

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE  
FOR THE YEAR ENDED DECEMBER 31, 2012**

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can obtain a copy of the annual financial statements at your request, and at no cost, by any of the following methods:

By telephone: (888) 955-1002

By Internet: Our Website at [www.PrimeWest.ca](http://www.PrimeWest.ca)  
SEDAR at [www.sedar.com](http://www.sedar.com)

By mail: PrimeWest Mortgage Investment Corporation  
700 -750 Spadina Crescent East  
Saskatoon, Saskatchewan S7K 3H3

Shareholders may also contact us using one of these methods to request a copy of the Company's proxy voting policies and procedures, proxy voting disclosure record, and quarterly portfolio disclosure.

**MANAGEMENT DISCUSSION OF FUND PERFORMANCE**

**Investment Objective and Strategy**

***Investment objective***

The Company's objective is to generate income while preserving, for its beneficial shareholders, capital for re-investment. As a mortgage investment corporation, the Company expects to derive its earnings principally from the receipt of mortgage interest payments, mortgage fees, and interest or interest like distributions on the cash reserves of the Company.

***Investment Strategy***

The Company will seek to achieve its investment objective by lending on the security of mortgages on real properties in urban western Canada, primarily situated in the province of Saskatchewan. The mortgages transacted by the Company will not generally meet the underwriting criteria of conventional lenders. The Company, however, does not trade in mortgages in the secondary market. The mortgage term is not to exceed two years, but providing the mortgage is in good standing and mutual agreement is reached, the mortgage may be renewed for one or more additional terms. As a result, the Company's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities. The Company maintains approximately 10% of its total assets in cash or near

cash securities in order to meet redemption requests and thereby provide an element of liquidity to the investor.

## Risks

As of the date of this Management Report of Fund Performance, management is not aware of any negative risk factor which has adversely affected the return on investments for 2012. Management must continually identify and evaluate mortgage applications that meet its eligibility criteria. All bad or questionable loans have been accounted for in the financial statements and no trends are known at this time that will likely affect the capital base of the Company, the ability of the Company to find and fund mortgage loans or decrease the Company's investment income.

The business operations of the Company are subject to the following risks, among others, that could affect shareholder's equity and the Company's ability to generate returns: relative illiquid nature of mortgage investments, inability of borrowers to make mortgage payments, inability of the Company to find suitable mortgage investments, changes in property value, ranking of mortgages, no guarantees to investors on returns, and reliance on third parties. These risks are described in greater detail in the Company's Annual Information Form, a copy of which may be obtained through SEDAR at [www.sedar.com](http://www.sedar.com), or by visiting our website at [www.PrimeWest.ca](http://www.PrimeWest.ca).

## Results of Operations

The financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and National Instrument 81-106 Investment Funds Continuous Disclosure, and all amounts are expressed in Canadian dollars.

### *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.

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	\$ <u>(218,698)</u>
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.

### ***Operating Results for the Period***

The following table presents the results from operations for the indicated years ended December 31:

	<b>2012</b>	<b>2011(Restated)</b>
<b>Total revenue</b>	\$ 3,769,604	\$ 3,193,580
Per weighted average common share	\$ 1.80	\$ 1.48
<b>Net earnings</b>	\$ 2,196,493	\$ 1,572,981
Per weighted average common share	\$ 1.05	\$ 0.73

The revenues of the Company represent mortgage fees and interest from investments, substantially all of which is earned on its investment in mortgages. Increases in revenues were a reflection of two factors: (1) an increased turnover of mortgages and (2) an increase in the weighted average interest rate and mortgage fees earned on new mortgages during the year.

Basic net earnings per share is computed by dividing net earnings for the year by the weighted average number of units outstanding during the year.

Diluted net earnings per share are computed similarly to basic net earnings per unit. Because there are no dilutive instruments outstanding, basic and fully diluted earnings per share are the same.

### ***Outstanding Share Data and Transactions for the Period***

The Company is authorized to issue an unlimited number of common shares. The following table presents a summary of share data and transactions for the indicated years ended December 31:

<b>Share Capital - Number of Shares</b>	<b>2012</b>	<b>2011</b>
Balance – beginning of year	2,008,591	2,226,796
Issued	12,000	500
Redeemed	(5,286)	(138,705)
<b><i>Balance – end of year</i></b>	<b>2,095,305</b>	<b>2,008,591</b>

<b>Share Capital – Value</b>	<b>2012</b>	<b>2011</b>
Balance – beginning of year	\$ 19,546,640	\$ 20,839,731
Issued	120,000	5,000
Redeemed	(49,478)	(1,298,091)
Special resolution of the shareholders (below)	2,000,000	-
<b><i>Balance – end of year</i></b>	<b>\$ 17,617,162</b>	<b>\$ 19,546,640</b>

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.

### ***Credit Line***

The margined, demand credit line bears interest at prime plus 1.00%, has an authorized limit of \$15,000,000 and is secured by a general security agreement and an assignment of debenture mortgages. Subsequent to year end, the Company moved 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.

<b>Credit Line Balance</b>	<b>2012</b>	<b>2011(Restated)</b>
Balance – beginning of year	\$ 7,912,243	\$ 6,541,731
Minimum loan balance – for the year	3,323,983	1,742,162
Maximum loan balance – for the year	8,727,029	8,933,834
<b><i>Balance – end of year</i></b>	<b>\$ 5,759,091</b>	<b>\$ 7,912,243</b>
<b><i>Percentage of net assets – end of year</i></b>	<b>29%</b>	<b>41%</b>

*The proceeds of the line of credit, together with the Company's capital are used to invest in mortgages.*

### **Recent Developments**

Since December 31, 2012 the Company has not adopted any changes that have a material effect on operations.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Company and are intended to help understand the Company's financial performance over the past two years. The information is derived from the Company's audited annual financial statements.

### Net Asset Value of the Company per Share:

	2012	2011(Restated)
Net asset value, beginning of year	\$ 9.03	\$ 9.15
Increase (decrease) from operation:		
Total revenue	1.80	1.48
Total expenses	(0.75)	(0.75)
<b>Total increase (decrease) from operations</b>	<b>\$ 1.05</b>	<b>\$ 0.73</b>
Distributions:		
As dividend	\$ 0.80	\$ 0.80
<b>Total annual distributions</b>	<b>0.80</b>	<b>0.80</b>
<b><i>Net asset value at December 31</i></b>	<b>\$ 9.28</b>	<b>\$ 9.03</b>

Net asset value and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the year. Distributions were paid in cash.

### Declared Dividends

#### Dividends and Dividend Dates Fiscal 2012

Record Date	Payment Date	Dividends Declared
November 15, 2012	December 31, 2012	\$0.20
August 15, 2012	September 30, 2012	\$0.20
May 15, 2012	June 30, 2012	\$0.20
February 15, 2012	March 31, 2012	\$0.20

#### Dividends and Dividend Dates Fiscal 2011

Record Date	Payment Date	Dividends Declared
November 15, 2011	December 31, 2011	\$0.20
August 15, 2011	September 30, 2011	\$0.20
May 15, 2011	June 30, 2011	\$0.20
February 15, 2011	March 31, 2011	\$0.20

Since PrimeWest Mortgage Investment Corporation is a mortgage investment corporation (MIC) as defined by the MIC securities regulations and therefore is not subject to income tax, dividends received by investors of the Company are taxed as interest. The shares of the Company are eligible for investment in registered plans under federal securities legislation.

**Rates and Supplemental Data (December 31):**

	<b>2012</b>	<b>2011(Restated)</b>
Net assets	\$ 19,441,641	\$ 18,850,317
Number of shares outstanding	2,095,305	2,088,591
Management expense ratio	5.43%	5.83%
<b><i>Portfolio turnover rate</i></b>	<b>72.0%</b>	<b>75.5%</b>

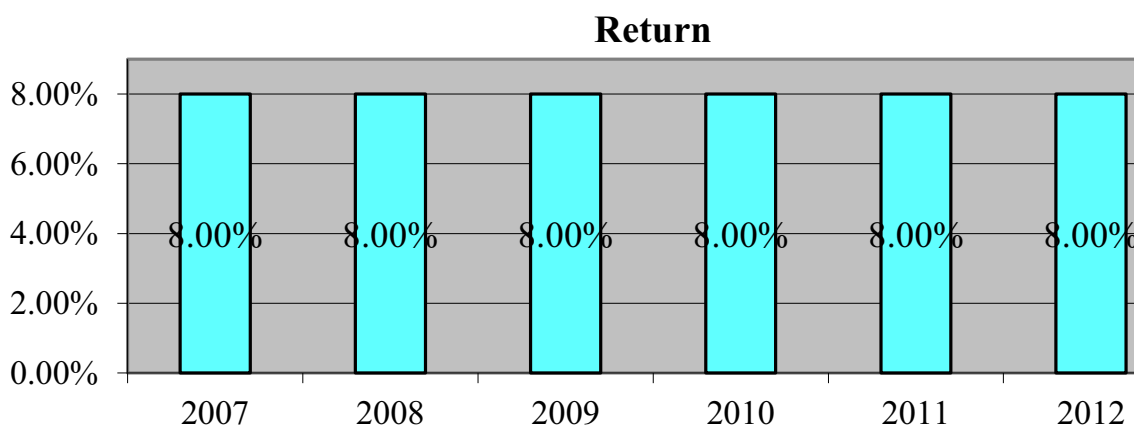
The Company calculates the portfolio turnover ratio by dividing the mortgage payouts by the monthly average mortgage receivable balance.

**PAST PERFORMANCE**

The Company became a reporting issuer on December 5, 2007 pursuant to an initial public offering by way of prospectus. Although past performance can help you understand the risk of investing in the Company, it is not indicative of future performance.

**Year-by-Year Returns**

The Company’s share issuance price is fixed at \$10.00 per share. Since the Company became a reporting issuer in December 2007, the Company has paid a quarterly dividend of \$0.20 per share. The following bar chart shows the Company’s annual performance for each of the years shown.



## Annual Returns

The following table presents the Company's annual return for each share:

One year	8.0%
Since inception	8.0%

## Summary of Investment Portfolio

The following represents the Company's 25 largest investments as at December 31, 2012

<b>Asset</b>	<b>Market Value</b>	<b>Percentage of Net Assets</b>
Private Mortgages (1)	\$ 25,283,207	130%
<i>Cash and cash equivalents</i>	\$ 1,079,464	5%

*(1) These mortgages are uninsured conventional mortgages with interest rates ranging from 7.95% to 14.0% and terms of maturity ranging from 1 month to 2 years. A further breakdown of the mortgages can be found in the Statement of Investment Portfolio which forms part of the Company's financial statements.*

The actual holdings will change following this date due to on-going portfolio transactions in the Company. A quarterly portfolio update may be obtained by contacting the Corporate Secretary by telephone toll-free at (888) 955-1002 or by mail at PrimeWest Mortgage Investment Corporation, 700 - 750 Spadina Crescent East, Saskatoon, Saskatchewan, S7K 3H3.