

# TUCOWS FINANCIAL STATEMENTS, Q3 2002

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

|   | September 30,<br>2002<br>(unaudited) | December 31,<br>2001 |
|---|--------------------------------------|----------------------|
| <b>Assets</b>   |                                      |                      |
| Current assets:   |                                      |                      |
| Cash and cash equivalents   | \$ 7,421,668                         | \$ 4,814,189         |
| Restricted cash (note 1)  | 839,750                              | -                    |
| Accounts receivable   | 374,035                              | 817,990              |
| Promissory note, secured and bearing interest at the rate of 6% per annum due on October 31, 2002 | 1,121,480                            | -                    |
| Prepaid expenses and deposits   | 1,637,059                            | 2,041,927            |
| Prepaid domain name registry fees, current portion  | 11,146,638                           | 10,034,413           |
| Total current assets  | 22,540,630                           | 17,708,519           |
| Restricted cash (note 1)  | 225,000                              | -                    |
| Prepaid domain name registry fees, long term portion  | 3,531,857                            | 2,599,962            |
| Property and equipment  | 1,747,828                            | 3,691,390            |
| Investments   | 353,737                              | 1,367,072            |
| Intangible assets   | -                                    | 222,222              |
| Total assets  | \$ 28,399,052                        | \$ 25,589,165        |
| <b>Liabilities and Stockholders' Deficiency</b>   |                                      |                      |
| Current liabilities:  |                                      |                      |
| Accounts payable  | \$ 1,249,357                         | 1,958,744            |
| Accrued liabilities   | 2,554,406                            | 2,242,858            |

|  |               |               |
|--|---------------|---------------|
| Customer deposits  | 2,021,196     | 1,951,336     |
| Obligations under capital lease, current portion   | -             | 58,772        |
| Deferred revenue, current portion  | 18,494,147    | 18,444,280    |
| Deferred gain on disposition of Electric Library subscription assets   | 1,121,480     | -             |
| Total current liabilities  | 25,440,586    | 24,655,990    |
| Deferred revenue, long term portion  | 5,744,877     | 4,270,341     |
| Obligations under capital lease, net of current portion  | -             | 52,387        |
| Stockholders' deficiency:  |               |               |
| Preferred stock - no par value, 1,250,000 shares authorized; none issued and outstanding   | -             | -             |
| Common stock - no par value, 250,000,000 shares authorized; 64,626,429 shares issued and outstanding at September 30, 2002 and December 31, 2001 | 8,540,687     | 8,540,687     |
| Additional Paid-in Capital   | 49,992,129    | 49,992,129    |
| Deferred stock-based compensation  | (224,309)     | (346,000)     |
| Deficit  | (61,094,918)  | (61,576,369)  |
| Total stockholders' deficiency   | (2,786,411)   | (3,389,553)   |
| <br>   |               |               |
| Total liabilities and stockholders' deficiency   | \$ 28,399,052 | \$ 25,589,165 |

**Note 1:**

The Company has entered into a series of forward exchange contracts, whereby an amount of U.S.\$375,000 is converted into Canadian dollars on a semi-monthly basis from June 2002 until the end of December 2003. As margin security against these Contracts, the Company placed \$1,196,000 into secured term deposits, which mature on a monthly basis in line with the Contracts. The outstanding margin security in the amount of \$1,064,750 is reflected as restricted cash on the balance sheet.

**Tucows Inc.**  
**Consolidated Statements of Operations**  
(Dollar amounts in U.S. dollars)  
(unaudited)

| Three months ended<br>September 30, |      | Nine months ended<br>September 30, |      |
|-------------------------------------|------|------------------------------------|------|
| 2002                                | 2001 | 2002                               | 2001 |

|   |              |                |               |                 |
|---|--------------|----------------|---------------|-----------------|
| Net revenues  | \$ 8,879,281 | \$ 8,200,917   | \$ 28,286,001 | \$ 21,779,959   |
| Cost of revenues  | 5,413,730    | 5,929,612      | 17,645,243    | 14,500,083      |
| Gross profit  | 3,465,551    | 2,271,305      | 10,640,758    | 7,279,876       |
| Operating expenses:   |              |                |               |                 |
| Sales and marketing (*)   | 926,098      | 1,522,296      | 2,831,851     | 5,292,725       |
| Technical operations and development  | 866,061      | 1,411,193      | 2,883,770     | 4,054,074       |
| General and administrative(*)   | 914,248      | 912,277        | 3,230,594     | 2,850,088       |
| Depreciation of property and equipment                                      | 378,913      | 631,024        | 2,273,587     | 2,462,042       |
| Amortization of intangible assets   | -            | 1,325,700      | 222,222       | 3,189,146       |
| (Gain) loss on change in fair value of forward contracts                    | 530,381      | -              | 400,488       | -               |
| Total operating expenses  | 3,615,701    | 5,802,490      | 11,842,512    | 17,848,075      |
| Loss from operations  | (150,150)    | (3,531,185)    | (1,201,754)   | (10,568,199)    |
| Other income (expenses)   |              |                |               |                 |
| Interest income (expense), net  | 21,299       | (156,428)      | 60,164        | (157,184)       |
| Gain on disposal of Electric Library subscription assets                    | 725,237      | -              | 725,237       | -               |
| Gain on disposal of Liberty Registry Management Services Inc.               | -            | -              | 1,955,443     | -               |
| Loss on disposal of Eklektix Inc.   | -            | -              | (44,304)      | -               |
| Write down of investment in bigchalk.com                                    | -            | -              | (1,013,335)   | -               |
| Total other income (expenses)   | 746,536      | (156,428)      | 1,683,205     | (157,184)       |
| Income (loss) before provision for income taxes                             | 596,386      | (3,687,613)    | 481,451       | (10,725,383)    |
| Provision for income taxes  | -            | -              | -             | -               |
| Net income (loss) for the period  | \$ 596,386   | \$ (3,687,613) | \$ 481,451    | \$ (10,725,383) |
| Basic and diluted earnings (loss) per share                                 | \$ 0.01      | \$ (0.07)      | \$ 0.01       | \$ (0.20)       |
| Shares used in computing basic and diluted earnings (loss) per common share | 64,626,429   | 56,574,253     | 64,626,429    | 53,297,131      |

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

|                            |           |           |           |           |
|----------------------------|-----------|-----------|-----------|-----------|
| Sales and marketing        | \$ 27,707 | \$ 27,707 | \$ 82,218 | \$ 82,218 |
| General and administrative | \$ 13,302 | \$ 13,303 | \$ 39,474 | \$ 39,474 |

**Tucows Inc.**  
**Consolidated Statements of Cash Flows**  
**(Dollar amounts in U.S. dollars)**  
**(unaudited)**

|   | Three months ended<br>September 30, |                | Nine months ended<br>September 30, |                 |
|---|-------------------------------------|----------------|------------------------------------|-----------------|
|   | 2002                                | 2001           | 2002                               | 2001            |
| Cash provided by (used in):   |                                     |                |                                    |                 |
| Operating activities:   |                                     |                |                                    |                 |
| Net Income (loss)<br>for the period                                 | \$ 596,386                          | \$ (3,687,613) | \$ 481,451                         | \$ (10,725,383) |
| Items not involving cash:   |                                     |                |                                    |                 |
| Depreciation of property<br>and equipment                           | 378,913                             | 631,024        | 2,273,587                          | 2,462,042       |
| Amortization of intangible<br>assets                                | -                                   | 1,325,700      | 222,222                            | 3,189,146       |
| (Gain) loss on change in fair<br>value of forward contracts         | 530,381                             | -              | 400,488                            | -               |
| Write down of investment in<br>bigchalk.com                         | -                                   | -              | 1,013,335                          | -               |
| Stock-based compensation  | 41,009                              | 41,010         | 121,692                            | 121,692         |
| Gain on disposal of Electric<br>Library subscription assets         | (725,237)                           | -              | (725,237)                          | -               |
| Gain on disposal of Liberty<br>Registry Management<br>Services Inc. | -                                   | -              | (1,955,443)                        | -               |
| Loss on write-off of<br>Eklektix Inc.                               | -                                   | -              | 44,304                             | -               |
| Change in non-cash operating working<br>capital:                    |                                     |                |                                    |                 |
| Accounts receivable   | (51,270)                            | (930,753)      | 271,613                            | (724,661)       |
| Prepaid expenses and<br>deposits                                    | 296,718                             | 258,292        | 233,754                            | (456,489)       |
| Prepaid domain name   | (481,381)                           | 491,973        | (2,321,352)                        | (2,717,198)     |

|  |           |             |             |             |
|--|-----------|-------------|-------------|-------------|
| registry fees  |           |             |             |             |
| Accounts payable   | (192,794) | (501,500)   | (371,943)   | (1,235,813) |
| Accrued liabilities  | 387,166   | (1,868,244) | (354,102)   | (1,183,757) |
| Customer deposits  | (224,762) | 362,955     | 84,455      | 380,962     |
| Deferred revenue   | 634,973   | 1,784,512   | 3,609,422   | 4,464,134   |
| Cash provided by (used in) operating activities  | 1,190,102 | (2,092,644) | 3,028,246   | (6,425,325) |
| Financing activities:  |           |             |             |             |
| Proceeds on issuance of promissory notes   | -         | 2,500,000   | -           | 2,500,000   |
| Repayment of promissory note   | -         | (2,500,000) | -           | (2,500,000) |
| Proceeds on rights issue   | -         | -           | -           | 2,999,973   |
| Loans payable  | -         | (3,800,000) | -           | -           |
| Proceeds recieved on exercise of stock options   | -         | -           | -           | 24,396      |
| Repayments of obligations under capital leases   | (65,588)  | (5,821)     | (111,160)   | (5,821)     |
| Cash provided by (used in) financing activities  | (65,588)  | (3,805,821) | (111,160)   | 3,018,548   |
| Investing activities:  |           |             |             |             |
| Additions to property and equipment  | (160,710) | (337,310)   | (608,767)   | (2,308,524) |
| Decrease (Increase) in restricted cash - being margin security against forward exchange contracts (note 1) | 131,250   | -           | (1,064,750) | -           |
| Net proceeds on disposal of Electric Library subscription assets   | 455,649   | -           | 455,649     | -           |
| Investment in Afiliias Limited   | -         | (158,031)   | -           | (253,737)   |
| Proceeds on disposal of Liberty Registry Management Services Inc., net of cash disposed                    | -         | -           | 938,889     | -           |
| Proceeds on disposal of Eklektix Inc., net of cash disposed  | -         | -           | (30,628)    | -           |
| Aquisition of Infonautics Inc.,  |           |             |             |             |

|  |           |              |           |              |
|--|-----------|--------------|-----------|--------------|
| net of cash acquired   | -         | 8,833,431    | -         | 8,833,431    |
| Deferred acquisition costs   | -         | 313,098      | -         | -            |
| Cash provided by (used in) investing activities  | 426,189   | 8,651,188    | (309,607) | 6,271,170    |
| Increase in cash and cash equivalents  | 1,550,703 | 2,752,723    | 2,607,479 | 2,864,393    |
| Cash and cash equivalents, beginning of period   | 5,870,965 | 2,281,865    | 4,814,189 | 2,170,195    |
| Cash and cash equivalents, end of period   | 7,421,668 | 5,034,588    | 7,421,668 | 5,034,588    |
|  | \$        | \$           | \$        | \$           |
| Supplemental cash flow information:  |           |              |           |              |
| Interest paid  | \$ 12,304 | \$ 143,736   | \$ 23,932 | \$ 181,400   |
| Supplemental disclosure of non-cash investing and financing activities:                    |           |              |           |              |
| Common stock issued on the acquisition of Infonautics, Inc.                                | \$ -      | \$ 8,489,000 | \$ -      | \$ 8,489,000 |
| Value assigned to Infonautics, Inc. outstanding option on acquisition of Infonautics, Inc. | -         | 44,000       | -         | 44,000       |
| Promissory note receivable on disposal of Electric Library subscription assets             | 1,121,480 | -            | 1,121,480 | -            |