

**CABLE BAHAMAS LTD.**

**Consolidated Financial Statements For The  
Year Ended December 31, 2011  
And Independent Auditors' Report**

## **CABLE BAHAMAS LTD.**

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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of  
Cable Bahamas Ltd.:

We have audited the consolidated financial statements of Cable Bahamas Ltd. (the "Company") which comprise the consolidated statement of financial position as of December 31, 2011 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year 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 audit. We conducted our audit in accordance with International Standards on 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 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 Cable Bahamas Ltd. as of December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Deloitte & Touche*

April 4, 2012

# **CABLE BAHAMAS LTD.**

## **CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2011** *(Expressed in Bahamian dollars)*

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 6,844,224	\$ 11,607,018
Accounts receivable, net (Notes 4 and 16)	9,041,013	6,751,391
Prepaid expenses and deposits	886,384	1,631,192
Inventory	5,197,252	2,929,591
Current portion of long-term receivables (Notes 5 and 6)	-	3,322,347
Total current assets	<u>21,968,873</u>	<u>26,241,539</u>
<b>NON-CURRENT ASSETS:</b>		
Investment in SRG (Note 5)	-	4,566,732
Property, plant and equipment (Notes 7, 15 and 16)	171,689,326	162,568,919
Intangible assets (Notes 8 and 15)	19,954,433	4,873,829
Total non-current assets	<u>191,643,759</u>	<u>172,009,480</u>
<b>TOTAL</b>	<u><u>\$ 213,612,632</u></u>	<u><u>\$ 198,251,019</u></u>

See notes to consolidated financial statements.

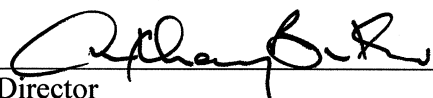
# CABLE BAHAMAS LTD.

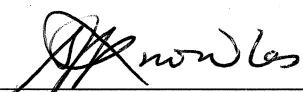
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2011 (Expressed in Bahamian dollars)

	2011	2010
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities (Note 16)	\$ 16,587,313	\$ 15,964,169
Deferred income	1,755,455	1,290,488
Current portion of long-term debt (Note 9)	5,914,991	4,584,597
Current portion of preferred shares (Note 10)	-	5,000,000
Total current liabilities	<u>24,257,759</u>	<u>26,839,254</u>
<b>NON-CURRENT LIABILITIES:</b>		
Subscriber deposits	5,969,828	5,754,294
Long-term debt (Note 9)	45,750,000	44,515,922
Preferred shares (Note 10)	<u>60,000,000</u>	<u>60,000,000</u>
Total non-current liabilities	<u>111,719,828</u>	<u>110,270,216</u>
Total liabilities	<u>135,977,587</u>	<u>137,109,470</u>
<b>EQUITY:</b>		
Ordinary share capital (Note 11)	13,593,419	19,631,824
Treasury shares (Note 11)	-	(85,919,645)
Retained earnings	<u>64,041,626</u>	<u>127,429,370</u>
Total equity	<u>77,635,045</u>	<u>61,141,549</u>
<b>TOTAL</b>	<u>\$ 213,612,632</u>	<u>\$ 198,251,019</u>

See notes to consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on March 28, 2012, and are signed on its behalf by:

  
Director

  
Director

# **CABLE BAHAMAS LTD.**

## **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED DECEMBER 31, 2011**

*(Expressed in Bahamian dollars)*

	<b>2011</b>	<b>2010</b>
REVENUE (Note 16)	\$ 99,850,666	\$ 88,862,436
OPERATING EXPENSES (Notes 14, 15 and 16)	<u>(55,651,011)</u>	<u>(46,935,995)</u>
	44,199,655	41,926,441
Depreciation and amortization (Notes 7 and 8)	<u>(16,825,903)</u>	<u>(14,724,412)</u>
OPERATING INCOME	27,373,752	27,202,029
Interest expense (Note 9)	(1,755,612)	(2,410,369)
Dividends paid on preferred shares (Note 10)	<u>(4,775,000)</u>	<u>(4,800,000)</u>
NET INCOME AND COMPREHENSIVE INCOME	<u>\$ 20,843,140</u>	<u>\$ 19,991,660</u>
BASIC AND DILUTED EARNINGS PER SHARE	<u>\$ 1.25</u>	<u>\$ 1.02</u>

See notes to consolidated financial statements.

## CABLE BAHAMAS LTD.

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2011

(Expressed in Bahamian dollars)

	Ordinary Share <u>Capital</u>	Treasury <u>Shares</u>	Retained <u>Earnings</u>	<u>Total</u>
Balance at December 31, 2009	\$ 19,631,824	\$ (85,017,607)	\$ 111,803,956	\$ 46,418,173
Net income and comprehensive income	-	-	19,991,660	19,991,660
Dividends paid on ordinary shares	-	-	(4,366,246)	(4,366,246)
Shares repurchased	-	(902,038)	-	(902,038)
Balance at December 31, 2010	19,631,824	(85,919,645)	127,429,370	61,141,549
Net income and comprehensive income	-	-	20,843,140	20,843,140
Dividends paid on ordinary shares	-	-	(4,349,644)	(4,349,644)
Shares cancelled	(6,038,405)	85,919,645	(79,881,240)	-
Balance at December 31, 2011	<u>\$ 13,593,419</u>	<u>\$ -</u>	<u>\$ 64,041,626</u>	<u>\$ 77,635,045</u>

See notes to consolidated financial statements.



# CABLE BAHAMAS LTD.

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011 (Expressed in Bahamian dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 20,843,140	\$ 19,991,660
Adjustments for:		
Depreciation and amortization (Notes 7 and 8)	16,825,903	14,724,412
Interest expense (Note 9)	1,755,612	2,410,369
Dividends on preferred shares (Note 10)	<u>4,775,000</u>	<u>4,800,000</u>
Operating cash flows before working capital changes	44,199,655	41,926,441
(Increase) decrease in accounts receivable, net	(737,197)	1,142,747
Decrease (increase) in prepaid expenses and deposits	744,808	(731,668)
Increase in inventory	(2,235,286)	(408,174)
(Decrease) increase in accounts payable and accrued liabilities	(3,394,410)	2,095,283
Increase in deferred income	339,121	85,366
Increase in subscriber deposits	<u>215,534</u>	<u>95,366</u>
Net cash from operating activities	<u>39,132,225</u>	<u>44,205,361</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment (Notes 7, 15 and 16)	(22,252,476)	(16,027,026)
Additions to deferred expenses (Note 8)	(2,896,825)	(1,218,953)
Additions to investment (Note 5)	-	(322,818)
Payment for acquisition of subsidiary (net of cash acquired) (Note 5)	(7,050,490)	-
Repayment of long-term receivables (Note 6)	-	317,064
Amortization of long-term receivables (Note 6)	<u>-</u>	<u>(331,461)</u>
Net cash used in investing activities	<u>(32,199,791)</u>	<u>(17,583,194)</u>

(Continued)

See notes to consolidated financial statements.

# CABLE BAHAMAS LTD.

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011 (Expressed in Bahamian dollars)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt (Note 9)	\$ 8,000,000	\$ -
Repayment of long-term debt (Note 9)	(5,435,528)	(23,644,619)
Decrease in funds held in escrow (Note 11)	-	83,800,000
Decrease in escrow funds payable	-	(80,000,000)
Shares repurchased (Note 11)	-	(902,038)
Redemption of preferred shares (Note 10)	(5,000,000)	(15,000,000)
Issuance of preferred shares (Note 10)	-	20,000,000
Interest on long-term debt (Note 9)	(1,755,612)	(2,410,369)
Dividends paid on preferred shares (Note 10)	(4,241,667)	(5,566,667)
Dividends paid on ordinary shares	<u>(3,262,421)</u>	<u>(4,366,246)</u>
Net cash used in financing activities	<u>(11,695,228)</u>	<u>(28,089,939)</u>
NET DECREASE IN CASH	(4,762,794)	(1,467,772)
CASH, BEGINNING OF YEAR	<u>11,607,018</u>	<u>13,074,790</u>
CASH, END OF YEAR	<u>\$ 6,844,224</u>	<u>\$ 11,607,018</u>

(Concluded)

See notes to consolidated financial statements.

# **CABLE BAHAMAS LTD.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** **YEAR ENDED DECEMBER 31, 2011** *(Expressed in Bahamian dollars)*

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### **1. GENERAL**

Cable Bahamas Ltd. (the "Company"), a public company, was incorporated on September 19, 1994, under the laws of The Commonwealth of The Bahamas.

The Company and its subsidiaries provide cable television and related services, national and international data services, Internet access services, telephony services, web hosting and business continuity services. The subsidiaries include Cable Freeport Ltd. ("Cable Freeport"), Caribbean Crossings Ltd. ("Caribbean"), Maxil Communications Ltd. ("Maxil"), Systems Resource Group Limited ("SRG") which are all incorporated under the laws of The Commonwealth of The Bahamas, and Cable Shares Trust (the "Trust"), which was created on November 30, 2009, under the laws of the Commonwealth of The Bahamas.

### **2. NEW AND REVISED INTERNATIONAL ACCOUNTING STANDARDS AND INTERPRETATIONS**

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB effective for annual reporting periods beginning on or after January 1, 2011. The adoption of these Standards and Interpretations has not led to any changes in the Company's accounting policies.

*a. Standards and Interpretations effective but not affecting the reported results or financial position*

- IFRS 3 (Amended) Business Combinations
- IAS 1 (Amended) Presentation of Financial Statements
- IAS 24 (Revised 2009) Related Party Disclosures
- IAS 32 (Amended) Classification of Rights Issue
- IAS 34 (Amended) Interim Financial Reporting
- IFRIC 13 (Amended) Customer Loyalty Programmes
- IFRIC 14 (Amended) Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The above standards have not led to changes in the financial position of the Company during the current year.

*b. Standards and Interpretations in issue but not yet effective*

- IFRS 7 (Amended) Financial Instruments: Disclosures - Transfers of Financial Assets
- IFRS 9 (Amended) Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities

IFRS 13	Fair Value Measurements
IAS 12	(Amended) Deferred Tax-Recovery of Underlying Assets
IAS 19	(Revised 2011) Employee Benefits
IAS 27	(Revised 2011) Consolidated and Separate Financial Statements
IAS 28	(Revised 2011) Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

Management has not assessed whether the relevant adoption of these standards and interpretations in future periods will have a material impact on the financial statements of the Company.

### 3. SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance** - These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, applied consistently for all periods presented.

The preparation of consolidated financial statements, in conformity with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**Basis of consolidation** - These consolidated financial statements for the year ended December 31, 2011 include the accounts of the Company and its wholly-owned subsidiaries, Cable Freeport, Caribbean, Maxil, SRG for 8 months and the Trust. All inter-company balances and transactions have been eliminated on consolidation.

**Basis of preparation** - These consolidated financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below:

- a. **Cash** - Cash comprises cash on hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.
- b. **Accounts receivable** - Accounts receivable are carried net of allowance for doubtful accounts. All subscriber receivables outstanding for 90 days or more are fully provided for. In addition, the credit quality of all subscriber receivables is monitored on a regular basis to determine whether any exceptions should apply to the policy and if any changes warrant an increase or decrease in the allowance for doubtful accounts.
- c. **Inventory** - Inventory items are recorded at lower of cost or net realizable value, with cost being determined using average cost. All inventory items are transferred to fixed assets or operating expenses accordingly, as they are placed into operation.

- d. **Property, plant and equipment** - Property, plant and equipment are carried at cost less accumulated depreciation and are depreciated on a straight-line basis over their estimated useful lives as follows:

Commercial buildings	40 years
Vehicles	3 years
Equipment	3 - 20 years
Cable systems	20 years
Fiber optic network	25 years
Web hosting systems	8 years

Improvements that extend asset lives, and costs associated with the construction of cable and data transmission and distribution facilities, including direct labour and materials, are capitalized. Other repairs and maintenance costs are expensed as incurred.

- e. **Intangible assets** - Intangible assets are carried at cost less accumulated amortization and net of any adjustment for impairment, and consist of the following:

- *Acquired franchise license* - Acquired franchise license is being amortized on a straight-line basis over a period of 40 years. A period of 40 years has been selected because the Company has acquired an exclusive cable operating license through to the year 2054.
- *Acquired Internet contracts* - Acquired Internet contracts are amortized on a straight-line basis over a period of 10 years through to the year 2014.
- *Communications license* - All of the cost associated with the new license are being amortized on a straight-line basis over the term of the license which expires in the year 2024.
- *Acquired licenses* - Acquired communications and spectrum licenses are being amortized on a straight line basis over the term of the licenses which expire in the year 2024.

The estimated useful lives and amortization methods are reviewed at each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis.

- f. **Long-term receivables** - Long-term receivables were carried at amortized cost net of any adjustments for impairment and consisted of the following:

- *Finance lease receivable* - Amounts due under finance leases were recorded as receivables equal to the Company's net investment in the lease.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the lease.

- *Promissory note receivable* - Promissory note receivable was carried at amortized cost.

- g. **Impairment of assets** - At each statement of financial position date, management reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. Any impairment loss is recognized as an expense immediately.
- h. **Deferred income** - Payments received in advance from subscribers are treated as deferred income and are recognized as income when earned.
- i. **Subscriber deposits** - In the normal course of its operations, the Company requires its customers to make deposits relating to services contracted. These deposits are repayable to the customer on termination of contracted services, net of any outstanding amounts due.
- j. **Foreign currency translation** - Assets and liabilities in other currencies have been translated into Bahamian dollars at the appropriate rates of exchange prevailing as of year end. Income and expense items have been translated at the actual rates on the date of the transaction and translation changes are recorded in the consolidated statement of comprehensive income.
- k. **Borrowing costs** - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets until such time as those assets are ready for their intended use. The costs are added proportionately to the qualifying assets over the period in which the assets are being acquired, constructed or produced.
- l. **Financial Instruments:**
  - **Financial assets** - Financial assets are designated as either, a) financial assets at fair value through profit or loss, b) held-to-maturity, c) loans and receivables and or d) available for sale. All financial assets are carried at fair value or at cost if they have no quoted market price in an active market or the fair value cannot be reliably measured.
- m. **Basic and diluted earnings per share** - Net comprehensive income per ordinary share is calculated by dividing net comprehensive income for the year by the weighted average number of ordinary shares outstanding during the year. There are no dilutive items and thus there is no difference between the basic and diluted earnings per share.
- n. **Retirement benefit costs** - Employer's contributions made to the defined contribution retirement benefit plan are charged as an expense as they fall due.
- o. **Share-based payment** - The Company had until December 31, 2011 a cash-settled share based incentive plan for key management and executive employees. Services acquired and the liability incurred in relation to the plan were measured at fair value over the term of the plan with changes in fair value recognized in profit or loss in the period incurred. The fair value of the liability was determined using the Black Scholes Option pricing model.
- p. **Related parties** - Related parties include shareholders with shareholdings of 10% or greater of outstanding common shares, senior executive officers, directors, and companies that are controlled by these parties.

q. **Revenue recognition** - Revenue from the sale of services is recognized when the installation of the services is completed or when revenue is earned. Depending on the installation completion date, revenue is recognized on a pro rata basis in the period in which the installation occurs.

r. **Critical accounting judgments and key sources of estimation uncertainty** - In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

s. **Operating leases** - The Company rents poles and other support structures under operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

#### 4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net comprise of the following:

	2011	2010
Subscribers	\$ 8,925,762	\$ 6,900,509
Other	<u>913,341</u>	<u>499,972</u>
	9,839,103	7,400,481
Allowance for doubtful accounts	<u>(798,090)</u>	<u>(649,090)</u>
	<u>\$ 9,041,013</u>	<u>\$ 6,751,391</u>

Ageing of past due but not impaired:

	2011	2010
30 - 60 days	\$ 4,062,581	\$ 3,813,229
60 - 90 days	<u>1,417,412</u>	<u>1,285,784</u>
	<u>\$ 5,479,993</u>	<u>\$ 5,099,013</u>

The movement of allowance for doubtful accounts is as follows:

	2011	2010
Balance at beginning of year	\$ 649,090	\$ 669,090
Amounts written off during the year	(342,211)	(404,378)
Amounts recovered during the year	37,724	29,419
Allowance recognized in the consolidated statement of comprehensive income	<u>453,487</u>	<u>354,959</u>
Balance at the end of the year	<u>\$ 798,090</u>	<u>\$ 649,090</u>

Ageing of impaired trade receivables is as follows:

90 - 120 days	\$ 357,976	\$ 232,345
Greater than 120 days	<u>495,409</u>	<u>410,548</u>
	<u>\$ 853,385</u>	<u>\$ 642,893</u>

## 5. INVESTMENT IN SRG

The Company completed the acquisition of all the issued and outstanding shares in the capital of SRG, a licensed telecommunications operator. The total consideration for the acquisition was \$15 million inclusive of the option and associated costs of \$4.6 million. The total cash paid in 2011 was \$10.4 million, which net of cash acquired at closing was \$7.1 million. The Company received all the necessary Utilities Regulation and Competition Authority (URCA) and Federal Communications Commission (FCC) regulatory approvals prior to closing the transaction on May 2, 2011. The fair market value of the net assets at the time of purchase approximated \$2.1 million and intangible assets were \$12.9 million. All outstanding balances between both parties including the finance lease receivable and promissory note receivable were settled at closing.

## 6. LONG-TERM RECEIVABLES

Long-term receivables were due from SRG and comprised the following:

	2011	2010
Finance lease receivable	\$ -	3,125,136
Promissory note receivable	<u>-</u>	<u>197,211</u>
	-	3,322,347
Less: current portion	<u>-</u>	<u>(3,322,347)</u>
	<u>\$ -</u>	<u>\$ -</u>



***Finance lease receivable***

	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>Minimum Lease Payments</b>		<b>Present Value of Minimum Lease Payments</b>	
Amounts receivable under finance lease:				
Within one year	\$ -	\$ 3,293,661	\$ -	\$ 3,095,908
In the second year	-	-	-	-
	-	3,293,661	-	3,095,908
Less: unearned finance income	-	(168,525)	-	-
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ 3,125,136</b>	<b>\$ -</b>	<b>\$ 3,095,908</b>

## 7. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment during the year is as follows:

	<u>Land</u>	<u>Commercial Buildings</u>	<u>Vehicles</u>	<u>Equipment</u>	<u>Cable Systems</u>	<u>Fiber Optic Network</u>	<u>Web Hosting Systems</u>	<u>Total</u>
COST:								
Balance at December 31, 2009	\$ 1,928,748	\$ 30,812,518	\$ 1,614,590	\$ 30,111,262	\$ 145,897,615	\$ 26,527,053	\$ 591,921	\$ 237,483,707
Additions	-	158,002	876,107	3,227,242	11,765,675	-	-	16,027,026
Transfer of assets	-	-	-	(86,542)	-	86,542	-	-
Disposals	-	-	(555,479)	(187,402)	-	-	-	(742,881)
Balance at December 31, 2010	1,928,748	30,970,520	1,935,218	33,064,560	157,663,290	26,613,595	591,921	252,767,852
Additions	-	238,533	1,497,750	8,631,004	11,885,189	-	-	22,252,476
Transfer of assets	-	86,799	13,895	8,203,692	-	-	-	8,304,386
Disposals	-	-	(632,393)	(1,346,625)	-	-	(21,266)	(2,000,284)
Balance at December 31, 2011	<u>\$ 1,928,748</u>	<u>\$ 31,295,852</u>	<u>\$ 2,814,470</u>	<u>\$ 48,552,631</u>	<u>\$ 169,548,479</u>	<u>\$ 26,613,595</u>	<u>\$ 570,655</u>	<u>\$ 281,324,430</u>
ACCUMULATED DEPRECIATION:								
Balance at December 31, 2009	\$ -	\$ 3,391,404	\$ 1,080,902	\$ 7,143,580	\$ 54,730,959	\$ 9,572,751	\$ 548,343	\$ 76,467,939
Depreciation	-	760,455	573,137	4,706,171	7,361,001	1,064,563	8,548	14,473,875
Transfer of assets	-	-	-	26,489	-	(26,489)	-	-
Disposals	-	-	(555,479)	(187,402)	-	-	-	(742,881)
Balance at December 31, 2010	-	4,151,859	1,098,560	11,688,838	62,091,960	10,610,825	556,891	90,198,933
Depreciation	-	779,884	806,170	4,511,141	8,888,702	1,068,000	8,470	16,062,367
Transfer of assets	-	81,966	13,895	5,278,227	-	-	-	5,374,088
Disposals	-	-	(632,393)	(1,346,625)	-	-	(21,266)	(2,000,284)
Balance at December 31, 2011	<u>\$ -</u>	<u>\$ 5,013,709</u>	<u>\$ 1,286,232</u>	<u>\$ 20,131,581</u>	<u>\$ 70,980,662</u>	<u>\$ 11,678,825</u>	<u>\$ 544,095</u>	<u>\$ 109,635,104</u>
CARRYING VALUE:								
As at December 31, 2011	<u>\$ 1,928,748</u>	<u>\$ 26,282,143</u>	<u>\$ 1,528,238</u>	<u>\$ 28,421,050</u>	<u>\$ 98,567,817</u>	<u>\$ 14,934,770</u>	<u>\$ 26,560</u>	<u>\$ 171,689,326</u>
As at December 31, 2010	<u>\$ 1,928,748</u>	<u>\$ 26,818,661</u>	<u>\$ 836,658</u>	<u>\$ 21,375,722</u>	<u>\$ 95,571,330</u>	<u>\$ 16,002,770</u>	<u>\$ 35,030</u>	<u>\$ 162,568,919</u>

As at December 31, 2011, management has analyzed the Company's property, plant and equipment and concluded that there is no known impairment of these assets that exists. Among the factors considered in making this assessment are the nature of the asset and its use, the going concern assumption, and the absence of any obsolescence indications.

## 8. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Acquired Franchise License	Communications License	Acquired Internet Contracts	Acquired Licenses	Total
<b>COST</b>					
Balance at December 31, 2010	\$ 5,221,248	\$ 1,218,953	\$ 1,200,000	\$ -	\$ 7,640,201
Additions	-	2,896,825	-	12,947,315	15,844,140
Balance at December 31, 2011	<u>\$ 5,221,248</u>	<u>\$ 4,115,778</u>	<u>\$ 1,200,000</u>	<u>\$ 12,947,315</u>	<u>\$ 23,484,341</u>
<b>AMORTIZATION</b>					
Balance at December 31, 2010	\$ 2,046,372	\$ -	\$ 720,000	\$ -	\$ 2,766,372
Amortization for the year	<u>130,536</u>	<u>133,000</u>	<u>120,000</u>	<u>380,000</u>	<u>763,536</u>
Balance at December 31, 2011	<u>\$ 2,176,908</u>	<u>\$ 133,000</u>	<u>\$ 840,000</u>	<u>\$ 380,000</u>	<u>\$ 3,529,908</u>
<b>CARRYING VALUE:</b>					
December 31, 2011	<u>\$ 3,044,340</u>	<u>\$ 3,982,778</u>	<u>\$ 360,000</u>	<u>\$ 12,567,315</u>	<u>\$ 19,954,433</u>
December 31, 2010	<u>\$ 3,174,876</u>	<u>\$ 1,218,953</u>	<u>\$ 480,000</u>	<u>\$ -</u>	<u>\$ 4,873,829</u>

In 2010 the Company began the recognition of costs required to fully utilize its Communications License and enter the voice market, as an intangible asset. These cost included all professional services, related regulatory and digitalization cost incurred to meet URCA obligations.

The costs recognized during the year totaled \$2,896,825 (2010: \$1,218,953). Amortization started February 2011 and will continue over the remaining life of the license, being 14 years on a straight line basis. This treatment follows the guidelines set forth in IAS 38.

Intangible assets acquired as a part of the acquisition of SRG included Spectrum and Communications Licenses, collectively the "Acquired Licenses". The Spectrum license was granted on November 23, 2009 for a period of 15 years and allows SRG to use the Assigned Radio Spectrum in The Commonwealth of The Bahamas. The Communication License was granted on November 23, 2009 for a period of 15 years and allows the licensee within, into, from and through The Bahamas a right to provide Carriage Services and to establish, maintain and operate one or more networks. The value of the spectrum was calculated to be \$6.9 million and the communication license \$6.0 million. Both licenses are being amortized over the remaining term of the licenses being 13.5 years on a straight line basis. As these licenses are of a similar nature, and have the same term, for reporting and disclosure purposes they will be classed together as Acquired Licenses. This treatment follows the guidelines of IAS 38.

The primary reason for the purchase of SRG was to increase the Company's presence and take advantage of opportunities in a fully liberalized communications market. The total value of the intangible assets acquired was \$12.9 million.

Net tangible assets and liabilities acquired included:

Cash	<u>\$ 3,382,186</u>
Accounts receivable	<u>\$ 1,552,425</u>
Inventories	<u>\$ 32,375</u>
Property, plant and equipment	<u>\$ 2,930,298</u>
Accounts payable	<u>\$ 2,851,025</u>
Unearned revenue	<u>\$ 125,846</u>
Current portion of notes receivable	<u>\$ 109,562</u>
Current portion of finance lease	<u>\$ 2,758,758</u>

Audited results for the 16 month period from January 1, 2010 to April 30, 2011 was:

Revenue	<u>\$ 12,857,599</u>
Net profit	<u>\$ 1,022,587</u>

## 9. LONG-TERM DEBT

The Company has a US Dollar senior credit facility with two syndicated banks, comprised of a term and revolver facility. The Company also has in place a mortgage on its corporate office complex. The loans are secured by a First Registered Demand Debenture creating a fixed and floating charge over all assets of the Company and its subsidiaries, guarantees and postponement of claims from Maxil, Caribbean, Cable Freeport and SRG and assignment of insurance policies over the assets of the Company and its subsidiaries. The total amount owing of \$51,664,991 (2010: \$49,100,519) under the loans bear interest at (a) LIBOR or Base Rate Advance plus applicable margins ranging from 1.5% to 3.5% for the US Dollar portions and; (b) Nassau Prime rate plus applicable margins ranging from 1.5% to 2.5% for the Bahamian Dollar portion. The margins applied are determined based on the Company's leverage ratio.

The loans are repayable in monthly and quarterly principal installments. Based upon the outstanding principal balance of \$51,664,991 at December 31, 2011, the aggregate maturities are as follows:

Year	
2012	\$ 5,914,991
2013	7,000,000
2014	<u>38,750,000</u>
	<u>\$ 51,664,991</u>

## 10. PREFERRED SHARES

Preferred shares consist of the following:

	2011	2010
<i>CABLE BAHAMAS PREFERRED SHARES:</i>		
Authorized:		
10,000 shares par value B\$1,000		
25,000,000 shares par value B\$0.01		
Issued: 10,000 shares par value B\$1,000		
7% Series Three cumulative redeemable preferred shares at B\$1,000	\$ -	\$ 10,000,000
Less: liquidation redemption paid on 10,000 shares	-	(10,000,000)
Issued: 4,000,000 shares par value B\$0.01		
8% Series Four cumulative redeemable convertible preferred shares at B\$10	40,000,000	40,000,000
Issued: 20,000 shares par value B\$0.01		
7% Series Five cumulative redeemable preferred shares at B\$1,000	<u>20,000,000</u>	<u>20,000,000</u>
Sub-total	<u>60,000,000</u>	<u>60,000,000</u>
	<b>2011</b>	<b>2010</b>
<i>CARIBBEAN CROSSINGS PREFERRED SHARES:</i>		
Authorized: 10,000,000 shares of B\$0.01 per share:		
Issued and outstanding, beginning of year:		
Nil (2010: 500,000) 8% Series A cumulative redeemable preferred shares at B\$10	\$ -	\$ 5,000,000
Less: liquidation redemption paid Nil (2010: 500,000) shares	<u>-</u>	<u>(5,000,000)</u>
Issued and outstanding, end of year:		
Nil (2010: Nil) shares	-	-
Issued: 500,000 7% Series B cumulative redeemable preferred shares at B\$10	5,000,000	5,000,000
Less: liquidation redemption paid on 500,000 (2010: 500,000) shares	<u>(5,000,000)</u>	<u>-</u>
	<u>-</u>	<u>5,000,000</u>
Sub-total	60,000,000	65,000,000
Less: current portion	<u>-</u>	<u>(5,000,000)</u>
TOTAL LONG-TERM PORTION	<u>\$ 60,000,000</u>	<u>\$ 60,000,000</u>

The 7% Series Three preferred shares were redeemed on July 1, 2010.

The 8% Series Four preferred shares were convertible into ordinary shares of the Company at \$13.43 per ordinary share until August 31, 2011 and do not carry voting rights; to this date none were converted. The Series Four shares pay dividends semi-annually and redemption of all non-converted shares will begin on August 31, 2015 and will continue on each August 31 thereafter through and including August 31, 2019.

The 7% Series Five preferred shares were issued on July 1, 2010. These shares do not carry voting rights and pay dividends semi-annually. The Company has the option to redeem the Series Five preferred shares after the second anniversary of the issue.

Caribbean Crossings 7% Series B preferred shares were redeemed July 1, 2011.

Management has estimated that the fair value of the Company's redeemable preferred shares approximates its stated amount of \$60,000,000 since its dividend rate is comparable to current market rates.

## 11. ORDINARY SHARE CAPITAL

Ordinary share capital is comprised of the following:

	2011	2010
Authorized: 20,000,000 ordinary shares of B\$1 each	<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>
Issued and fully paid	<u>\$ 13,593,419</u>	<u>\$ 19,631,824</u>

During the year the Cable Shares Trust, a Special Purpose Entity that held 5,074,805 shares, was terminated and all shares were cancelled. The actual number of shares outstanding as at December 31, 2011 was 13,593,419 (2010: 19,631,824) and the weighted average number of shares outstanding as of December 31, 2011 was 16,634,022 (2010: 19,631,824).

## 12. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is involved in legal actions for which management is of the opinion that accrued liabilities are sufficient to meet any obligations that may arise there from. The Company has a facility for Corporate Visas, letters of credit and letters of guarantee in the amount of \$1,100,000 (2010: \$200,000).

## 13. LICENSES AND AGREEMENTS

### *Communications License*

In 1994 the Government of The Bahamas issued to the Company a license and a franchise for a period of 15 years to establish, maintain and operate a cable television system throughout the Bahamas, exclusive of Freeport, Grand Bahama. This license expired on October 13<sup>th</sup> 2009 and a new individual operating license and an individual spectrum license was issued to the Company and its subsidiaries, for 15 years. On February 3, 2011 URCA confirmed that the Company had met all of its Significant Market Power (SMP) obligations and was therefore now able to move into other markets. As a result, this license allows the Company to provide any network or carriage services in accordance with the conditions of the license.

SRG holds both a Spectrum and Communications license that enables it to provide network or carriage services in accordance with the conditions of the license. The Spectrum license permits SRG to use the Assigned Radio Spectrum in the Territory, or where no Territory is specified throughout the Commonwealth of The Bahamas. Both licenses are valid for a period of 15 years from the commencement date of November 23, 2009.

#### *Grand Bahama Port Authority License*

Cable Freeport is licensed by the Grand Bahama Port Authority to exclusively conduct its cable television business in the Freeport area through the year 2054. During the term of the license agreement, Cable Freeport is required to pay license fees calculated as a percentage of revenue on a sliding scale basis.

SRG is also licensed by the Grand Bahamas Port Authority to provide telecommunication service in the Freeport area to June 2012. SRG is also required to pay annual license fees.

#### *Federal Communications Commission license*

Caribbean was granted a cable landing license by the Federal Communications Commission to land and operate two private fiber optic submarine cable systems, the Bahamas Internet Cable System, extending between The Bahamas and the United States.

Trinity Communication Ltd., a wholly-owned subsidiary of Caribbean, and SRG hold Section 214 Common Carrier licenses from the Federal Communications Commission. These licenses allow for the resale of telecommunication services within the United States.

#### *Utility agreements*

Under the terms of agreements with the Bahamas Electricity Corporation and Grand Bahama Power Company Ltd., the Company rents poles and other support structures.

## **14. OPERATING EXPENSES**

Operating expenses consist of the following:

	<b>2011</b>	<b>2010</b>
Programming	\$ 12,568,914	\$ 10,235,051
Administrative	11,855,195	12,133,026
Technical	9,398,636	8,054,044
Network services	9,332,676	7,944,330
Government and regulatory fees	7,799,243	6,019,053
Marketing	<u>4,696,347</u>	<u>2,550,491</u>
	<u><b>\$ 55,651,011</b></u>	<u><b>\$ 46,935,995</b></u>

## 15. EMPLOYEE COMPENSATION

Included in intangible assets, property, plant and equipment and operating expenses is employee compensation totaling \$1,856,179, \$2,582,330 and \$12,810,648 respectively (2010: Nil, \$3,298,816 and \$15,150,386 respectively).

The Company is a participant in an externally managed pension plan. Under the terms of this defined contribution plan, the Company matches employee contributions to the plan up to a maximum of 5% of salary for its staff and 12.5% for executive management. During 2011, the Company's contribution to the plan amounted to \$615,320 (2010: \$594,915).

Up to the end of 2011 the Company had in place a share appreciation rights (SARs) plan that required the Company to pay the intrinsic value of the SARs to the employee at the date of exercise. Participation in the plan was determined based on certain criteria as approved by the Board of Directors and members of the plan were granted participation units which vested in increments over a 5-year period. Any vested units which remain after any vested period was carried over to the subsequent period up to the expiry date of the plan. Any units not exercised by the expiry date became void. The units did not represent shares in the Company and as such employees were not granted ownership rights through this plan. The units were also not entitled to receive dividends.

The value of the units at the time of exercise was calculated using the difference in the exchange quoted market price of the Company's shares on the grant date and the exercise date, times the number of applicable units. During the year no additional rights were granted and Nil (2010: 212,000) were exercised. At year end there were Nil (2010: 217,000) units outstanding. The fair value of the vested units, which was determined using the Black-Scholes option pricing model, was Nil (2010: \$64,486).

## 16. RELATED PARTY BALANCES AND TRANSACTIONS

Compensation of directors and key executive personnel:

	2011	2010
Short-term benefits	\$ 1,379,486	\$ 1,436,504
Post employment benefits	66,495	42,178
Share appreciation rights	-	13,690
	<u>\$ 1,445,981</u>	<u>\$ 1,492,372</u>

Total remuneration of directors and key executive personnel is determined by the compensation committee of the board of directors having regard to qualifications, performance and market trends. These balances are included in the operating expenses in the consolidated statement of comprehensive income.



Other related party balances and transactions:

	2011	2010
Revenue	\$ <u>114,967</u>	\$ <u>103,529</u>
Accounts receivable, net	\$ <u>6,953</u>	\$ <u>13,975</u>
Property, plant and equipment	\$ <u>306,529</u>	\$ <u>88,787</u>
Accounts payable and accrued liabilities	\$ <u>100,978</u>	\$ <u>66,992</u>
Operating expenses	\$ <u>507,389</u>	\$ <u>346,726</u>

## 17. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value is the amount for which an asset can be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or need to liquidate, or curtail materially the scale of its operations or undertake a transaction on adverse terms.

In the opinion of management, with the exception of its investment, which is carried at cost, the estimated fair value of financial assets and financial liabilities, (which are the Company's cash, accounts receivable, inventory, prepaid expenses, intangible assets, current and non-current liabilities) at the consolidated statement of financial position date were not materially different from their carrying values either due to:

- a. their immediate or short-term maturity;
- b. interest rates that approximate current market rates or
- c. carrying amounts that approximate or equal market value.

## 18. SEGMENT INFORMATION

The details of the various service segments are as follows:

2011	Cable						Consolidated
	<u>Cable</u>	<u>Freeport</u>	<u>Caribbean</u>	<u>Maxil</u>	<u>SRG</u>	<u>Eliminations</u>	<u>Totals</u>
Revenue from external customers	\$ 66,513,751	\$ 11,527,328	\$ 13,308,391	\$ 827,526	\$ 7,673,670	\$ -	\$ 99,850,666
Intersegments revenues	\$ 224,256	\$ -	\$ -	\$ -	\$ -	\$ (224,256)	\$ -
Interest expense/(Income)	\$ 1,759,952	\$ -	\$ (6,402)	\$ 945	\$ 2,062	\$ (945)	\$ 1,755,612
Depreciation and amortization	\$ 11,940,582	\$ 2,189,309	\$ 2,174,000	\$ 8,470	\$ 513,542	\$ -	\$ 16,825,903
Reportable segment profit	\$ 7,666,886	\$ 3,462,391	\$ 7,164,399	\$ 527,744	\$ 2,021,720	\$ -	\$ 20,843,140
Reportable segment assets	\$ 98,825,659	\$ 44,974,063	\$ 64,834,700	\$ 499,198	\$ 4,479,012	\$ -	\$ 213,612,632
Expenditures	\$ 40,771,532	\$ 5,875,628	\$ 3,801,394	\$ 290,367	\$ 5,136,346	\$ (224,256)	\$ 55,651,011
Reportable segment liabilities	\$ 129,680,333	\$ 2,176,791	\$ 571,101	\$ 144,163	\$ 3,405,199	\$ -	\$ 135,977,587

2010	Cable						Consolidated
	<u>Cable</u>	<u>Freeport</u>	<u>Caribbean</u>	<u>Maxil</u>	<u>SRG</u>	<u>Eliminations</u>	<u>Totals</u>
Revenue from external customers	\$ 64,111,036	\$ 10,861,240	\$ 13,148,734	\$ 741,426	\$ -	\$ -	\$ 88,862,436
Intersegments revenues	\$ 224,256	\$ -	\$ -	\$ -	\$ -	\$ (224,256)	\$ -
Interest expense/(Income)	\$ 2,446,249	\$ -	\$ (35,880)	\$ 19,234	\$ -	\$ (19,234)	\$ 2,410,369
Depreciation and amortization	\$ 11,135,579	\$ 1,330,536	\$ 2,249,749	\$ 8,548	\$ -	\$ -	\$ 14,724,412
Reportable segment profit	\$ 8,241,350	\$ 4,367,004	\$ 6,950,769	\$ 432,537	\$ -	\$ -	\$ 19,991,660
Reportable segment assets	\$ 94,339,531	\$ 40,954,530	\$ 62,904,248	\$ 52,710	\$ -	\$ -	\$ 198,251,019
Expenditures	\$ 38,281,348	\$ 5,163,700	\$ 3,434,096	\$ 281,107	\$ -	\$ (224,256)	\$ 46,935,995
Reportable segment liabilities	\$ 129,459,356	\$ 1,619,647	\$ 5,805,048	\$ 225,419	\$ -	\$ -	\$ 137,109,470

## 19. RISK MANAGEMENT

There are a number of risks inherent in the telecommunications and cable television industry that the Company manages on an ongoing basis. Among these risks, the more significant are credit, operational, foreign exchange, liquidity, interest rate risk and capital risks.

**Credit risk** - Credit risk arises from the failure of a counterparty to perform according to terms of contracts. From this perspective, the Company's significant exposure to credit risk is primarily concentrated with customer accounts receivable, investments and balances due from related and affiliated parties. Customer deposits are maintained until the services are terminated to offset any outstanding balances due to the Company. In order to limit the amount of credit exposure, accounts in arrears for over 60 days are disconnected. Cash and investments are predominantly in Bahamian dollars and have been placed with high quality financial institutions. Balances due from related and affiliated parties are monitored on an on-going basis and are subject to offset at management's discretion.

**Operational risk** - Operational risk is the potential for loss resulting from inadequate or failed internal processes or systems, human error or external events not related to credit, market or liquidity risks. The Company manages this risk by maintaining a comprehensive system of internal control, including organizational and procedural controls. The systems of internal control include written communication of the Company's policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel and sound accounting policies, which are regularly updated. These controls are designed to provide the Company with reasonable assurance that assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and the Company is in compliance with all regulatory requirements.

**Foreign currency risk** - The Company is exposed to foreign exchange risk arising from the payables denominated in US dollars and the portions of the long-term debt which is denominated in US dollars. However the company receives revenue in US dollars and mitigates this risk by utilizing funds received in US dollars to pay the US dollar invoices. The Company has no significant concentrations of assets and/or liabilities denominated in other currencies. The Company manages these positions by matching assets with liabilities wherever possible.

**Liquidity risk** - Liquidity risk reflects the risk that the Company will not be able to meet an obligation when it becomes due or honor a credit request to a customer and/or related party. The Company maintains a satisfactory portion of its assets in cash and other liquid assets to mitigate this risk. In addition, the Company keeps its trade payables within agreed upon terms with its vendors. On a daily basis, the Company monitors its cash and other liquid assets to ensure that they sufficiently meet the Company's liquidity requirements.

**Interest rate risk** - Interest rate risk is the potential for a negative impact on the consolidated statement of financial position or the consolidated statement of comprehensive income arising from adverse changes in the value of financial instruments as a result of changes in interest rates. The Company manages interest cost using a mixture of fixed-rate and variable-rate debt.

**Capital risk management** - The Board of Directors manages the Company's capital to ensure that it has a strong capital base to support the development of its business. The Board of Directors seeks to maximize the return to shareholders through optimization of the Company's debt and equity balance. The Company's risk management structure promotes making sound business decisions by balancing risk and reward. The Directors promote revenue generating activities that are consistent with the Company's risk appetite, policies and the maximization of shareholder return. The capital structure of the Company consists of preference shares and equity attributable to the common equity holders of the Company, comprising issued capital and retained earnings as disclosed in notes 10 and 11. The Board of Directors reviews the capital structure at least annually. As part of this review, the Board considers the cost of the capital and the risks associated with each class of capital. Based on recommendations of the Board, the Company manages its capital structure through the payment of common and preference dividends, the redemption of preferred shares, ordinary share purchases through normal course issuer and bids and the restructuring of the capital base. The Company's strategy is unchanged from 2010.

## **20. SUBSEQUENT EVENT**

On March 30, 2012 the Company paid a dividend of \$0.08 per share to its ordinary shareholders of a record date March 15, 2012. The total dividend paid was \$1,087,473.52.

\* \* \* \* \*