



Financial Statements

December 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
PrimeWest Mortgage Investment Corporation

We have audited the accompanying financial statements of PrimeWest Mortgage Investment Corporation, which comprise the statements of financial position as at December 31, 2014 and 2013, and January 1, 2013, and the statements of comprehensive income, changes in shareholder's equity and cash flows for the years ended December 31, 2014 and 2013, and a summary of significant accounts policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PrimeWest Mortgage Investment Corporation as at December 31, 2014 and 2013, and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

SASKATOON, SASKATCHEWAN

March 25, 2015

Chartered Professional Accountants

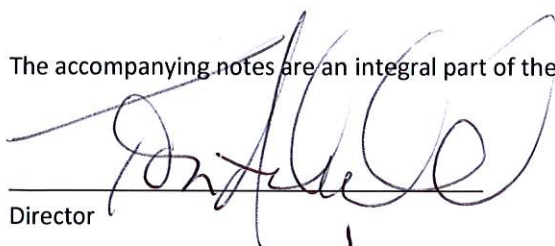


A member firm of Ernst & Young Global Limited

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
Statement of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2014 \$	December 31, 2013 \$	January 1, 2013 \$
ASSETS				
Cash and cash equivalents		62,848	69,085	1,079,464
Loan receivable	9	10,800	10,800	10,800
Prepaid expenses		24,455	31,382	52,299
Mortgages receivable	10	24,605,080	21,407,051	25,283,207
Mortgage interest receivable		236,256	173,137	226,663
Property and equipment	11	12,081	21,793	17,630
Assets taken in settlement of debt	12	660,884	780,500	718,800
Total Assets		25,612,404	22,493,748	27,388,863
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Demand loan	13	8,642,384	2,281,782	5,759,091
Trade and other payables		128,062	138,319	183,214
Due to related parties	16	-	-	1,500,000
Unearned revenue		374,004	479,204	504,917
		9,144,450	2,899,305	7,947,222
Shareholders' Equity				
Shareholders' capital	14	14,135,065	17,617,162	17,617,162
Retained earnings		2,332,889	1,977,281	1,824,479
		16,467,954	19,594,443	19,441,641
Total Liabilities and Shareholders' Equity		25,612,404	22,493,748	27,388,863
Shares outstanding	14	1,722,193	2,095,305	2,095,305
Commitments	19			

The accompanying notes are an integral part of these Financial Statements.



Director



Director

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
Statement of Comprehensive Income
(Expressed in Canadian Dollars)

		For the years ended	
	Notes	December 31, 2014 \$	December 31, 2013 \$
Income			
Mortgage interest		2,440,556	2,150,669
Mortgage interest on delinquents	10	97,711	-
Fees		961,836	978,479
		3,500,103	3,129,148
Interest and fees expense			
Interest		162,483	146,813
Fees		60,091	18,217
		222,574	165,030
Net interest and fees income		3,277,529	2,964,118
(Recovery) bad debts and change in provision for mortgage losses	10	(12,920)	(23,246)
Change in provision for interest on delinquents	10	97,711	-
(Gain) loss on disposal of assets taken in settlement of debt		141,128	(29,845)
Net interest and fees income after provision for mortgage losses		3,051,610	3,017,209
Expenses			
Advertising and promotion		59,368	35,852
Contracted services		39,279	39,434
Depreciation of property and equipment	11	10,328	8,503
Directors' fees	16	116,100	117,358
Insurance		26,316	54,788
Office and administration		132,137	130,125
Professional fees		153,422	179,029
Rent		46,383	43,904
Wages and benefits		582,142	579,160
		1,165,475	1,188,153
Total comprehensive income for the year		1,886,135	1,829,056
Earnings per share			
Basic and diluted	15	\$0.97	\$0.87

The accompanying notes are an integral part of these Financial Statements.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
Statement of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Notes	Shareholders' capital \$	Retained earnings \$	Total equity \$
As at January 1, 2013		17,617,162	1,824,479	19,441,641
Dividends		-	(1,676,254)	(1,676,254)
Total comprehensive income for the year		-	1,829,056	1,829,056
As at December 31, 2013		17,617,162	1,977,281	19,594,443
As at January 1, 2014		17,617,162	1,977,281	19,594,443
Share issuance	14	100,000	-	100,000
Share redemption	14	(3,582,097)	-	(3,582,097)
Dividends		-	(1,530,527)	(1,530,527)
Total comprehensive income for the year		-	1,886,135	1,886,135
As at December 31, 2014		14,135,065	2,332,889	16,467,954

The accompanying notes are an integral part of these Financial Statements.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Statement of Cash Flows

(Expressed in Canadian Dollars)

	Notes	For the years ended	
		December 31, 2014 \$	December 31, 2013 \$ (note 4)
Operating activities			
Total comprehensive income for the year		1,886,135	1,829,056
Non-cash adjustments to reconcile loss from operations to net cash flows:			
Depreciation of property and equipment	11	10,328	8,503
(Recovery) bad debt and provision for mortgage losses	10	(12,920)	(23,246)
Change in provision for interest on delinquents	10	97,711	-
(Gain) loss on disposal of assets taken in settlement of debt		141,128	(29,845)
Mortgages funded during the year		(13,027,624)	(13,984,597)
Mortgages discharged during the year		8,909,456	16,649,556
Costs incurred to sell asset taken on settlement of debt		(79,664)	(121,711)
Proceeds from disposal of assets taken in settlement of debt		893,500	1,324,299
Net change in non-cash working capital relating to operating activities:			
Mortgage interest receivable		(63,119)	53,526
Prepaid expenses		6,927	20,917
Trade and other payables		(10,257)	(44,895)
Unearned revenue		(105,200)	(25,713)
Net cash flows from operating activities		(1,353,599)	5,655,850
Investing activities			
Purchase of property and equipment	11	(616)	(12,666)
Net cash flows from investing activities		(616)	(12,666)
Financing activities			
Due to related parties	16	-	(1,500,000)
Issuance of share capital		100,000	-
Redemption of share capital		(3,582,097)	-
Dividends paid	14	(1,530,527)	(1,676,254)
Repayment of demand loan		6,360,602	(3,477,309)
Net cash flows from financing activities		1,347,978	(6,653,563)
Net increase (decrease) in cash and cash equivalents		(6,237)	(1,010,379)
Cash and cash equivalents, beginning of period		69,085	1,079,464
Cash and cash equivalents, end of period		62,848	69,085
Supplemental cash flow information:			
Interest paid		163,483	122,965

The accompanying notes are an integral part of these Financial Statements.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

1 Incorporation and Operations

PrimeWest Mortgage Investment Corporation (the "Company") was incorporated under *The Saskatchewan Business Corporations Act* 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 Provinces of Saskatchewan, Manitoba, Alberta 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 as a general practice, the Company restricts lending to a maximum of 85%.

The address of the registered office is #700 – 750 Spadina Crescent East, Saskatoon, Saskatchewan S7K 3H3.

Reporting status change

As at January 1, 2014, the Company has transitioned from an Investment Fund to a Regular Reporting Issuer. The reclassification did not have any impact on the corporate governance of the Company other than the Independent Review Committee was dissolved. Some key differences between the operation of the Company before and after reclassification are as follows:

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

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

2 Statement of Compliance

These Financial Statements for the year ended December 31, 2014 represent the Company's first annual Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS"), and interpretations as issued by the International Accounting Standards Board ("IASB").

The Company adopted IFRS in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") with a transition date to IFRS of January 1, 2013. Consequently the comparative figures for 2013 and the Company's Statement of Financial Position as at January 1, 2013 have been restated from pre-changeover accounting principles generally accepted in Canada ("Canadian GAAP") to comply with IFRS.

IFRS 1 allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been used they are explained in note 3.

The Financial Statements of the Company for the period ended December 31, 2014 were authorized for issue in accordance with a resolution of the directors on March 25, 2015.

3 First-Time Adoption and Explanation of Transition to IFRS

In preparing these Financial Statements, the Company has elected to apply the following transitional provisions permitted by IFRS 1:

Exemptions:

- The Company has elected to make use of the optional exemption which allows prospective application for modifications made on or after the Transition Date of IFRIC 4 regarding arrangements containing a lease
- The Company has elected to retain the expense recognized under Canadian Generally Accepted Accounting Principles with regards to IFRS 2 Share Based Payments. As a result IFRS will not be applied retrospectively to stock options that vested before the Transition Date.

Exceptions:

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

As stated in note 2, the Financial Statements for the year ended December 31, 2014 are the Company's first annual Financial Statements prepared under IFRS.

The accounting policies in note 6 have been applied in preparing the Financial Statements for the year ended December 31, 2014, the comparative information for the year ended December 31, 2013, and the opening IFRS statement of financial position as at January 1, 2013.

There were no changes in the Statement of Financial Position, Statement of Comprehensive Income or Statement of Cash Flows upon transition from Canadian GAAP to IFRS.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

4 Basis of Preparation

Basis of measurement

The Financial Statements were prepared under the historical cost convention.

The principal accounting policies are set out in note 6.

Use of estimates and judgments

The preparation of Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in note 5.

Functional and presentation currency

These Financial Statements are presented in Canadian dollars, which is the Company's functional currency.

5 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the Financial Statements are:

Allowance for mortgage losses

The Company reviews its individually significant mortgages at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Company makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Key assumptions in determining the allowance for impaired loans provision

The Company has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Company estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment (losses). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

5 Significant Accounting Judgements, Estimates and Assumptions (continued)

For purposes of the collective provision loans are classified into separate groups with similar risk characteristics, based on the type of product and type of security. The Company currently does not require a collective provision for loans as specific provisions are determined to be adequate.

6 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

A) Financial instruments

Classification and measurement

All financial instruments are initially recognized at fair value at acquisition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as described below. Transactions to purchase or sell these items are recorded on the settlement date. During the year, there has been no reclassification of financial instruments.

Financial instruments classified as fair value through profit or loss

Financial instruments classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's financial instruments classified as fair value through profit or loss include cash and cash equivalents.

Available for sale financial assets

Available for sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Certain equity instruments which do not trade in an open market and whose fair value cannot be reliably measured are recorded at cost. The Company does not have any financial instruments classified as available for sale.

Held-to-maturity financial assets

Financial assets classified as held-to-maturity are subsequently measured at amortized cost using the effective interest rate method. The Company does not have any financial instruments classified as held to maturity.

Loan and receivables

Financial assets classified as loans and receivables are subsequently measured at amortized cost. The Company's financial instruments classified as loans and receivables include all mortgages receivable and accrued interest thereon.

Other financial liabilities

Financial instruments classified as other financial liabilities include demand loan, trade and other payables, due to related parties and unearned revenue. Other financial liabilities are subsequently carried at amortized cost.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

6 Summary of Significant Accounting Policies (continued)

De-recognition of financial assets

De-recognition of a financial asset occurs when:

- The Company does not have rights to receive cash flows from the asset;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
 - The Company has transferred substantially all the risks and rewards of the asset, or
 - The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred or retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in comprehensive income.

B) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

The Company classifies fair value measurements recognized in the Statement of Financial Position using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment, considering factors specific to an asset or a liability and may affect placement within the fair value hierarchy.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

6 Summary of Significant Accounting Policies (continued)

C) Cash

Cash and cash equivalents comprise cash on hand and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management system. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

D) 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. Interest revenue is recorded on the accrual basis using the effective interest method. Mortgage administration fees are amortized over the term of the mortgage using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the carrying amount of the financial asset.

E) Allowance for loan impairment

Allowance for loan impairment represents specific and collective provisions established as a result of reviews of individual loans and groups of loans. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes judgments about the credit worthiness of the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Mortgages receivable that have been assessed individually and found not to be impaired are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective provision takes account of data from the loan portfolio and based on analysis of historical data, such as credit quality, levels of arrears, historical performance and economic outlook.

Individual allowances are established by reviewing the credit worthiness of individual borrowers and the value of the collateral underlying the loan. Collective allowances are established by reviewing specific arrears and current economic conditions.

Restructured loans are not considered impaired where reasonable assurance exists that the borrower will meet the terms of the modified debt agreement. Restructured loans are defined as loans greater than 90 days delinquent that have been restructured outside the Company's normal lending practices as it relates to extensions, amendments and consolidations.

A mortgage receivable is classified as impaired and a provision for loss established 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. It is the Company's policy that whenever a payment is 90 days past due, mortgages are classified as impaired unless they are fully secured or collection efforts are reasonably expected to result in repayment of the debt. The Company maintains a delinquency report and when three payments are missed the Company includes the mortgage on this report.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

6 Summary of Significant Accounting Policies (continued)

Impairment is assessed at each reporting date, on a mortgage-by-mortgage basis and specific allowances are recorded if management determines that the mortgage receivable is impaired. In such cases, a specific provision is established to write down the loan to the estimated future net cash flows from the loan discounted at the loans' original effective interest rate. In cases where it is impractical to estimate the future cash flows, the carrying amount of the loan is reduced to its fair value calculated based on an observable market price. Any previously accrued but unpaid interest on the loan is charged to the allowance for loan impairment. Interest income after the impairment is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

F) Assets taken as settlement of debt

Assets taken as settlement of debt are initially recorded at the lower of cost and estimated net realizable value. Cost comprises the balance of the loan at the date on which the Company obtains title to the asset plus subsequent disbursements related to the asset, less any revenues or lease payments received. Assets taken as settlement of debt are subsequently valued at the lower of their carrying amount and fair value less cost of disposal.

G) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses if any. Such cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different lives, they are accounted for as separate items of property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognized in the Statement of Comprehensive Income as incurred.

Depreciation is calculated to recognize the cost less estimated residual value using the straight-line method over the estimated useful life of the assets as follows:

	Rate
Computer equipment	3 years
Furniture and equipment	3 years

Supplies are expensed in the year consumed.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Gains or losses arising from de-recognition of an item of property and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Statement of Comprehensive Income when the asset is derecognized.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

6 Summary of Significant Accounting Policies (continued)

H) Impairment of financial assets

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the financial asset is reduced through the use of the provision for impaired financial assets and the amount of the impairment loss is recognized in profit or loss.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. The calculation of the present value of estimated future cash flows reflects the projected cash flows including provisions for impaired financial assets, prepayment losses, and costs to securitize and service financial assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss.

I) Leases

A lease that transfers substantially all of the benefits and risks of ownership is classified as a finance lease. At the inception of a finance lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the asset's fair market value at inception of the lease. Assets under finance leases are amortized on the straight-line basis, over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

J) Taxes

The Company is a 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 deferred income taxes is required for the Company.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

6 Summary of Significant Accounting Policies (continued)

K) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

- Interest income is recognized on the Statement of Comprehensive Income for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The application of the method has the effect of recognizing revenue of the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.
- Fee income received is amortized into income over the term of the specific mortgage.
- Other income is recorded as related services are provided.

L) Unearned revenue

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

M) 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.

N) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company has determined that there are no separate operating segments of the Company. Decisions about continuing or disposing of assets are made at the entity level, not by individual mortgage segment or province.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

7 Recent accounting pronouncements

The corporation adopted amendments to IFRS 7, IAS 32, IFRS 13 and IAS 1. There was no material impact to the Company's financial statements as a result of the adoption of those standards.

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company.

i) IFRS 9 Financial Instruments

In July 2014, the IASB issued a final revised IFRS 9 standard. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also includes an expected credit loss model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company will assess the impact of this standard in conjunction with the other phases, when the final standard including all phases is issued.

ii) IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standard Board (IASB) issued a new International Financial Reporting Standard (IFRS) on the recognition of revenue from contracts with customers. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. The Section provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The five steps are:

- Identify the contract(s) with the customer.
- Identify the performance obligation(s) in the contract.
- Determine the transaction price.
- Allocate the transaction price to each performance obligation in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

The standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company does not expect this amendment to have a material impact on its financial statements.

8 Cash held in trust

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

	December 31, 2014	December 31, 2013	January 1, 2013
	\$	\$	\$
Cash held in trust	658,195	1,026,082	525,228
Trust fund liability	(658,195)	(1,026,082)	(525,228)
	-	-	-

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

9 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%.

10 Mortgages receivable

Portfolio of 74 (2013 – 71) mortgages bearing interest at fixed rates from 3.95% to 14.0% maturities ranging from January 2015 to June 2016, secured by real property to which they relate and by additional security in certain circumstances.

The preparation of the financial statements in conformity with IFRS requires that interest continue to accrue on delinquent accounts. IFRS also requires that a provision in the same amount is set up to recognize the interest may not be collected.

				<i>December 31, 2014</i>
	<i>Principal Performing</i>	<i>Principal Impaired</i>	<i>Specific Allowance</i>	<i>Net carrying value</i>
Residential mortgages (68)	18,018,135	-	97,711	17,920,424
Commercial mortgages (6)	6,684,656	-	-	6,684,656
Total	24,702,791	-	97,711	24,605,080

				<i>December 31, 2013</i>
	<i>Principal Performing</i>	<i>Principal Impaired</i>	<i>Specific Allowance</i>	<i>Net carrying value</i>
Residential mortgages (65)	15,044,601	263,464	70,000	15,238,065
Commercial mortgages (6)	6,168,986	-	-	6,168,986
Total	21,213,587	263,464	70,000	21,407,051

				<i>January 1, 2013</i>
	<i>Principal Performing</i>	<i>Principal Impaired</i>	<i>Specific Allowance</i>	<i>Net carrying value</i>
Residential mortgages (114)	15,699,187	1,080,248	301,328	16,478,107
Commercial mortgages (7)	8,805,100	-	-	8,805,100
Total	24,504,287	1,080,248	301,328	25,283,207

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

10 Mortgages receivable (continued)

Mortgage allowance details

	December 31, 2014	December 31, 2013
Balance, beginning of year	70,000	301,328
(Recovery) bad debts and change in provision for mortgage losses	(12,920)	(23,246)
Change in provision for interest on delinquents	97,711	-
	154,791	278,082
Less: accounts written off	(57,080)	(208,082)
Balance, end of year	97,711	70,000

Mortgages past due but not impaired

A mortgage is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of mortgages at year-end that are past due but not classified as impaired because they are either i) less than 90 days past due, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

December 31, 2014

	<i>Under 30 days</i>	<i>31-60 days</i>	<i>61-90 days</i>	<i>91 days and greater</i>	<i>Total</i>
Residential	164,139	3,541,769	-	1,035,387	4,741,295
Commercial	-	-	-	-	-
	164,139	3,541,769	-	1,035,387	4,741,295
Appraised value of collateral	363,000	15,424,106	-	1,213,200	17,000,306

December 31, 2013

	<i>Under 30 days</i>	<i>31-60 days</i>	<i>61-90 days</i>	<i>91 days and greater</i>	<i>Total</i>
Residential	1,696,404	394,953	379,151	3,060,118	5,530,626
Commercial	1,124,948	-	-	-	1,124,948
	2,821,352	394,953	379,151	3,060,118	6,655,574
Appraised value of collateral	4,417,000	520,500	518,000	3,489,500	8,945,000

January 1, 2013

	<i>Under 30 days</i>	<i>31-60 days</i>	<i>61-90 days</i>	<i>91 days and greater</i>	<i>Total</i>
Residential	2,280,911	619,665	-	-	2,900,576
Commercial	-	-	-	-	-
	2,280,911	619,665	-	-	2,900,576
Appraised value of collateral	3,595,000	688,000	-	-	4,283,000

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

10 Mortgages receivable (continued)

The principal collateral and other credit enhancements the Company holds as security for loans include (i) insurance, and mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Company has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the mortgages past due but not impaired.

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

Distribution of mortgages:

	December 31 2014		December 31 2013		January 1 2013	
Effective interest rates	Number of mortgages	Amortized cost and fair value	Number of mortgages	Amortized cost and fair value	Number of mortgages	Amortized cost and fair value
3 – 4%	1	295,668	-	-	-	-
6 – 7%	1	283,260	-	-	-	-
7 – 8%	2	475,198	3	590,252	1	171,108
8 – 9%	5	2,021,680	3	1,495,861	5	1,772,605
9 – 10%	3	1,165,578	1	746,154	5	1,557,775
10 – 11%	6	4,207,944	6	1,975,219	10	2,481,079
11 – 12%	9	5,469,694	9	4,198,765	23	3,891,692
12 – 13%	38	7,049,493	20	5,576,103	54	12,648,382
13 – 14%	9	3,734,276	25	3,948,752	21	2,806,414
14 – 15%	-	-	4	2,945,945	2	255,480
<i>Allowance for mortgage losses</i>		(97,711)		(70,000)		(301,328)
	74	24,605,080	71	21,407,051	121	25,283,207

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

Maturities and yields:

December 31, 2014	Within 3 months	Over 3 months to 1 year	1 - 2 years	Total
Total mortgages	13,667,023	9,737,207	1,200,850	24,605,080
Effective interest rate %	12.0%	11.5%	12.2%	11.8%
December 31, 2013	Within 3 months	Over 3 months to 1 year	1 - 2 years	Total
Total mortgages	9,398,292	11,056,916	951,843	21,407,051
Effective interest rate %	11.0%	12.3%	13.4%	11.8%

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

10 Mortgages receivable (continued)

<i>January 1, 2013</i>	<i>Within 3 months</i>	<i>Over 3 months to 1 year</i>	<i>1 - 2 years</i>	<i>Total</i>
Total mortgages	13,364,482	11,334,493	584,232	25,283,207
Effective interest rate %	11.3%	11.7%	12.9%	11.5%

11 Property and equipment

	Computer Equipment	Furniture and Equipment	Total
	\$	\$	\$
Cost			
At January 1, 2013	76,547	15,197	91,744
Additions	12,666	-	12,666
Disposals	-	-	-
At December 31, 2013	89,213	15,197	104,410
Additions	616	-	616
Disposals	-	-	-
At December 31, 2014	89,829	15,197	105,026
Accumulated depreciation and Impairment			
At January 1, 2013	58,917	15,197	74,114
Charge for the year	8,503	-	8,503
Disposals	-	-	-
At December 31, 2013	67,420	15,197	82,617
Charge for the year	10,328	-	10,328
Disposals	-	-	-
At December 31, 2014	77,748	15,197	92,945
Net book value			
At January 1, 2013	17,630	-	17,630
At December 31, 2013	21,793	-	21,793
At December 31, 2014	12,081	-	12,081

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

12 Assets taken in settlement of debt

	Properties	Amount \$
At January 1, 2013	3	718,800
Mortgages settled during the year by taking property	7	1,234,443
Costs incurred to sell		121,711
Properties sold during the year	(6)	(1,324,299)
Realized gain (loss) on sale of property		115,925
Unrealized gain		(86,080)
At December 31, 2013	4	780,500
Mortgages settled during the year by taking property	4	835,348
Costs incurred to sell		79,664
Properties sold during the year	(3)	(893,500)
Realized gain (loss) on sale of property		(83,288)
Unrealized gain (loss)		(57,840)
At December 31, 2014	5	660,884

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

13 Demand loan

	December 31, 2014	December 31, 2013	January 1, 2013
	\$	\$	\$
Operating line of credit	8,648,384	2,286,782	5,759,091
Less: deferred financing charges	(6,000)	(5,000)	-
	<u>8,642,384</u>	<u>2,281,782</u>	<u>5,759,091</u>

The margined, demand operating line of credit bears interest at prime plus 1.5% (2013 – prime plus 1.50%), 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 mortgages receivable. The operating line's margin is calculated using variable percentages of eligible mortgages as set out by the bank.

At year-end the maximum margin available was \$9,703,155 (2013 - \$6,925,924).

The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2014 the Company was in compliance with all financial covenants.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

14 Shareholders' equity

A) Authorized shares

The Company's authorized share capital consists of:

- 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.
- An unlimited number of 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.

B) Issued and outstanding

Class A Common shares	Number of Shares/Units	\$
At January 1, 2013	2,095,305	17,617,162
Shares redeemed	-	-
Shares issued for cash	-	-
Special resolution of the shareholders	-	-
At December 31, 2013	2,095,305	17,617,162
Shares redeemed	(383,112)	(3,582,097)
Shares issued for cash	10,000	100,000
Special resolution of the shareholders	-	-
At December 31, 2014	1,722,193	14,135,065

The aggregate potential redemption amount of the outstanding Class A shares is \$17,221,930 (2013 - \$20,953,050). Class A shares represent the residual equity interest of the Company, the redemption feature applies to all the Class A shares, the shares have no preferential rights and the redemption event is the same for all the Class A shares and accordingly are recorded as equity.

As at January 1, 2014, the Company passed a resolution that would allow redemptions (at the discretion of the Corporation) and retractions (at the discretion of holders of Class A Shares) at a price that is less than \$10.00 per Class A Share. This change ensures that when a shareholder calls for retraction of Class A shares, restrictions under the Act will not inhibit the Company's ability to redeem such shares.

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

During 2014, the Board approved the retraction of 383,112 shares at the price of \$9.35 per share.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

15 Earnings per share

Basic earnings per share ("EPS")

Basic EPS is calculated by dividing profit or loss attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the year by the number of shares bought back or issued during the year, multiplied by a time-weighting factor.

Weighted average number of common shares

	December 31, 2014	December 31, 2013
	\$	\$
Issued common shares outstanding, beginning of year	2,095,305	2,095,305
Effect of units cancelled	(158,383)	-
Effect of units issued	5,891	-
Weighted average number of common shares, end of year	<u>1,942,813</u>	<u>2,095,305</u>
	December 31, 2014	December 31, 2013
	\$	\$
Total comprehensive income available to shareholders	1,886,135	1,829,056
Weighted average number of common shares	1,942,813	2,095,305
EPS	<u>0.97</u>	<u>0.87</u>

There is no dilutive effect during the years ending December 31, 2013 or December 31, 2014. Therefore, the basic EPS equals the diluted EPS.

16 Related party disclosure

Compensation of key management personnel

Key management personnel ("KMP") consist of the CEO and the CFO. KMP remuneration includes the following expenses:

	December 31, 2014	December 31, 2013
	\$	\$
Salaries, fees and short-term benefits	<u>270,501</u>	<u>282,529</u>

The remuneration of directors during the year consisted of directors fees in the amount of \$116,100 (2013 – \$117,358).

Transactions with key management personnel

In the year-ended December 31, 2013 the Company repaid financing in the amount of \$1,500,000 from a director and companies controlled by a director. The debt carried an interest rate of 12% and was repaid in full during 2013. Interest on this debt in 2013 totaled \$29,260. In addition legal fees of \$5,418 (2013 - \$24,197) was paid to a law firm that a director is a partner in.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

16 Related party disclosure (continued)

These transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

17 Capital management

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

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

The Company 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 long-term debt, including current portion.

	December 31, 2014	December 31, 2013	January 1, 2013
	\$	\$	\$
Demand loan	8,642,384	2,281,782	5,759,091
Trade and other payables	128,062	138,319	183,214
Due to related parties	-	-	1,500,000
Unearned revenue	374,004	479,204	504,917
Total debt	9,144,450	2,899,305	7,947,222
Shareholders' equity	16,467,954	19,594,443	19,441,641
Total capitalization	16,467,954	19,594,443	19,441,641

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, redeem shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and issue new debt to replace existing debt.

Pursuant to the Company's credit agreement (Note 13) it is required to meet certain financial covenants. If the Company is in violation of any of these covenants its ability to pay dividends may be inhibited. The Company monitors these covenants to ensure it remains in compliance. At December 31, 2014 the Company was in compliance with all financial covenants.

There were no changes in the Company's approach to capital management during the year.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

18 Financial instruments and risk management

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Risk management policy

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, and market risk. The Company's overall risk management program focuses on avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Company follows risk management policies approved by its Board of Directors.

These risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Company;
- Balance risk and return;
- Manage credit, market and liquidity risk through preventative and detective controls;
- Ensure credit quality is maintained;
- Ensure credit, market, and liquidity risk are maintained at acceptable levels;
- Diversify risk in transactions, customer relationships and loan portfolios;
- Price according to risk taken; and
- Use consistent credit risk exposure tools.

Risk management is carried out by senior management, the policies of which are determined by the Board of Directors.

There have been no significant changes from the previous year in the exposure to risk, policies and procedures or methods used to measure risk.

Credit risk

Credit risk is defined as the risk that a mortgagor will be unable to fulfill their mortgage commitments. Credit risk primarily arises from mortgages receivable. Management and the Board of Directors review and update the credit risk policy annually.

Concentration of credit risk exists if a number of borrowers are engaged in similar economic activities or are located in the same geographical region, and indicate the relative sensitivity of the Company's performance to developments affecting a particular segment of borrowers or geographical region. Geographical risk exists for the Company due to its primary service area being Saskatoon, Regina and surrounding areas.

Credit risk management for mortgage portfolio

The Company mitigates this risk by having well established lending policies in place. Policies include but are not limited to:

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

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

18 Financial instruments and risk management (continued)

Risk is measured by reviewing qualitative and quantitative factors that impact the mortgage portfolio and starts at the time of a credit application and continues until the loan is fully repaid.

Analysis of maximum exposure to credit and collateral

The maximum exposure to credit risk at December 31, 2014 is the fair value of its mortgage receivables, mortgage interest receivable and loan receivables which total \$24,852,136 (2013 - \$21,590,988).

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

Credit quality, mortgage types and renegotiated mortgages

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

	December 31, 2014	December 31, 2013	January 1, 2013
	\$	\$	\$
Residential first mortgages	14,204,899	11,918,958	15,571,630
Residential second mortgages	3,776,539	3,357,272	1,134,847
Commercial first mortgages	4,336,879	3,016,643	8,805,100
Commercial second mortgages	2,347,777	3,152,343	-
Residential mortgages with no security	36,697	31,835	72,958
Provision for mortgage losses	(97,711)	(70,000)	(301,328)
	24,605,080	21,407,051	25,283,207

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

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

The mortgage portfolio consists of mortgages that have been registered 94.0% in Saskatchewan (2013 – 92.3%), 3.7% in Alberta (2013 – 4.3%) and 2.3% in Manitoba (2013 – 3.4%).

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

Additional information on credit quality, renegotiated mortgages and mortgages past due but not impaired is included in Note 11.

Collateral obtained

During the year the Company obtained assets by taking possession of collateral it holds as security in settlement of debt. The Company took possession of \$835,348 (2013 - \$1,234,443) of property. The Company's policy for these assets is to sell the assets to recover funds loaned.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

18 Financial instruments and risk management (continued)

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.

The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining additional debt financing. In addition, the mortgage receivables have short maturity terms (3 – 24 months) which provide 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.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	12 to 24 months	Total
As at December 31, 2014					
Bank indebtedness	8,642,384	-	-	-	8,642,384
Trade and other payables	-	128,062	-	-	128,062
Due to related parties	-	-	-	-	-
Unearned revenue	-	109,941	262,918	1,145	374,004
	8,642,384	238,003	262,918	1,145	9,144,450

	On demand	Less than 3 months	3 to 12 months	12 to 24 months	Total
As at December 31, 2013					
Demand loan	2,281,782	-	-	-	2,281,782
Trade and other payables	-	138,319	-	-	138,319
Due to related parties	-	-	-	-	-
Unearned revenue	-	102,965	375,979	260	479,204
	2,281,782	241,284	375,979	260	2,899,305

	On demand	Less than 3 months	3 to 12 months	12 to 24 months	Total
As at January 1, 2013					
Demand loan	5,759,091	-	-	-	5,759,091
Trade and other payables	-	183,214	-	-	183,214
Due to related parties	-	-	1,500,000	-	1,500,000
Unearned revenue	-	184,357	316,907	3,653	504,917
	5,759,091	367,571	1,816,907	3,653	7,947,222

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

18 Financial instruments and risk management (continued)

The Company manages liquidity risk on a net asset and liability basis. The following tables explain the contractual maturities of financial assets held for the purpose of managing liquidity risk.

	On demand	Less than 3 months	3 to 12 months	12 to 24 months	Total
As at December 31, 2014					
Cash and cash equivalents	62,848	-	-	-	62,848
Loan receivable	10,800	-	-	-	10,800
Mortgages receivable	-	13,667,023	9,737,207	1,200,850	24,605,080
Mortgage interest receivable	-	236,256	-	-	236,256
	73,648	13,903,279	9,737,207	1,200,850	24,914,984

	On demand	Less than 3 months	3 to 12 months	12 to 24 months	Total
As at December 31, 2013					
Cash and cash equivalents	69,085	-	-	-	69,085
Loan receivable	10,800	-	-	-	10,800
Mortgages receivable	-	9,398,292	11,056,916	951,843	21,407,051
Mortgage interest receivable	-	173,137	-	-	173,137
	79,885	9,571,429	11,056,916	951,843	21,660,073

	On demand	Less than 3 months	3 to 12 months	12 to 24 months	Total
As at January 1, 2013					
Cash and cash equivalents	1,079,464	-	-	-	1,079,464
Loan receivable	10,800	-	-	-	10,800
Mortgages receivable	-	13,364,482	11,334,493	584,232	25,283,207
Mortgage interest receivable	-	226,663	-	-	226,663
	1,090,264	13,591,145	11,334,493	584,232	26,600,134

Market risk

Market risk is the risk of loss in value of financial instruments that may arise from changes in market factors such as interest rates, equity prices and credit spreads. The Company's exposure changes depending on market conditions. Market risks that have a significant impact on the Company include fair value risk and interest rate risk.

Risk measurement

The Company's risk position is measured and monitored each quarter to ensure compliance with policy. Management provides quarterly reports on these matters to the Company's Board of Directors.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

18 Financial instruments and risk management (continued)

Objectives, policies and processes

Management is responsible for managing the Company's interest rate risk, monitoring approved limits and compliance with policies. The Company manages market risk by developing and implementing policies, which are approved and periodically reviewed by the Board.

The Company's goal is to achieve adequate levels of profitability, liquidity and safety. The Board of Directors reviews the Company's investment management policies periodically to ensure they remain relevant and effective in managing and controlling risk.

Interest rate risk

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

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

The Company has managed this risk by maintaining an adequate spread between the interest rate paid on the demand loan and the interest received on the fixed, short-term mortgages. The Company also manages the risk by maintaining a mortgage portfolio of short term, fixed mortgages with rates at a premium from market rates. The average interest rate of the mortgages as at year end was 11.8% (2013 – 11.8%). There is no specific market for mortgages of similar type, term and credit risk.

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

	<i>Demand loan – sensitivity</i>	<i>Mortgages receivable – sensitivity</i>	<i>Total December 31, 2014</i>	<i>Demand loan – sensitivity</i>	<i>Mortgages receivable – sensitivity</i>	<i>Total December 31, 2013</i>
Increase in 25 basis points	(21,606)	61,513	39,907	(5,704)	53,318	47,614
Increase in 50 basis points	(43,212)	123,026	79,814	(11,409)	106,636	95,227
Decrease in 25 basis points	21,606	(61,513)	(39,907)	5,704	(53,318)	(47,614)
Decrease in 50 basis points	43,212	(123,026)	(79,814)	11,409	(106,636)	(95,227)

Demand Loan sensitivity is calculated by applying the basis point change to the balance of the demand loan at year end. The mortgage receivable sensitivity is calculated by applying the basis point change to the balance of the mortgage receivables at year end.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

18 Financial instruments and risk management (continued)

Interest rate re-price

						December 31, 2014	December 31, 2013
	On demand	Within 3 months	Over 3 months to 1 year	1 - 2 years	Not interest sensitive	Total	Total
Assets							
Cash and cash equivalents	62,848	-	-	-	62,848	62,848	69,085
<i>Effective interest rate %</i>	-	-	-	-	-	-	-
Loan receivable	10,800	-	-	-	10,800	10,800	10,800
<i>Effective interest rate %</i>	-	-	-	-	-	-	-
Mortgage interest receivable	-	236,256	-	-	236,256	236,256	173,137
Mortgages receivable	-	13,667,023	9,737,207	1,200,850	-	24,605,080	21,407,051
<i>Effective interest rate %</i>	-	12.0%	11.5%	12.2%	-	11.8%	11.8%
	73,648	13,903,279	9,737,207	1,200,850	309,904	24,914,984	21,660,073
Liabilities							
Demand loan	8,642,384	-	-	-	-	8,642,384	2,281,782
<i>Effective interest rate %</i>	4.5%	-	-	-	-	4.5%	4.5%
Trade and other payables	128,062	-	-	-	128,062	128,062	138,319
	8,770,446	-	-	-	128,062	8,770,446	2,420,101

Fair values

The Company's financial instruments recognized on the Statement of Financial Position consist of cash, loan receivable, mortgages receivable, mortgage interest receivable, demand loan, trade and other payables, and due to related parties. The fair values of these recognized financial instruments, excluding mortgages receivable, approximate their carrying values due to their short-term maturity. The fair values of mortgages receivable approximates its carrying value given the mortgages receivable consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties.

Recurring fair value measurements

The Company's assets and liabilities measured at fair value on a recurring basis have been categorized in the fair value hierarchy as follows:

December 31, 2014	Fair value	Level 1	Level 2	Level 3
Assets				
Cash	62,848	62,848	-	-
December 31, 2013				
Assets				
Cash	69,085	69,085	-	-
January 1, 2013				
Assets				
Cash	1,079,464	1,079,464	-	-

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

18 Financial instruments and risk management (continued)

Asset and liabilities for which fair value is only disclosed The following table analyses within the fair value hierarchy the Company's assets and liabilities (by class) not measured at fair value at December 31, 2014 but for which fair value is disclosed:

December 31, 2014	Fair value	Level 1	Level 2	Level 3
Assets				
Loan receivable	10,800	-	-	10,800
Mortgages receivable	24,605,080	-	-	24,605,080
Mortgage interest receivable	236,256	-	-	236,256
Total Assets	24,852,136	-	-	24,852,136

Liabilities				
Demand loan	8,642,384	-	8,642,384	-
Trade and other payables	128,062	-	-	128,062
Due to related parties	-	-	-	-
Unearned revenue	374,004	-	-	374,004
Total Liabilities	9,144,450	-	8,642,384	502,066

December 31, 2013	Fair value	Level 1	Level 2	Level 3
Assets				
Loan receivable	10,800	-	-	10,800
Mortgages receivable	21,407,051	-	-	21,407,051
Mortgage interest receivable	173,137	-	-	173,137
Total Assets	21,590,988	-	-	21,590,988

Liabilities				
Demand loan	2,281,782	-	2,281,782	-
Trade and other payables	138,319	-	-	138,319
Due to related parties	-	-	-	-
Unearned revenue	479,204	-	-	479,204
Total Liabilities	2,899,305	-	2,281,782	617,523

January 1, 2013	Fair value	Level 1	Level 2	Level 3
Assets				
Loan receivable	10,800	-	-	10,800
Mortgages receivable	25,283,207	-	-	25,283,207
Mortgage interest receivable	226,663	-	-	226,663
Total Assets	25,520,670	-	-	25,520,670

Liabilities				
Demand loan	5,759,091	-	5,759,091	-
Trade and other payables	183,214	-	-	183,214
Due to related parties	1,500,000	-	1,500,000	-
Unearned revenue	504,917	-	-	504,917
Total Liabilities	7,947,222	-	7,259,091	688,131

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

Notes to the Financial Statements

For the years ended December 31, 2014 and December 31, 2013

18 Financial instruments and risk management (continued)

All fair values disclosed and categorized within Level 2 of the hierarchy use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

For mortgages receivable classified as Level 3 of the hierarchy, as there are no quoted prices in an active market for these mortgages receivable, the Company makes its determination of fair value based on its assessment of the current mortgage market for mortgages receivable of same or similar terms. Typically, these mortgage investments approximate their carrying values given the mortgages receivable consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. When collection of the principal amount of a mortgage is no longer reasonably assured, the fair value of the mortgage is reduced to the estimated net realizable value of the underlying security.

Other legal and regulatory risk

Legal and regulatory risk is the risk that the Company has not complied with requirements set out in terms of compliance with *The Trust and Loan Corporations, Act 1997* of Saskatchewan, *The Mortgage Brokers Act* of Saskatchewan and Manitoba, Reporting Issuer requirements, anti-money laundering legislation or their code of conduct/conflict of interest requirements. In seeking to manage these risks, the Company has established policies and procedures and monitors to ensure ongoing compliance.

19 Commitments

The Company has entered into a lease agreement for its premises with future minimum lease commitments as follows:

	\$
2015	36,750
2016	36,750
2017	36,750
2018	36,750
Total	<u>147,000</u>

The Company has committed to funding 3 (2013 – 4) mortgages, for a total of \$772,493 (2013 - \$680,700).

20 Income taxes

The Company has non-capital loss carry forwards for income tax purposes of \$1,126,858 which will expire as follows:

	\$
2028	926
2029	216,424
2030	378,183
2031	126,422
2032	208,725
2033	196,178
Total	<u>1,126,858</u>

The potential benefit of these loss carry forwards has not been recognized in these financial statements.



MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

PrimeWest

PrimeWest Mortgage Investment Corporation chose to revise its corporate status from an "Investment Fund" to a "Regular Reporting Issuer" effective January 1, 2014 ratified at a Special Meeting of the Shareholders on November 27th, 2013. The revised status was undertaken following legal consultation to ensure the company would continue to comply with all Mortgage Investment Corporation ("MIC") securities regulations and would be capable of continuing operations as in the past without undue operating constraints ensuring future ongoing business efficiencies.

Statement of Financial Position for the Year Ending December 31, 2014

	December 31, 2014 \$	December 31, 2013 \$ (note 4)	January 1, 2013 \$ (note 4)
ASSETS			
Total Assets	<u>25,612,404</u>	<u>22,493,748</u>	<u>27,388,863</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities	<u>9,144,450</u>	<u>2,899,305</u>	<u>7,947,222</u>
Shareholders' Equity			
Shareholders' capital	14,135,065	17,617,162	17,617,162
Retained earnings	2,332,889	1,977,281	1,824,479
Total Liabilities and Shareholders' Equity	<u>25,612,404</u>	<u>22,493,748</u>	<u>27,388,863</u>
Shares outstanding	1,722,193	2,095,305	2,095,305
Shareholders' Equity per share	\$9.56	\$9.35	\$9.28

Statement of Comprehensive Income

For the years ended

	December 31, 2014 \$	December 31, 2013 \$
Income		
Mortgage interest	2,440,556	2,150,669
Mortgage interest on delinquents	97,711	-
Fees	961,836	978,479
	<u>3,500,103</u>	<u>3,129,148</u>
Interest and fees expense		
Interest	162,483	146,813
Fees	60,091	18,217
	<u>222,574</u>	<u>165,030</u>
Net interest and fees income	<u>3,277,529</u>	<u>2,964,118</u>
(Recovery) bad debts and change in provision for mortgage losses	(12,920)	(23,246)
Change in provision for interest on delinquents	97,711	
(Gain) loss on disposal of assets taken in settlement of debt	141,128	(29,845)
Net interest and fees income after provision for mortgage losses	<u>3,051,610</u>	<u>3,017,209</u>
Expenses	1,165,475	1,188,153
Total comprehensive income for the period attributable to shareholders of the Company	<u>1,886,135</u>	<u>1,829,056</u>
Earnings per share		
Basic and diluted	\$.97	\$.87

Statement of Changes in Shareholders' Equity

	Shareholders' capital \$	Retained earnings \$	Total equity \$
As at January 1, 2013	17,617,162	1,824,479	19,441,641
Dividends	-	(1,676,254)	(1,676,254)
Total comprehensive income for the period	-	1,829,056	1,829,056
As at December 31, 2013	<u>17,617,162</u>	<u>1,977,281</u>	<u>19,594,443</u>
As at January 1, 2014	17,617,162	1,977,281	19,594,443
Share issuance	100,000	-	100,000
Share redemption	(3,582,097)	-	(3,582,097)
Dividends	-	(1,530,527)	(1,530,527)
Total comprehensive income for the period	-	1,886,135	1,886,135
As at December 31, 2014	<u>14,135,065</u>	<u>2,332,889</u>	<u>16,467,954</u>

IMPORTANT EVENTS

On November 27, 2013 a Special Meeting of Shareholders was held in which the shareholders voted in favour of the following resolutions:

Reclassification from Investment Fund to Regular Reporting Issuer

The reclassification from an investment fund to a regular reporting issuer does not impact the corporate governance of the Corporation, as set forth above, other than with respect to the Independent Review Committee. Regular reporting issuers are not required to have an independent review committee and as such the PrimeWest Committee has been dissolved. Conflicts of interest continue to be managed in accordance with applicable corporate laws relating to conflicts of interest.

Changes to Redemption Provisions

The articles of the Corporation previously permitted the Corporation to redeem, and the holders of the Class A Shares of the Corporation to call for retraction of, Class A Shares at a fixed price of \$10.00 per share plus dividends that were declared but not paid or not declared but accruing due. In the past, the Corporation had at times been unable to redeem Class A Shares when holders had called for retraction due to certain restrictions under *The Business Corporations Act* (Saskatchewan).

Effective December 31, 2013 when redemption of shares is to occur, the Corporation will redeem the shares at a price that is equal to the lesser of \$10.00 per Class A share or the book value per Class A share, and it will also pay to the shareholder any dividends that are declared and accruing due or declared but not paid prior to any "Notice of Redemption". Under the amendments, for the purposes of determining the redemption price, book value means the total shareholder's equity as shown on the most recent audited annual financial statements of the Corporation.

When a shareholder calls for redemption of shares held by such shareholder by giving notice to the Corporation during the period April 1 to April 30th of a particular year (the "**Redemption Period**"), the Corporation shall on or before July 31st, and provided redemption requests for the year do not exceed 10% of the number of outstanding shares, redeem the shares at the price equal to the lesser of (a) \$10.00 per share; or (b) the book value per Class A shares as stated in the audited financial statement for the year ended immediately prior to the Redemption Period, plus in either case any dividends thereon effective to the date of the Notice of Redemption, which are accruing due or have been declared but not paid. In cases where the Corporation calls for redemption of shares held by shareholders, the redemption price will be paid in the manner prescribed in the Notice of Redemption and the redemption price shall be calculated in the same manner.

OPERATIONS

PrimeWest continues to primarily operate in the Province of Saskatchewan with some mortgage holdings in Manitoba and Alberta. The company operates in a market where a high turnover of mortgage receivables is the norm as clients are assisted to successfully return to main stream banking as their credit record improves or short term circumstances change to allow this. The Corporation's mortgage receivable continues to adjust as real estate prices initially moved higher during 2014 only to drift lower in the fall of the year. The individual average mortgages have moved in tandem with the market as the price of real estate adjusts. The resulting impact on the Corporation's mortgage portfolio is slightly higher average individual mortgage receivables and slightly lower number of specific mortgages.

At December 31, 2014 our Portfolio consisted of 74 (December 2013 – 71) mortgages bearing interest at fixed rates from 3.95% to 14.0% maturities ranging from January 2015 to June 2016, secured by real property to which they relate and by additional security in certain circumstances. Interest rates in the lower ranges are primarily associated with short term mortgages with maturities of 2 to 6 months. Shorter term mortgages were being provided to facilitate cash requirements relative to the new redemption policy as well as to generate higher fee revenues through multiple annual mortgage loan turnover.

Over the past few years, the pressures of rising real estate prices in all markets PrimeWest operates in, has further resulted in a fundamental change in the demographics of the typical residential mortgage client base. Higher average residential mortgage balances has translated into higher equity requirements for home owners, which translates to a shift upmarket in the mortgage client demographic to meet these new higher levels. Higher individual earnings and increased numbers of dual earning families are reflected in this new market segment.

The April 30th, 2014 closing for redemption requests resulted in redemption requests which the Board of Directors reviewed for the established July 31st, 2014 payment for approved requesting shareholders. The Corporation's goal was to accommodate all requests to the extent possible without negatively impacting future ongoing operations for the Corporation and the Investors. The Corporation redeemed 383,112 shares at the audited NAV of \$9.35 per share.

The effects of shareholder redemptions, as of April 30, 2014, while in excess of 10%, has provided the corporation with a more efficient utilization of shareholder capital and a favorable impact on shareholder book value. A more balanced approach utilizing shareholder capital and financing lines of credit will result in improved capital costs for the corporation, and improved yield for the shareholders.

Notice Regarding Forward-Looking Information

Certain information included in this Management's Discussion and Analysis ("MD&A") 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.

This MD&A is dated December 31, 2014. Disclosure contained in this MD&A is current to that date, unless otherwise noted.

Background and Overview

PrimeWest Mortgage Investment Corporation (the "**Corporation**", "**PrimeWest**", "**we**" or "**our**") was incorporated on March 22, 2005 pursuant to *The Business Corporations Act* (Saskatchewan). The Corporation's head office is situated at 700 - 750 Spadina Crescent East, Saskatoon, Saskatchewan S7K 3H3 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.

Operations are conducted to qualify as a mortgage investment corporation ("**MIC**") for the purpose of the *Income Tax Act* (Canada) (the "**Tax Act**").

The Corporation's Class A shares ("**Common Shares**") do not trade on any exchange or market. The Corporation is a reporting issuer in each of Saskatchewan, British Columbia, Alberta, Manitoba and Ontario and is a SEDAR filer.

Additional information on the Company is available on the PrimeWest Mortgage Investment Corporation website at www.primewest.ca and on the SEDAR website at www.sedar.com.

DESCRIPTION OF BUSINESS

The Corporation achieves its investment objective by lending on the security of mortgages on real properties situated primarily in the Provinces of Saskatchewan, Manitoba and Alberta, but will also consider lending on the security of mortgages on real properties situated outside of these provinces. If such expansion occurs, the Corporation will apply, if necessary, to become registered under corporate and applicable mortgage brokering legislation to carry on business as a MIC in all other such jurisdictions. There are no restrictions on the amount of funds that may be invested by the Corporation in any particular Province or Territory of Canada.

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. The corporation is also registered as a Mortgage Broker under *The Mortgage Brokers Act* (Manitoba). However, where practical, it is the practice of the Corporation to utilize brokers ("**Brokers**") registered pursuant to the provisions of *The Mortgage Brokers Act* (Saskatchewan) and *The Mortgage Brokers Act* (Manitoba), to seek out borrowers and submit mortgage applications to the Corporation. See "Business with Brokers". In other cases, the Corporation receives referrals from immigration consultants, financial advisers and bankruptcy/liquidation agencies. Upon mortgage approval, third party professional personnel prepare and register all mortgage security on behalf of the Corporation.

Development of Business

Since its incorporation in 2005, the Corporation raised capital through a prospectus, offering memorandums and other private placements. In 2014, the Corporation invested \$24,605,080 in 74 mortgages (2013 - 71) bearing interest at fixed rates up to 14% per annum and with maturities in 2015 and extending to June 2016.

The Corporation's annual financial statements for the year ended December 31, 2014, which are incorporated herein by reference, and further information about the development of the business of the Corporation, can be found in its December 31, 2014 MD & A. These documents can be viewed on the SEDAR website at www.sedar.com.

Distribution of mortgages:

	December 31 2014		December 31 2013		January 1 2013	
Effective interest rates	Number of mortgages	Amortized cost and fair value	Number of mortgages	Amortized cost and fair value	Number of mortgages	Amortized cost and fair value
3 – 4%	1	295,668	-	-	-	-
6 – 7%	1	283,260	-	-	-	-
7 – 8%	2	475,198	3	590,252	1	171,108
8 – 9%	5	2,021,680	3	1,495,861	5	1,772,605
9 – 10%	3	1,165,578	1	746,154	5	1,557,775
10 – 11%	6	4,207,944	6	1,975,219	10	2,481,079
11 – 12%	9	5,469,694	9	4,198,765	23	3,891,692
12 – 13%	38	7,049,493	20	5,576,103	54	12,648,382
13 – 14%	9	3,734,276	25	3,948,752	21	2,806,414
14 – 15%	-	-	4	2,945,945	2	255,480
<i>Allowance for mortgage losses</i>		(97,711)		(70,000)		(301,328)
	74	24,605,080	71	21,407,051	121	25,283,207

Credit Risk and Provisioning

Management reviews the mortgage portfolio continuously. An allowance for mortgage loan losses is established consisting of specific provisions that, in management's judgment, is adequate to absorb all credit related losses in the portfolio. Specific provisions 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.

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 and of interest on the cash reserves of the Corporation.

Operating Restrictions

Up until December 31, 2014, PrimeWest operated 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.

During the Fiscal Year of the Corporation ended December 31, 2014, the Corporation observed 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.

On November 27, 2013 at the Special Meeting of shareholders, a resolution was passed to allow the Corporation to transition from an Investment Fund to a Regular Reporting Issuer under applicable securities laws in Canada, effective January 1, 2014. This reclassification does not affect the investment objectives and strategies currently in place by PrimeWest. The reclassification does affect reporting. PrimeWest is no longer required to operate in accordance with National Instrument 81-102 - *Mutual Funds*. One important difference in the reclassification from an Investment Fund to a Regular Reporting Issuer is increased reporting, and the Corporation now files quarterly financial statements rather than semi-annually.

Operating policies

In addition to the foregoing operating restrictions, the operations and affairs of the Corporation are required to be conducted in accordance with the following operating policies:

- (i) the Corporation must obtain a Phase I environmental audit where the real estate to be provided as security for a mortgage is commercial property. Where the real estate is not commercial property, a Phase I environmental study will not be commissioned unless a Broker deems such an audit to be necessary;
- (ii) all property taxes shall be paid to the date of any mortgage advance on real property provided as security for a mortgage and the borrower shall agree to pay property taxes on the tax instalment payment plan (TIPP) with the local tax authority unless a Broker has determined that the establishment of such a TIPP account is not necessary; and
- (iii) the legal title to each mortgage and other investments of the Corporation must be held by and registered in the name of the Corporation.

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 mutual 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 130.1(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.

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 established a credit committee, which is comprised of two members chosen from amongst the members of the Board and the President and Chief Executive Officer. 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.

Key to a Mortgage Investment Corporation's success in the management of mortgage receivables is the ability to efficiently match shareholder investment capital with the funding of residential and commercial mortgage loans. Shareholder yield is negatively impacted when available investment capital is underutilized and as such it is crucial corporate operations has the ability to respond to market demand while ensuring cash reserves while available do not create a drag on yield efficiency. Typically MIC corporations utilize banking credit lines to provide the necessary flexibility for access to capital while doing so with a reduced cost of capital when compared to investor capital.

Capital Management

The Company 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 long-term debt, including current portion. The Company monitors capital using the following measures:

	December 31, 2014	December 31, 2013	January 1, 2013
	\$	\$	\$
Demand loan	8,642,384	2,281,782	5,759,091
Trade and other payables	128,062	138,319	183,214
Due to related parties	-	-	1,500,000
Unearned revenue	374,004	479,204	504,917
Total debt	9,144,450	2,899,305	7,947,222
Shareholders' equity	16,467,954	19,594,443	19,441,641
Total capitalization	16,467,954	19,594,443	19,441,641
Debt to total capitalization (%)	55.5%	14.8%	40.9%
Net interest and fees income after provision for mortgage losses	3,051,610	3,017,209	3,424,979
Net interest margin	87.2%	96.4%	86.0%
Dividend payout ratio	81.1%	91.6%	76.1%
Net available cash as a % of shareholders' equity	6.8%	24.1%	24.0%
Net debt to increase in shareholders' equity from operations	5	2	4
Effective interest rate %	11.8%	11.8%	11.5%
Average portfolio yield	16.2%	15.8%	14.9%
Turnover ratio	42.2%	76.5%	72.0%

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.

DIVIDEND POLICY

In each Fiscal Year of the Corporation, the registered holders of Common Shares are entitled to receive dividends as and when declared from time to time by the Board, acting in its sole discretion, out of the money of the Corporation properly available for dividends. Subject to the Corporation retaining sufficient cash reserves for future or anticipated operating expenses, it is the policy of the Corporation to dividend surplus income out to shareholders prior to completion of the Corporation's Fiscal Year end and thereby minimizes taxable income. It is the practice of the Corporation to declare dividends at the end of each fiscal quarter.

The Corporation's history of dividend payments, which currently equates to a quarterly rate of 2%, is as follows:

- March 31, 2006 - \$0.15 per Common Share;
- June 30, 2006 – December 31, 2014 \$0.20 per Common Share;

MANAGEMENT

Don Zealand - President and Chief Executive Officer since March 23, 2011 Saskatoon, SK

Mr. Zealand joined PrimeWest as President and Chief Executive Officer on March 23, 2011. Prior to his hire he enjoyed an extensive career with Royal Bank Financial Group, demonstrating leadership and teamwork. While with Royal Bank, Don held senior positions at the branch, region and head office levels. He is an experienced commercial banker acting in Senior Commercial lending responsibilities. Don's most recent position with Royal Bank was Vice President-Commercial Public Sector for Saskatchewan, Manitoba and North-Western Ontario.

Don has received recognition for strong team and personal sales abilities, being named one of five Top Sales Performers in Commercial Banking in Canada. He is a graduate of Business Administration, fellowship in the Institute of Canadian Bankers (FICB) and has completed the Canadian Securities Course and is a Certified Financial Planner.

Don is also an active member of the business community as a past Director of the Greater Saskatoon Chamber of Commerce and the Canadian Treasury Management Association, and was a founding member of the ViaSource mentoring program established by the Royal Bank. He is also active outside of business, as a founding member and Past President of the Saskatoon Zoo Foundation, a member of the Rotary Club of Saskatoon and as a coach in little league soccer and Marion Graham high school curling and a 39 year Associate Member of the Royal Canadian Legion.

Mr. Zealand's contact information is as follows:

700 - 750 Spadina Crescent East
Saskatoon, SK S7K 3H3
Telephone: (306) 651-4408
Fax: (306) 955-9511
Email: dzealand@primewest.ca

Rick Peddle, FCPA, FCA – Chief Financial Officer
Saskatoon, SK

Mr. Peddle, through Thomson Jaspar & Associates, provides financial and accounting services to the Corporation on a fee for service basis.

Although none of the directors or officers of the Corporation, save and except the Chief Executive Officer, will devote all of his or her full time to the business and affairs of the Corporation, each will devote as much time as is necessary to supervise the management of, to manage or to advise on the business and affairs of the Corporation.

PrimeWest has 6 employees who assist in the day-to-day management and administration of the Corporation. The Corporation will retain the services of such other individuals as may be necessary from time to time to properly conduct the business of the Corporation.

BUSINESS WITH BROKERS

The Corporation secures its mortgages primarily with Brokers who seek out borrowers and provide mortgage applications to the Corporation for approval. Mortgage brokers in the Province of Saskatchewan are regulated under *The Mortgage Brokers Act* (Saskatchewan) which is administered by the Saskatchewan Financial and Consumer Affairs Authority. Mortgage Brokers in Manitoba are regulated under *The Mortgage Brokers Act* (Manitoba) which is administered by the Manitoba Securities Commission. Their activities include gathering information, assisting a borrower in completing mortgage applications and providing advice with respect to mortgage terms and interest rates.

In concert with the Corporation, Brokers will review mortgage loan applications to ensure that they meet the Corporation's lending criteria and that adequate supporting documentation has been provided by a prospective borrower. Staff of the Brokers will conduct an inspection of the property and secure a third-party appraisal, which meet a Corporation specifically approved list of appraisers.

The Brokers will primarily source loan applications and make loan submissions to the Corporation for review and approval with respect to mortgages applications.

The Brokers are engaged in a wide range of investing and other business activities which may include real property financing in direct competition with the Corporation.

The services of the Brokers are not exclusive to the Corporation. The Brokers and their respective affiliates may, at any time, engage in promoting or managing any other corporation or its investments including those that may compete directly or indirectly with the Corporation.

All fees and expenses associated with the Brokers are to be for the account of the borrower, and no fees or expenses are to accrue to the Corporation. The Corporation will also be responsible for its general administration costs, including any recovery or foreclosure costs where the security is insufficient to cover the amount of the loan and subsequent collection costs.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of the directors or officers, or any of their associates or affiliates, has a material interest, direct or indirect, in any proposed transaction that has materially affected or will materially affect the Corporation.

The Corporation has established investment policies that include that the Corporation will not loan money to, borrow money from or invest in securities of the Brokers, nor affiliates of the Corporation, the Brokers, the Agent, other non-arm's length parties, or any shareholder of the Corporation, without full disclosure and approval of the Board.

The services of the Brokers are not exclusive to the Corporation. The Brokers and their respective affiliates may, at any time, engage in promoting or managing any other corporation or its investments including those that may compete directly or indirectly with the Corporation.

MATERIAL CONTRACTS

Except for contracts made in the ordinary course of business, the only material contract entered into by the Corporation, within the most recently completed Fiscal Year, or before the most recently completed Fiscal Year which is currently in effect, is as follows:

Transfer Agent, Registrar & Disbursing Agent Agreement

Under a transfer agent, registrar & disbursing agent agreement dated November 1, 2009, Valiant Trust Company, Alberta became the registrar, transfer agent and disbursing agent for the Common Shares.

AUDIT COMMITTEE INFORMATION

The Corporation has established an audit committee (the "**Audit Committee**"), which is comprised of three members chosen from amongst the members of the Board. The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with respect to (i) the quality and integrity of financial statements to be provided to shareholders and regulatory bodies; (ii) the effectiveness of our risk management and compliance practices; (iii) the independent auditor's performance, qualifications and independence; and (iv) the performance of the internal audit function. The Audit Committee meets with the internal and external auditors and management as required.

As at December 31, 2014, the members of the Audit Committee were Douglas Frondall (Chair), Dan Anderson, and Michael Hough. All members of the Audit Committee are, for the purposes of National Instrument 52-110 - *Audit Committees*, considered to be independent and financially literate.

AUDIT FEES

The Corporation was audited in 2014 and 2013 by Ernst & Young LLP ("E & Y"), of Saskatoon, Saskatchewan. Fees charged by the Corporation's auditor for the past two years are as follows:

2013 Audit - \$43,100

2014 Audit - \$63,000

INTEREST OF EXPERTS

E & Y, of Saskatoon, Saskatchewan, the external auditors of the Corporation, reported on the Corporation's 2014 consolidated financial statements. At the time of preparing its report on the 2014 financial statements, E & Y was independent of the Corporation in accordance with the auditor's rules of professional conduct in Canada.

ADDITIONAL INFORMATION

Additional information about PrimeWest is available on the Corporation's website at www.primewest.ca and on the SEDAR website at www.sedar.com.