



## Financial Statements

December 31, 2016

## Independent auditors' report

To the Shareholders of  
**PrimeWest Mortgage Investment Corporation**

We have audited the accompanying financial statements of **PrimeWest Mortgage Investment Corporation (the "Company")**, which comprise the statements of financial position as at December 31, 2016 and 2015, and January 1, 2015, and the statements of comprehensive loss, changes in shareholder's equity and cash flows for the years ended December 31, 2016 and 2015, 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' judgment, 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, 2016 and 2015, and January 1, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

Without modifying our opinion, we draw attention to note 1 in the financial statements, which indicates that **PrimeWest Mortgage Investment Corporation** incurred a net loss of \$2,601,558 during the year ended December 31, 2016, and as of that date, had an accumulated deficit of \$3,399,834. These conditions, along with other matters as set forth in note 1 indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

### **Restated comparative information**

Without modifying our opinion, we draw attention to note 3 to the financial statements which explains that certain comparative information as at December 31, 2015 and January 1, 2015, and for the year ended December 31, 2015 have been restated.

SASKATOON, SASKATCHEWAN  
March 30, 2017

*Ernst & Young LLP*

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, 2016 \$	Restated (Note 3) December 31, 2015 \$	Restated (Note 3) As at January 1, 2015 \$
<b>ASSETS</b>				
Cash and cash equivalents		52,435	60,764	62,848
Loan receivable		10,800	10,800	10,800
Prepaid expenses and other receivables		32,519	49,317	24,455
Mortgages receivable	8	16,014,374	22,109,848	24,108,109
Mortgage interest receivable		70,960	185,682	236,256
Property and equipment	9	2,016	12,342	12,081
Assets taken in settlement of debt	10	1,665,582	1,092,357	660,884
<b>Total Assets</b>		<b>17,848,686</b>	<b>23,521,110</b>	<b>25,115,433</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
Demand loan	11	4,321,121	9,495,347	8,642,384
Trade and other payables		191,601	308,022	128,062
Due to related parties	14	1,003,507	-	-
Unearned revenue		50,927	289,650	374,004
		<b>5,567,156</b>	<b>10,093,019</b>	<b>9,144,450</b>
<b>Shareholders' Equity</b>				
Shareholders' capital	12	15,681,364	13,515,669	14,135,065
(Accumulated deficit) Retained earnings		(3,399,834)	(87,578)	1,835,918
		<b>12,281,530</b>	<b>13,428,091</b>	<b>15,970,983</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>17,848,686</b>	<b>23,521,110</b>	<b>25,115,433</b>
Shares outstanding	12	1,890,729	1,662,759	1,722,193
Commitments	17			
Going Concern	1			

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

"Doug Frondall"

"Tom Robinson"

Director

Director

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

	Notes	For the years ended	
		December 31, 2016 \$	Restated (Note 3) December 31, 2015 \$
<b>Revenue</b>			
Mortgage interest		1,720,711	2,479,506
Fees		452,604	800,913
Mortgage interest and fees on delinquents mortgages		1,031,982	310,433
		<u>3,205,297</u>	<u>3,590,852</u>
<b>Interest and fees expense</b>			
Interest		374,343	398,539
Fees		8,012	10,814
		<u>382,355</u>	<u>409,353</u>
<b>Net interest and fees income</b>		<u>2,822,942</u>	<u>3,181,499</u>
Less:			
Provision for mortgage losses	8	2,271,247	2,295,737
Provision for interest and fees on delinquent mortgages		1,031,982	310,433
Loss on assets taken in settlement of debt		1,071,113	31,551
Loss on disposal of property and equipment		867	-
<b>Net interest and fees (loss) income after provision for mortgage losses</b>		<u>(1,552,267)</u>	<u>543,778</u>
<b>Expenses</b>			
Advertising and promotion		34,466	79,392
Contracted services		64,417	56,261
Depreciation of property and equipment	9	4,932	11,839
Directors' fees	14	107,535	114,000
Insurance		30,322	33,188
Office and administration		98,290	127,944
Professional fees		338,410	99,434
Rent		45,347	47,066
Wages and benefits		325,572	538,091
		<u>1,049,291</u>	<u>1,107,215</u>
<b>Total comprehensive loss for the year</b>		<u>(2,601,558)</u>	<u>(563,437)</u>
<b>Loss per share</b>			
Basic and diluted	13	(\$1.43)	(\$0.33)

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 \$	(Accumulated losses) Retained earnings \$	Total equity \$
As at January 1, 2015 (restated)	3	14,135,065	1,835,918	15,970,983
Share issuance	12	1,961,746	-	1,961,746
Share redemption	12	(2,581,142)	-	(2,581,142)
Dividends		-	(1,360,059)	(1,360,059)
Total comprehensive loss for the year (restated)	3	-	(563,437)	(563,437)
As at December 31, 2015 (restated)	3	<u>13,515,669</u>	<u>(87,578)</u>	<u>13,428,091</u>
As at January 1, 2016		13,515,669	(87,578)	13,428,091
Share issuance	12	2,165,695	-	2,165,695
Share redemption	12	-	-	-
Dividends	12	-	(710,698)	(710,698)
Total comprehensive loss for the year		-	(2,601,558)	(2,601,558)
As at December 31, 2016		<u>15,681,364</u>	<u>(3,399,834)</u>	<u>12,281,530</u>

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

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**Statement of Cash Flows**  
(Expressed in Canadian Dollars)

		For the years ended	
	Notes	December 31, 2016 \$	December 31, 2015 \$ (Restated)
<b>Operating activities</b>			
Total comprehensive loss for the year		(2,601,558)	(563,437)
Non-cash adjustments to reconcile loss from operations to net cash flows:			
Depreciation of property and equipment	9	4,932	11,839
Provision for mortgage losses	8	3,303,229	2,606,170
Loss on disposal of assets taken in settlement of debt	10	1,071,113	31,551
Loss on disposal of property and equipment		867	-
Costs incurred to sell asset taken in settlement of debt		(87,483)	(42,091)
Proceeds from disposal of assets taken in settlement of debt		750,000	-
Net change in non-cash working capital relating to operating activities:			
Mortgages receivable		316,889	(1,028,842)
Mortgage interest receivable		114,722	50,574
Prepaid expenses and other receivables		16,798	(24,862)
Trade and other payables		52,079	179,960
Unearned revenue		(238,723)	(84,354)
<b>Net cash flows from operating activities</b>		<u>2,702,865</u>	<u>1,136,508</u>
<b>Investing activities</b>			
Disposal (Purchase) of property and equipment	9	4,528	(12,100)
<b>Net cash flows from (used in) investing activities</b>		<u>4,528</u>	<u>(12,100)</u>
<b>Financing activities</b>			
Increase in amount due to related parties	14	1,003,507	-
Issuance of share capital	12	2,165,695	1,961,746
Redemption of share capital	12	-	(2,581,142)
Dividends paid	12	(710,698)	(1,360,059)
(Repayment) Increase in demand loan		(5,174,226)	852,963
<b>Net cash flows used in financing activities</b>		<u>(2,715,722)</u>	<u>(1,126,492)</u>
Net decrease in cash and cash equivalents		(8,329)	(2,084)
Cash and cash equivalents, beginning of year		60,764	62,848
<b>Cash and cash equivalents, end of year</b>		<u>52,435</u>	<u>60,764</u>
<b>Supplemental cash flow information:</b>			
Interest paid		374,343	398,539

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, 2016 and December 31, 2015

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### 1 Nature of Operations and Going Concern

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 (Canada).

The Company lends on security of mortgages on real properties situated in the Provinces of Saskatchewan, Manitoba and Alberta. 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.

The Company is a reporting issuer under securities laws trading on the Canadian Securities Exchange under the symbol PRI.

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

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a net loss of \$2,601,558 during the year ended December 31, 2016, and as of that date, had an accumulated deficit of \$3,399,834. As a result of the losses the Company is realizing, it required additional funding from related parties during the year ended December 31, 2016. The decrease in the estimated fair value of the loan portfolio, assets taken in settlement of debt and continued weak economic conditions may cast significant doubt on the Company's ability to sustain operations for the upcoming year without raising additional cash. While the Company is using its best efforts to achieve its business plans by examining various financing alternatives, including raising additional equity financing, loans from related parties and sale of asset taken in settlement of debt, in the current economic conditions it is difficult to predict the outcome of these plans. All of these factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements.

### 2 Statement of Compliance and Basis of Presentation

These Financial Statements for the year ended December 31, 2016 represent the Company's annual Financial Statements prepared in accordance with International Accounting Standard ("IFRS"), and interpretations as issued by the International Accounting Standards Board ("IASB").

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

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2015 is presented in these consolidated financial statements due to the correction of an error retrospectively. See Note 3.

The Financial Statements of the Company for the year ended December 31, 2016 were authorized for issue in accordance with a resolution of the directors on March 30, 2017.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 3 Restatement and correction of errors in prior financial statements

During the year ended December 31, 2016, the Company's new management performed a detailed review of its mortgage portfolio. The Company determined that certain loss events occurred in prior periods that should have been considered in determining the specific allowance for mortgage losses at December 31, 2015 and 2014. In addition, it was determined that the security value assigned to certain mortgages and assets taken in settlement of debt were not appropriate and did not consider facts and circumstances that existed at December 31, 2015 and 2014. The combination of these events also impacted the collective allowance that should have been recorded as of December 31, 2015 and 2014 and were considered as errors in accordance with IFRS. The errors relating to the specific and collective allowance and the valuation of assets taken in settlement of debt have been corrected by restating each of the financial statement line items for the prior periods. As a result of considering certain loans as delinquent during the year ended December 31, 2015, reclassifications have been recorded within the statement of comprehensive income. The impact of the restatements are as follows:

Statement of Financial Position – December 31, 2015	As previously Reported \$	Adjustments \$	Restated \$
<b>ASSETS</b>			
Cash and cash equivalents	60,764	-	60,764
Loan receivable	10,800	-	10,800
Prepaid expenses	49,317	-	49,317
Mortgages receivable	24,993,626	(2,883,778)	22,109,848
Mortgage interest receivable	185,682	-	185,682
Property and equipment	12,342	-	12,342
Assets taken in settlement of debt	1,111,703	(19,346)	1,092,357
<b>Total Assets</b>	<b>26,424,234</b>	<b>(2,903,124)</b>	<b>23,521,110</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Demand loan	9,495,347	-	9,495,347
Trade and other payables	308,022	-	308,022
Unearned revenue	289,650	-	289,650
	10,093,019	-	10,093,019
<b>Shareholders' Equity</b>			
Shareholders' capital	13,515,669	-	13,515,669
Retained earnings – beginning of year	2,332,889	(496,971)	1,835,918
Dividends	(1,360,059)	-	(1,360,059)
Total comprehensive income (loss) for the year	1,842,716	(2,406,153)	(563,437)
Retained earnings (accumulated deficit) – end of year	2,815,546	(2,903,124)	(87,578)
<b>Total shareholders' equity</b>	<b>16,331,215</b>	<b>(2,903,124)</b>	<b>13,428,091</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>26,424,234</b>	<b>(2,903,124)</b>	<b>23,521,110</b>
Shares outstanding	1,662,759	-	1,662,759



# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 3 Restatement and correction of errors in prior financial statements (continued)

Statement of comprehensive income for the year ended December 31, 2015	As previously Reported \$	Adjustments \$	Restated \$
Revenue			
Mortgage interest	2,616,576	(137,070)	2,479,506
Fees	800,913		800,913
Mortgage interest and fees on delinquents	173,363	137,070	310,433
	<u>3,590,852</u>	<u>-</u>	<u>3,590,852</u>
Interest and fees expense			
Interest	398,539	-	398,539
Fees	10,814	-	10,814
	<u>409,353</u>	<u>-</u>	<u>409,353</u>
Net interest and fees income	3,181,499	-	3,181,499
Less:			
Bad debts and change in provision for mortgage losses	46,000	2,249,737	2,295,737
Provision for interest and fees on delinquents	173,363	137,070	310,433
Loss on assets taken in settlement of debt	12,205	19,346	31,551
Net interest and fees (loss) income after provision for mortgage losses	<u>2,949,931</u>	<u>(2,406,153)</u>	<u>543,778</u>
Expenses			
Advertising and promotion	79,392	-	79,392
Contracted services	56,261	-	56,261
Depreciation of property and equipment	11,839	-	11,839
Directors' fees	114,000	-	114,000
Insurance	33,188	-	33,188
Office and administration	127,944	-	127,944
Professional fees	99,434	-	99,434
Rent	47,066	-	47,066
Wages and benefits	538,091	-	538,091
	<u>1,107,215</u>	<u>-</u>	<u>1,107,215</u>
Total comprehensive income (loss) for the year	<u>1,842,716</u>	<u>(2,406,153)</u>	<u>(563,437)</u>
Earnings (loss) per share			
Basic and diluted	\$1.07	\$(1.40)	\$(0.33)

Impact on Statement of Financial Position – January 1, 2015	As previously Reported \$	Adjustments \$	Restated \$
Mortgages receivable	24,605,080	(496,971)	24,108,109
Total Assets	25,612,404	(496,971)	25,115,433
Retained earnings – end of year	2,332,889	(496,971)	1,835,918
Total shareholders' equity	16,467,954	(496,971)	15,970,983
Total Liabilities and Shareholders' Equity	25,612,404	(496,971)	25,115,433

The restatements above did not have an impact the Company's operating, investing and financing cash flows.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

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### 4 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 commercial 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.

Mortgages that have been assessed individually and found not to be impaired and all other performing loans are then assessed collectively to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account data from the mortgage portfolio about historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for judgments on the impact of current economic and credit conditions.

#### **Assets taken in settlement of debt**

The Company uses management's best estimates of the Fair Value of the Assets taken in settlement of debt by inspecting the property, obtaining appraisals and speaking with realtors in the area.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

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### 5 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.

##### **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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

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### 5 Summary of Significant Accounting Policies (continued)

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.

#### 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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

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### 5 Summary of Significant Accounting Policies (continued)

#### 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.

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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

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### 5 Summary of Significant Accounting Policies (continued)

#### 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
Automotive equipment	3 years
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.

#### 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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

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### 5 Summary of Significant Accounting Policies (continued)

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.

#### 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 revenue 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 revenue received is amortized into income over the term of the specific mortgage using the effective interest rate method.
- Other revenue is recorded as related services are provided.
- 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.

#### L) Unearned revenue

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

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 5 Summary of Significant Accounting Policies (continued)

#### 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.

### 6 Recent accounting pronouncements

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

IFRS 15 provides a single principle-based framework that applies to contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 15 on its financial statements.

#### iii) IFRS 16 Leases

IFRS 16, Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 is effective from January 1, 2019. All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. The Company has not yet determined the impact of IFRS 16 on its financial statements.

### 7 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, 2016	December 31, 2015
	\$	\$
Cash held in trust	30,421	674,859
Trust fund liability	(30,421)	(674,859)
	-	-



# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 8 Mortgages receivable

Portfolio of 44 (2015 – 58) mortgages bearing interest at fixed rates from 3.95% to 14.0% maturities ranging from March 2017 to November 2021, secured by real property to which they relate and by additional security in certain circumstances.

	<i>Gross amount of Impaired loans</i>	<i>Impairment</i>	<i>December 31, 2016 Net Amount of Impaired loans</i>
Residential mortgages	5,969,974	2,716,251	3,253,723
Commercial mortgages	5,374,311	2,688,631	2,685,680
Total	11,344,285	5,404,882	5,939,403

	<i>Gross amount of Impaired loans (Restated)</i>	<i>Impairment (Restated)</i>	<i>December 31, 2015 Net Amount of Impaired loans (Restated)</i>
Residential mortgages	3,962,284	1,209,978	2,752,306
Commercial mortgages	2,721,705	1,172,441	1,549,264
Total	6,683,989	2,382,419	4,301,570

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 8 Mortgages receivable (continued)

#### Mortgage allowance details

	December 31, 2016	December 31, 2015 (restated)
Specific balance, beginning of year	2,382,419	252,789
Provision for specific mortgage losses	3,164,397	2,227,341
Less: accounts written off	(141,934)	(97,711)
Specific balance, end of year	5,404,882	2,382,419
Collective balance, beginning of year	720,722	341,893
Provision for collective mortgage losses	138,832	378,829
Collective balance, end of year	859,554	720,722
<b>Total specific and collective allowance, end of year</b>	<b>6,264,436</b>	<b>3,103,141</b>

During the year ended December 31, 2016, the Company's new management performed a detailed review of its mortgage portfolio. This review has been completed with significant additional specific and collective provisions for mortgage losses, as indicated above, and have been recorded in the current year and prior years, as discussed in Note 3.

#### 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 in arrears, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

#### **December 31, 2016**

	<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	772,804	-	202,146	3,942,046	4,916,996
Commercial	1,569,631	-	-	-	1,569,631
	2,342,435	-	202,146	3,942,046	6,486,627
Appraised value of collateral	2,864,995	-	255,000	4,637,267	7,757,262

#### **December 31, 2015 (restated)**

	<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	908,612	1,256,336	248,564	259,947	2,673,459
Commercial	-	1,229,372	-	-	1,229,372
	908,612	2,485,708	248,564	259,947	3,902,831
Appraised value of collateral	1,185,000	4,695,000	411,500	356,000	6,647,500

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 8 Mortgages receivable (continued)

The principal collateral and other credit enhancements the Company holds as security for loans include (i) property 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.

#### Distribution of mortgages:

Effective interest rates	December 31 2016		December 31 2015	
	Number of mortgages	Amortized cost and fair value	Number of mortgages	Amortized cost and fair value (restated)
3 – 4%	1	304,282	1	296,653
4 – 5%	1	307,494	-	-
5 – 6%	1	686,159	1	1,174,038
6 – 7%	-	-	1	300,373
8 – 9%	5	2,063,295	6	2,082,584
9 – 10%	8	6,115,637	4	1,512,126
10 – 11%	4	3,438,446	6	6,648,386
11 – 12%	3	1,712,656	5	2,569,362
12 – 13%	17	3,560,840	26	5,960,782
13 – 14%	4	4,090,001	8	4,668,685
<i>Allowance for mortgage losses</i>		<b>(6,264,436)</b>		<b>(3,103,141)</b>
	<b>44</b>	<b>16,014,374</b>	<b>58</b>	<b>22,109,848</b>

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

#### Maturities and yields:

December 31, 2016	Within 3 months	Over 3 months to 1 year	Over 1 year	Allowance	Total
	Total mortgages	19,347,846	2,878,567	52,397	(6,264,436)
Effective interest rate %	11.3%	10.3%	11.0%		11.1%
December 31, 2015 (restated)	Within 3 months	Over 3 months to 1 year	Over 1 year	Allowance	Total
Total mortgages	15,116,271	9,908,566	188,152	(3,103,141)	22,109,848
Effective interest rate %	10.8%	12.4%	11.9%		11.4%

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 9 Property and equipment

	Automotive Equipment \$	Computer Equipment \$	Furniture and Equipment \$	Total \$
<b>Cost</b>				
At January 1, 2015	-	89,829	15,197	105,026
Additions	12,100	-	-	12,100
Disposals	-	-	-	-
At December 31, 2015	12,100	89,829	15,197	117,126
Additions	-	-	2,673	2,673
Disposals	(12,100)	-	-	(12,100)
At December 31, 2016	-	89,829	17,870	107,699
<b>Accumulated depreciation and Impairment</b>				
At January 1, 2015	-	77,748	15,197	92,945
Charge for the year	1,344	10,495	-	11,839
Disposals	-	-	-	-
At December 31, 2015	1,344	88,243	15,197	104,784
Charge for the year	2,689	1,501	742	4,932
Disposals	(4,033)	-	-	(4,033)
At December 31, 2016	-	89,744	15,939	105,683
<b>Net book value</b>				
At January 1, 2015	-	12,081	-	12,081
At December 31, 2015	10,756	1,586	-	12,342
At December 31, 2016	-	85	1,931	2,016

### 10 Assets taken in settlement of debt

	Properties	Amount \$
<b>At January 1, 2015</b>	5	660,884
Mortgages settled during the year by taking property	2	420,933
Costs incurred to sell		42,091
Properties sold during the year		-
Realized loss on sale of property		(205)
Unrealized loss (restated)		(31,346)
<b>At December 31, 2015 (restated)</b>	7	1,092,357
Mortgages settled during the year by taking property	6	2,306,855
Costs incurred to sell		87,483
Properties sold during the year	(4)	(750,000)
Realized loss on sale of property		(187,589)
Unrealized loss		(883,524)
<b>At December 31, 2016</b>	9	1,665,582

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

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 11 Demand loan

	December 31, 2016 \$	December 31, 2015 \$
Operating line of credit	4,321,121	9,495,347
	<u>4,321,121</u>	<u>9,495,347</u>

The margined, demand operating line of credit bears interest at prime plus 1.5% (2015 – prime plus 1.5%), 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 \$3,679,200 (December 31, 2015 - \$10,436,800).

The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2016 the Company was not in compliance with all financial covenants and arrangements were made with Conexus Credit Union on September 29, 2016 for a temporary increase to the line of credit of up to \$1,000,000 with an interest rate of 21.0%. At December 31, 2016 the Company utilized \$641,921 of the increased line of credit.

### 12 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. A shareholder calls for redemption of shares held by such shareholder by giving notice to the Company during the period April 1 to April 30th of a particular year (the "Redemption Period"), the Company 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 Company may redeem in any fiscal year.
- 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. In an effort to enhance the share liquidity for the shareholders, the Company began trading on the Canadian Securities Exchange under the symbol PRI.
- 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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 12 Shareholders' equity (continued)

#### B) Issued and outstanding

Class A Common shares	Number of Shares/Units	\$
At December 31, 2014	1,722,193	14,135,065
Shares redeemed	(269,994)	(2,581,142)
Shares issued for cash	210,560	1,961,746
At December 31, 2015	<b>1,662,759</b>	<b>13,515,669</b>
Shares redeemed	-	-
Shares issued for cash	227,970	2,165,695
At December 31, 2016	<b>1,890,729</b>	<b>15,681,364</b>

Shares issued for cash are net of share issue costs of \$114,005 (2015 - \$143,853). 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.

On September 20, 2016 the Company announced that the July 31, 2016 retractions have been set over until the next redemption period in April 2017.

Dividends declared in 2016 of \$710,698 (2015 - \$1,360,059) represent \$0.40 (2015 - \$0.80) per share.

### 13 Loss per share

#### Basic loss per share

Basic loss per share 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, 2016 \$	December 31, 2015 \$
Issued common shares outstanding, beginning of year	1,662,759	1,722,193
Effect of units cancelled	-	(94,062)
Effect of units issued	151,871	86,542
Weighted average number of common shares, end of year	<b>1,814,630</b>	1,714,673

  

	December 31, 2016 \$	December 31, 2015 \$ (restated)
Total comprehensive loss	(2,601,558)	(563,437)
Weighted average number of common shares	1,814,630	1,714,673
Loss per share	<b>(1.43)</b>	(.33)

There is no dilutive effect during the years ending December 31, 2015 or December 31, 2016. Therefore, the basic loss per share equals the diluted loss per share.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 14 Related party disclosure

#### Compensation of key management personnel

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

	December 31, 2016 \$	December 31, 2015 \$
Salaries, fees and short-term benefits	245,043	316,457

#### Transactions with directors

The remuneration of directors during the year consisted of directors fees in the amount of \$107,535 (2015 – \$114,000).

During the year, the Company received a \$1,000,000 loan from an entity in which two directors are shareholders. The loan is secured by a general security agreement over the assets of the Company and bears interest at 8% per annum. Initial repayment was due on December 15, 2016 and was extended to February 28, 2017. Subsequent to year end the Company obtained an additional \$500,000 of financing from the related party. The maturity date for total financing of \$1,500,000 has been extended to July 31, 2017.

Legal fees of \$25,185 were paid to a law firm in which a director is a partner.

The transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 15 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 due to related parties.

	December 31, 2016 \$	December 31, 2015 \$ (restated)
Demand loan	4,321,121	9,495,347
Trade and other payables	191,601	308,022
Due to related parties	1,003,507	-
<b>Total debt</b>	<b>5,516,229</b>	<b>9,803,369</b>
Shareholders' equity	12,281,530	13,428,091
<b>Total capitalization</b>	<b>12,281,530</b>	<b>13,428,091</b>

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

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### 15 Capital management (continued)

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 11) 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. During the year the Company was not in compliance with all financial covenants and on September 20, 2016 announced the suspension of the declaration of dividends for the remainder of 2016.

### 16 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 policies and procedures or methods used to measure risk, however during the year and as a result of new managements' review of the Company's mortgage portfolio an additional allowance for loan losses was recognized as discussed in Notes 1, 3 and 8.

#### 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.



# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 16 Financial instruments and risk management (continued)

#### *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 85% at funding (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.

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, 2016 is the fair value of its mortgage receivables, mortgage interest receivable and loan receivables which total \$16,096,134 (2015 - \$22,306,330).

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, 2016 \$	December 31, 2015 \$ (restated)
Residential first mortgages	8,493,654	13,916,184
Residential second mortgages	4,790,670	3,864,055
Commercial first mortgages	5,582,916	4,800,812
Commercial second mortgages	3,359,173	2,590,056
Residential mortgages with no security	52,397	41,882
Provision for mortgage losses	(6,264,436)	(3,103,141)
	<b>16,014,374</b>	<b>22,109,848</b>

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

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

The mortgage portfolio consists of mortgages that have been registered 91.7% in Saskatchewan (2015 – 93.0%), 8.0% in Alberta (2015 – 4.6%) and 0.3% in Manitoba (2015 – 2.4%).

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

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 16 Financial instruments and risk management (continued)

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 and mortgages past due but not impaired is included in Note 8.

#### **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 \$2,306,855 (December 31, 2015 - \$420,933) of property (Note 10). The Company's policy for these assets is to sell the assets to recover funds loaned.

#### **Liquidity risk**

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due. To limit this risk, the Company's approach is to ensure that it has sufficient cash and credit facilities to meet its liabilities when due, under both normal and stressed circumstances.

The Company maintains 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	Over 1 year	Total
<b>As at December 31, 2016</b>					
Demand loan	4,321,121	-	-	-	4,321,121
Trade and other payables	-	191,601	-	-	191,601
Due to related parties	-	1,003,507	-	-	1,003,507
	<b>4,321,121</b>	<b>1,195,108</b>	-	-	<b>5,516,229</b>

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
<b>As at December 31, 2015</b>					
Demand loan	9,495,347	-	-	-	9,495,347
Trade and other payables	-	308,022	-	-	308,022
Due to related parties	-	-	-	-	-
	<b>9,495,347</b>	<b>308,022</b>	-	-	<b>9,803,369</b>

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 16 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. While best efforts are made to collect on mortgages due, payouts of mortgages receivable may not occur on the maturity dates.

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
<b>As at December 31, 2016</b>					
Cash and cash equivalents	52,435	-	-	-	52,435
Loan receivable	10,800	-	-	-	10,800
Mortgages receivable	-	13,122,703	2,878,567	13,104	16,014,374
Mortgage interest receivable	-	70,960	-	-	70,960
	<b>63,235</b>	<b>13,193,663</b>	<b>2,878,567</b>	<b>13,104</b>	<b>16,148,569</b>

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
<b>As at December 31, 2015 (restated)</b>					
Cash and cash equivalents	60,764	-	-	-	60,764
Loan receivable	10,800	-	-	-	10,800
Mortgages receivable	-	13,237,485	8,693,587	178,775	22,109,848
Mortgage interest receivable	-	185,682	-	-	185,682
	<b>71,564</b>	<b>13,423,167</b>	<b>8,693,587</b>	<b>178,775</b>	<b>22,367,094</b>

#### 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 reports on these matters to the Company's Board of Directors.

#### 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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 16 Financial instruments and risk management (continued)

#### 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. On loan origination, the Company's mortgages are initially 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 11.1% (2015 – 11.4%). 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, 2016</i>	<i>Demand loan – sensitivity</i>	<i>Mortgages receivable – sensitivity</i>	<i>Total December 31, 2015 (restated)</i>
Increase in 25 basis points	(10,803)	40,036	29,233	(23,738)	55,275	31,537
Increase in 50 basis points	(21,606)	80,072	58,466	(47,476)	110,550	63,074
Decrease in 25 basis points	10,803	(40,036)	(29,233)	23,738	(55,275)	(31,537)
Decrease in 50 basis points	21,606	(80,072)	(58,466)	47,476	(110,550)	(63,074)

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, 2016 and December 31, 2015

### 16 Financial instruments and risk management (continued)

#### Interest rate re-price

						December 31, 2016	December 31, 2015 (restated)
	On demand	Within 3 months	Over 3 months to 1 year	Over 1 year	Not interest sensitive	Total	Total
<b>Assets</b>							
Cash and cash equivalents	52,435	-	-	-	52,435	52,435	60,764
Loan receivable	10,800	-	-	-	10,800	10,800	10,800
Mortgage interest receivable	-	70,960	-	-	70,960	70,960	185,682
Mortgages receivable	-	13,122,703	2,878,567	13,104	-	16,014,374	22,109,848
Effective interest rate %	-	11.3%	10.3%	11.0%	-	11.1%	11.4%
	<b>63,235</b>	<b>13,193,663</b>	<b>2,878,567</b>	<b>13,104</b>	<b>134,195</b>	<b>16,148,569</b>	<b>22,367,094</b>
<b>Liabilities</b>							
Demand loan	4,321,121	-	-	-	-	4,321,121	9,495,347
Effective interest rate %	6.7%	-	-	-	-	6.7%	4.2%
Trade and other payables	191,601	-	-	-	191,601	191,601	308,022
Due to related parties	-	1,003,507	-	-	-	1,003,507	-
Effective interest rate %	-	8.0%	-	-	-	8.0%	-
	<b>4,512,722</b>	<b>1,003,507</b>	<b>-</b>	<b>-</b>	<b>191,601</b>	<b>5,516,229</b>	<b>9,803,369</b>

#### 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 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, 2016	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash	52,435	52,435	-	-
<b>December 31, 2015</b>				
<b>Assets</b>				
Cash	60,764	60,764	-	-

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

### 16 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, 2016 but for which fair value is disclosed:

December 31, 2016	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Loan receivable	10,800	-	-	10,800
Prepaid expenses and other receivables	32,519	-	-	32,519
Mortgages receivable	16,014,374	-	-	16,014,374
Mortgage interest receivable	70,960	-	-	70,960
<b>Total Assets</b>	<b>16,128,653</b>	-	-	<b>16,128,653</b>
<b>Liabilities</b>				
Demand loan	4,321,121	-	4,321,121	-
Trade and other payables	191,601	-	-	191,601
Due to related parties	1,003,507	-	1,003,507	-
Unearned revenue	50,927	-	-	50,927
<b>Total Liabilities</b>	<b>5,567,156</b>	-	<b>5,324,628</b>	<b>242,528</b>

December 31, 2015 (restated)	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Loan receivable	10,800	-	-	10,800
Prepaid expenses and other receivables	49,317	-	-	49,317
Mortgages receivable	22,109,848	-	-	22,109,848
Mortgage interest receivable	185,682	-	-	185,682
<b>Total Assets</b>	<b>22,355,647</b>	-	-	<b>22,355,647</b>
<b>Liabilities</b>				
Demand loan	9,495,347	-	9,495,347	-
Trade and other payables	308,022	-	-	308,022
Unearned revenue	289,650	-	-	289,650
<b>Total Liabilities</b>	<b>10,093,019</b>	-	<b>9,495,347</b>	<b>597,672</b>

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 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. The net realizable is estimated by looking at market information for comparable properties and market rents when using an income based approach.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Financial Statements

For the years ended December 31, 2016 and December 31, 2015

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### 16 Financial instruments and risk management (continued)

During the reporting period ended December 31, 2016 and 2015, there were no transfers between leveling categories.

#### 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.

### 17 Commitments

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

	\$
2017	36,750
2018	15,313
<b>Total</b>	<b>52,063</b>

### 18 Income taxes

The Company has non-capital loss carry forwards for income tax purposes of \$5,444,516 which will expire as follows:

	\$
2031	109,380
2032	208,726
2033	196,178
2036	4,930,232
<b>Total</b>	<b>5,444,516</b>

In addition to these non-capital loss carryforwards there are \$650,269 of temporary differences that will become deductible should all recorded allowances for mortgage losses become realized. The potential benefit of these loss carry forwards has not been recognized in these financial statements.