

COMPANY POLICY 5

ASSOB: FINANCIAL FORECASTING POLICY

Issued 25/1/2012

Version I

This document may be referred to as Company Policy 5 (CP5)

Purpose of the Policy

ASSOB Pty Ltd (ACN 114 772 020) (**ASSOB**) operates a Business Introduction Service pursuant to the Australian Securities and Investment Commission (**ASIC**) *Class Order 02/273* (**Class Order**), namely the Australian Small Scale Offerings Board, through its website at www.assob.com.au (the **Board**).

ASSOB maintains sole discretion in relation to the information it promotes and publishes about an Issuer through its Board.

The purpose of this Policy is to provide direction in relation to suitable content that ASSOB is willing to publish on its Board about an Issuer in relation to Financial Forecasting.

Financial Forecasting

A financial forecast is normally an estimate of future financial outcomes for a company. Using historical internal accounting and sales data, in addition to external market and economic indicators, a financial forecast is a crude indicator or 'best guess' of what may happen to a company in financial terms over a given time period.

This 'best guess' becomes even more hypothetical when assumptions about future events and management actions are based on forecasting at the start-up phase or a major change in the nature of the operation of the company, reliant upon capital raising to make any of the plans achievable and subsequent contracts to be entered into.

Given that financial forecasts are simply that: 'forecasts', these forward-looking statements have an inherent potential to influence and mislead investors by disclosing prospective financial information based on hypothetical circumstances or unrealistic (hopeful) assumptions. And, the longer the stated time horizons, the less accurate the prospective financial information is to verify by an investor.

ASSOB relies upon best practice principles as prescribed by the Australian Securities & Investment Commission (**ASIC**) at Regulatory Guide 170 (**RG170**) Prospective Financial Information. Whilst it is noted that RG170 relates to disclosure documents, the making of a statement that contains prospective financial information (i.e. a forward-looking statement) must have reasonable grounds generally or it will be taken to be **misleading**, pursuant to the following:

CORPORATIONS ACT 2001 - SECT 769C

Representations about future matters taken to be misleading if made without reasonable grounds

- (I) For the purposes of this Chapter, or of a proceeding under this Chapter, if:
- (a) a person makes a representation with respect to any future matter (including the doing of, or refusing to do, any act); and
 - (b) the person does not have reasonable grounds for making the representation;
- the representation is taken to be misleading.

CORPORATIONS ACT 2001 - SECT 1041E

False or misleading statements

- (I) A person must not (whether in this jurisdiction or elsewhere) make a statement, or disseminate information, if:
- (a) the statement or information is false in a material particular or is materially misleading; and
 - (b) the statement or information is likely:
 - (i) to induce persons in this jurisdiction to apply for financial products; or
 - (ii) to induce persons in this jurisdiction to dispose of or acquire financial products; or
 - (iii) to have the effect of increasing, reducing, maintaining or stabilising the price for trading in financial products on a financial market operated in this jurisdiction; and
 - (c) when the person makes the statement, or disseminates the information:
 - (i) the person does not care whether the statement or information is true or false; or
 - (ii) the person knows, or ought reasonably to have known, that the statement or information is false in a material particular or is materially misleading.

AND, judicial precedent as prescribed in *AAPT v. Cable & Wireless Optus Ltd (1999)* 32 ACSR 63 states that “Information is not material to investors if it is ‘speculative or based on mere matters of opinion or judgment’”.

ASSOB Expectations

Similar to ASIC, ASSOB acknowledges that prospective financial information can be useful for investors if the information has reasonable grounds, explained material assumptions, independent verification and the timeframe of financial forecasting is short-term.

Reasonable grounds include, [at RG170.26] but are not limited to:

- (a) the information relates to options on forward-sales contracts or leases that lock in future expenses and revenue;
- (b) the information is underpinned by independent industry experts’ reports and/or independent accountants’ reports; and
- (c) the information includes reasonable short-term estimates.

Reasonable grounds do not include, [at RG170.43]:

- (a) prospective financial information supported only by hypothetical assumptions;
- (b) statements by issuers asserting reasonable grounds for the inclusion of information, with no verifiable reasons to support such statements; and
- (c) statements along the lines of 'this is the best estimate of the directors'.

To minimise the risk of Issuer's promoting and ASSOB publishing misleading information (even if produced in good faith by Directors) in relation to financial forecasts, ASSOB's policy is to not accept any Issuer content for inclusion on the Board which has financial forecasting and statements exceeding a period of three (3) years.

Whilst ASSOB notes that ASIC [at RG170.39-4143] prefers a short-term estimate (not exceeding two years), and ASSOB strongly urges the use of two (2) year financial forecasting, ASSOB acknowledges that as the content published on the Board should not be considered by investors as the only information with which to make an investment decision (i.e. the published material are not produced under disclosure provisions of the Corporations Act) and provided there is enough information to establish that there are reasonable grounds for the financial forecasting and Directors state why they believe the information is objectively reasonable, ASSOB will consent to a three (3) year financial forecast being promoted through its Board.

The Exception to the Policy

ASSOB acknowledges that in certain circumstances, some industries – like pharmaceutical, biotechnology or research & development companies – take longer than to bear fruit than other companies and financial forecasting into the future provides investors a timescale and possible end result. Accordingly, financial forecasts certified by a Chartered Accountant as verifiable and substantive will be accepted by ASSOB for promotion through its Board.

It is to be noted that the use of warnings and other cautionary language will never be sufficient to prevent particular information being misleading and importantly will not, of itself, affect the requirement for there to be reasonable grounds to state the information.