columbus
international

# Financial Report 2014

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# Section A

# Press Release

# Columbus International Inc. Reports Year End Financial and Operating Results

Columbus International Inc. announced its consolidated financial and operating results for the twelve months ended December 31, 2014.

**Financial highlights are as follows:**

## Operations

| | Twelve months ended 31 December | |
|---|---|---|
| | 2014 (US $000) | 2013 (US $000) |
| Revenue | 598,425 | 504,713 |
| EBITDA (1) | 258,489 | 220,478 |
| Net loss | (105,920) | (8,998) |

## Financial Position

| | At 31 December 2014 (US $000) | At 31 December 2013 (US $000) |
|---|---|---|
| Cash | 43,978 | 49,386 |
| Total assets | 1,762,086 | 1,497,450 |
| Total interest-bearing debt | 1,250,000 | 852,000 |

(1) We define "EBITDA" for any period to be our consolidated profit/(loss) for the period, plus financing costs, income tax expense (recovery), depreciation, amortization and other expenses (including expenses related to foreign currency translation adjustments, our equity incentive plan and other exceptional or non-recurring items). We believe that EBITDA provides meaningful additional information to investors because it is commonly reported and widely accepted by analysts and investors as a base for comparing a company's underlying profitability with other companies in the industry. This is particularly the case in a capital intensive industry such as telecommunications. EBITDA is used by our board of directors and management as a measure of profitability. EBITDA is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same. Please see reconciliation of EBITDA on page 6 of the operating and financial review.

(2) Please see note 20 of the audited consolidated financial statements for disclosure supporting the revised prior period amounts.

Holders of the 7.375% Senior notes due 2021 may obtain a copy of the Audited Consolidated Financial Statements and the Operating and Financial Review by request at investorinfo@columbus.co.

**Columbus International Inc.** is a privately held diversified telecommunications company based in Barbados. The Company provides digital cable television, broadband Internet and digital landline telephony in Trinidad, Jamaica, Barbados, Grenada, Curacao, St. Lucia and St. Vincent and the Grenadines under the brand name ***FLOW*** and in Antigua under the brand name ***Karib Cable***. Columbus also provides next generation connectivity and IT solutions, managed networking and cloud-based services under the brand **Columbus Business Solutions**. Through its wholly owned subsidiary, ***Columbus Networks***, the Company provides capacity and IP services, corporate data solutions and data center hosting throughout 42 countries in the greater Caribbean, Central American and Andean region. Through its fully protected, ringed submarine fiber optic network spanning more than 42,300 km and its 34,300 km terrestrial fibre and coaxial network, Columbus' 3,000 plus professionals provide advanced telecom services to a diverse residential and corporate client base approaching 715,000 customers. Visit www.columbus.co.

For further information please contact Maxwell Parsons, 786.274.7435, max@columbus.co; or Richard Hugh, 786.274.8834, rhugh@columbus.co.

# Section B

# Audited Consolidated Financial Statements

Consolidated Financial Statements

# Columbus International Inc.

31 December 2014

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Columbus International Inc.**

We have audited the accompanying consolidated financial statements of **Columbus International Inc.**, which comprise the consolidated statements of financial position as at 31 December 2014 and 2013, and the consolidated statements of loss and comprehensive loss, changes in equity (deficit) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards for Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Columbus International Inc.** as at 31 December 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young

CHARTERED ACCOUNTANTS
Barbados
29 April 2015

**Columbus International Inc.**

# CONSOLIDATED BALANCE SHEET

| As at 31 December | Notes | 2014 (US $000) | 2013 (US $000) (see Note 20) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash | | **43,978** | 49,386 |
| Accounts receivable, trade | | **118,389** | 82,880 |
| Accounts receivable, other | | **3,178** | 4,618 |
| Inventory | | **5,293** | 3,801 |
| Prepayments | | **17,091** | 16,103 |
| **Total current assets** | | **187,929** | 156,788 |
| Investments and other assets | **4** | **8,828** | 13,152 |
| Property, plant and equipment | **5** | **1,138,327** | 1,012,172 |
| Intangible assets | **6** | **184,116** | 112,744 |
| Goodwill | **6** | **202,300** | 162,048 |
| Embedded derivative | **7** | **12,968** | — |
| Deferred income tax asset | **14** | **27,618** | 40,546 |
| **Total assets** | | **1,762,086** | 1,497,450 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | **165,494** | 127,628 |
| Income taxes payable | | **6,025** | 4,201 |
| Current portion of interest-bearing loans and borrowings | **7** | — | 638,233 |
| Due to Cable and Wireless Communications, net | | **11,695** | — |
| Current portion of deferred revenue | | **37,987** | 34,407 |
| **Total current liabilities** | | **221,201** | 804,469 |
| Interest-bearing loans and borrowings, net of current portion | **7** | **1,233,140** | 199,259 |
| Preferred share liabilities | **8** | — | 750 |
| Deferred revenue, net of current portion | | **324,086** | 302,060 |
| Deferred income tax liability | **14** | **98,984** | 86,633 |
| Other long-term liabilities | **12** | **39,413** | 27,422 |
| **Total liabilities** | | **1,916,824** | 1,420,593 |
| **EQUITY** | | | |
| Issued capital | **10** | **335,241** | 326,617 |
| Foreign currency translation adjustment | | **(83,355)** | (43,994) |
| Deficit | | **(406,624)** | (205,766) |
| **Total equity** | | **(154,738)** | 76,857 |
| | | **1,762,086** | 1,497,450 |

*See accompanying notes*

**Columbus International Inc.**

# CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

Year ended 31 December

| | Notes | 2014 (US $000) | 2013 (US $000) (see Note 20) |
|---|---|---|---|
| Revenue | | **598,425** | 504,713 |
| Operating costs | | **343,968** | 284,235 |
| | | **254,457** | 220,478 |
| Balancing payment to Cable and Wireless Communications | 17 | **17,065** | — |
| | | **237,392** | 220,478 |
| Amortization | | **112,442** | 95,381 |
| **Operating income** | | **124,950** | 125,097 |
| Other expenses | | | |
| Financing costs | 16 | **175,235** | 95,726 |
| Other | | **36,553** | 20,906 |
| | | **211,788** | 116,632 |
| **(Loss) income before income taxes** | | **(86,838)** | 8,465 |
| Income tax expense | 14 | **19,082** | 17,463 |
| **Loss for the year** | | **(105,920)** | (8,998) |
| **Other comprehensive loss for the year** | | | |
| Other comprehensive income to be reclassified to profit or loss: | | | |
| Foreign currency translation adjustments | | **(39,361)** | (20,524) |
| **Total comprehensive loss for the year** | | **(145,281)** | (29,522) |

*See accompanying notes*

**Columbus International Inc.**

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued capital *[note 10]* (US $000) | Deficit (US $000) | Foreign currency translation (US $000) | Total equity (US $000) |
|---|---|---|---|---|
| **At 1 January 2014** | **326,617** | **(205,766)** | **(43,994)** | **76,857** |
| Loss for the year | **—** | **(105,920)** | **—** | **(105,920)** |
| Other comprehensive loss | **—** | **—** | **(39,361)** | **(39,361)** |
| **Total comprehensive loss** | **—** | **(105,920)** | **(39,361)** | **(145,281)** |
| Issued capital | **6,624** | **—** | **—** | **6,624** |
| Forgiveness of shareholder loan | **2,000** | **—** | **—** | **2,000** |
| Dividend | **—** | **(94,938)** | **—** | **(94,938)** |
| | **8,624** | **(200,858)** | **(39,361)** | **(231,595)** |
| **At 31 December 2014** | **335,241** | **(406,624)** | **(83,355)** | **(154,738)** |
| | | | | |
| **At 1 January 2013** (see Note 20) | 295,743 | (196,768) | (23,470) | 75,505 |
| Loss for the year | — | (8,998) | — | (8,998) |
| Other comprehensive loss | — | — | (20,524) | (20,524) |
| **Total comprehensive loss** | — | (8,998) | (20,524) | (29,522) |
| Issued capital | 30,374 | — | — | 30,374 |
| Forgiveness of shareholder loan | 500 | — | — | 500 |
| | 30,874 | (8,998) | (20,524) | 1,352 |
| **At 31 December 2013** | 326,617 | (205,766) | (43,994) | 76,857 |

*See accompanying notes*

**Columbus International Inc.**

# CONSOLIDATED STATEMENT OF CASH FLOW

Year ended 31 December

| | Notes | 2014 (US $000) | 2013 (US $000) (see Note 20) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| (Loss) income before income taxes | | **(86,838)** | 8,465 |
| Adjustments for: | | | |
| Amortization of property, plant and equipment | 5 | **93,324** | 81,694 |
| Amortization of intangible assets | 6 | **19,118** | 13,687 |
| Amortization of debt issue costs, discounts and premiums, net | | **16,407** | 5,269 |
| Long-term compensation plans | | **21,599** | 1,446 |
| Fair value adjustment of embedded derivative | | **(9,785)** | — |
| Gain on disposal of investment in associate | 4 | **(3,715)** | 1,567 |
| Non-cash balancing payment to Cable and Wireless Communications | 17 | **17,065** | — |
| Other non-cash adjustments | | **2,557** | 2,319 |
| Change in deferred revenue | | **(12,453)** | (8,245) |
| Current income tax expense | | **(21,345)** | (5,821) |
| | | **35,934** | 100,381 |
| Change in non-cash operating working capital | | **3,711** | (6,861) |
| **Cash provided by operating activities** | | **39,645** | 93,520 |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from interest-bearing loans and borrowings | 7 | **1,250,000** | 88,000 |
| Repayment of interest-bearing loans and borrowings | 7 | **(852,000)** | — |
| Issue costs related to the issuance of interest-bearing loans and borrowings | 7 | **(21,944)** | (5,834) |
| Proceeds from issuance of share capital | | — | 30,874 |
| Dividends paid | | **(94,938)** | — |
| Decrease in other long-term liabilities | | **(4,395)** | (3,273) |
| **Cash provided by financing activities** | | **276,723** | 109,767 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 5 | **(182,702)** | (155,535) |
| Purchase of intangible assets | 6 | **(7,864)** | (7,515) |
| Disposal of property, plant and equipment | | **1,080** | 2,377 |
| Movement in investments and other assets | | **8,491** | (151) |
| Acquisition of subsidiaries, net of cash acquired | 3 | **(146,137)** | (53,543) |
| **Cash used in investing activities** | | **(327,132)** | (214,367) |
| Adjustment for change in foreign exchange | | **5,356** | 2,195 |
| **Net change in cash during the year** | | **(5,408)** | (8,885) |
| Cash, beginning of year | | **49,386** | 58,271 |
| **Cash, end of year** | | **43,978** | 49,386 |

*See accompanying notes*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

## 1. COMPANY PROFILE

### Corporate information

Columbus International Inc. (“CII” or the “Company”) was incorporated on 13 October 2004 as Ironbound Holdings (Barbados) Limited, then amended on 19 October 2005 to Columbus International Inc. under the *Companies Act of Barbados*. Its shares are privately held. The Company is a diversified Caribbean communications company whose core operating business consists of providing cable television services, high speed internet access, digital phone and internet infrastructure services (“Flow”) and the development of an undersea fiber optic cable network (the “Network”), as well as the sale and lease of the telecom capacity provided by the Network (“Columbus Networks”).

The Company’s registered office is located at Suites 205-207 Dowell House Cr. Roebuck & Palmetto Street, Bridgetown, Barbados.

As further described in note 21, Event After the Balance Sheet Date, the Parent Company was acquired by and became a wholly owned subsidiary of Cable and Wireless Communications plc. See note 21 for further information.

### Statement of compliance

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements were authorized for issue in accordance with the resolution of the directors on 29 April 2015.

### Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for liabilities for cash-settled share-based payment arrangements which are measured at fair value. The consolidated financial statements, notes and tabular amounts are presented in US dollars and all values are rounded to the nearest thousand (000s), with the exception of per share/option amounts and when otherwise indicated.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its 100% owned subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-company balances, transactions, income and expenses and profits and losses resulting from intra-company transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date at which the Company obtains control, and continue to be consolidated until the date at which such control ceases. The acquisitions of the subsidiaries made by the Company have been accounted for using the acquisition method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition *[note 3]*.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Company's significant accounting policies:

### Significant judgments

The preparation of the Company's consolidated financial statements requires management to make judgments that affect useful lives of property, plant and equipment, capitalization of labor and other overhead costs, and assessing indicators of impairment of non-financial assets, at the reporting date. On an ongoing basis management evaluates its judgments using historical experience and various other factors it believes to be reasonable under the given circumstances. However, uncertainty about these judgments could result in actual outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

***Property, plant and equipment***
The Company amortizes its property, plant and equipment over its useful life using a straight-line method. Significant judgments are required annually in order to determine the remaining useful life of the assets.

The Company capitalizes labour and other overhead costs to property, plant and equipment. Significant judgments are required annually to determine the appropriate amount to capitalize using a percentage of certain total costs.

***Indicators of impairment of non-financial assets***
The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangible assets are tested for impairment annually and at other times when such indicators exist.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

## Significant accounting estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. On an ongoing basis management evaluates its estimates and assumptions using historical experience and various other factors it believes to be reasonable under the given circumstances. However, uncertainty about these assumptions and estimates could result in actual outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

***Taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors including differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies *[note 14]*.

***Share-based payments***

The Company measures the costs of equity-settled transactions with employees by reference to the fair value of the equity instrument at the date at which they are granted.

The Company measures the costs of cash-settled transactions with employees initially at fair value at the grant date; the liability is re-measured at each consolidated balance sheet date with changes in fair value recognized in profit or loss.

Estimating fair value requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model, including the expected life of the option, volatility and dividend yield, and making assumptions about them *[note 11]*.

***Provisions, contingent liabilities and contingent assets***
All provisions are reviewed at each reporting date and are adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized unless it was assumed in the course of a business combination. Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets and are not recorded until the recognition criteria are met.

***Impairment of non-financial assets***
When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit ("CGU") and choose a suitable discount rate in order to calculate the present value of those cash flows. In determining fair value less costs of disposal, recent market transactions are taken into account. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators *[note 13]*.

## Significant accounting policies

**Cash**
Cash in the consolidated balance sheet comprise cash in banks, cash on hand and short-term deposits with an original maturity of three months or less.

**Trade and other receivables**
Trade receivables, which generally have 30-60 day terms, are recognized and carried at original invoice amounts. After initial measurement, trade and other receivables are carried at amortized cost, less any allowance for impairment. An allowance is made when there is objective evidence that the Company will not be able to collect the debt. Bad debts are written off when identified and are recognized as operating costs in the consolidated statement of income and comprehensive income.

**Inventory**
Inventory comprises spare parts and materials used in the maintenance of network infrastructure. Inventory items are recorded at lower of cost and net realizable value, with cost being determined using average cost.

**Property, plant and equipment**
Property, plant and equipment are carried at cost less accumulated amortization and accumulated impairment in value. Carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Amortization is calculated on a straight-line basis over the useful life of the assets. The estimated useful lives of the property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 25-40 years |
| Network infrastructure | 3-25 years |
| Other equipment | 10 years |
| Furniture and fixtures | 3-10 years |
| Computer equipment | 3 years |
| Vehicles | 3-5 years |
| Leasehold improvements | Term of the lease |

Assets not yet in use are recorded at cost and are not amortized until placed into operation.

The amortization period for plant and equipment is reviewed periodically. Changes in the expected useful life of the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Following initial recognition, finite lived intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses and indefinite lived intangible assets are carried at cost less any accumulated impairment losses.

The amortization period and method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of loss.

A summary of the policies applied to the Company's intangible assets are as follows:

| | Certain trade names and licenses | Customer relationships, subscriber lists, software, non-compete agreements and certain trade names and licenses |
|---|---|---|
| **Useful lives** | Indefinite | Finite |
| **Amortization method used** | No amortization | Amortized over the period of expected future benefit from the related transaction on a straight-line basis. |
| **Internally generated or acquired** | Acquired | Acquired |
| **Impairment testing/ recovery** | Annually or more frequently when an indication of impairment exists. | When an indication of impairment exists. The amortization method is reviewed at each financial year end. |

**Borrowing costs**
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Impairment of property, plant and equipment and intangible assets**
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or CGU's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGU to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years.

Impairment losses of continuing operations are recognized in the consolidated statement of loss and comprehensive loss in those expense categories consistent with the function of the impaired asset.

**Goodwill**
Goodwill acquired in business combinations is initially measured at cost, being the excess of the cost of the business combination over the acquired interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill will be reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's CGU's that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or group of units.

**Financial instruments**
Trade and other receivables are classified as loans and receivables. When loans and receivables are recognized initially, they are measured at fair value.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date at which the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial liabilities are classified at fair value through profit or loss, interest-bearing loans and borrowings, or convertible preferred shares, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Classification of financial assets and liabilities is determined on initial recognition and, where allowed and appropriate, the designation is re-evaluated at each financial year end.

***Fair value through profit or loss***
Financial assets and liabilities at fair value through profit or loss include held-for-trading financial assets and liabilities and financial assets and liabilities designated upon initial recognition as at fair value through profit or loss. Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on held-for-trading assets and liabilities are recognized in profit or loss.

***Interest-bearing loans and borrowings***
All loans and borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated as at fair value through profit or loss.

Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

Premiums/discounts related to financings are reflected as an increase/decrease in the carrying value of the associated financing and amortized against interest expense over the life of the related financing using the amortized cost method.

Transaction costs to obtain financings are reflected as a reduction in the carrying value of the associated financing and amortized to interest expense over the life of the related financing using the amortized cost method.

***Convertible preferred shares***
The component of convertible preferred shares that exhibits characteristics of a liability is recognized as a liability on the consolidated balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in profit or loss using the amortized cost method.

On issuance of the convertible preferred shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at fair value until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preferred shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

**Revenue recognition**
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reasonably measured. The following specific recognition criteria must also be met before revenue is recognized:

***Rendering of retail services***
Revenue includes earned subscriber service revenue, primarily cable television services, high speed internet access, digital phone and internet infrastructure services ("Flow"), and related fees. Revenue is recognized when services have been provided. Service fees billed or paid in advance are recorded as deferred revenue and recognized as revenue when earned.

***Rendering of wholesale services – capacity***
Revenue includes the sale and lease of the telecom capacity provided by the Network ("Columbus Networks") as wholesale capacity. Capacity contracts are accounted for as operating leases pursuant to IAS 17. The Company defers revenue related to capacity contracts and amortizes that revenue over the appropriate term of the contract. Accordingly, the Company treats cash received, to the extent not recognized as revenue, as deferred revenue. Deposits from customers who enter into contracts for capacity and pay deposits toward the purchase price prior to the provision of service are included as a component of deferred revenue in the accompanying consolidated balance sheet. Revenues from installation and activation activities are deferred and recognized over the term of the underlying contract; the terms of the long-term capacity sales contracts ("Indefeasible Right of Use" or "IRU") vary from 15 to 25 years.

***Rendering of wholesale services – operations and maintenance***
Certain customers are obligated, for the term of the applicable capacity agreement, to pay a share of the costs for operating and maintaining the Network. The Company recognizes these quarterly maintenance revenues over the period during which the services are provided. These amounts are contracted and invoiced separately from capacity sales. Amounts invoiced for operations and maintenance that are applicable for future periods are reflected as components of deferred revenue.

**Taxes**
***Current tax***
Tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the consolidated balance sheet date.

***Deferred tax***
Deferred income tax is provided using the liability method on temporary differences as at the consolidated balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each consolidated balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year during which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the consolidated balance sheet date.
Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of loss.

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

***Sales tax***
Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

**Foreign currency translation**
The consolidated financial statements are presented in US dollars, which is the Company's presentation currency. Each subsidiary of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. As at the reporting date, the assets and liabilities of non-US dollar functional currency subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the consolidated balance sheet date and their consolidated statements of income are translated at the published weighted average exchange rates at which commercial banks trade. The exchange differences arising on the translation are taken directly to a separate component of equity.

**Share-based payment transactions**
The cost of cash-settled transactions related to key executive and management compensation agreements is measured initially at fair value at the grant date using a Black-Scholes-Merton Approach pricing model taking into account the terms and conditions upon which the instruments were granted.

This fair value is expensed over the period until vested with recognition of a corresponding liability. The liability is re-measured at each balance sheet date up to and including the settlement date with changes in fair value recognized in profit or loss.

The long-term incentive plan permits the grant of dividend equivalent rights ("DERs") which grant the plan participant the right to receive an amount equal to the cash dividends paid on one common share for each common share represented by an award held by such participant. These costs are recognized in profit or loss as incurred.

**Business combinations**
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in other expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

**Transfer of assets from customers**
When the Company receives a transfer of an asset from a customer for consideration other than cash, it recognizes the transferred asset as property, plant and equipment. At initial recognition, its cost is measured at fair value, and a corresponding amount is recognized in deferred revenue in relation to the consideration given.

**Leases**
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date and whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating lease payments are recognized as an expense in the consolidated statement of loss on a straight-line basis over the lease term.

**New standards and interpretations issued but not yet effective**
Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

**IFRS 9 Financial Instruments**
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

**IFRS 15 Revenue from Contracts with Customers**
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

**New and amended standards and interpretations**
The Company applied, for the first time, the following standard which resulted in additional disclosures in the consolidated financial statements.

**IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32**
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments became effective for annual periods beginning on or after 1 January 2014 and did not have a significant impact on the Company.

Several other new standards and amendments were applied for the first time in 2014. However, they do not impact the annual consolidated financial statements of the Company or the consolidated financial statements of the Company.

## 3. BUSINESS ACQUISITIONS

Effective 1 May 2014, the Company, through a wholly owned subsidiary, purchased 100% of the issued and outstanding shares of Lazus Colombia S.A.S. (formerly known as Promitel Colombia S.A.S.) and its subsidiaries in Costa Rica and Panama (collectively, "Lazus") for net cash consideration of $146,137. Lazus, employing 191 telecom professionals and approximately 3,400 km of fiber optic cable, provides local loop connectivity services in major centers in (i) Colombia (Santa Marta, Baranquilla, Cartagena, Sincelejo, Montería, Bucaramanga, Cali, Bogota, and Popayán), (ii) San José, Costa Rica, and (iii) Panamá City, Panamá.

The Company has allocated the purchase price to assets acquired and liabilities assumed as follows:

| | Provisional fair value recognized on acquisition (US $000) | Adjustments to the provisional allocation (US $000) | Adjusted fair value recognized on acquisition (US $000) |
|---|---|---|---|
| Cash | 7,298 | (1) | 7,297 |
| Accounts receivable | 9,778 | 1,610 | 11,388 |
| Prepayments and other current assets | 542 | 332 | 874 |
| Property, plant and equipment | 71,330 | (10,539) | 60,791 |
| Intangible assets | — | 83,470 | 83,470 |
| Goodwill | 108,395 | (46,197) | 62,198 |
| Deferred income tax asset | 89 | (89) | — |
| **Total assets** | **197,432** | **28,586** | **226,018** |
| Accounts payable and accrued liabilities | 6,254 | 1,241 | 7,495 |
| Deferred revenue | 37,547 | — | 37,547 |
| Deferred income tax liability | — | 27,542 | 27,542 |
| **Total liabilities** | **43,801** | **28,783** | **72,584** |
| | **153,631** | **(197)** | **153,434** |
| Less: cash acquired | (7,298) | 1 | (7,297) |
| **Total cash consideration** | **146,333** | **(196)** | **146,137** |

From the date of acquisition, Lazus has contributed $29,882 of revenue and $4,836 to income of the Company. If the acquisition had taken place at the beginning of the year, consolidated revenue would have been $609,508 and consolidated loss for the period would have been $105,352.

The goodwill is comprised of expected synergies arising from the acquisition and an assembled workforce, which are not separately recognized. Goodwill related to the Lazus acquisition has been allocated to the Columbus Networks CGU.

During the year, the Company finalized the purchase price allocation of Techvision Inc. which was acquired on 1 April 2013. The adjusted fair value recognized on purchase price has been allocated to assets acquired and liabilities assumed as follows:

| | Provisional fair value recognized on acquisition (US $000) | Adjustments to the provisional allocation (US $000) | Adjusted fair value recognized on acquisition (US $000) |
|---|---|---|---|
| Cash | 1,264 | — | 1,264 |
| Accounts receivable, trade | 4,699 | (318) | 4,381 |
| Accounts receivable, other | 337 | 105 | 442 |
| Inventory | 4,618 | (365) | 4,253 |
| Prepayments | 544 | — | 544 |
| Property, plant and equipment | 17,483 | — | 17,483 |
| Intangible assets | 26,570 | — | 26,570 |
| Goodwill | 19,525 | (1,458) | 18,067 |
| Deferred income tax asset | 905 | 1,197 | 2,102 |
| **Total assets** | **75,945** | **(839)** | **75,106** |
| Accounts payable and accrued liabilities | 7,184 | (15) | 7,169 |
| Income taxes payable | 1,047 | (312) | 735 |
| Deferred revenue | 2,788 | (512) | 2,276 |
| Deferred income tax liability | 9,119 | — | 9,119 |
| Other long-term liabilities | 1,000 | — | 1,000 |
| **Total liabilities** | **21,138** | **(839)** | **20,299** |
| | 54,807 | — | 54,807 |
| Less cash acquired | (1,264) | — | (1,264) |
| **Total cash consideration** | **53,543** | — | **53,543** |

The Company has retroactively adjusted the balance sheet as at 31 December 2013 to record the adjustments to working capital balances and the deferred income tax asset and liability recognized on acquisition.

## 4. INVESTMENTS AND OTHER ASSETS

The following is a breakdown of the investments and other assets:

| | 2014 (US $000) | 2013 (US $000) |
|---|---|---|
| Deposit on potential acquisitions and investments (a) | **500** | 3,987 |
| Prepaid rent | **2,303** | 2,048 |
| Deferred General Consumption Tax | **499** | 1,415 |
| Deposit on operating lease | **2,336** | 2,897 |
| Other long-term prepaid deposits and commissions | **3,190** | 2,805 |
| | **8,828** | 13,152 |

(a) Effective 1 September 2014, the Company disposed of its equity investment in UXP Systems Inc. to related parties for cash consideration of $7,654 and realized a gain of $3,715. The cash was received when the transaction closed on 16 October 2014.

## 5. PROPERTY, PLANT AND EQUIPMENT

| 2014 | At 1 January 2014 (US $000) | Additions (US $000) | Acquisitions and transfers (US $000) | Foreign Currency Adjustment (US $000) | Derecognition and disposals (US $000) | At 31 December 2014 (US $000) |
|---|---|---|---|---|---|---|
| Land | 6,773 | 127 | — | (85) | — | 6,815 |
| Buildings | 57,692 | 3,753 | 2,077 | (1,987) | — | 61,535 |
| Network infrastructure | 1,229,837 | 154,935 | 56,703 | (21,508) | (6,112) | 1,413,855 |
| Other equipment | 4,036 | 755 | — | — | — | 4,791 |
| Furniture and fixtures | 12,669 | 3,400 | 605 | (2,079) | — | 14,595 |
| Computer equipment | 27,741 | 8,232 | 1,233 | (1,300) | (26) | 35,880 |
| Vehicles | 16,851 | 1,604 | 173 | (362) | (997) | 17,269 |
| Leasehold improvements | 3,787 | 815 | — | — | (60) | 4,542 |
| Assets not yet in use | 40,315 | 9,081 | — | (649) | — | 48,747 |
| | **1,399,701** | **182,702** | **60,791** | **(27,970)** | **(7,195)** | **1,608,029** |

31 December 2014

| **Accumulated Amortization** | **At 1 January 2014 (US $000)** | **Amortization (US $000)** | **Foreign Currency Adjustment (US $000)** | **Derecognition And disposals (US $000)** | **At 31 December 2014 (US $000)** |
|---|---|---|---|---|---|
| Buildings | (9,291) | (2,866) | 222 | — | (11,935) |
| Network infrastructure | (337,470) | (80,555) | 4,823 | 4,114 | (409,088) |
| Other equipment | (1,509) | (937) | — | — | (2,446) |
| Furniture and fixtures | (5,766) | (2,585) | 124 | — | (8,227) |
| Computer equipment | (19,431) | (3,842) | 531 | 26 | (22,716) |
| Vehicles | (12,029) | (2,004) | 344 | 919 | (12,770) |
| Leasehold improvements | (2,033) | (535) | — | 48 | (2,520) |
| | **(387,529)** | **(93,324)** | **6,044** | **5,107** | **(469,702)** |
| **Net book value** | | | | | **1,138,327** |

| **2013** | **At 1 January 2013 (US $000)** | **Additions (US $000)** | **Acquisitions and transfers (US $000)** | **Foreign currency adjustment (US $000)** | **Derecognition and disposals (US $000)** | **At 31 December 2013 (US $000)** |
|---|---|---|---|---|---|---|
| Land | 7,764 | 425 | 490 | (115) | (1,791) | 6,773 |
| Buildings | 45,340 | 6,483 | 7,195 | (1,326) | — | 57,692 |
| Network infrastructure | 1,130,916 | 103,715 | 23,426 | (24,669) | (3,551) | 1,229,837 |
| Other equipment | 775 | 1,169 | 2,092 | — | — | 4,036 |
| Furniture and fixtures | 10,350 | 2,111 | 578 | (370) | — | 12,669 |
| Computer equipment | 23,734 | 4,864 | 261 | (1,116) | (2) | 27,741 |
| Vehicles | 15,050 | 2,156 | 1,079 | (729) | (705) | 16,851 |
| Leasehold improvements | 2,762 | 672 | 353 | — | — | 3,787 |
| Assets not yet in use | 25,237 | 33,940 | (17,991) | (871) | — | 40,315 |
| | 1,261,928 | 155,535 | 17,483 | (29,196) | (6,049) | 1,399,701 |

| **Accumulated Amortization** | **At 1 January 2013 (US $000)** | **Amortization (US $000)** | **Foreign Currency Adjustment (US $000)** | **Derecognition And disposals (US $000)** | **At 31 December 2013 (US $000)** |
|---|---|---|---|---|---|
| Buildings | (6,429) | (3,169) | 301 | 6 | (9,291) |
| Network infrastructure | (275,695) | (69,586) | 6,308 | 1,503 | (337,470) |
| Other equipment | (187) | (1,322) | — | — | (1,509) |
| Furniture and fixtures | (4,212) | (1,739) | 185 | — | (5,766) |
| Computer equipment | (16,888) | (3,359) | 814 | 2 | (19,431) |
| Vehicles | (11,238) | (2,048) | 663 | 594 | (12,029) |
| Leasehold improvements | (1,562) | (471) | — | — | (2,033) |
| | (316,211) | (81,694) | 8,271 | 2,105 | (387,529) |
| **Net book value** | | | | | 1,012,172 |

The amount of borrowing costs capitalized during the year ended 31 December 2014 was $2,204 (2013 – $1,022). The rate used to determine the amount of borrowing costs eligible for capitalization ranges between 11.5% and 12.4% (2013 – 11.7%), which is the effective interest rate of the specific borrowing.

## 6. GOODWILL AND INTANGIBLE ASSETS

| **Intangibles** | **At 1 January 2014 (US $000)** | **Acquisitions *[note 3]* (US $000)** | **Purchased (US $000)** | **At 31 December 2014 (US $000)** |
|---|---|---|---|---|
| **Cost** | | | | |
| Trade names | 2,220 | — | — | 2,220 |
| Subscriber lists | 87,320 | — | — | 87,320 |
| Non-compete | 3,800 | — | — | 3,800 |
| Customer relationships | 25,615 | 83,470 | — | 109,085 |
| Licenses | 16,480 | — | — | 16,480 |
| Software | 29,025 | — | 7,864 | 36,889 |
| | **164,460** | **83,470** | **7,864** | **255,794** |

| | **At 1 January 2014 (US $000)** | **Amortization (US $000)** | **Foreign currency adjustment (US $000)** | **At 31 December 2014 (US $000)** |
|---|---|---|---|---|
| **Amortization** | | | | |
| Trade names | 579 | 608 | — | 1,187 |
| Subscriber lists | 34,937 | 5,688 | 161 | 40,786 |
| Non-compete | 570 | 760 | — | 1,330 |
| Customer relationships | 7,321 | 6,027 | — | 13,348 |
| Licenses | 1,417 | 317 | 206 | 1,940 |
| Software | 6,892 | 5,718 | 477 | 13,087 |
| | **51,716** | **19,118** | **844** | **71,678** |
| **Net book value** | | | | **184,116** |

| | **At 1 January 2014 (US $000)** | **Acquisitions *[note 3]* (US $000)** | **Foreign currency adjustment (US $000)** | **At 31 December 2014 (US $000)** |
|---|---|---|---|---|
| **Goodwill** | **162,048** | **62,198** | **(21,946)** | **202,300** |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

| **Intangibles** | **At 1 January 2013 (US $000)** | **Acquisitions** *[note 3]* **(US $000)** | **Purchased (US $000)** | **At 31 December 2013 (US $000)** |
|---|---|---|---|---|
| **Cost** | | | | |
| Trade names | 1,230 | 990 | — | 2,220 |
| Subscriber lists | 65,540 | 21,780 | — | 87,320 |
| Non-compete | — | 3,800 | — | 3,800 |
| Customer relationships | 25,615 | — | — | 25,615 |
| Licenses | 13,985 | — | 2,495 | 16,480 |
| Software | 24,005 | — | 5,020 | 29,025 |
| | 130,375 | 26,570 | 7,515 | 164,460 |

| | **At 1 January 2013 (US $000)** | **Amortization (US $000)** | **Foreign Currency adjustment (US $000)** | **At 31 December 2013 (US $000)** |
|---|---|---|---|---|
| **Amortization** | | | | |
| Trade names | 120 | 459 | — | 579 |
| Subscriber lists | 26,879 | 6,310 | 1,748 | 34,937 |
| Non-compete | — | 570 | — | 570 |
| Customer relationships | 5,005 | 2,316 | — | 7,321 |
| Licenses | 1,359 | 58 | — | 1,417 |
| Software | 2,872 | 3,974 | 46 | 6,892 |
| | 36,235 | 13,687 | 1,794 | 51,716 |
| **Net book value** | | | | 112,744 |

| | **At 1 January 2013 (US $000)** | **Acquisitions** *[note 3]* **(US $000)** | **December 2013 (US $000)** |
|---|---|---|---|
| **Goodwill** | 143,981 | 18,067 | 162,048 |

## 7. INTEREST-BEARING LOANS AND BORROWINGS

| | 2014 (US $000) | 2013 (US $000) |
|---|---|---|
| Senior notes at 7.35% | **1,250,000** | — |
| Senior secured notes at 11.5% | — | 640,000 |
| Senior Guaranteed Unsecured Notes Facility at 9.5% | — | 212,000 |
| Less: Current portion, net of financing costs | — | (638,233) |
| | **1,250,000** | 213,767 |
| Add: Premium due to bifurcated embedded derivative at initial recognition of $3,183, less accretion | **2,842** | — |
| | **1,252,842** | 213,767 |
| Less: Financing costs, net of accumulated amortization | **(19,702)** | (14,508) |
| | **1,233,140** | 199,259 |

During the year, the Company issued $1,250,000 senior notes bearing interest at 7.375% ("Senior notes"). The Senior notes will mature on March 30, 2021. Redemption terms associated with the senior notes represent an embedded derivative that requires bifurcation, where the liability associated with the redemption features is carried at fair value *[note 9]*.

During the year, the Company repaid the $640,000 Senior Secured Notes, as well as the $212,000 outstanding on the $225,000 Senior Guaranteed Unsecured Notes Facility in full.

The Company incurred $21,944 of debt issue costs related to the borrowings and transactions noted above which were capitalized as deferred financing costs and expensed $14,508 related to unamortized debt issue costs and unamortized premiums associated with the previous debt. The Company also incurred $62,009 related to breakage fees and make-whole payments associated with the repayment of the Senior Secured Notes, which has also been expensed in financing costs.

Upon a change in control, the Company must make an offer to each holder of Senior notes to purchase such notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest to the date of purchase.

## 8. PREFERRED SHARE LIABILITIES

| | | 2014 (US $000) | 2013 (US $000) |
|---|---|---|---|
| Authorized: | 750 shares no nominal or par value | | |
| Issued: | 750 14% class B cumulative redeemable, retractable, convertible preferred shares issued at $1 | — | 750 |

During the year ended 31 December 2014 the Company converted the 750 outstanding preferred shares, and accumulated outstanding interest of $661, to common shares of the Company. The total accumulated interest and preferred shares were converted at $1.55 per share.

## 9. FINANCIAL INSTRUMENTS

**Fair values**

Fair value is a market-based measurement, not an entity-specific measurement. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information including the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model.

Management is responsible for valuation policies, processes and the measurement of fair value within the Company. The Company’s loans and receivables and accounts payable and accrued liabilities are carried at cost and their carrying values approximate fair value due to the short-term to maturity of these financial instruments. Financial liabilities carried at amortized cost are shown using the EIR method.

The Company uses a fair value hierarchy, based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing inputs with the highest level of objectivity and Level 3 representing inputs with the lowest level of objectivity. The following table sets out the classification of the methodology used by the Company to fair value its financial instruments:

| | | Carrying amount | | Fair value | |
|---|---|---|---|---|---|
| | | **2014 (US $000)** | **2013 (US $000)** | **2014 (US $000)** | **2013 (US $000)** |
| **Financial instruments at fair value through profit and loss** | | | | | |
| Embedded derivative | Level 2 | **12,968** | — | **12,968** | — |
| Other long-term liabilities | Level 3 | **39,413** | 27,422 | **39,413** | 27,422 |
| Convertible preferred share liabilities | Level 3 | — | 750 | — | 750 |
| **Interest-bearing loans and borrowings** | | | | | |
| Senior notes | Level 2 | **1,250,000** | 852,000 | **1,281,169** | 893,349 |

**Valuation methods and assumptions**
The fair value of the financial assets and liabilities is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Fair value of the Senior notes is based on price quotations at the reporting date. The fair value of unquoted instruments and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The Company closed an offering of $1,250,000 principal amount of Senior notes in 2014. Pursuant to the terms of the Senior notes, the Company may redeem the notes under various scenarios. The redemption terms associated with the notes represent an embedded derivative which required bifurcation where the bifurcated amount is carried at fair value, with charges going through profit or loss in other expense or income. The embedded derivative is held at fair value and is valued using a valuation technique classed as level 2 in the fair value measurement hierarchy. The lowest level inputs to the valuation are directly or indirectly observable. Based on the unique features of the notes, the derivative was valued using a binomial tree/lattice approach based on the Hull-White single factor interest rate term structure model. Under this approach, an interest rate lattice is constructed according to a given short rate volatility and mean reversion constant as implied by the market as at each valuation date. Key inputs to the valuation included:  Percentages of swaption volatility selected as at 31 December 2014 between 35.65% and 38.93% and the credit spread as at 30 September 2014 was implied to be approximately 4.23%.

The Company uses the date of the event or change in circumstances to recognize transfers between Level 1, Level 2 and Level 3 fair value measurements. During the years ended 31 December 2014 and 2013, no such transfers have occurred.

## 10. ISSUED CAPITAL

**Authorized**
Unlimited number of common shares without nominal or par value

| | **(000s)** | **(US $000)** |
|---|---|---|
| **Ordinary shares** | | |
| **Issued and fully paid** | | |
| | | |
| **At 1 January 2014** | 257,749 | 326,617 |
| Converted preferred shares | 910 | 1,411 |
| Converted options *[note 9]* | 750 | 5,213 |
| Forgiveness of shareholder loan *[note 15]* | 2,000 | 2,000 |
| **At 31 December 2014** | **261,409** | **335,241** |
| | | |
| **At 1 January 2013** | 246,749 | 295,743 |
| Issued on 26 March 2014 for cash | 10,500 | 32,340 |
| Less: issue costs | — | (1,966) |
| Forgiveness of shareholder loan *[note 15]* | 500 | 500 |
| **At 31 December 2013** | 257,749 | 326,617 |

During the year ended 31 December 2014, the Company converted the 750 outstanding preferred shares at $1,000 per share and accumulated outstanding interest of $661 to common shares of the Company. The total accumulated interest and preferred shares were converted at $1.55 per share.

During the year, the Company converted 750,000 Type 1 options to common shares of the company. The options were converted at $6.95 per share.

During the year, the Company forgave $2,000 of a shareholder loan. The expense was recorded as long-term employee compensation.

On 11 April 2014, the Company declared a capital dividend of $0.36 per share to its shareholders totaling $94,938, paid in cash. The capital dividend was charged to retained earnings (deficit).

## 11. SHARE-BASED PAYMENTS

The Company maintains an Equity Incentive Plan ("EIP") that permits the grant of various forms of stock-based compensation that could result in the issuance of common stock or cash payments valued in whole or in part by reference to, or otherwise based on the common stock of the Company. The plan was established in 2009 and expires in 2019.

A maximum of 25,000,000 common shares can be issued pursuant to this plan.

As at 31 December 2014, only options to purchase common shares of the Company have been issued under the plan. The holder may exercise vested options at any time. The Company may elect to cash settle an exercised option for a payment based on the fair market value ("FMV") of the common stock of the Company at the time of the exercise.

Currently there are four types of options granted: Type 1, with an exercise price of $0.01, Type 2, with an exercise price of $2.00, Type 3 with an exercise price of $3.02, and Type 4 with an exercise price of $3.08. The cash settled payout for the Type 1 option holders would be the greater of $2.00 per share and FMV.

The fair value of the option grant is measured at the grant date using the Black-Scholes Approach taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services is recognized in profit or loss over the vesting period. Until the liability is settled, it is re-measured at each reporting date with changes in fair value recognized in profit or loss.

In addition, the EIP permits the grant of DERs which grant the plan participant the right to receive an amount equal to the cash dividends paid on one common share for each common share represented by an award held by such participant.

During the year, holders exercised 1,460,821 Type 1 options and 260,000 Type 2 options. The Company elected to make cash payments of $2,600 and issued 750,000 common shares. In addition, 10,000 Type 1, 195,000 Type 2, and 50,000 Type 3 options were forfeited during the period.

Also during the year, the Company issued 725,000 new Type 4 options.

In the prior year, the company issued 175,000 Type 2 options and 395,000 Type 3 options. In addition, holders exercised 225,000 Type 1 options. The Company elected to make cash payments totaling $647.

The weighted average exercise price per unit was $3.22 (2013 – $2.88).

The following table outlines the vesting schedule of the issued options:

| | Fully Vested | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|---|---|
| Type 1 options | 3,296,183 | 30,000 | 10,000 | — | — | — | 3,336,183 |
| Type 2 options | 7,942,000 | 1,039,000 | 124,000 | 20,000 | — | — | 9,125,000 |
| Type 3 options | — | 150,000 | 107,000 | 69,000 | 19,000 | — | 345,000 |
| Type 4 options | 500,000 | — | — | 115,000 | 105,000 | 5,000 | 725,000 |
| | 11,738,183 | 1,219,000 | 241,000 | 204,000 | 124,000 | 5,000 | 13,531,183 |

The following tables outline the movement in share options during the year and the balance outstanding at 31 December:

| | Type 1 $0.01 | Type 2 $2.00 | Type 3 $3.02 | Type 4 $3.08 | Total |
|---|---|---|---|---|---|
| **At 1 January 2014** | 4,807,004 | 9,580,000 | 395,000 | — | 14,782,004 |
| Issued during the year | — | — | — | 725,000 | 725,000 |
| Forfeited during the period | (10,000) | (195,000) | (50,000) | — | (255,000) |
| Converted to common shares | (750,000) | — | — | — | (750,000) |
| Exercised during the period | (710,821) | (260,000) | — | — | (970,821) |
| **At 31 December 2014** | **3,336,183** | **9,125,000** | **345,000** | **725,000** | **13,531,183** |

| | Exercise Price | | | |
|---|---|---|---|---|
| | $0.01 | $2.00 | $3.02 | Total |
| **At 1 January 2013** | 5,032,004 | 9,525,000 | — | 14,557,004 |
| Issued during the year | — | 175,000 | 395,000 | 570,000 |
| Terminated during the year | — | (120,000) | — | (120,000) |
| Exercised during the year | (225,000) | — | — | (225,000) |
| **At 31 December 2013** | 4,807,004 | 9,580,000 | 395,000 | 14,782,004 |

The carrying amount of the liability as at 31 December 2014 is $31,484 (2013 – $18,645). A total of $21,599 was recorded as compensation expense for the year ended 31 December 2014 (2013 – $1,446).

During the year, in conjunction with the capital dividend of $0.36 per share, the Company paid $3,961 in dividend equivalent rights to plan participants whose options had fully vested. An accrual of $1,062 has been recorded related to the unvested options. Accrued dividend equivalent rights will be paid to the unit holders as the options vest. Dividend equivalent rights are expensed in Other.

The following inputs were used in the model to aid in calculating the value of the options: risk-free interest rate of 1.67% (2013 – 1.77%); no dividend yield (2013 – no dividend yield); expected life of 5.2 years (2013 – expected life of 5.1 years); and volatility percentage was 25% (2013 – ranges between 25% and 40%).

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption based on a basket of somewhat comparable public companies over a period similar to the life of the options, which may also not necessarily be the actual outcome.

## 12. OTHER LONG-TERM LIABILITIES

| | 2014 (US $000) | 2013 (US $000) |
|---|---|---|
| Equity Incentive Plan *[note 11]* | **31,484** | 18,645 |
| Employee note, net of current portion *[note 15]* | **—** | 800 |
| Long-term customer deposits | **2,959** | 3,029 |
| Contingent consideration and provision | **2,484** | 2,734 |
| Onerous contract, net of current portion (a) | **2,486** | 2,214 |
| | **39,413** | 27,422 |

(a) Effective 1 January 2013, the Company discontinued use of a leased asset. The lease is non-cancelable and expires in 2017. The obligation for the discounted future lease payments has been recorded as a liability.

## 13. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIVES

Goodwill acquired through business combinations and licenses with indefinite lives have been allocated to the following CGU's for impairment testing, as follows:

- Columbus Trinidad
- Columbus Grenada
- Columbus Jamaica
- Columbus Curacao
- Caribbean Data Centers
- Columbus Networks
- Columbus Barbados
- Karib – St. Lucia
- Karib – St. Vincent
- Karib – Antigua

The CGUs have been segregated by each operating company; this was determined to be the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets.

The carrying amount of goodwill and intangible assets with indefinite useful lives allocated to each of the CGUs is as follows:

| **At 31 December 2014** | **Goodwill (US $000)** | **Intangible assets with indefinite useful lives (US $000)** |
|---|---|---|
| Columbus Trinidad | 75,292 | — |
| Columbus Grenada | 4,187 | 3,630 |
| Columbus Jamaica | 16,338 | 1,882 |
| Columbus Curacao | 4,780 | 4,219 |
| Caribbean Data Centers | 1,787 | 579 |
| Columbus Networks | 70,581 | 2,628 |
| Columbus Barbados | 12,188 | — |
| Karib – St. Lucia | 8,594 | — |
| Karib – St. Vincent | 3,981 | — |
| Karib – Antigua | 4,572 | — |
| **Total** | **202,300** | **12,938** |

| **At 31 December 2013** | **Goodwill (US $000)** | **Intangible assets with indefinite useful lives (US $000)** |
|---|---|---|
| Columbus Trinidad | 76,029 | — |
| Columbus Grenada | 4,187 | 3,630 |
| Columbus Jamaica | 26,491 | 1,882 |
| Columbus Curacao | 4,780 | 4,219 |
| Caribbean Data Centers | 1,787 | 579 |
| Columbus Networks | 19,439 | 2,628 |
| Columbus Barbados | 16,595 | — |
| Karib – St. Lucia | 9,376 | — |
| Karib – St. Vincent | 4,396 | — |
| Karib – Antigua | 426 | — |
| **Total** | 163,506 | 12,938 |

The recoverable amount of the CGUs has been determined by calculating the higher of the value in use ("VIU") and the fair value less costs of disposal.

VIU is calculated by determining the present value of the future cash flows expected to be derived from each CGUs.

Management has carried forward the VIU calculated in the prior year using cash flow projections based on the prior year's Board-approved five-year financial forecast for each of the following

CGUs: Trinidad, St. Lucia, St. Vincent, and Barbados. Management has recalculated the VIU for Columbus Networks as a result of the material acquisition during the year.

The fair value less costs of disposal has been determined by using a multiple of EBITDA, which is consistent with industry norm and recent acquisitions by the Company.

Management has calculated the fair value less costs of disposal for each: Caribbean Data Centers, Antigua, Jamaica, Grenada, and Curacao as it resulted in a higher recoverable amount.

The valuation multiple, discount rates and growth rates applied to each cash flow projection are outlined in the following table.

| | 2014 | | | 2013 | |
|---|---|---|---|---|---|
| | Valuation Multiple | Discount Rate % | Growth Rate % | Discount Rate % | Growth Rate % |
| Columbus Trinidad | NA | 12.3 | 4.0 | 12.3 | 4.0 |
| Columbus Grenada | 11.9 | NA | NA | 15.5 | 3.0 |
| Columbus Jamaica | 7.0 | NA | NA | 16.3 | 7.6 |
| Columbus Curacao | 11.9 | NA | NA | 12.4 | 3.0 |
| Caribbean Data Centers | 11.9 | NA | NA | 15.5 | 2.0 |
| Columbus Networks | NA | 12.9 | 2.0 | 13.6 | 2.0 |
| Columbus Barbados | NA | 14.1 | 4.0 | 14.1 | 4.0 |
| Karib – St. Lucia | NA | 18.0 | 3.0 | 18.0 | 3.0 |
| Karib – St. Vincent | NA | 17.9 | 3.0 | 17.9 | 3.0 |
| Karib – Antigua | 7.0 | NA | NA | 18.2 | 3.0 |

**Key assumptions used in the VIU calculations**
The calculations of the VIU for all CGUs are most sensitive to the following assumptions:

***Discount rates***
Discount rates reflect the current market assessment of the risk specific to each CGU. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to the CGUs for which future estimates of cash flows have not been adjusted.

***Expected growth rates***
Growth rates were determined by each management group based on past trends and industry analysis.

***Sensitivity to changes in assumptions***
With regards to the assessment of the VIU for each of the CGUs, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGUs to materially exceed its recoverable amount.

**Key assumptions used in the FVLCD calculations**
***Valuation multiple***
In determining fair value less costs of disposal, recent market transactions are taken into account. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

## 14. INCOME TAXES

The major components of income tax expense for the year are comprised of the following:

| | **2014 (US \$000)** | **2013 (US \$000)** |
|---|---|---|
| Current income tax | 21,345 | 5,821 |
| Deferred income (recovery) tax | (2,263) | 11,642 |
| | 19,082 | 17,463 |

The Company's overall tax provision is based on the statutory tax rates applicable to the income earned in the various jurisdictions which range from 2.5% to 33%. There are entities incurring losses for which no deferred tax asset has been recorded, which results in a higher consolidated tax expense relative to the overall income of the consolidated group.

The tax on the Company's income before taxes differs from the tax at the statutory tax rate as a result of the following:

| | 2014 (US $000) | 2013 (US $000) |
|---|---|---|
| Income loss before income taxes | (86,838) | 8,465 |
| | | |
| Tax calculated at Barbados statutory rate (2.5%) | (2,171) | 212 |
| Minimum taxes in various jurisdictions | 1,008 | 1,211 |
| Non-deductible differences | 1,963 | 929 |
| Non-deductible withholding tax | 4,049 | 4,351 |
| Effect of rate differences | 10,005 | 7,926 |
| Loss benefit not recognized | 4,322 | 2,560 |
| Other | (94) | 274 |
| | 19,082 | 17,463 |

**Deferred income tax**

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. The computation of the deferred income taxes and the analysis of the probability of realization of deferred income taxes were calculated by performing a country specific tax analysis for each subsidiary of the Company. The following is a summary of the significant items giving rise to components of the Company's deferred income taxes:

| | Consolidated balance sheet 2014 (US $000) | Consolidated balance sheet 2013 (US $000) |
|---|---|---|
| Capacity sales deferred for financial reporting purposes | 15,627 | 15,807 |
| Tax deduction available against future taxable income | 3,827 | 1,034 |
| Property, plant and equipment | (74,505) | (72,288) |
| Intangibles | (48,590) | (22,121) |
| Withholding tax on accrued interest | — | (3,844) |
| Tax losses | 12,418 | 14,864 |
| Unrealized exchange losses | 16,155 | 16,155 |
| Other | 3,702 | 4,306 |
| **Net deferred income tax liability** | (71,366) | (46,087) |
| | | |
| Deferred income tax asset | 27,618 | 40,546 |
| Deferred income tax liability | (98,984) | (86,633) |
| **Net deferred income tax liability** | (71,366) | (46,087) |

In evaluating the probability of realization, the Company considers its prior operating results and future plans and expectations. The utilization period of the net operating losses ("NOL") carryforwards and the turnaround period of other temporary differences are also considered. The Company's NOL carryforwards of approximately $700,936 (2013 – $500,385) expire between 2014 and 2024. The Company also has NOL carryforwards of approximately $52,335 (2013 – $59,109) that currently have no expiry date.

## 15. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Columbus International Inc. and its subsidiaries, as listed in the following table:

| **Name** | **Country of incorporation** | **% of interest** | |
|---|---|---|---|
| | | **2014** | **2013** |
| Columbus Networks, Ltd. | Barbados | 100% | 100% |
| Columbus Communications (Trinidad) Limited | Trinidad | 100% | 100% |
| Columbus Communications (Grenada) Limited | Grenada | 100% | 100% |
| Columbus Jamaica Holdings (Barbados) Inc. | Barbados | 100% | 100% |
| Columbus Communications Curacao N.V. | Curacao | 100% | 100% |
| E-Commercepark N.V. | Curacao | 100% | 100% |
| Columbus Telecommunications (Barbados) Limited (formerly Tele (Barbados) Inc.) | Barbados | 100% | 100% |
| Kelcom International Limted | St. Vincent | 100% | 100% |
| Kelcom International (Antigua & Barbuda) Limited | Antigua and Barbuda | 100% | 100% |
| Kelcom International Inc. | St. Lucia | 100% | 100% |
| Karib Cable Inc. | Barbados | 100% | 100% |

The following provides the total amount of balances outstanding and transactions which have been entered into with related parties:

| | | Amounts receivable from (payable to) related parties (US $000) |
|---|---|---|
| Shareholder loan (a) | **2014** | **1,000** |
| | 2013 | 3,000 |
| Due to an employee (b) | **2014** | **(800)** |
| | 2013 | (1,615) |
| Due from a shareholder, net | **2014** | **(234)** |
| | 2013 | 936 |
| Due from employees (c) | **2014** | **(916)** |
| | 2013 | (750) |

**Term and conditions for advances with related parties**

a) The related party shareholder loan is a non-interest-bearing share purchase loan, is repayable upon disposition of the shares purchased and is presented as a reduction from issued capital *[note 10]*. During the year, $2,000 (2013 – $500) of the shareholder loan was forgiven and was recorded as long-term compensation expense.

b) In July 2011, the Company, in lieu of paying cash for exercising EIP options, issued a note payable to an employee. The note is unsecured and bears interest at the IRS prescribed rate for imputed tax on interest-free loans. Interest is paid annually in arrears. The note is repayable as follows on 1 July 2015. Subsequent to the balance sheet date, this amount due to an employee was repaid in full.

c) Amounts due from employees are unsecured, bear no interest, and have no fixed terms of repayment.

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2014, the Company has not made any provisions for doubtful debts relating to amounts owed by related parties. This assessment will be undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

**Ultimate controlling party**

Columbus International Inc. is the ultimate controlling party of the group.

**Expenses reimbursed to related parties**
During the year the Company reimbursed shareholders for travel costs of $273 (2013 – $304).

**Executive remuneration**
Total remuneration inclusive of performance bonuses paid during the year ended 31 December 2014 to the key management personnel amounted to $12,418 (2013 – $13,309). There were no termination benefits paid to executives in 2014 or 2013.

**Employee compensation**
Included in operating expenses is employee compensation totaling $91,446 (2013 – $68,720).

Certain subsidiaries of the Company participate in an externally managed pension plan. Under the terms of this defined contribution plan, the subsidiary companies match the employee contributions up to a maximum of 5% of the employee's salary. Under another plan, the company pays 100% of the contributions up to 10% of the employee's salary. During the year, under both plans, the subsidiaries participating in the plan made contributions of $654 (2013 – $525) to the plan.

## 16. FINANCING COSTS

| | **2014 (US $000)** | **2013 (US $000)** |
|---|---|---|
| Interest expense | **98,709** | 90,683 |
| Capitalized interest | **(2,403)** | (1,088) |
| Breakage fees and make-whole payments *[note 7]* | **62,009** | — |
| Amortization of debt issue costs | **20,038** | 8,982 |
| Amortization of premium | **(3,289)** | (3,588) |
| Preferred share dividends | **91** | 169 |
| Amortization of premium on issuance of Senior notes | **(342)** | — |
| Other financing charges | **424** | 580 |
| | **175,237** | 95,738 |
| Interest income | **(2)** | (12) |
| | **175,235** | 95,726 |

During the year the Company paid $138,093 (2013 – $91,251) in cash interest.

## 17. CONTINGENCIES AND COMMITMENTS

### Contingencies

**Music Copyright**
A claim has been filed against a subsidiary by the Copyright Music Organization of Trinidad and Tobago ("CMOTT") (formerly Copyright Organisation of Trinidad and Tobago) for damages of copyright infringement related to musical works transmitted by the subsidiary. The Company has recorded a provision of management's best estimate of the liability. The carrying amount of the provision is not disclosed as management believes doing so could prejudice the position of the entity. No provision has been recorded for an additional potential liability based on the proposed formula as outlined in the counterclaim filed by CMOTT. Management believes the provision recorded in the consolidated financial statements is adequate.

**Litigation**
The Company may be subject to other legal proceedings and claims in the ordinary course of business. The Company does not believe that any of these proceedings or claims will have a material effect on its financial position or results of operations.

### Commitments

**Operating leases**
The Company and its subsidiaries have entered into various operating lease agreements during the year. Estimated future minimum rental payments under the operating leases are as follows:

| | 2014 (US $000) | 2013 (US $000) |
|---|---|---|
| Within one year | **24,097** | 16,952 |
| After one year but not more than five years | **51,891** | 51,624 |
| More than five years | **3,738** | 2,034 |
| | **79,726** | 70,610 |

**Capital Commitments**
The Company has an agreement for the implementation of a network monitoring system. The Company expects to incur $1,044 in the first quarter of 2015.

In 2013, Columbus Networks entered into an agreement with one of its customers, ("the Customer") whereby the Customer has transferred ownership to Columbus Networks a subsea link it had constructed to connect Haiti to our Network (the "Haiti Link"). In exchange for transferring ownership, the Customer received capacity on the Haiti Link and other consideration, which is recorded as deferred revenue. Also as part of the agreement, each of Columbus Networks and the Customer are entitled to 50% of the revenue collected from the sale or lease of capacity on the Haiti Link until such time as the Customer has recovered the $12,000 cost it incurred to construct the Haiti

Link. Once the Customer recovers its construction costs Columbus Networks is entitled to all revenues generated from the Haiti Link into perpetuity thereafter. During the year, the Customer received $166 (2013 – $nil) from this agreement.

**Repair and Maintenance Agreement**
On 22 October 2004, a subsidiary of Columbus Networks became a party to the Atlantic Cable Maintenance and Repair Agreement ("ACMA"). ACMA is a consortium of submarine cable systems that collectively share the standing costs of submarine cable system maintenance based on the number of kilometers of cable that comprises their respective cable system. The costs of repairing individual cable faults are in excess of the standing charges and are borne by the respective cable system. The original ACMA contract was twice renewed and recently extended for an additional period expiring on 31 December 2017. The subsidiary company's estimated annual minimum payments related to standing charges, net of any credits per contractual terms are approximately $2,898 (2013 – $2,680).

In connection with the maintenance contracts, Columbus Networks recorded repair and maintenance expense inclusive of cable repair costs of approximately $2,898 for the year ended 31 December 2014 (2013 – $2,527). The amounts are reflected as a component of operating costs in the accompanying consolidated statement of loss. In addition to the ACMA, Columbus Networks also paid cable repair costs to other third party contractors.

**Regulations**
In connection with the operation of ARCOS-1, Columbus Networks and its subsidiaries, in the ordinary course of business, are required to obtain and maintain various permits, telecommunications licenses and other authorizations in the United States and in certain foreign jurisdictions where ARCOS-1 lands and where Columbus Networks and its subsidiaries wish to sell capacity or to provide telecommunications services. In connection with the operation of ARCOS-1, the Company recorded costs of $4,725 for the year ended 31 December 2014 (2013 - $2,714).

**Cable and Wireless Communications**
On 6 November 2014, the Shareholders of the Company entered into an agreement with Cable and Wireless Communications plc ("Cable and Wireless"), an unrelated party, to sell all issued and outstanding shares of the Company pursuant to certain conditions, regulatory and other approvals (the "Transaction").

The Transaction has been unanimously approved by the Board of Directors of the Company as well as the shareholders and Board of Directors of Cable and Wireless. At 31 December 2014, the Transaction was subject to regulatory approvals *[note 21]*.

**Strategic alliance**
Effective 13 May 2013, the Company, through a wholly-owned subsidiary, entered into a strategic alliance ("the Alliance") with Cable and Wireless to expand its international wholesale capacity business. The Alliance is structured that the Company has an initial share in the joint profits of the Alliance, from the effective date to and including the first anniversary of the effective date, of 80.0%

and Cable and Wireless has a 20.0% share. With respect to the period after the first anniversary of the effective date, the Company has a 72.5% share in the formal arrangement and Cable and Wireless has a 27.5% share.

The Alliance will be broadened with the Company and Cable and Wireless contributing their sub-sea and related assets into a new company with the same respective shareholdings, subject to obtaining regulatory approvals and certain other conditions being met. Until such time, the Company and Cable and Wireless will each retain complete ownership and control of their existing networks.

As at 31 December 2014, the Company accrued $17,065 owing to Cable and Wireless under the terms of the strategic alliance. These amounts are reflected on the consolidated balance sheet net of other amounts owed from Cable and Wireless in respect of management services.

## 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise bank loans, convertible and retractable preferred shares and trade payables. The main purpose of these financial liabilities is to raise financing for the Company's operations. The Company has various financial assets such as cash and cash equivalents, and trade receivables, which arise directly from its operations.

It is, and has been throughout 2014 and 2013, the Company's policy that no speculative trading in derivatives shall be undertaken.

The risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

*Interest rate risk*
The Company has limited interest rate risk since all debts are at fixed interest rates.

With all other variables held constant, the Company has determined that a 1% change in the interest rate would not result in any change to the Company's profit before tax and equity, through the impact of floating rate borrowings since all of the debt has fixed interest rates.

*Foreign currency risk*
As a result of significant investments in various regions in the Caribbean, the Company's consolidated balance sheet can be affected significantly by movements in exchange rates. As at 31 December 2014 and 2013, 100% of the Company's long-term debt is denominated in US dollars.

The Company also has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than their functional currency. Approximately 62% (2013 – 59%) of the Company's revenues are denominated in currencies other than their functional currency and 45% (2013 – 40%) of costs are denominated in currencies other than their functional currency.

At 31 December 2014 and 2013, the Company has not entered into any derivative contracts to hedge its foreign currency exposure.

The Company prepared a sensitivity analysis to determine the outcome due to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to the Company's profit before tax, interest, amortization, and other non-recurring items due to changes in the fair value of monetary assets and liabilities. The Company has determined that a 1% increase in the US dollar in comparison to its other transactional currencies would result in lower income of $2,158 (2013 – $2,069).

*Credit risk*
Financial instruments, which potentially subject the Company to credit risk, consist principally of cash and cash equivalents, and accounts receivable. The Company's exposure to credit risk arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments.

Cash and cash equivalents are maintained with major financial institutions and management regularly monitors their composition and maturities. Cash and cash equivalents include investments in interest-bearing deposits, which may be redeemed upon demand and bear minimal risk. The Company has not experienced any material losses on these investments.

The Company provides telecommunications capacity and services to a wide range of customers, ranging from well-capitalized national carriers to smaller, early stage development companies and individual subscribers and extends credit to some of its customers.

Management periodically evaluates credit exposure in the aggregate and by individual credit. Management periodically reviews the creditworthiness of its customers to ensure the overall quality of the Company's credit portfolio. If the financial condition of an existing customer deteriorates to a point where payment for services is in doubt, the Company suspends the services and no revenues are recognized until cash is received.

*Liquidity risk*
The Company monitors its risk of a shortage in funds daily by reviewing the maturity of both its financial assets (accounts receivable and other financial assets) and projected cash flows from operations. None of the Company's debt will mature in less than one year as at 31 December 2014 based on the carrying value of the borrowings reflected in the consolidated financial statements.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted payments:

| **2014** | **On Demand (US \$000)** | **Less than 3 months (US \$000)** | **3 to 12 months (US \$000)** | **1 to 5 Years (US \$000)** | **5 years (US \$000)** | **Total (US \$000)** |
|---|---|---|---|---|---|---|
| Interest-bearing loans | **—** | **—** | **—** | **—** | **1,250,000** | **1,250,000** |
| Other payables | **241** | **319** | **1,616** | **—** | **—** | **2,176** |
| Trade and other payables | **5,487** | **130,483** | **22,255** | **1,260** | **—** | **159,485** |
| Subscriber deposits | **3,833** | **—** | **—** | **—** | **—** | **3,833** |
| | **9,561** | **130,802** | **23,871** | **1,260** | **1,250,000** | **1,415,494** |

| **2013** | **On Demand (US \$000)** | **Less than 3 months (US \$000)** | **3 to 12 months (US \$000)** | **1 to 5 Years (US \$000)** | **5 years (US \$000)** | **Total (US \$000)** |
|---|---|---|---|---|---|---|
| Interest-bearing loans | — | — | 640,000 | 212,000 | — | 852,000 |
| Preferred share liabilities | — | — | 750 | — | — | 750 |
| Other payables | 4 | 348 | 1,850 | 219 | — | 2,421 |
| Trade and other payables | 30,719 | 79,910 | 9,553 | — | — | 120,182 |
| Subscriber deposits | 4,456 | — | — | — | — | 4,456 |
| Dividends payable | — | — | 569 | — | — | 569 |
| | 35,179 | 80,258 | 652,722 | 212,219 | — | 980,378 |

*Capital management*

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company manages its capital structure using a gearing ratio, which is the total net debt ("Numerator") divided by the annual earnings before interest, taxes, depreciation, amortization and exceptional (non-recurring) items ("Denominator"). The Numerator includes all interest-bearing loans and borrowings, including any current portion, net of the cash balance. Interest-bearing loans and borrowing, for the purpose of this calculation, does not include preferred share liabilities. The Company's objective is to maintain the gearing ratio under five.

| | 2014 (US $000) | 2013 (US $000) |
|---|---|---|
| Numerator | **1,206,281** | 802,614 |
| Denominator | **254,457** | 220,478 |
| Ratio | **4.74** | 3.64 |

## 19. SEGMENTED INFORMATION

The Company manages its business under two operating segments: Columbus Networks and Flow. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

| **2014** | **Columbus Networks (US $000)** | **Flow (US $000)** | **Eliminations and adjustments (US $000)** | **Total (US $000)** |
|---|---|---|---|---|
| Revenue | | | | |
| External | 247,498 | 350,927 | — | 598,425 |
| Intercompany | 1,732 | 8,554 | (10,286) | — |
| Total revenue | 249,230 | 359,481 | (10,286) | 598,425 |
| Income (loss) (a) | 37,917 | 41,651 | (185,488) | (105,920) |
| Total assets | 965,901 | 830,134 | (33,949) | 1,762,086 |
| Capital expenditures | 60,176 | 121,263 | 1,263 | 182,702 |
| Total liabilities | 664,801 | 780,028 | 471,995 | 1,916,824 |

(a) The income (loss) for each operating segment does not include financing costs. Total financing costs for the year ended 31 December 2014 is $175,235.

31 December 2014

| 2013 | Columbus Networks (US $000) | Flow (US $000) | Eliminations and adjustments (US $000) | Total (US $000) |
|---|---|---|---|---|
| Revenue | | | | |
| External | 205,190 | 299,523 | — | 504,713 |
| Intercompany | 724 | 6,946 | (7,670) | — |
| Total revenue | 205,914 | 306,469 | (7,670) | 504,713 |
| Income (loss) (a) | 58,359 | 45,214 | (112,571) | (8,998) |
| Total assets | 735,372 | 777,203 | (15,125) | 1,497,450 |
| Capital expenditures | 49,436 | 106,055 | 44 | 155,535 |
| Total liabilities | 441,932 | 730,421 | 248,240 | 1,420,593 |

(a) The income (loss) for each operating segment does not include financing costs. Total financing costs for the year ended 31 December 2013 is $95,726.

The Company operates in the following countries: Barbados, United States, Jamaica, Trinidad, Grenada, St. Vincent and the Grenadines, St. Lucia, Antigua and Barbuda, Dominican Republic, Curacao, Puerto Rico, Honduras, Costa Rica, Guatemala, Nicaragua, Panama, Colombia, Mexico, Venezuela, El Salvador, Bonaire, Belize, Turks & Caicos, Ecuador, Bahamas, St. Lucia, Cayman Islands and Haiti.

## 20. REVISED PRIOR PERIOD AMOUNTS

As a result of a review conducted in conjunction with the transaction outlined in note 17, the Company identified and corrected errors related to earlier periods in respect of the application of its interest capitalization policy and to the provision for bad debts. The Company determined that it should have capitalised financing costs to property, plant and equipment and intangible assets. As a result, the Company had understated the property, plant and equipment and intangible assets reported on its balance sheets and overstated financing costs, partially offset by amortization expense, for each period subsequent to the commencement of constructing the qualifying assets. In addition the Company should have allowed for uncollectible customer receivables and as a result, accounts receivable were overstated and operating costs were understated since 2012.

Although these errors were immaterial to the prior reporting periods affected, the impact of the adjustments on the individual line items might be considered material if adjusted in the 30 September 2014 interim period. Accordingly, the Company has revised the comparative financial information for the year ended 31 December 2013.

To reflect the cumulative effect of the revisions related to the application of its interest capitalization policy, property, plant and equipment and intangible assets at 31 December 2013 were increased by $2,995 and $2,400, respectively. The cumulative impact of the understatement of the allowance for uncollectible customer receivables resulted in a decrease of $6,215 to accounts receivable at 31 December 2013. The consolidated balance sheet at 31 December 2013 has also been revised to reflect the cumulative effect of the errors described above. These revisions to the consolidated balance sheet resulted in (decreases) increases in closing accumulated deficit of $820 and opening accumulated deficit of ($1,736).

## 21. EVENTS AFTER THE BALANCE SHEET DATE

**Cable and Wireless Communications**

On 31 March 2015 the Transaction between the shareholders of the Company and Cable and Wireless Communications plc, an unrelated party, as described in note 17, closed following the satisfaction of all necessary regulatory approvals and conditions. Pursuant to the terms of the underlying agreements, certain of the Company's arrangements and agreements are impacted by the Transaction, including the Senior notes within interest-bearing loans and borrowings, and outstanding equity incentive awards.

As indicated in note 7, the Company's indenture agreement with the holders of the Senior notes contains a change in control provision at the option of the note holder requiring the Company to make an offer to purchase the notes within thirty days of the change in control occurring, based on a formula defined within the indenture agreement. This offer was made on 31 March 2015 and expired on 28 April 2015. None of the notes have been tendered.

On closing, the Company cancelled all of the outstanding options in the equity incentive plan and replaced it with a combination of an alternative plan with Cable and Wireless and cash payments to the unit holders. Payments of approximately $50,000 where made to unit holders.

Prior to closing of the Transaction certain US licensed entities of the Company were transferred at fair market value ("FMV") to a newly incorporated special purpose entity owned by certain of the Company's controlling shareholders ("New Cayman"). The Company received cash consideration of $55,688 (representing 75% of FMV) and a note receivable for $18,562 for total consideration of $74,250. This occurred immediately prior to the closing of the Transaction so that the Transaction could occur prior to the approval of the Federal Communications Commission of the United States ("FCC approval") being obtained. When FCC approval is obtained, the subject US licensed entities will be reacquired by the Company or another CWC controlled entity.

Until such time as FCC approval is obtained, among other things:

(A) New Cayman will continue to hold the US licensed entities;

(B) a management and services agreement will apply under which the Company will operate and manage the business of the US licensed entities, at the direction of, and subject to the ultimate control, direction and oversight of, the US licensed entities, in return for a fee; and

(C) anti-leakage provisions will apply in relation to New Cayman and the US licensed entities.

**Repayment of employee loan**
On 6 January 2015, the Company repaid the unsecured note due to an employee *[note 15]*.

# Section C

# Operating and Financial Review

# COLUMBUS INTERNATIONAL INC.

## OPERATING AND FINANCIAL REVIEW

*The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our 2014 Audited Consolidated Financial Statements and related Notes thereto. Unless otherwise indicated, all financial information presented herein has been prepared in accordance with International Financial Reporting Standards (IFRS) and is expressed in US dollars.*

### *FORWARD-LOOKING STATEMENTS*

*This discussion includes forward-looking statements, which are statements other than statements of historical fact. These forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. Such forward-looking statements involve known and unknown risks and uncertainties. You are cautioned not to unduly rely on these forward-looking statements.*

*Forward-looking statements can be identified by the use of forward-looking terminology such as the words "may," "will," "would," "could," "should," "believe," "expect," "anticipate," "intend," "predict", "estimate," "aim," "plan" or similar expressions and include all statements that are not historical facts. Although we believe that the information included in our forward-looking statements is reasonable, it may prove incorrect, and our actual results may differ as a result of a variety of uncertainties and assumptions, including:*

- *our corporate strategy;*
- *our ability to implement a strategy of providing expanded wholesale broadband capacity services and cable and broadband-enabled services in jurisdictions where we choose to operate;*
- *competition from other companies in our industry and the relative reputation and value associated with our company;*
- *our ability to increase our customer base and retain customers;*
- *instability in global financial markets;*
- *potential disruptions or failures of our network equipment and systems;*
- *our ability to attract and retain key personnel;*
- *our ability to identify and consummate potential acquisitions, joint ventures and strategic alliances and to integrate the operations of any businesses acquired;*
- *the ability of suppliers and vendors to timely deliver quality products, equipment, software and services;*
- *changes in our ownership structure;*
- *uncertainties inherent in the development and integration of new business lines and business strategies;*
- *our ability to adequately forecast and plan future network requirements;*
- *the outcome of any pending or threatened litigation;*
- *changes in the nature of key strategic relationships with partners and joint ventures;*
- *changes in technology;*

- *weather disturbances, such as hurricanes and earthquakes;*
- *our ability to provide satisfactory customer service, including support for new and evolving products and services;*
- *our ability to generate sufficient cash to fund the operation of our business and service our indebtedness;*
- *fluctuations in currency exchange rates and interest rates;*
- *our ability to maintain or increase rates to our customers or to pass through increased costs to our customers;*
- *risks associated with changes in macroeconomic, political and social conditions in the countries in which we operate;*
- *adverse regulatory, legislative, tax or other judicial developments, including any failure to renew our licenses or any material changes to any of our licenses; and*
- *our success and the success of others in suppressing piracy of cable and satellite signals.*

*The forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance.*

*Our risks are described more specifically in "Risk Factors" in our offering memorandum dated March 24, 2014. If one or more of these or other risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. We do not undertake to update our forward-looking statements, risk factors or any other information in this discussion to reflect future events or circumstances.*

## 1. Overview

### *Our Business*

We are a Barbados based, privately held corporation and, through our subsidiaries, are a leading provider of wholesale broadband capacity services and cable and broadband-enabled services to commercial and retail customers in the Caribbean, Latin American and North American markets. We manage our business under two operating segments: Columbus Networks and Flow.

Through our wholly-owned operating subsidiary, Columbus Networks, Ltd. ("Columbus Networks"), we own and/or operate what we believe to be the most advanced multi-ring configured, subsea fiber optic cable network connecting every major country and territory in the Caribbean, Central America and northern South America. We are a leading provider of advanced, point-to-point, clear channel wholesale broadband capacity services, Internet Protocol ("IP") services, Multiprotocol Label Switching ("MPLS") services and Ethernet services to telecommunications carriers, Internet Service Providers ("ISPs") and large corporations operating in 42 countries in the region (including countries in which we operate through a strategic alliance with Cable & Wireless Communications ("CWC")). Columbus Networks was recently independently ranked the #1 Caribbean wholesale network service provider by Internet market intelligence firm Renesys, ahead of competitors such as Verizon, Telefonica and Level 3 Communications.

We have built and continue to build, and have acquired, network assets, including long-haul terrestrial backbone and metro fiber networks, that provide us access to major commercial zones, wireless carrier cell sites and customers in key markets within our operating footprint. Together with our strategic alliance partner, CWC, we employ approximately 57,000 km of subsea and terrestrial fiber-optic cable with a maximum system design capacity of approximately 16 Tbps, based on optronics equipment in use today.

By leveraging our advanced network, bandwidth capacity and operating expertise in the region, we have grown to also become a leading provider of cable and broadband-enabled services, including digital cable television, IP telephony services and high speed Internet ("HSI") access to retail and commercial customers in Trinidad, Jamaica, Grenada, Curaçao, Barbados, Antigua and Barbuda, St. Lucia, and St. Vincent and the Grenadines. We offer these services in these markets under the unified "Flow" brand (with the exception of Antigua and Barbuda, where we are in the process of transitioning from the recently acquired "Karib Cable" brand). We refer to these services as "Watch," "Talk," and "Click," respectively. We have made a substantial investment in the development and marketing of the "Flow" brand and believe we have developed a powerful franchise based on the combined value of innovation, advanced technology, content (including high definition ("HD")) and good service.

Under our Columbus Business Solutions ("CBS") brand, which we launched in 2011, we offer a comprehensive range of business class information and communications technology solutions including a full suite of cloud-based services for small and medium sized businesses ("SMB"), enterprise and government clients. We also offer a suite of commercial grade triple play services and value-added telecommunications and IT services to SMBs through our CBS brand. Revenues related to CBS are generated in both the Columbus Networks and Flow operating segments.

***Our History***

We were formed in 2004 for the purpose of providing superior telecommunications services in the Caribbean region. Since then, we have grown rapidly through expansion of our networks (including green/brownfield entry into certain markets), active acquisition activity, including the acquisition of certain components of our current network beginning in September 2005, and organic growth of operations. We have been highly successful in acquiring and integrating 33 companies over the past nine years and have acquired an expertise for transacting in the region. Today, we are focused on operating technologically advanced facilities and infrastructure related to our network, providing viable service alternatives to incumbent service providers in the markets we enter and making acquisitions and investments primarily in English-speaking territories.

***Our Business Strategy***

Our goal is to be the leading provider of wholesale broadband capacity services and IP services in the Caribbean and Latin American regions while positioning ourselves as the leading cable and broadband-enabled services provider within each of the markets in which we offer such services. We intend to continue to grow revenue and to expand our gross margins by adding customers, subscribers and RGUs, leveraging our extensive network assets and continuing to pursue opportunities for cost efficiencies and to generate substantial free cash flow as we complete building networks and rebuilding acquired networks.

***Recent Developments***

***Transaction with Cable and Wireless***

On March 31, 2015 the Transaction between our shareholders and Cable and Wireless Communications plc, an unrelated party, as described in note 17 of the Audited Consolidated Financial Statements, closed following the satisfaction of all necessary regulatory approvals and conditions. Pursuant to the terms of the underlying agreements, certain of our arrangements and agreements are impacted by the Transaction, including the Senior notes within interest-bearing loans and borrowings, and outstanding equity incentive awards.

As indicated in note 7of the Audited Consolidated Financial Statements, our indenture agreement with the holders of the Senior notes contains a change in control provision at the option of the note holder requiring us to make an offer to purchase the notes within thirty days of the change in control occurring, based on a formula defined within the indenture agreement. This offer was made on March 31, 2015 and expired on April 28, 2015. None of the notes have been tendered.

On closing, we cancelled all of the outstanding options in the equity incentive plan and replaced it with a combination of an alternative plan with Cable and Wireless and cash payments to the unit holders. Payments of approximately $50,000 where made to unit holders.

Prior to closing of the Transaction certain US licensed entities of the Company were transferred at fair market value ("FMV") to a newly incorporated special purpose entity owned by certain of the our controlling shareholders ("New Cayman"). We received cash consideration of $55,688 (representing 75% of FMV) and a note receivable for $18,562 for total consideration of $74,250. This occurred immediately prior to the closing of the Transaction so that the Transaction could occur prior to the approval of the Federal Communications Commission of the United States ("FCC approval") being obtained. When FCC approval is obtained, the subject US licensed entities will be reacquired by the us or another CWC controlled entity.

Until such time as FCC approval is obtained, among other things:

(A) New Cayman will continue to hold the US licensed entities;

(B) a management and services agreement will apply under which we will operate and manage the business of the US licensed entities, at the direction of, and subject to the ultimate control, direction and oversight of, the US licensed entities, in return for a fee; and

(C) anti-leakage provisions will apply in relation to New Cayman and the US licensed entities.

***Acquisition of Lazus Colombia S.A.S. (formerly operating as "Promitel")***

Effective May 1, 2014, we, through a wholly owned subsidiary, purchased 100% of the issued and outstanding shares of Lazus Colombia S.A.S. (formerly known as Promitel Colombia S.A.S.) and its subsidiaries in Costa Rica and Panama (collectively, "Lazus") for net cash consideration of $146,137. Lazus, employing 191 telecom professionals and approximately 3,400 km of fiber optic cable, provides local loop connectivity services in major centers in (i) Colombia (Santa Marta, Baranquilla, Cartagena, Sincelejo, Montería, Bucaramanga, Cali, Bogota, and Popayán), (ii) San José, Costa Rica, and (iii) Panamá City, Panamá.

***Consolidated Financial and Operating Results***

We principally measure the success of our strategies using key performance indicators that are not measurements in accordance with IFRS and should not be considered as an alternative to net income or any other measure of performance under IFRS. The non-IFRS measures referred to in this document include “EBITDA”.

We present EBITDA, which is a financial measure not recognized under IFRS. We define EBITDA as our consolidated (loss)/profit for the year, plus financing costs, income tax expense (recovery), depreciation, amortization and other expenses (including expenses related to foreign currency translation adjustments, our equity incentive plan and other exceptional or non-recurring items). A financial measure not in conformity with IFRS is generally defined as one that purports to measure financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable IFRS measure. We believe that EBITDA provides meaningful additional information to investors because it is commonly reported and widely accepted by analysts and investors as a base for comparing a company’s underlying profitability with other companies in the industry. This is particularly the case in a capital intensive industry such as telecommunication. EBITDA is used by our board of directors and management as a measure of profitability. You should not construe EBITDA as an alternative to operating profit or loss or cash flows from operating activities determined in accordance with IFRS. EBITDA is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same.

Operating Highlights and Significant Developments in 2014

- Generated solid year over year growth – revenue and EBITDA are up 19% and 17%, respectively over 2013
- Continued strong growth at Flow – revenue and EBITDA have increased by 17% and 16%, respectively over prior year
- Increased total RGUs to 711,424 – an increase of 73,819 units (12%) over 2013
- Continued strong growth related to Barbados build out – Increased homes passed to 89,185 – Increased RGUs to 53,476 from 23,161 in 2013
- Continued to diversify CN revenue base – CBS revenue in this segment grew by 17% over the prior year – represented 15% of total CN revenue for the year
- Increased last two quarters annualized (“L2QA”) EBITDA to $271,526 – up 18% over $230,478 last year

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

For the year ended December 31, 2014, Columbus Networks and Flow represented 41.6% and 60.1% of our consolidated revenue, offset by corporate eliminations of 1.7% respectively. Columbus Networks and Flow represented 46.1% and 57.3% of our consolidated EBITDA, respectively, offset by corporate items and eliminations of 3.4%.

For the year ended December 31, 2013, Columbus Networks and Flow represented 40.8% and 60.7% of our consolidated revenue, offset by corporate eliminations of 1.5% respectively. Columbus Networks and Flow represented 46.3% and 58.2% of our consolidated EBITDA, respectively, offset by corporate items and eliminations of 4.5%.

For more detailed discussion of Columbus Networks and Flow refer to the respective segment discussions below.

We set forth below a summary of our consolidated operating results of the year ended December 31, 2014 compared to the year ended December 31, 2013 (see note 20 to the audited consolidated financial statements):

| | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| | **(US $000)** | **(US $000)** |
| **Revenue** | | |
| Columbus Networks | **249,230** | 205,914 |
| Flow | **359,481** | 306,469 |
| Eliminations | **(10,286)** | (7,670) |
| | **598,425** | 504,713 |
| **EBITDA** | | |
| Columbus Networks | **119,172** | 102,074 |
| Flow | **148,196** | 128,248 |
| Corporate and eliminations | **(8,879)** | (9,844) |
| | **258,489** | 220,478 |
| Balancing payment to Cable and Wireless Communications | **17,065** | — |
| Amortization | **112,442** | 95,381 |
| Operating income | **128,982** | 125,097 |
| Other expenses | | |
| Financing costs | **175,235** | 95,726 |
| Other | **40,585** | 20,906 |
| | **215,820** | 116,632 |
| (Loss) income before income taxes | **(86,838)** | 8,465 |
| Income tax expense | **19,082** | 17,463 |
| Loss for the period | **(105,920)** | (8,998) |

We set forth below a reconciliation of loss for the year to EBITDA:

| | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| | **(US $000)** | **(US $000)** |
| Loss for the period | **(105,920)** | (8,998) |
| Income tax expense | **19,082** | 17,463 |
| Financing costs | **175,235** | 95,726 |
| Amortization | **112,442** | 95,381 |
| Balancing payment to Cable and Wireless Communications | **17,065** | — |
| Exceptional bad debt adjustment | **4,032** | — |
| Other | **36,553** | 20,906 |
| **EBITDA** | **258,489** | 220,478 |

*Revenue and EBITDA*

Our consolidated revenue was $598,425 for the year ended December 31, 2014, an increase of $93,712, or 18.6%, from $504,713 in 2013. Of the increase, Columbus Networks contributed $43,316 and Flow contributed $53,012 offset by an increase of $2,616 in eliminations.

Our consolidated EBITDA was $258,489 for the year ended December 31, 2014, an increase of $38,011, or 17.2%, from $220,478 in 2013. Of the increase, Columbus Networks contributed $17,098 and Flow contributed $19,948, and a decrease in corporate and eliminations of $965.

Refer to the individual segment discussions for details.

*Balance payment to Cable & Wireless communications*

Our balance payment to Cable & Wireless Communications for the year ended December 31, 2014 was $17,065. See note 17 of the audited consolidated financial statements for details.

*Depreciation and Amortization*

Our consolidated depreciation and amortization for the year ended December 31, 2014 increased by 17.9% to $112,442 compared to $95,381 in 2013. The increase was driven primarily as a result of the inclusion of the amortization on the newly acquired Lazus assets as well as an increase in property, plant and equipment and an increase in purchased finite life intangible assets as a result of the continued network build out in both Columbus Networks and Flow.

*Financing Costs*

Financing costs consist primarily of interest on indebtedness, breakage costs, make-whole payments, and amortization of debt issuance costs, discounts and premiums.

Our consolidated financing costs for the year ended December 31, 2014 increased to $175,235 compared to $95,726 in 2013.

| | **2014 (US $000)** | **2013 (US $000)** |
|---|---|---|
| Interest expense | 98,709 | 90,683 |
| Breakage fees and make-whole payments | 62,009 | - |
| Amortization of debt issue costs | 20,038 | 8,982 |
| Amortization of premium | (3,289) | (3,588) |
| Preferred share dividends | 91 | 169 |
| Accretion of bifurcated embedded derivative | (342) | - |
| Capitalized interest | (2,403) | (1,088) |
| Other financing charges | 422 | 568 |
| | 175,235 | 95,726 |

*Other*

Other includes adjustments relating to long-term employee compensation, gain or loss on disposal of property, plant and equipment, foreign currency translation adjustments, and other exceptional, non-recurring or non-operating expenses.

Other for the year ended December 31, 2014 increased to $36,553 compared to $20,906 in 2013. The total includes the following: Long-term employee compensation, restructuring, and staff redundancy costs of $30,316 (2013 – $3,378), foreign currency translations loss of $3,291 (2013 – $4,364), acquisition related costs of $11,682 (2013 – $8,618), other exceptional, non-recurring or non-operating expenses $3,312 (2013 – $3,565), offset by a net gain on disposal or discontinued use of property, plant and equipment and disposal of investments of $2,263 (2013 – loss of $981) and an increase in the fair value of the embedded derivative $9,785 (2013 – nil).

*Income Taxes*

Income taxes for the year ended December 31, 2014 increased to $19,082 compared to $17,463 in 2013. Please refer to Note 14 of the consolidated financial statements for detail of the components of income tax expense for each year.

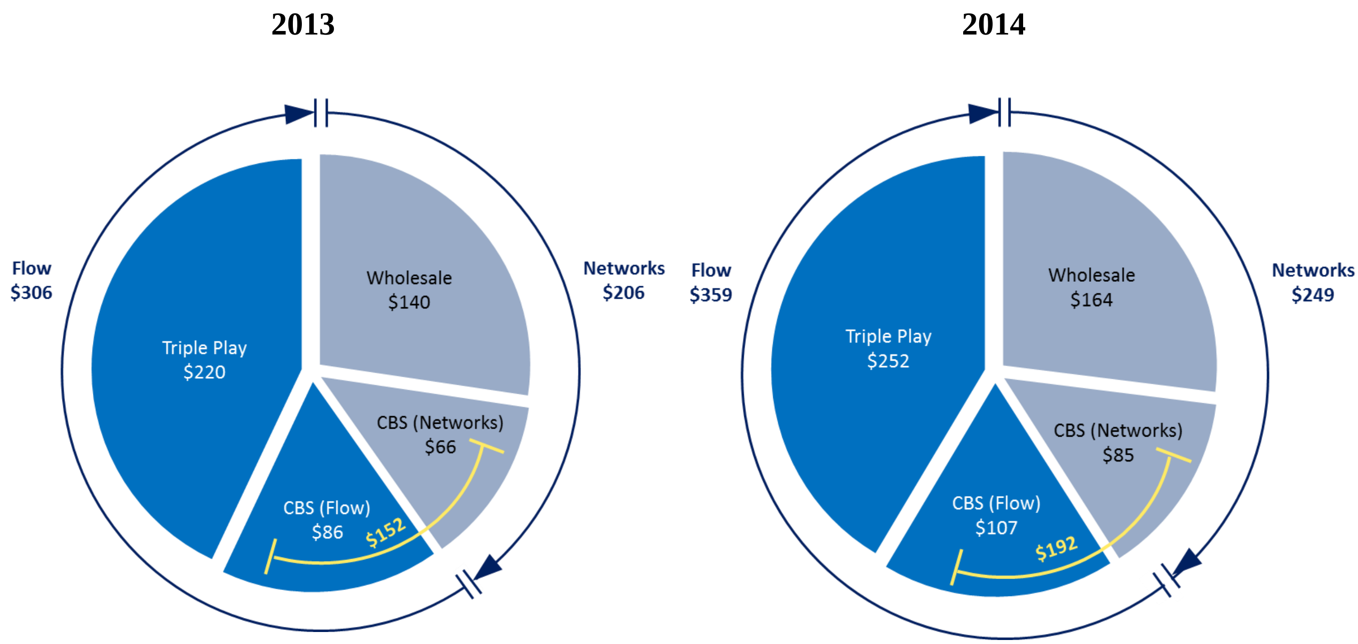
*Net loss*

Net loss for the year ended December 31, 2014 was $105,920 compared to $8,998 in 2013.

## 2. Segment Review

We manage our business under two operating segments: **Columbus Networks** and **Flow**.

Revenue by segment and business line for the year ended December 31 is as follows:




### *Columbus Networks*

Columbus Networks is a leading provider of advanced, point-to-point, clear channel wholesale broadband capacity services, IP, MPLS and Ethernet services to telecommunications carriers, ISPs and large corporations operating in 42 countries in the Caribbean, Latin America and North America (including countries in which we operate through a strategic alliance with CWC). We own and/or operate what we believe to be the most advanced multi-ring configured, subsea fiber optic cable network connecting every major country and territory in the Caribbean, Central America and northern South America.

Our wholesale network consists of multiple subsea and terrestrial fiber routes spanned approximately 57,000 km (including 24,000 km through our strategic alliance with CWC). These fiber routes combine to form a series of fully integrated network rings that provide complete network diversity and operational redundancy, allowing us to provide our customers with services of superior quality and reliability relative to our peers. We believe that no other network in the region offers similar services with the same levels of network redundancy and reliability. Our network has a current activated, or "lit," capacity of 1.4 Tbps, and we strive to constantly maintain sufficient inventory to meet both forecasted growth in demand for our services and to take advantage of opportunities that may arise. We have also established an upgrade plan that will allow us to easily increase lit capacity and our arrangements with key vendors generally allow such upgrades to be implemented within 120 days. Our network's maximum system capacity based on today's optronics is approximately 16 Tbps.

We built our Florida Transport Network, a metro fiber ring network in south Florida that connects our network operations center in North Miami Beach to our cable landing station in Boca Raton as well as the Network Access Point (NAP) of the Americas facility in Miami, which is the main telecommunications hub for the region. We have remediated and hardened our subsea networks and upgraded material segments of our network to 100 Gbit optical wavelength technology. We recently completed renovating our network operations centers in North Miami Beach and Bogota, Colombia and continue to build and evaluate the acquisition of regional and metro fiber networks in our operating territories.

With our advanced network, we are able to offer our commercial customers a wide array of broadband capacity services and IP services, including:

- ***Infrastructure Services.*** We offer a broad range of infrastructure services to telecommunications carriers, ISPs and large corporations, including IP services, transport services, managed services and switched data services

.

  - *IP Services*. Our IP services include secure, private multi-protocol label switching-based virtual private networks ("VPNs") that enable single access connection to deliver voice, video, data and multimedia and IP capacity used to support high capacity Internet connectivity between content distributors and users and secure access to customers' wide area networks. We also offer dedicated Internet access and remote access services.

  - *MPLS Services.* Multiprotocol Label Switching offers a reliable and cost-effective alternative to IP data transportation. Our MPLS Level 3 VPN service is offered following the RFC2547 guidelines, which support the highest level of international quality and security standards.

  - *Ethernet Services.* Ethernet protocol-based technologies enable level 2 connectivity to support multiple level 3 protocols such as IP and MPLS. Our Ethernet service is delivered in the following modalities:

    - *Point-to-Point (PtoP)*. Links connecting two physical points that are in turn interconnected. PtoP links have multiple applications such as replication service support for infrastructure recovery and business continuity.

    - *Point-to-MultiPoint (PtoMP)*. This configuration enables data transmission from one point to remote locations which receive the same information. This modality is typically used in Triple Play applications and Internet access, among others.

    - *MultiPoint-to-MultiPoint (MPtoMP)*. MPtoMP enables extension of an Ethernet protocol-based network among geographically diverse and distant sites, enabling fluent communication from and to any point without additional level 3 routing elements.

  - *Transport Services.* Our international private line and wavelength services consist of point-to-point digital connectivity between any two points on our network as well as interconnection points to other points worldwide. We also offer Ethernet IP service, providing premises-to-premises services in a more cost-effective manner than private lines.

  - *Managed Services.* Our managed services include a full range of managed equipment and security services and cloud-based services such as managed firewalls, disaster recovery and remote data storage and replication.

  - *Switched Data.* Our switched data services include reliable transport services widely used in the enterprise market to support commercial applications.

- ***Data Center Services.*** We offer customer, data center and collocation services ranging from housing and hosting to more complex managed services, including disaster recovery, business continuity and security services.

- ***Columbus Business Solutions ("CBS").*** In 2011, we augmented our corporate services offerings under our new CBS brand, offering a comprehensive range of business class information and communications technology solutions for SMB, enterprise and government clients across 16 countries in the Caribbean and Latin America, including, among other services, the following:

- *Private Lines.* We provide domestic and international private line services designed for high bandwidth voice, data and video applications. Customer data is transported securely through dedicated end-to-end facilities over Columbus' proprietary fiber network.

- *Ethernet Services.* We offer a comprehensive portfolio of Ethernet services that seamlessly connect people and businesses anywhere in the region with high-bandwidth business applications.

- *MPLS L3-VPN.* We design and build MPLS-based network solutions to help businesses prioritize critical data traffic with multiple classes of service.

- *Dedicated Internet Access*. Our fast, reliable and cost effective Internet access is provisioned through a Tier 1 IP Network backbone. Dedicated Internet Access ("DIA") options are available in a wide range of speeds and access methods that can deliver a quality Web experience for employees, customers and business partners.

- *Dedicated Internet 2 Access.* We offer qualifying clients access to Internet 2 through the Florida International University gateway. Internet 2 is a consortium of more than 200 U.S. universities working in partnership with industry and government to develop and deploy advanced network applications and technologies.

- *Cloud Voice*. Our cloud voice service liberates SMBs, enterprises and government clients from the constraints and limitations of legacy PBX systems. Flexible call handling, teleconferencing, voicemail, softphone and other premium calling features are all offered through our cloud voice service. Scalable from as few as two lines into the thousands to fit our clients' needs.

- *Cloud IT Security*. Employing both a team of highly trained IT professionals and the latest technology and techniques in network monitoring, our cloud IT security solution proactively monitors, audits and secures clients' networks from potential threats and intrusions.

- *Cloud IP Surveillance*. From retail surveillance to enterprise compound monitoring to general public safety, our cloud IP surveillance service extends into the far reaches of our extensive network, can be monitored from anywhere in the world and backed up in our data centers for quick retrieval on demand.

- *Cloud Backup*. We provide critical data backup services utilizing our Tier 3 data center, as defined in the Telecommunications Industry Association – 942 Data Center Standards Overview, in Curaçao and redundant facilities in data centers in Miami, Florida and Bogota, Colombia. Data is redundantly secured on high-speed Storage Area Networks with additional long-term archive services available. Our cloud backup solution offers full and de-duplicated data options. Backups are resilient, seamless and more scalable than traditional enterprise-based solutions.

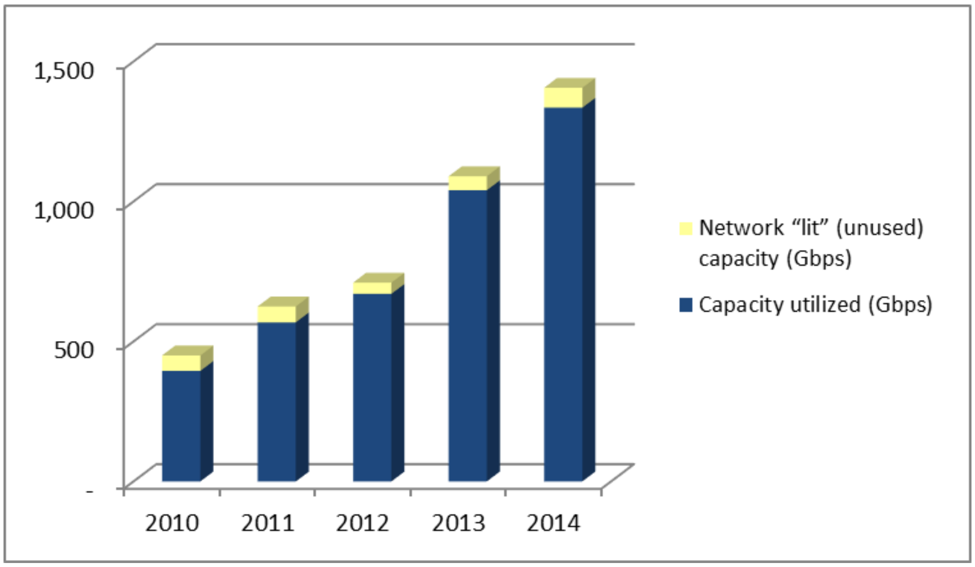
- *Cloud Server Replication*. We provide site and/or server redundancy for mission critical applications. Our server replication service mirrors our clients' most critical business applications utilizing our fully redundant computing cloud.

The table below sets out certain information with respect to our fiber optic routes:

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Columbus Networks [1] | 17,763 | 17,763 | 17,983 | 17,983 | **17,983** |
| CWC Alliance | - | - | - | 24,335 | **24,335** |
| Total Subsea Fiber Route kilometers | 17,763 | 17,763 | 17,983 | 42,318 | **42,318** |
| Terrestrial Fiber Route kilometers | 1,923 | 2,873 | 4,836 | 8,126 | **14,666** |
| Total Fiber Route kilometers | 19,686 | 20,636 | 22,819 | 50,444 | **56,984** |
| Network "lit" capacity (Gbps) [2] | 450 | 625 | 710 | 1,090 | **1,406** |
| Capacity utilized (Gbps) [2] | 395 | 568 | 670 | 1,040 | **1,335** |
| Maximum system capacity based on today's optronics | 5,520 | 5,520 | 6,400 | 12,000 | **16,200** |
| Countries with service | 22 | 22 | 23 | 42 | **42** |

(1) Includes Columbus Networks 7% ownership interest in the MAYA-1 Cable system, a 4,400 km consortium owned subsea system.

(2) Excludes networks related to the CWC Alliance



<u>Operating and Financial Results</u>

*Operating Highlights and Significant Developments for 2014*

- Grew CN revenue by 21% over last year (9% excluding Lazus)
- CBS revenue in this segment grew by 28% over the prior year
- Grew the wholesale revenue base with the Lazus acquisition

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

Revenue from Columbus Networks for the year ended December 31, 2014 increased by 21.0% to $249,230 compared to $205,914 in 2013. The increase was primarily due to the acquisition of Lazus as well as an increase in Columbus Business Solutions revenue in Colombia, Dominican Republic, and Guatemala.

EBITDA for the year ended December 31, 2014 increased by 16.8% to $119,172 compared to $102,074 in 2013. The increase relates to the revenue growth noted above.

***Flow***

We provide cable and broadband-enabled services including digital cable television, IP telephony services and HSI access to retail and commercial customers in Trinidad, Grenada, Jamaica, Curaçao, Barbados, and all other entities which comprises: Antigua and Barbuda, St. Lucia, and St. Vincent and the Grenadines.

We are focused on maintaining and improving our leadership position in our markets by deploying advanced, high capacity and fiber-rich networks, providing superior service to a wider coverage area and offering an ever growing product suite, including 150 Mbps HSI in certain of our markets, at competitive prices. We believe as we continue to grow our subscriber base and RGUs per unique subscriber, Flow's revenues and operating margins will increase.

***Residential Services***

In each of our markets, we provide a wide array of products and services under the unified "Flow" brand (with the exception of Antigua and Barbuda, where we are in the process of transitioning from the recently acquired "Karib Cable" brand), including:

- ***Video Services ("Watch")***. We offer an extensive variety of video services ranging from basic analog television to a 100% digital service with more HD channels offered than any of our competitors. We offer various levels of services and packages providing customers with access to up to 300 channels. Customers may choose to subscribe to a broad selection of premium programming, original programming and popular movie network channels and video on demand programming, as well as other value-added services such as Flow ToGo, our TV Everywhere product, and soon to be launched services such as Cloud DVR. We are also a leader in providing bulk video services to the hotel and leisure industry. For example, in Jamaica, we provide video service to approximately 20,600 of the 22,600 hotel rooms that our network passes.

- ***IP Telephony Service ("Talk").*** We offer a Voice-over-Internet-Protocol ("VoIP") digital telephone service that provides usage-based and unlimited international, local, and domestic on-net calling. Unlike certain other VoIP providers that do not own their facilities or network, and therefore have limited control over call routing and quality, we are a facilities-based provider and are able to offer an IP voice product that we believe is comparable, and in many cases superior, in quality to traditional switched telephone service.

- ***High Speed Internet Service ("Click").*** We offer HSI service with varying levels of service speed ranging from a minimum speed of 1 Mbps to connections of up to 150 Mbps, which we believe is the most robust download service available in the broader Caribbean region. In each of our operating markets, competitors generally offer a digital subscriber line ("DSL") or WiMAX based wireless product that we believe is inferior and underperforms our Data Over Cable Service Interface Specification 3.0 ("DOCSIS 3.0") and Gigabit Passive Optical Network ("GPON") service in terms of upload and download capabilities.

***Columbus Business Solutions (CBS)***
We also offer the following commercial-grade services marketed under the CBS brand to SMB, enterprise and government clients in our established retail markets:

- ***Video Services.*** We offer a full range of video services packaged specifically for our commercial and government customers. Various levels of programming ranging from global and local news, weather and financial markets are available. Commercial clients are able to choose from a variety of offerings that best meet their business needs.

- ***High Speed Data Services.*** We offer commercial customers a wide menu of high-speed Internet access services with speeds of up to 150 Mbps. We also offer dedicated Internet access that provides symmetrical downstream/upstream speeds of up to 10 Gbps.

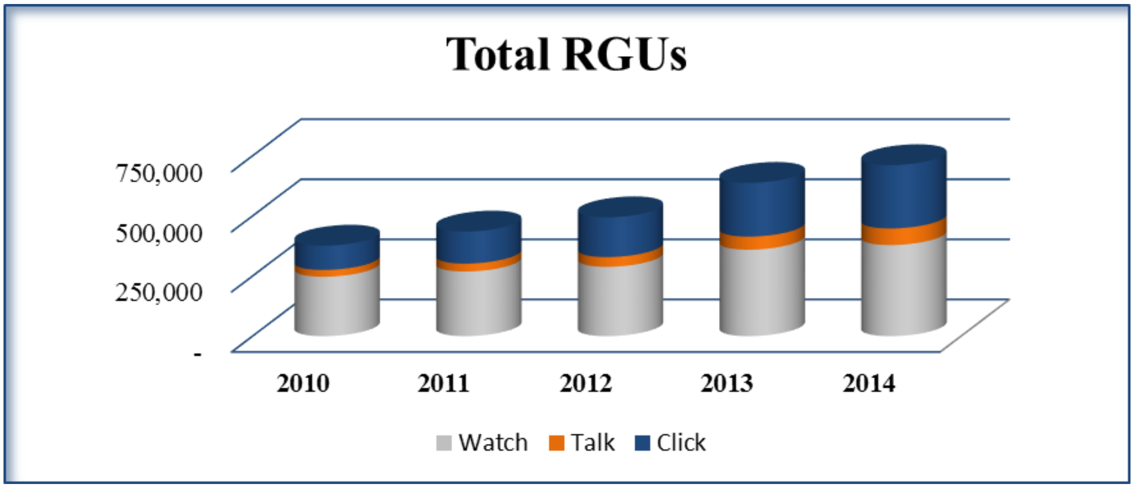
- ***Data-Center Services.*** We offer a complete suite of data-center services including off-site racks and rooms for telecom and electronic equipment, power, cooling, fire protection, security, cross-connects, peering and meet-me rooms and disaster recovery. Our data centers are modern facilities, incorporating the most up-to-date technology in design and efficiency through our adherence to industry best practices.

- ***Traffic Backhaul Services.*** We offer cell tower backhaul services to wireless services providers, ISPs and other communication services carriers

- ***Cloud-Based Services.*** We offer various cloud-based services including continuity/replication, hosted voice solutions, video conferencing and cloud security services.

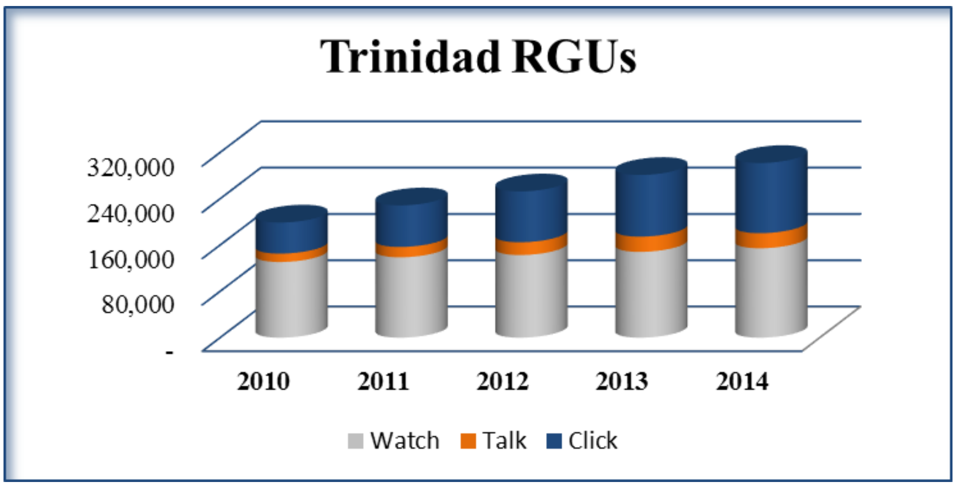
The table below sets out the total revenue generating units (RGUs) for the combined **Flow** services:

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Watch customers | 247,164 | 268,796 | 288,300 | 359,572 | **378,932** |
| Talk customers | 28,092 | 32,897 | 40,571 | 54,456 | **68,982** |
| Click customers | 101,217 | 133,385 | 165,517 | 223,577 | **263,510** |
| Total customers | 376,473 | 435,078 | 494,388 | 637,605 | **711,424** |



The table below sets out certain information with respect to our Flow services in **Trinidad**:

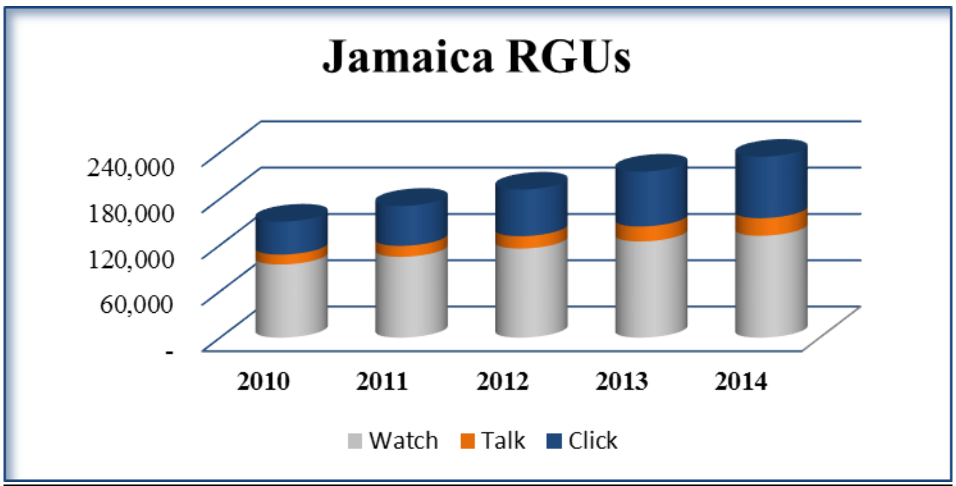
| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Watch customers | 130,790 | 138,944 | 142,820 | 148,280 | **154,512** |
| Talk customers | 14,526 | 17,911 | 22,117 | 26,308 | **26,098** |
| Click customers | 53,719 | 71,823 | 87,907 | 106,640 | **121,277** |
| Total customers | 199,035 | 228,678 | 252,844 | 281,228 | **301,887** |
| **Residential ARPU**[1] | | | | | |
| Watch | 37.00 | 40.40 | 43.22 | $44.74 | **$45.57** |
| Talk | 17.47 | 24.22 | 27.67 | $16.56 | **$19.89** |
| Click | 28.54 | 29.40 | 29.50 | $29.56 | **$31.60** |
| Average watch churn | 1.10% | 1.00% | 1.10% | 0.70% | **1.10%** |
| Homes passed | 268,412 | 271,431 | 300,741 | 301,722 | **306,100** |
| Penetration rate | 48.73% | 51.19% | 47.49% | 49.14% | **50.48%** |




1- Monthly average residential revenue per user ("ARPU")

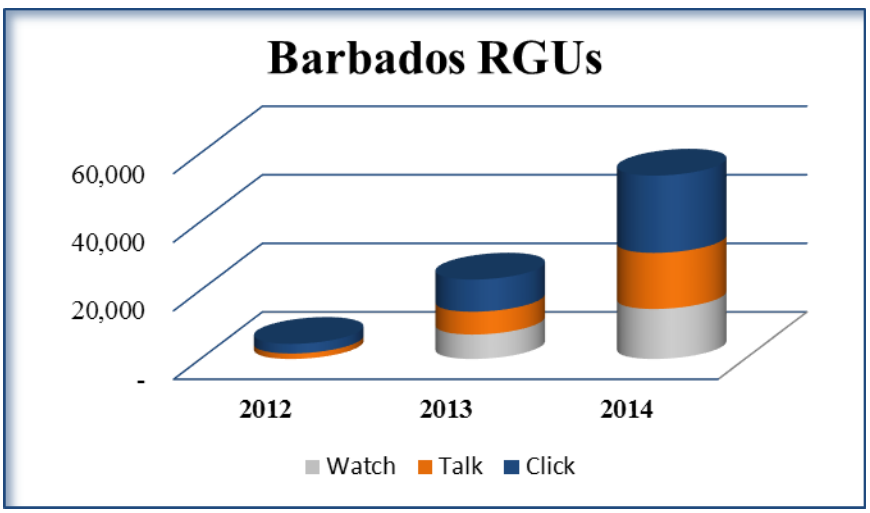
The table below sets out certain information with respect to our Flow services in **Jamaica**:

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Watch customers | 94,832 | 104,743 | 115,468 | 124,700 | **132,054** |
| Talk customers | 12,877 | 14,269 | 16,055 | 19,464 | **22,860** |
| Click customers | 42,688 | 51,798 | 60,404 | 71,025 | **79,546** |
| Total customers | 150,397 | 170,810 | 191,927 | 215,189 | **234,460** |
| JMD to USD exchange rate | $85.86 | $86.60 | $92.98 | $106.38 | **$114.66** |
| **Residential ARPU** | | | | | |
| Watch | 33.82 | 34.37 | 34.35 | $31.38 | **$29.55** |
| Talk | 21.99 | 20.40 | 19.38 | $15.97 | **$13.45** |
| Click | 25.94 | 27.03 | 27.34 | $26.02 | **$23.46** |
| Average watch churn | 2.90% | 2.23% | 1.84% | 1.70% | **1.70%** |
| Homes passed | 249,312 | 259,053 | 269,963 | 273,189 | **274,141** |
| Penetration rate | 38.04% | 40.43% | 42.77% | 45.65% | **48.17%** |



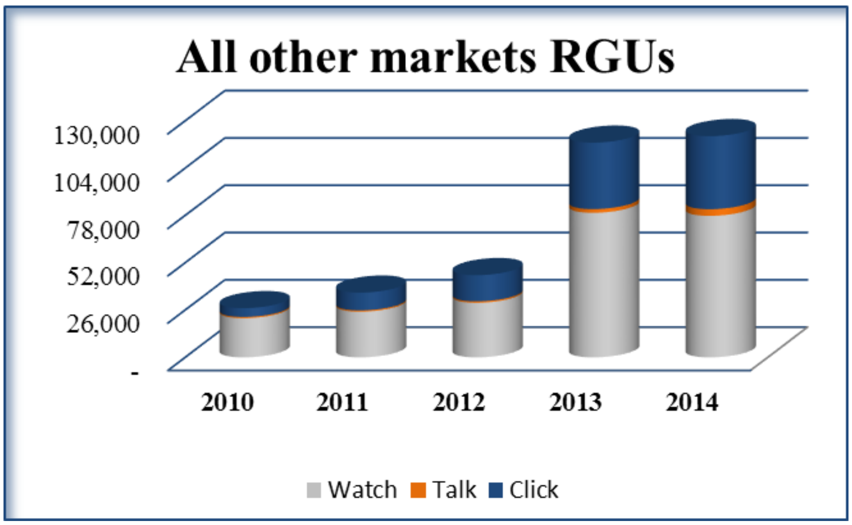
The table below sets out certain information with respect to our Flow services in **Barbados**:

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Watch customers | - | 7,131 | **14,580** |
| Talk customers | 1,596 | 6,652 | **16,366** |
| Click customers | 2,819 | 9,378 | **22,530** |
| Total customers | 4,415 | 23,161 | **53,476** |
| **Residential ARPU** | | | |
| Watch | $0.00 | $36.98 | **$52.87** |
| Talk | $20.34 | $13.20 | **$15.97** |
| Click | $52.24 | $30.21 | **$32.81** |
| Average watch churn | 0.00% | 70.00% | **1.70%** |
| Homes passed | 20 | 34,205 | **89,185** |
| Penetration rate | 0.00% | 20.85% | **16.35%** |



The table below sets out certain information with respect to our services in all other markets (Grenada, Curacao, Antigua and Barbuda, St. Lucia, and St. Vincent and the Grenadines):

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Watch customers | 21,542 | 25,109 | 30,012 | 79,461 | **77,786** |
| Talk customers | 689 | 717 | 803 | 2,032 | **3,658** |
| Click customers | 4,810 | 9,764 | 14,387 | 36,534 | **40,157** |
| Total customers | 27,041 | 35,590 | 45,202 | 118,027 | **121,601** |
| **Residential ARPU** | | | | | |
| Watch | $29.89 | $34.38 | $39.86 | $32.10 | **$32.63** |
| Talk | $43.38 | $30.04 | $39.42 | $19.26 | **$31.00** |
| Click | $31.51 | $39.30 | $40.94 | $33.44 | **$33.49** |
| Average watch churn | 0.3% | 0.5% | 0.7% | 1.6% | **2.5%** |
| Homes passed | 37,084 | 53,452 | 70,187 | 188,266 | **198,107** |
| Penetration rate | 58.09% | 46.97% | 42.76% | 42.21% | **39.26%** |



## Operating and Financial Results

*Operating Highlights and Significant Developments for 2014*

- Grew Flow revenue and EBITDA by 17% and 16% respectively in 2014
- Increased total RGUs to 711,424 – an increase of 73,819 units (12%) over 2013
- Continued strong growth related to Barbados build out – Increased homes passed to 89,185 – Increased RGUs to 53,476 from 23,161 in 2013

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

The following table sets out Revenue and EBITDA results for Flow:

| | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| | **(US $000)** | **(US $000)** |
| **Revenue** | | |
| Trinidad | **167,000** | 144,659 |
| Jamaica | **108,529** | 101,265 |
| Barbados | **25,287** | 11,975 |
| All other markets | **58,665** | 48,570 |
| | **359,481** | 306,469 |
| **EBITDA** | | |
| Trinidad | **85,360** | 76,363 |
| Jamaica | **37,725** | 34,576 |
| Barbados | **7,657** | 1,060 |
| All other markets | **17,454** | 16,249 |
| | **148,196** | 128,248 |

Total Flow revenue for the year ended December 31, 2014 increased by 17.3% to $359,481 compared to $306,469 in 2013.

Revenue from Trinidad for the year ended December 31, 2014 increased by 15.4% to $167,000 compared to $144,659 in 2013. The increase was driven partially by subscriber growth. Click customers grew by 13.7%, and total customers grew by 7.3% over the prior year. In addition, we have great success adding new CBS business. Total RGUs as of December 31, 2014 increased to 301,887 units from 281,228, units in 2013. Our ARPU in Trinidad was $45.57, $19.89 and $31.60 for watch, talk, and click services, respectively, as at December 31, 2014.

Revenue from Jamaica for the year ended December 31, 2014 increased by 7.2% to $108,529 compared to $101,265 in 2013. This increase was driven primarily by subscriber and an increase in CBS business. This growth is particularly noteworthy given the 7.2% devaluation in the Jamaican dollar in the last year. Our ARPU in Jamaica was $29.55, $13.45 and $23.46 for watch, talk, and click services, respectively, as at December 31, 2014.

Revenue from Barbados for the year ended December 31, 2014 was $25,287 compared to $11,975 in 2013. This increase was driven primarily by strong subscriber growth as we increase homes passed and increase penetration levels in the newly built areas. Our ARPU in Barbados was $52.87, $15.97 and $32.81 for watch, talk, and click services, respectively, as at December 31, 2014.

Revenue from all other regions for the year ended December 31, 2014 was $58,665 compared to $48,570 in 2013. The blended ARPU in all other regions was $32.63, $31.00 and $33.49 for watch, talk, and click services, respectively, as at December 31, 2014. During the year, we disconnected customers for non-payment and commenced an aggressive collection and reconnection program in certain of these other markets.

Total Flow EBITDA for the year ended December 31, 2014 increased by 15.6% to $148,196 compared to $128,248 in 2013.

EBITDA for Trinidad for the year ended December 31, 2014 increased by 11.8% to $85,360 compared to $76,363 in 2013. The increased EBITDA is directly related to the revenue growth noted above.

EBITDA for Jamaica for the year ended December 31, 2014 increased by 9.1% to $37,725 compared to $34,576 in 2013. The increased EBITDA for the year ended is directly related to the revenue growth noted above.

EBITDA for Barbados for the year ended December 31, 2014 was $7,657 compared to $1,060 in 2013.

EBITDA for all other entities for the year ended December 31, 2014 increased by 15.6% to $17,454 compared to $16,249 in 2013.

## 3. Consolidated Liquidity and Capital Resources

The following discussion presents our liquidity and capital resources on a consolidated basis.

***Cash Flows***

***Consolidated Statements of Cash Flows for the Year Ended December 31, 2014 and 2013:***

| | Year ended December 31 | |
|---|---|---|
| | **2014** | **2013** |
| | **(US $000)** | **(US $000)** |
| Net cash flows provided by operating activities | **39,645** | 93,520 |
| Net cash flows provided by financing activities | **276,723** | 109,767 |
| Net cash flows used in investing activities | **(327,132)** | (214,367) |
| Adjustment for change in foreign exchange | **5,356** | 2,195 |
| Net decrease in cash | **(5,408)** | (8,885) |
| Cash, beginning of year | **49,386** | 58,271 |
| Cash, end of year | **43,978** | 49,386 |

***Cash Flows from Operating Activities***

For the year ended December 31, 2014, cash flows provided by operating activities before changes in non-cash operating working capital was $35,934, compared to $100,381 in 2013. The $64,447 decrease is primarily the result of an increase in EBITDA of $33,979, offset by a decrease in net change in deferred revenue of $4,208, an increase in cash interest paid of $69,811, an increase of acquisition costs $3,064, an increase of taxes of $15,524 and an increase of employee related costs of $8,149. Other less significant items of $2,330 account for the remaining difference. After taking into account changes in non-cash working capital items (2014 – cash provided of $3,711; 2013 – use of cash of $6,861), cash flow used in operations was $39,645 compared to cash flow provided of $93,520 in 2013.

***Cash Flows from Financing Activities***

Cash flows provided by financing activities was $276,723 for the years ended December 31, 2014, compared to $109,767 in 2013. The cash flows provided for the years ended December 31, 2014 are as a result of an increase in interest-bearing loans and borrowings of $1,250,000, offset by $21,944 related issue costs, the repayment of previous outstanding facilities totaling $852,000, payment of cash dividends of $94,938 and payment of other liabilities of $4,395.

***Cash Flows from Investing Activities***

Cash flows used in investing activities was $327,132 for the year ended December 31, 2014, compared to $214,367 in 2013. The cash flows used includes $146,137 related to the acquisition of Lazus and $190,566 for additions of property, plant and equipment and intangible software, net of proceeds of $7,654 related to the disposal of an equity investment. Other less significant items totaling $1,917 make up the difference. The total property, plant and equipment and software additions for the year ended December 31, 2014 are $190,566 (Networks: $63,855, Flow: $125,448, Corporate: $1,263) compared to $163,050 in 2013 (Columbus Networks $52,482, Flow: $109,452, Corporate: $1,116)

The net decrease in cash for the year ended December 31, 2014 was $5,408 compared to $8,885 in 2013.

***Financial Condition and State of Liquidity***

As of December 31, 2014, we had, on a consolidated basis, $43,978 of cash.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This depends to a degree on general economic, financial, competitive, legislative, regulatory and other factors (such as satisfactory resolution of contingent liabilities) that are beyond our control.

Based on our current level of operations, expected revenue growth trends and anticipated cost management and operating improvements, we believe our future cash flow from operations, available cash and cash available from financing activities will be adequate to meet our future liquidity needs for at least the next twelve months, subject to the comments below on our ability to provide assurances with respect to the payment in full at maturity of our outstanding indebtedness.

We cannot assure you, however, that our business will generate sufficient cash flow from operations that currently anticipated cost savings and operating improvements will be realized on schedule, or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot provide assurances that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. Furthermore, we cannot provide any assurances that adverse conditions in global capital markets and adverse general economic conditions will not have a material adverse impact on our future operations and cash flows.

We monitor our capital structure on an ongoing basis and from time to time we consider financing and refinancing options to improve our capital structure and to enhance our financial flexibility. At any given time we may pursue a variety of financing opportunities, and our decision to proceed with any financing will depend, among other things, on prevailing market conditions, near term maturities and available terms.

In the long term, we expect our operating results and cash flows to continue to improve as a result of the continued growth of our enterprise, carrier data and indirect sales channel business, including the economies of scale expected to result from such growth, reduction in cash outlays related to property, plant and equipment as we finish our network build-out in various locations and from ongoing cost reduction initiatives, including initiatives to optimize the access network and effectively lower unit prices. Thus, in the long term we expect to generate positive cash flow from operating activities in an amount sufficient to fund all investing and financing requirements, subject to the possible need to refinance our existing major debt instruments described below in the section titled "Indebtedness". However, our ability to improve cash flows is subject to the risks and uncertainties described above in the section titled "Forward-Looking Statements" as well as the variability of quarterly liquidity discussed below. In the short-term, we expect our operating cash flow to exceed cash outlays for purchases of property and equipment. Our short-term liquidity and more specifically our quarterly liquidity expectations are, however, subject to considerable variability as a result of the timing of interest payments as well as the following factors:

- Working capital variability significantly impacts our cash flows and may cause our intra-quarter cash balances to drop to levels significantly lower than those prevailing at the end of a quarter.

- IRU sales are often large dollar transactions and are difficult to predict. During the years ended December 31, 2014 and 2013 we received $36,842 and $28,577 of cash receipts from the sale of IRUs and other related Deferred Revenue items, respectively.

- Adverse conditions in global credit markets and general economic conditions could cause customer buying patterns with us to change as a result of their cash conservation efforts, which could have an adverse impact on our cash flows. These adverse conditions could also adversely impact our working capital to the extent suppliers seek more timely payment from us or customers pay us on a less timely basis.

- Our liquidity may also be adversely affected if we settle or are found liable in respect of contingent legal, tax and other liabilities. The amount and timing of the resolution of these contingencies remain uncertain.

- Cash outlays for purchases of property and equipment vary significantly from quarter to quarter. We have the flexibility to reduce expected capital expenditures in future periods to conserve cash. However, the majority of our capital expenditures are directly related to customer requirements and ultimately generate long-term cash flows.

As a holding company, all of our revenue is generated by our subsidiaries, and substantially all of our assets are owned by our subsidiaries. As a result, we are dependent upon intercompany transfers of funds from our subsidiaries to meet our debt service and other payment obligations. Our subsidiaries are incorporated and operate in various jurisdictions throughout the Caribbean, Latin America and North America and are subject to legal and contractual restrictions affecting their ability to make intercompany funds transfers. Such legal restrictions may include prohibitions on paying dividends in excess of retained earnings (or similar minimum capitalization concepts under applicable law), which prohibition may apply to some of our subsidiaries given their history of operating losses, as well as foreign exchange controls on the conversion and expatriation of funds that are particularly prevalent in Latin America.

***Indebtedness***

As of December 31, 2014, we had interest-bearing loans and borrowings totaling $1,250,000. After deducting unamortized debt issuance costs totaling $19,702 and adding the bifurcated embedded derivative at initial recognition, less accretion of $2,842, we had a net reported amount of $1,233,140.

***Revised Prior Period Amounts***

As a result of a review conducted in conjunction with the transaction outlined in note 17 of the audited consolidated financial statements, we identified and corrected errors related to earlier periods in respect of the application of our interest capitalization policy and to the provision for bad debts. We determined that we should have capitalised financing costs to property, plant and equipment and intangible assets. As a result, we had understated the property, plant and equipment and intangible assets reported on our balance sheets and overstated financing costs, partially offset by amortization expense, for each period subsequent to the commencement of constructing the qualifying assets. In addition we should have allowed for uncollectible customer receivables and as a result, accounts receivable were overstated and operating costs were understated since 2012.

We have revised the comparative financial information for the year ended December 31, 2013. We have presented revised financial information for the comparative period.

To reflect the cumulative effect of the revisions related to the application of our interest capitalization policy, property, plant and equipment and intangible assets at December 31, 2013 were increased by $2,995 and $2,400, respectively. The cumulative impact of the understatement of the allowance for uncollectible customer receivables resulted in a decrease of $6,215 to accounts receivable at December 31, 2013. The consolidated balance sheet at December 31, 2013 has also been revised to reflect the cumulative effect of the errors described above. These revisions to the consolidated balance sheet resulted in (decreases) increases in closing accumulated deficit of $820 and opening accumulated deficit of ($1,736).

***Contractual Obligations***

The following table summarizes our contractual cash commitments as of December 31, 2014:

| | Total (US $000) | Less than 1 year (US $000) | 1-5 years (US $000) | More than 5 years (US $000) |
|---|---|---|---|---|
| Operating lease obligations | 79,726 | 24,097 | 51,891 | 3,738 |
| Interest-bearing loans and borrowings | 1,250,000 | - | - | 1,250,000 |
| Total | 1,329,726 | 24,097 | 51,891 | 1,253,738 |

***Quantitative and Qualitative Disclosures about Market Risk***

***Interest Rate Risk***

We are currently not exposed to material interest rate risk as all of its long-term obligations bear fixed interest rates.

***Exchange Rate Risk***

We are exposed to fluctuations of the U.S. dollar against certain other currencies. We publish consolidated financial statements in U.S. dollars while a significant proportion of our assets, liabilities, sales and costs are denominated in other currencies. We currently conduct business in several non-U.S. dollar currencies, including the Trinidad and Tobago dollar, the Jamaican dollar, the Eastern Caribbean dollar, Barbadian dollar, and others. Some of our customers may be subject to exchange control regulations restricting the conversion of their revenue currencies into U.S. dollars.

If necessary, we may protect our reported earnings from falling in U.S. dollar terms as a result of currency depreciation by periodically adjusting our local currency prices. However, there can be no assurance that a significant devaluation of currency against the U.S. dollar can be offset, in whole or in part, by a corresponding price increase, even over the long term. We seek to reduce our foreign exchange exposure arising from transactions through a policy of matching, as far as possible, assets and liabilities. Our ability to reduce our foreign currency exchange exposure may be limited by our ability to borrow in local currency. If local lenders are unwilling to lend to us, or local regulations prohibit borrowing in local currencies, we expect that financing for the later stages of the build-out may be financed from cash flows from operations, short-term borrowing or other financial arrangements. As of December 31, 2014 we have no debt in any currency other than US dollars. To some extent, the mix of currencies in which we conduct our businesses and the geographic spread of our operations provides us with some measure of protection against specific exchange rate movements and reduces the overall sensitivity of our results to specific exchange rate fluctuations. We do not generally hedge our foreign currency exposure because of the cost of purchasing financial instruments outweighs the benefits derived.

We are exposed to exchange rate risk resulting from sales and purchases in currencies other than their functional currency. Approximately 62% of our revenue for the year ended December 31, 2014 is denominated in currencies other than their functional currency and 45% of costs are denominated in currencies other than the functional currency.

***Credit Risk***

Financial instruments, which potentially subject us to credit risk, consist principally of cash and accounts receivable. Our exposure to credit risk arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments.

We maintain cash with major financial institutions and our management regularly monitors their composition and maturities. Cash include investments in interest-bearing deposits, which may be redeemed upon demand and bear minimal risk.

We provide telecommunications capacity and services to a wide range of customers, ranging from well-capitalized national carriers to smaller, early stage development companies and individual subscribers and extend credit to some of our customers.

Our management periodically evaluates credit exposure in the aggregate, and by individual credit. Management also periodically reviews the credit worthiness of our customers to ensure the overall quality of our credit portfolio. If the financial condition of an existing customer deteriorates to a point where payment for services is in doubt, we suspend the services and no revenues are recognized until cash is received.

***Off-Balance Sheet Arrangements***

We did not have any off-balance sheet arrangements as of December 31, 2014.

## 4. Accounting Policies

***Critical Accounting Policies, Estimates and Judgments***

Our audited consolidated financial statements have been prepared in accordance with IFRS. The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosures at the date of the financial statements and during the reporting period. Although these estimates are based on our knowledge of current events, our actual amounts and results could differ from those estimates. The estimates made are based on historical factors, current circumstances and the experience and judgments of our management, who continually review the judgments, estimates and assumptions and often engage outside experts to assist in the evaluations.

We have identified below the accounting policies that could potentially produce materially different results if there were changes to the underlying assumptions, estimates and judgments. For a detailed discussion of these and other accounting policies, see note 2 to our audited consolidated financial statements.

***Impairment of Non-financial Assets***

We have recorded significant values attributed to tangible and intangible assets. Intangible assets consist of licenses, subscriber lists, customer relationships, brand names, non-compete agreements, purchased software costs and goodwill. Significant estimates, assumptions and judgments are required to determine the expected useful life of these assets. We assess during each reporting period whether there is an indication that any asset may be impaired. These assessments can be significantly affected by changes in competition, technology and other factors. If any such indication exists, or at least annually for the intangibles with indefinite lives, we calculate the recoverable amount for each asset.

The recoverable amount is the higher of the asset's fair value less cost to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the cash flows are discounted to their present value using a pre-tax discount rate, such as the weighted average cost of capital, which reflects current market assessment of the time value of money and the risks specific to the asset.

***Income Taxes***

We are subject to income taxes in various jurisdictions. Certain estimates and assumptions are required to compute the provision for income taxes, the amounts of permanent and temporary differences and the likelihood of deferred tax assets being recovered. All revisions to the final tax outcome from the amounts that were initially calculated are recorded in income tax expense or recovery in the period in which they become known.

The current and deferred income taxes, and associated valuation allowances, are impacted by events and transactions arising in the normal course of operations as well as in connection with non-recurring transactions. Assessment of the appropriate amount and classification of income taxes is dependent on the estimates of the timing and the realization of deferred income tax on income and deductions. Actual realization of deferred tax assets and liabilities may materially differ from these estimates.

***Share-based Payments***

The cost of cash settled transactions related to key executive and management compensation agreements is measured initially at fair value at the grant date using a Black-Scholes Approach taking into account the terms and conditions upon which the instruments were granted. This requires complex and judgmental assumptions including stock price, employee exercise patterns (expected life of the options), estimated volatility and future forfeitures. The computation of expected volatility is based on an average of historical volatility from common shares of a group of comparable companies. The expected life of options granted is based on a simplified calculation of expected life as we do not have sufficient exercise history. Forfeiture rates are derived from historical employee termination behavior. If any of the assumptions used change significantly the share-based compensation expense may differ materially.

The fair value is expensed over the period until vested with recognition of a corresponding liability. The liability is re-measured at each balance sheet date up to and including the settlement date with changes in fair value recognized in profit or loss.

***Property, plant and equipment***

We amortize its property, plant and equipment over its useful life using a straight-line method. Significant judgments are required annually in order to determine the remaining useful life of the assets.

We capitalize labor costs and other overhead costs to property, plant and equipment as permitted under IAS 16. Significant judgments are required annually to determine the appropriate method for calculating the amount of capitalized overhead.

***New standards and interpretations issued but not yet effective***

A listing of new or amended International Financial Reporting Standards or Interpretations that have been issued but are not yet effective which the Company reasonably expects to be applicable at a future date have been disclosed in the notes to the financial statements. The Company intends to adopt those standards when they become effective.

## 5. Additional Financial Information

| | For the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | **2014** |
| **REVENUE** | | | | | |
| Columbus Networks | 127,660 | 155,146 | 179,459 | 205,914 | **249,230** |
| Flow | 173,404 | 211,252 | 250,413 | 306,469 | **359,481** |
| Eliminations | (2,124) | (2,366) | (2,696) | (7,670) | **(10,286)** |
| **Total revenue** | 298,940 | 364,032 | 427,176 | 504,713 | **598,425** |
| **EBITDA** | | | | | |
| Columbus Networks | 74,529 | 82,515 | 95,976 | 102,074 | **119,172** |
| Flow | 76,116 | 92,073 | 103,348 | 128,248 | **148,196** |
| Corporate and eliminations | (7,058) | (9,571) | (8,496) | (9,844) | **(8,879)** |
| **Total EBITDA** | 143,587 | 165,017 | 190,828 | 220,478 | **258,489** |