PrimeWest

Mortgage Investment Corporation

FINANCIAL STATEMENTS

DECEMBER 31, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
PrimeWest Mortgage Investment Corporation

We have audited the accompanying financial statements of PrimeWest Mortgage Investment Corporation, which comprise the statements of net assets as at December 31, 2013 and 2012, the statement of investment portfolio as at December 31, 2013, the statements of operations and retained earnings, changes in net assets and of cash flows for the years then ended, and a summary of significant accounts policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of PrimeWest Mortgage Investment Corporation as at December 31, 2013 and 2012, the statement of investment portfolio as at December 31, 2013 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

SASKATOON, SASKATCHEWAN

March 20, 2014

Chartered Accountants

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

DECEMBER 31, 2013

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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF NET ASSETS
DECEMBER 31, 2013

	2013	2012
ASSETS		
Cash	$ 69,085	$ 1,079,464
Loan receivable (Note 5)	10,800	10,800
Prepaid expenses	31,382	52,299
Mortgages receivable (Note 6)	21,407,051	25,283,207
Mortgage interest receivable	173,137	226,663
Property, plant and equipment (Note 7)	21,793	17,630
Assets taken in settlement of debt (Note 8)	780,500	718,800
	$ 22,493,748	**$ 27,388,863**
LIABILITIES		
Demand loan (Note 9)	$ 2,281,782	$ 5,759,091
Accounts payable and accrued liabilities	138,319	183,214
Due to related parties (Note 10)	-	1,500,000
Unearned revenue	479,204	504,917
	2,899,305	**7,947,222**
Commitments and contingencies (Note 11)		
NET ASSETS		
Share capital (Note 12)	17,617,162	17,617,162
Retained earnings (Note 13)	1,977,281	1,824,479
	19,594,443	**19,441,641**
	$ 22,493,748	**$ 27,388,863**
Shares outstanding (Note 12)	**2,095,305**	**2,095,305**
Net assets per share	**$ 9.35**	**$ 9.28**

Approved on behalf of the Board of Directors

_________________ Director _________________ Director

(see accompanying notes)

PrimeWest
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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF OPERATIONS AND RETAINED EARNINGS
DECEMBER 31, 2013

	2013	2012
Income		
Mortgage interest	$ 2,150,669	$ 2,472,020
Fees	978,479	1,297,584
	3,129,148	**3,769,604**
Interest and fees expense		
Interest	146,813	341,207
Fees	18,217	31,915
	165,030	**373,122**
Net interest and fees income	**2,964,118**	**3,396,482**
(Recovery) bad debts and change in provision for mortgage losses (Notes 6)	(23,246)	58,124
(Gain) loss on disposal of assets taken in settlement of debt	(29,845)	95,379
Net interest and fees income after provision for mortgage losses	**3,017,209**	**3,242,979**
Expenses		
Advertising and promotion	35,852	33,963
Amortization	8,503	6,078
Contracted services	39,434	25,252
Directors' fees	117,358	116,400
Insurance	54,788	10,892
Office and administration	130,125	89,024
Professional fees	179,029	132,444
Rent	43,904	41,626
Wages and employee benefits	579,160	590,807
	1,188,153	**1,046,486**
Increase in net assets from operations	**1,829,056**	**2,196,493**
Retained earnings (deficit), beginning of year	1,824,479	(696,323)
Dividends	(1,676,254)	(1,672,308)
Excess of redemption value of shares over stated capital	-	(3,383)
Reduction of stated capital (Note 13)	-	2,000,000
Retained earnings, end of year	**$ 1,977,281**	**$ 1,824,479**
Increase in net assets from operations per share (Note 14)	**$ 0.87**	**$ 1.05**

(see accompanying notes)

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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
DECEMBER 31, 2013

	2013	2012
Net assets, beginning of year	$ 19,441,641	$ 18,850,317
Increase in net assets from operations	1,829,056	2,196,493
Share capital transactions		
Proceeds from issuance of shares	-	120,000
Cost of shares redeemed	-	(52,861)
	-	67,139
Distributions to shareholders		
Dividends to shareholders	(1,676,254)	(1,672,308)
Net assets, end of year	$ 19,594,443	$ 19,441,641

(see accompanying notes)

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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
DECEMBER 31, 2013

	2013	2012
Cash flows from operating activities		
Increase in net assets from operations	$ 1,829,056	$ 2,196,493
Items not affecting cash		
Amortization	8,503	6,078
(Recovery) bad debt and change in provision for mortgage losses	(23,246)	58,124
(Gain) loss on disposal of assets taken in settlement of debt	(29,845)	95,379
Mortgages funded during the year	(13,984,597)	(18,660,998)
Mortgages discharged during the year	16,649,556	16,775,120
Costs incurred to sell asset taken on settlement of debt	(84,317)	(126,174)
Proceeds from disposal of assets taken in settlement of debt	1,286,905	1,299,835
Net changes in non-cash working capital items related to operations:		
Other receivable	-	8,917
Mortgage interest receivable	53,526	(46,927)
Prepaid expenses	20,917	(23,509)
Accounts payable and accrued liabilities	(44,895)	51,368
Unearned revenue	(25,713)	(171,961)
	5,655,850	**1,461,745**
Cash flows used in investing activities		
Purchase of property, plant and equipment	**(12,666)**	**(17,960)**
Cash flows used in financing activities		
Due to related parties	(1,500,000)	1,500,000
Dividends paid	(1,676,254)	(1,672,308)
Proceeds from issuance of shares	-	120,000
Redemption of shares	-	(52,861)
Demand loan	(3,477,309)	(2,153,152)
	(6,653,563)	**(2,258,321)**
Net decrease in cash during the year	**(1,010,379)**	**(814,536)**
Cash, beginning of year	1,079,464	1,894,000
Cash, end of year	**$ 69,085**	**$ 1,079,464**
Supplementary cash flow information		
Interest paid	$ 122,965	$ 333,400

(see accompanying notes)

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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF INVESTMENT PORTFOLIO
DECEMBER 31, 2013

	%	Fair value	Carrying value
Mortgages	**109.3**	**$ 21,407,051**	**$ 21,407,051**
Other net assets	**2.3**		**469,174**
Demand loan	**(11.6)**		**(2,281,782)**
Net assets	**100.0**		**$ 19,594,443**

Distribution of mortgages

Mortgages consist of 65 residential and 6 commercial	Effective interest rates %	Number of mortgages	Amortized cost and fair value
	7 - 8	3	$ 590,252
	8 - 9	3	1,495,861
All mortgages are pre-payable	9 - 10	1	746,154
and uninsured mortgages,	10 - 11	6	1,975,219
with terms to maturity of up to	11 - 12	9	4,198,765
two years	12 - 13	20	5,576,103
	13 - 14	25	3,948,752
	14 - 15	4	2,945,945
Less, allowance for mortgage losses (Note 6)			(70,000)
		71	**$ 21,407,051**

Residential mortgages contain a prepayment option whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance.

(see accompanying notes)

PrimeWest
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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

1. Description of business

PrimeWest Mortgage Investment Corporation (the "Company") was incorporated under The Business Corporations Act of Saskatchewan on March 22, 2005 and commenced operations in October 2005. The Company operates as a Mortgage Investment Corporation (MIC) as defined in the Income Tax Act.

The Company lends on security of mortgages on real properties situated in the Province of Saskatchewan, Alberta, Manitoba and British Columbia. The mortgages transacted by the Company do not generally meet the underwriting criteria of conventional lenders. As a result the investments are subject to greater risk and accordingly earn a higher rate of interest than is generally obtainable through conventional mortgage lending activities. MIC lending securities regulations allow MIC lenders to provide mortgages up to 95% of loan to value however the Company restricts lending to a maximum of 85%.

2. Significant accounting policies

These financial statements have been prepared in accordance with Part V of Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Basis of presentation

The Company is an investment company, as defined in Canadian generally accepted accounting principles Accounting Guideline 18, Investment Companies. As a result, the mortgage investments are recorded at fair value, with any changes in the fair value recorded in the Statement of Operations and Retained Earnings.

Financial instruments

The Company recognizes and measures financial assets and financial liabilities when they become a party to the contractual provisions of a financial instrument. All transactions are recorded on a settlement date basis and are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, loans and receivables, or other financial liabilities.

Held for trading

Financial instruments held for trading are recognized initially at fair value. Financial instruments held for trading are subsequently measured at fair value and gains and losses arising from changes in fair value of these instruments are recorded in the statement of operations and retained earnings. The Company does not have any financial instruments classified as held for trading.

PrimeWest
Mortgage Investment Corporation

2. Significant accounting policies (continued)

Loans and receivables

Mortgages receivable are initially measured at fair value plus incremental direct transaction costs. Mortgages receivable are subsequently re-measured at their amortized cost, net of allowance for credit losses, using the effective interest method which approximates fair value.

A mortgage receivable is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Impairment is assessed monthly, on a mortgage-by-mortgage basis and specific allowances are recorded if management determines that the mortgage receivable is impaired. When a mortgage receivable is classified as impaired, accrual of interest on the receivable ceases and the carrying amount of the receivable is reduced to its estimated realizable amount. The adjustment is recorded in the statement of operations. Estimated realizable amounts are measured by discounting the expected future cash flows, if they can be reasonably estimated, using the effective interest rate inherent in the receivable. When the amounts and timing of cash flows cannot be reasonably estimated, the carrying amount of the receivable is reduced to its estimated net realizable value based on the fair value of any security underlying the receivable, net of expected costs of realization.

As long as the receivable remains classified as impaired, payments received will be credited to the carrying value of the receivable. A mortgage receivable will be returned to accrual status only when the timely collection of both principal and interest is reasonably assured and all arrears payments of principal and interest are brought current.

Other financial liabilities

Other financial liabilities are non-derivative financial liabilities. The demand loan and accounts payable and accrued liabilities are initially recognized at fair value net of directly attributable transaction costs. The fair value of other financial liabilities approximates the carrying value.

Allowance for mortgage losses

The Company maintains specific allowances for mortgage losses which, in management's opinion, are adequate to absorb all mortgage related losses in its portfolio. The Company records allowances for mortgage losses to reduce mortgage receivable carrying values to their estimated realizable amounts. Specific provisions against specific mortgage exposures are determined on a mortgage-by-mortgage basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized over three years using the straight-line method.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

2. Significant accounting policies (continued)

Assets taken as settlement of debt

Assets taken as settlement of debt are recorded at fair market value. Fair market value is determined as the value of the asset taken in settlement, less the estimated cost to sell the asset.

Unearned revenue

Unearned revenue includes fees received from borrowers that are amortized over the contractual terms of the mortgage to fee income.

Income taxes

The Company is a Mortgage Investment Corporation ("MIC") as defined in the Income Tax Act. Therefore, the Company is able to deduct, in computing taxable income, dividends paid to its shareholders during the year or within 90 days after year end. The Company intends to continue maintaining its status as a MIC and pay dividends to its shareholders to ensure it will not be subject to income taxes. Therefore, for financial statement reporting purposes, the tax deductibility of the Company's distributions result in the Company being effectively exempt from taxation and no provision for current or future income taxes is required for the Company.

Revenue recognition

Mortgage interest income is accounted for using the effective interest method. Fee income received is amortized into income over the term of the specific mortgage. Other income is recorded as services are provided.

Share issue costs

Share issue costs include legal and accounting fees and brokerage commissions. These costs are charged against share capital in the year of share issuance. Costs incurred for shares that have not been issued at year end are deferred until such time as the related shares are issued.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amount of revenues and expenses during the reporting year, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates, which are subject to measurement uncertainty, include the determination of mortgage impairment, the allowance for mortgage losses, assets taken in settlement of debt fair value and the determination of mortgage fair value. Financial results as determined by actual events could differ from those estimates and assumptions and the difference could be material.

2. Significant accounting policies (continued)

Increase in net assets from operations per share

Increase in net assets from operations per share are computed by dividing increase in net assets from operations for the year by the weighted average number of shares outstanding during the year. Diluted increase in net assets from operations per share are computed similarly to basic increase in net assets from operations per share, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed conversion of the convertible debentures, if dilutive, and net earnings are adjusted to remove any interest paid to the holders of the convertible debentures. The number of additional shares is calculated by assuming that the outstanding convertible debentures were exercised at the earlier of issue date and the beginning of the fiscal year, and that the proceeds from such conversions were used to acquire shares at the average market price during the year. There were no convertible debentures in 2013 or 2012.

Recently issued standards

International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises. However, in December 2010 the AcSB announced that qualifying investment companies are granted a deferral of adoption of IFRS to annual periods beginning on or after January 1, 2014. Pursuant to a special meeting of shareholders held November 27, 2013, the Company approved transition from an investment fund to a reporting issuer effective January 1, 2014. For the Company, financial statements, including comparative information, for annual and interim periods beginning on or after January 1, 2014 will be prepared in accordance with IFRS, with restatement of the 2013 comparative information.

Management is required to provide progress updates on the entity's IFRS changeover plan at each interim and annual reporting period up until the changeover date. An external advisor has been engaged by the Company to assist with the development of the implementation plan and to perform a detailed review of major differences between Canadian GAAP and IFRS.

The Company has developed a changeover plan to adopt IFRS on January 1, 2014. The key elements of the plan have included assessing the impact of adopting IFRS and taking preparatory action for transition. The key elements identified and addressed included:

- Accounting policies– assessed through a diagnostic review of the Company's financial statements, and identification of key potential impact areas, beginning in 2010, until the changeover date. Standards related to areas of potential impact were reviewed in detail, and policy position papers developed on the specific topics, for review and concurrence by management, the Audit Committee, and the external auditor. The process has determined that no significant changes to accounting policies are required but minor changes were identified.

2. Significant accounting policies (continued)

International Financial Reporting Standards *(continued)*

- Internal controls over financial reporting – assessed throughout the project, as it relates to specific topics and policy positions. No significant changes were identified.
- Disclosure controls and procedures – assessed throughout the project, as it relates to specific topics and policy positions. It has been determined that additional disclosure requirements, as well as the systems and processes to gather such information, will be extensive for 2014 forward.
- Data system requirements – assessed throughout the project, as it relates to specific topics and policy positions. It has been determined that data system changes are not significant for the Company's core systems for processing of accounting transactions, but additional systems and processes will be required in certain areas to meet the extensive disclosure requirements.
- Business activities as well as matters that may be influenced by Canadian GAAP measures (such as debt covenants, capital requirements, key performance indicators, and compensation arrangements) were assessed throughout the project, based on the quantitative effects of IFRS requirements and policy choices. As the total effects of IFRS on the Company's financial position have been determined to be minimal, the quantitative effects have also been determined to be insignificant. However, potential future business activities such as mergers and acquisitions may have more significant impacts.

Upon transition to IFRS, IFRS 1 First-time Adoption of International Financial Reporting Standards provides exemptions from full or partial retrospective application of certain IFRSs if management of the Company elects to use such exemptions. In addition, IFRS 1 details mandatory exceptions to retrospective application of certain standards. The following are transitional arrangements, as permitted by IFRS 1 on changeover to IFRS, which management has elected to adopt:

<u>Exemptions:</u>

- The Company has elected not to apply IFRS 2 Share-based Payments to equity instruments granted on or before November 7, 2002 or that were granted after November 7, 2002 but vested before the date of transition and liabilities arising from cash-settled share-based payment transactions if those liabilities were settled before January 1, 2005 or before the date of transition.
- The Company has elected to determine whether certain arrangements contain a lease based on facts and circumstances that existed at the date of transition.

2. Significant accounting policies (continued)
***International Financial Reporting Standards** (continued)*

Exceptions:

- Estimates made in accordance with IFRSs at the date of transition are consistent with estimates made in accordance with Canadian GAAP on the same date, unless there is objective evidence exists that indicates that those estimates were in error. Any estimates made at January 1, 2013 that were not required under Canadian GAAP reflect conditions that existed at that date
- The Company has not recognized any financial assets or financial liabilities under IFRS that were derecognized under Canadian GAAP unless they qualify for recognition as a result of a later transaction or event.

Effects of IFRS on the Statement of Net Assets - The Company has determined there are no quantifiable differences between the statement of net assets under Canadian GAAP and statement of net assets under IFRS as at January 1, 2013 or December 31, 2013.

Effects of IFRS on the Statement of Operations and Retained Earnings - The Company has determined there is no expected impact of adopting IFRS on the statement of operations and retained earnings for the year ended December 31, 2013.

Effects of IFRS on the Cash Flow Statement - The Company has determined there is no expected impact of adopting IFRS on the statement of cash flows for the year ended December 31, 2013.

Effects of IFRS on Required Financial Statement Disclosures - As identified, the disclosure requirements under IFRS will be extensive. Increased granularity and new information requirements are expected to have the most significant effect in the following areas:

- Related party transactions;
- Property, plant and equipment; and
- Leases.

Currently, the International Accounting Standards Board (IASB) has one standard issued but not yet effective that could have a significant impact on the Company's financial position, results and cash flows upon initial adoption of IFRS. These potential changes and impacts have been disclosed below.

Financial instruments: amortized cost and impairment – IFRS 9 Financial Instruments as issued by the IASB in October 2010 incorporates Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7) to replace the corresponding requirements in IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9. The new standard effective January 1, 2015 will replace the incurred loss model currently used to recognize and measure impairment of financial assets with an expected loss model that would recognize impairment sooner. The Company has yet to determine the impact of this change

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3. Capital structure financial policies

The Company's objectives when managing capital are to (i) maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner which balances the interests of equity and debt holders.

Pursuant to the Company's credit agreement (Note 9) it is required to meet certain financial covenants. At December 31, 2013 the Company was in compliance with all financial covenants.

The Company's definition of capital includes net assets. Capital is monitored for any of these items if applicable.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and issue new debt to replace existing debt.

The Company monitors capital using the following measures:

	2013	2012
Net interest and fees income after provision for mortgage losses	$ 3,017,209	$ 3,242,979
Net interest margin	96.4%	86.0%
Dividend payout ratio	91.6%	76.1%
Net assets	$ 19,594,443	$ 19,441,641
Net available cash		
As a percentage of net assets	24.1%	24.0%
Net debt to increase in net assets from operations	2	4
Debt to capital ratio	14.8%	40.9%
Average portfolio yield	11.8%	11.5%
Turnover ratio	76.5%	72.0%

The Company is in line with its capital strategy that has remained unchanged from the prior year.

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4. Cash held in trust

These trust amounts represent a portion of mortgage funds held back for the purpose of making monthly payments on the related outstanding mortgage receivable. During the year, the Company acted as a joint account holder for these funds. The use of trust cash is restricted for use to pay down the related mortgage receivable and cannot be used in the operations of the company.

	2013	2012
Cash held in trust	$ 1,026,082	$ 525,228
Trust fund liability	(1,026,082)	(525,228)
	$ -	$ -

5. Loan receivable

The loan receivable relates to a loan to a past director to acquire shares of the Company. This loan is non-interest bearing, due on demand and is secured by Company shares held in trust. On demand, this loan bears interest at prime plus 2%.

6. Mortgages receivable

	2013	2012
Portfolio of 71 (2012 - 121) mortgages bearing interest at fixed rates from 7.0% to 15.0%, maturities ranging from January 2014 to May 2015, secured by real property to which they relate and by additional security in certain circumstances	$ 21,477,051	$ 25,584,535
Allowance for mortgage losses	(70,000)	(301,328)
Balance, end of year	**$ 21,407,051**	**$ 25,283,207**

Maturities and yields: 2013	Less than 3 months	3 to 12 months	12 to 24 months	Total
Total loans	$ 9,398,292	$ 11,056,916	$ 951,843	$ 21,407,051
Effective interest yield	11.0%	12.3%	13.4%	11.8%

2012	Less than 3 months	3 to 12 months	12 to 24 months	Total
Total loans	$ 13,364,482	$ 11,334,493	$ 584,232	$ 25,283,207
Effective interest yield	11.3%	11.7%	12.9%	11.5%

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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7. Property, plant and equipment

	2013			2012
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	$ 89,213	$ 67,420	$ 21,793	$ 17,630
Furniture and equipment	15,197	15,197	-	-
	$ 104,410	**$ 82,617**	**$ 21,793**	**$ 17,630**

8. Assets taken in settlement of debt

	2013		2012	
	Properties	Amount	Properties	Amount
Balance, beginning of year	3	$ 718,800	3	$ 796,584
Mortgages settled during the year by taking property	7	1,234,443	5	1,191,256
Costs incurred to sell		84,317		126,174
Properties sold during the year	(6)	(1,286,905)	(5)	(1,299,835)
Realized gain (loss) on sale of property		115,925		(152,719)
Unrealized gain		(86,080)		57,340
Balance, end of year	4	$ 780,500	3	$ 718,800

All of the assets taken on settlement of debt are residential properties.

9. Demand loan

Demand loan consists of an operating line of credit. The margined, demand operating line of credit bears interest at prime plus 1.5%, has an authorized limit which is the lesser of the margin calculation and $15,000,000 and is secured by a general security agreement and an assignment of mortgage debentures. The operating line's margin is calculated using variable percentages of eligible mortgages as set out by the bank. At year end, the maximum margin available was $6,925,924 (2012 - $9,341,880). The credit agreement contains certain financial covenants that must be maintained. The Company must maintain a minimum amount of share capital. As at December 31, 2013 the Company was in compliance with all financial covenants.

	2013	2012
Demand loan	$ 2,286,782	$ 5,759,091
Less deferred financing charges	(5,000)	-
	$ 2,281,782	**$ 5,759,091**

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
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10. Related party transactions

In the prior year the Company obtained financing in the amount of $1,500,000 from a director and companies controlled by a director. The debt carried an interest rate of 12% and was repaid in 2013. Interest on this debt in 2013 totaled $29,260 (2012 - $29,589). In the current year, legal fees of $24,197 (2012 – Nil) was paid to a law firm that a director is a partner in.

11. Commitments and contingencies

As at year end, the Company was committed to funding four (2012 - one) mortgages, for a total of $680,700 (2012 - $347,393). During the year the Company committed to a five year lease for office space expiring May, 2018 with an annual rent commitment of $36,750.

12. Share capital

Authorized an unlimited number of:

Class A voting, common shares, redeemable at the option of the Company and retractable at the option of the holder at $10 per share. If the shareholder requests redemption within the first year of issuance, a redemption penalty of 3% will apply, unless waived by the Board of Directors. The maximum annual redemption is 10% of the issued and outstanding shares at the beginning of the fiscal year. The Company will consider maintaining capital base by transfer of shares in place of redemption.

Class B common shares may, at any time, or from time to time, be issued in one or more series. The Board of Directors, subject to certain limitations, shall determine upon issuance of any Class B shares the number of shares to be issued and the designation, rights, privileges, restrictions and conditions attached to those shares. None of these are defined in the articles of the Company and would therefore be presented to shareholders for approval.

Issued and outstanding	**2013**		**2012**	
	Shares	**Amount**	**Shares**	**Amount**
Balance Class A shares, beginning of the year	2,095,305	$ 17,617,162	2,088,591	$ 19,546,640
Issued during the year				
New shares issued	-	-	12,000	120,000
Redemptions during the year	-	-	(5,286)	(52,861)
Excess of redemption value over book value		-		3,383
Special resolution of the shareholders (Note 12)		-		(2,000,000)
Balance Class A shares at year end	**2,095,305**	**$ 17,617,162**	**2,095,305**	**$ 17,617,162**

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12. Share capital (continued)

The aggregate potential redemption amount of the outstanding Class A shares is $20,953,050 (2012 - $20,953,050). Class A shares represent the residual equity interest of the Company, the redemption feature applies to all the Class A shares, the shares have no preferential rights and the redemption event is the same for all the Class A shares and accordingly are recorded as equity in accordance with Emerging Issues Committee Abstract 149. During 2012, 10,000 shares were issued to a director of the Company at $10.00 per share. This transaction is in the normal course of operations and is measured at the exchange amount, which approximates fair value and is the amount of consideration established and agreed to by the related parties.

13. Retained earnings

During the prior year, the shareholders of the Company passed a special resolution that reduced the stated capital of the Company by an amount of $2,000,000 that was affected by reducing the stated capital account for the common shares by this amount with a corresponding allocation to retained earnings.

14. Increase in net assets from operations per share

Increase in net asset from operations per share has been calculated using the weighted average number of shares outstanding during the year. No shares were redeemed in 2013 and shares redeemed in 2012 were redeemed throughout the fiscal year, resulting in a weighted average number of shares outstanding in the year of 2,095,305 (2012 – 2,094,981), with the total number of shares outstanding at year end of 2,095,305 (2012 – 2,095,305).

		2013		2012
Increase in net assets from operations per share				
Net income available to shareholders	$	1,829,056	$	2,196,493
Weighted average number of common shares		2,095,305		2,094,981
	$	**0.87**	**$**	**1.05**

There were no dilutive instruments outstanding during 2012 or 2013.

15. Financial instruments and risk management

Risk is inherent in the Company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continued profitability. The Company is exposed to credit risk, liquidity risk and interest rate risk.

15. Financial instruments and risk management *(continued)*

Credit risk

Credit risk is defined as the risk that a mortgagor will be unable to fulfill their mortgage commitments. The Company mitigates this risk by having well established lending policies in place. Policies include but are not limited to:

1. All mortgage applications undergo a comprehensive due diligence process adhering to investment restrictions and operating policies development by the Company.
2. Prior to funding, the Company will obtain current appraisals on all properties which secure the loan. The appraisals will be completed by an accredited appraiser approved by the Company.
3. All mortgages are registered as charges against real property, provided that the overall loan to appraised value ratio does not exceed 95% (including prior charges).
4. The initial term of a mortgage cannot exceed 24 months.
5. The Company will not make a mortgage loan, if immediately after the closing of the loan transaction; the amount so lent would be greater than 20% of the Company's net assets.
6. Management actively monitors the mortgage portfolio.

Analysis of maximum exposure to credit and collateral

The maximum exposure to credit risk at December 31, 2013 is the fair value of its mortgage receivables, mortgage interest receivable and loan receivables which total $21,590,988 (2012 - $25,520,670).

To reduce the exposure the Company holds collateral as security on its mortgages. The collateral consists of a charge against real property on each mortgage. At December 31 the fair value of the collateral on the mortgages receivable is in excess of the fair value of the mortgages receivable.

15. Financial instruments and risk management *(continued)*

Credit quality, mortgage types and renegotiated mortgages

The Company`s portfolio consists of both residential and commercial mortgages as follows:

	2013 Mortgages receivable	2012 Mortgages receivable
Residential first mortgages*	$ 11,918,958	$ 15,571,630
Residential second mortgages**	3,357,272	1,134,847
Commercial first mortgages*	3,016,643	8,805,100
Commercial second mortgages**	3,152,343	-
Residential mortgages with no security	31,835	72,958
Provision for mortgage losses	(70,000)	(301,328)
Total mortgage receivables	$ 21,407,051	$ 25,283,207

*First mortgages are loans secured by a first priority mortgage charge with loan to values not exceeding 85%.

**Second mortgages are loans with mortgage charges not registered in first priority with loan to values not exceeding 85%.

The mortgage portfolio consists of mortgages that have been registered 92.3% in Saskatchewan (2012 – 90.3%), 4.3% in Alberta (2012 – 0%), 0% in British Columbia (2012 – 1.4%) and 3.4% in Manitoba (2012 – 8.3%).

Credit quality, mortgage types and renegotiated mortgages *(continued)*

The Company does not internally assign credit quality ratings to its mortgages that are neither past due or impaired. In addition, there is a limited market for such a portfolio of mortgages so standard credit ratings have not been used. However, the Company actively monitors its mortgage portfolio, the quality of the mortgages and any impairment.

Impairments

The Company has determined a provision for impairment based on a review of the mortgage portfolio and historical experience. The Company considers the following factors when assessing for impairment: payments in arrears, and any negative information that comes to the Company's attention relative to the borrower or the property. Impairment allowances are reviewed at each reporting date. The Company maintains a delinquency report and when 3 payments are missed the Company includes the mortgage on this report. The Company assesses an appropriate allowance based on the delinquent mortgages and the mortgage balance in excess of the fair value of the collateral and transaction costs.

During the year some mortgages were renegotiated that would have otherwise been past due or impaired since the equity value in the property justified extension of the loan.

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15. Financial instruments and risk management *(continued)*

Impairments *(continued)*

	Gross amount of loans	Impairments	Net amount of loans	Gross impaired loans
Mortgages receivable	$ 21,477,051	$ 70,000	$ 21,407,051	$ 263,464

A reconciliation of the allowance for impairment losses for mortgages is as follows:

	2013	2012
Balance, beginning of year	$ 301,328	$ 236,567
Impairment (reversal) - for the year	(231,328)	64,761
Balance, end of year	$ 70,000	$ 301,328

Mortgages past due but not impaired

	2013		2012	
	Mortgages receivable	Fair value of collateral	Mortgages receivable	Fair value of collateral
Under 30 days past due	$ 2,821,352	$ 4,417,000	$ 2,280,911	$ 3,595,000
30 - 60 days past due	394,953	520,500	619,665	688,000
Over 60 days past due	3,439,269	4,007,500	-	-
	$ 6,655,574	$ 8,945,000	$ 2,900,576	$ 4,283,000

Collateral obtained

During the year the Company obtained assets by taking possession of collateral it holds as security in settlement of debt. The Company took possession of $1,234,443 (2012 - $1,191,256) of property. The Company`s policy for these assets is to sell the assets to recover funds loaned.

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due. To limit this risk, the Company`s approach is to ensure that it has sufficient cash and credit facilities to meet its liabilities when due, under both normal and stressed circumstances.

The Company maintains significant committed borrowing facilities from its bank for credit room of at least equal to ten percent of the line of credit plus two months operating costs. The Company also maintains adequate cash held in trust to meet its trust fund obligations.

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15. Financial instruments and risk management *(continued)*

Liquidity risk (continued)

In addition, the mortgage receivables have short maturity terms (3 – 24 months) which provides additional liquidity in the event of an unforeseen interruption of cash flow. The Company can convert the mortgages, if needed, to cash instead of renewing for another term or lending under a new mortgage. Below is an analysis of the financial assets and liabilities and their contractual maturities:

	On demand	Less than 3 months	3 to 12 months	12 to 24 months	Total
Cash	$ 69,085	$ -	$ -	$ -	$ 69,085
Loan receivable	10,800	-	-	-	10,800
Mortgage interest receivable	-	173,137	-	-	173,137
Mortgages receivable	-	9,398,292	11,056,916	951,843	21,407,051
Total undiscounted financial assets	**$ 79,885**	**$ 9,571,429**	**$ 11,056,916**	**$ 951,843**	**$ 21,660,073**
Demand loan	$ 2,281,782	$ -	$ -	$ -	$ 2,281,782
Accounts payable and accrued liabilities	-	138,319	-	-	138,319
Total undiscounted financial liabilities	**$ 2,281,782**	**$ 138,319**	**$ -**	**$ -**	**$ 2,420,101**
Total net financial assets (liabilities)	**$ (2,201,897)**	**$ 9,433,110**	**$ 11,056,916**	**$ 951,843**	**$ 19,239,972**

Interest rate price risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows of the fair values of financial instruments.

The Company is exposed to interest rate price risk both on its demand loan and its mortgage receivables. The demand loan consists of an operating line of credit that bears interest at variable rates, which exposes the Company to cash flow fluctuations. An increase in prime interest rates will have a direct impact on the cash flows required to service the debt. The fair value of the Company`s mortgage receivables will also be impacted by changes in the market interest rate. The Company`s mortgages are short, fixed term mortgages ranging up to 24 months. Any change in the market interest rate will expose the Company to fair value fluctuations in their portfolio.

The Company has managed this risk by maintaining an adequate spread between the interest rate paid on the demand loan and the interest received on the fixed, short-term mortgages. The Company also manages the risk by maintaining a mortgage portfolio of short term, fixed mortgages with rates at a premium from market rates. The average interest rate of the mortgages as at year end was 11.8% (2012 – 11.5%). There is no specific market for mortgages of similar type, term and credit risk.

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15. Financial instruments and risk management *(continued)*

Interest rate price risk (continued)

The following demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant:

		Demand loan - sensitivity of profit or loss 2013		Mortgages receivable - sensitivity of profit or loss 2013
Increase in 25 basis points	$	(5,704)	$	53,318
Increase in 50 basis points	$	(11,409)	$	106,636
Decrease in 25 basis points	$	5,704	$	(53,318)
Decrease in 50 basis points	$	11,409	$	(106,636)

Fair values

Section 3862 of the Canadian Institute of Chartered Accountants Handbook requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels that reflect the significance of the inputs used in making fair value measurements. The following hierarchy is used in determining and disclosing fair value of financial instruments:

- Level 1 – quoted prices in active markets for the same instrument (i.e., without modification or repackaging)
- Level 2 – quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3 – valuation techniques for which any significant input is not based on observable market data.

The Company's financial assets consist of mortgages receivable, which are all classified using the fair value hierarchy as level 3.

I. Mortgages receivable:
Fair value is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties under no compulsion to act. As there are no quoted prices in an active market for these mortgages receivable, the Company makes its determination of fair value based on its assessment of the current mortgage market for mortgages receivable of same or similar terms. Typically, these mortgage investments approximate their carrying values given the mortgages receivable consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. When collection of the principal amount of a mortgage is no longer reasonably assured, the fair value of the mortgage is reduced to the estimated net realizable value of the underlying security.

II. Other financial assets:
The fair values of cash and loans receivable approximate their carrying amounts due to their short-term maturities.

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15. Financial instruments and risk management *(continued)*

Fair values (continued)

Changes in Level 3 financial instruments recorded at fair value are shown in a reconciliation of the opening and closing balance of mortgages receivable in the following table:

		2013		2012
Balance, beginning of year	$	25,283,207	$	24,646,709
New mortgages funded during the year		13,984,597		18,660,998
Mortgages paid out		(16,649,556)		(16,775,120)
Mortgages settled with assets taken		(1,234,443)		(1,191,256)
Net change in allowance for mortgages		23,246		(58,124)
Balance, end of year	$	21,407,051	$	25,283,207

16. Subsequent event

Subsequent to year end, the Company has transitioned from an Investment Fund to a Regular Reporting Issuer. The reclassification will not have any impact on the corporate governance of the Corporation other than the Independent Review Committee was dissolved. Some key differences between the operation of the Corporation before and after reclassification are as follows:

		Investment Fund	Regular Reporting Issuer
Financial Statements:			
	Unaudited	Semi-Annual	Quarterly
	Audited	Annually	Annually
Basis of Accounting:			
	Disclosure	GAAP	IFRS
Discussion of Results:			
	Report	Management Report of Fund Performance	Management's Discussion and Analysis
	Form	81-106F1	51-102F1
	Frequency	Semi-Annual	Quarterly
CEO and CFO Certifications:			
	Frequency	N/A	Quarterly Annually
Annual Information Form			
	Form	81-101F2	N/A

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16. Subsequent event (continued)

The Company also passed a resolution that would allow redemptions (at the discretion of the Corporation) and retractions (at the discretion of holders of Class A Shares) at a price that is less than $10.00 per Class A Share. This change will ensure that when a shareholder calls for retraction of Class A shares, restrictions under the Act will not inhibit the company's ability to redeem such shares.

Accordingly, when a shareholder calls for redemption of shares held by such shareholder by giving notice to the Corporation during the period April 1 to April 30th of a particular year (the "Redemption Period"), the Corporation shall on or before July 31st, and provided redemption requests for the year do not exceed 10% of the issued and outstanding Class A Shares, redeem the shares at the price equal to the lesser of (a) $10.00 per share; and (b) the book value per Class A Share as stated in the audited financial statements for the year ended immediately prior to the Redemption Period.

17. Income taxes

The Company has non-capital loss carryforwards for income tax purposes of $1,506,267 which will expire as follows:

2015	$17,966
2026	7,219
2027	51,128
2028	304,022
2029	216,424
2030	378,183
2031	126,422
2032	208,725
2033	196,178

In addition, the Company has financing costs of $69,156 which will be deductible for tax purposes over the next three years. The potential benefit of these loss carryforwards and undeducted financing costs has not been recognized in these financial statements.