



## Condensed Interim Financial Statements (Unaudited)

Three and six months ended June 30, 2016

## **REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by PrimeWest Mortgage Investment Corporation's management.

These unaudited condensed interim financial statements have not been reviewed by the Company's external auditors.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**Unaudited Condensed Interim Statement of Financial Position**

As at June 30, 2016

(Expressed in Canadian Dollars)

	Notes	June 30, 2016 \$	December 31, 2015 \$
			(Audited)
<b>ASSETS</b>			
Cash and cash equivalents		60,714	60,764
Loan receivable	4	10,800	10,800
Prepaid expenses		18,538	49,317
Mortgages receivable	5	24,111,047	24,993,626
Mortgage interest receivable		217,927	185,682
Property and equipment		11,785	12,342
Assets taken in settlement of debt	6	1,124,693	1,111,703
<b>Total Assets</b>		<b>25,555,504</b>	<b>26,424,234</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Demand loan	7	7,283,965	9,495,347
Trade and other payables		271,540	308,022
Unearned revenue		79,242	289,650
		<u>7,634,747</u>	<u>10,093,019</u>
<b>Shareholders' Equity</b>			
Shareholders' capital	8	15,681,364	13,515,669
Retained earnings		2,239,393	2,815,546
		<u>17,920,757</u>	<u>16,331,215</u>
<b>Total Liabilities and Shareholders' Equity</b>		<b>25,555,504</b>	<b>26,424,234</b>
Shares outstanding	8	1,890,729	1,662,759
Commitments	12		
Subsequent Events	15		

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

"Doug Frondall"

Director

"Tom Robinson"

Director

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**Unaudited Condensed Interim Statement of Comprehensive Income**  
For the three and six months ended June 30, 2016 and 2015  
(Expressed in Canadian Dollars)

	Notes	For the three months ended		For the six months ended	
		June 30, 2016 \$	June 30, 2015 \$	June 30, 2016 \$	June 30, 2015 \$ (note 14)
<b>Income</b>					
Mortgage interest		626,773	647,262	1,257,711	1,322,548
Mortgage interest on delinquents	5	62,069	43,413	125,283	60,330
Fees		159,176	209,805	383,319	418,765
		<u>848,018</u>	<u>900,480</u>	<u>1,766,313</u>	<u>1,801,643</u>
<b>Interest and fees expense</b>					
Interest		89,530	102,556	190,694	205,742
Fees		2,003	2,526	4,006	6,121
		<u>91,533</u>	<u>105,082</u>	<u>194,700</u>	<u>211,863</u>
<b>Net interest and fees income</b>		<b>756,485</b>	<b>795,398</b>	<b>1,571,613</b>	<b>1,589,780</b>
(Recovery) bad debts and change in provision for mortgage losses	5	479,241	-	479,241	-
Provision for interest on delinquents	5	62,069	43,413	125,283	60,330
(Gain) loss on disposal of assets taken in settlement of debt		295,000	-	295,000	205
<b>Net interest and fees (loss) income after provision for mortgage losses</b>		<b>(79,825)</b>	<b>751,985</b>	<b>672,089</b>	<b>1,529,245</b>
<b>Expenses</b>					
Advertising and promotion		15,053	24,181	33,346	34,869
Contracted services		25,622	16,658	44,217	31,639
Depreciation of property and equipment		1,525	2,552	3,229	5,104
Directors' fees	9	28,700	28,500	57,200	57,000
Insurance		10,900	7,661	20,355	12,315
Office and administration		28,360	30,649	58,297	58,467
Professional fees		63,582	33,611	136,176	46,504
Rent		13,632	13,361	23,193	23,668
Wages and benefits		79,980	122,582	182,297	253,810
		<u>267,354</u>	<u>279,755</u>	<u>558,310</u>	<u>523,376</u>
<b>Total comprehensive (loss) income for the period</b>		<b>(347,179)</b>	<b>472,230</b>	<b>113,779</b>	<b>1,005,869</b>
<b>Earnings (loss) per share</b>					
Basic and diluted		(\$0.19)	\$0.27	\$0.07	\$0.58

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

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**Unaudited Condensed Interim Statement of Changes in Shareholders’**  
**Equity**

For the six months ended June 30, 2016 and 2015  
(Expressed in Canadian Dollars)

	Notes	Shareholders’ capital \$	Retained earnings \$	Total equity \$
As at January 1, 2015		14,135,065	2,332,889	16,467,954
Share issuance		-	-	-
Share redemption		-	-	-
Dividends			(688,877)	(688,877)
Total comprehensive income for the period		-	1,005,869	1,005,869
As at June 30, 2015		<u>14,135,065</u>	<u>2,649,881</u>	<u>16,784,946</u>
As at January 1, 2016		13,515,669	2,815,546	16,331,215
Share issuance	8	2,165,695	-	2,165,695
Share redemption	8	-	-	-
Dividends		-	(689,932)	(689,932)
Total comprehensive income for the period		-	113,779	113,779
<b>As at June 30, 2016</b>		<u>15,681,364</u>	<u>2,239,393</u>	<u>17,920,757</u>

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

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**Unaudited Condensed Interim Statement of Cash Flows**

For the six months ended June 30, 2016 and 2015  
(Expressed in Canadian Dollars)

	Notes	June 30, 2016 \$	June 30, 2015 \$ (note 14)
<b>Operating activities</b>			
Total comprehensive income for the period		113,779	1,005,869
Non-cash adjustments to reconcile loss from operations to net cash flows:			
Depreciation of property and equipment		3,229	5,104
(Recovery) bad debt and provision for mortgage losses	5	479,241	-
Provision for interest on delinquents	5	125,283	60,330
(Gain) loss on disposal of assets taken in settlement of debt		295,000	205
Mortgages funded during the year		(2,311,330)	(3,044,031)
Mortgages discharged during the year		2,291,515	2,614,505
Costs incurred to sell asset taken on settlement of debt		(10,120)	(18,600)
Proceeds from disposal of assets taken in settlement of debt		-	-
Net change in non-cash working capital relating to operating activities:			
Mortgage interest receivable		(32,245)	(132,327)
Prepaid expenses		30,779	(30,061)
Trade and other payables		(36,482)	122,786
Unearned revenue		(210,408)	(131,324)
<b>Net cash flows from operating activities</b>		<b>738,241</b>	<b>452,456</b>
<b>Investing activities</b>			
Purchase of property and equipment		(2,672)	-
<b>Net cash flows from investing activities</b>		<b>(2,672)</b>	<b>-</b>
<b>Financing activities</b>			
Issuance of share capital	8	2,165,695	-
Redemption of share capital	8	-	-
Dividends paid		(689,932)	(688,877)
(Repayment) Increase of demand loan		(2,211,382)	236,263
<b>Net cash flows from financing activities</b>		<b>(735,619)</b>	<b>(452,614)</b>
Net increase (decrease) in cash and cash equivalents		(50)	(158)
Cash and cash equivalents, beginning of period		60,764	62,848
<b>Cash and cash equivalents, end of period</b>		<b>60,714</b>	<b>62,690</b>
<b>Supplemental cash flow information:</b>			
Interest paid		190,694	205,742

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

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016

(Unaudited – Expressed in Canadian Dollars)

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### 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 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.

### 2 Statement of Compliance and Basis of Presentation

These unaudited condensed interim financial statements for the period ended June 30, 2016 represent the Company’s quarterly financial statements prepared in accordance with International Accounting Standard (“IFRS”), and interpretations as issued by the International Accounting Standards Board (“IASB”).

The Financial Statements of the Company for the period ended June 30, 2016 were authorized for issue in accordance with a resolution of the directors on August 25, 2016.

### 3 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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016

(Unaudited – Expressed in Canadian Dollars)

### 3 Recent accounting pronouncements (continued)

#### 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.

### 4 Loan receivable

The loan receivable relates to a loan to a past director to acquire shares of the Company.

### 5 Mortgages receivable

Portfolio of 55 (December 31, 2015 – 58) mortgages bearing interest at fixed rates from 3.95% to 14.0% maturities ranging from July 2016 to November 2020, 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>June 30, 2016 Net Amount of Impaired loans</i>
Residential mortgages	5,026,656	806,646	4,220,010
Commercial mortgages	-	-	-
Total	5,026,656	806,646	4,220,010

	<i>Gross amount of Impaired loans</i>	<i>Impairment</i>	<i>December 31, 2015 Net Amount of Impaired loans</i>
Residential mortgages	1,662,057	219,363	1,442,694
Commercial mortgages	-	-	-
Total	1,662,057	219,363	1,442,694



# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016  
(Unaudited – Expressed in Canadian Dollars)

### 5 Mortgages receivable (continued)

#### Mortgage allowance details

	<b>June 30, 2016</b>	<i>December 31, 2015</i>
Balance, beginning of year	<b>219,363</b>	97,711
(Recovery) bad debts and change in provision for mortgage losses	<b>479,241</b>	46,000
Change in provision for interest on delinquents	<b>125,283</b>	173,363
	<b>823,887</b>	317,074
Less: accounts written off	<b>(17,241)</b>	(97,711)
Balance, end of period	<b>806,646</b>	219,363

#### 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 period 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.

#### **June 30, 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	862,536	1,034,501	743,540	4,514,817	7,155,394
Commercial	2,643,956	693,748	-	1,542,189	4,879,893
	<b>3,506,492</b>	<b>1,728,249</b>	<b>743,540</b>	<b>6,057,006</b>	<b>12,035,287</b>
Appraised value of collateral	<b>4,746,000</b>	<b>2,187,500</b>	<b>909,832</b>	<b>11,234,897</b>	<b>19,078,229</b>

#### **December 31, 2015**

	<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	1,194,034	1,256,336	248,564	896,349	3,595,283
Commercial	-	1,229,372	-	-	1,229,372
	1,194,034	2,485,708	248,564	896,349	4,824,655
Appraised value of collateral	1,600,000	4,695,000	411,500	1,131,583	7,838,083

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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016

(Unaudited – Expressed in Canadian Dollars)

### 5 Mortgages receivable (continued)

Distribution of mortgages:

<i>Effective interest rates</i>	<i>Number of mortgages</i>	<i>June 30</i>	<i>Number of mortgages</i>	<i>December 31</i>
		<i>2016</i>		<i>2015</i>
		<i>Amortized cost and fair value</i>		<i>Amortized cost and fair value</i>
3 – 4%	1	297,603	1	296,653
4 – 5%	1	302,348	-	-
5 – 6%	1	1,174,729	1	1,174,038
6 – 7%	-	-	1	300,373
8 – 9%	6	2,144,454	6	2,082,584
9 – 10%	5	1,617,726	4	1,512,126
10 – 11%	7	7,228,979	6	6,648,386
11 – 12%	4	2,392,250	5	2,569,362
12 – 13%	22	5,059,772	26	5,960,782
13 – 14%	8	4,699,832	8	4,668,685
<i>Allowance for mortgage losses</i>		<b>(806,646)</b>		<b>(219,363)</b>
	<b>55</b>	<b>24,111,047</b>	<b>58</b>	<b>24,993,626</b>

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:

	<i>Within 3 months</i>	<i>Over 3 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
<b>June 30, 2016</b>				
Total mortgages	21,492,628	2,603,103	15,316	24,111,047
<i>Effective interest rate %</i>	11.5%	10.8%	9.6%	11.4%
<b>December 31, 2015</b>				
Total mortgages	14,849,708	9,955,766	188,152	24,993,626
<i>Effective interest rate %</i>	10.9%	12.4%	11.9%	11.5%

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016  
(Unaudited – Expressed in Canadian Dollars)

### 6 Assets taken in settlement of debt

	Properties	Amount \$
<b>At December 31, 2014</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 gain (loss) on sale of property		(205)
Unrealized gain (loss)		(12,000)
<b>At December 31, 2015</b>	7	1,111,703
Mortgages settled during the year by taking property	1	297,870
Costs incurred to sell		10,120
Properties sold during the year		-
Realized gain (loss) on sale of property		-
Unrealized gain (loss)		(295,000)
<b>At June 30, 2016</b>	8	1,124,693

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

### 7 Demand loan

	June 30, 2016 \$	December 31, 2015 \$
Operating line of credit	7,283,965	9,495,347

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 period-end the maximum margin available was \$7,686,600 (December 31, 2015 - \$10,436,800).

The credit agreement contains certain financial covenants that must be maintained. As at June 30, 2016 the Company was in compliance with all financial covenants.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016  
(Unaudited – Expressed in Canadian Dollars)

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### 8 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.

#### 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 June 30, 2016	<b>1,890,729</b>	<b>15,681,364</b>

The aggregate potential redemption amount of the outstanding Class A shares is \$18,907,290 (December 31, 2015 - \$16,627,590). 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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016  
(Unaudited – Expressed in Canadian Dollars)

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### 9 Related party disclosure

#### Compensation of key management personnel

Key management personnel (“KMP”) consist of the CEO, CFO and the directors. KMP remuneration includes the following expenses:

	June 30, 2016 \$	June 30, 2015 \$
Salaries, fees and short-term benefits	<u>149,802</u>	<u>126,592</u>

The remuneration of directors during the year consisted of directors fees in the amount of \$57,200 (June 30, 2015 – \$57,000).

#### Transactions with key management personnel

In the period ended June 30, 2016 the Company paid \$NIL in additional legal fees (December 31, 2015 - \$2,645) to a law firm that a director is a partner in. The 2015 transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. The transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 10 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.

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 12) 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 June 30, 2016 the Company was in compliance with all financial covenants.

There were no changes in the Company’s approach to capital management during the period.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016

(Unaudited – Expressed in Canadian Dollars)

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### 11 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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016

(Unaudited – Expressed in Canadian Dollars)

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

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 June 30, 2016 is the fair value of its mortgage receivables, mortgage interest receivable and loan receivables which total \$24,339,774 (December 31, 2015 - \$25,190,108).

To reduce the exposure the Company holds collateral as security on its mortgages. The collateral consists of a charge against real property on each mortgage. At June 30, 2016 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:

	June 30, 2016	December 31, 2015
	\$	\$
Residential first mortgages	12,735,801	13,916,184
Residential second mortgages	4,642,408	3,864,055
Commercial first mortgages	4,881,647	4,800,812
Commercial second mortgages	2,632,521	2,590,056
Residential mortgages with no security	25,316	41,882
Provision for mortgage losses	(806,646)	(219,363)
	<b>24,111,047</b>	<b>24,993,626</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 93.3% in Saskatchewan (December 31, 2015 – 93.3%), 4.8% in Alberta (December 31, 2015 – 4.6%) and 1.9% in Manitoba (December 31, 2015 – 2.2%).

The Company does not internally assign credit quality ratings to its mortgages that are neither past due nor impaired. In addition, there is a limited market for such a portfolio of mortgages so standard credit ratings have not been used. However, the Company actively monitors its mortgage portfolio, the quality of the mortgages and any impairment.

Additional information on credit quality, renegotiated mortgages and mortgages past due but not impaired is included in Note 5.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016  
(Unaudited – Expressed in Canadian Dollars)

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

#### *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 \$297,870 (December 31, 2015 - \$420,933) of property. The Company's policy for these assets is to sell the assets to recover funds loaned.

#### **Liquidity risk**

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

The Company maintains 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.

	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>12 to 24 months</b>	<b>Total</b>
<b>As at June 30, 2016</b>					
Demand loan	<b>7,283,965</b>	-	-	-	<b>7,283,965</b>
Trade and other payables	-	<b>271,540</b>	-	-	<b>271,540</b>
Due to related parties	-	-	-	-	-
Unearned revenue	-	<b>42,094</b>	<b>37,148</b>	-	<b>79,242</b>
	<b>7,283,965</b>	<b>313,634</b>	<b>37,148</b>	-	<b>7,634,747</b>

	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>12 to 24 months</b>	<b>Total</b>
<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	-	-	-	-	-
Unearned revenue	-	168,795	120,833	22	289,650
	9,495,347	476,817	120,833	22	10,093,019



# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016  
(Unaudited – Expressed in Canadian Dollars)

### 11 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
<b>As at June 30, 2016</b>					
Cash and cash equivalents	60,714	-	-	-	60,714
Loan receivable	10,800	-	-	-	10,800
Mortgages receivable	-	21,492,628	2,603,103	15,316	24,111,047
Mortgage interest receivable	-	217,927	-	-	217,927
	<b>71,514</b>	<b>21,710,555</b>	<b>2,603,103</b>	<b>15,316</b>	<b>24,400,488</b>

	On demand	Less than 3 months	3 to 12 months	12 to 24 months	Total
<b>As at December 31, 2015</b>					
Cash and cash equivalents	60,764	-	-	-	60,764
Loan receivable	10,800	-	-	-	10,800
Mortgages receivable	-	14,849,708	9,955,766	188,152	24,993,626
Mortgage interest receivable	-	185,682	-	-	185,682
	<b>71,564</b>	<b>15,035,390</b>	<b>9,955,766</b>	<b>188,152</b>	<b>25,250,872</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 Condensed Interim Financial Statements

For the six months ended June 30, 2016

(Unaudited – Expressed in Canadian Dollars)

### 11 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. The Company's mortgages are short, fixed term mortgages ranging up to 24 months. Any change in the market interest rate will expose the Company to fair value fluctuations in their portfolio.

The Company has managed this risk by maintaining an adequate spread between the interest rate paid on the demand loan and the interest received on the fixed, short-term mortgages. The Company also manages the risk by maintaining a mortgage portfolio of short term, fixed mortgages with rates at a premium from market rates. The average interest rate of the mortgages as at period end was 11.4% (December 31, 2015 – 11.5%). 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 June 30, 2016</i>	<i>Demand loan – sensitivity</i>	<i>Mortgages receivable – sensitivity</i>	<i>Total December 31, 2015</i>
Increase in 25 basis points	<b>(18,210)</b>	<b>60,278</b>	<b>42,068</b>	(23,768)	62,484	38,716
Increase in 50 basis points	<b>(36,420)</b>	<b>122,556</b>	<b>86,136</b>	(47,476)	124,968	77,492
Decrease in 25 basis points	<b>18,210</b>	<b>(60,278)</b>	<b>(42,068)</b>	23,768	(62,484)	(38,716)
Decrease in 50 basis points	<b>36,420</b>	<b>(122,556)</b>	<b>(86,136)</b>	47,476	(124,968)	(77,492)

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

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016  
(Unaudited – Expressed in Canadian Dollars)

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

#### *Interest rate re-price*

						June 30, 2016	December 31, 2015
	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	60,714	-	-	-	60,714	60,714	60,764
<i>Effective interest rate %</i>	-	-	-	-	-	-	-
Loan receivable	10,800	-	-	-	10,800	10,800	10,800
<i>Effective interest rate %</i>	-	-	-	-	-	-	-
Mortgage interest receivable	-	217,927	-	-	217,927	217,927	185,682
Mortgages receivable	-	21,492,628	2,603,103	15,316	-	24,111,047	24,993,626
<i>Effective interest rate %</i>	-	11.5%	10.8%	9.6%	-	11.4%	11.5%
	<b>71,514</b>	<b>21,710,555</b>	<b>2,603,103</b>	<b>15,316</b>	<b>289,441</b>	<b>24,400,488</b>	<b>25,250,872</b>
<b>Liabilities</b>							
Demand loan	7,283,965	-	-	-	-	7,283,965	9,495,347
<i>Effective interest rate %</i>	4.2%	-	-	-	-	4.2%	4.2%
Trade and other payables	271,540	-	-	-	271,540	271,540	308,022
	<b>7,555,505</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>271,540</b>	<b>7,555,505</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 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:

June 30, 2016	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash	60,714	60,714	-	-
December 31, 2015				
<b>Assets</b>				
Cash	60,764	60,764	-	-

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016  
(Unaudited – Expressed in Canadian Dollars)

### 11 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 June 30, 2016 but for which fair value is disclosed:

June 30, 2016	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Loan receivable	10,800	-	-	10,800
Mortgages receivable	24,111,047	-	-	24,111,047
Mortgage interest receivable	217,927	-	-	217,927
<b>Total Assets</b>	<b>24,339,774</b>	-	-	<b>24,339,774</b>
<b>Liabilities</b>				
Demand loan	7,283,965	-	7,283,965	-
Trade and other payables	271,540	-	-	271,540
Due to related parties	-	-	-	-
Unearned revenue	79,242	-	-	79,242
<b>Total Liabilities</b>	<b>7,634,747</b>	-	<b>7,283,965</b>	<b>350,782</b>

December 31, 2015	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Loan receivable	10,800	-	-	10,800
Mortgages receivable	24,993,626	-	-	24,993,626
Mortgage interest receivable	185,682	-	-	185,682
<b>Total Assets</b>	<b>25,190,108</b>	-	-	<b>25,190,108</b>
<b>Liabilities</b>				
Demand loan	9,495,347	-	9,495,347	-
Trade and other payables	308,022	-	-	308,022
Due to related parties	-	-	-	-
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 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.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the six months ended June 30, 2016

(Unaudited – Expressed in Canadian Dollars)

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

#### 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.

### 12 Commitments

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

	\$
2016	18,375
2017	36,750
2018	15,313
<b>Total</b>	<b>70,438</b>

### 13 Income taxes

The Company has non-capital loss carry forwards for income tax purposes of \$514,284 which will expire as follows:

	\$
2031	109,380
2032	208,726
2033	196,178
<b>Total</b>	<b>514,284</b>

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

### 14 Reclassification

Certain of prior year balances presented for comparative purposes have been reclassified to conform with current presentation.

### 15 Subsequent Events

Subsequent to period end unrealized redundant assets were identified and a focus on selling such assets has resulted in three conditional sales.