

**NATIONAL MEDICAL CARE COMPANY
(SAUDI JOINT STOCK COMPANY)**

**INTERIM FINANCIAL STATEMENTS AND AUDITORS'
REVIEW REPORT
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 201**

NATIONAL MEDICAL CARE COMPANY
(SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

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AUDITORS' REVIEW REPORT

To the shareholders
National Medical Care Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Scope of Review

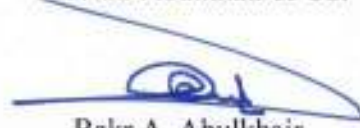
We have reviewed the accompanying interim balance sheet of National Medical Care Company (a Saudi joint stock company) (the "Company"), as at March 31, 2013, and the related interim statements of income, cash flows and changes in shareholders' equity for the three month period ended March 31, 2013, and the notes which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Company's management and were prepared and presented to us with all the information and explanation which we required.

We conducted our limited review in accordance with the standard of the interim financial statements issued by the Saudi Organization for Certified Public Accountants. A review consists principally of applying analytical review procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Result of Review

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia.

Deloitte & Touche
Bakr Abulkhair & Co.



Bakr A. Abulkhair
License No.101

Jumada Al Thani 5, 1434
April 15, 2013

NATIONAL MEDICAL CARE COMPANY
(SAUDI JOINT STOCK COMPANY)

INTERIM BALANCE SHEET (UNAUDITED)
AS AT MARCH 31, 2013

	Notes	2013 SR	2012 SR
ASSETS			
Current assets			
Cash and cash equivalent	3	246,266,936	84,024,916
Trade receivables, net	4&5	180,933,134	165,052,983
Accrued revenues and other debit balances		52,092,501	40,960,033
Inventories		42,029,528	28,702,035
Total current assets		521,322,099	318,739,967
Non-current assets			
Projects under construction	10	234,118,511	146,132,274
Intangible assets		346,867	739,051
Property and equipment, net		241,719,017	237,152,838
Total non-current assets		476,184,395	384,024,163
TOTAL ASSETS		997,506,494	702,764,130
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables		66,378,266	46,625,224
Due to a related party	5	40,510	-
Accrued expenses and other credit balances		32,839,138	28,099,931
Short term loans	6	10,166,111	-
Provision for Zakat	7	3,815,864	2,632,919
Total current liabilities		113,239,889	77,358,074
Non-current liabilities			
End-of-service indemnities		47,179,653	43,775,934
Long-term loans	6	21,239,739	-
Total non-current liabilities		68,419,392	43,775,934
TOTAL LIABILITIES		181,659,281	121,134,008
Shareholders' equity			
Share capital	8	448,500,000	381,000,000
Statutory reserve	9	149,223,696	31,581,729
Capital reserve		1,469,435	1,469,435
Retained earnings		151,621,582	119,953,958
Proposed dividends	13	65,032,500	47,625,000
TOTAL SHAREHOLDERS' EQUITY		815,847,213	581,630,122
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		997,506,494	702,764,130

The accompanying notes form an integral part of these interim financial statements

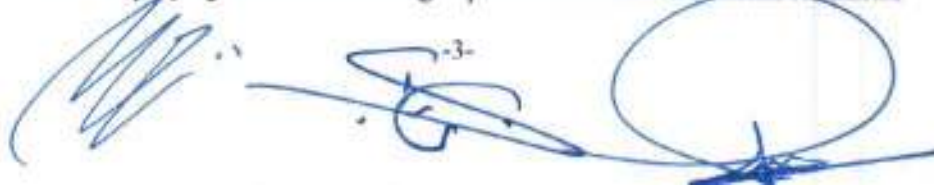
NATIONAL MEDICAL CARE COMPANY
(SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

	Notes	2013 SR	2012 SR
Revenues and sales		145,361,108	128,871,269
Cost of revenues and sales		(106,615,808)	(93,343,761)
Gross profit		38,745,300	35,527,508
Expenses			
General and administrative expenses		(7,541,317)	(6,653,061)
Selling and marketing expenses		(156,187)	(134,767)
Operating income		31,047,796	28,739,680
Other income		1,901,515	1,482,948
Income before zakat		32,949,311	30,222,628
Provision for zakat	7	(1,830,718)	(1,343,151)
NET INCOME FOR THE PERIOD		31,118,593	28,879,477
Earnings per share:			
Operating income for the period	11	0.69	0.75
Net income for the period	11	0.69	0.76

The accompanying notes form an integral part of these interim financial statements

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NATIONAL MEDICAL CARE COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

	2013 SR	2012 SR
OPERATING ACTIVITIES		
Income for the period before zakat	32,949,311	30,222,628
Adjustment for:		
Depreciation	7,239,760	6,744,940
Amortization	46,184	46,184
End-of-service indemnities	3,659,088	2,606,039
Changes in operating assets and liabilities:		
Trade receivables	9,678,675	462,964
Accrued revenues and other debit balances	(14,571,299)	(5,803,615)
Inventories	(6,754,831)	(888,809)
Trade payables	4,236,166	(2,228,108)
Due to a related party	40,510	-
Accrued expenses and other credit balances	(4,456,759)	(5,015,098)
End-of-service indemnities paid	(2,216,180)	(1,465,273)
Zakat paid	(5,722,823)	(5,936,280)
Net cash from operating activities	24,127,802	18,745,572
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,856,718)	(1,370,573)
Projects under construction	(20,138,108)	(22,756,007)
Deferred expenses	-	(169,113)
Net cash used in investing activities	(23,994,826)	(24,295,693)
FINANCING ACTIVITIES		
Increase in share capital	67,500,000	-
Proceed from premium	107,146,300	-
Long-term loans	(81,250)	-
Short-term loans	(248,500)	-
Net cash from financing activities	174,316,550	-
Change in cash and cash equivalent	174,449,526	(5,550,121)
Cash and cash equivalent, January 1	71,817,410	89,575,037
CASH AND CASH EQUIVALENT, MARCH 31	246,266,936	84,024,916

The accompanying notes form an integral part of these interim financial statements

NATIONAL MEDICAL CARE COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

	Statutory reserve					Total SR
	Share capital SR	Premium SR	Transfer from net income SR	Capital reserve SR	Retained earnings SR	Purposed dividends SR
Balance, January 1, 2013	381,000,000	-	42,077,397	1,469,435	185,535,489	-
Increase in share capital (Note 8)	67,500,000	-	-	-	-	-
Premium (Note 8&9)	-	107,146,299	-	-	-	-
Net income for the period	-	-	-	-	31,118,593	-
Proposed dividends	-	-	-	-	(65,032,500)	65,032,500
Balance, March 31, 2013	448,500,000	107,146,299	42,077,397	1,469,435	151,621,582	815,847,213
Balance, January 1, 2012	381,000,000	-	31,581,729	1,469,435	91,074,481	47,625,000
Net income for the period	-	-	-	-	28,879,477	-
Balance, March 31, 2012	381,000,000	-	31,581,729	1,469,435	119,953,958	47,625,000
						581,630,122

The accompanying notes form an integral part of these interim financial statements

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

1. ORGANIZATION AND ACTIVITIES

National Medical Care Company (the "Company") is a Saudi joint stock company, registered in Riyadh, Kingdom of Saudi Arabia, under commercial registration No. 1010194785 dated Muharram 9, 1425 (corresponding to February 29, 2004). The Company carries out its activities through the following branches:

- Riyadh Care Hospital under commercial registration No. 1010195325 dated Muharram 22, 1425 (corresponding to March 14, 2004).
- National Hospital under commercial registration No. 1010195327 dated Muharram 22, 1425 (corresponding to March 14, 2004).
- Saudi Pharmaceutical Distribution Company Limited under commercial registration No. 1010301247 dated Safar 14, 1432 (corresponding to January 19, 2011).

The principal activity of the company is in establishing, owning, equipping hospitals and medical centers, health units, managing, maintenance, operating, wholesale and retail trade in medicines, equipment and medical supplies, representing the companies and the ownership of equipped medical vehicles and the non-equipped required to perform its function and provide all kind of medical services as well as services and works that may assist in achieving its purposes or complementary and the ownership of land and real estate.

Based on the company's previous decision to offer its shares for public subscription and transform the company from a closed Saudi joint stock company to a Saudi joint stock company. Capital Market Authority announced the approval of the Board decision dated December 23, 2012 to issue 6.75 million shares for public subscription, which represents (30.1%) of the company's shares at 10 riyals per share, the Company has transformed from a closed joint stock company to a joint stock company by increasing share capital by SAR 67.5 million (Note 8).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim financial statements have been prepared in accordance with the standards of interim financial reporting issued by the Saudi Organization for Certified Public Accountants. The significant accounting policies followed by the company in preparing the interim financial statements, summarized below, consists with the policies in the audited financial statements for the year ended December 31, 2012. The interim financial statements and notes accompanying should be read with the reviewed financial statements and notes related, for the year ended in December 31, 2012.

Accounting convention

The interim financial statements are prepared under the historical cost convention and going concern assumption.

NATIONAL MEDICAL CARE COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of interim financial statements in conformity with generally accepted accounting standard require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenue and expenses during the period, although these estimates are based on management's best available information and knowledge of current event and actions, actual results ultimately may differ from those estimates.

Revenue and sales

Revenue is recognized when services are rendered and the Company issues the invoice to customers during the year which is recorded on net amount after discount.

Sales are recognized upon delivery of goods to customers and issuing the invoices.

Accrued revenue

The accrued revenue represents earned revenue for rendered services without issuing invoices to customers.

Cash and cash equivalent

Cash and cash equivalent consist of bank balances, cash on hand and investments convertible to cash with maturities of three month or less from the date of acquisition.

Expenses

Selling and marketing expenses principally comprise of costs incurred in the marketing of the Company's services and marketing and selling goods.

General and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting standards in the Kingdom of Saudi Arabia. Allocations between general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

Projects under construction

Projects under construction is recorded in cost and mainly represents expansions in existing hospitals and establishing medical centers.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using weighted average cost method except medicines and drugs as its cost based on first-in first-out (FIFO) method. Management believes that there is no difference in the cost of medicines and drugs if the weighted average cost used.

NATIONAL MEDICAL CARE COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method.

The estimated useful life of principal classes of assets are as follows:

	<u>Years</u>
Building	33
Building improvement	10
Medical equipment and supplies	6
Elevators and communications equipment	6-7
Furniture, fixtures and office equipment	6-7
Computers and software	5
Vehicles	5

Intangible assets

Intangible assets represent the total cost incurred for medical licenses and amortized over three years from the date of obtaining the license.

Impairment

At the date of each statement of balance sheet, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, in the interim income statement.

If the recoverable amount increased later, the carrying amount will be adjusted by the amount. But does not exceed the original carrying amount of the asset, the difference recognized in the interim income statement.

Borrowing costs

Borrowing costs directly attributable to acquisitions or construction of qualifying assets, which are the assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such times as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged against income in the period in which they are incurred.

NATIONAL MEDICAL CARE COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

End-of-service indemnities

End of service indemnities, required by Saudi Arabian labor law, are provided in the financial statements based on the employees' length of services.

Zakat

The Company is subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accrual basis. Zakat charge is computed on the zakat base. Any difference in the estimate is recorded when the final assessment is approved at which time the provision is cleared.

3. CASH AND CASH EQUIVALENT

The cash and cash equivalent at March 31, comprise of the following:

	2013	2012
	SR	SR
Cash in hand	1,173,496	745,194
Cash at banks	25,087,160	33,936,099
Investment funds	220,006,280	49,343,623
	246,266,936	84,024,916

Investment funds above represent low-risk and high liquid investments in accordance with the Islamic regulations. As at 31 March 2013 the company has deposited 220 million Saudi riyals in various investment funds.

4. TRADE RECEIVABLES, NET

	2013	2012
	SR	SR
Account receivables – Trade	145,679,537	104,926,792
Account receivable – Related party (Note 5)	58,875,736	77,151,481
Provision for doubtful	(23,622,139)	(17,025,290)
	180,933,134	165,052,983

The total balance includes trade receivables amounting to SR 105,605,291 (2012: 108,457,846 SR) owed by government and semi-government, and represents approximately 51.6% of the total receivables balance (2012: approximately 59.6%).

NATIONAL MEDICAL CARE COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

4. TRADE RECEIVABLES, NET (Continued)

A - The movement of provision for doubtful debts is as follows:

	2013 SR	2012 SR
January 1	20,815,395	15,264,079
Provided during the period	2,806,744	1,761,211
March 31	23,622,139	17,025,290

5. RELATED PARTIES TRANSACTIONS

Related parties represent associated companies, shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by those parties. Pricing policies and terms of these transactions are approved by the Company's management.

Related party	Nature of relationship
General Organization for Social Insurance	Shareholder
Arab Company for Medical Supply	Affiliate
Board of Directors remuneration	

The significant transactions and related amounts with related parties listed in interim statements of balance sheet and income statement for the period ending March 31 are as follows:

	2013 SR	2012 SR
General Organization for Social Insurance	35,877,414	33,783,839
Arabian Medical Marketing Company Limited	244,489	-

Due from / to related parties in the interim balance sheet as at March 31 is as follows:

Due from related party

	2013 SR	2012 SR
General Organization for Social Insurance	58,875,736	77,151,481

Due to related party

	2013 SR	2012 SR
Arabian Medical Marketing Company Limited	40,510	-

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

5. RELATED PARTIES TRANSACTIONS (Continued)

Compensation of Key Management Personnel

The remuneration of directors and other members of key management during the period was as follows:

	2013 SR	2012 SR
Board of Directors remuneration and other allowances	407,500	407,500

6. LONG TERM LOAN

- A. On June 27, 2012, the Company has obtained a long-term financing (Tawarruq) amounting to SR 21,239,739 includes profit margin of SR 1,239,739 based on financing agreement signed with a bank on July 18, 2010 with a financing limit of SR 286 million. The financing cost is SIBOR plus 2% repayable in 8 quarterly installments starting March 2014. This finance is secured by any guarantees required by the bank from time to time.
- B. On October 1, 2012 the company received a short-term Murabaha contract within the same financing agreement above amounted to SR 10,166,111 includes a profit margin of SR 166,111 and is repayable on 30 September 2013.

7. ZAKAT

The interim income statement is charged by approximately amount of zakat based on management estimation and any difference from zakat calculation is adjusted at the end of the year.

The Company has filed its zakat return for all financial years till 2012 and paid zakat due based on these returns. The Company has received assessments of DZIT for all financial years till 2005. Also the Company has obtained the final zakat certificate up to 2011.

The Company received zakat assessment for 2006 and 2007 from DZIT that includes additional payment amounted to SR 0.9 million. The Company has prepared additional provision amounted SR 1,289,768 to meet any future commitment.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

8. SHARE CAPITAL

On Zul Qaidah 30, 1433 (corresponding to 16 October 2012) decided at the Extraordinary General Assembly meeting to increase the Company's share capital from 381 million to SR 448.5 million by increasing the number of shares from 38.1 million shares to 44.85 million shares with a nominal value of SR 10 per share, which has been approved by the Capital Market Authority on December 23, 2012, through public subscription of 6.75 million shares during the period from Rabi Al-Awal 23, 1434 (corresponding to February 4, 2013) to Rabi Al-Awal 29, 1434 (corresponding to February 10, 2013). The subscription was issued with premium of SR 17 per share with a net amount of SR 107,146,299 after deducting subscription cost. The net premium had been transferred to the statutory reserve in accordance with Article 98 of the Saudi Companies Regulations.

9. STATUTORY RESERVE

In accordance with the Regulations for Companies in Saudi Arabia and the Company's Articles of Association, the Company has established a statutory reserve by appropriation of 10 percent of the annual net income until the reserve equals 50 percent of the share capital. The net premium amounted to SR 107,146,299 have been transferred to the reserve during the period. This reserve is not available currently for dividend distribution.

10. CAPITAL COMMITMENTS

During 2009, the Company signed two agreements. One of them for the expansion of National Hospital in Riyadh and establishing of family medical center. The other one is for supervision on construction work mentioned for both agreements amounting to SR 313,7 million. The total expense till March 31, 2013 amounted to SR 234,1 million (March 31, 2012: SR 146,1 million).

11. EARNINGS PER SHARE

Earnings per share is calculated by dividing the operating income and net income for the period ended March 31, 2013 by the weighted average number of outstanding shares amounting to 44,85 million shares (MARCH 31, 2012: SR 38,1).

12. SEGMENTAL INFORMATION

The segment information relating to the Company's business activities that is approved by the management as a basis for the preparation of the financial information and is consistent with internal reporting methods. Segments results and assets include items related directly to specific sector and items can be distributed to different sectors according to certain bases.

The Company main business activities are as follows:

- Inpatient and surgeries
- Outpatient clinics
- Other medical sections
- Pharmacies
- General administration\ pharmaceutical medical distribution

NATIONAL MEDICAL CARE COMPANY
(SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

13. SEGMENTAL INFORMATION (Continued)

The segmental information for the period ended March 31 is as follows:

	Inpatient and surgeries department SR	Outpatient clinics department SR	Other medical section department SR	Pharmacies SR	General administration\ pharmaceutical medical distribution SR	Total SR
2013						
Revenue and sales	31,493,082	18,155,140	58,019,037	27,645,333	10,048,516	145,361,108
Gross profit	12,032,481	7,160,692	22,354,688	(3,019,212)	216,651	38,745,300
Net Profit	11,188,769	6,676,424	20,802,100	(3,019,212)	(4,529,488)	31,118,593
Properties and equipment	65,676,665	37,702,412	120,861,849	-	17,478,091	241,719,017
Total assets	107,445,210	61,659,622	197,709,519	93,794,120	536,898,023	997,506,494
Total liabilities	17,216,680	9,964,152	31,750,605	15,186,162	107,541,682	181,659,281
	Inpatient and surgeries department SR	Outpatient clinics department SR	Other medical section department SR	Pharmacies SR	General administration\ pharmaceutical medical distribution SR	Total SR
2012						
Revenue and sales	29,879,255	15,218,131	55,559,397	26,038,256	2,176,230	128,871,269
Gross profit	8,492,250	4,332,339	15,791,805	6,583,428	327,686	35,527,508
Net profit	7,650,579	3,903,065	14,226,682	6,583,426	(3,484,275)	28,879,477
Properties and equipment	68,166,491	34,669,583	126,747,776	-	7,568,988	237,152,838
Total assets	105,796,369	53,873,082	196,723,310	92,188,191	254,183,178	702,764,130
Total liabilities	15,001,799	7,634,113	27,894,581	13,068,602	57,534,913	121,134,008

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Continued)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2013

14. PURPOSED DIVIDENDS

General assembly will decide in their meeting on April 16, 2013, the recommendation of the Board of Directors to distribute dividend of SR 65,032,500 SR as SR 1.45 per share.

15. FAIR VALUES RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The listed financial instruments in the financial position statement mainly include cash in bank, receivables, other assets, bank facilities, payables, accrued expenses and other liabilities.

Commission rate risk

This represents risks of the financial instruments fluctuations as a result of changes in the market commission rates. The Company did not have significant assets or liabilities relating to commission rate as of March 31, 2012, except the bank facilities, the management believes that the risks related to fluctuations in commission rates resulting from the bank facilities (if any) is not significant as of March 31, 2013.

Credit risk

It is the risk that other parties will fail to discharge their obligations and cause the Company to incur a financial loss. The Company did not expose to significant risks in relation to credit. The Company manages the receivable by reviewing it regularly, aging analysis and preparing provisions to meet any doubtful debts. The receivables balance recorded after deducting doubtful debts. The Company kept the cash in local banks that have good credit rating.

Liquidity risk

It is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed by periodically ensuring its availability in amounts sufficient to meet any future commitments.

Currency risk

It is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates, and believes that the Company is not exposed to significant currency risk since the Company's functional currency is the Saudi Riyal and the U.S. dollar in addition to Japanese Yen.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties is an arm's length transaction. As the company's financial instruments are compiled under the historical cost convention, differences can arise between the book value and fair value estimate. Management believes that the fair value the company's financial assets and liabilities is not materially different from its carrying value.