OFFERING MEMORANDUM

*This Offering Memorandum constitutes a private offering of securities only in those jurisdictions and to those persons where and to whom they may be lawfully sold and therein only by those entities permitted to sell such securities. This Offering Memorandum is not, and under no circumstances is it to be construed as a prospectus, advertisement or public offering of the securities referred to herein.* ***No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See "Risk Factors"****. Persons who will be acquiring securities pursuant to this Offering Memorandum will not have the benefit of the review of the material by the securities commissions or similar authorities in Canada. The securities offered hereunder will be issued under exemptions from the registration and prospectus requirements of the applicable securities laws of the Province of British Columbia and the rules, regulations and policies thereunder and will be subject to certain resale restrictions. These securities will not be offered for sale in the United States of America.*

**June 24, 2015** **Continuous Offering**


**ARMADA MORTGAGE CORPORATION**
11951 – 224th Street
Maple Ridge, British Columbia V2X 6B2
Email: sales@armadamortgage.com
Telephone: (604) 467-6449
Fax: (604) 467-6409


$1.00 per Class A Preferred, Non-Voting Share

Minimum Subscription: $2,500 (2,500 Class A Preferred Shares)

Armada Mortgage Corporation (the "**Company**") is a private mortgage investment corporation incorporated under the *Company Act* (British Columbia) on December 29, 1995. On January 28, 2005, the Company transitioned under the new *Business Corporations Act* (British Columbia).

The Company is offering on a private placement basis up to a maximum of $5,000,000 Class A Preferred Non-Voting Shares (the "**Preferred Shares**") in the capital of the Company at an initial price of $1.00 per Preferred Share (the "**Offering**"). Each Preferred Share represents a beneficial interest in the profits of the Company, which will principally be comprised of annual dividends paid in cash or in shares of the Company.

The Offering is being made with reliance on certain exemptions from the registration and prospectus filing requirements available under the securities laws of the Province of British Columbia. As a result, the Preferred Shares offered herein will be subject to the applicable resale restrictions under these laws. You will be restricted from selling your securities for an indefinite period. See "*Resale Restrictions*". There are certain risk factors inherent in an investment in the Preferred Shares and in the activities of the Company. See "*Risk Factors*".

Subscriptions will be received if, as and when accepted, subject to prior sale and satisfaction of the conditions set forth under "Subscription Procedure" and to the right of the Company to close the subscription books at any time without notice. The Offering is continuous and Preferred Shares will be available for sale. Purchasers will have two business days to cancel their agreement to purchase these securities. If there is a misrepresentation in this offering memorandum, purchasers will have the right to sue either for damages or to cancel their agreement to purchase these securities. See "*Subscription Procedure*" and "*Purchasers' Rights*".

## DISCLAIMERS

This Offering Memorandum does not constitute, and may not be used for or in conjunction with, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized, or to any person to whom it is unlawful to make such an offer or solicitation. You are directed to inform yourself of and observe such restrictions and all legal requirements of your jurisdiction of residence in respect of the acquisition, holding and disposition of the securities offered hereby. Subscribers should thoroughly review this Offering Memorandum and are advised to consult with their professional advisors to assess the business, legal, income tax and other aspects of this investment. The securities offered hereby will be issued only on the basis of information contained in this Offering Memorandum and no other information or representation is authorized or may be relied upon as having been authorized by the Company. Any subscription for the securities offered hereby made by any person on the basis of statements or representations not contained in this Offering Memorandum or so provided, or inconsistent with the information contained herein or therein, will be solely at the risk of such person.

**OFFERING MEMORANDUM**
**Dated June 24, 2015 for**
**ARMADA MORTGAGE CORPORATION**

***The Issuer***

| | |
|---|---|
| Name: | **ARMADA MORTGAGE CORPORATION** (the "**Company**") |
| Head Office Address: | 11951 – 224th Street<br>Maple Ridge, BC V2X 6B2 |
| Telephone Number: | (604) 467-6449 |
| Fax Number: | (604) 467-6409 |
| Email Address: | sales@armadamortgage.com |
| Currently Listed/Quoted: | No. **These securities do not trade on any exchange or market.** |
| Reporting Issuer: | No. |
| SEDAR Filer : | No. |

***The Offering***

| | |
|---|---|
| Securities Offered: | Redeemable, retractable, non-voting Class "A" Preferred Shares with a par value of $1.00 each (the "**Preferred Shares**") |
| Price Per Security: | $1.00 per Preferred Share (the "**Subscription Price**"). |
| Minimum/Maximum Offering: | There is no minimum. The maximum is $5,000,000. You may be the only purchaser. Funds available under the Offering may not be sufficient to accomplish the Company's proposed objectives. |
| Minimum Subscription Amount: | The minimum number of Preferred Shares that may be subscribed for by any one Subscriber is 2,500 Preferred Shares at a subscription price of $1.00 per Preferred Share for a total of $2,500. For subsequent investments by existing holders of Preferred Shares, the minimum number of Preferred Shares that may be subscribed for is 50. Preferred Shares at a subscription price of $1.00 per Preferred Share for a total of $50. The Company reserves the right to change the minimum amount at any time and from time to time. |
| Payment Terms: | The full Subscription Price is payable upon subscription, by certified cheque, electronic transfer or bank draft payable to "Armada Mortgage Corporation". See Item 5.2 - "*Subscription Procedure*". |
| Proposed Closing Date(s): | The closing of the sale of the Preferred Shares offered hereunder will take place at such times as are chosen by the Company (each, a "**Closing**"). The Company reserves the right to close the Offering at any time as subscriptions are received. |
| Income Tax Consequences: | There are important income tax consequences to these securities (see Item 6 - "*Income Tax Consequences and RRSP Eligibility*"). |
| Selling Agent: | No specific agent has been retained by the Company in respect of the Offering. The Company may pay a sales fee to registered securities dealers and exempt market dealers, or where permitted, non-registrants, subject to negotiation (see Item 7 - "*Compensation Paid to Seller's and Finder's*"). |
| Resale Restrictions | As there is no market for the Preferred Shares, it may be difficult or even impossible to sell them. Preferred Shares are subject to resale restrictions and you will be restricted from selling your Preferred Shares for an indefinite period (see Item 10 - "*Resale Restrictions*"). However, you may elect to redeem any or all of your Preferred Shares at certain times if you follow the procedures established (see Item 5 - "*Terms of Preferred Shares – Redemption Rights*"). |
| Purchaser's Rights | You have 2 business days to cancel your agreement to subscribe for Preferred Shares. If there is a misrepresentation in this offering memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11 - "*Purchaser's Rights*". |

**No securities regulatory authority has assessed the merits of these securities or reviewed this offering memorandum. Any representation to the contrary is an offence. This is a risky investment (see Item 8 - "*Risk Factors*").**

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## GLOSSARY

*The following terms appear throughout this Offering Memorandum. Care should be taken to read each term in the context of the particular provision of this Offering Memorandum in which such term is used.*

"**affiliate**" or "**affiliates**" has the same meaning as in the B.C. Securities Act;

"**BCI 32-517**" means British Columbia Instrument 32-517 *Exemption from Dealer Registration Requirement for Trades in Securities of Mortgage Investment Entities*.

"**B.C. Securities Act**" means the *Securities Act* (British Columbia), with all amendments thereto in force from time to time and any statutes that may be passed which have the effect of supplementing or superseding such statute;

"**Business Day**" means a day other than a Saturday, Sunday or any day on which the principal office of the Company's bankers located in Vancouver, British Columbia, is not open for business during normal banking hours;

"**Closing**" means a closing of the sale of Preferred Shares as the Company may determine from time to time;

"**Date of Closing**" means in respect of any Preferred Shares the date upon which the subscription for such Preferred Share is accepted by the Company;

"**Fiscal Year**" means each consecutive period of 12 months ending on December 31;

"**Loans**" means the portfolio of short to medium-term loans in which the Company will invest the net proceeds from the issuance of Preferred Shares pursuant to this Offering Memorandum;

"**MIC**" means a mortgage investment corporation as defined in subsection 130.1(6) of the Tax Act;

"**Mortgage**" or "**Mortgages**" means a mortgage, a mortgage of a mortgage or a mortgage of a leasehold interest (or other like instrument, including an assignment of or an acknowledgement of an interest in a mortgage), hypothecation, deed of trust, charge or other security interest of or in Real Property used to secure obligations to repay money by a charge upon the underlying Real Property;

"**Mortgage Broker**" means a party licensed under the Mortgage Brokers Act;

"**Mortgage Brokers Act**" means the *Mortgage Brokers Act* (British Columbia), with all amendments thereto in force from time to time and any statutes that may be passed which have the effect of supplementing or superseding such statute;

"**Net Subscription Proceeds**" means the gross proceeds to the Company from the sale of the Preferred Shares less the costs of this Offering and the Sales Fee;

"**Offering**" means this offering of up to 5,000,000 Preferred Shares;

"**Preferred Share**" means a Class A Preferred, Non-Voting Share in the capital of the Company;

"**Preferred Shareholder**" means those investors whose subscriptions to purchase Preferred Shares are accepted by the Company and thereafter at any particular time the persons entered in the central securities register of the Company as holders of Preferred Shares and the singular form means one such registered holder;

"**Real Property**" means land, rights or interest in land (including without limitation leaseholds, air rights and rights in condominiums, but excluding Mortgages) and any buildings, structures, improvements and fixtures located thereon;

"**Securities Authority**" means the British Columbia Securities Commission and any other applicable provincial securities commission;

"**Subscriber**" means a subscriber for Preferred Shares;

"**Subscription Form**" means the subscription form to subscribe for Preferred Shares;

"**Subscription Price**" means $1.00 per Preferred Share; and

"**Tax Act**" means the *Income Tax Act* (Canada), R.S.C. 1985 (5th Supp.) c.11, and the regulations promulgated thereunder, as amended from time to time.

## ITEM 1 - USE OF AVAILABLE FUNDS

### 1.1 Net Funds

The net proceeds of the Preferred Share Offering and the funds which will be available to the Company after the Preferred Share Offering are as follows:

| | Description | Assuming | |
|---|---|---|---|
| | | **Minimum Offering(1)** | **Maximum Offering(1)** |
| A | Amount to be raised by the Preferred Share Offering | $0 | $5,000,000 |
| B | Selling commissions and fees | 0 | $0 |
| C | Estimated offering costs (e.g. legal, accounting, audit etc.) | $15,000 | $15,000 |
| D | Available funds: D = A – (B+C) | ($15,000) | $4,985,000 |
| E | Additional sources of funding required | $15,000(2) | $0 |
| F | Working capital deficiency | N/A | $0 |
| G | Total: G = (D + E) – F | $0 | $4,985,000 |

(1) There is no minimum offering. The Company may raise only a portion of the maximum offering.
(2) If necessary, the Company will provide funds from existing working capital to cover the estimated offering costs, or the directors may lend and pay on behalf of the Company all costs incurred in connection with the preparation for and completion of the Offering, including legal and accounting and audit fees. All costs in connection with the Offering funded by the directors will be repaid, without interest from funds received by the Company from Subscribers or from income generated by the Company.

### 1.2 Use of Available Funds

The Company will use the available funds as follows:

| **Description of intended use of available funds listed in order of priority** | **Assuming Minimum Offering** | **Assuming Maximum Offering** |
|---|---|---|
| Investment in mortgages, other permitted investments and related administrative expenses | $0 | $4,985,000 |
| ANY OTHER USE | $0 | $0 |
| Total: | $0 | $4,985,000 |

### 1.3 Reallocation

The Company intends to spend the funds as stated. The Company will reallocate funds only for sound business reasons.

## ITEM 2 – BUSINESS OF OUR COPORATION

### 2.1 Structure

The Company was incorporated under the *Company Act* (British Columbia) on December 29, 1995. On January 28, 2005, the Company transitioned under the new *Business Corporations Act* (British Columbia). The Company is a mortgage investment corporation as defined in the Tax Act and intends to continue to qualify as such.

The head and principal office of the Company is located at 11951 – 224th Street, Maple Ridge, British Columbia, Canada  V2X 6B2.  The registered and records office of the Company is located at 6345 – 197th Street, Langley, British Columbia, Canada  V2Y 1K8.

The Company does not have any subsidiaries.  The Company's financial year-end is December 31.

The Company is registered to carry on business as a mortgage investment corporation (a "**MIC**") in the Province of British Columbia.  The Company's investment policies require it to conduct its operations so as to qualify as a "*mortgage investment corporation*" as this term is defined under section 130.1 of the Tax Act.  The Directors of the Company intend to refuse the registration of an allotment or transfer of the Company's shares which may result in the Company ceasing to meet such qualification.

## 2.2 The Company's Business

### The Company

The Company is a MIC as that term is defined in section 130.1 of the Tax Act. The Company's purpose is to generate a stable stream of income for investors, primarily by making Loans secured by Mortgages, thereby providing investors with an opportunity to participate indirectly in a portfolio of Mortgages. It has developed its mortgage investment business steadily since 1996 and expects that demand for private mortgage financing will remain high as traditional institutional lenders keep their lending policies tight due to lingering caution following the global credit crisis.

The Tax Act provides that a MIC may invest its funds as it sees fit, provided that a MIC must not invest in mortgages on Real Property (land and buildings) situated outside of Canada or any leasehold interest in such property, debts owing by non-resident persons unless secured by Real Property situated in Canada or shares of corporations not resident in Canada. The Tax Act also provides that at least 50% of the cost amount of a MIC's property must consist of debts secured by mortgages or otherwise on "houses" or property included within a "housing project" (as those terms are defined by section 2 of the *National Housing Act* (Canada)) and money on deposit in a bank or credit union. No more than 25% of the cost amount of a MIC's property may be Real Property, including leasehold interests in Real Property (except for Real Property acquired by foreclosure or otherwise after default on a mortgage or other security).

The Company invests primarily in first and second mortgages each having a principal amount which, when added to the principal amount of prior mortgages, is generally not more than 75% of the appraised value of the Real Property against which they are secured. There may be instances in which the Company will invest in Loans with a higher loan-to-value ratio if such Loans are approved by the Board of Directors of the Company.

The Company is in the business of investing in Mortgages granted as security for Loans to a variety of borrowers, including builders, developers and owners of commercial, industrial and residential real estate located primarily in the Provinces of British Columbia, Alberta, Manitoba and Ontario. To the extent that the Company's funds are not invested in Mortgages from time to time, they are held in cash deposited with a Canadian chartered bank or credit union or are invested in short term deposits, savings accounts or government guaranteed income certificates so that the Company may maintain a level of working capital for its ongoing operations considered acceptable by the directors of the Company. Subject to limitations and restrictions applicable to MICs that are contained in the Tax Act, the Company may make other permitted investments over time, including the direct ownership of Real Property (including Real Property acquired by way of foreclosure under Mortgages).

The Company's mortgage investment portfolio is managed by Gordon Hone and Karin Schmidtke and all potential mortgage investments are also approved by Gordon Hone and Karin Schmidtke as long as the mortgage investments are within the investment policies and guidelines established by the Board of Directors of the Company.

As a MIC, the Company is allowed to deduct dividends that it pays from its income.  The Company intends to pay out all of its net income and net realized capital gains as dividends within the time period specified in the Tax Act and as a result does not anticipate paying any income tax (see Item 6 - "*Income Tax Consequences*").

The Company may fund its investments through equity financings or, by law, the Company may employ leverage, as permitted by applicable legislation, by issuing debt obligations up to a maximum of five (5) times its equity if at least 2/3 of its equity is in Canadian residential property or on deposit with qualifying financial institutions and three (3) times its equity if less than 2/3 of its equity is in Canadian residential property or on deposit with qualifying financial institutions. The Company currently has revolving credit facility with TD Bank, with a credit limit capped at the lesser of $5,000,000 and 75% of qualified first and second position mortgages on residential properties (see Item 2.7(3) – "*Material Agreements*"). The Company intends to borrow to the extent that the Directors are satisfied that such borrowing and additional investments will increase the overall profitability of the Company.

**Mortgage Brokerage**

The Company is registered as a Mortgage Broker with the British Columbia Financial Institutions Commission in accordance with the Mortgage Brokers Act.

**Administration and Services Provider**

The Company does not have and does not expect to have any employees, and therefore, all mortgage administration and other ancillary services will be performed by Armada Capital Corporation (the "**Administrator**"), which will provide ongoing mortgage administration and other ancillary services relating to the Company's business pursuant to an Administrative and Services Agreement between the Company and the Administrator, dated June 1, 2015. The Administrator is responsible for processing and administering mortgage loans on behalf of the Company and handling the day to day administrative services for the Company's operations. The Administrator is a related party of the Company in that the Administrator is controlled by Mr. Gordon Hone, a Director, officer and shareholder of the Company.

Pursuant to the Administrative and Services Agreement, the Administrator will be paid an annual servicing and administration fee equal to 1.5% of the aggregate outstanding balance of the total assets of the Company (after deduction of provisions for losses), with such fee being calculated and payable monthly in arrears on the last day of each month.

The Administrator will provide mortgage administration and other ancillary services to the Company with such services to be rendered immediately and competently and with professional skill and acumen.

The Administrator is required to and shall:

(a) administer mortgage loans on behalf of the Company;
(b) undertake and be responsible for the day to day administration of the Company;
(c) provide financial services to the Company including administering general security agreements and other forms of security of the Company;
(d) provide monthly reports on the operation of the Company to the Board of Directors of the Company;
(e) communicate regularly with mortgage brokers engaged in business with the Company and answer any such mortgage broker queries;
(f) prepare accounting information for the auditors of the Company;
(g) undertake any accounting task which shall reduce the accounting fees of the auditor;
(h) maintain the business premises of the Company for the conduct of its business; and
(i) perform other assignments related to the business and affairs of the Company as directed by its Board of Directors.

The Administrator shall furnish itself with all necessary administrative services including provision of office space, clerical staff and maintenance of books and records to the extent required to perform the duties and services set forth in the Administrative and Services Agreement.

In exercising its powers and discharging its duties under the Administrative and Services Agreement, the Administrator must carry out its duties fairly, honestly and in the best interests of the Company and must exercise the degree of care, diligence and skill that a reasonably prudent person experienced in the business of providing mortgage administration and ancillary services would exercise in comparable circumstances. The Administrator is not liable to the Company for any loss caused by the Administrator in carrying out its duties under the Administrative and Services Agreement unless the loss resulted from the gross negligence, willful misconduct or dishonesty of the Administrator, its officers, employees or agents in the performance of its duties. The Company has agreed, under the terms of the Administrative and Services Agreement, to indemnify and save the Administrator harmless in the event that the Administrator suffers a loss of any nature whatsoever in connection with the performance of its duties under the Administrative and Services Agreement, except where such loss resulted from the gross negligence, willful misconduct or dishonesty of the Administrator or its officers, employees or agents.

The Company will reimburse the Administrator for all reasonable and necessary out-of-pocket disbursements excluding wages, office space and maintenance of books and records incurred by the Administrator in connection with the administration of the business of the Company.

The appointment of the Administrator shall be for a five year period and shall renew automatically for consecutive five year periods unless the Administrative and Services Agreement is otherwise terminated.

In the event of termination of the Administrative and Services Agreement, the Administrative and Services Agreement and any agency created thereby shall terminate and be of no further force or effect and all rights or obligations of the Company and the Administrator shall cease. In addition, in the event of termination of the Administrative and Services Agreement, the Administrator shall return and deliver to the Company (or its authorized agent) all funds, if any, held by it in respect of all mortgages serviced thereunder and all documents, records, tax receipts, insurance policies, appraisals, correspondence, files and other documents in its possession pertaining to the mortgages serviced thereunder.

**Investment in Loans**

The Company will seek out and originate Loans for investment, which are consistent with the investment and operating policies and objectives of the Company.

The Mortgages to be invested in by the Company are a common form of financing within the real estate industry. The standard documentation used with respect to Mortgages will provide that, in the event of a failure by the mortgagor to pay any amount owing under a Mortgage, the mortgagees will be entitled to enforce the Mortgage in accordance with applicable law. In the event of a failure by a mortgagor to make a payment of interest and/or principal when due, the mortgagees will immediately communicate with the mortgagor and, failing prompt rectification, will issue a notice of its intent to exercise the remedy or remedies which are available to the mortgagee which the Company considers appropriate. Typically, all legal costs, costs related to registration of Mortgages and costs relating to obtaining appraisals of Real Property, as allowed by law, will be for the account of the mortgagors.

The Mortgages are held by and registered in the name of the Company.

In addition, the Company will obtain standard security in respect of commercial Mortgages which, depending on the specific Mortgage, may include one or more of an assignment of rents, an assignment of insurance proceeds, an assignment of purchase agreements (on residential development projects) and a general security agreement.

The Company will invest in Mortgages secured primarily by residential Real Property but may invest in Mortgages secured by various other types of Real Property, including single-family dwellings, duplexes, townhouses, condominium units and other multi-family residential properties, subdivisions and construction projects and commercial property, small strata retail, industrial and office units/buildings. The Company will invest in Mortgages secured by Real Property that is located within a 50 kilometre radius of a major urban center which has a minimum population of 35,000 in the Provinces of British Columbia, Alberta, Manitoba and Ontario, although smaller population centers may be approved by the board of directors of the Company as an exception on a case-by-case basis. Such Mortgages will comply with the investment policies of the Company and any Loans relating to property outside of the 50 kilometre radius of a major urban center may have the lending criteria altered in order to ensure protection of the capital.

The Mortgages in which the Company invests will often be short term (i.e. with terms of one year ), but will attempt to stagger the maturity dates in order to produce an orderly turnover of assets and liabilities. The Mortgages may be second or, in exceptional cases, subsequent ranking Mortgages. As well, the Company may invest, either alone or in participation with other lenders, in mezzanine and subordinated Mortgage debt for investment properties, which Mortgages may carry longer terms.

**Investment Policies**

The Company's goal is to maximize shareholder returns by investing in Loans to parties recommended by the Company's management. The Company will comply with the following policies and guidelines in order to accomplish this goal. These policies and guidelines are consistent with the provisions of the Tax Act and real estate legislation which apply to mortgage investment corporations generally. The following are the investment criteria to be applied when selecting Mortgages in which the Company will invest:

(a) No funds will be loaned in respect of any property in which a director or officer of the Company has a direct or indirect interest.

(b) The Company intends that the overall loan-to-value ratio of any Mortgage will not exceed 75% of the appraised value of the property (including prior ranking mortgages) which is mortgaged at the date of the advance unless approved by the Board of Directors as an exception on a case-by-case basis. The following maximum loan-to-value guidelines will apply to certain classes of Real Estate:
   (i) 50% for raw land
   (ii) 65% for construction on serviced land
   (ii) 65% for commercial or non-residential
   (iv) 75% for residential

(c) The Company requires a current appraisal with every mortgage application unless otherwise directed by the Directors of the Company. Each appraisal is required to be prepared by a member of the Accredited Appraisal Canadian Institute.

(d) The Company will primarily invest in first Mortgages on residential properties, with no greater than 25% of its portfolio in second Mortgages; unless approved by the Directors.

(e) All Mortgages will, prior to funding, be registered on title to the subject property in the name of the Company.

(f) No single Loan or related group of Loans involving one property or development, or involving several properties or developments owned by one borrower and its affiliates, will exceed 10% of the book value of the Mortgage portfolio of the Company at the time of funding.

(g) Construction, commercial or interim Mortgages, each as a separate group, are restricted to 10% of the Mortgage portfolio of the Company at the time of funding; unless approved by the Directors.

(h) Investment in Mortgages is restricted to within a 50 kilometre radius of a major urban center which has a minimum population of 35,000 in the Provinces of British Columbia, Alberta, Manitoba and Ontario, although smaller population centers may be approved by the Directors of the Company as an exception on a case-by-case basis.

(i) The term of any Mortgage will be no more than 3 years, with a focus on Mortgages with a term of 1 to 2 years, with an amortization between 25 and 40 years at funding.

(j) The maximum Loan amount per first Mortgage is limited to $750,000 unless such Loan is approved by at least two or more Directors of the Company.

(k) The maximum Loan amount per second Mortgage is limited to $150,000 unless such Loan is approved by at least two or more Directors of the Company.

(l) The Mortgage portfolio of the Company will continue to be partially margined by the revolving credit facility in order to optimize earning through reasonable leverage.

(m) To the extent that, from time to time, the Company's funds are not invested in Loans, they will be held in cash deposited with a Canadian chartered bank or will be invested in short term deposits, savings accounts or government guaranteed income certificates or treasury bills so as to maintain a level of working capital for the Company's ongoing operations considered acceptable by the Directors of the Company.

(n) The Company will not make any Loan that would result in it failing to qualify as a MIC pursuant to the Tax Act.

If, due to a change in the provisions of the Tax Act or other legislation applicable to the Company, any of the foregoing policies, guidelines and restrictions require amendment in order to comply with such change in legislation, the Company may make such change and such change will be binding on the Company. In addition, the foregoing policies, guidelines and restrictions may be changed at any time (so long as such change complies with applicable legislation) if the change is determined by the Company to be required in order to ensure that the Company remains competitive in making the highest quality Loans being undertaken in the marketplace at the time of such change and is in the best interests of the Company.

**Operating Policies**

The Tax Act imposes certain restrictions on MICs and on investments made by MICs, which restrictions can be summarized as follows:

(a) The corporation must be a Canadian corporation.

(b) The corporation must have at least 20 shareholders.

(c) No shareholder can own more than 25% of the issued shares of any class of the corporation.

(d) Except in limited circumstances, the corporation cannot manage or develop Real Property.

(e) The corporation cannot own shares of non-resident corporations.

(f) The corporation cannot hold Real Property located outside of Canada.

(g) The corporation cannot loan funds where the security is property located outside of Canada.

(h) More than 50% of the cost of the corporation's property must be invested in mortgages over residential properties or deposits with a qualifying financial institution.

(i) No more than 25% of the cost of the corporation's property can be invested in Real Property, except property acquired by foreclosure.

(j) The corporation must not exceed certain debt-to-equity ratios, which vary depending on the percentage of the cost of property invested in residential mortgages or on deposit with qualifying financial institutions. If less than two-thirds of the cost of the corporation's property is invested in this manner, the debt-to equity ratio may not exceed three to one. If more than two-thirds of the cost of the corporation's property is invested in this manner, then the allowable debt-to-equity ratio is five to one.

**2.3 Development of Business**

The Company has increased its loan portfolio, since its inception, by securing additional capital from previous offerings of Preferred Shares and shareholders' reinvestment of dividends as well as from its line of credit. This Offering is intended to provide the Company with additional funds advance further Loans with emphasis on urban centers and growth areas in the Provinces of British Columbia, Alberta, Manitoba and Ontario.

The Company's target return to investors is 3.75% over the Government of Canada 3 year bond rate, a target that has been reached each year since operations began in 2001.

**Size and Composition of Portfolio**

As of June 17, 2015, the Company's funds are invested in 82 Mortgages ranging in amounts from $25,000 to $768,106 for a total aggregate principal amount of approximately $18,010,002. The interest rates on these Mortgages range from 4.50% to 11.00%. Of the Company's 82 Mortgages, 10 are on properties located in Alberta, 5 are on properties located in Ontario and 67 are on properties located in British Columbia, of which one is a construction property, two are commercial properties and 79 are residential properties. In addition, of the 82 Mortgages, 49 are ranked as first mortgages, and the remaining 33 are ranked as second mortgages. The Mortgage portfolio composition as of June 17, 2015 was as follows:

| Region | # of Mortgages | 1st Mortgages | 2nd Mortgages | Total Value | Average LTV(1) |
|---|---|---|---|---|---|
| **GVRD(2)** | 29 | $5,117,480 | $1,100,057 | $6,217,537 | 62.44% |
| **FVRD(3)** | 27 | $5,520,821 | $848,597 | $6,369,418 | 66.70% |
| **Vancouver Island** | 5 | $1,352,220 | Nil | $1,352,220 | 68.28% |
| **Okanagan/Kamloops** | 1 | $99,531 | Nil | $99,531 | 66.22% |
| **Okanagan/Kelowna** | 4 | $400,027 | $254,860 | $654,888 | 59.12% |
| **Other B.C** | 1 | $391,317 | Nil | $391,317 | 78.22% |
| **Alberta** | 10 | $1,342,415 | $402,328 | $1,744,743 | 63.65% |
| **Ontario** | 5 | $382,149 | $222,268 | $604,417 | 62.56% |
| **TOTAL** | **82** | **$14,852,243** | **$3,157,760** | **$18,010,002** | **65.89%** |

**Notes:**

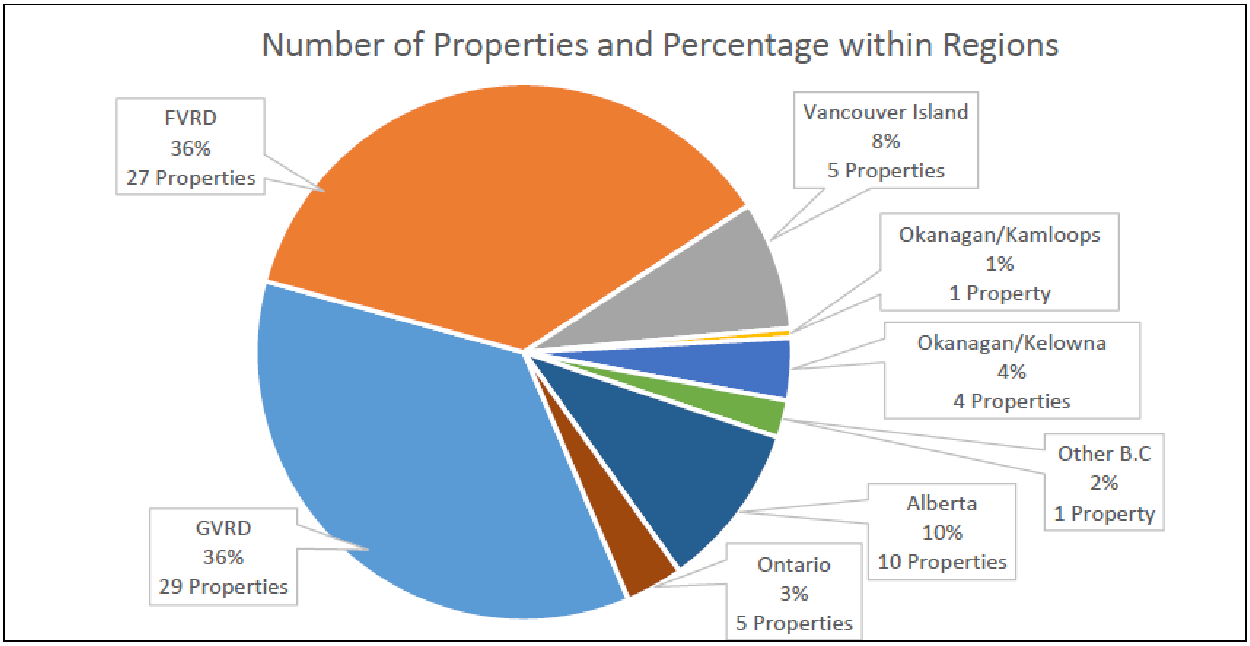
(1) LTV is the acronym for "Loan to Value". The LTV of any specific mortgage is equal to the sum of the Company's mortgage plus any prior mortgages divided by the value the property. The LTV calculations in the above table were completed at the time the mortgages were originally funded. Thus, the above calculations are not an exact indicator of the actual LTV(s) as of June 17, 2015 as the property prices and/or mortgage values may have changed since the time the mortgage was originally funded.

(2) GVRD is the Greater Vancouver Regional District, which includes West Vancouver, North Vancouver, Vancouver, Burnaby, Richmond, Delta, New Westminster, Coquitlam, Port Coquitlam, Port Moody, Surrey, White Rock, Langley, Township of Langley, Pitt Meadows, Maple Ridge, Village of Anmore and Village of Belcarra.

(3) FVRD is the Fraser Valley Regional District, which includes Abbotsford, Chilliwack, Harrison Hot Springs, Hope, Kent and Mission.

(4) Other BC are towns that do not have a population of 35,000 or more or are within 50 km of a major urban center (i.e. Sunshine Coast, Creston, Cranbrook, Osoyoos, Castlegar, Merritt, Squamish, Salmon Arm, 100 Mile House).

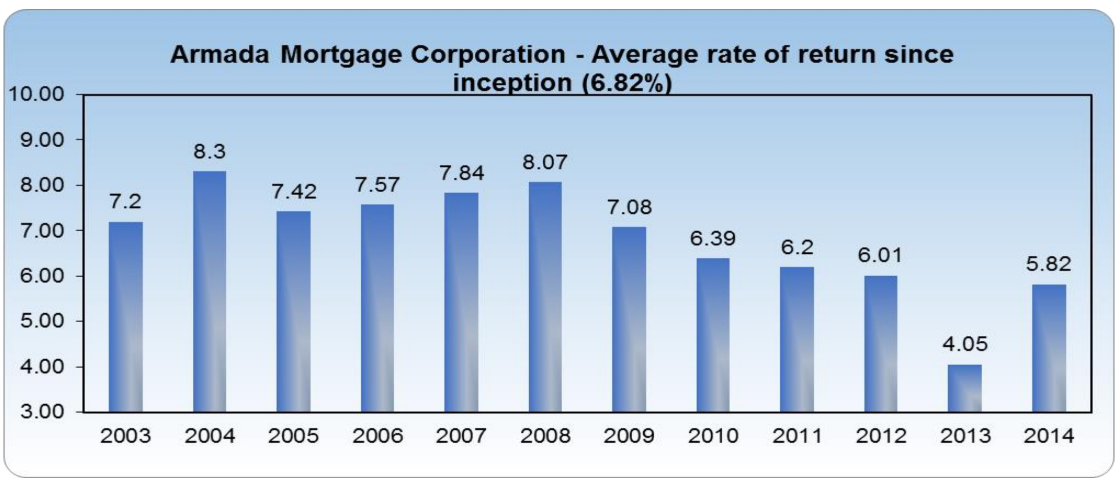
The following outlines the regions in British Columbia as well as in Alberta and Ontario where the Company's Mortgages are located:




The Company has allocated $153,722.00 for loss provisions with respect to potential defaults and foreclosures in progress with respect to its current Mortgage portfolio. Of the 5 non-performing Mortgages indicated in the December 31, 2014 financial statements, 3 have paid out with income, leaving the Company with 2 remaining Mortgages in foreclosure.

**Yearly Rate of Return to Investors**

The following table sets out the average rate of returns to the Company's investors on a yearly basis since 2003.




## 2.4 Long Term Objectives

The Company's long term objectives are:

(i) to provide the holders of Preferred Shares with a monthly rate return that is superior to term deposits, GICs and money market funds, with due consideration to preservation of their capital;

(ii) to distribute income on a monthly, quarterly or annual basis as determined by the Board of Directors;

(iii) to maintain profitability on a sustainable basis;

(iv) to maintain the Company's status as an MIC under the Tax Act;

(v) to carry on developing the geographic distribution of the MICs portfolio, with due consideration to the local real estate market, and property types;

(vi) to offer Loans to suitable borrowers who may need slightly more financing than larger institutional lenders may from time to time be willing to provide; and

(vii) to expand the assets of the Company to a value exceeding $25,000,000 while maintaining an intended annualized rate of return to investors of 6% to 8%, while maintaining a Mortgage portfolio weighted average loan to value ratio of less than 70%.

### 2.5 Short Term Objectives and How the Company Intends to Achieve Them

The Company's business objectives for the next 12 months are to complete the offering of up to 5,000,000 Preferred Shares pursuant to this Offering Memorandum and to invest the net subscription proceeds thereof in Loans secured by Mortgages. It is the intention of the Company that the net subscription proceeds of the Offering will be invested as quickly as is reasonably possible pursuant to the investment policies, to raise further equity capital and to optimize returns. The Company intends to meet the following objectives for the next 12 months as follows:

| What we must do and how we will do it | Target completion date or, if not known, number of months to complete | Our cost to complete |
|---|---|---|
| The Company intends to raise capital pursuant to the Preferred Share Offerings, to use the raised capital to fulfil its investment program as described in Items 2.2, 2.3 and 2.4 above, to expand its loan portfolio subject to market conditions, to maintain lending practices and to match up investor funds with suitable mortgages. | Since the Company has an ongoing investment program, there is no target completion date for its business plan. Investments will be made as the Company's available funds permit. | N/A |

### 2.6 Insufficient Funds

The funds available as a result of the Preferred Share Offering may or may not be sufficient to accomplish all of the Company's proposed objectives and there is no assurance that alternative financing will be available.

### 2.7 Material Agreements

The Company has the following material agreements:

1. Administration Services Agreement between the Company and the Administrator (see Section 2.2 - "*The Company's Business – Administration and Services Provider*" above).

2. On October 24, 2013, the Company and The Toronto-Dominion Bank ("**TD Bank**") entered into a Demand Operating Facility Agreement, which was amended on December 31, 2014 (the "**Credit Facility**"). The Credit Facility provides the Company with a revolving credit facility, with a credit limit capped at the lesser of $5,000,000 and the total of 75% of qualified first and second position mortgages on residential properties, secured by a general security agreement with TD Bank representing a first charge on all of the Company's present and after acquired personal property. Any borrowings by the Company under the Credit Facility will be payable on demand and bear interest at a floating rate of TD Bank's prime lending rate, which at June 17, 2015 was 2.85% per annum, plus 0.50% per annum. Interest is calculated daily and payable monthly in arrears. Among other covenants and conditions, the Credit Facility requires the Company to comply with certain Mortgage requirements, debt to tangible net worth ratio and interest coverage ratio. In addition, the Company must also comply with certain reporting and financial statement

requirements to the bank on a regular basis. The objective is to realize profits from such interest rate spread, and to use the leverage to increase returns to the Company's shareholders. However, the Company's operations will not normally rely upon the use of the credit facility or debt financing from a bank or any other source.

## ITEM 3 - DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS

### 3.1 Compensation and Securities Held

The following table sets out information about each Director, officer and promoter of the Company and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the Company (a "**principal holder**"):

| Name & municipality of principal residence(1) | Positions held and the date of obtaining that position | Compensation paid by Company (i) in the most recent financial year; and (ii) anticipated to be paid in the current financial year | Number, type & percentage of securities of the Company held(2) after completion of Minimum Offering | Number, type & percentage of securities of the Company held(2) after completion of Maximum Offering |
|---|---|---|---|---|
| **Gordon Arthur Hone(3)**<br>Maple Ridge, BC | President & Director<br>(as of December 29, 1995) | Nil(4) | 180,960.00 Class "A" Preferred Shares(5) (1.18%)<br><br>2 Common Shares(6) (2.06%) | 180,960.00 Class "A" Preferred Shares(5) (0.89%)<br><br>2 Common Shares(6) (2.06%) |
| **Andrew Danneffel**<br>Port Coquitlam, BC | Director<br>(as of April 12, 2010) | (i) $1,200.00(7)<br>(ii) $1,200.00 | 167,569.00 Class "A" Preferred Shares (1.09%)<br><br>2 Common Shares (2.06%) | 167,569.00 Class "A" Preferred Shares (0.82%)<br><br>2 Common Shares (2.06%) |
| **Thomas Dinsley**<br>Maple Ridge, BC | Director<br>(as of April 12, 2010) | Nil(4) | 159,890.00 Class "A" Preferred Shares (0.78%)<br><br>2 Common Shares (2.06%) | 159,890.00 Class "A" Preferred Shares (0.78%)<br><br>2 Common Shares (2.06%) |
| **Heinz E. Hone(3)**<br>Pitt Meadows, BC | Director<br>(as of December 18, 2002) | Nil(4) | 410,884.58 Class "A" Preferred Shares(8) (2.67%)<br><br>2 Common Shares(9) (2.06%) | 410,884.58 Class "A" Preferred Shares(8) (2.01%)<br><br>2 Common Shares(9) (2.06%) |
| **Edward Monteiro**<br>Maple Ridge, BC | Director<br>(as of October 10, 2011) | Nil(4) | 219,512.00 Class "A" Preferred Shares(10) (1.43%)<br><br>2 Common Shares (2.06%) | 219,512.00 Class "A" Preferred Shares(10) (1.08%)<br><br>2 Common Shares (2.06%) |
| **Patricia Milewski**<br>Maple Ridge, BC | Director<br>(as of April 22, 2014) | Nil(4) | 793,779.00 Class "A" Preferred Shares(11) (5.16%)<br><br>3 Common Shares(12) (3.09%) | 793,779.00 Class "A" Preferred Shares (3.89%)<br><br>3 Common Shares (3.09%) |

| Name & municipality of principal residence[(1)] | Positions held and the date of obtaining that position | Compensation paid by Company (i) in the most recent financial year; and (ii) anticipated to be paid in the current financial year | Number, type & percentage of securities of the Company held[(2)] after completion of Minimum Offering | Number, type & percentage of securities of the Company held[(2)] after completion of Maximum Offering |
|---|---|---|---|---|
| **Lance Felgnar**<br>Pitt Meadows, BC | Director<br>(as of April 21, 2015) | Nil[(4)] | 306,933.85 Class "A" Preferred Shares<br>(1.99%)<br><br>3 Common Shares<br>(3.09%) | 306,933.85 Class "A" Preferred Shares<br>(1.50%)<br><br>3 Common Shares<br>(3.09%) |
| **Edna J. Peacock**<br>Port Coquitlam, BC | Director<br>(as of December 18, 2002) | Nil[(4)] | 954,425.00 Class "A" Preferred Shares<br>(6.20%)<br><br>2 Common Shares<br>(2.06%) | 954,425.00 Class "A" Preferred Shares<br>(4.68%)<br><br>2 Common Shares<br>(2.06%) |
| **Karin Schmidtke[(3)]**<br>Maple Ridge, BC | Secretary<br>(as of December 18, 2002) | Nil[(4)] | 210,096.00 Class "A" Preferred Shares[(13)]<br>(1.36%)<br><br>1 Common Share[(6)]<br>(1.03%) | 210,096.00 Class "A" Preferred Shares[(13)]<br>(1.03%)<br><br>1 Common Share[(6)]<br>(1.03%) |

Notes:
(1) Information as to municipality of residence has been provided by the individual Directors and officers.
(2) Directly or indirectly.
(3) Gordon Hone and Karin Schmidtke are married. Gordon Hone is Heinz Hone's son.
(4) The Directors and officers do not receive compensation in their capacity as Directors and officers of the Company.
(5) This figure includes 58,309 Preferred Shares held directly by Gordon Hone, 92,651 Preferred Shares held jointly by Gordon Hone and Karin Schmidtke, and 30,000 Preferred Shares held jointly by Gordon Hone, Karin Schmidtke and Heinz Hone.
(6) This figure includes 1 common share held jointly by Gordon Hone and Karin Schmidtke.
(7) This amount is paid annually to Newsfile Corp., a company of which Mr. Danneffel is a director, for webhosting services provided to the Company.
(8) This figure includes 358,385 Preferred Shares held directly by Heinz Hone, 30,000 Preferred Shares held jointly by Gordon Hone, Karin Schmidtke and Heinz Hone, and 22,499.58 Preferred Shares held jointly by Heinz Hone and his wife, Angela Hone.
(9) This figure includes 1 common share held directly by Heinz Hone and 1 common share held jointly by Heinz Hone and his wife, Angela Hone.
(10) This figure includes 24,999 Preferred Shares held directly by Mr. Monteiro and 194,513 Preferred Shares held by Pacific Marine Services Ltd., over which Mr. Monteiro has control and direction.
(11) 417,744.00 Preferred Shares are held jointly by Patricia Milewski and her husband, Martin Milewski.
(12) Common Shares are held by Milewski Enterprises Inc. which is owned and controlled by Patricia Milewski and Martin Milewski.
(13) This figure includes 87,445 Preferred Shares held directly by Karin Schmidtke, 92,651 Preferred Shares held jointly by Gordon Hone and Karin Schmidtke, and 30,000 Preferred Shares held jointly by Gordon Hone, Karin Schmidtke and Heinz Hone.

As at the date of this Offering Memorandum, the Directors and officers of the Company, as a group, own (i) 19 Common Shares representing 19.58% of the issued and outstanding Common Shares of the Company; and (ii) 3,404,041.43 Class "A" Preferred Shares representing 22.11% of the issued and outstanding Preferred Shares of the Company.

### 3.2 Management Experience

The following table sets out the principal occupations of the Directors and executive officers of the Company over the past five years and any relevant experience in a business similar to the Company's:

| **Name** | **Principal occupation and related experience** |
|---|---|
| **Gordon Arthur Hone** | Mr. Gordon Hone has been the President, Director and founder of the Company since inception in 1995. Mr. Hone was a licensed realtor from 1992 to 1994, has been a licensed mortgage broker since 1993 and was the previous owner of Westgate Homes, a |

residential home builder in Maple Ridge, British Columbia. Mr. Hone has been the owner and mortgage broker of Armada Capital Corporation since 1995. Mr. Hone attended Simon Fraser University and was accepted to the Faculty of Economics & Business Administration in 1989. Mr. Hone received his Steel Fabrication diploma from BCIT in 1986. Mr. Hone has obtained his certification for completing the Partners, Director & Officers Course as well as the Canadian Securities Course, and has received the designation as a Registered Deposit Broker. Mr. Gordon Hone is the husband of the Secretary of the Company, Karin Schmidtke, and the son of Mr. Heinz Hone, another Director of the Company.

| | |
|---|---|
| **Andrew Danneffel** | Mr. Danneffel has been a Director of the Company since April 2010. Mr. Danneffel graduated from Simon Fraser University in 2002 with a Bachelor of Business Administration degree (concentrations in Information Technology and Marketing). He is currently a director of Newsfile Corp., a national corporation providing electronic filing and news dissemination services to public companies. Mr. Danneffel is a past President of the Port Moody Arts Centre Society (2010-2012), a non-profit registered society providing arts related programming and events to residents of the Tri-Cities. |
| **Thomas Dinsley** | Mr. Dinsley has been a Director of the Company since April 2010. Mr. Dinsley obtained his Law degree in 1969 from the University of British Columbia. Mr. Dinsley has been practicing law in the field of personal injury for over 40 years. He currently works at Quay Law Center in New Westminster, B.C. |
| **Heinz E. Hone** | Mr. Heinz Hone has been a Director of the Company since 2002. Mr. Hone is currently retired and was a Director and Western Canadian Sales manager for U.T.P. Welding from 1967 to 1994. Mr. Hone received his Engineering diploma from the Berlin Technical University in 1944. Mr. Hone has owned and managed several residential real estate investments since 1983 and has invested in private mortgages through the Company since 1995. Mr. Heinz Hone is the father of the President of the Company, Gordon Hone. |
| **Edward Monteiro** | Captain Monteiro has been a Director of the Company since October 2011. Captain Monteiro commenced his seagoing career as a Cadet on the training ship Dufferin, and over the next 18 years was promoted to the rank of officer and subsequently a captain of deep sea ships for international voyages. Captain Monteiro was employed at Canadian Transport Company Ltd. (a subsidiary of MacMillan Bloedel) from 1974 to 1996. After leaving Canadian Transport Company Ltd., Captain Monteiro started his own shipping company, Pacific Marine Services Ltd. Captain Monteiro has served on the boards of the British Columbia Institute of Technology from 1994 to 2000 and the Pacific Marine Training Campus from 1992 to 1994. |
| **Lance Felgnar** | Mr. Felgnar has been a Director of the Company since April 2015. Mr. Felgnar has been involved in the Lower Mainland real estate and property business since 1972. During the last 35 years he has both owned and managed multi-family rental properties. Being a motivated realtor in Maple Ridge for 24 years he was also a founding shareholder of Royal LePage Brookside Realty. Mr. Felgnar is currently retired from real estate, was an active member of the community, has been a member of the Swan-e-set Golf Club since 1993 and has served on several membership committees. |
| **Patricia Milewski** | Ms. Milewski has been a Director of the Company since April 2014. Ms. Milewski's professional experience includes being a self- employed bookkeeper since 1992, a B.C. Registered Music Teacher from 1995 to 2011, as well as serving 3 terms as the executive secretary of the Coquitlam-Maple Ridge Branch of the B.C.R.M.T.A. Since retirement, she has followed an interest in finance by completing two certified courses offered by the Canadian Securities Institute. Ms. Milewski is currently continuing part-time studies at UBC in the Faculty of Arts. |

| | |
|---|---|
| **Edna J. Peacock** | Mrs. Peacock has been a Director of the Company since 2002. Mrs. Peacock has run her own income tax preparation company for over 25 years and was the owner of an apartment block complex, and various rental real estate properties for 20 years. Mrs. Peacock has also operated her family's blueberry farm since 1990. In addition, Mrs. Peacock was both a director and treasurer of the Maple Ridge Archery Club for over 10 years from 1981 to 1991. Mrs. Peacock has invested in mortgages with Company since 1996. |
| **Karin Schmidtke** | Mrs. Schmidtke has been the Controller of the Company since its inception in 1995 and has been the Secretary of the Company since 2002. In addition to being a licensed mortgage broker since 2010, she has been the Company's designated Registered Deposit Broker since 2010. Mrs. Schmidtke oversees the Company's accounting and administration. Mrs. Schmidtke owned and ran her own professional photography business from 1990 to 1997 in Vancouver, B.C. Mrs. Schmidtke has been investing in residential mortgages since 1994, and has experience in budgeting for residential construction when she was with Westgate Homes. Mrs. Schmidtke is the wife of the President of the Company, Gordon Hone. |

### 3.3 Penalties, Sanctions and Bankruptcy

(a) There has been no penalty or sanction that has been in effect during the last 10 years, or any cease trade order that has been in effect for a period of more than 30 consecutive days during the past 10 years, against:

(i) A Director, executive officer or control person of the Company; or

(ii) An issuer of which a person referred to in 3.3(a)(i) above was a Director, executive officer or control person at that time;

(b) There has been no declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets, that has been in effect during the last 10 years with regard to any:

(i) Director, executive officer or control person of the Company; or

(i) Issuer of which a person referred to in 3.3(b)(i) above was a Director, executive officer or control person at that time.

### 3.4 Loans

There are no debentures or loans due to or from the directors, management, or principal holders of the Company.

## ITEM 4 – CAPITAL STRUCTURE

### 4.1 Share Capital

The authorized capital of the Company consists of an unlimited number of voting common shares without par value, an unlimited number of Class "A" redeemable, non-voting preferred shares with a par value of $1.00 each and an unlimited number of Class "B" non-voting preferred shares without par value.

| Description of Security | Number of authorized to be issued | Price per Security | Number of outstanding as at June 1, 2015 | Number outstanding after Minimum Offering | Number outstanding after Maximum Offering |
|---|---|---|---|---|---|
| Common Shares | Unlimited | $1.00 | 97 | 97 | 97 |
| Class "A" Preferred Shares(1) | Unlimited | $1.00 | 15,394,818.32 | 15,394,818.32 | 20,394,818.32 |
| Class "B" Preferred Shares | Unlimited | N/A | Nil | Nil | Nil |

Notes:
(1) Complete details of the attributes and characteristics of the Class "A" Preferred Shares are set forth under the heading "*Terms of Preferred Shares*".

### 4.2 Long Term Debt

The Company has no long term debt.

### 4.3 Prior Sales

During the last 12 months, the Company has issued the following Preferred Shares:

| Date of issuance | Type of security issued | Number of securities issued | Price per security | Total funds received |
|---|---|---|---|---|
| May 5, 2014 | Preferred Shares | 133,988 | $1.00 | $ 133,988.00 |
| August 1, 2014 | Preferred Shares | 205,950 | $1.00 | $ 205,950.00 |
| December 15, 2014 | Preferred Shares | 141,060 | $1.00 | $ 141,060.00 |
| February 1, 2015 | Preferred Shares | 238,964 | $1.00 | $ 238,964.00 |
| March 15, 2015 | Preferred Shares | 105,005 | $1.00 | $ 105,005.00 |
| March 31, 2015 | Preferred Shares | 81,920 | $1.00 | $ 81,920.00 |
| **Total Issued** | | **906,887** | | **$ 906,887.00** |

During the last 12 months, the Company has redeemed the following Preferred Shares:

| Date of redemption | Type of security redeemed | Number of securities redeemed | Price per security | Total funds paid |
|---|---|---|---|---|
| July 1, 2014 | Preferred Shares | 76,778 | $1.00 | $76,778.00 |
| August 1, 2014 | Preferred Shares | 12,303 | $1.00 | $12,303.00 |
| October 1, 2014 | Preferred Shares | 12,000 | $1.00 | $12,000.00 |
| December 1, 2014 | Preferred Shares | 41,589.48 | $1.00 | $41,589.48 |
| January 1, 2015 | Preferred Shares | 88,017.88 | $1.00 | $88,017.88 |
| March 1, 2015 | Preferred Shares | 100,000 | $1.00 | $100,000.00 |
| **Total Redeemed** | | **330,688.36** | | **$330,688.36** |

## ITEM 5 – SECURITIES OFFERED

### 5.1 Terms of Preferred Shares

The Company is offering up to 5,000,000 Preferred Shares at $1.00 per Preferred Share, which Preferred Shares have a par value of $1.00. The Preferred Shares have the following material terms:

The Company is offering up to 5,000,000 Preferred Shares at a $1.00 per Preferred Share. Subscribers must subscribe for an initial minimum of 2,500 Preferred Shares, and thereafter, the Company will permit subscriptions in increments of less than 2,500 Preferred Shares, including single Preferred Shares. The Preferred Shares may be sold by the Company pursuant to the dealer registration exemption contained in BCI 32-517 or similar order of the securities regulatory authority in the applicable jurisdiction. Therefore, both the Company, as dealer, and its representatives may not be registered with a securities regulatory authority in accordance with NI 31-103 and are prohibited from providing suitability advice about the purchase of the Preferred Shares by the Subscriber. If the Preferred Shares are sold by an unregistered dealer, the Subscriber has provided its acknowledgement of this by executing and delivering to the Company a Risk Acknowledgement Form in the form attached as Schedule "B" to this Offering Memorandum. The Preferred Shares have a par value of $1.00 and have the following material terms:

**(a) Dividend Entitlement**

Part 27.2 of the Company's Articles stipulates that the holders of the Preferred Shares rank in priority to the holders of the Common Shares of the Company with respect to dividend entitlement. Each year, at the discretion of the Directors, the holders of Preferred Shares will be entitled, out of any or all profits or surpluses available for dividends, to non-cumulative dividends up to the amount that pursuant to clause 130.1(1)(a)(i) of the Tax Act is deductible in computing the Company's income for the year and up to twice the amount that pursuant to clause 130.1(1)(a)(ii) of the Tax Act is deductible in computing the Company's income for the year. Any distributions made by way of dividends declared on the issued and outstanding Preferred Shares will be subject to the provisions of the *Business Corporations Act* (British Columbia).

Such dividends, if any, will be declared and paid within 90 days of the end of such fiscal year. Preferred Shareholders may elect to receive such dividends as cash or reinvested as additional shares. Dividends reinvested as additional shares will qualify for dividend entitlement paid pro rata based on the quarter in which the shares were purchased. Dividends taken as cash will not be eligible for further dividend or interest consideration.

The Company intends to distribute all of the net income and net realized capital gains, if any, of the Company to Preferred Shareholders by way of dividends, so that the Company will not be liable to pay income tax pursuant to the Tax Act during any year.

**(b) Redemption by the Company**

The Company may, pursuant to and in accordance with the requirements of Part 27.3 of its Articles, redeem upon providing at least 30 days notice at any time or from time to time in whole or in part any of the Preferred Shares in such proportions as the Directors may specify on payment of a redemption price per Preferred Share which will be equal to the paid up capital of the Preferred Share plus the aggregate of all dividends declared but unpaid on the Preferred Share plus the Preferred Share's *pro rata share* of any undistributed net income and net capital gains. The Company cannot offer to redeem or purchase any Preferred Shares if the Company is insolvent at the time of redemption or if the redemption would render it insolvent, or if such redemption would result in the Company losing its status as a MIC. Any Preferred Shares so redeemed by the Company will be cancelled upon redemption.

**(c) Priority on Liquidation, Dissolution or Winding Up**

In the event of the liquidation, dissolution or winding up of the Company or other distribution of its property or assets among shareholders, distributions of the property or assets will be made:

(i) first, to the holders of the Preferred Shares and the Class "B" Preferred Shares, such amount as is equal to all dividends declared and unpaid thereon; and

(ii) the balance, to the registered holders of the Preferred Shares, the Class "B" Preferred Shares and the Common Shares, who shall be entitled to participate equally with each other, *pro rata* in accordance with the number of Preferred Shares, Class "B" Preferred Shares or Common Shares held, respectively.

**(d) Retraction by Preferred Shareholder**

For the purposes of the following paragraphs, "**Class "A" Retraction Date**" means the date that is one year from the last day of the fiscal quarter in which the Preferred Share was subscribed for by an investor.

Where Preferred Shares were acquired by way of re-invested dividends on an originally subscribed for Preferred Share, the Class "A" Retraction Date for such Preferred Shares will be the same Class "A" Retraction Date as the original Preferred Shares.

If a Class "A" Retraction Date for a Preferred Share expires, the new Class "A" Retraction Date for such Preferred Shares will be one year from the expired Class "A" Retraction Date.

Part 27.4 of the Company's Articles provides the holders of Preferred Shares with the right to require the Company to redeem all or any portion of their fully paid Preferred Shares upon providing the Company with written notice 90 days prior to the Class "A" Retraction Date for such Preferred Shares. The aggregate value of all payments to be made by the Company with respect to all redemptions under Part 27.4 of the Company's Articles, in any given calendar year, will be limited to 10% of the aggregate value of the Company's equity earnings for the previous year. In addition, the obligation of the Company to redeem Preferred Shares is subject to the qualification that the Company is not permitted to redeem Preferred Shares if the Company is insolvent at the time of the redemption or if the redemption would render the Company insolvent or cause the Company to cease being qualified as a MIC pursuant to the provisions of the Tax Act.

Where, on completion of a redemption by the Company pursuant to a request by a holder of Preferred Shares the value of the remaining Preferred Shares held by such holder would be less than $5,000, then the Company shall have the right, at its sole discretion, to redeem all such remaining Preferred Shares held by such holder by making payment in respect thereof, in priority to any other requests received from other holder of Preferred Shares.

**(e) Constraints on Transferability**

Part 30 of the Company's Articles provides that no Preferred Shares may be sold, transferred or otherwise disposed of without the consent of the Directors, and the Directors are not required to give any reason for refusing the consent to any such sale, transfer or other disposition. In addition, Directors are mandated to use their best efforts to ensure that the Company at all relevant times qualifies as a MIC pursuant to the Tax Act and, accordingly, the Directors may, in their sole discretion, reject any applications for share dividends or share subscriptions, transfers, redemptions or retractions where in the view of the Directors such would not be in the Company's best interests as a MIC under the Tax Act.

Accordingly, the Directors of the Company intend to refuse registration of an allotment or any transfer of shares which would result in the Company ceasing to meet the qualifications of a MIC. See also Item 10 "*Resale Restrictions*" for further restrictions on the transferability of the Company's Preferred Shares.

**(f) Voting Rights**

The Preferred Shares of the Company are non-voting, and do not have any right to vote except in respect of any amendment to their special rights and privileges. The holders of the Preferred Shares are not entitled to receive notice of or vote at meetings of the shareholders of the Company, unless otherwise permitted under the *Business Corporations Act* (British Columbia).

## 5.2 Subscription Procedure

The Preferred Shares are being offered for sale in the Province of British Columbia pursuant to applicable securities legislation. The Preferred Shares are conditionally offered if, as and when subscriptions are accepted by the Company and subject to prior sale. Subscriptions for Preferred Shares will be received by the Company subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The Company may terminate the Preferred Share Offering at any time without notice and in such case, the Company will not be required to accept later subscriptions. Closings may occur from time to time as determined by the Company.

The minimum initial investment in the Company is $2,500. The minimum subsequent investment in the Company for existing Preferred shareholders is $50. The Company reserves the right to change the minimum amount at any time and from time to time.

Subscriptions may be sent to the Company at its principal office or such other address as specified by the Company by courier or telecommunication facilities.

Subscribers wishing to purchase Preferred Shares must submit to the Company at its head office address shown at the beginning of page one:

1. A completed and signed Subscription Agreement in the form provided by the Company, specifying the number of Preferred Shares being subscribed;

2. Two originally completed and signed Form 45-106F4 - Risk Acknowledgements in the form attached to this Offering Memorandum as Schedule "A";

3. Two originally completed and signed copies of the Risk Acknowledgement under BCI 32-517 in the form attached to this Offering Memorandum as Schedule "B";

4. A certified cheque, bank draft, wire transfer or other payment acceptable to the Company in the amount of your total investment made payable to the Company; and

5. Any other forms, declarations and documents as may be required by the Company to complete the subscription.

The Company will hold your subscription funds in trust until midnight on the second business day after the day on which your signed Subscription Agreement is received. The Company will return all consideration to you if you exercise the right to cancel the Subscription Agreement within the prescribed time.

Upon acceptance, the Subscription Price for the Preferred Shares will be deposited in a designated bank account. Upon the Preferred Shares having been issued, the Subscription Price will be made available to the Company for use in its business, as set out in this Offering Memorandum.

The Company reserves the right to accept or reject subscriptions in whole or in part at its discretion and to close the subscription books at any time without notice. Any subscription funds for subscriptions that the Company does not accept will be returned promptly after it has determined not to accept the funds, without interest.

Notwithstanding the above, subscription agreements from Trustees for RRSPs or RRIFs under the Tax Act will be accepted by the Company without the accompanying payment, to accommodate their administrative procedures. In such case, the share certificates for the Preferred Shares will be delivered by the Company in exchange for payment of the Subscription Price.

The Preferred Shares have not been and will not be registered under the United States *Securities Act of 1933*, as amended, and subject to certain exceptions, may not be offered or sold in the United States.

## ITEM 6 - INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY

### 6.1 Purchasers' Independent Tax Advice

**You should consult your own professional advisers to obtain advice on the income tax consequences that apply to you.**

## 6.2 MIC Status; Income Tax Consequences

The Tax Act stipulates that for a corporation to qualify as a MIC, among other requirements, the corporation must have a minimum of 20 shareholders and no shareholder, including related individuals, can own in excess of 25% of the total issued and outstanding shares of any class of the capital of the corporation. A minimum of 50% of the cost of the corporation's assets must be invested in residential mortgages as defined in the Tax Act, including mortgages on multiple unit residential developments and deposits with Canada Deposit Insurance Corporation-insured institutions.

The Company intends to maintain its qualification as a mortgage investment corporation under the terms of the Tax Act. As a mortgage investment corporation, dividends paid during the year or within 90 days thereafter can be deducted from income for tax purposes. The dividends received are not subject to usual dividend treatment in the hands of shareholders. Rather, they will be taxable in the hands of shareholders who are subject to tax as if they had received an interest payment.

Accordingly, it is anticipated that for each taxation year of the Company throughout which it qualifies as a MIC under the Tax Act, the Company will receive "flow through" treatment and will not be required to pay income taxes on the net earnings from which dividends are paid in each year. Income in excess of allowable deductible reserves under the Tax Act which is not distributed to shareholders within 90 days of each of the Company's year-ends will be subject to ordinary corporate tax under the Tax Act.

### RRSP, RRIF and TFSA Eligibility

The Company confirms, upon the advice of their auditors, that as long as the Company remains a MIC and continues to meet all of the MIC requirements prescribed under the Tax Act, then the Preferred Shares will, subject to the conditions in the next paragraph, constitute a "qualified investment" for RRSP, RRIF and TFSA purposes pursuant to the Tax Act.

Recent changes in the Tax Act have led to restrictions on the ability of RRSPs and RRIFs to invest in shares of MICs and have extended to RRSPs and RRIFs the same criteria as is applied to TFSAs. For these three types of plans, a "prohibited investment" is one in which the holder of the TFSA or the annuitant of the RRSP or RRIF has a close connection. Included in this definition is a share of, an interest in, or a debt of a corporation in which the annuitant (or a non-arm's length person) has a significant interest (generally 10% or more of any class of the shares of the corporation). If an investment in Preferred Shares becomes a prohibited investment after acquisition, it must be disposed of.

Prior to recent changes to the Income Tax Act, an investor could invest in a MIC through an RRSP or RRIF as long as the investor, their spouse and minor children (i.e. under 18) together held 25% or less of any class of shares of the MIC. The rules for investing in a MIC through a TFSA were much stricter and the recent changes mean that the stricter rules now apply to investments in MICs through RRSPs and RRIFs. Now, an investment in a MIC through an RRSP, RRIF or TFSA (a "Plan") will be a "prohibited investment" if the Plan, the RRSP/RRIF annuitant or TFSA holder, and non-arms length persons, own 10% or more of any class of shares of the MIC. The ownership threshold has been reduced significantly and in addition, there is potentially larger group of persons whose interest in the MIC can cause an investment to be a prohibited investment. The group of non-arms length persons would include adult children, siblings and parents (and even unrelated persons can be deemed to be not at arm's-length). As such, it will be important for investors to check with other members of their family as to their ownership prior to making an investment in the MIC through an RRSP, RRIF or TFSA. Please note that this does not affect investments in the MIC held outside of one of these types of plans.

**Management may not be aware of the identity of persons with whom investors do not deal at arm's length for the purpose of determining whether a non-arm's length group meets the 10% ownership threshold. If management does become aware of the identity of such persons, management cannot advise investors of this situation due to privacy legislation. Investors will be responsible for ensuring that they, along with non-arm's length persons, remain below the 10% ownership threshold if investments are to be made through a TFSA, RRSP or RRIF. Management cannot be liable for taxes or penalties that may apply if these ownership thresholds are exceeded.**

**The Company is making the income tax disclosure contained in this section 6.2, but it makes no other warranties or representations, implied or otherwise, with respect to taxation issues. If the Company were not to qualify as a MIC, the income tax consequences would be materially different from those described in this section 6.2.**

**Purchasers should consult with their own tax advisor regarding the income tax consequences of acquiring, holding and disposing of the Preferred Shares, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.**

## ITEM 7 - COMPENSATION PAID TO SELLERS AND FINDERS

The Company and their respective directors and officers will sell the Preferred Shares.

Where lawfully permitted, the Company may pay a sales fee to registered securities dealers and exempt market dealers, or where permitted, non-registrants, subject to negotiation. The Company has not engaged any such party at this time.

## ITEM 8 - RISK FACTORS

**In addition to the factors set forth elsewhere in this Offering Memorandum, potential subscribers should carefully consider the following factors, many of which are inherent to the ownership of the Preferred Shares. The following is a summary only of the risk factors involved in an investment of the Preferred Shares. Purchasers should consult with their own professional advisors to assess the income tax, legal and other aspects of an investment in the Preferred Shares.**

### Speculative Investment

An investment in the Preferred Shares is highly speculative. Investment in the Preferred Shares should be considered only by investors who are able to make a long term investment and are aware of the risk factors involved in such an investment. You should only invest in the Preferred Shares if you are able to bear the risk of the entire loss of your investment and have no need for immediate liquidity in such investment.

### Risks Associated With Mortgage Loans

Real estate investment contains elements of risk and is subject to uncertainties such as costs of operation and financing and fluctuating demand for developed real estate. In addition, prospective investors should take note of the following:

(i) Credit Risk: As with most mortgage investment corporations, the Company provides financings to borrowers who may not meet financing criteria for conventional mortgages from institutional sources and, as a result, these investments generally earn a higher rate of return than what institutional lenders may receive. Credit risk is the risk that the mortgagor will fail to discharge the obligation causing the Company to incur a financial loss. The Company minimizes its credit risk primarily by ensuring that the collateral value of the security fully protects both first and second mortgage advances, that there is a viable exit strategy for each loan, and that loans are made to experienced developers and owners. In addition, the Company limits concentration of risk by diversifying its mortgage portfolio by way of location, property type, maximum loan amount on anyone property and maximum loan amount to any one borrower or connection.

(ii) Liquidity Risk: Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company attempts to hedge this liquidity risk by maintaining a line of credit (refer to Item 2 above) and managing Preferred Shares (refer to Item 5 above). Successful utilization of leverage, as contemplated by any bank line of credit or other financing depends on the Company's ability to borrow funds from outside sources and to use those funds to make loans and other investments at rates of return in excess of the cost to the Company of the borrowed funds. Leverage increases exposure to loss. The Company controls liquidity risks through cash flow projections used to forecast funding requirements on mortgage proposals and includes anticipated redemption of Preferred Shares. The Company commits to mortgage investments only on an assured cash availability basis.

(iii) Mortgage Insurance: The Company's Mortgage Loans will not usually be insured by CMHC or any other mortgage insurer in whole or in part.

(iv) Property Insurance: The insurance coverage on the property may be inadequate, expire or be cancelled and may expose the investor to potential loss of investment.

(v) Decline in Property Value: The Company's Mortgage Loans will be secured by real estate. All real estate investments are subject to elements of risk. Real property value is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants, competition from other available properties and other factors. While independent appraisals are required before the Company may make any mortgage investments, the appraised values provided therein, even where reported on an "as is" basis, are not necessarily reflective of the market value of the underlying real property, which may fluctuate.

(vi) Default: In case of default on a mortgage, it may be necessary for the Company, in order to protect the investment, to engage in foreclosure or sale proceedings and to make further outlays to complete an unfinished project or to maintain prior encumbrances in good standing.

(vii) Impaired Loans: The Company may from time to time have one or more impaired loans in its portfolio, particulars of which can be obtained by contacting the Company. The Company defines loans as being impaired where full recovery is considered in doubt based on a current evaluation of the security held and for which write-downs have been taken or specific loss provisions established. As at the date of this Offering Memorandum, there are two (2) Loans considered to be impaired, for an aggregate of $775,315 representing 4.31% of the Company's Loan portfolio.

(viii) Priority: Financial charges funded by first mortgage lenders may in some cases rank in priority to the mortgages registered in favour of the Company. In the event of default by the mortgagor under any prior financial charge, the Company may be required to arrange a new first mortgage or pay out same, in order to avoid adverse financial implications.

In recognition of the risks which may be involved in the Company's investments, the Company will establish reserves against potential losses in such amounts as are anticipated to be deductible for income tax purposes under the Tax Act as determined in consultation with the Company's auditors.

**Competition**

The ability of the Company to make investments in mortgages in accordance with its investment policies will depend upon the availability of suitable investments and the amount of mortgages available. The Company will be competing for investments with individuals, corporations and institutions (both Canadian and foreign) which are seeking or may seek investments similar to those desired by the Company. Many of these investors will have greater financial resources than those of the Company, or operate without the investment or operating restrictions of the Company or according to more flexible conditions. An increase in the availability of investment funds and an increase in interest in such investments may increase competition for those investments, thereby increasing purchase prices and reducing the yield on the investments.

**Prospectus Exemption**

The Preferred Share Offering is being made pursuant to exemptions from the prospectus and registration requirements of applicable securities legislation (the "Exemptions"). As a consequence of acquiring the Preferred Shares offered hereby pursuant to such Exemptions and the fact that no prospectus has or is required to be filed with respect to any of the Preferred Shares offered hereby under applicable securities legislation in Canada: (i) you will be restricted from using certain of the civil remedies available under applicable securities legislation; (ii) certain protections, rights and remedies provided in such legislation will not be available to you; (iii) you may not receive information that might otherwise be required to be provided to you under such legislation; and (iv) the Company is relieved from certain obligations that would otherwise apply under such legislation.

**Marketability**

There is no market for resale of the Preferred Shares as they are not traded on any stock exchange, consequently it may be difficult or even impossible for investors to sell them. In addition, the Preferred Shares may not be readily acceptable as collateral for loans.

There are restrictions on resale of the Preferred Shares by investors. Such restrictions on resale may never expire and investors should consult with their professional advisors in respect of resale of the Preferred Shares. See Item 10 - "*Resale Restrictions*" in this regard.

The Company does not presently intend to qualify its securities for sale to the public by way of prospectus.

**Reliance on BC Instrument 32-517**

The Preferred Shares may be sold by the Company pursuant to the dealer registration exemption contained in BCI 32-517 which provides limited relief from the requirements to register as an Exempt Market Dealer for trades in a security in connection with a prospectus-exempt distribution provided that the Company, as dealer, meets the requirements of BCI 32-517. The Company's ability to sell the Preferred Shares as an unregistered dealer without registering is dependent upon the Company's continued ability to rely on BCI 32-517. Should the Canadian Securities Administrators or the British Columbia Securities Commission order that an unregistered dealer and/or its representatives cannot rely on BCI 32-517, the Company and its representatives may be required to be registered to sell the Preferred Shares and may be prohibited from continuing any sales of Preferred Shares until registered.

**The Preferred Shares are not Insured**

The Company is not a member institution of the Canada Deposit Insurance Corporation and the Preferred Shares offered pursuant to this Offering Memorandum are not insured against loss through the Canada Deposit Insurance Corporation. The Preferred Shares are redeemable at the option of the holder, but only under certain circumstances and due to the illiquid nature of mortgage lending, the Company may not be in a position to redeem the shares when requested by a Preferred Shareholder.

**Absence of Voting Rights**

The Preferred Shares being sold under this Offering do not carry voting rights, and consequently a Subscriber's investment in Preferred Shares does not carry with it any right to take part in the control or management of the Company's business, including the election of directors.

In assessing the risks and rewards of an investment in the Preferred Shares, potential Subscribers should appreciate that they are relying solely on the good faith, judgment and ability of the directors, officers and employees of the Company to make appropriate decisions with respect to the management of the Company, and that they will be bound by the decisions of the Company's directors, officers and employees. It would be inappropriate for Subscribers unwilling to rely on these individuals to this extent to purchase the Preferred Shares under this Offering.

**Dilution**

The number of Preferred Shares the Company is authorized to issue is unlimited and the Directors have the sole discretion to issue additional Preferred Shares. The proceeds of this offering may not be sufficient to accomplish all of the Company's proposed objectives. In addition to alternate financing sources, the Company may conduct future offerings of Preferred Shares in order to raise the funds required which will result in a dilution of the interests of the Preferred Shareholders in the Company and the income or loss from the Company.

**Less than Full Offering**

There can be no assurance that more than the minimum Offering will be sold. In that case, less than the maximum proceeds will be available to the Company and, consequently, its business development plans and prospects could be adversely affected, since fewer Mortgage Loans will be granted by the Company.

**Reliance on Management**

To the extent that the Company invests in real estate properties, Preferred Shareholders will be relying on the good faith and expertise of the Company and its principals in selecting such investments and negotiating the pricing and other terms of the agreements leading to the acquisition of such investments.

**Nature of Mortgage Backed Investments**

Investments in Mortgages are affected by general economic conditions, local real estate markets, demand for leased premises, fluctuation in occupancy rates and operating expenses, and various other factors. The value of a real estate property may ultimately depend on the credit and financial stability of the tenants. Investments in Mortgages are relatively illiquid. Such illiquidity will tend to limit the Company's ability to change its portfolio promptly in response to changing economic or investment conditions. Investments in Mortgages on residential Real Property projects under development may be riskier than investments in Mortgages on already constructed residential Real Property developments.

**Renewal of Mortgages**

There can be no assurances that any of the Mortgages comprising the Company's Mortgage portfolio from time to time can or will be renewed at the same interest rates and terms, or in the same amounts as are currently in effect. With respect to each Mortgage comprising the Mortgage portfolio, it is possible that the mortgagor, the mortgagee or both, will not elect to renew such mortgage. In addition, if the Mortgages in the Mortgage portfolio are renewed, the principal balance of such renewals, the interest rates and the other terms and conditions of such mortgages will be subject to negotiations between the mortgagors and the mortgagees at the time of renewal.

**Composition of the Mortgage Portfolio**

The composition of the Company's Mortgage portfolio may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in the Mortgage portfolio being less diversified than anticipated. A lack of diversification may result in the Company being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of security, industry or geography.

**Changes in Legislation**

There can be no assurance that income tax laws and government incentive programs relating to the real estate industry will not be changed in a manner which adversely affects the Company or distributions received by its security holders.

**Tax Matters**

The return on the Preferred Shareholder's investment in the Preferred Shares is subject to changes in Canadian federal and provincial tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation of the same. There can be no assurance that tax laws, tax proposals, policies or regulations, or the interpretation thereof, will not be changed in a manner which will fundamentally alter the tax consequences to Preferred Shareholders acquiring, holding or disposing of Preferred Shares.

If, for any reason, the Company fails to maintain its qualification as a mortgage investment corporation under the Tax Act, dividends paid by the Company on the Preferred Shares will cease to be deductible from the Company's income and the Preferred Shares may cease to be qualified investments for Deferred Plans. See Item 6 "*Income Tax Considerations and RRSP / TFSA Eligibility*".

For all of the aforesaid reasons and others set forth and not set forth herein, the Preferred Shares involve a certain degree of risk. Any person considering the purchase of the Preferred Shares should be aware of these and other factors set forth in this Offering Memorandum and should consult with his/her legal, tax and financial advisors prior to making an investment in the Preferred Shares. The Preferred Shares should only be purchased by persons who can afford to lose all of their total investment.

**Conflict of Interest**

The Administrator and the Company are related entities and negotiations between them have not been and will not be, conducted at arm's length. Therefore, the Company will be subject to various conflicts of interest arising from its relationship with the Administrator, affiliates of the Administrator, and the officers and directors thereof. In addition, there may be situations where the interests of the Company or its shareholders conflict with the interests of the officers and directors of the Administrator. The risk exists that such conflicts will not be resolved in the best interests of the Company and its shareholders. However, in accordance with the Administrative and Services Agreement the Administrator is bound by its duty to deal honestly and in good faith.

The Directors of the Company and the Administrator may be employed by or act in other capacities for other companies involved in mortgage and lending activities.

**Potential Liability under Environmental Protection Legislation**

Environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, as the owner of real estate properties the Company could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on, from or in one or more of the properties. The failure to remove or remediate such substances, if any, may adversely affect the Company's ability to sell such a property or to borrow using a property as collateral.

## ITEM 9 - REPORTING OBLIGATIONS

### 9.1 Documents Provided to Shareholders Annually

The Company is not a "reporting issuer" as such term is defined in applicable securities legislation and accordingly is not subject to most of the continuous disclosure reporting obligations imposed on reporting issuers by securities legislation in British Columbia. In accordance with requirements of the *Business Corporations Act* (British Columbia), the Company is required to place audited financial statements before its shareholders at each annual general meeting and to deposit copies for inspection in its corporate records maintained at its records office which are available for inspection by any shareholders during normal business hours.

### 9.2 Sources of Information About the Company

Information about the Company's incorporation, amendments to its documents, Directors, officers, annual corporate filings and other corporate information can be obtained from the British Columbia Registrar of Companies, 2nd Floor – 940 Blanshard Street, (PO Box 9431 Stn. Pvo. Govt.) Victoria, British Columbia V3W 9V3 (Telephone: 250.356.8658; Facsimile: 250.356.9422.)

## ITEM 10 - RESALE RESTRICTIONS

### 10.1 General

These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under applicable securities legislation.

### 10.2 Restricted Period

Unless permitted under securities legislation, you cannot trade the securities before the date that is four months and a day after the date the Company becomes a reporting issuer in any province or territory of Canada.

After such period, the Preferred Shares may be transferable, subject to restrictions on transfer required in order to comply with certain provisions of the Tax Act. Section 130.1(6)(d) of the Tax Act stipulates that a mortgage investment corporation may not have fewer than 20 shareholders and no one shareholder may hold more than 25% of the issued and outstanding shares of any class of the Company's capital. Accordingly, the Articles of the Company provide that the Directors of the Company may prohibit the transfer of shares in any case where as a result of the transfer the Company would no longer meet the requirements of a MIC.

## ITEM 11 - PURCHASER'S RIGHTS

Securities legislation in certain of the Provinces of Canada requires you as a purchaser of securities to be provided with a remedy for rescission or damages, or both, in addition to any other right that a Purchaser may have at law, where this Offering Memorandum and any amendments to it contains a misrepresentation. These remedies must be exercised by a Purchaser within the time limits prescribed by the applicable securities legislation. Purchasers should refer to the applicable provisions of the securities legislation for the complete text of these rights.

**If you purchase these securities you will have certain rights, some of which are described below. For information about your rights, you should consult a lawyer.**

### (a) Two-Day Cancellation Right

You can cancel your agreement to purchase these securities. To do so, you must send a notice to the Company by midnight on the second business day after you sign the agreement to buy the securities.

### (b) Statutory Rights of Action in the Event of a Misrepresentation

#### Rights for Purchasers in British Columbia

Securities legislation in British Columbia provides that if you purchase securities pursuant to this Offering Memorandum, you shall have, in addition to any other rights you may have at law, a right of action for damages or rescission against the Company, every Director of the Company and every person who signs the Offering Memorandum or any amendment thereto in the event that the Offering Memorandum or any amendment thereto contains a misrepresentation. However, such rights must be exercised within prescribed time limits. You should refer to the applicable provisions of the British Columbia securities legislation for particulars of those rights or consult with a lawyer. For these purposes, a "*misrepresentation*" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated, or necessary to prevent a statement that is made from being false or misleading in the circumstances in which it was made. A "*material fact*" means any fact that significantly affects or could reasonably be expected to significantly affect the market price or the value of the Preferred Shares.

The Company will not be liable if it proves that you had knowledge of the misrepresentation. In the case of an action for damages, the Company will not be liable for all or any portion of such damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon, and in no case will the amount recoverable in any action exceed the price at which the Preferred Shares were sold to you.

In British Columbia, no action shall be commenced to enforce a statutory right of action unless the right is exercised:

(a) in the case of rescission, on notice to the Company not later than 180 days from the day of the transaction that gave rise to the cause of action, or

(b) in the case of damages, on notice given to the Company not later than:

(i) 180 days from the day you first had knowledge of the facts giving rise to the cause of action; or

(ii) three years from the day of the transaction that gave rise to the cause of action.

The rights of action for rescission or damages are in addition to and without derogation from any other right you may have at law.

Reference is made to the *Securities Act* (British Columbia) for the complete text of the provisions under which these rights are conferred and this summary is subject to the express provisions of the *Securities Act* (British Columbia). You should refer to the applicable provisions of the British Columbia securities legislation, as applicable, for particulars of your rights or consult with a lawyer.

**ITEM 12 - FINANCIAL STATEMENTS**

Audited annual financial statements as at December 31, 2014 as well as the unaudited interim financial statements for the three months ended March 31, 2015 are attached.

Certificate of the Company

Dated this 24th day of June, 2015.

**This Offering Memorandum does not contain a misrepresentation.**

Per: *" Gordon Hone"*

GORDON HONE, President & Director

Per: *"Karin Schmidtke"*

KARIN SCHMIDTKE, Secretary

**ON BEHALF OF THE BOARD OF DIRECTORS**

Per: *"Gordon Hone"*

GORDON HONE, President & Director

Per: *"Heinz Hone"*

HEINZ HONE, Director

Per: *"E. Joan Peacock"*

E. JOAN PEACOCK, Director

Per: *"Lance Felgar"*

LANCE FELGNAR, Director

Per: *"Edward Monteiro"*

EDWARD MONTEIRO, Director

Per: *"Andrew Danneffel"*

ANDREW DANNEFFEL, Director

Per: *"Thomas Dinsley"*

THOMAS DINSLEY, Director

Per: *"Patricia Milewski"*

PATRICIA MILEWSKI, Director

**Schedule "A" to**
**Offering Memorandum of**
**ARMADA MORTGAGE CORPORATION**
Dated June 24, 2015

**RISK ACKNOWLEDGEMENT**
**Form 45-106F4**

**Risk Acknowledgement**

- I acknowledge that this is a risky investment.
- I am investing entirely at my own risk.
- No securities regulatory authority or regulator has evaluated or endorsed the merits of these securities or the disclosure in the offering memorandum.
- The person selling me these securities is not registered with a securities regulatory authority or regulator and has no duty to tell me whether this investment is suitable for me.
- I will not be able to sell these securities except in very limited circumstances. I may never be able to sell these securities.
- These securities are redeemable, but I may only be able to redeem them in limited circumstances.
- I could lose all the money I invest.

I am investing $______________________ [total consideration] in total; this includes any amount I am obliged to pay in future.

**ARMADA MORTGAGE CORPORATION** will pay $_____________ of this to __________________ as a fee or commission.

**I acknowledge that this is a risky investment and that I could lose all the money I invest.**

| | |
|---|---|
| ______________________________ | ______________________________ |
| Date | Signature of Purchaser |
| | ______________________________ |
| | Print name of Purchaser |

**Sign 2 copies of this document. Keep one copy for your records.**

WARNING

**You have 2 business days to cancel your purchase**

To do so, send a notice to **Armada Mortgage Corporation** stating that you want to cancel your purchase. You must send the notice before midnight on the 2nd business day after you sign the agreement to purchase the securities. You can send the notice by fax or email or deliver it in person to **Armada Mortgage Corporation** at its business address. Keep a copy of the notice for your records.

**ARMADA MORTGAGE CORPORATION'S ADDRESS:**
11951 – 224th Street
Maple Ridge, BC V2X 6B2
Email: sales@armadamortgage.com
Telephone: (604) 467-6449
Fax: (604) 467-6409

# Armada Mortgage Corp.
## Financial Statements
*December 31, 2014*

## Contents

*For the year ended December 31, 2014*

## 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) |

| | *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** |

# 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.

# Armada Mortgage Corp.
## Financial Statements
## (Unaudited)
*First Quarter 2015*
*March 31, 2015*

# Armada Mortgage Corp.
## Condensed Interim Statement of Financial Position
## (Unaudited)

| | *March 31 2015* | *December 31 2014* |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | **1,950** | 1,950 |
| Current portion of mortgage investments *(Note 4)* | **16,849,112** | 17,040,461 |
| | **16,851,062** | 17,042,411 |
| **Liabilities** | | |
| **Current** | | |
| Credit facility *(Note 5)* | **1,416,027** | 1,814,453 |
| Accounts payable and accrued liabilities | **21,510** | 40,889 |
| Dividends payable | **21,350** | 64,739 |
| | **1,458,887** | 1,920,181 |
| Redeemable preferred shares *(Note 6)* | **15,394,818** | 14,994,489 |
| | **16,853,705** | 16,914,670 |
| **Commitments and contingencies** *(Note 12)* | | |
| **Shareholders' Equity (Deficit)** | | |
| **Share capital** | | |
| Common shares *(Note 7)* | **98** | 98 |
| **Retained earnings (deficit)** | **(2,741)** | 127,643 |
| | **(2,643)** | 127,741 |
| | **16,851,062** | 17,042,411 |

**Approved on behalf of the Board**

*"Edward Monteiro"*
**Director**

*"Patricia Milewski"*
**Director**

*The accompanying notes are an integral part of these financial statements*

# Armada Mortgage Corp.
## Condensed Interim Statement of Income (Loss) and Comprehensive Income (Loss) (Unaudited)

| | ***3 Months Ended March 31 2015*** | *3 Months Ended March 31 2014* |
|---|---|---|
| **Revenue** | | |
| Mortgage interest | **258,235** | 246,621 |
| Lender fees | **45,948** | 21,573 |
| Other fees | **8,550** | 10,325 |
| | **312,733** | 278,519 |
| **Expenses** | | |
| Advertising and promotion | **2,463** | 2,928 |
| Bank charges and interest | **10,990** | 1,327 |
| Insurance, licenses and dues | **450** | - |
| Legal fees | **1,361** | 966 |
| Management fees *(Note 9)* | **40,208** | 38,658 |
| Office | **400** | 368 |
| | **55,872** | 44,247 |
| **Net investment income before other items** | **256,861** | 234,272 |
| **Other items** | | |
| Bad debts | **-** | (8,267) |
| **Net income before dividend expense** | **256,861** | 226,005 |
| **Dividends** | **(387,245)** | (148,601) |
| **Income (loss) and comprehensive income (loss)** | **(130,384)** | 77,404 |

*The accompanying notes are an integral part of these financial statements*

# Armada Mortgage Corp.
## Condensed Interim Statement of Changes in Equity
## (Unaudited)

| | *Share capital* | *Retained earnings* | *Total equity* |
|---|---|---|---|
| **Balance December 31, 2013** | **101** | **(23,391)** | **(23,290)** |
| Income and comprehensive income | **-** | **77,403** | **77,403** |
| **Balance March 31, 2014** | **101** | **54,012** | **54,112** |
| Income and comprehensive income | **-** | **73,631** | **73,631** |
| Redemption of share capital | **(3)** | **-** | **(3)** |
| **Balance December 31, 2014** | **98** | **127,643** | **127,741** |
| Loss and comprehensive loss | **-** | **(130,384)** | **(130,384)** |
| **Balance March 31, 2015** | **98** | **(2,741)** | **(2,643)** |

*The accompanying notes are an integral part of these financial statements*

# Armada Mortgage Corp.
## Condensed Interim Statement of Cash Flows
## (Unaudited)

| | Three months ended March 31 | |
|---|---|---|
| | ***2015*** | *2014* |
| **Cash provided by (used for) the following activities** | | |
| **Operating activities** | | |
| Income (loss) and comprehensive income (loss) | **(130,384)** | 77,404 |
| Accounts payable and accrued liabilities | **(19,481)** | (19,964) |
| **Cash from operations** | **(149,865)** | 57,440 |
| **Financing activities** | | |
| Borrowings from credit facility | **1,540,000** | 550,000 |
| Repayments of credit facility | **(1,938,426)** | (261,736) |
| Issuance of redeemable preferred shares | **500,331** | 106,735 |
| Redemption of redeemable preferred shares | **(100,000)** | (179,220) |
| Dividends payable | **(43,388)** | (69,894) |
| | **(41,483)** | 145,885 |
| **Investing activities** | | |
| Advances of mortgage investments | **(2,210,629)** | (1,298,996) |
| Repayments of mortgage investments | **2,401,977** | 1,146,671 |
| | **191,348** | (152,325) |
| **Increase in cash and cash equivalents** | **-** | 51,000 |
| **Cash and cash equivalents, beginning of period** | **1,950** | - |
| **Cash and cash equivalents, end of period** | **1,950** | 51,000 |
| **Supplementary cash flow information** | | |
| Interest paid | **716** | 5,665 |

*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 address of the company's registered head office and principal place of business is 11951 224 St, Maple Ridge, BC V2X 6B2.

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.

## 2. Basis of presentation

***Statement of compliance***

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and follow International Accounting Standard 34 Interim Financial Reporting (IAS 34) as issued by the International Accounting Standards Board (IASB) as set out in Part I of the CPA Canada Handbook – Accounting. These interim financial statements should be read in conjunction with the company's audited financial statements for the year ended December 31, 2014.

Significant accounting policies have been consistently applied in the preparation of these interim financial statements, which were authorized for issuance by the board of directors on June 24, 2015.

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

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

***Use of estimates and judgments****:*
The preparation of interim financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements 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. The most subjective of these estimates relates to the valuation of mortgages investments, which is affected primarily by the provision for mortgage losses which is determined by management's estimate as to the required general and specific provisions. Management believes that its estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

## 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.

***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.

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

***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.

***Standards issued but not yet effective***

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods, most of which do not apply to the company; one that is applicable is summarized below. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

***IFRS 9 Financial instruments***

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 *Financial instruments: recognition and measurement*. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Company has not yet determined the impact of the standard on its financial statements.

## 4. Mortgage investments

Mortgage investments consist of the following:

| | ***March 31, 2015*** | *December 31 2014* |
|---|---|---|
| Mortgage principal receivable | **16,959,058** | 17,158,627 |
| Accrued interest receivable | **101,255** | 93,035 |
| Unamortized lender fees | **(57,479)** | (57,479) |
| Provision for mortgage investment loss | **(153,722)** | (153,722) |
| | **16,849,112** | 17,040,461 |
| Less: current mortgage investments | (16,849,112) | (17,040,461) |
| Long-term mortgage investments | - | - |

Mortgage investments bear interest at a weighted average rate of 8.04% (Decembers 31, 2014: 8.04%) 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.

**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.

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. Credit facility

| | ***March 31 2015*** | *December 31 2014* |
|---|---|---|
| TD Chequing Account | **246,027** | 4,453 |
| TD Revolving Line of Credit | **1,170,000** | 1,810,000 |
| | **1,416,027** | 1,814,453 |

The Company has a $5,000,000 revolving line of credit of which $1,170,000 (December 31, 2014: $1,810,000) was drawn upon as at March 31, 2015. The credit facility is secured by a lien over all of the company’s assets by means of a general security agreement. The amount that may be drawn down under the credit facility is determined by the aggregate value of mortgages that are acceptable to the lender. Under the terms of the credit facility, covenants must be met in respect of debt to tangible net worth and interest coverage. At March 31, 2015 and December 31, 2014, the company was in compliance with these covenants.

## 6. 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:

| | ***3 Months Ended*** | |
|---|---|---|
| | ***March 31 2015*** | *March 31 2014* |
| Balance, beginning of the period | **14,994,489** | 14,829,666 |
| Redemption of shares | **(100,000)** | (179,220) |
| Issuance of shares | **500,331** | 106,735 |
| Balance, end of the period | **15,394,820** | 14,757,181 |

## 7. Common shares

### Issued and authorized capital

At March 31, 2015, 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 March 31, 2015 amounted to $98 (December 31, 2014: $98).

## 8. Net Income (Loss) per Share

The Company has not disclosed net income (loss) per share as the Company does not have equity instruments as defined in IAS 33.

**9. Related Party Transactions**

Included in expenses for the three months ended March 31, 2015 are management fees in the amount of $40,208 (three months ended March 31, 2014 - $38,658) 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.

**10. 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 March 31, 2015, 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 March 31, 2015, the Company was in compliance with all financial covenants.

**11. 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***

IThe company is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its operating line and indebtedness being set at a variable rate but all mortgages being set at fixed rates. The financial structure of the company results in relatively moderate interest rate risk because most of the company's financing is through preferred shares, with a moderate amount of borrowings under the credit facility that bear floating interest rates.

## 11. Risk management *(Continued from previous page)*

***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.

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.

## 12. 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.

## 13. 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 |
|---|---|
| Simple average rate of return to investors | 5.82% |

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