PrimeWest

Mortgage Investment Corporation

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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 and investment portfolio as at December 31, 2012, the statements of operations and retained earnings, changes in net assets and of cash flows for the year 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 and investment portfolio of PrimeWest Mortgage Investment Corporation as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Restated comparative information
The financial statements of PrimeWest Mortgage Investment Corporation for the year ended December 31, 2011 (prior to the restatement of the comparative information described in Note 14 to the financial statements) were audited by another auditor who expressed an unmodified opinion on those financial statements on February 24, 2012.

As part of our audit of the financial statements of PrimeWest Mortgage Investment Corporation for the year ended December 31, 2012 we also audited the adjustments described in Note 14 that were applied to restate the financial statements for the year ended December 31, 2011. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements of PrimeWest Mortgage Investment Corporation for the year ended December 31, 2011 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended December 31, 2011 taken as a whole.

SASKATOON, SASKATCHEWAN

Ernst + Young LLP

March 21, 2013

Chartered Accountants

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

DECEMBER 31, 2012

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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF NET ASSETS
DECEMBER 31, 2012

	2012	2011 (Restated - Note 14)
ASSETS		
Cash (Note 3)	$ 1,079,464	$ 1,894,000
Loan receivable (Note 5)	10,800	10,800
Other receivable	-	8,917
Prepaid expenses	52,299	28,790
Mortgages receivable (Note 6)	25,283,207	24,646,709
Mortgage interest receivable	226,663	179,736
Property, plant and equipment (Note 7)	17,630	5,748
Assets taken in settlement of debt (Note 8)	718,800	796,584
	$ 27,388,863	**$ 27,571,284**
LIABILITIES		
Demand loan (Note 9)	$ 5,759,091	$ 7,912,243
Accounts payable and accrued liabilities	183,214	131,846
Due to related parties (Note 10)	1,500,000	-
Unearned revenue	504,917	676,878
	7,947,222	**8,720,967**
Commitments and contingencies (Note 11)		
NET ASSETS		
Share capital (Note 12)	17,617,162	19,546,640
Retained earnings (deficit) (Note 13)	1,824,479	(696,323)
	19,441,641	**18,850,317**
	$ 27,388,863	**$ 27,571,284**
Shares outstanding (Note 12)	**2,095,305**	**2,088,591**
Net assets per share	**$ 9.28**	**$ 9.03**

Approved on behalf of the Board of Directors

_________________ Director   _________________ Director

(see accompanying notes)

PrimeWest
Mortgage Investment Corporation

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF OPERATIONS AND RETAINED EARNINGS
DECEMBER 31, 2012

	2012	2011 (Restated - Note 14)
Income		
Mortgage interest	$ 2,472,020	$ 2,260,137
Fees	1,297,584	933,443
	3,769,604	**3,193,580**
Interest and fees expense		
Interest	341,207	256,480
Fees	31,915	78,733
	373,122	**335,213**
Net interest and fees income	**3,396,482**	**2,858,367**
Bad debts and change in provision for mortgage losses (Notes 6, 16)	58,124	52,083
Loss on disposal of assets taken in settlement of debt	95,379	66,038
Loss on disposal of property, plant and equipment	-	1,064
Net interest and fees income after provision for mortgage losses	**3,242,979**	**2,739,182**
Expenses		
Advertising and promotion	33,963	97,508
Amortization	6,078	22,027
Contracted services	25,252	31,422
Directors' fees	116,400	87,000
Insurance	10,892	23,111
Office and administration	89,024	131,516
Professional fees	132,444	105,302
Rent	41,626	42,593
Wages and employee benefits	590,807	625,722
	1,046,486	**1,166,201**
Increase in net assets from operations	**2,196,493**	**1,572,981**
Deficit, beginning of year as previously reported	(19,445)	(365)
Restatement of comparative financial statements (Note 14)	(676,878)	(458,180)
Deficit, beginning of year as adjusted	(696,323)	(458,545)
Dividends	(1,672,308)	(1,721,800)
Excess of redemption value of shares over stated capital	(3,383)	(88,959)
Reduction of stated capital (Note 13)	2,000,000	-
Retained earnings (deficit), end of year	$ **1,824,479**	$ **(696,323)**
Increase in net assets from operations per share (Note 15)	$ **1.05**	$ **0.73**

(see accompanying notes)

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
DECEMBER 31, 2012

	2012	2011 (Restated - Note 14)
Net assets, beginning of year as previously reported	$ **19,527,195**	$ **20,839,366**
Restatement of comparative financial statements (Note 14)	(676,878)	(458,180)
Net assets, beginning of year as adjusted	**18,850,317**	**20,381,186**
Increase in net assets from operations	**2,196,493**	**1,572,981**
Share capital transactions		
Proceeds from issuance of shares	120,000	5,000
Cost of shares redeemed	(52,861)	(1,387,050)
	67,139	**(1,382,050)**
Distributions to shareholders		
Dividends to shareholders	**(1,672,308)**	**(1,721,800)**
Net assets, end of year	$ **19,441,641**	$ **18,850,317**

(see accompanying notes)

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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
DECEMBER 31, 2012

	2012	2011 (Restated - Note 14)
Cash flows from operating activities		
Increase in net assets from operations	$ 2,196,493	$ 1,572,981
Items not affecting cash		
Amortization	6,078	22,027
Bad debt and provision for mortgage losses	58,124	52,083
Loss on sale of property, plant and equipment	-	1,064
Loss on disposal of assets taken in settlement of debt	95,379	66,038
Mortgages funded during the year	(18,660,998)	(16,290,910)
Mortgages discharged during the year	16,775,120	17,534,966
Costs incurred to sell asset taken on settlement of debt	(126,174)	(44,906)
Proceeds from disposal of assets taken in settlement of debt	1,299,835	576,222
Net changes in non-cash working capital items related to operations:		
Other receivable	8,917	(8,917)
Mortgage interest receivable	(46,927)	(22,790)
Prepaid expenses	(23,509)	(15,556)
Accounts payable and accrued liabilities	51,368	(41,773)
Unearned revenue	(171,961)	218,698
	1,461,745	**3,619,227**
Cash flows from investing activities		
Purchase of property, plant and equipment	(17,960)	(6,539)
Proceeds from disposition of property, plant and equipment	-	300
Repayment of loans receivable	-	13,950
	(17,960)	**7,711**
Cash flows from financing activities		
Due to related parties	1,500,000	-
Dividends paid	(1,672,308)	(1,721,800)
Proceeds from issuance of shares	120,000	5,000
Redemption of shares	(52,861)	(1,387,050)
Demand loan	(2,153,152)	1,370,012
	(2,258,321)	**(1,733,838)**
Net (decrease) increase in cash during the year	**(814,536)**	**1,893,100**
Cash, beginning of year	1,894,000	900
Cash, end of year	**$ 1,079,464**	**$ 1,894,000**
Supplementary cash flow information		
Interest paid	$ 333,400	$ 245,471

(see accompanying notes)

PrimeWest
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PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF INVESTMENT PORTFOLIO
DECEMBER 31, 2012

	%	Fair value	Carrying value
Mortgages	**130.0**	**$ 25,283,207**	**$ 25,283,207**
Other net liabilities	**(0.4)**		**(82,475)**
Demand loan	**(29.6)**		**(5,759,091)**
Net assets	**100.0**		**$ 19,441,641**

Distribution of mortgages

Mortgages consist of 114 residential and 7 commercial	Effective interest rates %	Number of mortgages	Amortized cost and fair value
	7 - 8	1	$ 171,108
	8 - 9	5	1,772,605
All mortgages are pre-payable	9 - 10	5	1,557,775
and uninsured mortgages,	10 - 11	10	2,481,079
with terms to maturity of up to	11 - 12	23	3,891,692
two years	12 - 13	54	12,648,382
	13 - 14	21	2,806,414
	14 - 15	2	255,480
Less, allowance for mortgage losses (Note 6)			(301,328)
		121	$ **25,283,207**

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 MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 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.

Mortgages receivable

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. 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.

2. Significant accounting policies (continued)

Mortgages receivable (continued)

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.

Allowance for mortgage losses

The Company maintains general and 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.

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.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

2. **Significant accounting policies** (continued)

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.

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.

Financial instruments

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.

2. Significant accounting policies (continued)

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. 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 is evaluating the potential impact on its financial statements of adopting IFRS on January 1, 2014 and is developing a changeover plan to adopt the standards. The key elements of the plan include assessing the impact of adopting IFRS on:

- Accounting policies;
- IT and data systems;
- Internal controls over financial reporting
- Financial reporting expertise;
- Disclosure controls and procedures; and
- 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).

2. Significant accounting policies (continued)

International Financial Reporting Standards *(continued)*

The Company has identified the following accounting policies which will differ under IFRS and will have a significant effect on the financial statements:

- Under current Canadian GAAP, the Company determines a general loan loss provision based on 0.5% of the balance of mortgages receivable. Under IFRS, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Subsequently, the Company assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.
- Under current Canadian GAAP, the Company recognizes impairment of assets on a case by case basis. Under IFRS, IAS 36 requires the Company assess at the end of each reporting period whether there is any indication that assets may be impaired. As a result, impairment will be recognized more frequently under IFRS and requires the reversal of an impairment loss for an asset where there is an indication that circumstances have changed and that the impairment no longer exists or may have decreased.

Currently, the International Accounting Standards Board (IASB) has a number of projects underway 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.

- Derecognition of financial instruments – The IASB issued an exposure draft that proposes to replace the derecognition requirements of IAS 39 and IFRS 7. The proposed requirements base the decision on derecognizing a transferred financial asset on whether the entity has surrendered control of the asset. The Company is currently assessing the impact of this amendment on its financial statements.

2. Significant accounting policies (continued)

International Financial Reporting Standards *(continued)*

- IFRS 7 Financial instruments: disclosures and IAS 32 Financial instruments: presentation - Financial assets and financial liabilities may be offset and the net amount presented in the statement of financial position, only when there is a legally enforceable right to set off and there is either an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The amendment to IAS 32, issued in December 2011, clarified the meaning of the offsetting criterion "currently has a legally enforceable right to set off" and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. The related amendment to IFRS 7, issued at the same time, requires new disclosures with respect to offsetting which include gross amounts subject to rights of set off, amounts set off in accordance with the offsetting criteria, amounts of financial instruments subject to master netting arrangements or similar agreements, and the related net amounts. The amendment will only affect disclosure and is effective for annual periods beginning on or after January 1, 2013.

- IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Company will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

- IFRS 13 Fair value measurement – This standard that was issued in May 2011 redefines fair value to emphasize that it is a market-based measurement, not an entity-specific measurement. It also provides a single framework for measuring fair value and applies, with limited exceptions, when another standard permits or requires fair value measurement. In addition, IFRS 13 requires specific disclosures about fair value measurement. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this amendment on its financial statements.

- IAS 32 Financial instruments: presentation - The amendment to IAS 32, issued in May 2012, clarified the income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction by requiring that these items be accounted for in accordance with IAS 12 Income taxes. The amendment is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this amendment on its financial statements.

PrimeWest Mortgage Investment Corporation

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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. The Company is required to have at all times approximately 10% of its total assets in cash or near cash in order to meet redemption requests and thereby provide an element of liquidity to the investor.

Pursuant to the Company's credit agreement (Note 9) it is required to meet certain financial covenants, including a debt to tangible net worth ratio and a current ratio. At December 31,2012 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:

	2012	2011 (Restated - Note 14)
Net interest and fees income after provision for mortgage losses	$ 3,242,979	$ 2,739,182
Net interest margin	95.5%	95.8%
Dividend payout ratio	76.1%	109.5%
Net assets	$ 19,441,641	$ 18,850,317
Net available cash		
As a percentage of net assets	24.0%	12.4%
Net debt to increase in net assets from operations	4	6
Debt to capital ratio	40.9%	47.0%
Average portfolio yield	11.5%	10.5%
Turnover ratio	72.0%	75.4%

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.

	2012	2011
Cash held in trust	$ 525,228	$ 798,092
Trust fund liability	(525,228)	(798,092)
	$ -	$ -

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

	2012	2011 (Restated - Note 14)
Portfolio of 121 (2011 - 127) mortgages bearing interest at fixed rates from 7.95% to 14.0%, maturities ranging from January 2013 to April 2014, secured by real property to which they relate and by additional security in certain circumstances	$ 25,584,535	$ 24,883,276
Allowance for mortgage losses		
General	(122,605)	(134,784)
Specific	(178,723)	(101,783)
Balance, end of year	**$ 25,283,207**	**$ 24,646,709**

Maturities and yields: 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%

2011	Less than 3 months	3 to 12 months	12 to 24 months	Total
Total loans	$ 7,477,228	$ 8,957,508	$ 8,211,973	$ 24,646,709
Effective interest yield	9.8%	10.7%	11.2%	10.5%

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7. Property, plant and equipment

	2012			2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	$ 76,547	$ 58,917	$ 17,630	$ 5,748
Furniture and equipment	15,197	15,197	-	-
	$ 91,744	**$ 74,114**	**$ 17,630**	**$ 5,748**

8. Assets taken in settlement of debt

	2012		2011	
	Properties	Amount	Properties	Amount
Balance, beginning of year	3	$ 796,584	1	$ 488,958
Mortgages settled during the year by taking property	5	1,191,256	4	905,380
Costs incurred to sell		126,174		44,906
Properties sold during the year	(5)	(1,299,835)	(2)	(576,622)
Realized gain (loss) on sale of property		(152,719)		(113,692)
Unrealized gain		57,340		47,654
Balance, end of year	3	$ 718,800	3	$ 796,584

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 1.00%, 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 $9,341,880 (2011 - $8,388,096). The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2012 the Company was in compliance with all financial covenants. Subsequent to year end this line of credit was repaid in full using the proceeds from a new line of credit agreement and as such all remaining deferred financing charges were taken as a charge to income at year end. See Note 17.

	2012	2011
Demand loan	$ 5,759,091	$ 7,938,592
Less deferred financing charges	-	(26,349)
	$ 5,759,091	**$ 7,912,243**

10. Due to related parties

During the year the Company obtained financing from Century Management and Development Corp., a company controlled by a director of the Company. The loan balance at December 31, 2012 is $500,000 (2011 - $Nil), principle and interest are due February 6, 2013 and carries an annual interest rate of 12%. Total accrued interest is $24,000 (2011 - $Nil). Subsequent to year end this balance was repaid in full.

During the year the Company obtained financing from a director of the Company. The loan balance at December 31, 2012 is $500,000 (2011 - $Nil), principle and interest are due March 15, 2013 and carries an annual interest rate of 12%. Total accrued interest is $2,795 (2011 - $Nil). Subsequent to year end this balance was repaid in full.

During the year the Company obtained financing from Albert Street Lodging Corp., a company 50% controlled by a director of the Company. The loan balance at December 31, 2012 is $500,000 (2011 - $Nil), principle and interest are due March 15, 2013 and carries an annual interest rate of 12%. Total accrued interest is $2,795 (2011 - $Nil). Subsequent to year end this balance was repaid in full.

11. Commitments and contingencies

As at year end, the Company was committed to funding one (2011 - fifteen) mortgages, for a total of $347,393 (2011 - $3,568,292).

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. During the year, the shareholders of the Company passed an amendment to the Articles of the Company which reduces the maximum annual redemption from 30% to 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.

12. Share capital (continued)

Issued and outstanding	2012 Shares	2012 Amount	2011 Shares	2011 Amount
Balance Class A shares, beginning of the year	2,088,591	$ 19,546,640	2,226,796	$ 20,839,731
Issued during the year				
New shares issued	12,000	120,000	500	5,000
Redemptions during the year	(5,286)	(52,861)	(138,705)	(1,387,050)
Excess of redemption value over book value		3,383		88,959
Special resolution of the shareholders (Note 13)		(2,000,000)		-
Balance Class A shares at year end	**2,095,305**	**$ 17,617,162**	**2,088,591**	**$ 19,546,640**

The aggregate potential redemption amount of the outstanding Class A shares is $20,953,050 (2011 - $20,885,910). 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 the year, 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 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. Restatement of comparative financial statements

The deficit at December 31, 2011, previously reported as $19,445 has been restated to show a retroactive charge of $676,878, the amount by which fees income has been adjusted for a correction to an error in unearned revenue. The Company incorrectly recognized non-refundable mortgage fee revenue upon issuance of a mortgage rather than deferring and amortizing the revenue over the term of the mortgage. The Company also showed broker and agent fees on the gross basis rather than the net basis. These fees were collected and paid directly to the brokers and agents, and as such, should have been netted with mortgage fee revenues.

14. Restatement of comparative financial statements (continued)

The restatement gave rise to the following adjustments to the 2011 financial statements:

Statement of Net Assets		
Unearned revenue	$	676,878
Deficit		(676,878)
Net assets per share		(0.32)
Statement of Operations		
Fees	$	(516,848)
Broker and agent fees		298,150
Net reduction in fees	$	(218,698)
Increase in net assets from operations per share	$	(0.10)

The figures provided for comparative purposes have been restated to reflect these changes. Of this amount, a net charge of $458,180 is applicable to years prior to 2011 and has been charged to the deficit at that time.

15. 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. The shares redeemed in the year were redeemed throughout the fiscal year, resulting in a weighted average number of shares outstanding in the year of 2,094,981 (2011 – 2,158,013), with the total number of shares outstanding at year end of 2,095,305 (2011 – 2,088,591).

		2012		2011 (Restated - Note 14)
Increase in net assets from operations per share				
Net income available to shareholders	$	2,196,493	$	1,572,981
Weighted average number of common shares		2,094,981		2,158,013
	$	**1.05**	**$**	**0.73**

There were no dilutive instruments outstanding during 2011 or 2012.

16. 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.

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16. 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, 2012 is the fair value of its mortgage receivables, mortgage interest receivable, other and loan receivables which total $25,520,670 (2011 - $24,846,162).

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 maximum exposure to credit risk and the fair value of the collateral is as follows:

	2012		2011	
	Maximum exposure to credit risk	Fair value of collateral	Maximum exposure to credit risk	Fair value of collateral
Mortgages	$ 25,283,207	$ 37,032,487	$ 24,646,709	$ 34,563,264
Mortgage interest receivable	226,663	226,663	179,736	179,736
Loans receivable	10,800	10,800	10,800	10,800
Other receivables	-	-	8,917	-
	$ 25,520,670	$ 37,269,950	$ 24,846,162	$ 34,753,800

16. 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:

		2012 Mortgages receivable		2011 Mortgages receivable
Residential first mortgages*	$	15,571,630	$	17,379,041
Residential second mortgages**		1,134,847		777,650
Commercial first mortgages*		8,805,100		5,635,023
Residential mortgages with no security		72,958		1,091,563
Impairment provision		(301,328)		(236,568)
Total mortgage receivables	$	25,283,207	$	24,646,709

*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 90.3% in Saskatchewan (2011 – 89.1%), 1.4% in British Columbia (2011 – Nil %) and 8.3% in Manitoba (2011 – 10.9%).

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.

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

	Gross amount of loans	Specific impairments	General impairments	Total impairment	Net amount of loans	Gross specific impaired loans
Mortgages receivable	$ 25,584,535	$ 178,723	$ 122,605	$ 301,328	$ 25,283,207	$ 1,080,248

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

	2012	2011
Balance, beginning of year	$ 236,567	$ 225,391
Impairment allowance		
Specific - for the year	76,940	6,783
General - (reversal) for the year	(12,179)	4,393
Balance, end of year	$ 301,328	$ 236,567

Mortgages past due but not impaired

	2012		2011	
	Mortgages receivable	Fair value of collateral	Mortgages receivable	Fair value of collateral
Under 30 days past due	$ 2,280,911	$ 3,595,000	$ 1,535,425	$ 1,984,000
30 - 60 days past due	619,665	688,000	857,852	879,000
Over 60 days past due	-	-	496,856	866,000
	$ 2,900,576	$ 4,283,000	$ 2,890,133	$ 3,729,000

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 $1,191,256 (2011 - $905,380) 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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16. Financial instruments and risk management *(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	$ 1,079,464	$ -	$ -	$ -	$ 1,079,464
Loan receivable	10,800	-	-	-	10,800
Mortgage interest receivable	-	226,663	-	-	226,663
Mortgages receivable	-	13,364,482	11,334,493	584,232	25,283,207
Total undiscounted financial assets	**$ 1,090,264**	**$ 13,591,145**	**$ 11,334,493**	**$ 584,232**	**$ 26,600,134**
Demand loan	$ 5,759,091	$ -	$ -	$ -	$ 5,759,091
Accounts payable and accrued liabilities	-	183,214	-	-	183,214
Due to related parties	-	1,500,000	-	-	1,500,000
Total undiscounted financial liabilities	**$ 5,759,091**	**$ 1,683,214**	**$ -**	**$ -**	**$ 7,442,305**
Total net financial assets (liabilities)	**$ (4,668,827)**	**$ 11,907,931**	**$ 11,334,493**	**$ 584,232**	**$ 19,157,829**

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 11.5% (2011 – 10.5%). There is no specific market for mortgages of similar type, term and credit risk.

16. Financial instruments and risk management *(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 2012		Mortgages receivable - sensitivity of fair value on portfolio 2012
Increase in 25 basis points	$	(14,398)	$	(63,961)
Increase in 50 basis points	$	(28,795)	$	(127,923)
Decrease in 25 basis points	$	14,398	$	63,961
Decrease in 50 basis points	$	28,795	$	127,923

Fair values

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

I. Mortgage investments:

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 mortgage investments, the Company makes its determination of fair value based on its assessment of the current mortgage market for mortgage investments of same or similar terms. Typically, these mortgage investments approximate their carrying values given the mortgage investments 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.

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

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16. Financial instruments and risk management (continued)

		2012		2011
Balance, beginning of year	$	24,646,709	$	26,848,228
New mortgages funded during the year		18,660,998		16,290,910
Mortgages paid out		(16,775,120)		(17,534,966)
Mortgages settled with assets taken		(1,191,256)		(905,380)
Net change in allowance for mortgages		(58,124)		(52,083)
Balance, end of year	$	25,283,207	$	24,646,709
Total of bad debts and the change in the provision for mortgage losses is made up of:				
Bad debt (recovery)	$	(6,637)	$	40,907
Change in provision for mortgage losses		64,761		11,176
	$	58,124	$	52,083

17. Subsequent events

Subsequent to year end, the Company transferred its bank accounts and operating line of credit to a different financial institution. The new margined, demand operating line of credit bears interest at prime plus 2.50%, 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.

18. Income taxes

The Company has non-capital loss carryforwards for income tax purposes of $1,310,089 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

In addition, the Company has financing costs of $202,343 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.

19. Comparative figures

Certain of the prior year's figures, provided for the purpose of comparison, have been reclassified to conform to the current year's presentation.