

The Cayman Islands Stock Exchange Ltd.

Financial Statements

June 30, 2012

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

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AUDITOR GENERAL'S REPORT

To the Board of Directors and Shareholder of the Cayman Islands Stock Exchange,

In accordance with section 60(1)(a)(ii) of the *Public Management and Finance Law (2012 Revision)* I have audited the accompanying financial statements of Cayman Islands Stock Exchange Ltd., which comprise the statement of financial position as at June 30, 2012 and the related statements of comprehensive income and retained earnings, and cash flows for the years then ended, and the notes to financial statements as set out on pages A3 – A13.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion. In conducting my audit I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Cayman Islands Stock Exchange Ltd. as at June 30, 2012, the results of its comprehensive income and retained earnings and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

November 5, 2012
Cayman Islands

The Cayman Islands Stock Exchange Ltd.

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by The Cayman Islands Stock Exchange Ltd. (the "Company") in accordance with the provisions of the *Public Management and Finance Law (2012 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2012 Revision)*.

As Vice-Chairman and Chief Executive Officer, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Company.

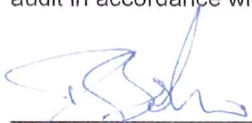
As Vice-Chairman and Chief Executive Officer we are responsible for the preparation of the Stock Exchange financial statements and for the judgements made in them.

The financial statements fairly present the statements of financial position, comprehensive income and retained earnings, and cash flows for the financial year ended June 30, 2012.

To the best of our knowledge we represent that these financial statements:

- (a) are complete and reliably reflect the financial transactions of the Company for the year ended June 30, 2012;
- (b) fairly reflect the financial position as at June 30, 2012 and performance for the year ended June 30, 2012;
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General and Deloitte & Touche jointly conducted an independent audit and expressed an opinion on the accompanying financial statements. The Office of the Auditor General and Deloitte & Touche have been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.



Dax Basdeo
Vice-Chairman
The Cayman Islands Stock Exchange Ltd.

Valia Theodoraki
Chief Executive Officer
The Cayman Islands Stock Exchange Ltd.

Date: November 5, 2012

Date: November 5, 2012

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.
Statements of Comprehensive Income and Retained Earnings
for the years ended June 30, 2012 and 2011
(expressed in Cayman Islands dollars)

	<u>2012</u>	<u>2011</u>
REVENUES		
Operations (Note 3)	\$ 1,256,227	\$ 1,041,252
CUSIP (Note 4)	402,702	413,874
Miscellaneous	15,580	17,245
Interest	<u>719</u>	<u>412</u>
	<u>1,675,228</u>	<u>1,472,783</u>
OPERATING EXPENSES		
Personnel (Notes 10 and 13)	761,568	677,592
Legal and professional fees	88,772	58,255
Lease of office (Note 6)	82,376	71,618
CUSIP	77,750	81,596
Marketing, travel and subsistence (Note 12)	58,774	27,975
Memberships, subscriptions and publications	52,456	29,179
Utilities	45,251	45,228
Technology	32,529	28,409
Other office and miscellaneous	16,915	7,295
Depreciation (Note 5)	15,746	17,415
Disaster recovery	10,464	10,011
Training	9,671	11,867
Printing, postage, courier and stationery	9,367	7,253
Insurance	3,295	3,295
Bad debts and provision for bad debts	<u>4,369</u>	<u>13,743</u>
	<u>1,269,303</u>	<u>1,090,731</u>
NET OPERATING INCOME FOR THE YEAR	405,925	382,052
Dividends (Note 9)	(246,860)	-
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>1,415,588</u>	<u>1,033,536</u>
RETAINED EARNINGS AT END OF YEAR	<u><u>\$ 1,574,653</u></u>	<u><u>\$ 1,415,588</u></u>

See notes to financial statements

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Statements of Financial Position

June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 7)	\$ 1,488,860	\$ 1,433,860
Accounts receivable (net of bad debt provision: \$15,000 (2011: \$18,831))	402,016	259,687
Prepayments and other receivables	<u>29,883</u>	<u>20,771</u>
Total current assets	<u>1,920,759</u>	<u>1,714,318</u>
LONG-TERM ASSETS		
Fixed assets (Note 5)	<u>18,546</u>	<u>31,334</u>
Total assets	<u>\$ 1,939,305</u>	<u>\$ 1,745,652</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 185,129	\$ 149,725
Deferred annual fees	<u>7,597</u>	<u>8,413</u>
Total current liabilities	<u>192,726</u>	<u>158,138</u>
SHAREHOLDER'S EQUITY		
Share capital (Note 9)	100,000	100,000
Additional paid-in capital	71,926	71,926
Retained earnings	<u>1,574,653</u>	<u>1,415,588</u>
Total shareholder's equity	<u>1,746,579</u>	<u>1,587,514</u>
Total liabilities and shareholder's equity	<u>\$ 1,939,305</u>	<u>\$ 1,745,652</u>

See notes to financial statements

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Statements of Cash Flows

for the years ended June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

	<u>2012</u>	<u>2011</u>
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net operating income for the year	\$ 405,925	\$ 382,052
Adjustments for items not affecting cash:		
Depreciation	<u>15,746</u>	<u>17,415</u>
	421,671	399,467
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	(142,329)	43,098
(Increase) in prepayments and other receivables	(9,112)	(5,711)
Increase in accounts payable and accrued liabilities	35,404	27,503
(Decrease) in deferred annual fees	<u>(816)</u>	<u>(341)</u>
Net cash provided by operating activities	<u>304,818</u>	<u>464,016</u>
INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(2,958)</u>	<u>(5,181)</u>
FINANCING ACTIVITIES		
Dividends paid	<u>(246,860)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	55,000	458,835
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,433,860</u>	<u>975,025</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,488,860</u></u>	<u><u>\$ 1,433,860</u></u>
SUPPLEMENTARY INFORMATION ON CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	<u><u>\$ 715</u></u>	<u><u>\$ 390</u></u>

See notes to financial statements

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

1. INCORPORATION AND GENERAL INFORMATION

The Cayman Islands Stock Exchange Ltd. (the "Company") was incorporated as a private company limited by shares on September 26, 1996 as CSX Ltd. pursuant to the Cayman Islands Companies Law. The Company changed its name to The Cayman Islands Stock Exchange Ltd. on December 23, 1996.

In accordance with the powers conferred by the Cayman Islands Stock Exchange Company Law, 1996 the Company is engaged in carrying on the business of establishing and operating a securities market for the listing and trading of securities. This business includes the admission of persons as exchange members entitled by reason of membership of the exchange to engage in the listing and trading of securities through the facilities made available by the Company for such purposes.

The Company is wholly owned by the Stock Exchange Authority (the "Authority") on behalf of the Government of the Cayman Islands (the "Government").

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies adopted by the Company are as follows:

Cash and cash equivalents

The Company considers cash and short-term deposits with an original maturity of three months or less to be cash and cash equivalents.

Revenue recognition

Revenue is recognised as earned. Membership and listing fees are non refundable.

Accounts receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Provisions are established when the Company determines amounts are doubtful of collection.

Translation of foreign currencies

Assets and liabilities denominated or accounted for in currencies other than Cayman Islands dollars are translated into Cayman Islands dollars at the applicable exchange rate ruling at the statement of financial position date. Foreign currency income and expense transactions are translated at the appropriate exchange rate ruling at the transaction date. Realised and unrealised gains and losses arising from such transactions are included in the statements of comprehensive income and retained earnings.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

Fixed assets are depreciated using the straight-line method over their estimated useful lives as follows:

<u>Type of fixed asset</u>	<u>Estimated useful life</u>
Leasehold improvements	remainder of current lease term
Computer hardware and software	2 to 3 years
Office furniture and equipment	5 to 10 years

Fair value of financial instruments

The fair value of financial instruments approximates their carrying value principally due to the short-term nature of such instruments.

New accounting pronouncements

At the date of authorisation of these financial statements, a number of standards and interpretations were in issue but not yet effective. The Standards and Interpretations that are likely to have an impact on the accounting policies and financial statements of the Company are as follows:

IFRS 9 *Financial Instruments* ("IFRS 9") introduces new requirements for the classification and measurement of financial assets. The standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at amortised cost or fair value, with the determination to be made at initial recognition based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

The standard is not expected to have a significant impact on the financial statements since the Company's financial assets approximate fair value.

IFRS 13 *Fair Value Measurement* ("IFRS 13") establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting pronouncements (continued)

IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of IFRS 13 on the financial statements.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the financial statements of the Company.

3. OPERATING REVENUES

Operating revenues are as follows:

	<u>2012</u>	<u>2011</u>
Listing fees:		
Mutual funds	\$ 354,773	\$ 365,105
Debt securities	274,790	260,314
Eurobonds	213,714	132,291
Insurance linked securities	99,630	-
International companies	65,190	26,650
Domestic companies	8,200	9,840
Listing document updates	<u>5,740</u>	<u>14,514</u>
	1,022,037	808,714
Listing agents fees	180,400	176,300
Broker membership fees	48,790	50,430
Affiliated membership fees	5,000	2,050
Crossing fees	<u>-</u>	<u>3,758</u>
	<u>\$ 1,256,227</u>	<u>\$ 1,041,252</u>

The classification of insurance linked securities is new. The income for such securities for 2011 and previous years was consolidated into the debt securities income category.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

(continued)

4. CUSIP REVENUES

The Company is the exclusive Committee on Uniform Security Identification Procedures ("CUSIP") international numbering agent for issuing CUSIP numbering system identifiers for securities of issuers registered in the Cayman Islands and the British Virgin Islands.

CUSIP revenues are as follows:

	<u>2012</u>	<u>2011</u>
CUSIP revenue:		
British Virgin Islands	\$ 20,664	\$ 41,389
Cayman Islands	<u>382,038</u>	<u>372,485</u>
	<u>\$ 402,702</u>	<u>\$ 413,874</u>

5. FIXED ASSETS

	<u>Leasehold improvements</u>	<u>Computer hardware and software</u>	<u>Office furniture and equipment</u>	<u>Total</u>
<u>Cost:</u>				
At July 1, 2011	\$ 143,138	\$ 1,188,772	\$ 159,470	\$ 1,491,380
Additions	<u>-</u>	<u>2,958</u>	<u>-</u>	<u>2,958</u>
At June 30, 2012	<u>143,138</u>	<u>1,191,730</u>	<u>159,470</u>	<u>1,494,338</u>
<u>Depreciation:</u>				
At July 1, 2011	143,138	1,169,572	147,336	1,460,046
Charge for the year	<u>-</u>	<u>13,440</u>	<u>2,306</u>	<u>15,746</u>
At June 30, 2012	<u>143,138</u>	<u>1,183,012</u>	<u>149,642</u>	<u>1,475,792</u>
Net book value at June 30, 2012	<u>\$ -</u>	<u>\$ 8,718</u>	<u>\$ 9,828</u>	<u>\$ 18,546</u>
Net book value at June 30, 2011	<u>\$ -</u>	<u>\$ 19,200</u>	<u>\$ 12,134</u>	<u>\$ 31,334</u>

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

(continued)

6. COMMITMENTS

The lease payments for the twelve months ended June 30, 2012, were \$82,376 (2011: \$71,618). From December 31, 2009, the Company has moved to a rolling monthly contract to lease its existing office premises on the 4th floor of Elizabethan Square. This rolling arrangement will be in place for the foreseeable future and as such the Company does not have any lease commitments for the years ended June 30, 2012 and 2011.

7. CASH AND CASH EQUIVALENTS

	<u>2012</u>	<u>2011</u>
Current and call accounts	\$ 845,195	\$ 790,910
Short-term fixed deposits maturing within one month	<u>643,665</u>	<u>642,950</u>
	<u>\$ 1,488,860</u>	<u>\$ 1,433,860</u>

8. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

The Company's operating activities expose it to various types of financial risks that are associated with the financial instruments and markets in which it invests. These financial risks include credit and counterparty risk, liquidity risk and market risk (including currency risk and interest rate risk). The Company's overall risk management program focuses on minimising potential adverse effects on the Company's operations resulting from these financial risks. The exposure to, and management of, these risks are summarised below.

Credit and counterparty risk

Credit and counterparty risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company mitigates its exposure to credit risk by placing cash with major international institutions. As the Company provides listing services, its revenue is made up of small fees from many customers. As such, any failure of a customer to pay their fees would not have a significant impact on the financial statements of the Company. The Company's policy is to provide for an allowance of doubtful debts based on specifically identified outstanding accounts receivable evaluated based on their age and assessed collectability.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company's primary financial liabilities are accounts payable and accrued liabilities. The Company monitors current assets and liabilities to ensure that it has sufficient liquid assets to be able to meet its future expected cash outflows. All the Company's liabilities are expected to be paid within one year.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

(continued)

8. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company comprises two types of risk: currency risk and interest rate risk. The Company is not exposed to any other market risks.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company operates in the Cayman Islands and the main currencies of its operations are the Cayman Islands dollar and the United States dollar.

The Cayman Islands dollar has a fixed exchange rate against the United States dollar so no currency risk or translation gains/losses arise from fluctuations between the currencies, and as such no currency risk sensitivity analysis has been prepared. The Cayman Islands dollar to United States dollar exchange rate used by the Company is 0.82.

The only foreign currency monetary assets or liabilities held at June 30, 2012, were United States dollars as part of cash and cash equivalents in the amount of \$1,426,311 (2011: \$1,230,927).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The only financial instrument upon which changes in interest rates could have an impact is a fixed deposit, renewed monthly, in the amount of \$643,665 (2011: \$642,950) which is shown on the statements of financial position as part of cash and cash equivalents. As the financial instrument is short term in nature and a fixed rate is set at each monthly renewal of the fixed deposit, interest rate fluctuations would not significantly impact the Company's future cash flows. As such, no sensitivity analysis for interest rate risk has been prepared.

9. SHARE CAPITAL

The authorised and issued share capital of the Company is \$100,000 divided into 100,000 shares of \$1 each. All of the shares were exclusively subscribed on behalf of the Government by the Authority in 1996 in accordance with the Cayman Islands Stock Exchange Company Law, 1996.

The present dividend policy is for the Company to pay 75.00% of net operating income to the Government. The Government is the 100% shareholder of the Company and the dividend policy is reviewed on an annual basis. The Stock Exchange Council has deferred declaration of the dividend related to the year ended June 30, 2012.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

(continued)

9. SHARE CAPITAL (continued)

Due to the projected needs of the Company and the actual performance during the financial year, the Stock Exchange Council reassessed the dividend policy for the year ended June 30, 2011 and proposed the dividend payment be similar to that of the year ended June 30, 2010. Therefore, on October 28, 2011, the Stock Exchange Council approved dividend payments for the years ended June 30, 2011 and June 30, 2010 of \$1.2343 per share totaling \$123,430 and \$1.2343 per share totaling \$123,430, respectively. The dividends declared for the years ended June 30, 2010 and 2011 were fully paid to the Government during the year ended June 30, 2012.

10. PERSONNEL

Included within personnel expenses are the salary, pension and healthcare payments made to and on behalf of the eight (2011: eight) members of staff employed during the year. For the year ended June 30, 2012 total personnel expenses amounted to \$761,568 (2011: \$677,592). Total remuneration for the Company's three key management personnel was \$431,233 for the year ended June 30, 2012 (2011: \$328,337). At June 30, 2012, key management personnel consisted of the Chief Executive Officer, and the Head of Listings. At June 30, 2011, key management personnel consisted of the Chief Executive Officer, Head of Markets and Compliance and the Head of Listings. The Head of Markets and Compliance resigned from the Company effective February 29, 2012.

Included in prepayments and other receivables are amounts receivable from employees amounting to \$7,182 (2011: \$3,999) of which \$2,932 (2011: \$3,999) is receivable from key management personnel.

11. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern without additional funding from the Cayman Islands Government. The Company's overall strategy remains unchanged from the year ended June 30, 2011. The capital structure of the Company consists of issued shares and retained earnings.

12. MARKETING, TRAVEL AND SUBSISTENCE

Marketing, travel and subsistence largely consists of advertising costs of \$5,937 (2011: \$6,825), and cost for conferences, and international trade events in Canada, Colombia, the Cayman Islands and New York of \$25,254 (2011: Madrid and Chicago of \$13,303).

13. PENSION SCHEME

As required by the National Pensions Law of the Cayman Islands, the Company has established for its employees a defined contribution pension scheme with a third party pensions provider based in the Cayman Islands up to a maximum of CI\$250/month. The mandatory contribution rate under the law is 10% of the employee's salary, borne equally by the employer and employee. The Company contributions are borne 5.00% by the employer and 5.00% by the employee. The total pension cost recorded during the year ended June 30, 2012, was CI\$18,404 (2011: CI\$20,275). This represents the employer's portion and is included in personnel expenses.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2012 and 2011

(expressed in Cayman Islands dollars)

(continued)

14. RELATED PARTY TRANSACTIONS

Related party balances and transactions are disclosed elsewhere in these financial statements.

15. SUBSEQUENT EVENTS

Management has evaluated the possibility of subsequent events existing in the Company's financial statements through November 5, 2012, the date the financial statements were available to be issued.

The Company, with approval by the Board of Directors, entered into an agreement on September 3, 2012 with a third party service provider to upgrade the Company's trading platform. The cost of the upgrade as described in the agreement is EUR 290,000 and the purchase will be accounted for as an intangible asset and will be amortized over 5 years.

Management has determined that there are no further material events that would require disclosure in the Company's financial statements.

16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Stock Exchange Council and authorised for issue on November 5, 2012.