ARMADA MORTGAGE CORPORATION

Financial Statements

Year Ended December 31, 2015

ARMADA MORTGAGE CORPORATION
Index to Financial Statements
Year Ended December 31, 2015

Management's Responsibility for Financial Reporting

The financial statements of Armada Mortgage Corp. have been prepared in accordance with International Financial Reporting Standards. These statements include certain amounts based on management's estimates and judgments. Management has determined such amounts based on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

The integrity and reliability of Armada Mortgage Corp.'s reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. These systems are designed to provide reasonable assurance that the financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. They meet periodically with management and the shareholder's auditors to review significant accounting, reporting and internal control matters.

The financial statements have been audited on behalf of the shareholder by Grant Thornton LLP, in accordance with Canadian auditing standards.

Mr. Gordon Hone,

Maple Ridge, BC

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Armada Mortgage Corporation

We have audited the accompanying financial statements of Armada Mortgage Corporation, which comprise the statement of financial position as at December 31, 2015 and the statements of income and comprehensive income, changes in equity and of cash flow 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 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.

Auditor's 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 auditor's 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 is sufficient and appropriate to provide a basis for our audit opinion.

(continues)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Armada Mortgage Corporation as at December 31, 2015 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those statements on April 14, 2015.

Grant Thornton LLP

Langley, BC
March 23, 2016

Chartered Professional Accountants

ARMADA MORTGAGE CORPORATION
Statement of Financial Position
December 31, 2015

	2015	2014 *(Restated)* *(Note 4)*
ASSETS		
Cash	**$ 1,850**	$ 1,950
Funds held in trust *(Note 6)*	**-**	143,900
Accounts receivable	**20,000**	-
Accrued interest receivable	**81,630**	93,035
Mortgages receivable *(Note 7)*	**19,512,469**	16,851,595
Prepaid expenses	**18,334**	9,410
	$ 19,634,283	$ 17,099,890
LIABILITIES AND SHAREHOLDERS' EQUITY		
Bank indebtedness *(Note 8)*	**$ 3,025,517**	$ 1,814,453
Accounts payable	**49,531**	40,989
Dividends payable *(Note 9)*	**179,592**	192,382
Unamortized lender fees	**76,391**	57,479
Preferred shares *(Note 10)*	**16,303,158**	14,994,489
	19,634,189	17,099,792
SHAREHOLDERS' EQUITY		
Share capital *(Note 10)*	**94**	98
Retained earnings	**-**	-
	94	98
	$ 19,634,283	$ 17,099,890

ON BEHALF OF THE BOARD

_______________ *Director*

_______________ *Director*

ARMADA MORTGAGE CORPORATION

Statement of Income and Comprehensive Income

Year Ended December 31, 2015

	2015	2014 *(Restated)* *(Note 4)*
REVENUE		
Mortgage interest	**$ 1,136,178**	$ 1,103,170
Lender fees	**122,801**	125,569
Other fees	**66,015**	46,062
TOTAL REVENUE	**$ 1,324,994**	$ 1,274,801
EXPENSES		
Management fees *(Note 11)*	**266,054**	245,506
Mortgage losses *(Note 12)*	**77,695**	171,470
Interest and bank charges	**72,521**	47,128
Professional fees	**38,658**	16,657
Advertising and promotion	**17,980**	13,197
Consulting fees	**12,750**	8,797
Office	**2,977**	3,614
Insurance	**795**	1,525
TOTAL EXPENSES	**489,430**	507,894
NET INCOME BEFORE DIVIDEND EXPENSE	**835,564**	766,907
OTHER EXPENSES		
Dividends *(Note 9)*	**835,564**	743,516
NET INCOME AND COMPREHENSIVE INCOME	**$ -**	$ 23,391

RELATED PARTY TRANSACTIONS *(Note 11)*

RATE OF RETURN *(Note 16)*

ARMADA MORTGAGE CORPORATION

Statement of Changes in Equity

Year Ended December 31, 2015

	2015	2014 *(Restated) (Note 4)*
COMMON SHARES		
Balance, beginning of year	**$ 98**	$ 101
Redemption of shares	**(4)**	(3)
Balance, end of year	**94**	98
RETAINED EARNINGS (DEFICIT)		
Retained earnings (deficit), beginning of year	**-**	(23,391)
Comprehensive income for the year	**-**	23,391
Retained earnings, end of year	**-**	-
TOTAL SHAREHOLDERS' EQUITY	**$ 94**	$ 98

ARMADA MORTGAGE CORPORATION

Statement of Cash Flow

Year Ended December 31, 2015

		2015		2014 *(Restated) (Note 4)*
OPERATING ACTIVITIES				
Net income	$	-	$	23,391
Adjustments for:				
Mortgage losses		77,695		171,470
Interest income, net		(1,063,656)		(1,056,042)
Dividends		835,564		743,516
Changes in funds held in trust		143,900		(143,900)
Changes in accounts receivable		(20,000)		-
Changes in prepaid expenses		(8,924)		(9,410)
Changes in accounts payable		8,541		2,305
Changes in unamortized lender fees		18,912		703
		(7,968)		(267,967)
Cash flows relating to interest				
Interest received		1,147,583		1,083,603
Interest paid		(72,521)		(47,128)
Dividends paid		(702,011)		(534,311)
		373,051		502,164
Cash flow from operating activities		365,083		234,197
INVESTING ACTIVITIES				
New mortgages funded		(10,772,478)		(6,965,610)
Mortgages repaid		8,033,909		4,908,734
Cash flow used by investing activities		(2,738,569)		(2,056,876)
FINANCING ACTIVITIES				
Common shares redeemed		(4)		(3)
Preferred shares issued		1,728,256		596,643
Preferred shares redeemed		(565,930)		(518,555)
Increase in bank indebtedness		1,211,064		1,814,453
Cash flow from financing activities		2,373,386		1,892,538
INCREASE (DECREASE) IN CASH FLOW		(100)		69,859
Cash (deficiency) - beginning of year		1,950		(67,909)
CASH - END OF YEAR	$	1,850	$	1,950
CASH CONSISTS OF:				
Cash	$	1,850	$	1,950

1. DESCRIPTION OF BUSINESS

Armada Mortgage Corporation (the "Company") is a mortgage investment corporation pursuant to Section 130.1 of the Income Tax Act. It was incorporated under the British Columbia Companies Act on December 29, 1995 and is also registered in Alberta, Manitoba and Ontario. The primary mandate of the Company is to invest its pooled funds into residential mortgages and to provide its shareholders an acceptable rate of return.

The address of the Company's registered office is 6345 197 Street, Langley, BC V2Y 1K8.

2. BASIS OF PRESENTATION

The financial statements were prepared in accordance with IFRS, as set out in the CPA Canada Handbook - Accounting Part 1, using accounting policies as issued by the International Accounting Standards Board (IASB).

These annual financial statements were authorized for issuance by the Board of Directors on March 22, 2016.

Basis of measurement

These financial statements are prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss that have been measured at fair value.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is also the Company's functional currency.

Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of management estimates relate to the valuation of mortgages and the provision for impaired loans.

Management believes that its estimates are appropriate, however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed annually and revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected.

Impairment losses on mortgages receivables

In determining whether an impairment loss should be recorded in the statement of income and comprehensive income, the Company makes judgment on whether objective evidence of impairment exists individually for mortgages that are individually significant.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Interest income on mortgages is recorded on the accrual basis except when a loan is considered impaired. Interest income on impaired loans is recorded on a cash basis.

Interest income on impaired loans ceases to accrue upon the start of foreclosure action. Any interest income after that point is only recognized when received.

Interest and penalties received as a result of loan prepayments are recognized as income in the year in which the prepayment is made.

Loan fees on mortgages are deferred at the time the mortgage is advanced. The fees are recognized as revenue on a monthly basis until the earlier of the maturity date or pay out date.

Mortgages receivable

Mortgages receivable are classified as loans and receivables and are recorded at amortized cost, less allowances for loan impairment.

Specific allowances are established for individual mortgages identified as impaired, whereby the Company reduces the carrying value of these mortgages to their estimated net realizable value. Mortgages classified as impaired include mortgages for which interest and principal payments are 90 days in arrears and the underlying security is considered inadequate to recover all costs. Estimated realizable amounts are determined by the estimated fair market value of the security underlying the mortgages after deducting estimated costs of realization.

The Company capitalizes all maintenance and foreclosure costs with the intention of recovering these costs upon subsequent payout of the mortgage providing that sufficient equity is estimated to exist in the underlying security.

Income taxes

No provision for income taxes has been made in these financial statements as the Company is a Mortgage Investment Corporation in accordance with Section 130.1 of the Income Tax Act. No tax is payable providing all income earned is paid out as dividends within 90 days of the fiscal year end.

Dividends

Dividends on new shares and redemptions are calculated on a pro-rated monthly basis. These dividends are tax-deductible distributions of the Company's profits and as such they retain the basic characteristics of the income earned in the operations. As a result, shareholders with non-registered funds will receive a T5 slip with their share of this distribution reported as interest income.

Preferred shares

The Company classifies financial instruments issued as financial liabilities in accordance within the substance of the contractual terms of the instruments.

The Class A preferred shares can be redeemed by the shareholder one year from the last day of the fiscal quarter in which they where subscribed. The Class B preferred shares can be redeemed by the shareholder three years from the last day of the fiscal quarter in which they where subscribed. Once the redemption period has expired, a new redemption period commences of an equal length.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

All financial instruments are initially recognized on the statement of financial position at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. During the year, there has been no reclassification of financial instruments.

The financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized in net income. The Company does not have any financial instruments classified as fair value through profit or loss.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The Company does not have any financial assets classified as available-for-sale.

The financial assets classified as loans and receivables are initially measured at fair value, then subsequently carried at amortized cost. The Company's financial assets classified as loans and receivables include cash, funds held in trust, accounts receivable, accrued interest receivable and mortgages receivable.

The financial assets classified as held-to-maturity are initially measured at fair value, then subsequently carried at amortized cost. The Company does not have any held-to-maturity financial assets.

Financial instruments classified as other financial liabilities are initially measured at fair value, then subsequently carried at amortized cost. Other financial liabilities include bank indebtedness, accounts payable, dividends payable and preferred shares.

Accounting standards not yet adopted

Certain pronouncements have been issued by the IASB or the IFRIC (IFRS Interpretations Committee) and will be effective for future accounting periods. Many of these pronouncements are not applicable to the Company and so are not listed below. Adopting the new pronouncements shown below are not anticipated to have a material impact on the Company's financial statements. The following is a brief summary of the new standards:

IFRS 9 - Financial Instruments: Classification and Measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. The effective date has been deferred pending completion of the remaining sections of the standard. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is recorded at fair value through profit and loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

IFRS 15 - Revenue from Contracts with Customers is a new standard which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

4. CHANGES TO THE PRIOR YEAR FINANCIAL STATEMENTS

During the 2015 fiscal year, the Company performed a detail review of its accounting policy for recognition of the dividends payable on net income. As a result of the review, management has determined that the Company's accounting for dividends (a financing cost) and dividends payable, as presented in previously issued financial statements, was not in accordance with its policy. The Company's policy is to record dividends on an accrual basis.

In previously reported financial statements, dividends paid after the year end were not recognized. In the restated financial statements, management has accrued these amounts, which represent the balance of the net income paid to preferred shareholders for the fiscal year.

Following is a summary of the changes to the prior year financial statements:

	As previously reported	Adjustments	2014 (Restated)
Statement of financial position			
Dividends payable	$ 64,739	$ 127,643	**$ 192,382**
Statement of income and comprehensive income			
Dividends	$ 615,873	$ 127,643	**$ 743,516**
Net income	151,034	(127,643)	**23,391**
Statement of changes in equity			
Retained earnings, end of year	$ 127,643	$ (127,643)	**$ -**
Statement of cash flow			
Operating expenses			
Net income	$ 151,034	$ (127,643)	**$ 23,391**
Preferred shares redeemed	683,377	86,734	**770,111**

5. COMPARATIVE INFORMATION

Some of the comparative figures have also been reclassified to conform to the current year's presentation.

The following is a summary of the material reclassifications to the statement of financial position.

	As previously reported	Reclass-ifications	2014
Mortgages receivable	$ 17,040,461	$ (188,866)	**$ 16,851,595**
Funds held in trust	-	143,900	**143,900**
Accrued interest receivable	-	93,035	**93,035**
Prepaid expenses	-	9,410	**9,410**
Unamortized lender fees	-	(57,479)	**(57,479)**

There were also changes on the statement of cash flows for reclassifications between dividends and preferred shares.

There were no material reclassifications to the statements of income and comprehensive income, changes in equity.

6. FUNDS HELD IN TRUST

At December 31, 2014 there were funds held in trust by the lawyers that was advanced on a mortgage shortly after the year end. There were no funds held in trust at the end of the current year.

7. MORTGAGES RECEIVABLE

	No.	**%**	**2015 Total**	No.	%	2014 Total
First mortgages	**55**	**86.17 %**	**$16,856,925**	43	85.42 %	$14,462,919
Second mortgages	**29**	**13.83**	**2,705,544**	28	14.58	2,468,676
	84	**100.00 %**	**19,562,469**	71	100.00 %	16,931,595
Less: allowance for loan impairment			**(50,000)**			(80,000)
			$19,512,469			$16,851,595

	2015	2014
The average mortgage balance is	**$ 232,881**	$ 238,618
The weighted average return on mortgages is	**7.76 %**	8.04 %

As of December 31, 2015 there were one mortgage in foreclosure for $389,320 and two delinquent mortgages totaling $801,084 (2014 - four mortgages in foreclosure totaling $1,735,289 and one delinquent mortgage totaling $387,382 experiencing delinquency). Management anticipates some losses will occur, therefore a loan impairment provision for $50,000 has been recorded for the current year.

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.

At December 31, 2015 there was one mortgage that represents 4.62% (2014 - three mortgages that combined represent 14.12%) of the mortgage portfolio. All of the other mortgages have a value below 4% of the portfolio balance.

The mortgages bear interest at fixed rates, which are within the Company's guidelines and are consistent with the equity based lending market.

Additional information on the mortgages is included in Schedule 1.

7. MORTGAGES RECEIVABLE

Allowance for loan impairment

Balance, beginning of the year	**$ 80,000**	$ 228,881
Applied to losses in the year	**(80,000)**	(302,603)
New provisions	**50,000**	153,722
Total allowance for loan impairment	**$ 50,000**	$ 80,000

Principal repayments based on contractual maturity dates are as follows:

	2015	2014
Mortgage contracts expiring within 12 months	**$ 19,291,644**	$ 16,995,495
Mortgage contracts expiring within 13 to 24 months	**220,825**	-
	$ 19,512,469	$ 16,995,495

8. BANK INDEBTEDNESS

The Company has a credit facility with TD Canada Trust limited to the lesser of $5 million or 75% of the eligible mortgages located in BC, Alberta, Manitoba, Ontario and Saskatchewan. Interest is charged at the bank's prime lending rate plus 0.50% per annum. Eligible mortgages are determined by criteria set by the bank. The credit facility is secured by a commercial security agreement covering all eligible mortgages in the portfolio.

At December 31, 2015, the Company was in compliance with all bank covenants.

9. DIVIDENDS PAYABLE

The Company follows a dividend policy in accordance with the provisions of the Income Tax Act related to Mortgage Investment Corporations. Dividends are paid on a monthly basis at $0.045 per share and an annual dividend after the year end which has been calculated that it will be paid at $0.0087 per share (2014 - paid at $0.0064 per share).

Dividends are recognized in the statement of income and comprehensive income as a financing cost.

Dividends previously declared on the preferred shares of the Company were distributed as follows:

	2015	2014 (restatedd) (note 4)
Dividends payable, beginning of year	**$ 192,382**	$ 69,912
Dividends paid in cash	**(702,011)**	(534,311)
Dividends paid in shares	**(146,343)**	(86,735)
Dividends declared during the year	**835,564**	743,516
	$ 179,592	$ 192,382

10. SHARE CAPITAL

Authorized:

Unlimited	Common voting shares without par value
Unlimited	Class A non-voting preferred shares with a par value of $1.00 each
Unlimited	Class B non-voting preferred shares without par value

	2015		2014	
	Shares	**Amount**	Shares	Amount
Issued and fully paid:				
Shares presented under equity				
Common shares				
Shares outstanding at the beginning of the year	**98**	**$ 98**	101	$ 101
Redeemed	**(4)**	**(4)**	(3)	(3)
Shares outstanding at the end of the year	**94**	**$ 94**	98	$ 98
Shares presented under liabilities				
Class A preferred shares				
Shares outstanding at the beginning of the year	**14,994,489**	**$ 14,994,489**	14,829,666	$ 14,829,666
Issued	**1,728,256**	**1,728,256**	596,643	596,643
Redeemed	**(565,930)**	**(565,930)**	(518,555)	(518,555)
Dividends issued as shares	**146,343**	**146,343**	86,735	86,735
Shares outstanding at the end of the year	**16,303,158**	**$ 16,303,158**	14,994,489	$ 14,994,489

The Company follows the IFRS recommendations for accounting for financial instruments, therefore issued share capital which has attributes of a financial liability is presented as such.

There were shares redemptions of $44,971 (2014 - $nil) and shares issued of $174,000 (2014 - $nil) within 30 days of the year end.

11. RELATED PARTY TRANSACTIONS

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

The Company contracted Armada Capital Corp. to manage the mortgage portfolio for a fee which is calculated at one twelfth of 1.50% of the mortgage portfolio per month plus GST. Armada Capital Corp. is owned by Gordon Hone, a shareholder and director of Armada Mortgage Corp.

(continues)

11. RELATED PARTY TRANSACTIONS *(continued)*

Management fees for the fiscal year total $266,054 (2014 - $245,506) and an amount of $28,370 (2014 - $21,358) was unpaid at the year end. Unpaid amounts are in the normal course of business, non-interest bearing and were paid within 30 days of the year end.

Directors, officers and related family members who have investments in the Company received $184,943 (2014 - $168,661) in dividend income. In all cases, the dividends received were based on the same criteria as all other investors holding the same class of shares in the Company.

At December 31, 2015 each director owned voting common shares and an aggregate total of 20.50% (2014 - 22.35%) of non-voting preferred shares, either directly or indirectly.

12. MORTGAGE LOSSES

	2015	2014
Increase in impairment allowance	**$ 50,000**	$ 153,722
Loss on foreclosures	**107,695**	320,352
Application of allowance from prior years	**(80,000)**	(302,604)
	$ 77,695	$ 171,470

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of cash, funds held in trust, accounts receivable, accrued interest receivable, bank indebtedness, accounts payable, dividends payable and preferred shares approximate their carrying values given the short term nature of these instruments.

The fair values of mortgages receivable net of allowance for credit losses are considered to be their amortized cost.

In accordance with IFRS, the Company must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making fair value measurements. The following hierarchy is used in determining and disclosing the fair value of financial instruments:

Level 1 - quoted prices in active markets for identical investments

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the investment, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 - inputs for the investments that are not based on observable market data

Cash and bank indebtedness are classified using the fair value hierarchy as level 1, accounts receivable, accrued interest receivable, accounts payable, dividends payable, and preferred shares are classified using the fair value hierarchy as level 2.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accrued interest receivable, mortgages receivable, bank indebtedness, accounts payable, dividends payable and preferred shares. The company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the company's risk exposure and concentration as of December 31, 2015.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk that the mortgagor will fail to discharge the obligation causing the Company to incur a financial loss. In order to reduce its credit risk, the Company ensures that the collateral value of the security fully protects first, second and subsequent mortgage advances and that there is a viable exit strategy for each loan. An allowance for impaired loans is established based upon factors surrounding the delinquency of specific accounts and other information. The Company has a significant number of mortgages which minimizes concentration of credit risk.

Specific credit risk information on concentration of credit risk and delinquent mortgages is detailed in Note 7.

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company's management oversees the liquidity risk to ensure the Company has access to enough readily available funds to cover its financial obligations as they come due.

The assessment of the Company's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective firm specific and market conditions.

The Company manages liquidity risk by:
- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Maintaining adequate liquidity support facilities, such as lines of credit; and
- Monitoring the maturity profiles of financial assets.

The Company attempts to reduce this liquidity risk by maintaining a line of credit (Note 8). Successful utilization of leveraging depends on the Company's ability to borrow funds from outside sources and to advance mortgages at rates of return in excess of the cost of the borrowed funds. The Company is exposed to this risk mainly in respect of its receipt of funds from its mortgages and other related sources, share purchases and redemptions, and accounts payable.

Market risk

Market Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of three types of risk: currency risk, interest rate risk and other price risk. The Company is mainly exposed to interest rate risk and other price risk.

Currency risk

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not hold any financial instruments in foreign currency, therefore it is not exposed to foreign currency risk.

(continues)

14. FINANCIAL INSTRUMENTS *(continued)*

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. The mortgages receivable are advanced for mainly one year terms, with the rate of interest fixed for that term. Interest rates on mortgages receivable reflect credit risk and prime interest rates. Upon renewal of the mortgage, the Company has the option of adjusting the interest rate to respond to changes in credit risk or the prime interest rate.

In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is also exposed to interest rate risk through its floating interest rate bank indebtedness and credit facilities.

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 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 does not hold any financial instruments that are traded in the market.

Included in other price risk is the real estate property that provides the underlying security for mortgages receivable. The Company aims to minimize other price risk through maintaining sufficient loan to value ratios on the advance of mortgages.

15. CAPITAL 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, preferred 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 investments 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, 2015, the Company was in compliance with its investment restrictions.

The Company is required to comply with Section 130.1(6) of the Income Tax Act which defines the requirements for Mortgage Investment Corporations. These guidelines give specific externally imposed capital requirements. During the year the Company complied with these requirements.

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, a minimum interest coverage ratio and maximum indebtedness of the Company. At December 31, 2015, the Company was in compliance with all financial covenants.

16. RATE OF RETURN

The effective annual rate of return is calculated as net income divided by the weighted average number of shares. The effective annual yield on for the 2015 fiscal year is 5.37% (2014 - 5.14%)

The weighted average preferred share capital for the 2015 fiscal year is 15,557,076 (2014 - 14,878,738).

The simple average rate of return, which is calculated as net income dividend by the average of the Class A preferred shares. The simple average rate of return for 2015 is 5.34% (2014 - 5.14% previously reported as 5.82%).

17. CLAIMS

The Company is claiming compensation against an appraiser for a mortgage which suffered a loss of $178,722 and expects the matter to be resolved in the next year.

ARMADA MORTGAGE CORPORATION

Additional information on mortgages receivable ***(Schedule 1)***

Year Ended December 31, 2015

	2015		2014	
	No. of mortgages	**% of total value**	No. of mortgages	% of total value
Type of mortgage				
Residential	**81**	92.15 %	66	87.30 %
Commercial	**2**	5.86	2	5.94
Construction	**1**	1.99	3	6.76
	84	100.00 %	71	100.00 %
Location of mortgage				
Fraser Valley	**24**	36.07 %	20	32.84 %
South Fraser	**16**	16.85	20	30.29
Okanagan	**10**	9.20	4	3.58
North Fraser	**9**	10.80	9	12.51
Vancouver	**3**	4.46	4	1.94
Vancouver Island	**3**	3.72	5	7.57
Kootenay	**1**	1.99	1	2.21
Total British Columbia	**66**	83.09	63	90.94
Alberta	**11**	10.09	7	6.78
Ontario	**7**	6.82	1	2.28
	84	100.00 %	71	100.00 %