,528	\$ 1.27	6.9	\$ -	-	-	-	\$ -

Total unrecognized compensation cost relating to unvested Wavelo stock options at December 31, 2022, prior to the consideration of expected forfeitures, is approximately \$5.9 million and is expected to be recognized over a weighted average period of 2.9 years.

The Company recorded stock-based compensation for Company options amounting to \$5.8 million, \$4.6 million and \$3.7 million for the years ended December 31, 2022, 2021 and 2020 respectively. Stock-based compensation for the Company stock has been included in operating expenses as follows (Dollar amounts in thousands of US dollars):

	Year Ended December 31,		
	2022	2021	2020
Network expenses	\$ 399	\$ 531	\$ 472
Sales and marketing	1,498	1,941	1,678
Technical operations and development	545	824	756
General and administrative	3,337	1,296	812
	\$ 5,779	\$ 4,592	\$ 3,718

Stock-based compensation for the Wavelo stock options has been included in operating expenses as follows (Dollar amounts in thousands of US dollars):

	Year Ended December 31,		
	2022	2021	2020
Network expenses	\$ 104	\$ -	\$ -
Sales and marketing	508	-	-
Technical operations and development	407	-	-
General and administrative	801	-	-
	\$ 1,820	\$ -	\$ -

16. Foreign Exchange:

A foreign exchange loss amounting to \$0.2 million has been recorded in general and administrative expenses during the year ended December 31, 2022. 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 gain amounting to \$0.4 million has been recorded in general and administrative expenses during the year ended December 31, 2020.

17. 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, 2022, the Company earned \$18.5 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 income is presented net of the original cost base of the Transferred Assets:

	For the twelve months ended		
	2022	2021	2020
Write-down of Ting Mobile intangible assets	\$ -	\$ -	\$ (2,581)
Write-down of Ting Mobile contract costs	-	-	(932)
Income earned on sale of Transferred Assets	18,507	20,030	11,125
Income earned on sale of Ting customer assets	<u>\$ 18,507</u>	<u>\$ 20,030</u>	<u>\$ 7,612</u>

18. 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,		
	2022	2021	2020
Numerator for basic and diluted earnings per common share:			
Net income for the period	\$ (27,571)	\$ 3,364	\$ 5,775
Denominator for basic and diluted earnings per common share:			
Basic weighted average number of common shares outstanding	10,769,280	10,662,337	10,590,684
Effect of outstanding stock options	-	155,132	101,597
Diluted weighted average number of shares outstanding	<u>10,769,280</u>	<u>10,817,468</u>	<u>10,692,281</u>
Basic earnings per common share	<u>\$ (2.56)</u>	<u>\$ 0.32</u>	<u>\$ 0.55</u>
Diluted earnings per common share	<u>\$ (2.56)</u>	<u>\$ 0.31</u>	<u>\$ 0.54</u>

For the year ended December 31, 2022, the Company recorded a net loss, thus all outstanding options were considered anti-dilutive and excluded from the computation of diluted income per common share.

For the year ended December 31, 2021, options to purchase 39,889 common shares were outstanding (2020: 83,177) 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.

19. 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	Redeemable preferred share financing Obligations	Capital Purchase Obligations	Purchase Obligations (1)	Total Obligations
2023	\$ 5,198	\$ -	\$ -	\$ 35,082	\$ 13,947	\$ 54,227
2024	4,657	239,700	6,882	-	16,489	267,728
2025	3,186	-	17,691	-	15,266	36,143
2026	1,669	-	17,691	-	2,394	21,754
2027	951	-	17,691	-	722	19,364
Thereafter	3,218	-	127,131	-	3,446	133,795
	<u>\$ 18,879</u>	<u>\$ 239,700</u>	<u>\$ 187,086</u>	<u>\$ 35,082</u>	<u>\$ 52,264</u>	<u>\$ 533,011</u>

(1) Purchase obligations include all other legally binding service contracts for mobile telephone services and other operational agreements to be delivered during Fiscal 2023 and subsequent years.

(2) Purchase obligations include minimum revenue commitments of \$39.5 million with the Company's MNO partner between 2023 and 2026.

(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, 2022, 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 2023.

(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 19(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 19(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 19(a).

(f) On May 11, 2022, Ting Fiber, LLC, entered into a "Rights-of-Way" agreement with the City of Alexandria, Virginia whereby the City granted Ting Fiber the right to install, place, construct, maintain, operate, upgrade, repair, and replace a Communications System to provide Broadband Services within the Public Rights-of-Way (a space in, upon, above, along, across, over and below the public and City-owned property that is used as a public rights-of-way) for a fee. Per the agreement, Ting Fiber is to pay the City throughout the 20-year term of the agreement, an amount equal to 3% of Ting Fiber's Broadband Revenues once the network is live, and subscribers are obtained, and this fee is to be paid on a quarterly basis. The agreement commences once Ting Fiber has launched the network in Alexandria, the current estimated launch date is March 2023. Since these fees are currently variable in nature, they have not been considered an unconditional purchase obligation for the purposes of the table in Note 19(a).

(g) 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.

20. Segment Reporting:

Reportable operating segments:

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 2022, the Company completed a reorganization of its reporting structure into three operating and reportable segments: Ting, Wavelo and Tucows Domains. Previously, the Company disclosed the three operating and reportable segments: Fiber Internet Services, Mobile Services and Domain Services. The retail portion of the previously disclosed Mobile Services, including the earn-out of the sale of legacy subscribers are now included within Tucows Corporate and ISP platform revenues and related results previously included within Ting are now included within Wavelo.

The change to our reportable operating segments was the result of a shift in our business and management structures that was completed during the first quarter of 2022. The operations supporting what was previously known as our Mobile Services segment have become increasingly operationally distinct between our mobile retail services and our platform services. As a result, commencing in the first quarter of 2022, our Chief Executive Officer ("CEO"), who is also our chief operating decision maker, reviews the operating results of Fiber Internet Services, Platform Services and Domains Services as three distinct segments in order to make key operating decisions as well as evaluate segment performance. Certain revenues and expenses disclosed under the Corporate category are excluded from segment EBITDA results as they are centrally managed and not monitored by or reported to our CEO by segment, including Mobile Retail Services, eliminations of intercompany transactions, portions of Finance and Human Resources that are centrally managed, Legal and Corporate IT. In the third quarter of 2022, the Company renamed its three operating and reportable segments to reflect their branded names: Ting, Wavelo and Tucows Domains, previously called Fiber Internet Services, Platform Services and Domain Services, respectively. There were no changes to the activities or financial results attributed to each segment.

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

1. Ting - This segment derives revenue from the retail high speed Internet access to individuals and small businesses primarily through the Ting website. Revenues are generated in the United States.
2. Wavelo – This segment derives revenue from platform and other professional services related to communication service providers, including Mobile Network Operators and Internet Service Providers, and are primarily generated in the United States.
3. Tucows Domains – 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.

Our segmented results include shared services allocations, including a profit margin, from Tucows Corporate for Finance, Human Resources and other technical services, to the operating units. In addition, Wavelo charges Ting a subscriber based monthly charge services rendered. Financial impacts from these allocations and cross segment charges are eliminated as part of the Tucows Corporate results.

Key measure of segment performance:

The CEO, as the chief operating decision maker, regularly reviews the operations and performance by segment. The CEO reviews segment revenue, 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. Sales and marketing expenses, technical operations and development expenses and general and administrative expenses and not reviewed or managed by the CEO separate from adjusted EBITDA, and are thus not included as separate measurements of segment profitability. 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.

Our key measures of segment performance and their definitions are:

1. Segment gross margin - Net revenues less Direct cost of revenues attributable to each segment.
2. Segment adjusted EBITDA - segment gross margin as well as the recurring gain on sale of Ting Customer Assets, less network expenses and certain operating expenses attributable to each segment, such as sales and marketing, technical operations and development, general and administration expenses but excludes gains and losses from unrealized foreign currency, stock-based compensation and transactions that are not indicative of on-going performance, including acquisition and transition costs. Certain revenues and expenses disclosed under the Tucows Corporate category are excluded from segment EBITDA results as they are centrally managed and not monitored by or reported to our CEO by segment, including Mobile Retail Services, eliminations of intercompany transactions, portions of Finance and Human Resources that are centrally managed, Legal and Corporate IT.

The Company believes that both segment gross margin and adjusted EBITDA measures are important indicators of the operational strength and performance of its segments, by identifying those items that are not directly a reflection of each segment's performance or indicative of ongoing operational and profitability trends. Segment gross margin and segment adjusted EBITDA both exclude depreciation of property and equipment, amortization of intangibles assets, impairment of indefinite life intangible assets that are included in the measurement of income before provision for income taxes pursuant to generally accepted accounting principles ("GAAP"). Total assets and total liabilities are centrally managed and are not reviewed at the segment level by the CEO.

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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):

	Ting	Wavelo	Tucows Domains	Tucows Corporate	Consolidated Totals
Year Ended December 31, 2022					
Net Revenues					
External Revenues	\$ 42,425	\$ 23,632	\$ 243,158	\$ 11,927	\$ 321,142
Intersegment Revenues	-	712	-	(712)	-
Total Net Revenues	42,425	24,344	243,158	11,215	321,142
Direct cost of revenues	17,004	2,926	166,890	9,448	196,268
Segment Gross Margin	25,421	21,418	76,268	1,767	124,874
Network, other costs					17,433
Network, depreciation of property and equipment					27,589
Network, amortization of intangible assets					1,512
Network, impairment of property and equipment					92
Gross profit					78,248
Expenses:					
Sales and marketing					53,937
Technical operations and development					14,187
General and administrative					30,845
Depreciation of property and equipment					598
Loss on disposition of property and equipment					461
Amortization of intangible assets					9,882
Loss (gain) on currency forward contracts					-
Total expenses					109,910
Income (Loss) from operations					(31,662)
Other income (expenses):					
Interest expense, net					(14,456)
Income earned on sale of transferred assets, net					18,507
Other expense, net					(177)
Total other income (expenses)					3,874
Income (Loss) before provision for income taxes					\$ (27,788)
Adjusted EBITDA	\$ (21,557)	\$ 3,875	\$ 44,834	\$ 10,438	\$ 37,590

	Ting	Wavelo	Tucows Domains	Tucows Corporate	Consolidated Totals
Year Ended December 31, 2021					
Net Revenues					
External Revenues	\$ 25,327	\$ 16,781	\$ 245,576	\$ 16,653	\$ 304,337
Intersegment Revenues	-	-	-	-	-
Total Net Revenues	25,327	16,781	245,576	16,653	304,337
Direct cost of revenues	12,035	1,308	167,488	12,208	193,039
Segment Gross Margin	13,292	15,473	78,088	4,445	111,298
Network, other costs					14,769
Network, depreciation of property and equipment					17,452
Network, amortization of intangible assets					583
Network, impairment of property and equipment					201
Gross profit					78,293
Expenses:					
Sales and marketing					39,471
Technical operations and development					14,310
General and administrative					22,370
Depreciation of property and equipment					534
Loss (gain) on disposition of property and equipment					234
Amortization of intangible assets					9,424
Impairment of definite life intangible assets					(277)
Gain on currency forward contracts					-
Total expenses					86,066
Income (Loss) from operations					(7,773)
Other income (expenses):					
Interest expense, net					(4,617)
Gain on sale of Ting customer assets, net					20,030
Other expense, net					(370)
Total other income (expenses)					15,043
Income (Loss) before provision for income taxes					\$ 7,270
Adjusted EBITDA	\$ (18,778)	\$ 7,334	\$ 47,765	\$ 12,500	\$ 48,821

	Ting	Wavelo	Tucows Domains	Tucows Corporate	Consolidated Totals
Year Ended December 31, 2020					
Net Revenues					
External Revenues	\$ 17,151	\$ 1,839	\$ 242,254	\$ 49,958	\$ 311,202
Intersegment Revenues	-	-	-	-	-
Total Net Revenues	17,151	1,839	242,254	49,958	311,202
Direct cost of revenues	6,856	183	167,451	25,911	200,401
Segment Gross Margin	10,295	1,656	74,803	24,047	110,801
Network, other costs					10,194
Network, depreciation of property and equipment					12,144
Network, amortization of intangible assets					1,340
Network, impairment of property and equipment					1,638
Gross profit					85,485
Expenses:					
Sales and marketing					34,274
Technical operations and development					12,427
General and administrative					20,268
Depreciation of property and equipment					488
Loss (gain) on disposition of property and equipment					(17)
Amortization of intangible assets					10,080
Impairment of definite life intangible assets					1,431
Gain on currency forward contracts					(383)
Total expenses					78,568
Income (Loss) from operations					6,917
Other income (expenses):					
Interest expense, net					(3,611)
Gain on sale of Ting customer assets, net					7,612
Other expense, net					(158)
Total other income (expenses)					3,843
Income (Loss) before provision for income taxes					\$ 10,760
Adjusted EBITDA	\$ (6,349)	\$ (5,381)	\$ 46,158	\$ 16,545	\$ 50,973

Reconciliation of Income before Provision for Income Taxes to Adjusted EBITDA (In Thousands of US Dollars)	Twelve months ended December 31,		
	2022	2021	2020
Net Income for the period	\$ (27,571)	\$ 3,364	\$ 5,775
Less:			
Provision for income taxes	(217)	3,906	4,985
Depreciation of property and equipment	28,187	17,986	12,632
Impairment and loss on disposition of property and equipment	553	435	1,621
Amortization of intangible assets	11,394	10,007	11,420
Impairment of definite life intangible assets	-	-	1,431
Write-down on disposal of Ting Mobile customer assets	-	-	3,513
Interest expense, net	14,456	4,617	3,611
Accretion of contingent liability	248	383	344
Stock-based compensation	7,599	4,592	3,718
Unrealized loss (gain) on change in fair value of foreign currency forward contracts	-	606	(500)
Unrealized loss (gain) on foreign exchange revaluation of foreign denominated monetary assets and liabilities	281	219	461
Acquisition and other costs ¹	2,660	2,706	1,962
Adjusted EBITDA	\$ 37,590	\$ 48,821	\$ 50,973

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.

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(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>2022</u>	<u>2021</u>	<u>2020</u>
Ting:			
Fiber Internet Services	\$ 17,004	\$ 12,035	\$ 6,856
Wavelo:			
Platform Services	1,294	504	183
Other professional services	1,632	804	-
Total Wavelo	<u>2,926</u>	<u>1,308</u>	<u>183</u>
Tucows Domains:			
Wholesale			
Domain Services	147,894	147,213	146,788
Value Added Services	2,514	2,544	3,016
Total Wholesale	<u>150,408</u>	<u>149,757</u>	<u>149,804</u>
Retail	<u>16,482</u>	<u>17,731</u>	<u>17,647</u>
Total Tucows Domains	<u>166,890</u>	<u>167,488</u>	<u>167,451</u>
Tucows Corporate:			
Mobile Services and eliminations	<u>9,448</u>	<u>12,208</u>	<u>25,911</u>
Network Expenses:			
Network, other costs	17,433	14,769	10,194
Network, depreciation and amortization costs	29,101	18,035	13,484
Network, impairment	92	201	1,638
Total Network Expenses	<u>46,626</u>	<u>33,005</u>	<u>25,316</u>
	<u>\$ 242,894</u>	<u>\$ 226,044</u>	<u>\$ 225,717</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, 2022</u>	<u>December 31, 2021</u>
Canada	\$ 1,240	\$ 1,994
United States	280,219	170,630
Europe	36	38
	<u>\$ 281,495</u>	<u>\$ 172,662</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, 2022</u>	<u>December 31, 2021</u>
Canada	\$ 2,736	\$ 1,386
United States	24,770	36,732
	<u>\$ 27,506</u>	<u>\$ 38,118</u>

(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):

	December 31, 2022	December 31, 2021
Canada	\$ -	\$ 22
	<u>\$ -</u>	<u>\$ 22</u>

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

Allowance for doubtful accounts	Balance at beginning of period	Charged to costs and expenses	Write-offs during period	Balance at end of period
Year Ended December 31, 2022	\$ 541	\$ 152	\$ -	\$ 693
Year Ended December 31, 2021	\$ 222	\$ 319	\$ -	\$ 541

21. Subsequent Events:

a. 2023 Stock Buyback Program

On February 9, 2023, 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, 2023 and is expected to terminate on February 9, 2024. The previously announced \$40 million buyback program for the period February 11, 2022 to February 10, 2023 was terminated. According to the terms of our Third 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.

b. Issuance of Preferred Units by Ting Fiber, LLC

On January 30, 2023, the Company issued and sold an additional 5,000,000 units of its Series A Preferred Units to Generate at a cash purchase price of \$6.00 per unit pursuant to the Unit Purchase Agreement. The Milestone Funding provided the Company with an additional \$30.0 million of capital and reduced Generate's future capital commitment under the Unit Purchase Agreement to \$82.5 million.

c. Amending Agreement No.2 to the Third Amended and Restated Senior Secured Credit Agreement

On March 14, 2023 the Company entered into an Amending Agreement No.2 (the "Credit Agreement Amendment") to the Third Amended and Restated Senior Secured Credit Agreement with its existing syndicate of lenders (The "Amended Credit Agreement"). The Amended Credit Agreement continues to provide the Company with access to an aggregate of \$240 million in committed funds, however there is a suspension to the \$60 million accordion during the relief period (the "Leverage Step Up Period"), which is defined as from Closing (March 14, 2023) to the date that the Company delivers a compliance certificate for the period ending on December 31, 2023 demonstrating compliance with financial covenants. Additionally, the Credit Agreement Amendment has extended the maturity of the Credit Facility to September 30, 2024. As a result of the closing of the Credit Agreement, the Company is subject to the following financial covenants at all times, with monthly testing during the Leverage Step Up Period and reverting to quarterly tests thereafter: (i) maximum Total Funded Debt to Adjusted EBITDA Ratio of 4.50:1.00 from March 14, 2023 up to and including September 29, 2023; 4.00:1.00 from September 30, 2023 up to and including December 30, 2023; and 3.75:1.00 thereafter; and (ii) minimum Interest Coverage Ratio of 3.00:1.00. On March 14, 2023 the Company made a repayment of \$2.8 million on the Credit Facility.