PrimeWest

Mortgage Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three and Six Months Ended June 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (**"MD&A"**) has been prepared by PrimeWest Mortgage Investment Corporation the (**"Corporation"**, **"PrimeWest", "we"** or **"our"**) as of August 16, 2018. It should be read in conjunction with the Corporation's audited financial statements and accompanying notes for the 12 months ended December 31, 2017 and our unaudited interim financial statements for the quarter ended June 30, 2018. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and all financial information is presented in Canadian dollars.

Notice Regarding Forward-Looking Information

Certain information included in this Management's Discussion and Analysis contains forward-looking statements within the meaning of applicable securities legislation, including statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. All information contained in this MD&A, other than statements of current and historical fact, is forward-looking information. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

Forward-looking statements are subject to inherent risks and uncertainties. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include, among other things, risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. We caution that the foregoing list is not exhaustive, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on any forward-looking statements. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Business Status and Overview

PrimeWest Mortgage Investment Corporation was incorporated on March 22, 2005 pursuant to *The Business Corporations Act* (Saskatchewan). The Corporation's head office is situated at 307 Jessop Ave., Saskatoon, Saskatchewan S7N 1Y5 and its registered office is located at 1000 - 2002 Victoria Avenue, Regina, Saskatchewan S4P 0R7. The Corporation has no subsidiaries. The Corporation's fiscal year (**"Fiscal Year"**) is the twelve-month period ending on December 31st of each year.

PrimeWest Mortgage Investment Corporation is a reporting issuer under securities laws. The Corporation's Class A shares ("**Shares"**) trade on the Canadian Securities Exchange under the symbol PRI.

Business Status and Overview (continued)

PrimeWest commenced operations in October 2005 as a mortgage investment corporation (**"MIC"**) for the purpose of the *Income Tax Act* (Canada) (the **"Tax Act"**). As a MIC, provided that certain criteria is met, PrimeWest is not subject to income tax provided that all taxable income is distributed to shareholders. The distribution must be made within 90 days of our December 31st year end. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same tax position as if their proportionate share of mortgage investments made by the company had been made directly by the shareholder.

The mortgages transacted by the Corporation do not generally meet the underwriting criteria of conventional lenders and/or involve borrowers in rural areas generally not well serviced by major lenders. As a result, PrimeWest's investments are expected to be subject to greater risk and accordingly earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities. The Corporation's investment portfolio will vary from time to time depending on the Corporation's assessment of lending markets, geographical conditions and overall market conditions in Saskatchewan and elsewhere that the Corporation makes an investment.

To the extent that the funds of the Corporation are not invested in investments from time to time, funds will be held in cash deposited with a credit union or Canadian chartered bank or will be invested by the Corporation in short term deposits, savings accounts or government guaranteed income certificates so as to maintain a level of working capital for the ongoing operations of the Corporation.

As the Corporation holds a license to operate as a financing corporation under *The Trust and Loan Corporations, Act 1997* (Saskatchewan) it has the right to conduct its own mortgage transactions. It is the practice of the Corporation to utilize brokers (**"Brokers"**) registered pursuant to the provisions of *The Mortgage Brokers Act* (Saskatchewan), to seek out borrowers and submit mortgage applications to the Corporation. See "Business with Brokers". Upon mortgage approval, third party professional personnel prepare and register all mortgage security on behalf of the Corporation.

OPERATIONS

PrimeWest continues to primarily operate in the Province of Saskatchewan with some mortgage holdings in Manitoba and Alberta. The Corporation operates in a market where mortgage receivables continue to adjust as real estate prices decline due to the downturn in the economy.

At period end the Corporation held eight mortgages in various stages of the foreclosure process. Properties of six mortgages are expected to be listed for Judicial sale within the next six months..

The Corporation continues to seek options to manage two large loans which exist within the mortgage portfolio. The Corporation is not in priority position and payments are in arrears. The delay in realization of the mortgages coupled with the continuing soft market resulted in the Corporation increasing Loan Loss Provisions on these mortgages to the full extent of the loans. The Board and Management continue to take strides in an attempt to mitigate the losses of the Corporation and thereby improve the financial condition of the Corporation.

During the period ended June 30, 2018 the Corporation received proceeds from the judicial sale of one mortgaged property. Proceeds were also received on the payout of one mortgage. Proceeds have been applied against the line of credit.

OPERATIONS (continued)

All dividends and/or redemptions continue to be suspended until further notice.

At June 30, 2018 the Corporation invested $5,775,934 in 25 (December 31, 2017– $5,719,891 in 27) mortgages bearing interest at fixed rates from 5.0% to 13.0% (2017 – 5.0% to 13.0%) with maturities ranging from July 2018 to November 2021, secured by real property to which they relate and by additional security in certain circumstances.

In October 2017 the Corporation filed a Statement of Claim with the court of Queen's Bench for Saskatchewan against Donald Zealand, the former President and Chief Executive Office of PrimeWest. PrimeWest's claim against Mr. Zealand is for breach of corporate policy, gross negligence, and breach of fiduciary duty while acting as President and CEO. Damages in excess of Three Million dollars are being claimed. Mr. Zealand denies all allegations made as against him and pleads counter claim for damages for wrongful dismissal. PrimeWest solicitors have filed a defence to the counter claim and the action is progressing.

In June 2018 Randy Koroluk commenced a class action lawsuit in the Court of Queen's Bench for Saskatchewan against the existing and past directors (since 2015) of the Corporation. The legal action deals with oversight of the actions of Don Zealand, former CEO of the Corporation, and the collection and disposition of mortgaged assets since the departure of the former CEO. To the best of the Corporation's knowledge, the legal action has not been served on any of the named defendants and the court action cannot proceed until it has been certified as a class action by the Saskatchewan Court of Queen's Bench. A defence will be filed denying all allegations.

Subsequent to period end the Corporation was served with two Statements of Claim, one commenced by Debbie Gloria Burwash and one commenced by Granite Enterprises Inc. In each Statement of Claim, the plaintiff seeks rescission of its shares or damages in lieu of rescission. PrimeWest solicitors are preparing defences to the claims.

While the Board and Management continue to explore the best option to maximize shareholder value, the soft real estate market, lengthy foreclosure proceedings, and actions of lenders in priority position continue to cause recovery plans to be revisited. Potential merger and acquisition options are being considered. Management and the Board of Directors continue to reduce overhead costs while still seeking to place good quality mortgages with maturity terms of 6 months to 1 year.

At June 30, 2018 the financial results reflect an unaudited Net Asset Value of $4.70 per share.

YEAR END FINANCIAL INFORMATION

	2017 December 31	2016 December 31	2015 December 31
Total Revenue	$2,068,323	$3,205,297	$3,590,852
Total Comprehensive Income (loss)	($3,077,888)	($2,601,558)	($563,437)
Total Assets	$12,202,127	$17,848,686	$23,521,110
Total Liabilities	$2,998,485	$5,567,156	$10,093,019

QUARTERLY FINANCIAL INFORMATION

	Q2 2018 June 30	Q1 2018 March 31	Q4 2017 December 31	Q3 2017 September 30	Q2 2017 June 30	Q1 2017 March 31	Q4 2016 December 31	Q3 2016 September 30
Total Revenue	$356,537	$367,010	$373,621	$466,694	$588,325	$639,683	$701,633	$737,351
Total Comprehensive (Loss) Income	($68,603)	($241,912)	($2,858,656)	($39,659)	($257,062)	$77,489	$217,541	($2,768,365)
Total Assets	$12,320,427	$12,709,467	$12,202,127	$15,589,230	$14,473,441	$16,707,632	$17,848,686	$19,578,370
Total Liabilities	$3,427,300	$3,747,737	$2,998,485	$3,526,932	$2,371,484	$4,348,613	$5,567,156	$7,493,615
Shareholders' Equity	$8,893,127	$8,961,730	$9,203,642	$12,062,298	$12,101,957	$12,359,019	$12,281,530	$12,249,268
Shares Outstanding	1,890,729	1,890,729	1,890,729	1,890,729	1,890,729	1,890,729	1,890,729	1,890,729
Shareholders' Equity per share	$4.70	$4.74	$4.87	$6.38	$6.40	$6.54	$6.50	$6.48
Cash Dividends Declared	0	0	0	0	0	0	0	0
Cash Dividends Declared per Class A Share	0	0	0	0	0	0	0	0

INVESTMENT OBJECTIVES

The principal investment objective of the Corporation is to provide shareholders income while preserving capital for distribution or reinvestment. As a MIC, virtually all quarterly profits are distributed to the holders of the Common Shares. The Corporation expects to derive its earnings principally from the receipt of mortgage interest payments, fees and of interest on the cash reserves of the Corporation.

OPERATING RESTRICTIONS

PrimeWest operates in accordance with the standard restrictions and practices imposed by Canadian securities legislation. These standard restrictions and practices have been designed in part to ensure that the Corporation's investments are diversified and relatively liquid, and to ensure the proper administration of the Corporation.

In addition, PrimeWest's investment practices are subject to certain operating, lending and other restrictions which have been adopted by the Corporation's board of directors. According to these restrictions, the Corporation may not:

(i) make a mortgage loan if, immediately after the closing of the loan transaction, the amount so lent would be greater than 20% of the Corporation's net assets, while the net assets are in excess of $2,000,000;

(ii) guarantee securities or obligations of any person or Corporation;

(iii) engage in securities lending;

(iv) engage in derivative transactions for any purpose;

(v) develop, manage or acquire (except by foreclosure or other enforcement of its rights as mortgagee) any real property;

(vi) enter into a forward commitment binding on the Corporation unless the Corporation has, at the time such commitment is made, sufficient cash or "near cash" securities to fund the loan to which the commitment relates; or

(vii) otherwise conduct its business in a manner that would cause the Corporation not to qualify as a MIC, that would result in the Common Shares not being a "qualified investment" for a trust governed by a registered retirement savings plan, registered retirement income fund, registered education savings plan or deferred profit sharing plan (**"Registered Plans"**) or that would result in Common Shares being foreign property for the purpose of the Tax Act.

OPERATING RESTRICTIONS (continued)

Notwithstanding the irregular and unilateral actions of a former CEO, the Corporation strives at all times to observe the investment restrictions set forth in this paragraph.

Any change to the fundamental investment objectives of the Corporation requires shareholder approval given at a meeting of the shareholders of the Corporation called to consider such change.

INVESTMENT POLICIES

The Corporation has adopted certain policies which establish the investment criteria for the Corporation's investments, which are as follows:

(i) the Corporation may only invest in commercial and residential mortgage loans secured against real property situated in Canada and primarily in Saskatchewan, Manitoba, and Alberta.

(ii) the Corporation as a general practice maintains a portion of its total assets in cash or "near-cash" securities (such as units of money market funds) or an equivalent amount of funds available under the Corporation's line of credit financing in order to meet redemption requests and also to be in a position to redeem a prior mortgagee's interest in a given property if a Broker considers that it would be advantageous for the Corporation to do so having regard to the market value of the property and the amount of mortgage debt due to the Corporation. The Board will monitor the cash and credit position of the Corporation on a regular basis in order to maintain its cash, near-cash and/or credit reserve positions at a necessary level;

(iii) all bridge financing loans in which the Corporation invests will be secured by an interest against title to the real property that is the subject of the bridge financing loan and an irrevocable assignment of proceeds from the sale of such real property;

(iv) the Corporation may not make any loan or investment which does not meet the "Canadian content" requirements of paragraph 130.l(6)(c) of the Tax Act;

(v) the Corporation may not make a loan which, together with all other mortgage loans that have priority over or rank pari passu with such loan, exceeds 95% of the fair market value of the mortgaged property, except when:

    (a) such mortgage is insured under the National Housing Act (Canada) or any similar legislation of a province, or

    (b) the excess over 90% is insured by an insurance company registered or licensed under the Insurance Companies Act (Canada) or similar legislation of a Canadian province or territory;

(vi) the Corporation may not make a loan secured by a mortgage on a property in which:

    (a) any senior officer or director of the Corporation or of a Broker, or

    (b) any associate or affiliate of a person referred to in (a) above has an interest as mortgagor;

(vii) the Corporation will not trade in mortgages in the secondary market although the Corporation retains the ability, in exceptional circumstances, to assign a mortgage to a third party;

(viii) the Corporation may not hold a mortgage the initial term of which exceeds two years, but mortgages held by the Corporation may contain provisions permitting the mortgagor, when not in default, to renew the mortgage for one or more additional terms;

(ix) generally, the Corporation's mortgages will not secure debt incurred for the construction or development of real estate although the Corporation may from time to time engage, under strict guidelines, in bridge financing for such projects instead of holding idle cash; and

(x) traditional lenders will from time to time refer bridge financing opportunities to a Broker where the lender has provided a "take-out loan" (i.e. a commitment to make a loan secured by a first-ranking mortgage where such loan will be advanced upon completion of the construction of a building in order to repay a prior loan which financed such construction). The Corporation may provide bridge loan financing to clients of "take-out" lenders on a draw-down basis by means of higher interest loans for amounts equal to, in the aggregate, up to 95% of the appraised finished value of the property. Real property and/or personal property security will be obtained by the Corporation when providing this type of financing.

INVESTMENT POLICIES (continued)

The Board may approve an amendment to the investment policies of the Corporation from time to time.

If, due to a change in the provisions of the Tax Act or other legislation applicable to the Corporation, any of the foregoing investment policies and investment criteria requires amendment in order to comply with such change in legislation, the Board may make such change and such change will be binding on the Corporation. The Brokers will be required to comply with and observe such change immediately upon such change becoming effective.

The Corporation has a Credit Committee, which is comprised of at least two members chosen from amongst the members of the Board. The primary purpose of the Credit Committee is to oversee lending guidelines and to provide oversight in the review of delinquent loan files.

INVESTMENT CRITERIA

The Corporation has established investment criteria, which includes the following:

(i) the Corporation will make investments so that it maintains its status as a MIC;
(ii) loans will be secured by mortgages and/or other appropriate security interests in favour of the Corporation, either as sole mortgagee or co-mortgagee, and each mortgage will be duly registered as a charge against the real property which is the subject of the mortgage. All investments made with respect to loan applications submitted by a Broker, will be reviewed and will have received a positive recommendation by such Broker;
(iii) bridge financing loans will be secured by an irrevocable direction to pay such loans from the proceeds of a binding contract to sell real property and an irrevocable assignment of such proceeds in favour of the Corporation, either as sole assignee or co-assignee;
(iv) loans will be made to borrowers who deal with the Corporation, the Brokers and their affiliates, shareholders, officers and directors at arm's length;
(v) mortgages will be registered as a charge against real property, provided that the overall loan to appraised value ratio does not exceed 95% (including prior charges);
(vi) prior to funding the loan, the Corporation will obtain current appraisals on all properties which secure the loan. The appraisals will be completed by an accredited appraiser approved by the Corporation;
(vii) the initial term of each loan will not exceed a term of 24 months;
(viii) the Corporation will make loans primarily in the Province of Saskatchewan and may expand to other provinces and territories in Canada. While the Corporation will look, at least initially, primarily to Saskatchewan based mortgages for its investment opportunities, there are no restrictions on the amount of funds that may be invested by the Corporation in any particular Province or Territory of Canada;
(ix) the Corporation may advance additional monies on a loan in order to protect the loan, notwithstanding that the additional advance of funds may increase the loan to value ratio over and above the parameters set out above.

OPERATING RESULTS FOR THE QUARTER ENDED JUNE 30, 2018

Total comprehensive loss for the three months ended June 30, 2018 was ($68,603) compared to the total comprehensive loss of ($257,062) for the three months ended June 30, 2017.

For the six months ended June 30, 2018 the total comprehensive loss was ($310,515). The total comprehensive loss for the six months ended June 30, 2017 was ($179,573).

OPERATING RESULTS FOR THE QUARTER ENDED JUNE 30, 2018 (continued)

The losses are due to additional provisions accrued for mortgage losses. The real estate market continues to be soft resulting in increased days on market, increased carrying costs and reductions to selling prices.

At June 30, 2018 the Corporation had 25 mortgages outstanding with an average balance of $231,037. At December 31, 2017 the Corporation had 27 mortgages outstanding with an average mortgage balance of $211,848. During the period the Corporation received one mortgage payout. The Corporation also received proceeds from the judicial sale of one mortgaged property.

Revenue

Mortgage revenue for the three months ended June 30, 2018 was $356,537. This represents a decrease from the $588,325 generated in the three months ended June 30, 2017. The 2018 revenue consisted of $341,537 in interest and $15,000 in lender fees charged to borrowers.

The 2018 year-to-date mortgage revenue was $723,547 consisting of $689,014 in interest and $34,533 in mortgage fees. The 2017 year-to-date mortgage revenue was $1,228,008 consisting of $1,131,923 in interest and $96,085 in mortgage fees.

Revenue reduction is a result of the decrease in the number of mortgages currently held. At June 30, 2018 the Corporation had 25 mortgages outstanding while at June 30, 2017 the Corporation had 34 mortgages outstanding.

Expenses

Interest expense for the three months ended June 30, 2018 was $47,663 compared to $51,358 for the three months ended June 30, 2017. The 2018 year-to-date interest expense was $94,072 compared to the 2017 year-to-date interest expense of $128,660. A portion of the 2017 interest expense was at a higher rate than that in 2018 due to higher finance costs in the additional line of credit made available as well as the debenture obtained to address short term cash flow issues.

Office and administration expense for the three months ended June 30, 2018 was $20,586 compared to the three months ended June 30, 2017 of $9,484. The 2018 year-to-date office and administration expense was $36,866 compared to the 2017 year-to-date expense of $25,899. A portion of the 2018 increased expense was a result of office relocation costs.

Contracted services expense for the three months ended June 30, 2018 was $4,190 compared to $5,328 for the three months ended June 30, 2017. The 2018 year-to-date contracted services expense was $6,638 compared to the 2017 year-to-date expense of $12,096.

Insurance expense for the three months ended June 30, 2018 was $6,721 compared to $4,131 for the three months ended June 30, 2017. The 2018 year-to-date insurance expense was $13,430 compared to the 2017 year-to-date expense of $8,274. The increase in 2018 was a result of premium increases to both the Director's error and omission insurance as well as the Blanket Property liability insurance.

Professional fees for the three months ended June 30, 2018 of $44,800 have decreased from the fees of $68,249 for the three months ended June 30, 2017. The 2018 year-to-date professional fees are $79,955 compared to the 2017 year-to-date professional fees of $99,675. For the six months ended June 30th, the 2017 costs included higher legal fees related to the claim against a former President and CEO of the Corporation.

Wages and benefits of $53,467 for the three months ended June 30, 2018 reflect a decrease from the three months ended June 30, 2017 amount of $67,830. The 2018 year-to-date wages and benefits of $107,202 reflect a reduction from the 2017 year-to-date amount of $145,644. This was due to a reduction in staff and a realignment of responsibilities.

INVESTMENT PORTFOLIO

The Corporation's portfolio of mortgage investments is made up of investments in Residential and Commercial properties. The majority of the investments are in Saskatchewan.

The following tables illustrate the Corporation's portfolio of mortgage investments allocated by Security Position, Region and Interest Rate before the allowance for mortgage losses of $7,608,129 (2017 - $7,643,837):

i) Security Position by Number of Mortgages

	June 30, 2018	December 31, 2017
	No. of Mortgages	**No. of Mortgages**
Residential - First Mortgages	**13**	14
Residential - Non-First mortgages	**5**	5
Commercial - First Mortgages	**5**	6
Commercial – Non-First Mortgages	**2**	2
Total Number of Mortgages	**25**	27

INVESTMENT PORTFOLIO (continued)

ii) Security Position by % of Mortgage Investments ($)

	June 30, 2018 % of Mortgage Investments ($)	December 31, 2017 % of Mortgage Investments ($)
Residential - First Mortgages	**28.9%**	31.5%
Residential - Non-First mortgages	**1.1%**	1.2%
Commercial - First Mortgages	**40.6%**	39.5%
Commercial – Non-First Mortgages	**29.4%**	27.8%
Total	**100.0%**	100.0%

iii) Region

	June 30, 2018 % of Mortgage Investments ($)	December 31, 2017 % of Mortgage Investments ($)
Saskatchewan	**83.9%**	84.7%
Alberta	**15.7%**	14.9%
Manitoba	**.4%**	.4%
Total	**100.0%**	100.0%

INVESTMENT PORTFOLIO (continued)

iv) Interest Rate

Distribution of mortgages:

Effective interest rates	Number of mortgages	June 30 2018 Amortized cost and fair value	Number of mortgages	December 31 2017 Amortized cost and fair value
4 – 5%	**1**	**74,017**	1	75,753
8 – 9%	**2**	**79,919**	3	137,680
9 – 10%	**10**	**7,419,157**	11	7,393,170
10 – 11%	**3**	**3,512,007**	3	3,355,392
11 – 12%	**2**	**811,409**	1	154,653
12 – 13%	**7**	**1,417,098**	8	2,218,310
Sub Total	**25**	**13,313,607**	27	13,334,958
Add: Accrued interest receivable		**70,456**		28,770
Less: Allowance for mortgage losses		**(7,608,129)**		(7,643,837)
Total	**25**	**5,775,934**	27	5,719,891

CAPITAL MANAGEMENT

The Corporation seeks to facilitate the management of its capital requirements by preparing annual expenditure budgets that are updated as necessary and approved by the Board of Directors. The Company may occasionally need to increase these levels to facilitate acquisition or expansion activities, however there are no established quantitative returns on capital requirements for management. The Company considers the capital structure to consist of debt and shareholders' equity. The Company considers debt to include bank indebtedness, demand loans and due to related parties.

	June 30, 2018	**December 31, 2017**
Demand loan	**3,234,765**	2,907,037
Other liabilities	**192,535**	91,448
Total debt	**3,427,300**	2,998,485
Shareholders' equity	**8,893,127**	9,203,642
Total capitalization	**12,320,427**	12,202,127

CAPITAL MANAGEMENT (continued)

	June 30, 2018	December 31, 2017
Total Assets	$12,320,427	$12,202,127
Total Debt	$3,427,300	$2,998,485
Shareholders' Equity	$8,893,127	$9,203,642
Total Liabilities and Shareholders' Equity	$12,320,427	$12,202,127
Debt to total capitalization (%)	27.8%	24.6%
Net interest & fees loss after provision for mortgage losses	($7,906)	($2,464,314)

The Corporation 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 Corporation 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.

DIVIDEND DISTRIBUTIONS

The Board of Directors suspended all dividends and/or redemptions until further notice.

LIQUIDITY AND CAPITAL RESOURCES

Management reviews the mortgage portfolio continuously with the best information available at the time. An allowance for mortgage loan losses is established consisting of expected credit losses on defaulted mortgages that, in management's judgment, is adequate to absorb all credit related losses in the portfolio. Expected credit losses include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The Corporation regularly establishes provisions for each mortgage receivable, if applicable.

Management reviews each individual property mortgage on a monthly basis to determine shifting risks due to both changing specific client circumstances as well as general overall market conditions. The latter may include more specific situations relative to changes in business and industry.

Adjustments to accrued interest for each mortgage security asset are calculated on the daily balance of each mortgage asset to reflect accurate oversight and provisioning by Management and the Board. This method of provisioning ensures interest revenues on specific mortgages at risk of default are provisioned in a very timely manner and eliminates unnecessary swings in provision adjustments thereby allowing more consistent reporting of revenue and potential losses.

The length of time required to realize on a security increases the specific allowances required.

Capital and interest provisions are reported in quarterly company financial information reported both on SEDAR and the company web-site as required by Security Regulations.

Refer to the notes under Critical Accounting Estimates for further disclosure.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation's business constitutes of advancing funds secured by real estate mortgage and the administration and collection of principle and interest under these mortgages. The Corporation does not have any off-balance sheet transactions with the exception of the lease agreement for its premises. A new lease agreement for a smaller office space has been signed which expires May 31, 2019.

RELATED PARTY TRANSACTIONS

The Corporation is managed by the Interim Chief Executive Officer and Chief Financial Officer and the administration of business activities is handled by employees. The Board of Directors oversee and provide direction to management. (See Note 9 of the Interim Financial Statements)

FINANCIAL INSTRUMENTS

The financial instruments involve the Corporation's credit facility and the mortgages receivable.

The authorized limit of the credit facility is the lesser of the margin calculation and $7,500,000. (December 31, 2017 - $7,500,000). It bears interest at the rate of prime interest plus 2.0% (December 31, 2017 – prime plus 1.5%). The credit facility is secured by a general security agreement over the assets of the Corporation.

As at June 30, 2018, the maximum margin available was $5,787,300 of which $3,234,765 was utilized.

The annual review of the credit agreement was completed in June 2018.

CRITICAL ACCOUNTING ESTIMATES

The assessment for impairment to identify losses within the mortgage portfolio is a critical aspect of Management's function. In order to identify losses that may have occurred but which have not been identified, the Corporation groups its mortgage investments within similar risk characteristics. All mortgages are assessed individually for impairment.

In addition to individual assessment, the Corporation has elected to apply a lifetime expected credit losses allowance over its mortgage portfolio not considered to be in default. Credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events over the expected life of a financial instrument.

The probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD") inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. The measurement of expected credit losses considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

As of June 30, 2018 the Corporation had an impairment allowance of $7,608,129 which includes Expected Credit Losses on Defaulted Mortgages of $7,272,704 and Other Expected Lifetime Credit Losses of $335,425. The impairment allowance at December 31, 2017 was $7,643,837 which included Expected Credit Losses on Defaulted Mortgages of $7,345,868 and Other Expected Lifetime Credit Losses of $297,969.

Approximately 85% of the Expected Credit Losses on Defaulted Mortgages at June 30, 2018 can be attributed to 3 Commercial mortgages representing $6,200,955 in Allowances.

MANAGEMENT/CONTROL/PROCEDURES

Management is responsible for the information contained within this MD&A and to ensure that both the internal and external information that is disclosed by the Corporation is correct and materially complete.

The Board of Directors provide an oversight role, and the Audit Committee assists in the provision and review of financial information contained with the MD&A and the financial statements for the quarter ended June 30, 2018.

The Corporation has internal controls respecting its financial reporting which are adhered to in order to ensure reliable financial reporting and that the financial statements prepared for external purposes are in accordance with IFRS.

MARKET OUTLOOK & CORPORATE RISKS

The following comments are qualified in their entirety by the Notice Regarding Forward-Looking Information at the beginning of this MD & A.

The market for residential and commercial mortgages continues to be in Saskatchewan with one outstanding mortgage in Alberta and one in Manitoba. With a slowdown in the economy Investors in the Corporation may have concerns relative to the real estate market in general and the potential impact on companies in this industry affecting their ability to generate profits, pay dividends and redeem shares to their investors in the future.

Efforts continue to place quality mortgages. The receipt of funds from realized properties, sales and mortgage repayments together with the line of credit is sufficient to permit new mortgage loans to be underwritten. At period end the Corporation had margin available of $2,552,535.

We follow strategies to limit market risks due to changes in the overall economy and or specific sectors of the economy which may impact our business model and our resulting mortgage portfolio. We maintain prudent lending practices within the guidelines established for Mortgage Investment Corporation's ("MIC") by Government Regulations. MIC's are allowed to lend to an initial maximum Loan To Value ("LTV") of up to 95% of the appraised value of property being mortgaged and we have internal guidelines established to utilize a lower threshold of 80% LTV.

Risks as a mortgage lender in the Saskatchewan market, include volatility in the real estate property market, which could be driven by changes in the resource industry.

Additional risks do exist which are typical for all business operations conducted in the mortgage lending business generally. These risks include Government legislative changes, National Interest Rate environment, mortgage backed security loans, competition activities, potential environmental issues mainly with commercial loans, borrower solvency, and other factors as outlined in previous sections of our information document.

ADDITIONAL INFORMATION

Prime West Mortgage Investment Corporation, as a reporting issuer, files all material documents and information on Sedar. This additional information may be viewed at www.sedar.com, on the Canadian Securities Exchange at www.thecse.com under the symbol PRI and on our website at www.primewest.ca.