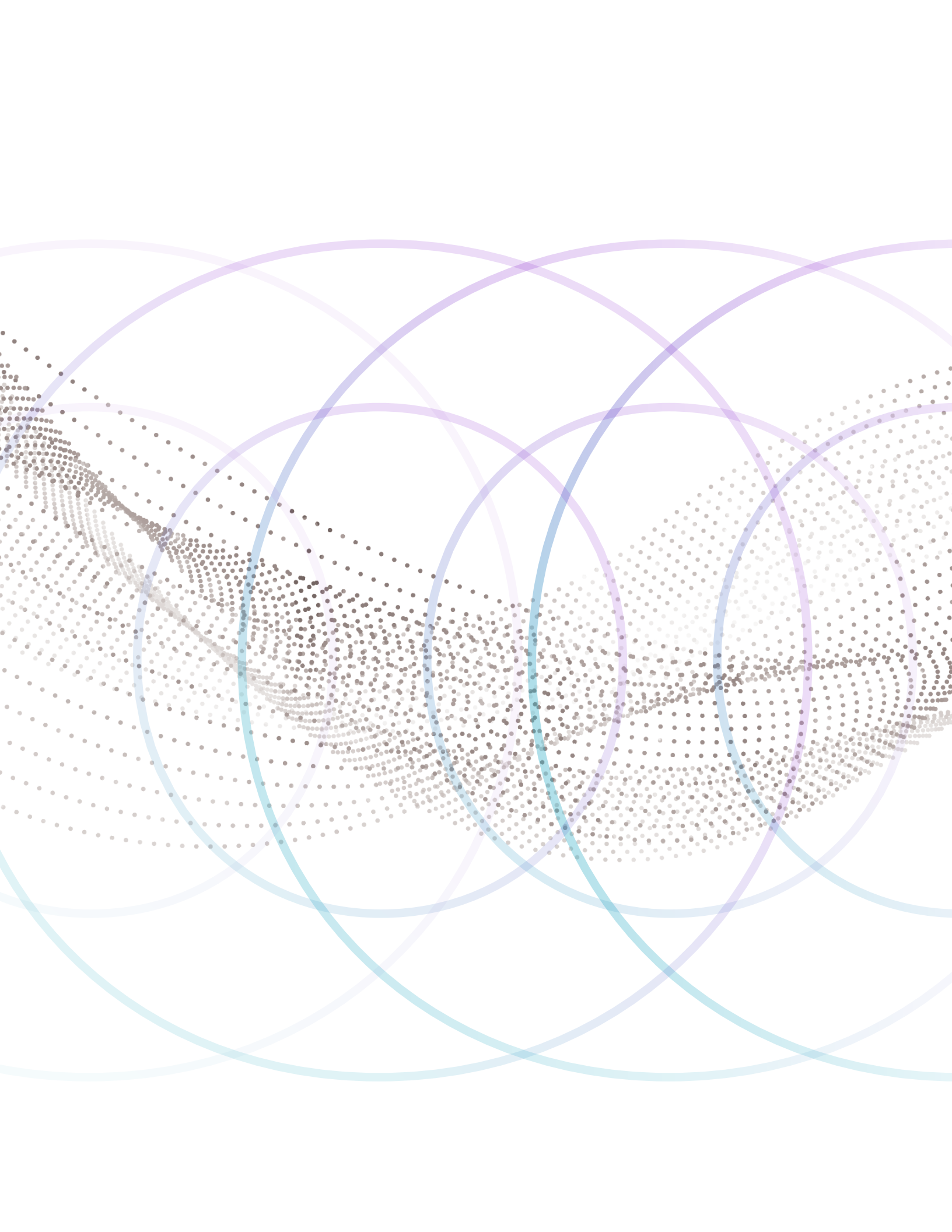


ANNUAL REPORT 2019



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One Plan

In 2019, we continued efforts to further improve and enhance our suite of internet, TV and mobile services.

We were especially focused on the launch of our FibreWire TV platform, which provides customers with a choice as to when, where, and over what device, they want to watch. Features like Restart TV, Cloud DVR, and most recently On Demand video, give customers the power to customize the way they consume video content. In 2020, our work on improving our video platform continues while we also focus on differentiating our connectivity services by adding innovative and relevant value-added products.

In the Bermuda market our high level of capital investment in recent years continues to bear fruit in terms of network performance and capabilities. The resilience of our FibreWire network coupled with further home internet speed boosts has been critical to maintaining internet subscriber growth in a very competitive market. Having a high performing Wi-Fi network in the home is increasingly important to today's consumer, and to that end we recently launched Smart Internet which incorporates a number of powerful features like parental control, automated speed tests and device management. It also simplifies the addition of OneHome Wi-Fi expansion units around the home to ensure full home coverage for our customers.

On the mobile side of the Bermuda business, we have maintained a very high standard in terms of network integrity and performance on our 4G LTE network even with data demand continuing to grow dramatically. We have improved resiliency at our cell sites through the deployment of additional backhaul fibre to better protect from

the impact of hurricanes. Despite competitive efforts, our NextOne device purchase program continues to win over customers and coupled with our new 2020 LTE Smartphone plans that include our largest data allowances ever, customers now have even more reasons to switch over.

Much effort this year has gone into defining and implementing our new cloud and managed services portfolio utilizing Fireminds, an affiliated technology solutions entity in Bermuda, as our strategic deployment partner. We see this as key to bolstering our enterprise and small business offering by evolving our existing connectivity products to provide solutions in these areas such as security, data redundancy, and employee collaboration, all under a single provider.

The Company's operations in the Cayman Islands continue to benefit from a high level of capital investment and continuing growth in the national economy. To further leverage our investments, we continue to build out our fibre footprint on Grand Cayman to expand our reachable market for advanced internet, IPTV, and corporate data products. In 2019, we matched our 2018 investment of \$6 million in the fibre network and commenced work on a fixed wireless build to address the low quality of internet service in the East End. For the year, we successfully increased homes passed from 67% to 73%, and demonstrated corresponding growth in both subscribers and revenue. The Logic Cayman team have done an excellent job of maintaining our position as the overwhelming first choice in the Cayman telecommunications market.

The regulatory environment in Bermuda was active during the year with the Regulatory Authority commencing public consultations in respect of Consumer Protection and Open Internet. The regulator also continued the Market Review that began in 2017. The most recent consultation document for the Market Review illustrated a concerning predisposition to increase regulation in some segments of our business, but we also noted the regulator's determination that heavy-handed price controls are no longer appropriate for the TV services business. With regard to the Cayman regulatory environment, we applied for and obtained key wireless spectrum assignments necessary to support our fixed wireless launch for underserved areas. For both Bermuda and Cayman, we expect 2020 to be

eventful on the regulatory front, and we are confident the Company is well positioned to navigate any changes as they unfold.

The financial statements within this report are prepared in accordance with U.S. Generally Accepted Accounting Principles and cover the year ended December 31, 2019, compared with the same period in 2018. The income statement presents total revenues, which are further broken down into geographical segments within the notes, which is consistent with the way management administers the daily operations of the Company.

Consolidated revenues for the period are \$131.3 million, consisting of \$105.6 million in Bermuda and \$30.7 million in Cayman. Total operating expenses were \$114.4 million and operating income for the period was \$17.0 million. Net income and comprehensive income attributable to equity holders of the Company for the period was \$16.0 million and \$15.8 million, respectively. Earnings per share for continuing operations for the year ended December 31, 2019, was \$0.39 per share. There were \$6.5 million dividends declared and paid in the period ended December 31, 2019, (2018: \$1.7 million declared and paid).

In 2017, the Company amended and restated its Long-Term Debt agreement to provide a maximum facility of \$37.5 million with an available \$10 million overdraft facility. This Long-Term Debt agreement will mature on May 22, 2022. The Company made \$4.7 million in principal repayments in the current financial year leaving a balance of \$27.0 million in debt outstanding. The Company did not use the overdraft facility in the year ended December 31, 2019 and had \$20.0 million in cash and cash equivalents at the end of the period.

The Management and Board of Directors thank all of the Company's employees for their focus and hard work as we continue to improve our processes and products to exceed our customers' expectations, and in turn increase long-term value for our shareholders.

GARY L. PHILLIPS, OBE, J.P., CIArb
CHEVALIER DE LA LEGION D'HONNEUR
CHAIRMAN OF THE BOARD

FRANK AMARAL
CHIEF EXECUTIVE OFFICER

Board of Directors

CHAIRMAN

Mr. Gary L. Phillips, OBE, J.P., CI Arb
Chevalier de la Legion d'Honneur

DEPUTY CHAIRMAN

Mr. Kurt Eve
Cofounder
Bermuda Digital
Communications Ltd.

Ms. Fiona E. Beck

Director
Twilio IP Ltd

Mr. Alasdair Younie

Director
ICM Limited

Mr. E. Michael Leverock,

B. Eng., P. Eng., MBA
Cofounder
Bermuda Digital Communications Ltd.

Mr. Michael Prior

Chief Executive Officer
ATN International

Mr. Justin Benincasa

Chief Financial Officer
ATN International

Executives and Officers

Mr. Frank Amaral

Chief Executive Officer

Ms. Vicki Steele

Chief Financial Officer

Mr. Michael Tanglao

Chief Legal & Regulatory Officer

Common shares held by Directors - 2,143,649

Common shares held by One Communications Ltd.

Executive Management - 62,500

Five Year Financial and Statistical Summary

As of December 31, 2019

| | For the Year Ending December 31, 2019 | For the Year Ending December 31, 2018 | For the Year Ending December 31, 2017 | For the 8 months Period Ending December 31, 2016 | For the Year Ending March 31, 2016 |
|--|---|---|---|---|--|
| Revenue & Expense Items | | | | | |
| (\$000) | | | | | |
| Operating revenues | 131,336 | 128,853 | 127,027 | 86,010 | 89,310 |
| Total expenses excluding depreciation and amortization | 91,114 | 91,560 | 93,368 | 70,909 | 80,696 |
| Depreciation and amortization | 23,254 | 20,809 | 17,929 | 10,741 | 15,507 |
| Net Income / (Loss) for the period | 15,992 | 15,110 | 15,033 | 2,085 | (2,447) |
| Cash dividends declared on Common shares | 6,528 | 1,675 | - | - | - |
| Balance Sheet | | | | | |
| (\$000) | | | | | |
| Total assets | 211,951 | 205,613 | 198,254 | 185,353 | 150,334 |
| Shareholders' equity | 156,302 | 150,221 | 136,425 | 123,177 | 66,907 |
| Number of common shares (in '000) | 40,274 | 41,187 | 41,899 | 42,346 | 15,225 |
| Per Common Share | | | | | |
| (\$'s) | | | | | |
| Net income - basic | 0.39 | 0.36 | 0.36 | 0.05 | (0.15) |
| Cash dividend | 0.16 | 0.04 | - | - | - |
| Net assets - basic | 3.88 | 3.65 | 3.26 | 2.91 | 4.39 |
| Items of Interest | | | | | |
| Capital expenditures (\$000) | 17,034 | 28,341 | 30,623 | 28,177 | 14,382 |
| Number of employees (full-time) | 213 | 215 | 225 | 248 | 199 |

The 5 Year Summary is not presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). It presents historical One Communications Ltd. (formerly KeyTech Limited) data for the year ended March 31, 2016 under International Financial Reporting Standards. If presented in accordance with U.S. GAAP, historical Bermuda Digital Communications Ltd. (trading as One Communications Ltd.) data would be presented on a standalone basis.



March 13, 2020

Report of Independent Auditors

To the Shareholders of One Communications Ltd.

We have audited the accompanying consolidated financial statements of One Communications Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in shareholders' equity and of cash flows for the years then ended.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation 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 the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 our 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, we consider internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 referred to above present fairly, in all material respects, the financial position of One Communications Ltd. and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

*PricewaterhouseCoopers Ltd., Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F: +1 (441) 295 1242, www.pwc.com/bermuda*

Consolidated Balance Sheets

December 31, 2019 and 2018
(in thousands, except per share data)

| | 2019 | 2018 |
|---|------------|------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 20,040 | \$ 14,871 |
| Accounts receivable, net of allowances of \$5,049 and \$4,816 respectively | 5,818 | 6,308 |
| Materials and supplies | 2,159 | 1,816 |
| Other current assets | 6,495 | 4,990 |
| | 34,512 | 27,985 |
| Non-current assets | | |
| Fixed assets | 143,748 | 149,614 |
| Intangible assets | 21,169 | 22,343 |
| Goodwill | 3,740 | 3,740 |
| Other assets | 5,388 | 1,931 |
| Operating lease right of use assets | 3,394 | - |
| Total assets | \$ 211,951 | \$ 205,613 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 20,340 | \$ 18,034 |
| Advance payments and deposits | 2,836 | 3,165 |
| Current portion of long term debt | 3,750 | 4,688 |
| Other current liabilities | 1,272 | 1,865 |
| Current portion of operating lease liabilities | 1,110 | - |
| | 29,308 | 27,752 |
| Non-current liabilities | | |
| Long-term debt, excluding current portion | 23,274 | 26,959 |
| Other liabilities | 772 | 681 |
| Operating lease liabilities, excluding current portion | 2,295 | - |
| Total liabilities | \$ 55,649 | \$ 55,392 |
| Commitments and contingencies (Note 10) | | |
| SHAREHOLDERS' EQUITY | | |
| Common Stock, \$0.25 par value per share; 58,000,000 shares authorized; 40,273,504 shares issued and outstanding (41,186,876 as of December 31, 2018) | 10,068 | 10,297 |
| Additional paid in capital | 92,414 | 94,344 |
| Accumulated other comprehensive income | (56) | 130 |
| Retained earnings | 53,876 | 45,450 |
| Total equity | 156,302 | 150,221 |
| Total liabilities and shareholders' equity | \$ 211,951 | \$ 205,613 |

Approved by the Board of
Directors

 Director

 Director

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(in thousands, except per share data)

| | 2019 | 2018 |
|---|------------------|------------------|
| TOTAL REVENUES | \$ 131,336 | \$ 128,853 |
| OPERATING EXPENSES | | |
| Termination and access fees and equipment expense | 39,328 | 43,125 |
| Engineering and operations | 21,730 | 19,117 |
| Sales and marketing | 11,932 | 11,514 |
| General and administrative | 18,113 | 17,816 |
| Depreciation and amortization | 23,254 | 20,809 |
| Loss (gain) on disposition of fixed assets | 11 | (12) |
| Total operating expenses | \$ 114,368 | \$ 112,369 |
| Operating income | 16,968 | 16,484 |
| OTHER INCOME / (EXPENSE) | | |
| Interest income | 55 | 12 |
| Interest expense | (1,478) | (1,529) |
| Other income, net | 447 | 143 |
| Other (expense), net | (976) | (1,374) |
| Net Income | \$ 15,992 | \$ 15,110 |
| Net Income per weighted average basic share attributable to One Communications Ltd. shareholders | | |
| BASIC | \$ 0.39 | \$ 0.36 |
| DILUTED | \$ 0.39 | \$ 0.36 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | |
| BASIC | 40,935,324 | 41,771,760 |
| DILUTED | 40,984,050 | 41,771,760 |
| Dividends per share applicable to common stock | \$ 0.16 | \$ 0.04 |
| Net income | 15,992 | 15,110 |
| Other Comprehensive Income | | |
| Net unrealized (loss) gains on derivatives | (186) | 78 |
| COMPREHENSIVE INCOME | \$ 15,806 | \$ 15,188 |

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2019 and 2018
(in thousands)

| | Common Stock | Additional Paid In Capital | Accumulated Other Comprehensive Income | Retained Earnings | Total Shareholders' Equity |
|--|-----------------|----------------------------------|---|----------------------|----------------------------------|
| Balance January 1, 2018 | \$ 10,475 | 95,935 | 255 | 29,760 | 136,425 |
| Net Income | - | - | - | 15,110 | 15,110 |
| Other comprehensive income | - | - | 78 | - | 78 |
| | \$ 10,475 | 95,935 | 333 | 44,870 | 151,613 |
| Purchase of common stock | (178) | (1,646) | - | (303) | (2,127) |
| Dividends | - | - | - | (1,675) | (1,675) |
| Stock based compensation | - | 55 | - | - | 55 |
| Cumulative effect adjustment due to adoption of new accounting standard (notes 2 and 3) | - | - | (203) | 2,558 | 2,355 |
| Balance December 31, 2018 | \$ 10,297 | 94,344 | 130 | 45,450 | 150,221 |
| Balance January 1, 2019 | \$ 10,297 | 94,344 | 130 | 45,450 | 150,221 |
| Net Income | - | - | - | 15,992 | 15,992 |
| Other comprehensive income | - | - | (186) | - | (186) |
| | \$ 10,297 | 94,344 | (56) | 61,442 | 166,027 |
| Issuance of restricted shares of common stock | 22 | - | - | - | 22 |
| Purchase of common stock | (251) | (2,313) | - | (1,038) | (3,602) |
| Dividends | - | - | - | (6,528) | (6,528) |
| Stock based compensation | - | 383 | - | - | 383 |
| Balance December 31, 2019 | \$ 10,068 | 92,414 | (56) | 53,876 | 156,302 |

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018
(in thousands)

| | 2019 | 2018 |
|---|--------------------|--------------------|
| Cash flows from operating activities | | |
| Net income | \$ 15,992 | \$ 15,110 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | |
| Depreciation and amortization | 23,254 | 20,809 |
| Stock based compensation | 405 | 55 |
| Loss (gain) on disposition of fixed assets | 11 | (12) |
| Amortization of debt issuance costs | 65 | 65 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 490 | 2,262 |
| Materials and supplies | (343) | (677) |
| Other current assets and other assets | (4,086) | (1,059) |
| Accounts payable, accrued and other current liabilities and other non-current liabilities | 1,548 | (1,275) |
| Advanced payments and deposits | (329) | (1,478) |
| Net cash provided by operating activities | \$ 37,007 | \$ 33,800 |
| Cash flows from investing activities | | |
| Capital expenditures | (17,034) | (28,341) |
| Proceeds from disposition of fixed assets | 14 | 44 |
| Net cash used for investing activities | \$ (17,020) | \$ (28,297) |
| Cash flows from financing activities | | |
| Principal repayments of long-term debt | (4,688) | (3,750) |
| Dividends paid on common stock | (6,528) | (1,675) |
| Purchase of common shares | (3,602) | (2,127) |
| Net cash used in financing activities | \$ (14,818) | \$ (7,552) |
| Net change in cash and cash equivalents | \$ 5,169 | \$ (2,049) |
| Cash and cash equivalents, beginning of year | \$ 14,871 | \$ 16,920 |
| Cash and cash equivalents, end of year | \$ 20,040 | \$ 14,871 |
| Supplemental cash flow information: | | |
| Interest Paid | \$ 1,795 | \$ 1,494 |
| Non-cash investing activity: | | |
| Purchases of fixed assets included in accrued and other current liabilities | \$ 4,297 | \$ 4,563 |

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

1. Nature of the Business

One Communications Ltd. (the “Company” or “One Communications”) is incorporated in Bermuda under the Companies Act 1981. The Company through its subsidiaries is a supplier of information and communication services, providing a wide range of data, internet, voice, and media services.

The Company is listed on the Bermuda Stock Exchange (“BSX”) and has operations in Bermuda and the Cayman Islands. The registered office is located at 30 Victoria Street, Hamilton, HM 12, Bermuda.

ATN International, Inc. (the “Parent” or “ATN”) owns a controlling interest in the Company. The Parent is a listed company on the NASDAQ stock exchange.

The Company’s following subsidiaries operate in Bermuda:

Logic Communications Ltd. (trading as One Communications) – provides a wide range of data internet products and services, internet access, long distance and local voice services as well as subscription television services in Bermuda.

Bermuda Digital Communications Ltd. (trading as One Communications) – provides a range of cellular products and solutions in Bermuda.

Cable Co. Ltd. – provides international data services on its submarine cable system between Bermuda and the United States.

The following subsidiary operates in Cayman:

WestTel Limited (trading as Logic) – provides fixed wireless, wireline voice and data services, and subscription television services in the Cayman Islands.

These Consolidated Financial Statements were approved by the Directors of the Company on March 12.

2. Significant Accounting Policies

Basis of Preparation

The Company’s Consolidated Financial Statements and accompanying notes were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The following is a summary of the significant accounting policies adopted by the Company:

Consolidation

Subsidiaries are all entities over which the Company has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances, income and expenses are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated.

The Consolidated Financial Statements include the financial statements of the Company and its wholly owned subsidiaries: Logic Communications Ltd. (trading as One Communications), WestTel Limited (trading as Logic) (“Logic Cayman”), Key Management Services Limited (“KMS”), Cable Co. Ltd. (“Cable”) and Cedar Cable Ltd. (“Cedar”), (jointly “Cable Co.”), and Bermuda Digital Communications Ltd. (“BDC”) (trading as One Communications).

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

2. Significant Accounting Policies (continued)

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. Contingent consideration obligations that are elements of the consideration transferred are recognized at the acquisition date as part of the fair value transferred in exchange for the acquired business. Acquisition-related costs incurred in connection with a business combination are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. The Company's most significant estimates relate to the allowance for doubtful accounts, useful lives of the Company's fixed and finite-lived intangible assets, allocation of purchase price to assets acquired and liabilities assumed in business combinations, fair value of indefinite-lived intangible assets and goodwill. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original or remaining maturity at the time of purchase of three months or less to be a cash equivalent. The Company deposits cash and cash equivalents with financial institutions which management believes are of high credit quality. At December 31, 2019, cash equivalents included money market funds of \$nil (2018: \$3 thousand). On October 28, 2019, the Company entered into a fixed three month term deposit for \$6 million (2018 - \$nil) at an interest rate of 1.66%. The Company's cash and cash equivalents are not subject to any restrictions.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for the estimated probable losses on uncollectible accounts receivable. The allowance is based upon the historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. Historical loss experience is applied where indicators of impairment are not observable on individually significant receivables with similar characteristics, such as credit risks.

Materials and Supplies

Materials and Supplies, which consist primarily of handsets are recorded at the lower of cost or market being determined on the basis of specific identification and market determined using replacement cost.

Fixed Assets

The Company's fixed assets are recorded at cost and depreciated using the straight-line method. Expenditures for major renewals and betterments that extend the useful lives of fixed assets are capitalized. Repairs and replacements of minor items of property are charged to maintenance expense as incurred. The cost of fixed assets in service and under construction includes internal and external costs necessary to bring an asset to the condition and location necessary for its intended use.

The Company capitalizes certain costs of developing and purchasing new information systems in accordance with internal use software guidance. These costs are depreciated over the useful life of the information system. The Company also incurs implementation costs associated with cloud computing arrangements. If these costs do not meet internal software capitalization guidance the implementation costs are recorded as prepaid assets and expensed through operating expense over the life of the arrangement.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

2. Significant Accounting Policies (continued)

In accordance with the authoritative guidance for the accounting for the impairment or disposal of long-lived assets, the Company evaluates the carrying value of fixed assets in relation to the operating performance and future undiscounted cash flows of the underlying business whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted cash flows attributable to an asset are less than its carrying amount. If an asset is deemed impaired, the amount of the impairment loss recognized represents the excess of the asset's carrying value as compared to its estimated fair value, based on management's assumptions and projections.

Management's estimate of the future cash flows attributable to its fixed assets and the fair value of its businesses involve significant uncertainty. Those estimates are based on management's assumptions of future results, growth trends and industry conditions. If those estimates are not met, the Company could have impairment charges in the future, and the amounts may be material.

Goodwill and Indefinite-lived Intangible Assets

Goodwill is the amount by which the cost of acquired net assets exceeded the fair value of those net assets on the date of acquisition. The Company allocates goodwill to reporting units at the time of the acquisition and bases that allocation on which reporting units will benefit from the acquired assets and liabilities. Reporting units are defined as operating segments or one level below an operating segment, referred to as a component. The Company has determined that its reporting units are its operating segments. The Company assesses goodwill for impairment on an annual basis in the fourth quarter or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. The Company employs either a qualitative or quantitative test of its goodwill. Under the qualitative model, the Company assesses factors to determine whether it is more likely than not that, the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative test. Under the quantitative model, if the carrying value of the reporting unit, including goodwill, exceeds the fair value of the reporting unit an impairment charge is recorded equal to the excess, but not more than the total amount of goodwill allocated to the reporting unit.

The Company believes that its telecommunications licences have an indefinite life based on the historical ability to renew such licences, that such renewals may be obtained indefinitely and at little cost, and that the related technology used is not expected to be replaced in the foreseeable future. The Company has elected to perform its annual testing of its telecommunications licences in the fourth quarter of each year, or more often, if events or circumstances indicate that there may be impairment. If the value of these assets were impaired by some factor, such as an adverse change in the Company's operating market, the Company may be required to record an impairment charge. The impairment test consists of a comparison of the fair value of telecommunications licences with their carrying amount on a licence by licence basis and as a part of the test the Company assesses the appropriateness of the application of the indefinite-lived assertion.

Other Intangible Assets

Intangible assets resulting from business combinations are estimated by management based on the fair value of assets acquired. These include acquired customer relationships and tradenames. Customer relationships are amortized over their estimated lives, which is based on the pattern in which economic benefit of the customer relationship is estimated to be realized. Tradenames are amortized over the period which management expects them to contribute to the entity's future cash flows.

Debt

Debt is measured at amortized cost. Debt issuance costs on term loans and specified maturity borrowings are recorded as a reduction to the carrying value of the debt and are amortized as interest expense in the consolidated statements of comprehensive income over the period of the debt.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

2. Significant Accounting Policies (continued)

Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares in issue during the period. Diluted earnings per share gives effect to all potentially dilutive securities using the treasury stock method.

Stock-based Compensation

The Company applies the fair value recognition provisions of the authoritative guidance for the accounting for stock-based compensation and expenses the fair value of the grants of options or restricted share units of common stock over their vesting period. The Company accounts for forfeitures as they occur.

Stock based compensation is recognized within general and administrative expenses within the consolidated statements of comprehensive income.

Available for sale securities

Available for sale securities consist of equity securities, carried at fair market value. Changes in the fair value of equity investments with readily determinable fair values are recorded in other income in the Company's statement of comprehensive income.

Revenue Recognition

The Company earns revenue from its telecommunication business and recognizes revenue through the following steps:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognize revenue when, or as, the Company satisfies its performance obligations

The Company's revenues are primarily derived from providing customers with access to and usage of the Company's networks and facilities. Access revenues are generally billed one month in advance and are recognized over the period that the corresponding service is rendered to customers. Revenues derived from usage of the Company's networks, including airtime, data, roaming, and long-distance revenues, are recognized over time as the services are provided. Revenue is also derived from selling equipment to customers, which is recognized when the equipment is delivered to the customer.

Management considers transactions where customers purchase subsidized or discounted equipment and mobile voice or data services to be a single contract. For these contracts, the transaction price is allocated to the equipment and mobile service based on their standalone selling prices. The standalone selling price is based on the amount the Company charges for the equipment and service to similar customers. Equipment revenue is recognized when the equipment is delivered to customers and service revenue is recognized as service is rendered.

The Company's contracts occasionally include promotional discounts such as free service periods or discounted products. If a contract contains a substantive termination penalty, the transaction price is allocated to the performance obligations based on standalone selling price resulting in accelerated revenue recognition and the establishment of a contract asset that will be recognized over the life of the contract. If a contract includes a promotional discount but no substantive termination penalty the discount is recorded in the promotional period and no contract asset is established. The Company's customers also have the option to purchase additional telecommunication services. Generally, these options are not performance obligations and are excluded from the transaction price because they do not provide the customers with a material right.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

2. Significant Accounting Policies (continued)

The Company may charge upfront fees for activation and installation of some of its products and services. These fees are reviewed to determine if they represent a separate performance obligation. If they are not a separate performance obligation, the contract price associated with them is recognized over the life of the customer. If the fees represent a performance obligation they are recognized when delivered to the customer based on standalone selling price.

Taxes and charges collected from customers that are remitted to the governmental authorities are reported on a net basis and excluded from the revenues and sales.

The Company recognizes contract assets and liabilities on its balance sheet. Contract assets represent unbilled amounts typically resulting from retail wireless contracts with both a multiyear service period and a promotional discount. In these contracts the revenue recognized exceeds the amount billed to the customer. The current portion of the contract asset is recorded in prepayments and other current assets and the noncurrent portion is included in other assets on the Company's balance sheet. Contract liabilities consist of advance payments and billings in excess of revenue recognized. Retail revenue for postpaid customers is generally billed one month in advance and recognized over the period that the corresponding service is rendered to customers. To the extent the service is not provided by the reporting date the amount is recognized as a contract liability. Prepaid service, including mobile voice and data services, sold to customers is recorded as deferred revenue prior to the commencement of services. Contract liabilities are recorded in advanced payments and deposits on its balance sheets.

Contract Acquisition Costs

The Company pays sales commissions to its employees and agents for obtaining customer contracts. These costs are incremental because they would not have been incurred if the contract was not obtained. The Company recognizes an asset for these costs and subsequently amortizes the asset on a systematic basis consistent with the pattern of the transfer of the services to the customer. The amortization period, which is between 2 and 6 years, considers both the original contract period as well as anticipated contract renewals as appropriate. The amortization period also includes renewal commissions when those commissions are not commensurate with new commissions. The Company estimates contract renewals based on its actual renewals in recent periods. When the expected amortization period is one year or less the Company utilizes the practical expedient and expenses the costs as incurred.

Leases

The Company determines if an agreement is a lease at inception. Operating leases, other than certain indefeasible right of use assets which are included in fixed assets, are included in right-of-use ("ROU") assets, current portion of operating lease liabilities, and operating lease liabilities in the Company's consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The present value is calculated using the Company's incremental borrowing rate based on the information available at the commencement date, as our leases do not contain an implicit rate. The Company utilizes assumptions based on its existing borrowing facilities and other market specific data to determine its incremental borrowing rate. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include renewal options to extend the lease. The Company includes renewal options that are reasonably certain to be exercised in the initial lease term. When determining whether a renewal option is reasonably certain to be exercised, the Company considers several factors, including the present and anticipated future needs of its customers being serviced by the asset. Lease expense is recognized on a straight-line basis over the lease term. The Company does not separate non-lease components from lease components.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

2. Significant Accounting Policies (continued)

Expenses

Termination and access fees and equipment expense. Termination and access fee expenses are charges that are incurred for voice and data transport circuits (in particular, the circuits between the Company's wireless sites and its switches), internet capacity, other access fees incurred to terminate calls, customer bad debt expense, and telecommunication licence fees. Equipment expenses include the costs of handset and customer resale equipment in the Company's retail businesses.

Engineering and operations expenses. Engineering and operations expenses include the expenses associated with developing, operating and supporting the Company's expanding telecommunications networks, including the salaries and benefits incurred to employees directly involved in the development and operation of the Company's networks.

Sales and marketing expenses. Sales and marketing expenses include salaries and benefits incurred to sales personnel, customer service expenses, sales commissions and the costs associated with the development and implementation of promotion and marketing campaigns.

General and administrative expenses. General and administrative expenses include salaries, benefits and related costs for general corporate functions including executive management, finance and administration, legal and regulatory, facilities, information technology and human resources.

Depreciation and amortization expenses. Depreciation and amortization expenses represent the depreciation and amortization charges recorded on our property and equipment and intangible assets. Land is not depreciated.

Gain or loss on disposal of assets. The Company sells assets from time to time. A gain or loss is recorded by comparing the carrying amount of the assets to the proceeds received.

Foreign Currency

The Company translates the assets and liabilities of its foreign subsidiary from its Cayman Dollar functional currency to Bermuda dollars at the appropriate spot rates as of the balance sheet date. Any changes in the carrying value of these assets and liabilities attributable to fluctuations in spot rates are recognized in foreign currency translation adjustment, a component of accumulated other comprehensive income. Consolidated statement of comprehensive income accounts are translated using the monthly average exchange rates during the year.

Monetary assets and liabilities denominated in a currency that is different from a reporting entity's functional currency must first be remeasured from the applicable currency to the legal entity's functional currency. The effect of this remeasurement process is reported in other income (expenses) on the consolidated statement of comprehensive income.

The Company's functional currency is the Bermuda dollar. The Company also transacts in US Dollars and Cayman dollars. Historically the Company has not experienced foreign currency gains or losses because the Bermuda Dollar is pegged to the US Dollar at a 1:1 rate and the Cayman dollar is pegged to the US Dollar at an exchange rate of 1:1.19.

Fair Value of Financial Instruments

In accordance with the provisions of fair value accounting, a fair value measurement assumes that a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability and defines fair value based upon an exit price model. The fair value measurement guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

2. Significant Accounting Policies (continued)

| | |
|---------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset and liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 assets and liabilities include money market funds, debt and equity securities and derivative contracts that are traded in an active exchange market. |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes corporate obligations and non-exchange traded derivative contracts. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments and intangible assets that have been impaired whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. |

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The following table presents the Company's financial assets and liabilities measured at fair value at December 31, 2019:

| (\$000) | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|---------|---------|---------|--------|
| Money market funds | - | - | - | - |
| Available for sale securities | 204 | - | - | 204 |
| Derivative instruments | - | (56) | - | (56) |
| Total | \$ 204 | \$ (56) | \$ - | \$ 148 |

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

2. Significant Accounting Policies (continued)

The following table presents the Company's financial assets and liabilities measured at fair value at December 31, 2018:

| (\$000) | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|---------|---------|---------|--------|
| Money market funds | 3 | - | - | 3 |
| Available for sale securities | 257 | - | - | 257 |
| Derivative instruments | - | 140 | - | 140 |
| Total | \$ 260 | \$ 140 | \$ - | \$ 400 |

As required by U.S. GAAP, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Other Fair Value Disclosures

The carrying amounts of cash and cash equivalents, accounts receivable, other current assets and accounts payable, accrued expenses and other current liabilities approximate their fair values because of the relatively short-term maturities of these financial instruments.

At December 31, 2019, management estimated the fair value of the long-term debt, including the current portion, approximated its carrying value of \$27.0 million (2018: \$31.6 million).

Income Taxes

The Company makes no provision for Bermuda or Cayman income taxes since under both current legislations no income taxes are imposed upon the Company.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), and subsequently issued related updates, (collectively known as ASC 606), which provides a single, comprehensive revenue recognition model for all contracts with customers. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard on January 1, 2018. Refer to Note 3 to the Consolidated Financial Statements in this Report.

In April 2015, the FASB issued ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," ("ASU 2015-05"), which provides guidance about whether a cloud computing arrangement includes software and how to account for the license for software. The new guidance does not change the accounting for a customer's accounting for service contracts. The adoption of ASU 2015-05 by the Company on January 1, 2017, did not have a material impact on the Company's financial position, result of operations or cash flows.

In January 2016, the FASB issues ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and measurement of Financial Assets and Financial Liabilities (ASU 2016-01), which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. On January 1, 2018, the date ASU 2016-01 was adopted, the Company reclassified \$0.2 million of unrealized gains to retained earnings.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" and subsequently issued related updates ("ASU 2016-02"), which provide comprehensive lease accounting guidance. The standard requires entities to recognize lease assets and liabilities on the balance sheet as well as disclosure of key information

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

2. Significant Accounting Policies (continued)

about leasing arrangements. ASU 2016-02 became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company adopted ASC 2016-02 on January 1, 2019, utilizing the optional transition method with a cumulative adjustment on the date of adoption and not adjusting prior periods. Refer to Note 7 of the Consolidated Financial Statements.

In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” which provides further clarification on eight cash flow classification issues. The standard further clarifies the classification of several elements of the statement of cash flows.

The Company adopted this standard on January 1, 2018 and it did not have a material impact on the Company’s financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” (“ASU 2017-04”). The amendments in ASU 2017-04 simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities. Instead, under the amendments in ASU 2017-04, an entity performs its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, but not more than the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2019, with early adoption permitted. The Company adopted this standard in the third quarter of 2017.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”). The standard: (a) expands and refines hedge accounting for both financial and non-financial risk components, (b) aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and (c) includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company adopted ASU 2017-12 on January 1, 2019. There was not a material impact to the Company’s Consolidated Financial Statements upon adoption.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (“ASU 2018-15”). This standard requires entities that are customers in cloud computing arrangements to defer implementation costs if they would be capitalized by the entity in software licensing arrangements under the internal-use software guidance. The guidance may be applied retrospectively or prospectively to implementation costs incurred after the date of adoption. ASU 2018-15 is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. The Company prospectively adopted this standard in the fourth quarter of 2018.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). ASC 2016-13 requires entities to use a new forward-looking, expected loss model to estimate credit losses. It also requires additional disclosure relating to the credit quality of trade and other receivables, including information relating to management’s estimate of credit allowances. The Company will adopt ASU 2016-13 using the modified retrospective approach on its January 1, 2020 effective date and is currently assessing the quantitative impacts on the Company’s Consolidated Financial Statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

3. Revenue Recognition

Impact of adoption

The Company adopted ASC 606 on January 1, 2018, using the modified retrospective method. The Company elected the practical expedient to apply the new guidance only to contracts that were not substantially complete at the adoption date. The cumulative effect of adopting ASC 606 resulted in the recognition of a contract asset of \$1.6 million, of which \$1.2 million was recorded in other current assets, and \$0.4 million was recorded in other assets. A contract liability of \$3.5 million was recorded in other liabilities. Contract acquisition costs of \$0.8 million of which \$0.4 million was recorded in other current assets and \$0.4 million was recorded in other assets, and the offset of \$2.4 million recorded to retained earnings.

Contract Assets and Liabilities

Contract assets and liabilities consisted of the following (amounts in thousands):

| | December 31, 2019 | December 31, 2018 | \$ Change | % Change |
|-----------------------------|----------------------|----------------------|---------------|-------------|
| Contract asset - current | \$ 2,413 | \$ 1,900 | \$ 513 | 27% |
| Contract asset - noncurrent | 905 | 802 | 103 | 13% |
| Contract liabilities | (1,672) | (1,951) | 279 | (14)% |
| Net contract asset | \$ 1,646 | \$ 751 | \$ 895 | 119% |

The contract asset-current is included in prepayments and other current assets, the contract asset - noncurrent is included in other assets, and the contract liabilities are included in advance payments and deposits on the Company's balance sheet. The increase in the Company's net contract asset was due to the timing of bundled wireless equipment and service contracts. During the year ended December 31, 2019, the Company recognized revenue of \$0.9 million related to its December 31, 2018 contract liability and amortized \$1.8 million of the December 31, 2018 contract asset into revenue. The Company did not recognize any revenue in the year ended December 31, 2019 related to performance obligations that were satisfied or partially satisfied in previous periods.

Contract Acquisition Costs

The December 31, 2019 balance sheet includes current contract acquisition costs of \$0.9 million in other current assets and long-term contract acquisition costs of \$0.8 million in other assets. During the year ended December 31, 2019, the Company amortized \$0.8 million of contract acquisition cost.

Remaining Performance Obligations

Remaining performance obligations represent the transaction price allocated to unsatisfied performance obligations of certain multiyear retail wireless contracts that include a promotional discount. The transaction price allocated to unsatisfied performance obligations was \$12.1 million at December 31, 2019 (2018 - \$12.1 million). The Company expects to satisfy the remaining performance obligations and recognize the transaction price within 24 months. The Company has certain contracts where transaction price is allocated to remaining performance obligations. However, the Company omits these contracts from the disclosure by applying the right to invoice, one year or less, and wholly unsatisfied performance obligation practical expedients.

Disaggregation

The Company's revenue is presented on a disaggregated basis in Note 12 based on an evaluation of disclosures outside the financial statements, information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments and other information that is used for performance evaluation and resource allocations. This includes revenue from the Company's Bermuda and Cayman segments. This disaggregation of revenue depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

4. Accounts receivable

As of December 31, 2019 and December 31, 2018 accounts receivable consisted of:

| (\$000) | 2019 | 2018 |
|---------------------------------------|-----------|---------|
| Accounts receivable | \$ 10,867 | 11,124 |
| Less: allowance for doubtful accounts | (5,049) | (4,816) |
| Trade receivables - net | 5,818 | 6,308 |

The movement in allowance for doubtful accounts in respect of accounts receivables was as follows:

| | 2019 | 2018 |
|--|----------|---------|
| Balance at beginning of the year | \$ 4,816 | 4,921 |
| Change in allowance for doubtful accounts | \$ 1,440 | 1,655 |
| Receivables written off during the period as uncollectible | (1,207) | (1,760) |
| Balance at end of year | \$ 5,049 | 4,816 |

5. Fixed Assets

Fixed assets consisted of the following at December 31, 2019 and December 31, 2018:

| | Useful Life | 2019 | 2018 |
|--|---------------|-------------------|----------------|
| | | \$ | |
| Network equipment | 2 - 20 years | 180,267 | 157,686 |
| Buildings | 20 - 35 years | 22,719 | 22,719 |
| Land | N/A | 4,806 | 4,806 |
| Leasehold improvements & furniture, fixtures and equipment | 2 - 10 years | 12,652 | 12,537 |
| Motor vehicles | 2 - 5 years | 2,084 | 1,967 |
| Computer hardware | 2 - 8 years | 6,927 | 6,889 |
| Computer software | 2 - 5 years | 5,241 | 5,280 |
| Construction in progress | N/A | 5,911 | 13,117 |
| Less: accumulated depreciation | | (96,859) | (75,387) |
| Total net book value | | \$ 143,748 | 149,614 |

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

5. Fixed assets (continued)

Depreciation and amortization of fixed assets, using the straight-line method over the assets' estimated useful life, for the year ended December 31, 2019 was \$22.1 million (2018: \$19.3 million). Included within network equipment are assets related to Indefeasible Rights of Use ("IRUs") under capital lease with a cost of \$3.5 million and net book value of \$2.4 million as of December 31, 2019 (2018: cost of \$3.5 million and net book value of \$2.8 million). Remaining amounts due under the IRUs are \$0.5 million as of December 31, 2019 (2018: \$0.5 million).

During the year ended December 31, 2019, motor vehicles in the Cayman segment were sold and as such a loss on disposition of \$11 thousand was recognized.

During the year ended December 31, 2018, motor vehicles in the Bermuda segment and motor vehicles and computer hardware in the Cayman segment were sold and as such, a gain on disposition of respectively \$5 thousand and \$7 thousand was recognized.

6. Goodwill and Intangible Assets

Goodwill

The Company tests goodwill for impairment on an annual basis, which has been determined to be as of October 1 of each fiscal year. The Company also tests goodwill between annual tests if an event occurs or circumstances change that indicate that the fair value of a reporting unit may be below its carrying value.

In 2019, the Company evaluated the goodwill using a quantitative model and determined that no impairment existed. The quantitative model compares the estimated fair value of a reporting unit to its carrying amount, including goodwill. The Company determines the fair value of the reporting unit using a discounted cash flow analysis. Determining fair value requires the exercise of significant judgment about appropriate discount rates, perpetual growth rates, and the amount and timing of expected future cash flows. Discount rates are based on a weighted-average cost of capital, which represents the rate a business must pay its providers of debt and equity. The cash flows utilized in the analysis were derived from internal earnings and forecasts as well as external market forecasts. If the estimated fair value of a reporting unit exceeds its carrying amount, the goodwill of the reporting unit is not impaired.

In 2018, the Company utilized a qualitative goodwill impairment test which assesses qualitative factors to determine if a quantitative analysis is necessary. The assessment includes, but is not limited to, assessing macroeconomic conditions, industry and market considerations, technological changes and trends, overall financial performance of the reporting unit. The analysis concluded a quantitative assessment was not necessary.

In 2019 and 2018, the Company's goodwill assessments determined that no impairment existed.

The Company's goodwill balance was \$3.7 million at December 31, 2019 (2018: \$3.7 million), and relates to the Bermuda segment.

Telecommunications Licences

The Company tests telecommunication licences with indefinite lives for impairment on an annual basis, which has been determined to be as of October 1st of each fiscal year. The Company also tests these assets between annual tests if an event occurs or circumstances change that indicate that the fair value of a reporting unit may be below its carrying value.

The Company's qualitative impairment test includes, but is not limited to, assessing macroeconomic conditions, industry and market considerations, technological changes and trends, overall financial performance, and legal and regulatory changes. The Company's quantitative test for impairment involves a comparison of the estimated fair value of an asset to its carrying amount. The Company determines

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

6. Goodwill and Intangible Assets (continued)

the fair value using either a market or income approach. The market approach uses prices generated by market transactions involving comparable assets. The income approach uses a DCF model. The DCF requires the exercise of significant judgement including Level 3 valuation inputs.

The Company performed qualitative assessments for its annual impairment assessment of its indefinite lived telecommunication licences for 2019 and determined that there were no indications of potential impairments. The Company's qualitative impairment test includes, but is not limited to, assessing macroeconomic conditions, industry and market considerations, technological changes and trends, overall financial performance, and legal and regulatory changes. The Company's impairment testing for 2018 and 2017 also determined that no impairments were required for any telecommunication licences.

The Company held \$15.5 million of telecommunication licences at December 31, 2019 (2018: \$15.5 million). The licences are expected to be available in perpetuity, and relate to the Bermuda segment.

Customer Relationships

The customer relationships all of which are held in the Bermuda segment are being amortized over the expected period during which their economic benefits will be realized. At December 31, 2019, the customer relationships had a cost of \$11.0 million and accumulated amortization of \$6.6 million (2018: cost of \$11.0 million and accumulated amortization of \$5.6 million). The Company recorded \$1.0 million of amortization expense in the year (2018: \$1.2 million).

Future amortization of customer relationships in the Bermuda segment is as follows (in thousands):

| (\$000) | Amortization |
|------------|--------------|
| 2020 | \$ 806 |
| 2021 | 657 |
| 2022 | 538 |
| 2023 | 452 |
| 2024 | 452 |
| Thereafter | 1,507 |
| Total | \$ 4,412 |

Trade name

In its Bermuda segment, the Company holds trade name assets with a cost of \$1.9 million and accumulated amortization of \$0.7 million at December 31, 2019 (2018: cost of \$1.9 million and accumulated amortization of \$0.5 million). As a result of the Company's rebranding activities in 2016, it was determined the trade names have a finite life and will be amortized over that life. The Company recorded \$0.2 million of amortization expense for the year ended December 31, 2019 (2018: \$0.2 million) and will record amortization of \$0.2 million during each of the next five years and \$0.2 million thereafter.

7. Leases

Impact of Adoption

The Company adopted ASC 842 on January 1, 2019, utilizing the optional transition method with a cumulative adjustment on the date of adoption. Under this approach, the guidance was applied to leases that had commenced as of January 1, 2019, with a cumulative effect adjustment as of that date and prior periods were not adjusted. Upon adoption, the Company recognized an operating lease right-of-use ("ROU") asset of \$2.8 million, a short-term lease liability of \$1.0 million, and a long-term lease liability of \$1.8 million. The adoption had no impact on retained earnings or other components of equity.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

7. Leases (continued)

The Company elected the package of practical expedients. Under the package of practical expedients, for existing leases, the Company does not reassess: i) whether the arrangement contains a lease; ii) lease classification and; iii) initial direct costs.

The Company has operating and financing leases for towers, land, corporate offices, retail facilities, and data transport capacity. The lease terms are generally between three and ten years, some of which include additional renewal options.

Supplemental lease information

The components of lease expense were as follows (in thousands):

| | Year ended December 31, 2019 |
|------------------------------------|---|
| Operating lease cost: | |
| Operating lease cost | \$ 1,310 |
| Short-term lease cost | 1,657 |
| Variable lease cost | 334 |
| Total operating lease cost | <u>\$ 3,301</u> |
| Finance lease cost: | |
| Amortization of right-of-use asset | \$ 775 |
| Variable costs | 91 |
| Total finance lease cost | <u>\$ 866</u> |

During the year ended December 31, 2019, the Company paid \$1.3 million of operating cash flows, which were included in the measurement of lease liabilities. Also during the year ended December 31, 2019, the Company recorded \$1.7 million of lease liabilities arising from right-of-use assets. At December 31, 2019, finance leases with a cost of \$7.7 million and accumulated amortization of \$2.4 million were included in fixed assets.

The weighted average remaining lease terms and discount rates as of December 31, 2019 are noted in the table below:

| | |
|---------------------------------------|-----------|
| Weighted average remaining lease term | |
| Operating leases | 4.7 years |
| Financing leases | 8.4 years |
| Weighted average discount rate | |
| Operating leases | 5.0% |
| Financing leases | n/a |

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

7. Leases (continued)

Maturities of lease liabilities as of December 31, 2019 were as follows (in thousands):

| | <u>Operating Leases</u> |
|-----------------------|-------------------------|
| 2020 | \$ 1,250 |
| 2021 | 848 |
| 2022 | 497 |
| 2023 | 394 |
| 2024 | 288 |
| Thereafter | 555 |
| Total lease payments | <u>3,832</u> |
| Less imputed interest | (427) |
| Total | <u>\$ 3,405</u> |

Maturities of lease liabilities as of December 31, 2018 were as follows (in thousands):

| | <u>Operating Leases</u> |
|----------------------|-------------------------|
| 2019 | \$ 1,168 |
| 2020 | 976 |
| 2021 | 608 |
| 2022 | 256 |
| 2023 | 162 |
| Thereafter | 93 |
| Total lease payments | <u>\$ 3,263</u> |

As of December 31, 2019, the Company did not have any material operating or finance leases that have not yet commenced.

8. Long Term Debt

On May 22, 2017, the Company amended and restated the long-term debt agreement with HSBC Bank Bermuda Limited to increase the facility to \$37.5 million. The amended and restated debt is scheduled to mature on May 22, 2022 and bears interest at the three month LIBOR rate and an applicable margin rate ranging between 2.5% to 2.75% paid quarterly. The amended and restated debt contains customary representations, warranties and affirmative and negative covenants (including limitations on additional debt, guaranties, sale of assets and liens) and financial covenants that limit the ratio of tangible net worth to long term debt and total net debt to certain earnings metrics and require a minimum debt service coverage ratio (net cash generated from operating activities plus interest expense less net capital expenditures to debt repayments plus interest expense). The covenants are tested annually commencing the fiscal year ending December 31, 2017. The Company has pledged substantially all of the assets of the Company to guarantee the debt. As at December 31, 2019 and 2018, the Company was in compliance with its covenants.

In connection with the amended and restated debt, the Company increased the limit of its overdraft facility from \$5.0 million to \$10.0 million. This facility has an interest rate of three month LIBOR plus 1.75%. There was no borrowing outstanding under the facility at December 31, 2019 and 2018.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

8. Long Term Debt (continued)

As a condition of the amended and restated agreement, the Company was required to enter into a hedging arrangement equal to at least 30% of the notional amount of the debt and a term equal to the maturity of the debt. On July 14, 2017, the Company entered into a swap transaction effective June 30, 2017, for a notional amount of \$11.0 million with a fixed rate of 1.874%. This swap has been designated as a cash flow hedge. The fair value of the hedge was nil at inception and \$(56) thousand at December 31, 2019 (2018: \$140 thousand). The unamortized notional amount was \$8.5 million at December 31, 2019 (2018 \$9.6 million).

The Company capitalized \$0.3 million of fees associated with the debt, which is recorded as a reduction to the debt carrying amount and will be amortized over the life of the debt.

The principal balance outstanding at December 31, 2019 was \$27.2 million (December 31, 2018 was \$31.9 million) of which \$3.8 million is payable within twelve months (\$4.7 million as at December 31, 2018), and \$0.2 million of the capitalized fees remain unamortized (\$0.2 million as at December 31, 2018). Total interest expense in relation to the loan was \$1.5 million for the year ended December 31, 2019 (\$1.5 million for the year ended December 31, 2018) and is included in interest expense in the consolidated statement of comprehensive income.

The annual requirements for principal repayments on the loan are summarized below:

| (\$000) | Principal Repayment | |
|---------|---------------------|------|
| 2020 | \$ | 3.8 |
| 2021 | | 3.8 |
| 2022 | | 19.6 |
| Total | \$ | 27.2 |

9. Related Party Transactions

The Company incurred management fees of \$3.6 million for the year ended December 31, 2019 in respect of a management services contract entered into on May 3, 2016 with its Parent (2018: \$3.5 million).

Management fees are calculated at 2.75% of gross revenues since August 1, 2017. Pursuant to its management contract, \$0.6 million remained outstanding at December 31, 2019 (2018: \$0.6 million).

The Company also purchased goods and other services from its Parent and its affiliates amounting to \$6.2 million for the year ended December 31, 2019 (2018: \$4.2 million) of which \$3.7 million was payable at December 31, 2019 (2018: \$1.0 million). These related party balances are unsecured, interest free, and are due on demand.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

10. Commitments and contingencies

The Company incurs commitments to its suppliers in order to provide its services to customers. Commitments related to lease agreements are identified in note 7 and excluded from the table below.

The table below identifies future amounts payable under the Company's unexpired service commitments as of December 31, 2019 (in thousands):

| (\$000) | Amount |
|------------|----------|
| 2020 | \$ 3,433 |
| 2021 | 1,942 |
| 2022 | 918 |
| 2023 | 373 |
| 2024 | 220 |
| Thereafter | 1,704 |
| | \$ 8,590 |

In Bermuda, the Company holds Integrated Communications Operating Licences pursuant to the Electronic Communications Act 2011 (the "Licences") as issued by the Regulatory Authority. Fees associated with the Licences are currently 5.25% of certain gross revenues in Bermuda. Fee levels are subject to review and change each year by the Regulatory Authority and the Government of Bermuda. Associated regulatory fees incurred in Bermuda for the year ended December 31, 2019 were \$4.8 million (2018: \$4.5 million). In Cayman, associated regulatory fees incurred for the year ended December 31, 2019 were \$2.0 million (2018: \$1.8 million).

There are no contingent liabilities to disclose relating to the fiscal year ended December 31, 2019 and 2018.

11. Share Capital

All common shares are recorded at a par value of \$0.25 each with the excess of the proceeds received over the par value of the shares issued recorded as additional paid in capital. There were \$6.5 million dividends declared and paid in the period ended December 31, 2019, (2018: \$1.7 million declared and paid).

The Company's Board approved a share buy-back program effective from March 1, 2017 to December 31, 2018 and extended for the year ended December 31, 2019, which authorized the repurchase of up to 2,000,000 common shares of the Company's outstanding share capital. During the year ended December 31, 2019 the Company repurchased 1,005,037 shares at an average cost of \$3.58 (2018: 712,599 shares at an average cost of \$2.99). The Board have further extended the share buy-back program for the period ending December 31, 2020.

Basic net income per share is computed by dividing net income attributable to the Company's stockholders by the weighted-average number of common shares outstanding during the period and does not include any other potentially dilutive securities. Diluted net income per share gives effect to all potentially dilutive securities using the treasury stock method.

In September 2019, the Company modified its existing stock-based compensation plan through converting previously granted options into fixed share awards ('restricted share units'), resulting in the issuance of 91,655 restricted share shares of common stock in 2019.

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

11. Share Capital (continued)

The Company recognized \$30 thousand of non-cash, share based compensation expense in 2019 (2018: \$55 thousand) relating to grants of options in previous years.

The Company recognized \$375 thousand (2018: \$nil) of non-cash equity based compensation expense in 2019 related to the vesting of restricted stock awards, inclusive of \$259 thousand recognized in respect of the incremental fair value of these modified awards.

12. Segment Reporting

Reportable segments correspond to the Company's internal organizational structure. The Company operates the following reportable segments, which are managed as separate business units, as they both operate in different geographic regions, and therefore require different market strategies.

The Company's Bermuda segment operates under the brand "One" providing a wide range of data internet products and services, cellular products and solutions, internet access, long distance and local voice services as well as subscription television services in Bermuda.

The Company's Cayman segment operates under the brand "Logic" providing fixed wireless, wireline voice and data services, and subscription television services in the Cayman Islands.

| For the year ended December 31, 2019 (in \$000) | Bermuda | Cayman | Corporate and Other | Total |
|--|----------------|---------------|--------------------------------|--------------|
| Revenues | \$ 105,600 | \$ 30,696 | \$ (4,960) | \$ 131,336 |
| Depreciation and amortization | 18,755 | 4,822 | (323) | 23,254 |
| Operating expenses | 66,419 | 21,143 | 3,552 | 91,114 |
| Segment operating income / (loss) | 20,426 | 4,731 | (8,189) | 16,968 |
| Net fixed assets | \$ 92,208 | \$ 43,537 | \$ 8,003 | \$ 143,748 |
| Capital expenditures | 7,474 | 7,838 | 1,722 | 17,034 |
| Goodwill | 3,740 | - | - | 3,740 |
| Segment total assets | 147,605 | 54,399 | 9,947 | 211,951 |
| For the year ended December 31, 2018 (in \$000) | Bermuda | Cayman | Corporate and Other | Total |
| Revenues | \$ 105,431 | \$ 28,447 | \$ (5,025) | \$ 128,853 |
| Depreciation and amortization | 16,909 | 4,384 | (484) | 20,809 |
| Operating expenses | 67,081 | 20,856 | 3,623 | 91,560 |
| Segment operating income / (loss) | 21,441 | 3,207 | (8,164) | 16,484 |
| Net fixed assets | \$ 102,065 | \$ 41,594 | \$ 5,955 | \$ 149,614 |
| Capital expenditures | 20,390 | 7,553 | 398 | 28,341 |
| Goodwill | 3,740 | - | - | 3,740 |
| Segment total assets | 151,670 | 47,067 | 6,876 | 205,613 |

Notes to Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

13. Comparative information

Certain prior year figures on the consolidated statements of comprehensive income have been reclassified to conform to current year presentation.

14. Subsequent events

As of March 13, 2020, the Company has no subsequent events to report.

PRINCIPAL SUBSIDIARIES

Logic Communications Ltd.

(trading as "One Communications")

30 Victoria Street

Hamilton HM 12

Bermuda

www.onecomm.bm

Bermuda Digital Communications Ltd.

(trading as "One Communications")

30 Victoria Street

Hamilton HM 12

Bermuda

www.onecomm.bm

Cable Co. Ltd.

30 Victoria Street

Hamilton HM 12

Bermuda

WestTel Limited

(trading as "Logic")

43 Eclipse Dr.

Grand Cayman

Cayman Islands

www.logic.ky

One Communications Ltd.

P.O. Box HM 2445

Hamilton HM JX

Bermuda

Tel: +1 441 295 5009

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