Armada Mortgage Corporation
Financial Statements
December 31, 2012

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 of Directors is composed primarily of Directors who are neither management nor employees of the Company. 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.

MNP LLP 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 and separately with, both the Committee and management to discuss their audit findings.

March 7, 2013

"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, 2012, and the statements of earnings (loss) 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 controls 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, 2012, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Maple Ridge, British Columbia

March 7, 2013

MNP LLP

Chartered Accountants

Armada Mortgage Corporation
Balance Sheet
As at December 31, 2012

	2012	*2011*
Assets		
Current		
Cash	**-**	310,817
Term deposit *(Note 3)*	**250,527**	-
Accounts receivable	**1,664**	500
Accrued interest receivable *(Note 4)*	**114,224**	63,253
Current portion of mortgages receivable *(Note 5)*	**12,324,627**	13,127,263
	12,691,042	13,501,833
Mortgages receivable *(Note 5)*	**2,087,764**	796,431
	14,778,806	14,298,264
Liabilities		
Current		
Bank indebtedness *(Note 6)*	**131,434**	-
Accounts payable and accrued liabilities	**38,970**	41,332
Dividends payable	**602**	214
Deferred income	**33,085**	63,742
	204,091	105,288
Redeemable preferred shares *(Note 7)*	**14,431,298**	14,007,869
	14,635,389	14,113,157
Shareholders' Equity		
Share capital *(Note 8)*	**102**	117
Retained earnings	**143,315**	184,990
	143,417	185,107
	14,778,806	14,298,264

Approved on behalf of the Board

"Ed Monteiro" (signed)
Director

"Heinz Hone" (signed)
Director

The accompanying notes are an integral part of these financial statements

Armada Mortgage Corporation
Statement of Earnings (Loss) and Retained Earnings
For the year ended December 31, 2012

	2012	*2011*
Revenue		
Interest income	**1,106,847**	1,016,190
Lender fees	**76,107**	101,476
Other fees	**17,263**	5,245
Discharge fees	**1,425**	1,500
	1,201,642	1,124,411
Expenses		
Accounting and audit fees	**18,024**	18,484
Advertising and promotion	**6,534**	8,160
Bad debts	**-**	39,876
Bank charges and interest	**6,307**	16,622
Consulting fees	**4,594**	448
Dividends	**896,218**	808,278
Insurance, licenses and dues	**259**	591
Legal fees	**15,908**	1,172
Management fees	**214,133**	207,543
Office	**5,636**	6,883
Repairs and maintenance	**704**	1,735
	1,168,317	1,109,792
Earnings from operations	**33,325**	14,619
Other expense		
Unrealized loss on accrued interest *(Note 4)*	**(6,954)**	-
Unrealized loss on mortgages *(Note 5)*	**(68,046)**	-
	(75,000)	-
Net earnings (loss)	**(41,675)**	14,619
Retained earnings, beginning of year	**184,990**	170,371
Retained earnings, end of year	**143,315**	184,990

The accompanying notes are an integral part of these financial statements

Armada Mortgage Corporation
Statement of Cash Flows
For the year ended December 31, 2012

	2012	*2011*
Cash provided by (used for) the following activities		
Operating activities		
Net earnings (loss)	**(41,675)**	14,619
Unrealized loss on mortgages	**68,046**	-
Unrealized loss on accrued interest	**6,954**	-
	33,325	14,619
Changes in working capital accounts		
Accounts receivable	**(1,164)**	5,881
Accrued interest receivable	**(57,925)**	804
Accounts payable and accrued liabilities	**(2,362)**	(65,117)
Dividends payable	**388**	(54,528)
Deferred income	**(30,657)**	(3,940)
	(58,395)	(102,281)
Financing activities		
Redemption of common shares	**(15)**	-
Increase in redeemable preferred shares, net	**423,429**	1,470,388
Repayment to shareholders	**-**	(677,470)
Bank indebtedness	**40,000**	(100,000)
	463,414	692,918
Investing activities		
Purchase of term deposit	**(250,527)**	-
Advances of mortgages receivable, net	**(556,743)**	(2,265,835)
	(807,270)	(2,265,835)
Decrease in cash resources	**(402,251)**	(1,675,198)
Cash resources, beginning of year	**310,817**	1,986,015
Cash resources, end of year	**(91,434)**	310,817
Supplementary cash flow information		
Dividends paid	**896,218**	808,278
Interest paid	**3,188**	14,377

The accompanying notes are an integral part of these financial statements

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 Accounts.

2. Significant accounting policies

The financial statements have been prepared in accordance with Part V of Canadian generally accepted accounting principles as issued by the Accounting Standards Board in Canada 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, mortgages receivable are recorded at fair value, with any changes in the fair value recorded in the statement of earnings and retained earnings.

Foreclosed assets

Foreclosed assets held for sale are recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Company obtains title to the assets plus subsequent disbursements related to the assets, less any revenues or lease payments received.

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 10% of the issued shares of any class at any time during the year and there must be at least 20 shareholders.

In the opinion of management, these requirements have been met.

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

Income taxes

The Company is a mortgage investment corporation ("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 from 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.

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

Allowance for loan impairment represents specific and general provisions established as a result of reviews of individual loans and groups of loans. Specific allowances are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan. General allowances are established by reviewing specific arrears and current economic conditions.

Restructured loans are not considered impaired where reasonable assurance exists that the borrower will meet the terms of the modified debt agreement.

Loans are classified as impaired, and a provision for loss is established, when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest.

In such cases, a specific provision is established to write-down the loan to the estimated future net cash flows from the loan discounted at the rate inherent in the loan when impairment was recognized. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its estimated realizable value.

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

Mortgages receivable

Residential and commercial loans are recorded at the lower of cost and net realizable value.

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

Financial Instruments

Fair value through profit and loss

The Co-operative has classified the following financial assets and liabilities at their fair values: cash and term deposits.

These instruments are initially recognized at their fair value. Any gains and losses arising as a result of the difference between the carrying amount and fair value is recognized in net income. Fair value is determined by published price quotations in an active market or approximated by the instrument's initial cost in a transaction between unrelated parties.

Loans and receivables:

The Company has classified the following financial assets as loans and receivables: 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.

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

Other financial liabilities:

The Company has classified the following financial liabilities as other financial liabilities: bank indebtedness, accounts payable and accrued liabilities 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 201,1 the AcSB announced amendments which will provide investment companies with the option to defer adoption of IFRS until fiscal years beginning on or after January 1, 2014. As a result of the amendments, the Company will adopt IFRS at the earliest beginning January 1, 2014, and will issue its first annual financial statements in accordance with IFRS, including comparative IFRS 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 is developing 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; and
- 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. Term deposit

	2012	*2011*
TD Fixed rate GIC maturing January 4, 2013, interest rate at 1.35%	**250,527**	-

4. Accrued interest receivable

	2012	2011
Accrued interest receivable	**121,178**	63,253
Less: Unrealized loss on accrued interest	**(6,954)**	-
	114,224	63,253

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 five non-performing mortgages totalling $1,437,398 (2011 - $556,948). An allowance of $75,000 (2011 - $NIL) has been set-up in respect of these non-performing mortgages.

	2012	*2011*
Current portion of mortgages receivable	**12,392,673**	13,127,263
Less: Unrealized loss on mortgage	**(68,046)**	-
	12,324,627	13,127,263
Long-term portion of mortgages receivable	**2,087,764**	796,431
	14,412,391	13,923,694

The portfolio consists of:

	2012			2011		
Number of mortgages in 1st position	**40**	**71.43%**	**10,296,758**	35	72.00%	10,024,408
Number of mortgages in 2nd position	**16**	**28.57%**	**4,115,633**	20	28.00%	3,899,286
Average mortgage balance			**257,364**			253,158
Weighted-average yield		**8.34%**			8.08%	

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

	2012	2011
TD Chequing Account	**91,434**	-
TD Revolving Line of Credit	**40,000**	-
	131,434	-

The Company has a $1,500,000 revolving line of credit of which $40,000 (2011 - $Nil) was drawn upon as at December 31, 2012. The credit line is secured by a general security agreement representing a first charge on all the assets and undertakings of the Company (book value $14,778,806 (2011 - $14,298,264)).

During the year the Company has complied with the following covenants:

(a) The sum of all mortgages are not to exceed 75% of the sum of all property market values.
(b) Provide audited financial statements within 90 days of fiscal year-end.
(c) Provide the Bank notification in writing of any shares sale/RRSP redemption request in excess of $50,000 detailing the expected source and date of payout(s).
(d) Be subject to annual audit and review of mortgage files by the Bank of a minimum of 10% of total outstanding mortgages.
(e) Provide the Bank a monthly breakdown of the mortgage portfolio in the format specified by the Bank within 20 days of each month-end, complete with a compliance certificate from a senior officer of the Borrower.
(f) There will be no change to the company's structure or material ending policy without prior consent of the Bank.
(g) Agrees to maintain a Debt to Tangible Net Worth ratio of no greater than 0.5:1.

7. Redeemable Preferred Shares

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.

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 three months of the fiscal year-end.

During the current year, there was a total of 809,320 preferred shares issued and 385,891 preferred shares redeemed, each with a par value of $1.

	2012	2011
Class "A" redeemable, non-voting preferred shares with a par value of $1	**14,431,298**	14,007,869

8. Share capital

	2012	*2011*
Authorized		
Common shares		
Unlimited - without par value		
Preferred shares		
Unlimited - Class "A" non-voting with a par value of $1 each		
Issued		
102 Common shares without par value	**102**	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 three months of the fiscal year-end.

		2012		*2011*
Common shares	**Number**	**Amount**	Number	Amount
Opening balance	**117**	**117**	117	117
Common shares issued	**62**	**62**	-	-
Common shares redeemed	**(77)**	**(77)**	-	-
Closing balance	**102**	**102**	117	117

9. Related party transactions

Included in expenses for the current year are management fees in the amount of $214,133 (2011 - $207,543) paid to corporations controlled by certain directors of the Company for the provision of financial and administrative services. These transactions were conducted in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

10. Financial instruments

Fair value

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

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. As there are no quoted prices in an active market for mortgage investments, management makes its determination of fair value based on its assessment of the current mortgage market investments of same or similar terms. The fair value of mortgage receivable approximates their carrying values due to the fact that the majority of the mortgages are short-term in nature with terms of 12 months or less.

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 and that at the end of a mortgage's term, it will be re-priced to a prevailing interest rate lower than the original one. 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.

11. 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.

	2012	2011
Simple average rate of return to investors	**6.01%**	6.20%

The simple average rate of return to the investors of the Company since inception is 7.21% (2003 to 2011 - 7.34%).

12. 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.

13. 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, 2012, the Company complied with the capital requirement (0.008 to 1).

14. Comparative figures

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