Armada Mortgage Corporation
Financial Statements
December 31, 2011

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For the year ended December 31, 2011

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Management's Responsibility

To the Shareholders of Armada Mortgage Corporation:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically, both the Board and management to discuss their audit findings.

October 17, 2012

"Gordon Hone" - Signed
President

Independent Auditors' Report

To the Shareholders of Armada Mortgage Corporation:

We have audited the accompanying financial statements of Armada Mortgage Corporation, which comprise the balance sheet as at December 31, 2011, and the statements of earnings and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Armada Mortgage Corporation as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Maple Ridge, British Columbia

MNP LLP

April 2, 2012 except as to Note 13 which is as of October 17, 2012

Chartered Accountants

Armada Mortgage Corporation
Balance Sheet
As at December 31, 2011

	2011	*2010*
Assets		
Current		
Cash	**310,817**	1,986,015
Accounts receivable	**500**	6,381
Accrued interest receivable	**63,253**	64,057
Property held for sale *(Note 4)*	**189,239**	-
Current portion of mortgages receivable *(Note 5)*	**13,127,263**	7,361,033
	13,691,072	9,417,486
Mortgages receivable *(Note 5)*	**607,193**	4,296,826
	14,298,265	13,714,312
Liabilities		
Current		
Bank indebtedness *(Note 6)*	**-**	100,000
Accounts payable and accrued liabilities	**41,333**	106,448
Dividends payable	**214**	54,743
Deferred income	**63,742**	67,682
Payable to shareholders	**-**	677,470
	105,289	1,006,343
Redeemable preferred shares *(Note 7)*	**14,007,869**	12,537,481
	14,113,158	13,543,824
Share capital *(Note 8)*	**117**	117
Retained earnings	**184,990**	170,371
	185,107	170,488
	14,298,265	13,714,312

Approved on behalf of the Board

"Andrew Danneffel" - signed
Director

"Joan Peacock" - signed
Director

The accompanying notes are an integral part of these financial statements

Armada Mortgage Corporation
Statement of Earnings and Retained Earnings
For the year ended December 31, 2011

	2011	*2010*
Revenue		
Discharge fees	**1,500**	2,175
Interest income	**1,016,190**	991,242
Lender fees	**101,476**	99,944
Other fees	**5,245**	10,820
	1,124,411	1,104,181
Expenses		
Accounting and audit fees	**18,484**	14,779
Advertising and promotion	**8,160**	9,262
Realized losses on mortgage investments	**94,876**	53,088
Bank charges and interest	**16,622**	4,318
Consulting fees	**448**	12,171
Dividends	**808,278**	781,254
Insurance, licenses and dues	**591**	660
Legal fees	**1,172**	18,701
Management fees	**207,543**	179,314
Office	**6,883**	5,947
Repairs and maintenance	**1,735**	1,279
	1,164,792	1,080,773
(Loss) earnings from operations	**(40,381)**	23,408
Unrealized change in fair value of mortgage investments	**55,000**	(23,000)
Net earnings	**14,619**	408
Retained earnings, beginning of year	**170,371**	169,963
Retained earnings, end of year	**184,990**	170,371

The accompanying notes are an integral part of these financial statements

Armada Mortgage Corporation
Statement of Cash Flows
For the year ended December 31, 2011

	2011	*2010*
Cash provided by (used for) the following activities		
Operating activities		
Net earnings	**14,619**	408
Allowance for non-performing mortgages	**-**	23,000
	14,619	23,408
Changes in working capital accounts		
Accounts receivable	**5,881**	(1,813)
Accrued interest receivable	**804**	(523)
Accounts payable and accrued liabilities	**(65,117)**	27,338
Dividends payable on liability preferred shares	**(54,528)**	11,865
Deferred income	**(3,940)**	(11,304)
	(102,281)	48,971
Financing activities		
Proceeds from issuance of shares	**1,470,388**	1,301,687
Repayment to shareholders	**(677,470)**	-
Bank indebtedness	**(100,000)**	100,000
	692,918	1,401,687
Investing activities		
(Advances) repayments of mortgages receivable	**(2,265,835)**	55,751
(Decrease) increase in cash resources	**(1,675,198)**	1,506,409
Cash resources, beginning of year	**1,986,015**	479,606
Cash resources, end of year	**310,817**	1,986,015
Supplementary cash flow information		
Dividends paid	**862,807**	769,388
Interest paid	**14,377**	2,968

1. Incorporation and operations

Armada Mortgage Corporation (the "Company") was incorporated under the laws of the Province of British Columbia on December 29, 1995. The Company is a Mortgage Investment Corporation (MIC) within the meaning assigned by Subsection 130.1(6) of the Income Tax Act (Canada). The Company must continue to comply with the rules under the Income Tax Act to qualify as a MIC. In general terms, the assets of the Company must be invested in Canadian mortgages of which at least 50 percent must be in residential mortgages as defined under the Residential Mortgage Financing Act. Dividends paid during the year or within 90 days after the year-end can be deducted from income for tax purposes.

The primary mandate of the Company is to invest its pooled funds into residential mortgages and to provide its shareholders with an acceptable rate of return on their invested capital. The Company is considered a qualified investment for each of Registered Retirement Savings Plans, Registered Retirement Income Funds, Registered Education Savings Plans, Registered Disability Savings Plans, and Tax Free Savings Account.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the following significant accounting policies:

Basis of presentation

The Company is an investment company as defined in Canadian generally accepted accounting principles Accounting Guideline 18, Investment Companies. As a result, mortgage receivables are recorded at fair value, with any changes in the fair value recorded in the statement of operations.

Property held for sale

Property held for sale are properties acquired through the foreclosure process and these properties are measured at fair value in accordance with Accounting Guideline 18, *Investment Companies*, where fair value is estimated as the net realizable value of the properties.

Revenue recognition

Interest income from mortgages receivable is recognized over time based on the specific terms of each mortgage.

Lender fees are initially recorded as deferred income on the balance sheet. The amount is recognized as income on a straight-line basis over the term of the mortgage.

Other fees and discharge fees are recorded as income at the time the service is rendered in the normal course of business.

Mortgage Investment Corporation ("MIC") eligibility criteria

To qualify as a MIC for Canadian income tax purposes the Company must comply with the following:
i) At least 50% of the Company's assets must consist of residentially orientated mortgages and/or cash;
ii) The Company's only business activity is investing funds of the corporation and not managing or developing any real property;
iii) The Company must not hold any investments secured by real property situated outside Canada; and
iv) No shareholder may own more than 25% of the issues shares of any class at ay time during the year and there must be at least 20 shareholders.

The Company is a MIC for income tax purposes. As such, the Company is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Company intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's distribution results in the Company being effectively exempt from taxation and no provision for current or future income taxes is required for the Company.

Shareholders who received dividends form the Company, other than capital gains dividends, will be deemed for income tax purposes to have received interest payable on a bond issued by the Company and will be subject to Canadian income or withholding taxes accordingly.

2. Significant accounting policies *(Continued from previous page)*

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Market instability can expose the Company to fluctuations in unanticipated weaknesses in asset prices, and constraints on liquidity, credit and access to capital. This can impact the Company's ability to reliably calculate the value of the underlying properties within mortgages receivable. By their nature, these judgments are subject to measurement uncertainty, and the effect on the financial statements of changes in such estimates and assumptions in future periods could be significant.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Allowance for loan impairment

Accrual of interest is discontinued and any previously accrued but unpaid interest on the loan is charged to allowance for loan impairment.

Mortgages receivable

Mortgage investments are recorded at estimated fair value with any changes in fair value reflected in net earnings.

When in management's opinion collection of principal on a particular mortgage investment is no longer reasonably assured, the fair value of the mortgage investment is reduced to the estimated net realizable recovery from the collateral security of the mortgage loan.

The gains and losses on disposal or repayment transactions are recorded as realized gains or losses at the time of disposal or repayment respectively.

2. Significant accounting policies *(Continued from previous page)*

Financial Instruments

Held for trading:

The Company has classified the following financial assets as held for trading: accounts receivable, accrued interest receivable, and mortgages receivable. These assets are initially recognized at their fair value. Fair value is determined by reference to recent arm's length market transactions for the same instrument approximated by the instrument's initial cost in a transaction between unrelated parties.

Held for trading financial instruments are subsequently measured at their fair value. Gains and losses arising from changes in fair value are recognized immediately in net earnings.

Other financial liabilities:

The Company has classified the following financial liabilities as other financial liabilities: accounts payable and accrued liabilities, payable to shareholders, and dividends payable. These liabilities are initially recognized at their fair value. Fair value is determined by recent arm's length market transactions for the same instrument approximated by the instrument's initial cost in a transaction between unrelated parties.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to their net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Gains and losses arising from changes in fair value are recognized in net income upon derecognition.

2. Significant accounting policies *(Continued from previous page)*

Recent accounting pronouncements

Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises. In December 2011, the AcSB announced amendments which provide investment companies with the option to defer IFRS until fiscal years beginning on or after January 1, 2014. As a result of the amendments, the Company will adopt IFRS at the earlies beginning January 1, 2014, and will issue its first annual financial statements in accordance with IFRS, including comparative information for the previous fiscal year, for the year ending December 31, 2014.

Management is required to provide progress updates on the entity's IFRS changeover plan at each interim and annual reporting period up until the changeover date.

The Company is evaluating the potential impact of adopting IFRS on its financial statements and a changeover plan to adopt the standards. The key elements of the plan include assessing the impact of adopting IFRS on:

- Accounting policies;
- IT and data systems;
- Internal controls over financial reporting;
- Disclosure controls and procedures;
- Business activities as well as matters that may be influenced by GAAP measures such as debt covenants, capital requirements and compensation arrangements;

The changeover plan is still in the early stages of development and, as a result, the impact of adopting IFRS on the Company's financial reporting is not reasonably determinable.

3. Financial instruments

Fair value

The carrying amount of cash, accounts receivable, accrued interest receivable, bank indebtedness, accounts payable and accrued liabilities, dividends payable, and payable to shareholders approximates their fair value due to the short-term maturities of these items.

The carrying amount of the Company's mortgages receivable approximates their fair value due to the relatively short terms.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its mortgages receivable. As a significant portion of the mortgages receivable are short-term in nature and all of the mortgages have a fixed interest rate which is significantly higher than the bank prime rate, the interest rate risk is mitigated.

Credit risk

Credit risk arises from the possibility that mortgagors may experience financial difficulty and be unable to fulfil their mortgage commitments. The Company limits its credit risk by limiting its exposure to any one mortgagor and by requiring collateral which is greater than the mortgage value.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment fundings and repayments and redemptions of shares. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

The Company manages liquidity risk by investing in mortgages receivable with short-term maturities and declaring dividends based on cash availability.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company enters into transactions to advance funds on mortgages where an interest rate based upon current mortgage interest rates is charged on the advance date. Should market mortgage interest rates fluctuate in the short-term, the fair value of the mortgages receivable will fluctuate.

The Company manages its other price risk by investing in mortgages receivable with short-term maturities to minimize fluctuations in fair value as a result of market mortgage interest rate changes.

4. Property held for sale

Property held for sale consists of one (2010 - NIL) foreclosed properties acquired through the foreclosure process, which includes a residential property and lot. The Company capitalizes all maintenance and foreclosure costs and property taxes with the intention of recovering the costs upon subsequent sale of the property. When a specific property's fair value is less than carrying value, a fair value adjustment is made. A property's fair value is estimated by net realizable value based on current listings, appraisals and other relevant information less selling costs. Real property value is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants, competition from other available properties and other factors. The estimates of net realizable value of real estate assets are made at a specific point in time, given current relevant market information. These estimates are subjective and involve uncertainties and judgment.

5. Mortgages Receivable

Mortgages receivable are secured by various properties of the borrowers and the terms range from twelve to sixty months with amortization periods of one to forty years. All performing mortgage repayments are being received monthly, including principal and interest ranging from 6.50% to 12.99% per annum. There are three non-performing mortgages totalling $556,948 (2010 - $1,180,258). An allowance of $NIL (2010 - $55,000) has been set-up in respect of these non-performing mortgages.

	2011	*2010*
Current portion of mortgages receivable, net allowance of $55,000	**13,127,263**	7,361,033
Long-term portion of mortgages receivable	**607,193**	4,296,826
	13,734,456	11,657,859

The portfolio consists of:

		2011			*2010*	
Number of mortgages in 1st position	**35**	**72.00%**	**10,024,408**	37	85.07%	9,923,917
Number of mortgages in 2nd position	**20**	**28.00%**	**3,899,286**	16	14.93%	1,733,942
Average mortgage balance			**253,158**			220,997
Weighted average yield		**8.08%**			8.89%	

The weighted average yield on the mortgage balances is based on the pro-rata return to the Company of both the lender fee and interest income over the term of the related mortgages.

The number of mortgages in second position contains all inter alia mortgages where a second position is held.

6. Bank indebtedness

The Company has a $1,500,000 revolving line of credit of which $NIL (2010 - $100,000) was drawn upon as at December 31, 2011. The credit line is secured by a general security agreement representing a first charge on all the assets and undertakings of the Company.

7. Redeemable Preferred Shares

Class "A" preferred non-voting shares with a par value of $1 each are redeemable at the option of the shareholder, under certain restrictions by the Company, for $1 each. Class A Preferred shares are entitled to receive non-cumulative dividends out of the profits every year. In accordance with Canadian generally accepted accounting principles, the Class "A" preferred shares have been presented as a liability and the related dividends paid as an expense on the financial statements of the company. A material decrease in the Class "A" preferred non-voting shares issued is not expected within the next twelve months and, therefore, these shares have been presented as a long-term liability.

	2011	*2010*
Class "A" redeemable, non-voting preferred shares with a par value of $1	**14,007,869**	12,537,481
Shares issued		
Class A preferred	**1,966,048**	1,284,657
Shares redeemed		
Class A preferred	**495,660**	660,440

The preferred shares have been classified as financial liabilities of the Company as they are redeemable at the option of the holder. The holders of the preferred shares may redeem their shares for the purchase price. In the event there are insufficient funds from the repayment of mortgages held by the Company to redeem all shares for which a notice has been given, then such shares shall be redeemed in the order and amount for which such funds are and become available. The Company shall not be obligated to redeem any shares if such a redemption would result in the loss of the Company's status as a mortgage investment corporation within the meaning of the Income Tax Act.

8. Share capital

	2011	*2010*
Authorized		
Common shares		
Unlimited - without par value		
Preferred shares		
Unlimited - Class "A" non-voting with a par value of $1 each		
Unlimited - Class "B" non-voting with a par value of $1 each		
Issued		
117 Common shares without par value	**117**	117

Holders of the common shares of the Company are not entitled to dividends. All profits available for the payment of dividends are to be paid to the holders of the Class "A" preferred non-voting shares ratably according to the amounts paid-up thereon. The Company's policy is to make monthly advance payments on an annual dividend that is declared annually and must be paid within 90 days of the fiscal year-end.

9. Related Party Transactions

Included in expenses for the current year are $207,543 (2010 - $179,314) of management fees paid to corporations controlled by directors of the Company for the provision of financial and administrative services. The expenses were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Additionally, on November 21, 2011, a director purchased a house from the Company in the amount of $275,000, approved by the board. This board member abstained from the vote for the sale of the property.

10. Simple Average Rate of Return to Investors

The simple average rate of return to the investors of the Company is calculated as the dividends paid out during the year plus the ending retained earnings less the beginning retained earnings all divided by the average of the Class "A" preferred non-voting shares for the current year.

	2011	*2010*
Simple average rate of return to investors	**6.20%**	6.39%

The simple average rate of return to the investors of the Company since inception is 7.34% (2003 to 2010 - 7.48%).

11. Compliance with Mortgage Brokers Act

The Company did not handle or receive trust funds when transacting their mortgage activities and no funds were received that should have been held in trust.

12. Capital management

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying asset mortgage receivables.

The Company is subject to a debt to tangible net worth ratio capital requirement imposed by the Toronto Dominion Bank with regards to maintaining a ratio no greater than 0.5 to 1. In order to maintain this requirement the Company limits the amount of debt the Company holds during the year. During the year ended December 31, 2011, the Company complied with the capital requirement (0.008 to 1).

13. Amendment to the financial statements

Subsequent to the release of these financial statements, it was determined that they were incorrectly prepared in accordance with Canadian accounting standards for private enterprises and should have been reported in accordance with Accounting guideline 18. The change to Canadian generally accepted accounting principles Accounting Guideline 18, Investment Companies, resulted in a change in the presentation of the fair value adjustments for mortgage investments. For 2011, bad debt expense was overstated by $39,876, and has been amended to reflect as realized losses on mortgage investments of $94,876 offset by unrealized change in fair value of mortgage investments of $55,000. The comparative figures were restated for this change and bad debt expense decreased by $76,088 and amended to reflect as realized losses on mortgage investments of $53,088 and an unrealized change in fair value of mortgage investments of $23,000.

In addition, an error was discovered regarding the classification of a mortgage receivable which had the underlying security foreclosed upon as at year-end. Mortgages receivable was overstated $189,239 and property held for sale was understated by $189,239. These financial statements have been amended for this matter.