

**NEWPORT EXPLORATION LTD.**

**FINANCIAL STATEMENTS**

**JULY 31, 2010**

## AUDITORS' REPORT

To the Shareholders of  
Newport Exploration Ltd.

We have audited the balance sheets of Newport Exploration Ltd. as at July 31, 2010 and 2009 and the statements of loss, comprehensive loss and deficit and cash flows for the years 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountant

November 9, 2010



**NEWPORT EXPLORATION LTD.**  
**BALANCE SHEETS**  
**AS AT JULY 31**

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 6,962,715	\$ 7,437,997
Receivables	13,696	11,317
Prepays	<u>1,008</u>	<u>-</u>
	6,977,419	7,449,314
<b>Equipment</b> (Note 3)	<u>4,410</u>	<u>6,026</u>
	<u>\$ 6,981,829</u>	<u>\$ 7,455,340</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 46,147</u>	<u>\$ 27,428</u>
<b>Shareholders' equity</b>		
Capital stock (Note 5)	42,343,096	42,343,096
Contributed surplus (Note 5)	1,173,038	1,173,038
Deficit	<u>(36,580,452)</u>	<u>(36,088,222)</u>
	<u>6,935,682</u>	<u>7,427,912</u>
	<u>\$ 6,981,829</u>	<u>\$ 7,455,340</u>

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 12)

**On behalf of the Board:**

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 "Ian Rozier" Director "Barbara Dunfield" Director

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**  
**YEAR ENDED JULY 31**

	2010	2009
<b>EXPENSES</b>		
Administrative services	\$ 15,000	\$ 15,000
Amortization	1,616	2,055
Consulting	206,000	205,000
Director's fees	20,000	26,667
Management fees	120,000	120,000
Office and miscellaneous	16,050	12,158
Professional fees	42,816	38,604
Property investigation costs	24,895	11,815
Regulatory and transfer agent fees	15,299	16,343
Rent	66,000	66,000
Shareholder communications	4,637	3,399
Stock-based compensation (Note 6)	-	199,692
Travel and related costs	<u>8,715</u>	<u>9,625</u>
<b>Loss before other items</b>	<u>(541,028)</u>	<u>(726,358)</u>
<b>OTHER ITEMS</b>		
Interest income	48,798	197,900
Petroleum royalty (Note 4)	<u>-</u>	<u>10,742</u>
	<u>48,798</u>	<u>208,642</u>
<b>Loss and comprehensive loss for the year</b>	(492,230)	(517,716)
<b>Deficit, beginning of year</b>	<u>(36,088,222)</u>	<u>(35,570,506)</u>
<b>Deficit, end of year</b>	<u>\$(36,580,452)</u>	<u>\$(36,088,222)</u>
<b>Basic and diluted loss per common share</b>	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	<u>54,922,874</u>	<u>54,922,874</u>

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEAR ENDED JULY 31**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (492,230)	\$ (517,716)
Items not affecting cash:		
Amortization	1,616	2,055
Stock-based compensation	-	199,692
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(2,379)	25,682
Increase in prepaids	(1,008)	-
Increase (decrease) in accounts payable and accrued liabilities	<u>18,719</u>	<u>(11,858)</u>
Net cash used in operating activities	<u>(475,282)</u>	<u>(302,145)</u>
<b>Decrease in cash during the year</b>	(475,282)	(302,145)
<b>Cash, beginning of year</b>	<u>7,437,997</u>	<u>7,740,142</u>
<b>Cash, end of year</b>	<u>\$ 6,962,715</u>	<u>\$ 7,437,997</u>

**Supplemental disclosure with respect to cash flows (Note 8)**

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

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Newport Exploration Ltd. (the "Company") is a Canadian company incorporated under the Business Corporations Act of British Columbia. The Company is primarily engaged in the acquisition and exploration of mineral properties. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The Company has all of its assets located in Canada and is currently seeking opportunities in the natural resource sector.

These financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue on a going concern basis depends on its ability to successfully raise additional financing. Although the Company presently has sufficient financial resources to undertake its currently planned acquisition program and has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. These financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Adoption of New Accounting Policies**

*Goodwill and Intangible Assets*

This new section replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

The Company adopted this standard effective August 1, 2009, on a prospective basis with no restatement of prior period financial statements. Management adopted this new standard with no material impact on the financial statements of the Company or its business.

*Financial instruments – disclosures*

CICA Handbook Section 3862, "Financial instruments – disclosures" was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

See Note 9 for relevant disclosures.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2010**

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant estimates include: amortization, stock-based compensation and future income taxes. Actual results could differ from these estimates.

**Financial instruments**

Financial instruments are classified into one of five categories: held-for-trading financial instruments, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial assets are measured at fair value and changes in fair value are recognized in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading, receivables as loans and receivables and accounts payable and accrued liabilities as other liabilities.

The Company provides disclosure that enables users to evaluate (a) the significance of financial instruments for the entity’s financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

The Company also discloses financial instruments and non-financial derivatives classified from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

**Equipment**

Equipment is carried at cost. Amortization is recorded at the following annual rates:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Mineral properties**

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**Asset retirement obligation**

Asset retirement obligation ("ARO") relates to expected reclamation and closure activities. An ARO is recognized initially at fair value with a corresponding increase in related assets. The ARO is accreted to full value over time through periodic accretion charges recorded to operations using the Company's credit adjusted risk free rate. In subsequent periods, the Company adjusts the carrying amounts of the ARO and the related asset for changes in estimates of the amount or timing of underlying future cash flows.

**Royalty income**

Royalty income is recognized upon sale by the licensee of royalty-bearing products, when realization is considered probable, and collection is reasonably assured.

**Foreign currency translation**

The monetary assets and liabilities of the Company denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates approximating those on the transaction date. Exchange gains or losses arising on translation are included in the statement of loss and comprehensive loss.

**Stock-based compensation**

The Company uses the fair value method of accounting for all stock-based compensation. The Company estimates the fair value at the date of grant using the Black-Scholes option pricing model and recognizes the amount over the period of vesting. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**Recent accounting pronouncements**

*International Financial Reporting Standards ("IFRS")*

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of the Company will be August 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. The Company continues to monitor and assess the impact of Canadian GAAP and IFRS.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Recent accounting pronouncements (cont'd...)**

*Business Combinations*

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

**3. EQUIPMENT**

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 41,079	\$ 37,943	\$ 3,136	\$ 41,079	\$ 36,795	\$ 4,284
Furniture and fixtures	21,758	20,484	1,274	21,758	20,016	1,742
	\$ 62,837	\$ 58,427	\$ 4,410	\$ 62,837	\$ 56,811	\$ 6,026

**4. PETROLEUM ROYALTY**

Under the terms of an agreement over the sale of CVL Resources (Barbados) Ltd. (formerly a wholly-owned subsidiary of the Company), the Company retained a 2.5% royalty for any hydrocarbons discovered on certain petroleum exploration permits in Australia. Included in receivables at July 31, 2010 is \$Nil (2009 - \$1,520) for the Company's royalty.

**5. CAPITAL STOCK**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
As at July 31, 2008	54,922,874	\$ 42,343,096	\$ 973,346
Stock-based compensation	-	-	199,692
As at July 31, 2009 and 2010	54,922,874	\$ 42,343,096	\$ 1,173,038

**NEWPORT EXPLORATION LTD.**  
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**6. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price, minimum price or a discounted price, of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of ten years. The board of directors has the exclusive power over the granting of options and their vesting provisions.

At July 31, 2010, the Company had outstanding stock options, enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
5,450,000	\$0.10	December 18, 2013

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2008	3,295,000	\$ 0.30
Options cancelled	(45,000)	0.30
Options granted	<u>2,200,000</u>	0.10
Balance, July 31, 2009 and 2010	5,450,000	\$ 0.10
Number of options currently exercisable	5,450,000	\$ 0.10

**Stock-based compensation**

On December 10, 2008, the Company re-priced and extended the term for 3,250,000 stock options previously granted that had an exercise price of \$0.30 per common share, expiring on March 5, 2010, to have an exercise price of \$0.10 per share expiring December 18, 2013.

During the year ended July 31, 2010, the Company granted Nil (2009 - 2,200,000) stock options with a total estimated fair value of \$Nil (2009 - \$87,331) and re-priced Nil (2009 - 3,250,000) stock options with a total estimated fair value incremental increase of \$Nil (2009 - \$112,361) using the Black-Scholes option pricing model. The total stock-based compensation was credited to contributed surplus. The fair value per option

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**6. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock-based compensation (cont'd...)**

granted was \$Nil (2009 - \$0.04) and per re-priced option was \$Nil (2009 - \$0.04). All options vested at time of grant.

The following assumptions were used for the Black-Scholes option pricing model valuation of stock options granted:

	2010	2009
Risk-free interest rate	-	1.84%
Expected life of options	-	5 years
Annualized volatility	-	110%
Dividend yield	-	0%

**Warrants**

At July 31, 2010, the Company had no outstanding share purchase warrants.

Warrant transactions are summarized as follows:

	Number of Warrants	Exercise Price
Balance, July 31, 2008	34,125,000	\$ 0.32
Warrants expired	<u>(34,125,000)</u>	0.32
Balance, July 31, 2009 and 2010	-	\$ -

**7. RELATED PARTY TRANSACTIONS**

During the year ended July 31, 2010, the Company entered into the following transactions with related parties:

- a) Paid or accrued consulting fees of \$180,000 (2009 - \$180,000) to a company controlled by a director.
- b) Paid or accrued management fees of \$120,000 (2009 - \$120,000) to company controlled by a director.
- c) Paid or accrued rent of \$66,000 (2009 - \$66,000) to a company controlled by a director.
- d) Paid or accrued directors' fees of \$20,000 (2009 - \$26,667) to directors of the Company.
- e) Paid or accrued professional fees of \$7,036 (2009 - \$3,407) to a legal firm of which an officer of the Company is a partner.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**7. RELATED PARTY TRANSACTIONS (cont'd...)**

f) Paid or accrued consulting fees of \$24,000 (2009 - \$24,000) to a company controlled by the spouse of a director.

Included in receivables is \$Nil (2009 - \$2,575) owed by a company with common directors. Included in accounts payable and accrued liabilities is \$3,333 (2009 - \$3,333) owed to a director.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	2010	2009
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

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There were no significant non-cash transactions for the years ended July 31, 2009 and 2010.

**9. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of cash is determined using level 1 of the fair value hierarchy. The carrying value of receivables and accounts payable and accrued liabilities approximates fair value due to the short-term nature of these instruments.

The Company's financial instruments are exposed to certain financial risks, which include currency risk, credit risk, liquidity risk and interest rate risk.

(a) Credit Risk

The Company's cash is mainly held at large Canadian financial institutions and as at July 31, 2010 is mainly held in interest bearing accounts. The Company's receivables are mainly HST recoverable from the Canadian government. The maximum exposure to credit risk is the equivalent of the cash and receivables on the balance sheet of the Company.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital resources as outlined in Note 13.

**NEWPORT EXPLORATION LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
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**9. FINANCIAL INSTRUMENTS (cont'd...)**

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(i) Interest rate risk

The Company has cash balances, which are deposited at Canadian financial institutions. As of July 31, 2010, the Company did not have any investments in short-term deposits.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in a foreign currency. As at July 31, 2010, the Company did not have any accounts in foreign currencies.

(iii) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**10. INCOME TAXES**

a) A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2010	2009
Loss before income taxes	\$ (492,230)	\$ (517,716)
Expected tax recovery	\$ (143,362)	\$ (166,746)
Non-deductible items	(26,402)	35,269
Unrecognized benefits of non-capital losses	169,764	131,477
Total income taxes	\$ -	\$ -

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**10. INCOME TAXES (cont'd...)**

b) Details of future income tax assets are as follows:

	2010	2009
Future tax assets:		
Equipment	\$ 63,000	\$ 63,000
Resource deductions	679,000	679,000
Share issuance costs	23,000	46,000
Non-capital loss carryforward	633,000	635,000
Capital loss carryforward	<u>3,071,000</u>	<u>3,071,000</u>
	4,469,000	4,494,000
Valuation allowance	<u>(4,469,000)</u>	<u>(4,494,000)</u>
Net future tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$2,530,000 which may be carried forward and applied against taxable income in future years. These losses, if unutilized, will expire through to 2030. The Company has capital losses of approximately \$24,570,000 to offset future capital gains. Subject to certain restrictions, the Company has further resource development and exploration expenditures totalling approximately \$2,720,000 available to reduce taxable income of future years. The future income tax benefits of these losses, resource deductions and other tax assets have not been reflected in these financial statements and have been offset by a valuation allowance.

**11. SEGMENTED INFORMATION**

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

	2010	2009
Capital assets		
Canada	\$ 4,410	\$ 6,026

**12. COMMITMENTS**

a) The Company leases office premises under an operating lease with a company controlled by a director. During the year ended July 31, 2009, the Company extended the term of its operating lease for an additional three year term, to expire in March 2012. The landlord has the right to increase the annual base rent by 10% on April 1, 2011. The lease provides for basic lease payments as follows:

2011	66,000
2012	<u>44,000</u>
	<u>\$ 110,000</u>

**NEWPORT EXPLORATION LTD.**  
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**12. COMMITMENTS (cont'd...)**

- b) The Company entered into management and consulting contracts with companies having directors in common. The Company has agreed to pay the companies a combined total of \$25,000 per month. These contracts remain in force on a continuous basis. The contracts can be terminated by the Company by providing 90 days written notice. If termination of services is without cause, the Company will be obligated to pay 36 months of services to one director's company and 24 months to the other director's company.

**13. CAPITAL MANAGEMENT**

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus, retained earnings and accumulated other comprehensive income. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank-sponsored instruments. This strategy is unchanged from 2009.

The Company is not subject to externally imposed capital restrictions.