

LOM FINANCIAL LIMITED

**Consolidated Financial Statements and
Independent Auditors' Report**

**For the years ended
December 31, 2017 and 2016**

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
LOM Financial Limited:

We have audited the accompanying consolidated financial statements of LOM Financial Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LOM Financial Limited and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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

Deloitte Ltd.

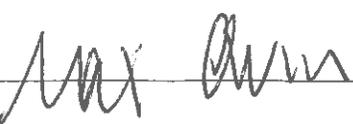
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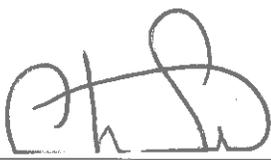
LOM FINANCIAL LIMITED
CONSOLIDATED BALANCE SHEETS
as of December 31, 2017 and 2016
(expresses in U.S. Dollars)

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 3,126,551	\$ 4,673,571
Securities owned, at fair value (cost: 2017 - \$3,851,132; 2016 - \$3,370,313) (Note 3)	4,143,683	3,196,602
Accounts receivable	735,979	566,835
Due from related parties (Note 8)	31,476	43,384
Prepaid expenses and other assets	228,044	275,105
Equity investment in affiliate (Note 4)	1,790,862	1,665,005
Property and equipment, net (Note 5)	9,036,959	7,233,851
TOTAL ASSETS	\$ 19,093,554	\$ 17,654,353
LIABILITIES		
Accounts payable and accrued liabilities	\$ 693,542	\$ 513,709
Securities sold short, at fair value (proceeds: 2017 - \$1,168, 2016 - \$83,518) (Note 3)	12,089	73,596
TOTAL LIABILITIES	705,631	587,305
SHAREHOLDERS' EQUITY		
Common shares, par value \$0.10 per share; 20,000,000 shares authorized, and 5,944,878 (2016 - 5,996,878) shares issued and outstanding (Note 6)	594,488	599,688
Additional paid-in capital	2,834,745	2,959,545
Retained earnings	14,958,690	13,507,815
TOTAL SHAREHOLDERS' EQUITY	18,387,923	17,067,048
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 19,093,554	\$ 17,654,353

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

Approved by the Board of Directors:

Director 


Director

LOM FINANCIAL LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended December 31, 2017 and 2016
(expresses in U.S. Dollars)

	2017	2016
REVENUES		
Broking fee income	\$ 3,184,507	\$ 2,060,396
Management and investment advisory fees including related party management fees of \$2,128,605 (2016 - \$1,685,573)	4,162,710	3,111,349
Net interest income, net of interest expense of \$188,613 (2016- \$155,900)	1,137,906	990,981
Rental income, including related party rent of \$316,478 (2016- \$318,398)	721,295	715,020
Other income	318,002	281,134
Income from equity investment in affiliate	125,857	108,645
Foreign exchange income, net	337,681	302,971
Net trading gains on securities owned	605,746	279,636
Corporate finance income	30,588	92,656
Administration and custody fees	142,422	48,822
TOTAL REVENUES	10,766,714	7,991,610
OPERATING EXPENSES		
Employee compensation and benefits	3,121,533	2,783,977
Commissions and referral fees	2,810,128	1,942,724
Computer and information services	593,068	522,154
Depreciation of property and equipment (Note 5)	402,965	402,882
Jitney fees	237,679	188,069
Professional fees	636,355	474,770
Occupancy	683,918	590,554
Administration	504,715	244,887
Insurance	144,011	134,595
Custodial charges	152,104	133,429
Net foreign exchange transaction (losses)/gains	(30,587)	19,811
TOTAL OPERATING EXPENSES	9,255,889	7,437,852
NET INCOME	\$ 1,510,825	\$ 553,758
NET INCOME PER COMMON SHARE		
Basic and diluted	\$ 0.25	\$ 0.09
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic and diluted	5,978,431	6,004,791

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

LOM FINANCIAL LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
for the years ended December 31, 2017 and 2016
(expresses in U.S. Dollars)

	<u>Common Shares</u>	<u>Share Capital</u>	<u>Additional Paid-in Capital</u>	<u>Loans Receivable for Issuance of Common shares</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance– December 31, 2015	6,021,250	\$ 602,125	\$ 3,013,163	\$ (46,300)	\$ 12,954,057	\$ 16,523,045
Net income	-	-	-	-	553,758	553,758
Repurchase and retirement of common shares	(24,372)	(2,437)	(53,618)	-	-	(56,055)
Settlement of loans receivable	-	-	-	46,300	-	46,300
Balance – December 31, 2016	<u>5,996,878</u>	<u>599,688</u>	<u>2,959,545</u>	<u>-</u>	<u>13,507,815</u>	<u>17,067,048</u>
Net income	-	-	-	-	1,510,825	1,510,825
Repurchase and retirement of common shares	(52,000)	(5,200)	(124,800)	-	-	(130,000)
Dividend	-	-	-	-	(59,950)	(59,950)
Balance– December 31, 2017	<u><u>5,944,878</u></u>	<u><u>\$ 594,488</u></u>	<u><u>\$ 2,834,745</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 14,958,690</u></u>	<u><u>\$ 18,387,923</u></u>

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

LOM FINANCIAL LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2017 and 2016
(expressed in U.S. Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,510,825	\$ 553,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	402,965	402,882
Income from equity investment in affiliate	(125,857)	(108,645)
Loss on disposal of property and equipment	748	-
Changes in operating assets and liabilities:		
Securities owned	(947,081)	(222,180)
Accounts receivable	(169,144)	(58,310)
Due from related parties	11,908	(8,674)
Prepaid expenses and other assets	47,061	(45,685)
Accounts payable and accrued liabilities	179,833	65,263
Securities sold short, at fair value	(61,507)	(150,275)
Total adjustments	(661,074)	(125,624)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>849,751</u>	<u>428,134</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,207,247)	(221,900)
Proceeds on disposal of property and equipment	426	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,206,821)</u>	<u>(221,900)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common shares	(130,000)	(56,055)
Repayment of loans for issuance of common shares	-	46,300
Dividend paid	(59,950)	-
NET CASH USED IN FINANCING ACTIVITIES	<u>(189,950)</u>	<u>(9,755)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,547,020)	196,479
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,673,571	4,477,092
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,126,551</u>	<u>\$ 4,673,571</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 188,613</u>	<u>\$ 155,900</u>

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

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

1. DESCRIPTION OF BUSINESS

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

A description of the operations of LOMFL’s wholly-owned subsidiaries is as follows:

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

LOM Financial (Bahamas) Limited (“LOMF BAH”) was incorporated in 2001 in the Commonwealth of The Bahamas and is regulated by the Securities Commission of the Bahamas. LOMF BAH 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.

LOM Properties Limited was incorporated in 1996 to hold property for LOMFL in Bermuda and Bahamas.

LOM Corporate Finance Ltd. (“LOMCF”) was incorporated in 1998 to offer services to source, value, document and close capital investments in growing companies. LOMCF is domiciled and operates in Bermuda.

Donald & Co. Limited, a Bermuda company, was incorporated in 2013 to perform nominee services.

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

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

1. DESCRIPTION OF BUSINESS (Cont'd)

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 IT, Marketing and Finance services to the LOM Group of Companies.

LOM Global Admin Inc. was incorporated in the Philippines in 2017 to provide the group with marketing support in Asia. The Company is registered with the Philippines Securities and Exchange Commission.

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 (“U.S. GAAP”). Certain of the prior year balances have been reclassified to conform to the presentation adopted for the current year.

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 on an accrual basis and recognized on a monthly basis. The LOM Group of Companies also earns management fees from the following mutual funds (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 (listed on the Bermuda Stock Exchange)
 - a. LOM Money Market Fund (USD, CAD, GBP)
 - b. LOM Fixed Income Fund (USD, CAD, EUR, GBP)
 - c. LOM Equity Growth Fund
 - d. LOM Balanced Fund
 - e. LOM Stable Income Fund
 - f. LOM Emerging Market Fund

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

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

Management and Investment Advisory Fees (cont'd)

The Company also earns a performance fee on the LOM Emerging Markets Fund. This fee is 20 percent of the increase in the value of the NAV above the prior quarter's NAV provided the quarterly performance is positive and the Fund NAV exceeds the 'high water market' level. The high watermark is defined as the NAV for the latest quarter for which a fee was crystallized and paid.

- LOM Commodities Fund Limited
- Burnaby Special Funds SAC Ltd.
 - a. Burnaby QGF Fund

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 from clients participating in private placements 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.

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.

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 8).

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

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

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 8).

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.

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 - 5 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 2017, the amount of unclaimed cash and proceeds from the sale of unclaimed securities was \$26 (2016 - \$78).

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

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

Foreign Currency Transactions and Balances

The Company has adopted U.S. Dollars as its functional currency for the Company and all subsidiaries (including LOM (UK) Limited and Global Admin Inc.) 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 fair value in accordance with U.S. GAAP. The use of different assumptions or valuation techniques could produce materially different estimates of fair value. These securities have been valued with reference to observable and unobservable inputs 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.

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

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

Investments Recorded Under the Equity Method (cont'd)

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.

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.

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

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

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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.

Net Income Per Common Share

The Company calculates basic net income per common share and diluted net income per common share assuming dilution. Basic net income per common share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income 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.

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.

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

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

New Accounting Standards - Not yet Adopted

Financial Instruments

In January 2016, the FASB issued Accounting Standards Update 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01, which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is currently assessing the impact the adoption of ASU No. 2016-01 will have on future financial statements and related disclosures.

Revenue from Contracts with Customers

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a framework, through a five-step process, for recognizing revenue from customers, improves comparability and consistency of recognizing revenue across entities, industries, jurisdictions and capital markets, and requires enhanced disclosures. Certain contracts with customers are specifically excluded from the scope of ASU 2014-09, including; amongst others, insurance contracts accounted for under Accounting Standard Codification 944, Financial Services - Insurance. The effective date for this update is the same as for Accounting Standard Update No. 2017-13 Revenue from Contracts with Customers (TOPIC 606), which defers the effective date of ASU 2014-09 resulting in the effective date being for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact the adoption of ASU 2014-09 will have on future financial statements and related disclosures.

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

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.

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.

LOM FINANCIAL LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(expressed in U.S. Dollars)

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

Income Approach (cont'd)

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 acquisition comparable 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.

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.

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

Income Approach (Cont'd)

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.

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.

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

The following are the Company's major categories of assets measured at fair value on a recurring basis at December 31, 2017 and 2016, categorized by the ASC 820 fair value hierarchy:

<u>Fair Value Measurements at December 31, 2017 Using:</u>				
Quoted Prices				
<u>Description</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Assets:				
Equity Securities:				
Financial services	\$ -	\$ 972	\$ -	\$ 972
Investment exchange	-	-	811,404	811,404
Restaurant	-	70	-	70
Consumer discretionary	-	617	-	617
Consumer Staples	7,358	-	-	7,358
Media	-	-	2,279,689	2,279,689
Mining	34,801	172,374	191,994	399,169
Utilities	1,841	-	-	1,841
Telecommunication	87	-	9,938	10,025
Oil	-	4,486	-	4,486
Biotech	-	-	13,488	13,488
Industrial	-	30	-	30
Insurance	1,035	-	-	1,035
Other	3,636	3,740	-	7,376
Total Equity Securities	<u>48,758</u>	<u>182,289</u>	<u>3,306,513</u>	<u>3,537,560</u>
Commodities:				
Gold	606,123	-	-	606,123
Total Assets	<u>\$ 654,881</u>	<u>\$ 182,289</u>	<u>\$ 3,306,513</u>	<u>\$ 4,143,683</u>
Liabilities:				
Commodities:				
Gold	\$ 12,089	\$ -	\$ -	\$ 12,089
Total Liabilities	<u>\$ 12,089</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,089</u>

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

Fair Value Measurements at December 31, 2016 Using:

<u>Description</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Assets:				
Equity Securities:				
Financial services	\$ -	\$ 920	\$ -	\$ 920
Investment exchange	-	-	1,006,392	1,006,392
Restaurant	-	70	-	70
Consumer discretionary	-	1,355	-	1,355
Media	-	-	1,457,204	1,457,204
Mining	16	76,187	389,567	465,770
Utilities	1,269	-	-	1,269
Telecommunication	-	86	18,595	18,681
Oil	-	6,200	-	6,200
Biotech	-	-	13,488	13,488
Other	4,635	3,098	-	7,733
Total Equity Securities	5,920	87,916	2,885,246	2,979,082
Commodities:				
Gold	217,520	-	-	217,520
Total Assets	\$ 223,440	\$ 87,916	\$ 2,885,246	\$ 3,196,602
Liabilities:				
Commodities:				
Gold	\$ 73,596	\$ -	\$ -	\$ 73,596
Total Liabilities	\$ 73,596	\$ -	\$ -	\$ 73,596

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

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, 2017 and 2016:

	2017	2016
Assets:		
Balance, January 1	\$ 2,885,246	\$ 2,638,423
Transfers from level 3 to level 2	(35,702)	-
Purchases	-	135,802
Sales	-	-
Net change in unrealized gains / (losses)	456,969	111,021
	<u>3,306,513</u>	<u>2,885,246</u>
Balance, December 31	\$ 3,306,513	\$ 2,885,246
	<u>456,969</u>	<u>111,021</u>
Change in unrealized gains / (losses) relating to investments still held at December 31	\$ 456,969	\$ 111,021

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. The three investments are Bermuda Press (Holdings) Limited ("Bermuda Press"), The Bermuda Stock Exchange ("BSX"), and Pembroke Mining Corp. ("Pembroke"). The Company's investments in Bermuda Press, BSX and Pembroke are included in Level 3 of the fair value hierarchy at December 31, 2017 and 2016.

Bermuda Press' valuation is determined by a combination of a single period capitalization method for the property rental segment of the business and a net asset value method for the remainder of the business. At December 31, 2017, the fair value of the Company's investment in Bermuda Press was determined to be \$2,279,689 (2016 - \$1,457,204).

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

The investment in the BSX, which amounts to approximately 15% of the total outstanding shares at December 31, 2017 and 2016, is valued at \$811,404 as of December 31, 2017 (2016 - \$1,006,392). The shares of BSX are not traded in an active market and management has estimated the fair value by using combination of weightings including the market approach and the income approach. Market approach valuation techniques used included the guideline public company transaction method, guideline own company stock transaction method and guideline public company comparable method. The income approach method utilized the discounted cash flow method.

Pembroke's valuation is calculation by using the market approach, which was determined by using the guideline own company stock transaction method. At December 31, 2017, the fair value of the Company's investment in Pembroke was determined to be \$191,994 (2016 - \$353,865).

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.

Derivatives

As of December 31, 2017, the Company was short 13 derivative futures contracts (2016 - Nil contracts consisting of short gold mini futures) which would 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, each contract representing 32.15 fine troy ounces of gold. As of December 31, 2017, the underlying notional value of the short contracts was \$547,222 (2016 - \$Nil) compared to a cost of \$536,439 (2016 - \$Nil) resulting in an unrealized loss of \$10,783 (2016 - \$Nil). Because the contracts are executed on a net margin basis, the Company recorded only the unrealized gain in the financial statements.

At December 31, 2017, 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 <u>Commodities</u>	<u>Underlying Contract Size</u>	<u>Number of Contracts</u>
Short Gold Mini Futures	32.15 ounces of Fine Troy Gold	96

During the year ended December 31, 2017, the Company recorded profits of \$3,022 (2016 - \$60,799) from derivative trades, hedging its physical gold held for resale to customers.

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4. EQUITY INVESTMENT IN ST. GEORGES GROUP LIMITED

	2017	2016
St. Georges Group Limited (“SGG”)	\$ 1,790,862	\$ 1,665,005
	<u> </u>	<u> </u>

The Company owns 127,750 (39.92%) ordinary shares of SGG, an affiliate, which is accounted for under the equity method. The Company also engages in certain transactions with SGG (See Note 8).

SGG provides management services through its wholly owned subsidiaries. The Company’s share of the net income of SGG for the year ended December 31, 2017 was \$125,857 (2016 – \$108,645).

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

	2017	2016
Opening balance, January 1	\$ 1,665,005	\$ 1,556,360
Net income	125,857	108,645
Dividends received	-	-
Net change	<u>125,857</u>	<u>108,645</u>
Closing balance, December 31	<u>\$ 1,790,862</u>	<u>\$ 1,665,005</u>

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5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

2017	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Carrying Value</u>
Buildings	\$ 10,470,898	\$ (3,906,714)	\$ 6,564,184
Freehold land	2,008,192	-	2,008,192
Computer hardware and software	1,020,221	(860,045)	160,176
Fixtures and fittings	530,437	(469,389)	61,048
Leasehold improvements	328,920	(236,534)	92,386
Machinery and equipment	413,365	(262,392)	150,973
	<u>\$ 14,772,033</u>	<u>\$ (5,735,074)</u>	<u>\$ 9,036,959</u>
2016	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Carrying Value</u>
Building	\$ 8,559,374	\$ (3,670,838)	\$ 4,888,536
Freehold land	2,008,192	-	2,008,192
Computer hardware and software	1,717,942	(1,554,896)	163,046
Fixtures and fittings	540,096	(532,486)	7,610
Leasehold improvements	236,412	(229,933)	6,479
Machinery and equipment	489,864	(329,876)	159,988
	<u>\$ 13,551,880</u>	<u>\$ (6,318,029)</u>	<u>\$ 7,233,851</u>

During the year ended December 31, 2017, the Company disposed of property and equipment to the value of \$987,095 (2016 - \$276,633) with accumulated depreciation of \$985,921 (2016 - \$276,633) realizing a loss of \$748 (2016 - \$Nil).

6. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

The Board of Directors authorized the Company in 2017 to purchase up to 200,000 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 52,000 (2016 – 24,372) shares in the open market at an average price of \$2.50 (2016 - \$2.30) per share, for cash. These shares were immediately retired upon repurchase.

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7. 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, 2017 is approximately \$870 million (2016 - \$684 million).

8. RELATED PARTY TRANSACTIONS

During the year, the Company earned broking fee revenue from accounts in which related parties have an interest of \$94,514 (2016 - \$96,613). The Company also paid interest of \$21,810 (2016 - \$24,963) and received interest of \$179,034 (2016 - \$143,138) from these same accounts.

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 \$1,145,589 (2016 - \$768,166).

During the year, the Company earned rent and service charge income from related parties of \$316,478 (2016 - \$322,238). In addition, the Company also earned \$122,920 (2016 - \$111,920) for information technology services, recorded in other income, of which \$30,750 (2016 - \$43,384) is still outstanding at year end. During the year, the Company paid \$42,879 (2016 - \$40,995) for corporate services, recorded in professional fees, provided by St Georges Services Limited, a subsidiary of SGG. However, \$9,691 (2016 - \$9,445) of this amount, related to payments for annual government fees.

During the year, the Company earned management and performance fees of \$2,128,605 (2016 - \$1,685,573) from the LOM Sponsored Funds, of which \$614,481 (2016 - \$439,629) was included in accounts receivable at year end. The Company is also the custodian for the LOM Sponsored Funds and received a custodial fee, recorded in administrative and custody fees, of \$51,161 (2016 - \$44,327) for these services, of which \$13,353 (2016 - \$11,239) was included in accounts receivable at year end. The Company also earned director fees of \$60,000 (2016 - \$60,000) from the LOM Sponsored Funds.

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9. 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 13 for client related off-balance sheet risks.

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 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.

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10. 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
2018	\$ 163,318
2019	126,989
2020	56,393
2021	58,084
2022	59,827
Total	\$ 464,611

Operating lease rent expense (including real estate taxes and maintenance costs) were \$127,184 (2016 – \$100,634).

11. 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 de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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 and the Philippines. LOM (UK) Limited and Global Admin Inc. are subject to income taxes. The Company has assessed and concluded that, no uncertain tax positions were required to be recorded, and the Company has not recognized any penalties, interest or any tax effect related to uncertain tax positions.

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, 2017 and 2016 is as follows:

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11. INCOME TAXES (Cont'd)

Provision for income taxes consist of the following:

	2017	2016
Income tax benefit for foreign operations at statutory rate in effect of 19% (2016: 20%)	\$ 23,403	\$ 5,522
Depreciation in excess of capital allowances	5,551	6,050
Capital allowance in excess of depreciation	-	-
Unutilized tax losses carried forward	(28,954)	(11,572)
	23,403	(5,522)
Current tax charge for the year	\$ -	\$ -

LOM (UK) Limited, has a deferred tax asset of approximately \$84,272 (2016 – \$113,625), 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 income will arise in future accounting periods.

12. 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.

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

Client Activities (cont'd)

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.

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.

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

Minimum Regulatory Capital

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

LOM Financial (Bermuda) Limited	\$ 250,000
LOM Asset Management Limited	\$ 250,000
Global Custody and Clearing Limited	\$ 250,000
LOM Financial (Bahamas) Limited	\$ 300,000

As of December 31, 2017 and 2016, the above subsidiaries met their minimum regulatory capital amount.

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.

13. 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. 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.

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13. SEGMENT INFORMATION (Cont'd)

Intersegment revenue relates to recharges between LOMFL's wholly-owned subsidiaries for information technology charges, administrative expenses and rent. These are charged at estimated current market prices. Revenues from segments below the quantitative thresholds for disclosure prescribed by U.S. GAAP are attributable to three operating segments and are aggregated and included in the other operating segment. These operating segments include LOM Corporate Finance Ltd., LOM (UK) Limited and Global Admin Inc.

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13. SEGMENT INFORMATION (Cont'd)

<u>2017</u>	LOM Financial (Bermuda) Limited (Bermuda)	LOM Financial (Bahamas) Limited (Bahamas)	LOM Asset Management Limited (Bermuda)	Global Custody Clearing Limited (Bermuda)	LOM Financial Limited (Bermuda)	LOM Properties Limited (Bermuda)	Other UK/ (Bermuda/ Philippines)	<u>Eliminations</u>	<u>Total</u>
Revenues from External customers	\$ 2,170,097	\$ 2,060,988	\$ 3,145,079	\$ 1,847,596	\$ 590,158	\$ 714,480	\$ 238,316	\$ -	\$ 10,766,714
Intersegment revenue	318,191	53,490	-	1,519,595	-	329,786	595,697	(2,816,759)	-
Total revenue	<u>\$ 2,488,288</u>	<u>\$ 2,114,478</u>	<u>\$ 3,145,079</u>	<u>\$ 3,367,191</u>	<u>\$ 590,158</u>	<u>\$ 1,044,266</u>	<u>\$ 834,013</u>	<u>\$ (2,816,759)</u>	<u>\$ 10,766,714</u>
Depreciation	\$ -	\$ 1,382	\$ -	\$ 99,873	\$ -	\$ 262,376	\$ 39,334	\$ -	\$ 402,965
Operating expenses	2,522,437	1,815,815	2,502,540	3,123,937	322,561	1,023,052	762,306	(2,816,759)	9,255,889
Segment (loss) income	(34,149)	298,663	642,539	243,254	267,597	21,214	71,707	-	1,510,825
Identifiable assets	1,245,122	489,518	875,754	1,890,174	21,333,057	8,232,558	446,240	(15,418,869)	19,093,554
Property and equipment	-	7,392	-	142,606	-	8,860,950	26,011	-	9,036,959
Capital expenditures	-	7,847	-	107,626	-	2,086,988	4,786	-	2,207,247

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(expressed in U.S. Dollars)

13. SEGMENT INFORMATION (Cont'd)

<u>2016</u>	<u>LOM Financial (Bermuda) Limited (Bermuda)</u>	<u>LOM Financial (Bahamas) Limited (Bahamas)</u>	<u>LOM Asset Management Limited (Bermuda)</u>	<u>Global Custody Clearing Limited (Bermuda)</u>	<u>LOM Financial Limited (Bermuda)</u>	<u>LOM Properties Limited (Bermuda)</u>	<u>Other UK/ Bermuda/ (Philippines)</u>	<u>Eliminations</u>	<u>Total</u>
Revenues from External customers	\$ 1,629,430	\$ 1,330,280	\$ 2,439,705	\$ 1,547,271	\$ 221,757	\$ 715,920	\$ 107,247	\$ -	\$ 7,991,610
Intersegment revenue	294,676	91,567	-	1,376,979	-	296,880	523,465	(2,583,567)	-
Total revenue	<u>\$ 1,924,106</u>	<u>\$ 1,421,847</u>	<u>\$ 2,439,705</u>	<u>\$ 2,924,250</u>	<u>\$ 221,757</u>	<u>\$ 1,012,800</u>	<u>\$ 630,712</u>	<u>\$ (2,583,567)</u>	<u>\$ 7,991,610</u>
Depreciation	\$ -	\$ 1,597	\$ -	\$ 131,045	\$ -	\$ 232,349	\$ 37,891	\$ -	\$ 402,882
Operating expenses	2,029,479	1,222,872	2,096,921	2,846,619	322,570	894,311	608,647	(2,583,567)	7,437,852
Segment (loss) income	(105,372)	198,974	342,784	77,631	(100,813)	118,489	22,065	-	553,758
Identifiable assets	879,596	563,476	950,359	1,444,184	20,099,810	7,201,282	467,343	(13,951,697)	17,654,353
Property and equipment	-	1,457	-	134,852	-	7,036,338	61,204	-	7,233,851
Capital expenditures	-	-	-	43,713	-	144,072	34,115	-	221,900

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13. SEGMENT INFORMATION (Cont'd)

Geographic Split

2017	<u>Bermuda</u>	<u>Bahamas</u>	<u>UK</u>	<u>Philippines</u>	<u>Total</u>
Revenues from external customers	\$ 8,528,770	\$ 2,060,988	\$ -	\$ 176,956	\$10,766,714
Property and equipment	9,003,556	7,392	5,512	20,499	9,036,959
2016	<u>Bermuda</u>	<u>Bahamas</u>	<u>UK</u>	<u>Philippines</u>	<u>Total</u>
Revenues from external customers	\$ 6,661,040	\$ 1,330,280	\$ -	\$ 290	\$ 7,991,610
Property and equipment	7,171,190	1,457	34,730	26,474	7,233,851

Geographic split is disclosed by location of business.

14. SUBSEQUENT EVENTS

In preparing the financial statements, management has evaluated subsequent events through April 25, 2018, which is the date these financial statements were available to be issued. On January 2, 2018, the Company received proceeds of \$900,000 USD from a loan with CIBC First Caribbean International Bank (Bahamas) Limited to partially fund the purchase of LOM House, #3 Pineapple Grove, Old Fort Bay Road Nassau, Bahamas. The interest amount on the loan is calculated at USD 3 Month Libor plus 4.5% per annum. LOM Properties Limited provided LOM House as security for the loan by way of a legal Mortgage.

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15. SUPPLEMENTARY INFORMATION – FIVE YEAR COMPARISON TABLE

Income Statement Data – For the Year Ended December 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net revenue-interest income	\$ 1,137,906	\$ 990,981	\$ 680,858	\$ 716,220	\$ 481,784
Fees and other income	9,628,808	7,000,629	6,684,330	6,668,929	6,810,736
Operating expenses	(9,255,889)	(7,437,852)	(7,223,660)	(7,078,258)	(7,112,236)
	<u> </u>				
Net profit / (loss)	<u>\$ 1,510,825</u>	<u>\$ 553,758</u>	<u>\$ 141,528</u>	<u>\$ 306,891</u>	<u>\$ 180,284</u>

Balance Sheet Data – As of December 31,

	<u>2017</u>	<u>2016</u>	<u>2014</u>	<u>2014</u>	<u>2013</u>
Cash, cash equivalents and restricted cash	\$ 3,126,551	\$ 4,673,571	\$ 4,477,092	\$ 3,720,449	\$ 3,521,800
Securities owned	4,143,683	3,196,602	2,974,422	3,415,524	3,260,391
Property and equipment, net	9,036,959	7,233,851	7,414,833	7,807,175	8,088,787
Total assets	19,093,554	17,654,353	17,195,362	17,024,976	16,897,588
Shareholders' equity	18,387,923	17,067,048	16,523,045	16,421,913	16,162,297
Directors and Executives Shareholdings (in numbers of shares owned)	2,966,370	2,999,357	2,950,199	2,854,743	4,021,396

Financial Ratios – As of December 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Liabilities – equity ratio	3.8%	3.4%	4.1%	3.7%	4.5%
Return on equity	8.2	3.2	0.9	1.9	1.1
Return on assets	7.9	3.1	0.8	1.8	1.1