



## FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2013

(UNAUDITED)

**Notice Under National Instrument 81-106 (para 2.12):** Management has compiled the unaudited interim financial information of PrimeWest Mortgage Investment Corporation consisting of the Statement of Net Assets as at June 30, 2013, the Statement of Operations and Retained Earnings, the Statement of Changes in Net Assets, the Statement of Cash Flow and the Statement of Investment Portfolio for the six months ended June 30, 2013. All Amounts are in Canadian Dollars. The independent external auditor, Ernst & Young LLP, has not performed a review of these financials for the six months ended June 30, 2013.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**FOR THE SIX MONTHS ENDED JUNE 30, 2013**

**CONTENTS**

**FINANCIAL STATEMENTS**

Statement of Net Assets	1
Statement of Operations and Retained Earnings	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Statement of Investment Portfolio	5
Notes to the Financial Statements	6



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**STATEMENT OF NET ASSETS**  
**AS AT JUNE 30, 2013**  
**(unaudited)**

	<u>June 30</u> <u>2013</u>	<u>June 30</u> <u>2012</u> (Restated - Note 12)	<u>December 31</u> <u>2012</u> (audited)
<b><u>ASSETS</u></b>			
Cash	\$ 71,166	\$ 500	\$ 1,079,464
Loan receivable (Note 5)	10,800	10,800	10,800
Prepaid expenses	19,106	9,846	52,299
Mortgages receivable (Note 6)	19,259,973	23,977,299	25,283,207
Mortgage interest receivable	226,781	149,741	226,663
Property, plant and equipment (Note 7)	18,021	-	17,630
Assets taken in settlement of debt (Note 8)	<u>1,869,595</u>	<u>1,639,537</u>	<u>718,800</u>
	<b><u>\$ 21,475,442</u></b>	<b><u>\$ 25,787,723</u></b>	<b><u>\$ 27,388,863</u></b>
<b><u>LIABILITIES</u></b>			
Demand loan (Note 9)	\$ 1,369,690	\$ 5,838,664	\$ 5,759,091
Accounts payable and accrued liabilities	76,149	65,388	183,214
Due to related parties	-	-	1,500,000
Unearned revenue	<u>315,515</u>	<u>1,204,488</u>	<u>504,917</u>
	<b><u>1,761,354</u></b>	<b><u>7,108,540</u></b>	<b><u>7,947,222</u></b>
Commitments and Contingencies (Note 10)			
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Share capital (Note 11)	17,617,162	17,617,273	17,617,162
Retained earnings (deficit) (Note 12)	<u>2,096,926</u>	<u>1,061,910</u>	<u>1,824,479</u>
	<b><u>19,714,088</u></b>	<b><u>18,679,183</u></b>	<b><u>19,441,641</u></b>
	<b><u>\$ 21,475,442</u></b>	<b><u>\$ 25,787,723</u></b>	<b><u>\$ 27,388,863</u></b>
Shares outstanding (Note 11)	2,095,305	2,095,316	2,095,305
Net assets per share	\$ 9.41	\$ 8.91	\$ 9.28

Approved by the Board

  
\_\_\_\_\_  
Director  
(see accompanying notes)

  
\_\_\_\_\_  
Director



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
STATEMENT OF OPERATIONS AND RETAINED EARNINGS  
FOR THE SIX MONTHS ENDED JUNE 30, 2013  
(unaudited)**

	<u>June 30 2013</u>	<u>June 30 2012</u> (Restated - Note 12)
<b>Income</b>		
Mortgage interest	\$ 1,122,836	\$ 1,129,328
Fees	<u>559,432</u>	<u>222,414</u>
	<b><u>1,682,268</u></b>	<b><u>1,351,742</u></b>
<b>Interest and fees expense</b>		
Interest	120,502	142,695
Fees	<u>6,072</u>	<u>19,670</u>
	<b><u>126,574</u></b>	<b><u>162,365</u></b>
<b>Net interest and fees income</b>	<b><u>1,555,694</u></b>	<b><u>1,189,377</u></b>
Bad debts and change in provision for mortgage losses (Notes 6, 14)	(68,246)	16,367
(Gain) Loss on disposal of assets taken in settlement of debt	<u>(60,224)</u>	<u>41,329</u>
<b>Net interest and fees income after provision for mortgage losses</b>	<b><u>1,684,164</u></b>	<b><u>1,131,681</u></b>
<b>Expenses</b>		
Advertising and promotion	15,220	16,468
Amortization	3,205	5,748
Contracted services	18,746	10,196
Directors' fees	59,158	58,200
Insurance	31,074	19,659
Office and administration	64,628	46,856
Professional fees	74,868	72,346
Rent	24,646	22,727
Wages and employee benefits	<u>282,040</u>	<u>283,684</u>
	<b><u>573,585</u></b>	<b><u>535,884</u></b>
<b>Increase in net assets from operations</b>	<b><u>1,110,579</u></b>	<b><u>595,797</u></b>
Deficit, beginning of period as previously reported	1,824,479	(19,445)
Restatement of comparative financial statements (Note 12)	-	<u>(676,878)</u>
Deficit, beginning of period as adjusted	<u>1,824,479</u>	<u>(696,323)</u>
Dividends	(838,132)	(834,181)
Excess of redemption value of shares over stated capital	-	(3,383)
Reduction of stated capital	<u>-</u>	<u>2,000,000</u>
<b>Retained earnings (deficit), end of period</b>	<b><u>\$ 2,096,926</u></b>	<b><u>\$ 1,061,910</u></b>
<b>Increase in net assets from operations per share (Note 13)</b>	<b><u>\$ 0.53</u></b>	<b><u>\$ 0.29</u></b>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

	<u>June 30</u> <u>2013</u>	<u>June 30</u> <u>2012</u> (Restated - Note 12)
<b>Net assets, beginning of period as previously reported</b>	\$ 19,441,641	\$ 19,527,195
Restatement of comparative financial statements (Note 12)	-	(676,878)
<b>Net assets, beginning of period as adjusted</b>	<u>19,441,641</u>	<u>18,850,317</u>
<b>Increase in net assets from operations</b>	<u>1,110,579</u>	<u>595,797</u>
<b>Share capital transactions</b>		
Proceeds from issuance of shares	-	120,000
Cost of shares redeemed	-	(52,750)
	<u>-</u>	<u>67,250</u>
<b>Distributions to shareholders</b>		
Dividend to shareholders	<u>(838,132)</u>	<u>(834,181)</u>
<b>Net assets, end of period</b>	<u>\$ 19,714,088</u>	<u>\$ 18,679,183</u>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

	<u>June 30</u> <u>2013</u>	<u>June 30</u> <u>2012</u> <b>(Restated - Note 12)</b>
<b>Cash flows from operating activities</b>		
Increase in net assets from operations	\$ 1,110,579	\$ 595,797
Items not affecting cash		
Amortization	3,205	5,748
Bad debt and provision for mortgage losses	(68,246)	16,367
Loss on disposal of property, plant and equipment	-	-
(Gain) loss on disposal of assets taken in settlement of debt	(60,224)	41,329
Mortgages funded during the period	(5,164,218)	(7,806,221)
Mortgages discharged during the period	10,189,330	7,268,008
Costs incurred to sell assets taken on settlement of debt	(21,203)	(40,148)
Proceeds from disposal of assets taken in settlement of debt	-	347,122
 Net changes in non-cash working capital items related to operations:		
Other receivable	-	8,917
Mortgage interest receivable	(118)	29,995
Prepaid expenses	33,193	18,944
Accounts payable and accrued liabilities	(107,066)	(66,458)
Unearned revenue	(189,402)	527,610
	<u><b>5,725,830</b></u>	<u><b>947,010</b></u>
 <b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	<u>(6,595)</u>	<u>-</u>
	<u><b>(6,595)</b></u>	<u><b>-</b></u>
 <b>Cash flows from financing activities</b>		
Due to related parties	(1,500,000)	-
Dividends paid	(838,132)	(834,181)
Proceeds from issuance of shares	-	120,000
Redemption of shares	-	(52,750)
Demand loan	(4,389,401)	(2,073,579)
	<u><b>(6,727,533)</b></u>	<u><b>(2,840,510)</b></u>
 <b>Net increase (decrease) in cash during the year</b>	<u><b>(1,008,298)</b></u>	<u><b>(1,893,500)</b></u>
Cash, beginning of period	1,079,464	1,894,000
<b>Cash, end of period</b>	<u><b>\$ 71,166</b></u>	<u><b>\$ 500</b></u>
 <b>Supplementary cash flow information</b>		
Interest paid	\$ 118,836	\$ 136,502

(see accompanying notes)

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
STATEMENT OF INVESTMENT PORTFOLIO  
FOR THE SIX MONTHS ENDED JUNE 30, 2013  
(unaudited)**

	<u>%</u>	<u>Fair value</u>	<u>Carrying value</u>
<b>Mortgages</b>	<b>97.70</b>	<b>\$ 19,259,973</b>	<b>\$ 19,259,973</b>
<b>Cash and other net assets</b>	<b>9.25</b>		<b>\$ 1,823,805</b>
<b>Demand loan</b>	<b>(6.95)</b>		<b>\$ (1,369,690)</b>
<b>Net assets</b>	<b>100.00</b>		<b>\$ 19,714,088</b>

**Distribution of mortgages**

Mortgages consist of 79 residential and 7 commercial

	<u>Effective interest rates %</u>	<u>Number of mortgages</u>	<u>Amortized cost and fair value</u>
	7 - 8	1	\$ 187,308
	8 - 9	3	1,610,874
	9 - 10	2	932,128
	10 - 11	8	1,907,612
	11 - 12	15	4,152,302
	12 - 13	33	5,556,588
	13 - 14	21	3,096,755
	14 - 15	3	1,831,406
<b>Less, allowance for mortgage losses (Note 6)</b>		<u>86</u>	<u>(15,000)</u>
		<b>86</b>	<b>\$ 19,259,973</b>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**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%.

These interim condensed financial statements include the accounts of the Company; however, they do not include all disclosures normally provided in annual audited financial statements and should be read in conjunction with the 2012 annual audited financial statements. In management's opinion, the unaudited financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

**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.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

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

**Mortgages receivable (continued)**

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.

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 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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2013  
(unaudited)**

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

**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 Period, 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.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**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 period by the weighted average number of shares outstanding during the period. 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 period.

**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.

**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.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

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

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).

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

- 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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**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.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

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

***International Financial Reporting Standards (continued)***

- 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.

**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) 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 June 30, 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.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**3. Capital structure financial policies (continued)**

The Company monitors capital using the following measures:

	<u>2013</u>	<u>2012</u>
		(Restated - Note 12)
Net interest and fees income after provision for mortgage losses	\$ 1,684,164	\$ 1,131,681
Net interest margin	100.1%	83.7%
Dividend payout ratio	75.5%	140.0%
Net assets	\$ 19,714,088	\$ 18,679,183
Net available cash		
As a percentage of net assets	40.1%	11.4%
Net debt to increase in net assets from operations	2	12
Debt to capital ratio	8.9%	38.1%
Average portfolio yield	11.6%	17.1%
Turnover ratio	47.0%	29.2%

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

**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 period, 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.

	<u>2013</u>	<u>2012</u>
Cash held in trust	\$ 457,822	\$ 1,766,267
Trust fund liability	(457,822)	(1,766,267)
	<u>\$ -</u>	<u>\$ -</u>

**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%.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**6. Mortgages receivable**

	<u>2013</u>	<u>2012</u>
Portfolio of 86 (2012 - 128) mortgages, bearing interest at fixed rates from 7.95% to 14.0%, maturities ranging from July 2013 to May 2015, secured by real property to which they relate and by additional security in certain circumstances	\$ 19,274,973	24,230,234
Allowance for mortgage losses	<u>(15,000)</u>	<u>(252,935)</u>
<b>Balance, end of period</b>	<b><u>\$ 19,259,973</u></b>	<b><u>\$ 23,977,299</u></b>

<b>Maturities and yields:</b>	Within 3 months	3 months to 1 year	1 year to 2 years	Total
2013				
Total loans	\$ 11,029,962	7,822,747	407,264	19,259,973
Effective interest yield	11.1%	12.3%	12.9%	11.6%
2012				
Total loans	\$ 6,201,333	\$ 12,741,562	\$ 5,034,404	\$ 23,977,299
Effective interest yield	9.1%	11.4%	10.6%	10.7%

**7. Property, plant and equipment**

	<u>2013</u>			<u>2012</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 80,144	\$ 62,123	\$ 18,021	\$ -
Furniture and equipment	15,197	15,197	-	-
	<b><u>\$ 95,341</u></b>	<b><u>\$ 77,320</u></b>	<b><u>\$ 18,021</u></b>	<b><u>\$ -</u></b>

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**8. Assets taken in settlement of debt**

	2013		2012	
	Properties	Amount	Properties	Amount
Balance, beginning of period	3	718,800	3	796,584
Mortgages settled during the period				
by taking property	6	1,069,368	4	1,191,256
Costs incurred to sell		21,203		40,148
Properties sold during the period	-	-	(2)	(347,122)
Realized gain (loss) on sale of property		1,175		(71,247)
Unrealized gain (loss)		59,049		29,918
Balance, end of period	9	\$ 1,869,595	5	\$ 1,639,537

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 period end, the maximum margin available was \$9,274,691 (2012 - \$7,970,858). The credit agreement contains certain financial covenants that must be maintained. As at June 30, 2013 the Company was in compliance with all financial covenants.

	2013	2012
Demand loan	\$ 1,382,190	\$ 5,865,479
Less deferred financing charges	(12,500)	(26,815)
	\$ 1,369,690	\$ 5,838,664

**10. Commitments and contingencies**

As at period end, the Company was committed to funding eight (2012 - fourteen) mortgages, for a total of \$874,751 (2012 - \$1,662,430).



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2013  
(unaudited)**

**11. 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	June 30, 2013		June 30, 2012	
	Shares	Amount	Shares	Amount
Balance Class A shares, beginning of the period	2,095,305	\$ 17,617,162	2,088,591	\$ 19,546,640
Issued during the period				
New shares issued	-	-	12,000	120,000
Redemptions during the period	-	-	(5,275)	(52,750)
Excess of redemption value over book value		-		3,383
Special resolution of the shareholders		-		(2,000,000)
Balance Class A shares at period end	<u>2,095,305</u>	<u>\$ 17,617,162</u>	<u>2,095,316</u>	<u>\$ 17,617,273</u>

The aggregate potential redemption amount of the outstanding Class A shares is \$20,953,050 (2012 - \$20,953,160). 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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**12. Restatement of comparative financial statements**

The retained earnings at June 30, 2012, previously reported as \$2,266,398 has been restated to show a retroactive charge of \$1,204,488, 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.

The restatement gave rise to the following adjustments to the 2012 interim financial statements:

Statement of Net Assets	
Unearned revenue	\$ 1,204,488
Deficit	(1,204,488)
Net assets per share	(0.57)
Statement of Operations	
Fees	\$ (684,710)
Broker and agent fees	157,100
Net reduction in fees	<u>\$ (527,610)</u>
Increase in net assets from operations per share	\$ (0.25)

The figures provided for comparative purposes have been restated to reflect these changes. Of this amount, a net charge of \$676,878 is applicable to periods prior to 2012 and has been charged to the deficit at that time.

**13. Increase in net assets from operations per share**

Increase in net assets from operations have been calculated using the weighted average number of shares outstanding during the period. The shares issued in the period were issued throughout the fiscal period, resulting in a weighted average number of shares outstanding in the period of 2,095,305 (2012 – 2,089,296), with the total number of shares outstanding at period end of 2,095,305 (2012 – 2,095,316).

	<u>2013</u>	<u>2012</u> (Restated - Note 12)
<b>Increase in net assets from operations per share</b>		
Net income available to shareholders	\$ 1,110,579	\$ 595,797
Weighted average number of common shares	2,095,305	2,089,296
	<u>\$ 0.53</u>	<u>\$ 0.29</u>

There were no dilutive instruments outstanding during 2012 or 2013.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**14. 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.

**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 developed 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 June 30, 2013 is the fair value of its mortgage receivables, mortgage interest receivable and loan receivables which total \$19,497,554 (2012 - \$24,137,840).

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 June 30 the maximum exposure to credit risk and the fair value of the collateral is as follows:

	2013		2012	
	Maximum exposure to credit risk	Fair value of collateral	Maximum exposure to credit risk	Fair value of collateral
Mortgages	\$ 19,259,973	\$ 41,151,000	\$ 23,977,299	\$ 72,874,768
Mortgage interest receivable	226,781	226,781	149,741	149,741
Loans receivable	10,800	10,800	10,800	10,800
	\$ 19,497,554	\$ 41,388,581	\$ 24,137,840	\$ 73,035,309



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**14. 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:

	<b>2013 Mortgages receivable</b>	<b>2012 Mortgages receivable</b>
Residential first mortgages*	\$ 10,873,880	\$ 14,921,001
Residential second mortgages**	795,662	1,632,689
Commercial first mortgages*	3,678,999	5,488,881
Commercial second mortgages**	3,893,916	1,959,637
Residential mortgages with no security	32,516	228,026
Impairment provision	(15,000)	(252,935)
Total mortgage receivables	<u>\$ 19,259,973</u>	<u>\$ 23,977,299</u>

\*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 91.4% (2012 – 88.5%) in Saskatchewan, 1.8% (2012 – 1.4%) in British Columbia and 6.6% in Manitoba (2012 – 9.2%).

The Company does not internally assign credit quality ratings to its mortgages that are neither past due nor 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 period 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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

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

	Gross amount of loans	Impairments	Net amount of loans	Gross specific impaired loans
Mortgages receivable	\$ 19,274,973	\$ 15,000	\$ 19,259,973	\$ 172,149

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

	<u>2013</u>	<u>2012</u>
Balance, beginning of period	\$ 236,567	\$ 225,391
Impairment allowance		
Impairment (reversal) - for the period	(221,567)	27,544
Balance, end of period	<u>\$ 15,000</u>	<u>\$ 252,935</u>

Mortgages past due but not impaired

	<u>2013</u>		<u>2012</u>	
	Mortgages receivable	Fair value of collateral	Mortgages receivable	Fair value of collateral
Under 30 days past due	\$ 1,279,280	\$ 2,142,500	\$ 1,002,708	\$ 1,781,000
30 - 60 days past due	2,209,077	3,301,000	741,194	968,000
Over 60 days past due	1,804,625	2,786,000	391,770	508,000
	<u>\$ 5,292,982</u>	<u>\$ 8,229,500</u>	<u>\$ 2,135,672</u>	<u>\$ 3,257,000</u>

**Collateral obtained**

During the period the Company obtained assets by taking possession of collateral it holds as security in settlement of debt. The Company took possession of \$1,069,368 (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.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**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:

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>12 to 24 months</u>	<u>Total</u>
Cash	\$ 71,166	\$ -	\$ -	\$ -	\$ 71,166
Loan receivable	10,800	-	-	-	10,800
Mortgage interest receivable		226,781	-	-	226,781
Mortgages receivable		11,029,962	7,822,747	407,264	19,259,973
<b>Total undiscounted financial assets</b>	<b>\$ 81,966</b>	<b>\$ 11,256,743</b>	<b>\$ 7,822,747</b>	<b>\$ 407,264</b>	<b>\$ 19,568,720</b>
Demand loan	\$ 1,369,690	\$ -	\$ -	\$ -	\$ 1,369,690
Accounts payable and accrued liabilities	-	76,149	-	-	76,149
Due to related parties	-	315,515	-	-	315,515
<b>Total undiscounted financial liabilities</b>	<b>\$ 1,369,690</b>	<b>\$ 391,664</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,761,354</b>
<b>Total net financial assets (liabilities)</b>	<b>\$ (1,287,724)</b>	<b>\$ 10,865,079</b>	<b>\$ 7,822,747</b>	<b>\$ 407,264</b>	<b>\$ 17,807,366</b>

**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 period end was 11.6% (2012 – 10.7%). There is no specific market for mortgages of similar type, term and credit risk.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

**14. 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:

	<b>Demand loan - sensitivity of profit or loss 2013</b>		<b>Mortgages receivable - sensitivity of fair value on portfolio 2013</b>	
Increase in 25 basis points	\$	(3,455)	\$	(48,150)
Increase in 50 basis points	\$	(6,911)	\$	(96,300)
Decrease in 25 basis points	\$	3,455	\$	48,150
Decrease in 50 basis points	\$	6,911	\$	96,300

**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:

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013**  
**(unaudited)**

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

	2013	2012
Balance, beginning of period	\$ 25,283,207	\$ 24,646,709
New mortgages funded during the period	5,164,218	7,806,221
Mortgages paid out	(10,189,330)	(7,268,008)
Mortgages settled with assets taken	(1,069,368)	(1,191,256)
Net change in allowance for mortgages	68,246	(16,367)
Balance, end of period	<u>\$ 19,256,973</u>	<u>\$ 23,977,299</u>
Total of bad debts and the change in the provision for mortgage losses is made up of:		
Bad debt (recovery)	\$ (63,246)	\$ 43,911
Change in provision for mortgage losses	(5,000)	(27,544)
	<u>\$ (68,246)</u>	<u>\$ 16,367</u>

**15. 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.

**16. Comparative figures**

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