# LOM (HOLDINGS) LIMITED

## Consolidated Financial Statements and Independent Auditors' Report

## For the years ended December 31, 2012 and 2011

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders' of
LOM (Holdings) Limited

We have audited the accompanying consolidated balance sheet of LOM (Holdings) Limited and Subsidiaries (the "Company") as of December 31, 2012 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company for the year ended December 31, 2011 were audited by other auditors whose report, dated April 23, 2012, expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information contained in the five year comparison table in Note 16 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Deloitte + Touche Ltd.

April 30, 2013

**LOM (HOLDINGS) LIMITED**
**CONSOLIDATED BALANCE SHEETS**
as of December 31, 2012 and 2011
(expressed in U.S. Dollars)

| | 2012 | 2011 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 3,307,953 | $ 3,584,865 |
| Securities owned, at fair value (cost: 2012 - $4,254,829 2011 - $2,808,590) (Note 3) | 4,579,973 | 3,835,952 |
| Accounts receivable | 567,753 | 67,612 |
| Due from related parties | 9,881 | 9,357 |
| Prepaid expenses and other assets | 185,593 | 279,922 |
| Equity investment in affiliate (Note 4) | 1,228,438 | 1,193,569 |
| Property and equipment, net (Note 5) | 8,402,231 | 8,598,594 |
| TOTAL ASSETS | $ 18,281,822 | $ 17,569,871 |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | $ 780,517 | $ 695,144 |
| Securities sold short at fair value (proceeds: 2012 - $1,262,673, 2011 - $7,101) (Note 3) | 1,423,098 | 6,817 |
| TOTAL LIABILITIES | 2,203,615 | 701,961 |
| SHAREHOLDERS' EQUITY | | |
| Common shares, par value $0.10 per share; 20,000,000 shares authorized, and 6,143,074 (2011 - 6,149,174) shares issued and outstanding (Note 6) | 614,307 | 614,917 |
| Additional paid-in capital | 3,277,496 | 3,291,841 |
| Loans receivable for issuance of common shares (Note 8) | (138,950) | (138,950) |
| Retained earnings | 12,325,354 | 13,100,102 |
| TOTAL SHAREHOLDERS'EQUITY | 16,078,207 | 16,867,910 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 18,281,822 | $ 17,569,871 |

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

Approved by the Board of Directors:

____________________________ Director

____________________________ Director

**LOM (HOLDINGS) LIMITED**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
for the years ended December 31, 2012 and 2011
(expressed in U.S. Dollars)

| | 2012 | 2011 |
|---|---|---|
| REVENUES | | |
| Broking fee income | $ 2,280,051 | $ 3,185,694 |
| Management and investment advisory fees including related party management fees of $1,314,395 in 2012 and $1,231,957 in 2011 | 2,260,183 | 2,258,603 |
| Net interest income, net of interest expense of $301,675 in 2012 and $174,901in 2011 | 547,419 | 757,452 |
| Rental income, including related party rent of $243,800 in 2012 and $243,800 in 2011 | 702,265 | 726,562 |
| Other income | 540,231 | 527,826 |
| Income from affiliate | 137,069 | 164,183 |
| Foreign exchange income, net | 585,608 | 899,412 |
| Net trading losses on securities owned | (493,551) | (296,017) |
| Corporate finance income | 103,348 | 36,221 |
| Administration and custody fees | 72,779 | 76,026 |
| TOTAL REVENUES | 6,735,402 | 8,335,962 |
| OPERATING EXPENSES | | |
| Employee compensation and benefits | 2,745,338 | 3,083,995 |
| Commissions and referral fees | 1,631,123 | 1,890,327 |
| Computer and information services | 513,002 | 647,350 |
| Depreciation of property and equipment (Note 5) | 368,831 | 312,433 |
| Jitney fees | 298,137 | 377,753 |
| Advisory fee expense | 26,922 | 176,408 |
| Professional fees | 721,216 | 654,565 |
| Occupancy | 587,303 | 653,060 |
| Administration | 208,226 | 388,656 |
| Insurance | 165,697 | 198,462 |
| Loss on disposal of fixed assets | - | 750,581 |
| Custodial charges | 240,325 | 579,409 |
| Net foreign exchange transaction losses | 4,030 | 94,580 |
| TOTAL OPERATING EXPENSES | 7,510,150 | 9,807,579 |
| NET LOSS | $ (774,748) | $ (1,471,617) |
| NET LOSS PER COMMON SHARE | | |
| Basic and diluted | $ (0.13) | $ (0.24) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: | | |
| Basic and diluted | 6,146,089 | 6,168,336 |

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

**LOM (HOLDINGS) LIMITED**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
for the years ended December 31, 2012 and 2011
(expressed in U.S. Dollars)

| | Common Shares | Share Capital | Additional Paid-in Capital | Loans Receivable for Issuance of Common shares | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| BALANCE – January 1, 2011 | 6,223,450 | $ 622,345 | $ 3,499,555 | $ (171,050) | $ 14,633,358 | $ 18,584,208 |
| Net loss | - | - | - | - | (1,471,617) | (1,471,617) |
| Repurchase and retirement of common shares | (74,276) | (7,428) | (216,750) | - | - | (224,178) |
| Stock based compensation expense | - | - | 9,036 | - | - | 9,036 |
| Payment of loans receivable for issuance of common shares | - | - | - | 30,903 | - | 30,903 |
| Dividends declared and paid | - | - | - | 1,197 | (61,639) | (60,442) |
| BALANCE – December 31, 2011 | 6,149,174 | $ 614,917 | $ 3,291,841 | $ (138,950) | $ 13,100,102 | $ 16,867,910 |

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

**LOM (HOLDINGS) LIMITED**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)**
for the years ended December 31, 2012 and 2011
(expressed in U.S. Dollars)

| | Common Shares | Share Capital | Additional Paid-in Capital | Loans Receivable for Issuance of Common shares | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| BALANCE – January 1, 2012 | 6,149,174 | $ 614,917 | $ 3,291,841 | $ (138,950) | $ 13,100,102 | $ 16,867,910 |
| Net loss | - | - | - | - | (774,748) | (774,748) |
| Repurchase and retirement of common shares | (6,100) | (610) | (14,345) | - | - | (14,955) |
| BALANCE – December 31, 2012 | 6,143,074 | $ 614,307 | $ 3,277,496 | $ (138,950) | $ 12,325,354 | $ 16,078,207 |

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

**LOM (HOLDINGS) LIMITED**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
for the years ended December 31, 2012 and 2011
(expressed in U.S. Dollars)

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (774,748) | $ (1,471,617) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation of property and equipment (Note 5) | 368,831 | 312,433 |
| Stock based compensation expense | - | 9,036 |
| Net income from equity investment in affiliate | (137,069) | (164,184) |
| Dividends received from equity investment in affiliate | 102,200 | 102,200 |
| Loss on disposal of fixed assets | - | 750,581 |
| Net trading losses on securities owned | 493,551 | 296,017 |
| Changes in operating assets and liabilities: | | |
| Securities owned, net | (1,237,572) | 221,716 |
| Accounts receivable | (500,141) | 289,734 |
| Due from related parties | (524) | 10,647 |
| Prepaid expenses and other assets | 94,329 | 48,922 |
| Accounts payable and accrued liabilities | 85,373 | (68,657) |
| Securities sold short | 1,416,281 | 6,817 |
| Net unrealized gain on futures contracts | - | (4,412) |
| Total adjustments | 685,259 | 1,810,850 |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | (89,489) | 339,233 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (172,468) | (295,860) |
| Net cash used in investing activities | (172,468) | (295,860) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repurchase of common shares | (14,955) | (224,178) |
| Proceeds from loan receivable for issuance of common shares | - | 30,903 |
| Dividends paid | - | (60,442) |
| NET CASH USED IN FINANCING ACTIVITIES | (14,955) | (253,717) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (276,912) | (210,344) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 3,584,865 | 3,795,209 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 3,307,953 | $ 3,584,865 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid | $ 301,675 | $ 174,901 |
| Non-Cash Investing and Financing Activities: | | |
| Dividends paid during the year, offset against loans receivable for issuance of common shares | $ - | $ 1,197 |

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

1. DESCRIPTION OF BUSINESS

LOM (Holdings) Limited ("Holdings"), a holding company for several wholly owned subsidiaries, was incorporated on May 1, 1996 under the laws of Bermuda. The common shares of Holdings are publicly traded and listed on the Bermuda Stock Exchange. Holdings, collectively, with its subsidiaries, is referred to as the "Company" or the "LOM Group of Companies."

A description of the operations of Holdings' wholly-owned subsidiaries is as follows:

LOM Securities (Bermuda) Limited ("LOMB") was incorporated in 1998 to provide investment and financial advice, brokerage services and discretionary investment management services. LOMB is domiciled and operates in Bermuda and is regulated under the Investment Business Act (2003) of Bermuda.

LOM International Holdings Limited, a Bahamian company, was incorporated in the Commonwealth of the Bahamas in 2005 to hold the LOM Group of Companies non-Bermuda subsidiaries. However, LOM Securities (Cayman) Limited was dissolved on May 14, 2012 and all the shares of LOM (UK) Limited were sold to the company on February 15, 2011. LOM International Holdings Limited went through a voluntary liquidation and was dissolved on July 30, 2012 in accordance with Bahamian law.

LOM Securities (Cayman) Limited was incorporated in 1995 under the laws of the Cayman Islands as an exempt company with limited liability and was regulated by the Cayman Islands Monetary Authority until the company voluntarily surrendered its license in December 2011. The LOM Securities (Cayman) Limited office was closed in March 2011 as the company consolidated its Caribbean operations into its office in Nassau in the Bahamas. The Company went through a voluntary liquidation and was dissolved on May 14, 2012 in accordance with Cayman island laws.

LOM Securities (Bahamas) Limited was incorporated in 2001 in the Commonwealth of The Bahamas and is regulated by the Securities Commission of the Bahamas. LOM Securities (Bahamas) Limited is domiciled in the Bahamas and is engaged in a single line of business as a Bahamian broker-dealer, which comprises several classes of service, including principal transactions, agency transactions and the provision of investment advisory services.

LOM Asset Management Limited was incorporated in 1995 to offer its services as investment consultant, manager and advisor. LOM Asset Management Limited is domiciled and operates in Bermuda and is regulated under the Investment Business Act (2003) of Bermuda.

Global Custody & Clearing Limited ("GCCL") was incorporated in 1992, to provide custody, settlement, information technology and execution services as well as certain finance, human resources and administrative services to other companies in the LOM Group of Companies. GCCL operates in Bermuda and is regulated under the Investment Business Act (2003) of Bermuda. GCCL was previously known as Lines Overseas Management Limited ("LOML") and went through a name change effective February 9, 2012.

1. DESCRIPTION OF BUSINESS (Cont'd)

LOM Properties Limited was incorporated in 1996 to hold property for Holdings in Bermuda.

LOM Capital Limited ("LOMCP") was incorporated in 1998 to offer services to source, value, document and close capital investments in growing companies. LOMCP is domiciled and operates in Bermuda.

LOM Services Limited, a Bermuda company, was incorporated in 2003 to provide information technology and client services to the LOM Group of Companies and external clients. The assets, liabilities and intellectual property of LOM Services Limited were purchased by LOML on October 19, 2010. The Company was dissolved on February 3, 2011.

Donald & Co. Limited, a Bermuda company, was incorporated in 2012 to perform nominee services.

LOM Nominees Limited, a Bermuda company, was incorporated in 1994 to perform nominee services.

LOM (UK) Limited was incorporated in the United Kingdom in 2004 to market the LOM Group of Companies services to intermediaries in Europe. It also provides assistance in administration for the LOM Group of Companies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

*Principles of Consolidation and Basis of Presentation*

The consolidated financial statements include the financial statements and results of operations of all wholly-owned subsidiaries listed in Note 1 above. All inter-company balances and transactions are eliminated on consolidation.

*Broking Fee Income and Jitney Fees*

Broking fee income represents amounts charged to clients for brokerage services and related jitney fees are amounts charged to the Company by the executing broker. Both are recognized on a trade date basis.

*Management and Investment Advisory Fees*

The LOM Group of Companies receives management fees and investment advisory fees for managing assets on a discretionary basis for both private and institutional clients and earns management and investment advisory fees based on the value of the portfolio, which are recorded

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

*Management and Investment Advisory Fees (cont'd)*

on an accrual basis and recognized on a monthly basis. The LOM Group of Companies also earns management fees from the following mutual funds listed on the Bermuda Stock Exchange (collectively referred to as the LOM Sponsored Funds), which are recorded on an accrual basis and recognized on a monthly basis, based on the net asset values:

- LOM Funds SAC Limited

    a. LOM Money Market Fund (USD, CAD, GBP)
    b. LOM Fixed Income Fund (USD, EUR)
    c. LOM Equity Growth Fund
    d. LOM Balanced Fund
    e. LOM Stable Income Fund

- LOM Commodities Fund Limited

*Foreign Exchange Income, net*

Foreign exchange income represents income earned from foreign currency transactions facilitated for customers and are based on the current foreign exchange rates, and is net of foreign exchange fees charged by external brokers. Foreign exchange income is recorded on a trade date basis.

*Corporate Finance Income*

Corporate finance income consists of fees earned for the underwriting of securities, generally for privately held companies, and is received in the form of cash, securities or warrants from its underlying investments. When corporate finance income is received in the form of securities, the Company records income based on the fair value of the securities received as of the date of the transaction. Fair value is the last reported sales price on the main market in which the investments trade on the date of valuation. Where there are no sales on that day, the mid-market prices are used. Where income is received in the form of warrants, the Board of Directors determines a price based on the fair value of the warrant. Corporate finance income for 2012 amounted to $103,348 (2011 $36,221).

*Administration and Custody Fees*

Administration fees, charged for the administrative and custodial services provided to the LOM Sponsored Funds, are recorded on an accrual basis over the period during which the service is provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

*Net Interest Income*

Net interest income is a combination of interest earned on or paid to clients based on their daily cash balances and interest received or paid on the Company's cash balances from and to brokers, custodians and related parties (see Note 10). Interest income for 2012 amounted to $849,095 (2011 - $932,353). Interest expense for 2012 amounted to $301,675 (2011 - $174,901).

*Other Income*

Other income earned includes fees for settlement of client investment transactions and dividends received related to the Company's investments. Fees earned for settlement of client investment transactions and dividends received related to the Company's investments are recorded on a transaction date basis.

*Rental Income*

Rental income consists of rent earned from the lease of office space in the Company owned office building and includes rent from related parties and is recorded on an accrual basis. (See Note 10)

*Cash and Cash Equivalents*

The Company has defined cash equivalents as highly liquid investments, with original maturities of 90 days or less that are not held for sale in the ordinary course of business. Cash and cash equivalents can include time deposits, money market funds and U.S. Treasury bills with original maturities of 90 days or less.

*Property and Equipment*

Property and equipment is stated at cost, net of accumulated depreciation. The costs of normal maintenance and repairs are charged to expense in the year incurred. Expenditures which significantly improve or extend the life of an asset are capitalized and depreciated over the asset's remaining useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

*Property and Equipment (cont'd)*

Depreciation is recorded on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lesser of the life of the asset or the remaining lease term. Upon sale or disposition of an asset, the related cost and accumulated depreciation are removed and the resultant gain or loss, if any, is reflected in earnings. The useful lives of the Company's assets are as follows:

| | |
|---|---|
| Building | 40 years |
| Computer hardware and software | 3 years |
| Furniture and fittings | 4 years |
| Leasehold improvements | 4 - 6 years |
| Machinery and equipment | 4 years |

*Unclaimed Cash and Securities*

Client funds received and unclaimed after a three-year period are included as income under the category of other income. Securities received and unclaimed after a five-year period are sold and included as income under the category of other income. During 2012, the amount of unclaimed cash and proceeds from the sale of unclaimed securities was $151,535 (2011 - $ Nil).

*Foreign Currency Transactions and Balances*

The Company has adopted U.S. Dollars as its functional currency for Holdings and all subsidiaries (including LOM (UK) Limited) because the majority of the Company's transactions and assets under management are denominated in U.S. Dollars. Bermuda Dollars and Bahamian Dollars trade at par with the U.S. Dollar. Therefore, no foreign currency translation gains or losses are recorded in the accompanying consolidated financial statements. Foreign currency transaction gains or losses are recorded at the prevailing foreign exchange rates on the date of the transaction and are reflected in earnings for the year in the accompanying consolidated statement of operations.

*Securities Owned*

Securities owned are investments such as bonds and equities that are both marketable and non-marketable. These investments consist of trading investments, securities received as income from corporate finance transactions, privately held securities, and other strategic investments. Realized and unrealized gains or losses on trading securities and strategic investments are reflected in earnings as net trading gains and losses in the consolidated statements of operations. Realized gains or losses are based on the average cost method of securities purchased and sold. Security transactions are recorded on a trade date basis. Marketable securities are valued at the last reported sales price on the principal market in which the investments trade on the date of valuation. Where there are no sales on that day, the mid-market prices are used. For securities with no readily available market price or where the security is restricted, the securities are recorded at the estimated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

*Securities Owned (cont'd)*

fair value in accordance with U.S. GAAP. The use of different assumptions or valuation techniques could produce materially different estimates of fair value. Non-marketable equity securities consist of privately held securities of $2,562,034 (2011 - $2,009,138). These securities have been valued with reference to observable market prices or valuation models that make use of certain quantitative and qualitative inputs for similar securities traded in active markets, in accordance with U.S. GAAP (see Note 3, Fair Value Measurements).

*Investments Recorded Under the Equity Method*

For investments in entities that do not constitute a Variable Interest Entity ("VIE"), or for investments in securities owned and held as trading investments which are held at fair value, the Company considers other U.S. GAAP guidance, as required, in determining (i) consolidation of the entity if the Company's ownership interests comprise a majority of its outstanding voting shares or otherwise control the entity, or (ii) application of the equity method of accounting if the Company does not have direct or indirect control of the entity, with the initial investment carried at cost and subsequently adjusted for the Company's share of net income or loss and cash contributions and distributions to and from these entities.

If events or circumstances indicate that the fair value of an investment accounted for using the equity method has declined below its carrying value and the Company considers the decline to be "other than temporary," the investment is written down to fair value and an impairment loss is recognized. The evaluation of impairment for an investment would be based on a number of factors, including financial condition and operating results for the investment, inability to remain in compliance with provisions of any related debt agreements, and recognition of impairments by other investors. Impairment recognition would negatively impact the recorded value of the Company's investment and reduce net income.

*Stock-Based Compensation Plans*

The Company accounts for stock-based compensation under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, "Compensation – Stock Compensation," which requires the recognition of the fair value of stock-based compensation. Under the fair value recognition provisions for ASC Topic 718, stock-based compensation is estimated at the grant date based on the fair value of the awards expected to vest and recognized as expense rateably over the requisite service period of the award. The Company uses the Black-Scholes valuation model to estimate fair value of stock-based awards, which requires various assumptions including estimating stock price volatility, forfeiture rates and expected life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

*Fair Value of Financial Instruments*

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, securities owned, securities sold short, accounts payable and accrued liabilities. The book value of cash and cash equivalents, accounts receivable, and accounts payable is considered to be representative of their fair value because of their short term maturities.

*Fair Value Measurements*

ASC 820 "Fair Value Measurements" defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 applies to all assets and liabilities that are measured and reported on a fair value basis (see Note 3, Fair Value Measurements).

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to a concentration of credit risk principally consist of cash and cash equivalents, employee loans and securities owned. The Company has its cash and cash equivalents and securities placed with major international and local financial institutions. As part of its cash management process, the Company performs continuous evaluation of the relative credit standing of these institutions.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from the other sources. The most significant estimates include estimates recorded for the fair market value of privately held securities. On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

*Net Loss Per Common Share*

The Company calculates basic net loss per common share and diluted net loss per common share assuming dilution. Basic net loss per common share is calculated by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the period, plus potential dilutive common shares. Options issued by the Company are considered potential dilutive common shares and are included in the calculation using the treasury stock method, unless their inclusion would be considered anti-dilutive. In 2011, all the 1,275,000 outstanding stock options that would have been considered anti-dilutive were excluded in the calculation of diluted net loss per common share. These stock options all expired on June 14, 2012.

*Securities Sold Short*

The Company may sell a security it does not own in anticipation of a decline in fair value of the security, or as a hedge against similar securities owned. When the Company sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale. Obligations related to securities sold short are recorded as a liability at fair value. Realized and unrealized gains and losses are recorded in net trading losses/gains in the consolidated statement of operations. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, is recognized on a monthly basis.

*Certain assets held by MF Global UK Limited*

Certain GCCL clients held several accounts with MF Global UK Limited, which went into liquidation on 31 October 2011. The appointed receivers have confirmed the cash and securities that make up the claim of GCCL's clients (valued at approximately US$5 million) and made an initial interim payment to GCCL of $548,000 during 2012. A second interim payment of approximately $945,000 is expected in the fourth quarter of 2013, as well as the return of equities currently valued at approximately US$2.7 million. As a result of this liquidation, these equities held for clients of GCCL, cannot currently be accessed until the liquidator is in a position to release them. To ensure there is no adverse impact on these clients, GCCL has purchased several equity positions from clients wishing to sell their holdings and these are included in Securities Owned with a market value of $1.4 million. These purchases were subsequently sold short as a hedge to ensure that GCCL has no market exposure to fluctuations in price and are included in Securities sold short with a market value of $1.4 million.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

***Adoption of New Accounting Standards***

*Fair Value Measurement and Disclosures*

In May 2011, FASB issued amendments to disclosure requirements for common fair value measurement. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption was prohibited), resulted in a common definition of fair value and common requirements for measurement and disclosure under U.S. GAAP and International Financial Reporting Standards ("IFRS"). Consequently, the amendments have changed some fair value measurement principles and disclosure requirements. The implementation of this amended accounting guidance has not had a material impact on the Company's consolidated financial statements.

***Accounting Standards Not Yet Adopted***

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, "Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). The objective of ASU 2011-11 is to enhance disclosures by requiring improved information about financial instruments and derivative instruments in relation to netting arrangements. ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of this guidance; however, since this update affects disclosures only, it is not expected to have a material impact on the Company's consolidated financial statements.

The Company has determined that all other recently issued accounting pronouncements do not apply to its operations.

3. SECURITIES OWNED AND FAIR VALUE MEASUREMENTS

*Fair Value Measurements*

ASC 820 clarifies the definition of fair value, establishes a framework for measurement of fair value and expands disclosure about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 applies to all financial instruments that are measured and reported on a fair value basis.

Where available, fair value is based on observable market prices or is derived from such prices. In instances where valuation models are applied, inputs are correlated to a market value, combinations of market values or the Company's proprietary data. The Company primarily uses the market approach.

3. SECURITIES OWNED AND FAIR VALUE MEASUREMENTS (Cont'd)

*Fair Value Measurements (Cont'd)*

*Market Approach*

The market approach uses prices and other pertinent information generated from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables or may include matrix pricing.

*Income Approach*

The income approach uses valuation techniques to convert future values e.g. cash flows, or earnings to a single discounted present amount. The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques include present value computations, option pricing models and a binomial model. In following these approaches, the types of factors the Company may take into account in estimating fair value include: available current market data, including relevant and applicable market quotes, yields and multiples, quotations received from counterparties, brokers or dealers when considered reliable, subsequent rounds of financing, recapitalizations and other recent transactions in the same or similar instruments, restrictions on disposition, the entity's current or projected earnings and discounted cash flows, the market in which the entity does business, comparisons of financial ratios of peer companies that are public, merger and acquisitions comparables and the principal market and enterprise values, among other factors. Based on these approaches, the Company will use certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company aims to use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses valuation techniques it believes are most appropriate to estimate the fair value of its portfolio investments; however, considerable judgment is required in interpreting market data to develop the estimates of fair value. There are inherent limitations in any estimation technique.

For investments in publicly held securities that trade on exchanges, the Company generally uses the market approach, except when circumstances, in the estimation of the Company, warrant consideration of other data such as current market prices for similar securities in cases where current market data is not available or unreliable. Many of the stocks and warrants held are in small cap companies and are highly volatile with thinly traded daily volumes. Sudden sharp declines in the market value of such securities can result in very illiquid markets. Management and the directors have taken all of these factors into account, including the fact that some securities it holds are currently restricted as to sale, in arriving at their best estimate of the fair value of the securities.

3. SECURITIES OWNED AND FAIR VALUE MEASUREMENTS

*Fair Value Measurements (cont'd)*

The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange and there can be no assurance that the fair values for these investments will be fully realizable upon their ultimate disposition or reflective of future fair values. Because of the inherent uncertainty of valuation, the estimated fair values of certain privately held investments may differ significantly from values that would have been used had an observable market for the privately held investment existed, and the differences could be material.

Based on the inputs used in the valuation techniques described above, financial instruments are categorized according to the fair value hierarchy prescribed by ASC 820. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 - Observable inputs that reflect quoted market prices are available in active markets for identical assets or liabilities as of the reporting date. The types of investments in Level 1 include listed equities and monetary gold.

- Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data. Investments in this category include less liquid and restricted equity securities and securities in markets for which there are few transactions (inactive markets).

- 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. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs. Investments in this category include investments in private companies.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the assignment of the asset within the fair value hierarchy is 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.

(expressed in U.S. Dollars)

3. SECURITIES OWNED AND FAIR VALUE MEASUREMENTS (Cont'd)

*Fair Value Measurements (cont'd)*

When determination is made to classify a financial instrument within Level 3, the determination is based upon the lack of significance of the observable parameters to the overall fair value measurement. However, the fair value determination for Level 3 financial instruments may include observable components. The following are the Company's major categories of assets measured at fair value on a recurring basis at December 31, 2012 and 2011, categorized by the ASC 820 fair value hierarchy:

| | Fair Value Measurements at December 31, 2012 Using: | | | |
|---|---|---|---|---|
| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| **Assets:** | | | | |
| **Equity Securities:** | | | | |
| Financial services industry | $ 1,088,532 | $ 360 | $ - | $ 1,088,892 |
| Industrial industries | - | 29 | - | 29 |
| Life insurance industry | - | 80,800 | - | 80,800 |
| Investment exchange industry | - | - | 905,753 | 905,753 |
| Restaurant industry | - | 111 | - | 111 |
| Media industry | - | - | 1,108,711 | 1,108,711 |
| Mining industry | 71,592 | 20 | 547,570 | 619,182 |
| Telecommunication industry | - | 1,019 | - | 1,019 |
| Oil industry | - | 41,844 | - | 41,844 |
| Other | 38 | 15,745 | - | 15,783 |
| **Total Equity Securities** | 1,160,162 | 139,928 | 2,562,034 | 3,862,124 |
| **Mutual Funds:** | | | | |
| Exchanged traded fund | 362,967 | - | - | 362,967 |
| **Commodities:** | | | | |
| Gold | 349,470 | - | - | 349,470 |
| **Derivatives:** | | | | |
| Commodity futures contract | 5,412 | - | - | 5,412 |
| **Total Assets** | $ 1,878,011 | $ 139,928 | $ 2,562,034 | $ 4,579,973 |

(expressed in U.S. Dollars)

3. SECURITIES OWNED AND FAIR VALUE MEASUREMENTS (Cont'd)

*Fair Value Measurements (cont'd)*

| | Fair Value Measurements at December 31, 2012 Using: | | | |
|---|---|---|---|---|
| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| **Liabilities:** | | | | |
| **Securities Sold Short:** | | | | |
| Financial services industry | $ 1,084,954 | $ - | $ - | $ 1,084,954 |
| Exchange traded funds | 338,120 | - | - | 338,120 |
| Other | - | 24 | - | 24 |
| **Total Liabilities** | $ 1,423,074 | $ 24 | $ - | $ 1,423,098 |

**LOM (HOLDINGS) LIMITED**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
December 31, 2012 and 2011
(expressed in U.S. Dollars)

3. SECURITIES OWNED AND FAIR VALUE MEASUREMENTS (Cont'd)

*Fair Value Measurements (Cont'd)*

| | Fair Value Measurements at December 31, 2011 Using: | | | |
|---|---|---|---|---|
| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| **Assets:** | | | | |
| **Equity Securities:** | | | | |
| Banking industry | $ 3,181 | $ - | $ - | $ 3,181 |
| Commercial services industry | - | 20,565 | - | 20,565 |
| Financial services industry | 6,793 | 32,855 | - | 39,648 |
| Investment exchange industry | - | - | 1,031,553 | 1,031,553 |
| Life insurance industry | - | 179,493 | - | 179,493 |
| Media industry | - | 1,157,522 | - | 1,157,522 |
| Mining industry | 86,640 | - | 977,109 | 1,063,749 |
| Real estate industry | - | 41,098 | - | 41,098 |
| Restaurant industry | - | 110 | - | 110 |
| Telecommunication industry | - | 396 | 476 | 872 |
| Other | 38 | 8,659 | - | 8,697 |
| **Total Equity Securities** | 96,652 | 1,440,698 | 2,009,138 | 3,546,488 |
| **Mutual Funds:** | | | | |
| Exchanged traded fund | 10,325 | - | - | 10,235 |
| Open-ended fund | - | 166,758 | - | 166,758 |
| **Total Mutual Funds** | 10,235 | 166,758 | - | 176,993 |
| **Commodities:** | | | | |
| Gold | 111,023 | - | - | 111,023 |
| **Derivatives:** | | | | |
| Commodity futures contract | 1,448 | - | - | 1,448 |
| **Total Assets** | $ 219,358 | $ 1,607,456 | $ 2,009,138 | $ 3,835,952 |

(expressed in U.S. Dollars)

3. SECURITIES OWNED AND FAIR VALUE MEASUREMENTS (Cont'd)

*Fair Value Measurements (Cont'd)*

| Description | Fair Value Measurements at December 31, 2011 Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| **Liabilities:** | | | | |
| **Securities Sold Short:** | | | | |
| Financial services industry | $ 6,797 | $ - | $ - | $ 6,797 |
| Other securities sold short | - | 20 | - | 20 |
| **Total Liabilities** | $ 6,797 | $ 20 | $ - | $ 6,817 |

There were no transfers between Levels 1 and 2 during the years ended December 31, 2012 and 2011.

The following is a reconciliation of the beginning and ending balances for the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2012 and 2011:

| Description | Privately Held Securities |
|---|---|
| Assets: | |
| Balance, January 1, 2012 | $ 2,009,138 |
| Purchases | 608,045 |
| Sales | (608,045) |
| Total loss, net included in earnings | (555,339) |
| Transfers in to Level 3 | 1,108,711 |
| Transfers out of Level 3 | (476) |
| Balance, December 31, 2012 | $ 2,562,034 |
| Unrealized gains and losses relating to investments still held at December 31, 2012 | $ (556,016) |

(expressed in U.S. Dollars)

3. SECURITIES OWNED AND FAIR VALUE MEASUREMENTS (Cont'd)

*Fair Value Measurements (Cont'd)*

| Description | | Privately Held Securities |
|---|---|---|
| Assets: | | |
| Balance, January 1, 2011 | $ | 2,073,383 |
| Purchases | | 397 |
| Sales | | - |
| Total loss, net included in earnings | | (64,642) |
| Transfers in and/or out of Level 3 | | - |
| Balance, December 31, 2011 | $ | 2,009,138 |
| Unrealized gains and losses relating to investments still held at December 31, 2011 | $ | (64,642) |

The Company holds an investment in Bermuda Press (Holdings) Limited with this valuation arrived at by using a combination of weightings using the net asset value method and the quoted market price method. At December 31, 2012, the fair value of the Company's investment in Bermuda Press (Holdings) Limited was determined to be $1,108,711 (2011 - $1,031,553).

The Company has obtained independent valuations to estimate the fair value of three investments held in privately held securities. For purposes of valuing privately held securities, fair value is defined as the amount at which a minority common stock interest in a privately held enterprise could be bought or sold in a current transaction between unrelated willing parties, that is, other than in a forced or liquidation sale. The methodology used in determining fair value uses a variety of factors giving each factor a weighting. When evidence supports a change to the carrying value from the transaction price, adjustments will be made to reflect expected exit values in the investment's principal market under current market conditions.

Included in privately held securities is the Company's investment in the Bermuda Stock Exchange ("BSX") which amounts to approximately 15% of the BSX's outstanding shares at December 31, 2012 and 2011, which has a value of $905,753 as of December 31, 2012 (2011 - $1,031,553). The shares of BSX are not traded in an active market and management has estimated the fair value by using price to earnings ratios of comparable publically traded securities exchanges as well as other quantitative and qualitative factors. The Company also included its investment in Pembrook Mining Corp. ("Pembrook") in privately held securities. The fair value used a combination of price to earnings ratios of comparable publically traded securities and transactions in its own stock giving each method an appropriate weighting. At December 31, 2012, the fair value of the Company's investment in Pembrook was determined to be $547,570 (2011 - $571,193). The Company also

(expressed in U.S. Dollars)

3. SECURITIES OWNED AND FAIR VALUE MEASUREMENTS (Cont'd)

*Fair Value Measurements (Cont'd)*

holds an investment in Viking Exploration Corp. which at December 31, 2012 was considered to be impaired and as a result, written down to $Nil. The fair value of this investment was determined to be $405,915 at December 31, 2011.

Ongoing reviews are conducted by the Company's management on all privately held securities based on an assessment of the underlying investments from the inception date through the most recent valuation date.

The Company's investments in Bermuda Press, BSX, Pembrook, and Viking are included in Level 3 of the fair value hierarchy at December 31, 2012 and 2011.

*Derivatives*

As of December 31, 2012, the Company owned 4 derivative futures contracts consisting of short gold mini futures (2011 – 1 contract) which have been used as hedges against quantities of physical gold held in inventory by the Company. These derivatives are traded on recognized commodity exchanges and the Company executes the trades through a broker on a net margin basis. As of December 31, 2012, the underlying notional value of the four short contracts, each representing 33.2 fine troy ounces of gold, amounted to $222,613 (2011 - $53,518) compared to a cost of $228,025 (2011 - $52,070) resulting in an unrealized gain of $5,412 (2011 – unrealized gain of $1,448). Because the contracts are executed on a net margin basis, the Company recorded only the unrealized gain in the financial statements.

At December 31, 2012, the volume of the Company's derivative activities based on their notional amounts and number of contracts, categorized by primary underlying risk, are as follows:

| Primary Underlying Risk | Underlying Contract Size | Number of Contracts |
|---|---|---|
| Commodities | | |
| Short Gold Mini Futures | 33.2 ounces of Fine Troy Gold | 4 |

During the year ended December 31, 2012, the Company recorded realized losses of $54,408 (2011 – realised gains of $87,263) from derivative trades, hedging its physical gold held for resale to customers.

(expressed in U.S. Dollars)

## 4. EQUITY INVESTMENT IN YORKSTREET HOLDINGS LIMITED

| | 2012 | 2011 |
|---|---|---|
| Yorkstreet Holdings Limited ("YHL") | $ 1,228,438 | $ 1,193,569 |

The Company owns 127,750 (39.92%) ordinary shares of YHL, an affiliate, which is accounted for under the equity method. The Company's Chair of the Board of Directors is the Chair of YHL's Board of Directors. The Company also engages in certain transactions with YHL (see note 10).

YHL provides management services through its wholly owned subsidiaries. The Company's share of the net income of YHL for the year ended December 31, 2012 was $137,069 (2011 - $164,183). The Company received a dividend in 2012 of $102,200 (2011 - $102,200) which was recorded as a reduction in the carrying value of the investment on the consolidated balance sheet.

Components of net change in investments recorded under the equity method:

| | 2012 | 2011 |
|---|---|---|
| Opening balance, January 1 | $ 1,193,569 | $ 1,131,585 |
| Net income | 137,069 | 164,183 |
| Dividends received | (102,200) | (102,200) |
| Net change | 34,869 | 61,983 |
| Closing balance, December 31 | $ 1,228,438 | $ 1,193,569 |

The following is summarized financial information of Yorkstreet Holdings Limited:

| | 2012 | 2011 |
|---|---|---|
| Current assets | $ 3,588,447 | $ 3,585,709 |
| Total assets | 3,855,232 | 3,860,434 |
| Current liabilities | 905,510 | 998,071 |
| Total liabilities | 905,510 | 998,071 |
| Total equity | 2,949,722 | 2,862,363 |
| Total revenues | 2,251,666 | 2,474,914 |
| Net income | 343,359 | 410,500 |

(expressed in U.S. Dollars)

## 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| 2012 | Cost | Accumulated Depreciation | Net Carrying Value |
|---|---|---|---|
| Building | $ 8,559,374 | $ (2,814,362) | $ 5,745,012 |
| Freehold land | 2,008,192 | - | 2,008,192 |
| Computer hardware and software | 1,572,029 | (1,031,576) | 540,453 |
| Fixtures and fittings | 534,063 | (528,934) | 5,129 |
| Leasehold improvements | 495,020 | (428,524) | 66,496 |
| Machinery and equipment | 477,856 | (440,907) | 36,949 |
| | $ 13,646,534 | $ (5,244,303) | $ 8,402,231 |

| 2011 | Cost | Accumulated Depreciation | Net Carrying Value |
|---|---|---|---|
| Building | $ 8,559,374 | $ (2,599,804) | $ 5,959,570 |
| Freehold land | 2,008,192 | - | 2,008,192 |
| Computer hardware and software | 1,451,884 | (976,038) | 475,846 |
| Fixtures and fittings | 532,233 | (527,316) | 4,917 |
| Leasehold improvements | 526,810 | (408,553) | 118,257 |
| Machinery and equipment | 449,526 | (417,714) | 31,812 |
| | $ 13,528,019 | $ (4,929,425) | $ 8,598,594 |

Depreciation expense for the year ended December 31, 2012 amounted to $368,831 (2011 - $312,433). Included in computer hardware and software at December 31, 2012 are assets which have not been placed in service in the amount of $Nil (2011 - $435,518). Accordingly, no depreciation expense was recorded related to these assets for the year ended December 31, 2011.

## 6. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

The Board of Directors has authorized the Company in 2012 to purchase up to $100,000 (2011 - $500,000) of its own shares from existing shareholders at no fixed price per share and that the shares repurchased be retired. Such repurchase is subject to appropriate market conditions and repurchases will only be made in the best interest of the Company. During the year, the Company repurchased 6,100 (2011 –74,276) shares in the open market at an average price of $2.45 (2011 - $3.02) per share, for cash. These shares were immediately retired upon repurchase.

(expressed in U.S. Dollars)

7. STOCK-BASED COMPENSATION PLANS

From time to time, the Company may grant stock options to executive and management personnel at its discretion. A summary of the status of the plan as of December 31, 2012 and changes during the year then ended is presented below:

Directors' and Executive Stock Option Plan

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Number of Stock Options | | Weighted Average Exercise Price | Weighted Average Remaining Contracted Terms (in years) | Aggregate Intrinsic Value |
| Outstanding – Beginning | 1,275,000 | $ | 5.15 | 0.5 years | |
| Granted | - | | - | | - |
| Exercised | - | | - | | - |
| Expired | 1,275,000 | | 5.15 | | - |
| Outstanding – Ending | Nil | $ | 5.15 | | - |
| Excercisable | Nil | $ | 5.15 | | - |

On June 15, 2007, the Board of Directors granted and authorized the issuance of 1,375,000 stock options with an exercise price of $5.15 with an expiry date of June 14, 2012. The vesting period was 20% immediately and 20% annually on the anniversary date of the grants until fully vested. The fair value of shares vested during the years ended December 31, 2012 amounted to $Nil (2011 - $9,036). There were no options granted during 2011 or 2012. As of December 31, 2012, there was no unrecognized compensation costs related to stock options granted.

Stock Based Compensation expense of $Nil was recognized during the year ended December 31, 2012 (2011 - $9,036).

8. LOANS RECEIVABLE FOR ISSUANCE OF COMMON SHARES

As of December 31, 2012, loans receivable for issuance of common shares relating to previous stock option exercises amounted to $138,950 (2011 - $138,950). These loans were to be repaid over a five-year period ending November 20, 2012. This repayment date was extended to June 30. 2013. At December 31, 2012, common shares of the Company with a market value of $257,250 is held in two escrow accounts as collateral for the loans.

## 9. ASSETS UNDER MANAGEMENT

Cash, securities and properties held in the Company's role as custodian for customers are not included in the consolidated balance sheet as they are not the property of the Company. The Company is licensed by the Bermuda Monetary Authority under the Investment Business Act of 2003 and approved to hold client assets. The assets under management include LOM's investments, the LOM Sponsored Funds and the clients' investments which are included in the LOM Sponsored Funds. The fair value of assets under management as of December 31, 2012 is approximately $674 million (2011 - $681 million).

## 10. RELATED PARTY TRANSACTIONS

During the year, the Company earned broking fee revenue from directors and employees of $23,141 (2011 - $34,459).

During the year, the Company had transactions with shareholders who are also directors and employees of the Company. These transactions consisted of commission expenses of $531,632 (2011 - $840,004).

During 2011, the Company earned rent and service charge income of $243,800 (2011 - $243,800) from YHL. In addition, the Company earned $30,180 (2011 - $30,790) for information technology services, recorded in other income, of which $8,520 (2011 - $7,700) is still outstanding at year end.

During the year, the Company paid $37,540 (2011 - $38,484) for corporate services, recorded in professional fees, provided by Waterstreet Corporate Services, a subsidiary of YHL. However, $8,801 (2011 – $9,029) of this amount, related to payments for annual government fees.

The Company earned management fees during the year of $1,314,396 (2011 - $1,231,957) from the LOM Sponsored Funds, of which $318,641 (2011 - $ Nil) was included in accounts receivable at year end.

The Company is the custodian for the LOM Sponsored Funds and receives a custodial fee, recorded in administrative and custody fees, of $72,779 (2011 - $76,026) for these services, of which $15,578 (2011 - $ Nil) was included in accounts receivable at year end.

## 11. OFF-BALANCE SHEET AND OTHER RISKS

In the normal course of trading, the Company is party to certain financial instruments with off-balance sheet risk, where the risk of potential loss due to changes in the market ("market risk") or failure of the other party to the transaction to perform (credit risk) exceeds the related amounts recorded. The Company attempts to manage these risks on an aggregate basis along with the risks associated with its investing activities as part of its overall risk management policies. Refer to Note 14 for client related off-balance sheet risks.

11. OFF-BALANCE SHEET AND OTHER RISKS (Cont'd)

*Credit Risk*

The Company is potentially subject to credit risk associated with its cash and cash equivalents and securities owned. The Company's credit risk is equal to the replacement cost at the then-estimated fair value of the instrument, less recoveries. As the Company places its cash and cash equivalents and securities with major international and local financial institutions, management believes that the risk of incurring losses on these financial instruments is remote and that such losses, if any, would not be material.

*Liquidity Risk*

The Company is potentially subject to liquidity risk on some of its non-marketable or illiquid securities owned. As a result, the Company may be unable to realize the full fair value of these securities since it may not be able to liquidate its positions in a timely manner.

*Market Risk*

The Company is subject to market risk on its securities owned. As a result of changes in market conditions, the values of these financial instruments will fluctuate.

*Currency Risk*

From time to time, the Company holds positions that are exposed to changes in foreign exchange rates (currency risk) whose gains or losses may exceed the related amounts recorded. The fair value may change based on the fluctuations in the value of these underlying currencies.

12. FUTURE LEASE PAYMENTS

The Company leases office space under operating leases for certain of its overseas operations. Future annual minimum lease payments (excluding real estate taxes and maintenance costs) are as follows:

| For the Years Ending December 31, | Amount |
|---|---|
| 2013 | $ 50,747 |

Operating lease rent expense (including real estate taxes and maintenance costs) were $65,728 (2011 – $66,002).

(expressed in U.S. Dollars)

## 13. INCOME TAXES

The Company accounts for income taxes in accordance with ASC 740 "Income Taxes" ("ASC 740"). ASC 740 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company makes no provision for income taxes since under current legislation in the jurisdictions in which it operates, no income taxes are imposed upon the Company. In addition, the Company is not subject to, and does not anticipate becoming subject to, income taxes in any jurisdiction in which it currently operates, other than in the United Kingdom. LOM (UK) Limited is subject to income taxes.

A reconciliation of the statutory income tax rates applied to the Company's net income from LOM (UK) Limited for the years ended December 31, 2012 and 2011 is as follows:

Provision for income taxes consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Income tax benefit for foreign operations at statutory rate in effect of 24.5% (2011 - 26%) | $ (3,759) | $ (1,844) |
| Depreciation adjustment | (52) | (76) |
| Permanent differences | - | - |
| Income tax benefit | (3,811) | (1,920) |
| Less: increase in valuation allowance | (3,811) | (1,920) |
| Income Tax Expense (Benefit) | $ - | $ - |

LOM (UK) Limited, has a deferred tax asset of approximately $154,646 (2011 – $162,009), arising predominantly from availability of net operating losses to be deducted from future taxable income. The asset has not been recognized and a full valuation allowance is provided for as there is no certainty that sufficient profits will arise in future accounting periods.

## 14. COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET RISK

*Client Activities*

In the normal course of business, the Company's client activities include execution, settlement, and financing of various client securities and commodities transactions. These activities may expose the Company to off-balance sheet risk in the event the client is unable to fulfill its contractual obligations and the Company has to sell the financial instrument underlying the contract at a loss. The Company attempts to mitigate this risk by adhering to strict policies requiring client acceptance procedures prior to the execution of any transactions.

The Company's client securities activities' are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the client collateralized by cash and securities in the client's account. The Company seeks to control the risks associated with its client activities by requiring clients to maintain margin collateral in compliance with various regulatory, exchange, and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the clients to deposit additional collateral or reduce positions when necessary. Such transactions may expose the Company to significant off-balance sheet risk in the event the margin is not sufficient to fully cover losses which clients may incur. In the event the client fails to satisfy its obligations, the Company may be required to purchase or sell the collateral at prevailing market prices in order to fulfill the client's obligations.

The Company records client transactions on a transaction date basis, which is generally the day of the trade. The Company is therefore exposed to risk of loss on these transactions in the event of the client's or broker's inability to meet the terms of their contracts in which case the Company may have to purchase or sell financial instruments at prevailing market prices.

*Counterparty Risk*

In the event counterparties to the transactions do not fulfill their obligations, the Company may be exposed to significant credit risk to the extent such obligations are unsecured. The Company's policy is to monitor its market exposure and counterparty risk through the use of a variety of credit exposure reporting and control procedures.

*Employment Contract Commitments*

The Company remains liable for health insurance premiums related to a termination agreement signed on July 1, 2005 for one of its directors and officers. The firm is liable for 50% of the premiums due for this individual and their family through June 30, 2015. The Company recorded under employee compensation and benefits total expenses of $9,048 in 2012 (2011 - $8,372) as a result of the agreement.

14. COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET RISK (Cont'd)

*Legal Proceedings*

From time to time, the Company is involved in various legal proceedings, including arbitration proceedings, and/or regulatory inquiries that arise in the normal course of business. These matters generally relate to specific client accounts and/or transactions and may include requests for information on or from officers of the Company. In the opinion of management, the aggregate amount of any potential liability arising from such matters is not expected to have a material effect on the Company's financial position or results of operations. Management is unaware of any outstanding legal claims.

*Regulatory Restrictions*

The Company's business operations are strictly regulated under the laws of Bermuda and Bahamas, and other jurisdictions that the Company operates and has business relationships. Compliance with many of the regulations applicable to the Company involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation. In the event of non-compliance with an applicable regulation, securities regulators may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, issuance of cease-and-desist orders, deregistration or suspension of the non-compliant company. It could even lead to the suspension or disqualification of the Company officers or employees, or other adverse consequences. The imposition of such penalties or orders on the Company could in turn have a material adverse effect on the Company's operating results and financial condition.

*Futures Contracts*

Futures contracts provide reduced counterparty risk to the Company since futures are exchange-traded; and the exchange's clearinghouse, as the counterparty to all exchange-traded futures, guarantees the futures against default. For futures contracts where the Company takes a short position, a gain, limited to the original fair value of the contract, or a loss, unlimited in size, will be recognized upon the termination of the futures contract. Short futures contracts represent obligations of the Company to deliver specified securities or commodities at contracted prices and thereby create a liability to repurchase the securities or commodity in the market at prevailing prices. Accordingly, these transactions involve, to varying degrees, elements of market risk, as the Company's ultimate obligation to satisfy the sale of securities sold short may exceed the amount recognized in the statement of financial condition.

## 14. COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET RISK (Cont'd)

*Minimum Net Asset Requirements*

Certain subsidiaries of the Company are required to maintain a minimum net asset or regulatory capital amount to satisfy the domiciliary regulator. Those minimum amounts are as follows:

| | | |
|---|---|---|
| LOM Securities (Bermuda) Limited | $ | 250,000 |
| LOM Asset Management Limited | $ | 250,000 |
| Global Custody and Clearing Limited | $ | 250,000 |
| LOM Securities (Bahamas) Limited | $ | 300,000 |

## 15. SEGMENT INFORMATION

The Company operates its business in segments which have been segregated based on products and services reflecting the way that management organizes the segments within the business for making operating decisions and assessing performance.

*Measurement of Segment Income and Segment Assets*

The Company evaluates each segment's performance based on its contribution to consolidated net income (loss). The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

*Factors Management Used to Identify the Company's Reportable Segment*

Management monitors performance based on individual companies. The description of these companies is included in Note 1 to the consolidated financial statements. Intersegment revenue and expenses are allocated based on contractual terms that may not necessarily be at arm's length.

Intersegment revenue relates to recharges from Holdings to all wholly-owned subsidiaries for information technology charges, administrative expenses and rent. These are charged at Holdings estimated current market prices. Revenues from segments below the quantitative thresholds for disclosure prescribed by US GAAP are attributable to three operating segments and are aggregated and included in the other operating segment. These operating segments include LOM Services Limited (until its closure in 2011), LOM Capital Limited and LOM (UK) Limited.

(expressed in U.S. Dollars)

15. SEGMENT INFORMATION (Cont'd)

| 2012 | LOM Securities (Bermuda) Limited | LOM Securities (Cayman) Limited | LOM Securities (Bahamas) Limited | LOM Asset Management Limited (Bermuda) | Global Custody Clearing Limited | LOM (Holdings) Limited (Bermuda) | LOM Properties Limited (Bermuda) | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues from external customers | $ 1,196,027 | $ - | $ 1,155,210 | $ 1,877,117 | $ 1,575,684 | $ 72,767 | $ 704,575 | $ 154,022 | $ - | $ 6,735,402 |
| Intersegment revenue | 100,215 | - | 54,000 | 19,074 | 1,489,001 | - | 296,880 | - | (1,959,170) | - |
| Total revenue | $ 1,296,242 | $ - | $ 1,209,210 | $ 1,896,191 | $ 3,064,685 | $ 72,767 | $ 1,001,455 | $ 154,022 | $ (1,959,170) | $ 6,735,402 |
| Depreciation | $ - | $ - | $ 33,268 | $ - | $ 82,495 | $ - | $ 253,068 | $ - | $ - | $ 368,831 |
| Operating expenses | 2,209,248 | 203 | 1,361,490 | 1,678,744 | 2,948,411 | 1,766,373 | 906,246 | 818,988 | (4,179,553) | 7,510,150 |
| Segment (loss) income | (913,006) | (203) | (152,280) | 217,447 | 116,274 | (1,693,606) | 95,209 | (664,964) | 2,220,381 | (774,748) |
| Identifiable assets | 1,269,743 | - | 333,419 | 653,093 | 3,620,355 | 18,271,752 | 8,069,310 | 177,331 | (14,113,181) | 18,281,822 |
| Long-lived assets, net of depreciation | - | - | 8,585 | - | 540,940 | - | 7,852,706 | - | - | 8,402,231 |
| Capital expenditures | - | - | - | - | 142,307 | - | 30,161 | - | - | 172,468 |

(expressed in U.S. Dollars)

15. SEGMENT INFORMATION (Cont'd)

| 2011 | LOM Securities (Bermuda) Limited | LOM Securities (Cayman) Limited | LOM Securities (Bahamas) Limited | LOM Asset Management Limited (Bermuda) | Lines Overseas Management Limited (Bermuda) | LOM (Holdings) Limited (Bermuda) | LOM Properties Limited (Bermuda) | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues from external customers | $ 2,791,160 | $ 299 | $ 1,676,855 | $ 1,719,174 | $ 1,374,271 | $ (6,631) | $ 728,353 | $ 52,481 | $ - | $ 8,335,962 |
| Intersegment revenue | 14,803 | - | 1,100 | 99,631 | 1,404,659 | 770,000 | 396,679 | - | (2,686,872) | - |
| Total revenue | $ 2,805,963 | $ 299 | $ 1,677,955 | $ 1,818,805 | $ 2,778,930 | $ 763,369 | $ 1,125,032 | $ 52,481 | $ (2,686,872) | $ 8,335,962 |
| Depreciation | $ - | $ - | $ 44,327 | $ - | $ 23,932 | $ - | $ 244,174 | $ - | $ - | $ 312,433 |
| Operating expenses | 2,747,793 | 16,785 | 1,563,759 | 2,225,962 | 3,972,240 | 250,768 | 920,758 | 26,386 | (1,916,872) | 9,807,579 |
| Segment (loss) income | 58,170 | (16,486) | 114,196 | (407,157) | (1,193,310) | 512,601 | 204,274 | 26,095 | (770,000) | (1,471,617) |
| Identifiable assets | 1,548,450 | 17,085 | 433,329 | 720,240 | 1,964,117 | 19,964,250 | 8,122,204 | 854,875 | (16,054,679) | 17,569,871 |
| Long-lived assets, net of depreciation | - | - | 41,853 | - | 481,128 | - | 8,075,613 | - | - | 8,598,594 |
| Capital expenditures | - | - | 15,891 | - | 218,554 | - | 61,415 | - | - | 295,860 |

(expressed in U.S. Dollars)

15. SEGMENT INFORMATION (Cont'd)

*Geographic Split*

| 2012 | Bermuda | Cayman | Bahamas | Total |
|---|---|---|---|---|
| Revenues from external customers | $ 5,580,172 | $ - | $ 1,155,230 | $ 6,735,402 |
| Long-lived assets – property, plant and equipment | 8,393,646 | - | 8,585 | 8,402,231 |

| 2011 | Bermuda | Cayman | Bahamas | Total |
|---|---|---|---|---|
| Revenues from external customers | $ 6,658,808 | $ 299 | $ 1,676,855 | $ 8,335,962 |
| Long-lived assets – property, plant and equipment | 8,556,741 | - | 41,853 | 8,598,594 |

Geographic split is disclosed by location of business.

16. SUPPLEMENTARY INFORMATION – FIVE YEAR COMPARISON TABLE

Income Statement Data – For the Year Ended December 31,

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Net revenue-interest income | $ 547,419 | $ 757,452 | $ 707,755 | $ 631,373 | $ 1,239,978 |
| Fees and other income | 6,187,983 | 7,578,510 | 8,117,679 | 7,383,116 | 7,546,866 |
| Operating expenses | (7,510,150) | (9,807,579) | (9,115,322) | (8,454,264) | (9,552,358) |
| Net loss | $ (774,748) | $ (1,471,617) | $ (289,888) | $ (439,775) | $ (765,514) |

(expressed in U.S. Dollars)

16. SUPPLEMENTARY INFORMATION – FIVE YEAR COMPARISON TABLE (Cont'd)

Balance Sheet Data – As of December 31,

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Cash, cash equivalents and restricted cash | $ 3,307,953 | $ 3,548,865 | $ 3,795,209 | $ 4,276,008 | $ 3,409,556 |
| Securities owned | 4,579,973 | 3,835,952 | 4,353,685 | 4,953,207 | 4,979,635 |
| Property and equipment, net | 8,402,231 | 8,598,594 | 9,365,748 | 9,447,224 | 9,709,480 |
| Total assets | 18,281,822 | 17,569,871 | 19,352,421 | 21,374,241 | 21,833,802 |
| Shareholders' equity | 16,078,207 | 16,867,910 | 18,584,208 | 19,033,826 | 19,498,393 |
| Directors and Executives Shareholdings (in numbers of shares owned) | 4,129,396 | 4,102,896 | 3,586,996 | 3,465,496 | 3,515,096 |

Financial Ratios – As of December 31,

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Liabilities – equity ratio | 13.7% | 4.2% | 4.1% | 12.3% | 12.0% |
| Return on equity | (4.8) | (8.7) | (1.6) | (2.3) | (3.9) |
| Return on assets | (4.2) | (8.4) | (1.5) | (2.1) | (3.5) |

## 17. SUBSEQUENT EVENTS

Management has evaluated subsequent events from the balance sheet date through April 30, 2013 which is the date these consolidated financial statements are available to be issued and determined that there were no material events that would require recognition or disclosure in the Company's consolidated financial statements through that date.