Armada Mortgage Corp.
Financial Statements
December 31, 2014

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For the year ended December 31, 2014

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Management's Responsibility

To the Shareholders of Armada Mortgage Corp.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. 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. The Board is also responsible for recommending the appointment of the Company's 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 Board and management to discuss their audit findings.

April 14, 2015

"Gordon Hone" (signed)
President

Independent Auditors' Report

To the Shareholders of Armada Mortgage Corp.:

We have audited the accompanying financial statements of Armada Mortgage Corp., which comprise the statement of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, and the statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 audits. We conducted our audits 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 audits 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 Corp. as at December 31, 2014, December 31, 2013 and January 1, 2013 and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

Maple Ridge, British Columbia

April 14, 2015

MNP LLP

Chartered Accountants

Armada Mortgage Corp.
Statement of Financial Position
As at December 31, 2014

	December 31 2014	*December 31 2013 (Note 16)*	*January 1 2013 (Note 16)*
Assets			
Current			
Cash and cash equivalents	**1,950**	-	250,527
Current portion of mortgage investments *(Note 4), (Note 5)*	**17,040,461**	14,090,990	12,407,430
	17,042,411	14,090,990	12,657,957
Mortgage investments *(Note 4), (Note 5)*	**-**	891,891	2,087,764
	17,042,411	14,982,881	14,745,721
Liabilities			
Current			
Credit facility *(Note 6)*	**1,814,453**	67,909	131,435
Accounts payable and accrued liabilities	**40,989**	38,684	39,573
Dividends payable	**64,739**	69,912	-
	1,920,181	176,505	171,008
Redeemable preferred shares *(Note 7)*	**14,994,489**	14,829,666	14,431,298
	16,914,670	15,006,171	14,602,306
Commitments and contingencies *(Note 14)*			
Shareholders' Equity (Deficit)			
Share capital			
Common shares *(Note 8)*	**98**	101	102
Retained earnings (deficit)	**127,643**	(23,391)	143,313
	127,741	(23,290)	143,415
	17,042,411	14,982,881	14,745,721

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 Corp.
Statement of Income (Loss) and Comprehensive Income (Loss)
For the year ended December 31, 2014

	2014	*2013*
Revenue		
Mortgage interest	**1,103,170**	956,524
Lender fees	**125,569**	70,453
Other fees	**46,062**	10,625
	1,274,801	1,037,602
Expenses		
Accounting and audit fees	**11,962**	14,300
Advertising and promotion	**13,197**	4,360
Bank charges and interest	**47,128**	16,299
Consulting fees	**8,797**	3,401
Insurance, licenses and dues	**1,525**	1,226
Legal fees	**4,695**	4,934
Management fees *(Note 10)*	**245,506**	224,492
Office	**3,614**	6,023
	336,424	275,035
Net investment income before other items	**938,377**	762,567
Other items		
Bad debts	**(17,748)**	(6,215)
Provision for mortgage investment loss *(Note 4)*	**(153,722)**	(160,835)
	(171,470)	(167,050)
Net income before dividend expense	**766,907**	595,517
Dividends	**(615,873)**	(762,221)
Income (loss) and comprehensive income (loss)	**151,034**	(166,704)

The accompanying notes are an integral part of these financial statements

Armada Mortgage Corp.
Statement of Changes in Equity
For the year ended December 31, 2014

	Share capital	*Retained earnings*	*Total equity*
Balance January 1, 2013	**102**	**143,313**	**143,415**
Loss and comprehensive loss	**-**	**(166,704)**	**(166,704)**
Redemption of share capital	**(1)**	**-**	**(1)**
Balance December 31, 2013	**101**	**(23,391)**	**(23,290)**
Income and comprehensive income	**-**	**151,034**	**151,034**
Redemption of share capital	**(3)**	**-**	**(3)**
Balance December 31, 2014	**98**	**127,643**	**127,741**

The accompanying notes are an integral part of these financial statements

Armada Mortgage Corp.
Statement of Cash Flows
For the year ended December 31, 2014

	2014	*2013*
Cash provided by (used for) the following activities		
Operating activities		
Income (loss) and comprehensive income (loss)	**151,034**	(166,704)
Provision for mortgage investment loss	**153,722**	160,835
	304,756	(5,869)
Accounts payable and accrued liabilities	**2,306**	(899)
Cash from operations	**307,062**	(6,768)
Financing activities		
Borrowings from credit facility	**6,806,543**	2,430,000
Repayments of credit facility	**(5,060,000)**	(2,493,525)
Redemption of common shares	**(3)**	(1)
Issuance of redeemable preferred shares	**683,377**	558,884
Redemption of redeemable preferred shares	**(518,555)**	(160,516)
Dividends payable	**(5,174)**	69,912
	1,906,188	404,754
Investing activities		
Advances of mortgage investments	**(7,109,510)**	(6,975,409)
Repayments of mortgage investments	**4,898,210**	6,326,896
	(2,211,300)	(648,513)
Increase (decrease) in cash and cash equivalents	**1,950**	(250,527)
Cash and cash equivalents, beginning of year	**-**	250,527
Cash and cash equivalents, end of year	**1,950**	-
Supplementary cash flow information		
Interest paid	**44,746**	14,394

The accompanying notes are an integral part of these financial statements

1. Nature of operations

Armada Mortgage Corp. was incorporated on December 29, 1995 under the *British Columbia Corporations Act.* The Company is a Mortgage Investment Corporation (MIC), domiciled in Canada, within the meaning assigned by Subsection 130.1(6) of the Income Tax Act (Canada). The Company must 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.

The address of the Company's registered office is 11951 - 224th Street, Maple Ridge, British Columbia.

The financial statements were approved by the board of directors and authorized for issue on April 14, 2015.

2. Basis of presentation

Statement of compliance:
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"). This is the first time the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Policies ("GAAP"). IFRS 1 *First Time Adoption of International Financial Reporting Standards* ("IFRS 1") has been applied in preparing these financial statements. The effects of the transition from GAAP to IFRS on the Company's reported financial position, financial performance and cash flows, are set out in Note 17.

Functional and presentation currency
The financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Basis of measurement:
The financial statements have been prepared on the historical cost basis except as otherwise noted.

Use of estimates and judgments*:*
In the preparation of the financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these financial statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

Mortgage investments:
The Company is required to make an assessment of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events ("loss events") have occurred after their initial recognition, that have a negative effect on the estimated future cash flows of those assets. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, the underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary materially.

2. Basis of presentation *(Continued from previous page)*

Measurement of fair values:

The Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses observable market data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Management reviews significant unobservable inputs and valuation adjustments. If third party information, such as property value assessments, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the fair value hierarchy in which such valuations should be classified.

The information about the assumptions made in measuring fair value is included in the following notes:

Note 4 - Mortgage investments

Note 14 - Fair value measurements

3. Summary of significant accounting policies

Mortgage investments

Mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized cost using the effective interest method, less any impairment losses. Mortgage investments are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if objective evidence indicates that one or more loss events have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset.

The Company considers evidence of impairment for mortgage investments at a specific level. All mortgage investments are assessed for specific impairment. Those found not to be specifically impaired are then assessed for any impairment that has been incurred but not yet identifiable at an individual mortgage level.

In assessing collective impairment, the Company reviews historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a specific mortgage investment is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through comprehensive income.

3. Summary of significant accounting policies *(Continued from previous page)*

Cash and cash equivalents

The company considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents.

Dividends

Dividends to holders of redeemable shares are recognized in the statements of net income (loss) and comprehensive income (loss) as financing costs.

Income taxes

It is the intention of the Company to qualify as a mortgage investment corporation (“MIC”) for Canadian 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 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 deferred taxes is required for the Company.

Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss (“FVTPL”), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale, or (v) other liabilities. Financial instruments are recognized initially at fair value, plus in the case of financial instruments not FVTPL any incremental direct transaction costs. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in net income (loss). Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The classification of the Company’s financial instruments are outlined in note 14.

Derecognition of financial assets and liabilities

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income (loss) is recognized in net income (loss).

The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

Interest and fee income

Interest income includes interest earned on the Company’s mortgage investments and interest earned on cash and cash equivalents. Interest income earned on the mortgage investments is accounted for using the effective interest rate.

3. Summary of significant accounting policies *(Continued from previous page)*

Standards issued but not yet effective

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2014 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 9 Financial instruments

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 *Financial instruments: recognition and measurement*. The standard requires classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39. However, for financial liabilities measured at fair value, changes in the fair value attributable to changes in an entity's "own credit risk" is now recognized in other comprehensive income instead of profit or loss. This new standard will also impact disclosures provided under IFRS 7 *Financial instruments: disclosures*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not expect this standard to have a material impact on its financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15, issued in May 2014, specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty programmes*, IFRIC 15 *Agreements for the construction of real estate*, IFRIC 18 *Transfers of assets from customers* and SIC-31 *Revenue – barter transactions involving advertising services*. The standard provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The five steps are:

1. Identify the contract(s) with the customer.
2. Identify the performance obligation(s) in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to each performance obligation in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is currently assessing the impact of this standard on its financial statements.

4. Mortgage investments

Mortgage investments consist of the following:

	December 31 2014	*December 31 2013*	*January 1 2013*
Mortgage principal receivable	**17,158,627**	15,195,070	14,482,101
Accrued interest receivable	**93,035**	73,468	114,224
Unamortized lender fees	**(57,479)**	(56,776)	(33,085)
Provision for mortgage investment loss	**(153,722)**	(228,881)	(68,046)
	17,040,461	14,982,881	14,495,194
Less: current mortgage investments	(17,040,461)	(14,090,990)	(12,407,430)
Long-term mortgage investments	-	891,891	2,087,764

Mortgage investments bear interest at a weighted average rate of 8.04% (2013: 7.71%, Jan. 1, 2013: 8.22%) and are secured by charges against real property of the borrowers with original terms ranging from twelve to thirty six months and amortization periods of one to forty years. Principal and/or interest only payments are due monthly and early payment of principal is permitted without penalty or yield maintenance.

For the year ended December 31, 2014, the Company received lender fees of $124,272 (2013: $127,229, Jan. 1, 2013: $214,133) which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

Provision for mortgage investment loss

The mortgage investments are assessed at each reporting date to determine whether there is objective evidence of impairment. A mortgage investment is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

There are five non-performing mortgages totalling $2,122,671 (2013 - $2,124,920, Jan 1, 2013 - $1,437,398). A mortgage is considered non-performing when a counterparty has not made a payment by the contractual due date. The cumulative impairment provision in the amount of $153,722 (2013 - $228,881, Jan 1, 2013 - $68,046) represents the total amount of management's estimate of the shortfall between the principal balances, costs incurred, and accrued interest and the estimated recoverable amount of the underlying security of the mortgage investment.

The impairment is based on valuations by independent appraisers accredited by professional institutes with recent experience in the location of the property being valued and by direct sales comparisons where the fair value is based on comparisons to recent sales of properties of similar types, locations and quality. The fair value measurements have been categorized as level 2 fair value based on inputs in the valuation techniques used.

5. Mortgage investments - portfolio allocation (2014)

	Number of mortgage investments	Amortized cost and fair value
Mortgage rate %		
0.00% (Non-performing)	2	279,733
4.50% to 9.00%	68	16,608,878
9.01% to 10.00%	2	88,839
10.01% to 11.00%	1	120,490
Total gross mortgage investments	73	17,097,940
Unamortized lender fees	-	(57,479)
Total mortgage investments	73	17,040,461

6. Credit facility

	December 31 2014	*December 31 2013*	*January 1 2013*
TD Chequing Account	**4,453**	37,909	91,435
TD Revolving Line of Credit	**1,810,000**	30,000	40,000
	1,814,453	67,909	131,435

The Company has a $5,000,000 revolving line of credit of which $1,810,000 (2013 - $30,000, Jan. 1, 2013 - $40,000) was drawn upon as at December 31, 2014. 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 $17,042,411 (2013 - $14,982,881, Jan 1, 2013:$14,745,721)).

During the year the Company has complied with the following financial covenants, to maintain:

(a) A Debt to Tangible Net Worth ratio of no greater than 0.5:1 and

(b) An Interest Coverage ratio of not less than 300%.

It is management's opinion that the Company will remain in compliance with all covenants through the next 12 months subsequent to December 31, 2014.

7. Redeemable preferred shares

The non-voting, participating preferred shares are privately held and there is no market through which the shares can be sold. The Company is authorized to issue these shares, redeemable at the option of the holder. The Company classifies financial instruments as either financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The redeemable shares are classified as liabilities in the statements of financial position as they are redeemable at the option of the holder.

The holders of the preferred shares may redeem their shares for the purchase price one year from the last day of the fiscal quarter in which the preferred share was subscribed for or, if a preferred share was acquired by way of re-invested dividends on an originally subscribed for preferred share, such preferred share shall have the same retraction date as the original preferred share. 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 aggregate value of the redemption amount payable by the company to requestors on any given retraction date shall be limited to 10% of the aggregate value of the Company's equity earnings for the previous year. 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.

The changes in redeemable preferred shares were as follows:

	December 31 2014	*December 31 2013*
Balance, beginning of the year	**14,829,666**	14,431,298
Redemption of shares	**(518,555)**	(160,516)
Issuance of shares	**683,377**	558,884
Balance, end of the year	**14,994,488**	14,829,666

8. Common shares

Issued and authorized capital

At December 31, 2014, the authorized share capital comprised an unlimited number of common shares. The common shares are nonvoting, do not participate in the Net Asset Value appreciation (depreciation) of the company, and are without par value. All issued shares are fully paid. Issued share capital as at December 31, 2014 amounted to $98 (December 31, 2013: $101, January 1, 2013: $102).

9. Net Income (Loss) per Share

The Company has not disclosed net income (loss) per share for the years ended December 31, 2014 and 2013 as the Company does not have equity instruments as defined in IAS 33.

10. Related Party Transactions

Included in expenses for the current year are management fees in the amount of $245,506 (2013 - $224,492) paid to Verico Armada Capital Corp. ("VACC") who is controlled by certain directors of the Company. VACC is responsible for the day-to-day operations of the Company, including administration of the Company's mortgage investments. Under the Management Agreement, the Company shall pay to the Manager a management fee equal to 1.50% of the monthly mortgage investment balances, calculated and payable monthly.

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, as defined in note 9.

11. Capital risk management

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder net assets and generating a stable cash dividend to shareholders. The Company defines its capital structure to include common shares and the credit facility.

The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities, the availability of capital and anticipated changes to general economic conditions.

The Company's investment restrictions and asset allocation models incorporate various restrictions and investment parameters to manage the risk profile of the mortgage investments. The investment restrictions also permit the Company to maintain constant leverage. The aggregate amount of borrowing may not exceed 75% of the principal balance of reducing and non-reducing mortgages on eligible properties, up to a maximum of 75% of appraised property value. As at December 31, 2014, the Company was in compliance with its investment restrictions.

Pursuant to the terms of the credit facility, the Company is required to meet certain financial requirements, including a maximum debt to tangible net worth ratio, and a minimum interest coverage ratio, and maximum indebtedness of the Company. At December 31, 2014, the Company was in compliance with all financial covenants.

12. Risk management

The Company is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Company's direct control. Management and the Board of Directors play an active role in monitoring the Company's risks and policies that are best suited to manage these risks. There has been no change to the process since the previous year.

The Company's activities expose it to a variety of financial risks: interest rate risk, credit risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial assets or financial liabilities will fluctuate because of changes in market interest rates. As at December 31, 2014 $Nil ($2013: $Nil) of mortgage investments bear interest at variable rates. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgages to protect negative exposure.

In addition, the Company is exposed to interest rate risk on its credit facility, which has a balance of $1,814,453 (2013 - $67,909, Jan 1, 2013 - $131,435). Based on the outstanding balance of the credit facility as at December 31, 2014, a 0.50% increase (decrease) in interest rates, with all other variables constant, would increase (decrease) net income by $9,072 annually arising from a higher (lower) interest expense on the credit facility.

The Company's interest receivable, other assets, and accounts payable and accruals have no exposure to interest rate risk due to their short-term nature. Cash and cash equivalents carry a variable rate of interest and are subject to minimal interest rate risk.

Credit risk

Credit risk is the risk that a borrower may be unable to honour its debt commitments as a result of a negative change in market conditions that could result in a loss to the Company. The Company mitigates this risk by the following:

(a) Adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions)

(b) All mortgage and loan investments are approved by the Board of Directors before funding

(c) Actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, when required.

12. Risk management *(Continued from previous page)*

The maximum exposure to credit risk as at December 31, 2014 is the fair value of its mortgages receivable, which total $17,040,461 (2013 - $14,982,881,Jan 1 2013 - $14,495,194). The Company has recourse under these mortgages in the event of default by the borrower, in which case the Company would have claim against the underlying property, often in conjunction with other forms of security such as personal and corporate guarantees and general security agreements.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company enters into transactions to purchase goods and services on credit, pay dividends within 90 days after the year end, for which repayment is required at various dates, and manages preferred share redemptions. Liquidity risk is measured by reviewing the Company's future net cash flows for the possibility of a negative net cash flow.

The Company manages the liquidity risk resulting from accounts payable and accruals, share redemptions and dividends payable by investing in mortgages with short term maturities. The Company commits to mortgages receivable only on an assured cash availability basis.

13. Fair Value Measurements

The following table shows the carrying amounts and fair values of assets and liabilities

		December 31, 2014		December 31, 2013	
Financial Instrument Classification	**Note**	**Carrying Value**	**Fair value**	Carrying Value	Fair Value
Loans and receivables:					
Cash and cash equivalents	(b)	**1,950**	**1,950**		
Mortgage investments	(a)	**17,120,461**	**17,120,461**	14,982,881	14,982,881
Other financial liabilities:					
Accounts payable and accrued liabilities	(b)	**19,633**	**19,633**	38,684	38,684
Dividends payable	(b)	**64,738**	**64,738**	69,912	69,912
Credit facility	(b)	**1,814,453**	**1,814,453**	67,909	67,909
Redeemable preferred shares	(c)	**14,994,488**	**14,994,488**	14,829,666	14,829,666

The valuation inputs and techniques used for the Company’s financial instruments are as follows:

(a) Mortgage investments:

There is no quoted price in an active market for the mortgage investments. Management makes its determination of fair value based on its assessment of the current lending market for mortgage investments of same or similar terms. Typically, the fair value of these mortgage investments approximate their carrying values given the amounts consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. As a result, mortgage investments are based on level 2 inputs.

(b) Other financial assets and liabilites

The fair values of cash and cash equivalents, credit facility, dividends payable and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities. Other financial assets and liabilities are based on level 2 inputs.

(c) Redeemable preferred shares

As at December 31, 2014, redeemable preferred shares are equal to their net redemption value. Redeemable preferred shares are based on level 2 inputs.

There were no transfers between level 1, level 2 and level 3 during the years ended December 31, 2014 and 2013.

14. Commitments and contingencies

In the ordinary course of business activities, the Company may be contingently liable for liabilities and claims arising from investing in mortgages. Where required, management records adequate provisions in the accounts.

Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the Company's financial statements.

15. 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.

	2014	2013
Simple average rate of return to investors	**5.82%**	4.07%

The simple average rate of return to the investors of the Company since inception is 6.83% (2003 to 2013 - 6.92%).

16. Impact of adopting International Financial Reporting Standards

As stated in Note 2, these are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies in Note 3 have been applied in preparing the financial statements for the year ended December 31, 2014, the comparative information for the year ended December 31, 2013, and the opening IFRS balance sheet as at January 1, 2013 (the Company's date of transition to IFRS).

Reconciliations and explanatory notes on how the transition to IFRS has affected the reported financial position, financial performance and cash flows previously reported under GAAP are presented below.

Significant adjustments

There were no significant adjustments to the statements of financial position at December 31, 2014, December 31, 2013 or January 1, 2013 as a result of the adoption of IFRS. There were no significant adjustments to the statements of comprehensive income (loss), changes in equity or cash flows for the years ended December 31, 2014 or December 31, 2013 as a result of the adoption of IFRS.

Reconciliation of equity at January 1, 2013

	Canadian GAAP	Adjustments	IFRS
Cash and cash equivalents	250,527	-	250,527
Current portion of mortgage investments	12,407,430	-	12,407,430
Mortgage investments	2,087,764	-	2,087,764
Total assets	**14,745,721**	**-**	**14,745,721**
Credit facility	131,435	-	131,435
Accounts payable and accrued liabilities	39,573	-	39,573
Redeemable preferred shares	14,431,298	-	14,431,298
Total liabilities	**14,602,305**	**-**	**14,602,306**
Share capital	102	-	102
Retained earnings	143,313	-	143,313
Total equity	**143,416**	**-**	**143,416**
Total liabilities and equity	**14,745,721**	**-**	**14,745,721**

16. Impact of adopting International Financial Reporting Standards ***(continued from previous page)***

Reconciliation of equity at December 31, 2013

	Canadian GAAP	Adjustments	IFRS
Current portion of mortgage investments	14,090,990	-	14,090,990
Mortgage investments	891,891	-	891,891
Total assets	**14,982,881**	**-**	**14,982,881**
Credit facility	67,909	-	67,909
Accounts payable and accrued liabilities	38,684	-	38,684
Dividends payable	69,912	-	69,912
Redeemable preferred shares	14,829,666	-	14,829,666
Total liabilities	**15,006,171**	**-**	**15,006,171**
Share capital	101	-	101
Deficit	(23,391)	-	(23,391)
Total deficit	**(23,290)**	**-**	**(23,290)**
Total liabilities and deficit	**14,982,881**	**-**	**14,982,881**

16. Impact of adopting International Financial Reporting Standards *(continued from previous page)*

Reconciliation of loss and comprehensive loss for the period ended December 31, 2013

	Canadiaan GAAP	Adjustments	IFRS
Revenue		-	
Mortgage interest	956,524	-	956,524
Lender fees	70,453	-	70,453
Other fees	10,625	-	10,625
	1,037,602	-	1,037,602
Expenses			
Accounting and audit fees	14,300	-	14,300
Advertising and promotion	4,360	-	4,360
Bank charges and interest	16,299	-	16,299
Consulting fees	3,401	-	3,401
Insurance, licenses and dues	1,226	-	1,226
Legal fees	4,934	-	4,934
Management fees	224,492	-	224,492
Office	6,023	-	6,023
	275,035	-	275,035
Net investment income before other items	762,567		762,567
Other items			
Bad debts	(6,215)	-	(6,215)
Provision for mortgage investment loss	(160,835)	-	(160,835)
	(167,050)	-	(167,050)
Net income before dividend expense	595,517	-	595,517
Dividends	(762,221)	-	(762,221)
Loss and comprehensive loss	**(166,704)**	**-**	**(166,704)**

17. Comparative figures

Certain prior year figures have been reclassified to conform to the current year presentation.