Grant Thornton

Financial Statements

Armada Mortgage Corporation

December 31, 2016

Contents

Management Responsibility Statement

The management of Armada Mortgage Corporation is responsible for preparing the financial statements, the notes to the financial statements and other financial information contained in this annual report.

Management prepares the financial statements in accordance with International Financial Reporting Standards. The financial statements are considered by management to present fairly the management's financial position and results of operations.

The company, in fulfilling its responsibilities, has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that management assets are safeguarded from loss or unauthorized use, and that the records are reliable for preparing the financial statements.

The financial statements have been reported on by Grant Thornton LLP, Chartered Professional Accountants, the shareholders' auditors. Their report outlines the scope of their examination and their opinion on the financial statements.

Mr. Gordon Hone, President
April 11, 2017

Independent Auditor's Report

Grant Thornton LLP
Suite 1600, Grant Thornton Place
333 Seymour Street
Vancouver, BC
V6B 0A4

T +1 604 687 2711
F +1 604 685 6569
www.GrantThornton.ca

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, 2016, and the statements of income and comprehensive income, changes in equity, 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 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 company'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 company'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.

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Armada Mortgage Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Chartered Professional Accountants

Vancouver, Canada
April 11, 2017

Armada Mortgage Corporation
Statement of Financial Position

December 31	2016	2015
Assets		
Cash	**$ 1,825**	$ 1,850
Accounts receivable	**-**	20,000
Interest receivable	**107,548**	81,630
Mortgages receivable (Note 4)	**21,832,374**	19,436,078
Prepaid expenses	**30,464**	18,334
Total assets	**$ 21,972,211**	$ 19,557,892
Liabilities		
Bank indebtedness (Note 5)	**$ 2,316,802**	$ 3,025,517
Accounts payable	**81,404**	49,531
Dividends payable (Note 6)	**580,645**	179,592
Preferred shares (Note 7)	**18,993,267**	16,303,158
Total liabilities	**21,972,118**	19,557,798
Shareholders' equity		
Common shares (Note 7)	**93**	94
Total liabilities and shareholders' equity	**$ 21,972,211**	$ 19,557,892

Subsequent events (Note 13)

On behalf of the board

________________ Director ________________ Director

See accompanying notes to the financial statements.

Armada Mortgage Corporation
Statement of Income and Comprehensive Income

Year ended December 31	**2016**	2015
Revenue		
Mortgage interest	**$ 1,504,803**	$ 1,136,178
Lender fees	**173,376**	122,801
Other fees	**72,415**	66,015
Total revenue	**1,750,594**	1,324,994
Expenses		
Management fees (Note 8)	**350,892**	266,054
Mortgage losses (Note 4)	**82,000**	77,695
Interest and bank charges	**79,170**	72,522
Professional fees	**34,365**	38,658
Advertising and promotion	**16,515**	17,980
Consulting fees	**12,019**	12,750
Insurance	**9,118**	795
Office	**5,197**	2,976
Total expenses	**589,276**	489,430
Income before other item	**1,161,318**	835,564
Other item		
Dividend expense (Note 6)	**1,161,318**	835,564
Net and comprehensive income	**$ -**	$ -

Related party transactions (Note 8)

Rate of return (Note 12)

See accompanying notes to the financial statements.

Armada Mortgage Corporation
Statement of Changes in Equity
Year ended December 31

	Common Shares	Retained Earnings	Total
Balance, December 31, 2015	$ 94	$ -	**$ 94**
Net and comprehensive income	-	-	**-**
Proceeds from issuance of shares	2	-	**2**
Redemption of shares	(3)	-	**(3)**
Balance, December 31, 2016	**93**	**-**	**93**
Balance, December 31, 2014, as previously stated	98	127,643	**127,741**
Prior period adjustment	-	(127,643)	**(127,643)**
Balance, December 31, 2014, as restated	98	-	**98**
Net and comprehensive loss	-	-	**-**
Redemption of shares	(4)	-	**(4)**
Balance, December 31, 2015	$ 94	$ -	**$ 94**

See accompanying notes to the financial statements.

Armada Mortgage Corporation
Statement of Cash Flows

Year ended December 31	**2016**	2015
Increase (decrease) in cash and cash equivalents		
Operating		
Net and comprehensive income	**$ -**	$ -
Items not affecting cash		
Interest income	**(1,504,803)**	(1,136,178)
Dividends	**1,161,318**	835,564
Mortgage losses	**82,000**	77,695
Interest expense	**79,170**	72,522
	(182,315)	(150,397)
Change in non-cash operating working capital		
Accounts receivable	**20,000**	(20,000)
Prepaid expenses	**(12,130)**	(8,924)
Funds held in trust	**-**	143,900
Accounts payable	**31,874**	8,541
Unearned lender fees	**67,204**	18,912
	106,948	142,429
Cash flows relating to interest and dividends		
Interest received	**1,478,885**	1,147,583
Interest paid	**(79,170)**	(72,522)
Dividends paid	**(636,733)**	(702,011)
	762,982	373,050
	687,615	365,082
Financing		
Common shares issued	**2**	-
Common shares redeemed	**(3)**	(4)
Preferred shares issued	**2,975,704**	1,728,256
Preferred shares redeemed	**(409,127)**	(565,930)
Proceeds from bank loan	**14,150,000**	10,400,000
Repayment of bank loan	**(14,858,716)**	(9,188,935)
	1,857,860	2,373,387
Investing		
New mortgages funded	**(20,826,877)**	(10,772,478)
Mortgages repaid	**18,281,377**	8,033,909
	(2,545,500)	(2,738,569)
Decrease in cash	**(25)**	(100)
Cash		
Beginning of year	**1,850**	1,950
End of year	**$ 1,825**	$ 1,850

1. Nature of operations

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 first, second and third mortgages and to provide a return to its shareholders that will exceed the bank's prime lending rate by 2% - 4% per annum.

The address of the company's registered office is 11951 224 Street, Maple Ridge, BC V2X 6B2.

2. Basis of presentation

The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These annual financial statements were authorized for issuance by the Board of Directors on April 11, 2017.

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 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.

3. Summary of significant accounting policies

Mortgages receivable

Mortgages receivable are classified as loans and receivables and are recorded at amortized cost, less allowances for loan impairment. Mortgages are issued typically with terms between one to two years and are subject to approval based on lending criteria.

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 net fair market value of the security underlying the mortgages after deducting 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.

Revenue recognition

Interest income on mortgages is recorded using the accrual method. The majority of the mortgages receivable are for a one year term and, therefore, loan fees and expenses are recognized in the year received or incurred. Any discounts on mortgages purchased below face value are amortized to income over the mortgage term.

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

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

In foreclosure situations, the company ceases to accrue interest at the start of legal action. The company will carefully review the situation with these mortgages an recognize any impairment when it arises.

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.

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, accounts receivable, 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.

3. Summary of significant accounting policies (continued)

Accounting standards not yet adopted

Certain pronouncements have been issued by the International Accounting Standards Board and will be effective for future accounting periods. Many of these are not applicable to the company and so are not listed below. Adopting this new pronouncement will not 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 standards. 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 will replace IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations on revenue. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual periods beginning on or after January 1, 2018, with early application permitted. The company is evaluating any potential impact of this standard.

Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

4. Mortgages receivable

The portfolio consists of the following:

	No.	%	2016	No.	%	2015
First mortgages	57	77.21	$ 17,071,635	55	86.17	$ 16,859,925
Second mortgages	57	22.11	4,888,746	29	13.83	2,705,544
Third mortgages	2	0.68	150,588		-	-
			22,110,969			19,565,469
Less allowance for loan impairment			132,000			50,000
Less unearned lender fee			146,595			79,391
			$ 21,832,374			$ 19,436,078

	2016	2015
The average mortgage balance is	$ 190,612	$ 232,922
The weighted average interest rate is	6.83 %	6.56 %
The weighted average return on mortgages is	8.02 %	7.76 %

4. Mortgages receivable (continued)

At December 31, 2016 there was one mortgage in foreclosure totaling $364,002 (2015 - one mortgage totaling $389,320) and no delinquent mortgages (2015 - two delinquent mortgage totaling $801,084).

Management anticipates some losses will occur, therefore a loan impairment provision for $82,000 has been recorded for the current year (2015 - $50,000).

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 majority of the mortgages are residential mortgages registered against properties in the major urban centres of British Columbia, Alberta and Ontario.

As at December 31, 2016 there were no significant mortgage amounts within the mortgage portfolio (2015 - one significant mortgage that represents 4.62%). All other mortgages have a value below 4.00% of the portfolio.

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

The following is an analysis of the mortgages receivable showing the diversification of the mortgages by the type of property the mortgage has been advanced upon and the location of the mortgage. Also included is an analysis of the delinquent mortgages, allowance for loan impairment and losses expended during the year.

Type of mortgage

	First mortgages	Second mortgages	Third mortgages	**2016**	2015
Residential	$ 16,668,459	$ 4,888,746	$ 150,588	**$ 21,707,793**	$ 17,520,934
Commercial	403,176	-	-	**403,176**	1,144,535
Construction	-	-	-	**-**	900,000
	$ 17,071,635	$ 4,888,746	$ 150,588	**$ 22,110,969**	$ 19,565,469

Location analysis

	First mortgages	Second mortgages	Third mortgages	**2016**	2015
British Columbia	$ 15,657,399	$ 4,190,126	$ 150,588	**$ 19,998,113**	$ 11,223,015
Alberta	529,907	354,290	-	**884,197**	8,157,414
Ontario	884,329	344,330	-	**1,228,659**	185,040
	$ 17,071,635	$ 4,888,746	$ 150,588	**$ 22,110,969**	$ 19,565,469

4. Mortgages receivable (continued)

Delinquent mortgages

	2016	2015
Foreclosure	**$ 364,002**	$ 389,320
90+ days arrears	**-**	801,084
	$ 364,002	$ 1,190,404

Impairment allowance

	2016	2015
Balance, beginning of the year	**$ 50,000**	$ 80,000
Current year impairment allowance	**82,000**	50,000
Allowance applied to losses	**-**	(80,000)
	$ 132,000	$ 50,000

Mortgage losses

	2016	2015
Increase in impairment allowance	**$ 82,000**	$ 50,000
Loss of foreclosure	**-**	107,695
Application of allowance from prior years	**-**	(80,000)
	$ 82,000	$ 77,695

Principal repayments based on contractual maturity dates are as follows:

	2016	2015
Mortgage contracts expiring within 12 months	**$ 21,026,283**	$ 19,341,644
Mortgage contracts expiring over 12 months	**1,084,686**	220,825
	$ 22,110,969	$ 19,562,469

5. Bank indebtedness

The company has a credit facility with TD Canada Trust for a demand operating loan to a maximum of $5,000,000. Interest is charged at the bank's prime lending rate plus 0.50% per annum. The maximum amount of the loan shall not exceed the aggregate of 75% of the eligible residential properties principal balance and appraised value; 65% of the interest only eligible residential mortgages principal balance and 50% on eligible commercial and industrial properties. The credit facility is secured by a commercial security agreement covering all eligible mortgages in the portfolio.

At December 31, 2016, the company was in compliance with all bank covenants and had drawn $2,316,802 (2015 - $3,025,517 was drawn). This number consists of monies drawn from the line of credit totaling $2,100,000 (2015 - $2,840,000) and bank overdraft of $216,802 (2015 - $185,517).
The bank overdraft is included under the credit facility with TD Canada Trust following the same terms.

6. 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 $0.0323 (2015 - $0.0087) per share.

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

	2016	2015
Dividends payable, beginning of year	**$ 179,592**	$ 192,382
Dividends paid in cash	**(636,733)**	(702,011)
Dividends paid in shares	**(123,532)**	(146,343)
Dividends declared during the year	**1,161,318**	835,564
	$ 580,645	$ 179,592

7. 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.

	2016		2015	
	Shares	**Amount**	Shares	Amount
Shares outstanding, beginning of year	**94**	**$ 94**	98	$ 98
Issued	**2**	**2**	-	-
Redeemed	**(3)**	**(3)**	(4)	(4)
Shares outstanding, end of year	**93**	**$ 93**	94	$ 94

	2016		2015	
	Shares	**Amount**	Shares	Amount
Shares outstanding, beginning of year	**16,303,158**	**$ 16,303,158**	14,994,489	$ 14,994,489
Issued	**2,975,704**	**2,975,704**	1,728,256	1,728,256
Redeemed	**(409,127)**	**(409,127)**	(565,930)	(565,930)
Dividends issued as shares	**123,532**	**123,532**	146,343	146,343
Shares outstanding, end of year	**18,993,267**	**$ 18,993,267**	16,303,158	$ 16,303,158

All preferred shares are equally eligible to receive dividends and the repayment of capital. Each common share represents one vote at the shareholders' meeting.

The company follows the IFRS recommendations for accounting for financial instruments, therefore issued share capital which is redeemable at the request of the shareholder and has the attributes of a financial liability is presented as such.

8. 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 the company.

Management fees for the fiscal year total $350,892 (2015 - $266,054) and an amount of $42,088 (2015 - 28,370) 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.

During the 2016 fiscal year, the management company performed a detailed review of

8. Related party transactions (continued)

management fees payable since 2009. In accordance with subsection 123(1) of the Excise Tax Act, the management company should have but did not charge GST on the management fees paid. The management company has charged for GST on management fees from the 2014 and 2015 fiscal years totaling $25,578. At this time they will not pursue GST owing from periods prior to 2014.

The company uses an internally generated mortgage program, Loan Pro, created by Armada Capital Corp. During the year, the company paid $12,019 (2015 - $12,750) on behalf of Armada Capital Corp. for system maintenance; which is considered to be the service fees for the use of the program.

Directors, officers and related family members who have investments in the company received $257,641 (2015 - $211,393) 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, 2016 each director owned one voting common share and an aggregate total of 17.47% (2015 - 20.17%) of non-voting preferred shares, either directly or indirectly.

9. Fair value of financial instruments

The following provides an analysis of financial instruments that are measured, subsequent to initial recognition, at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level of input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of three levels.

As at December 31, 2016 and 2015 there are no financial instruments carried at fair value and consequently, no financial instruments categorized into Levels 1, 2 or 3 or transfers between Level 1 and 2 for the years then ended.

10. Financial instruments

The company's financial instruments consist of cash, accounts receivable, 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, 2016.

10. Financial instruments (continued)

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 in 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. Credit risks policies include the following:

- General mortgage policy statements including approval of lending policies, eligibility for loans, exceptions to policy, policy violations, liquidity and loan administration;
- Mortgage lending limits and criteria set by the Board of Directors;
- Review of mortgages by the Board of Directors; and
- Mortgage delinquency controls regarding procedures followed for loans in arrears.

An allowance for doubtful mortgages is established based upon factors surrounding the delinquency of specific accounts 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 in various geographical locations, economic activities and delinquent mortgages is detailed in Note 4.

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 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.

An analysis of mortgage due dates is provided in Note 4; all other sources of funds have terms of less than 12 months.

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 comprises four types of risk: interest rate risk, fair value risk and other price risk. The company is mainly exposed to interest rate risk and other price risk.

10. 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.

If interest rates on mortgage receivable had been one percent point higher (lower) during the year ended December 31, 2016, earnings would have been reduced (increased) by approximately $207,430 during the year, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. Similarly, if interest rates on debt had been one percent point higher (lower) during the year ended December 31, 2016, earnings would have been reduced (increased) by approximately $26,722 during the year.

Fair value risk
Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The company does not hedge its fair value risk.

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 financial instruments traded in the active 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.

11. Capital management

The company's objective when managing capital is to continue operations as a going concern so that it can provide its shareholders with a safe, superior-yielding and liquid investment that also qualifies as an eligible investment for Registered Retirement Savings Plan, Registered Retirement Income Funds and Tax-Free Savings Accounts.

The company defines capital as being the funds raised through bank indebtedness and the issuance of common and preferred shares of the company. The overall objective of capital management is to ensure that the company has sufficient capital to maintain its operations based on current activities and expected business developments in the future and to provide a return to the shareholders commensurate with the risk of the business and comparable to other similar companies.

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.

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, 2016, 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. At December 31, 2016, the company is in compliance with all financial covenants.

12. Rate of return

The effective annual yield on adjusted share capital for the 2016 fiscal year is 6.47% (2015 - 5.37%).

The weighted average share capital for the 2016 fiscal year was 17,961,664 (2015 - 15,557,076).

13. Subsequent events

Subsequent to year end, there were 106,985 issuances and no preferred share redemptions during the first 30 days of the 2017 fiscal year end.

Previous claims regarding a loss on a mortgage were settled subsequent to year-end. The company will see a total payout of $110,000 from the judgment. The appraiser on the original mortgage balance will pay $70,000 (covered by the insurance company) in 2017. The remaining $40,000 will come from the broker in 24 equal payments of $1,000; including a balloon payment of $16,000 on maturity dating January 30, 2019.