PrimeWest

Mortgage Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (**"MD&A"**) has been prepared by PrimeWest Mortgage Investment Corporation the (**"Corporation"**, **"PrimeWest", "we"** or **"our"**) as of March 30, 2017. It should be read in conjunction with the Corporation's audited financial statements and accompanying notes for the 12 months ended December 31, 2016. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and all financial information is presented in Canadian dollars.

During the year ended December 31, 2016 the Corporation conducted an in depth review of its mortgage portfolio following the termination of the previous President and Chief Executive Officer (CEO). The review revealed inadequate allowances were being established on troubled properties. The Corporation took corrective action by increasing loan loss provisions where warranted. Given that the cumulative impact of these adjustments are considered material, the Corporation considers it appropriate to restate the previously reported 2015 Statement of Financial Position and the 2015 Statement of Comprehensive Income. The adjustment to 2015 opening retained earnings was due to an allocation of increased provisions for mortgage losses in 2014.

Notice Regarding Forward-Looking Information

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

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

Business Status and Overview

PrimeWest Mortgage Investment Corporation was incorporated on March 22, 2005 pursuant to *The Business Corporations Act* (Saskatchewan). The Corporation's head office is situated at 700 - 750 Spadina Crescent East, Saskatoon, Saskatchewan S7K 3H3 and its registered office is located at 1000 - 2002 Victoria Avenue, Regina, Saskatchewan S4P 0R7. The Corporation has no subsidiaries. The Corporation's fiscal year (**"Fiscal Year"**) is the twelve-month period ending on December 31st of each year.

Business Status and Overview (continued)

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

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

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

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

As the Corporation holds a license to operate as a financing corporation under *The Trust and Loan Corporations, Act 1997* (Saskatchewan) it has the right to conduct its own mortgage transactions. The Corporation is also registered as a Mortgage Broker under *The Mortgage Brokers Act* (Manitoba). However, where practical, it is the practice of the Corporation to utilize brokers (**"Brokers"**) registered pursuant to the provisions of *The Mortgage Brokers Act* (Saskatchewan), to seek out borrowers and submit mortgage applications to the Corporation. See "Business with Brokers". In other cases, the Corporation receives referrals from immigration consultants, financial advisers and bankruptcy/liquidation agencies. Upon mortgage approval, third party professional personnel prepare and register all mortgage security on behalf of the Corporation.

OPERATIONS

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

In 2016 a review of the corporate mortgage portfolio was conducted where non-performing mortgages and unrealized redundant assets were identified. Management together with the Credit Committee and the Audit Committee of the Board of Directors began an in depth review of the financial status of the corporation.

The review revealed a lack of adequate security, failure to follow loan policies and guidelines and the withholding and/or provision of wrongful information to the Board and Board Committees by the former CEO.
Corrective action was taken by the Corporation to obtain new appraisals and / or market valuations of mortgages held. The valuations obtained were, in several cases, considerably lower than previously indicated. The review also revealed the deterioration of various assets held in rural locations. Where warranted, the Corporation has now established loan loss provisions in excess of $6,000,000 and provisions for the disposal of assets taken in settlement of debt in excess of $1,000,000.

OPERATIONS (continued)

Non performing loans were analysed and sent to legal counsel to commence foreclosure action. The Corporation now holds 14 mortgages in various stages of the foreclosure process. The Corporation is currently utilizing the forbearance process to expedite the foreclosure process, under stricter conditions of default. This will allow an opportunity to the client for market values to improve within oil and gas related areas where property valuations have declined substantially.

Assets held were listed for sale, with four assets being sold in 2016 with net proceeds of $700,819.

On September 20, 2016 the Corporation announced it had suspended the declaration of dividends for the remainder of 2016, and the July 31, 2016 retractions of Class “A” shares have been set over until the next redemption period in April 2017.

On September 29, 2016 the Corporation received an advance of $1,000,000 on a debenture secured financing obtained from a third party of whom two directors are shareholders. The debenture is at 8% per annum interest. The initial repayment was due on December 15, 2016 and was extended to February 28, 2017. The short term financing addressed short term cash flow issues, and allowed the Corporation the time to realize and obtain cash proceeds from the sale of foreclosed properties and other realization steps being undertaken. Subsequent to year end the Corporation obtained an additional $500,000 of financing making the total secured debenture financing in the sum of $1,500,000. The repayment date for this debenture has been extended to July 31, 2017.

The Corporation has deferred pursuing capital and equity investment opportunities until the mortgage portfolio is stabilized and the effect of potential economic decline in residential and commercial properties sectors is better understood. The timing within which market conditions improve will directly impact further actions of the Corporation.

At December 31, 2016 the Corporation invested $16,014,374 in 44 (December 31, 2015 (restated) – $22,109,848 in 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. Interest rates in the lower ranges were primarily associated with short term mortgages with maturities that were to be within 2 to 6 months.

The 2016 year end financial results reflect a reduction in shareholders equity to $6.50 per share.

RESTATEMENT OF PREVIOUS YEAR BALANCES

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 more properly 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 events 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:

RESTATEMENT OF PREVIOUS YEAR BALANCES (continued)

Statement of Financial Position – December 31, 2015	**As previously Reported** $	**Adjustments** $	**Restated** $
ASSETS			
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
Total Assets	26,424,234	(2,903,124)	23,521,110
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
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
Shareholders' Equity			
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 losses) – end of year	2,815,546	(2,903,124)	(87,578)
Total shareholders' equity	16,331,215	(2,903,124)	13,428,091
Total Liabilities and Shareholders' Equity	26,424,234	(2,903,124)	23,521,110
Shares outstanding	1,662,759	-	1,662,759

RESTATEMENT OF PREVIOUS YEAR BALANCES (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
	3,590,852	-	3,590,852
Interest and fees expense			
Interest	398,539	-	398,539
Fees	10,814	-	10,814
	409,353	-	409,353
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	2,949,931	(2,406,153)	543,778
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
	1,107,215	-	1,107,215
Total comprehensive income (loss) for the year	1,842,716	(2,406,153)	(563,437)
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 on the Company’s operating, investing and financing cash flows.

YEAR END FINANCIAL INFORMATION

	2016 December 31	2015 December 31 (restated)	2014 December 31 (restated)
Total Revenue	$3,205,297	$3,590,852	$3,500,103
Total Comprehensive Income (loss)	($2,601,558)	($563,437)*	$1,389,164*
Total Assets	$17,848,686	$23,521,110*	$25,115,433*
Total Liabilities	$5,567,156	$10,093,019	$9,144,450

*Indicates restated amounts due to a portion of loan losses identified in 2016 being recorded to previous periods.

QUARTERLY FINANCIAL INFORMATION

	Q4 2016 December 31	Q3 2016 September 30 (restated)	Q2 2016 June 30 (restated)	Q1 2016 March 31 (restated)	Q4 2015 December 31 (restated)	Q3 2015 September 30 (restated)	Q2 2015 June 30 (restated)	Q1 2015 March 31 (restated)
Total Revenue	$701,633	$737,351	$848,018	$918,295	$865,902	$923,307	$900,480	$901,163
Total Comprehensive (Loss) Income	$217,541	($2,932,878)	($347,179)	$460,958	($2,077,775)*	$508,469	$472,230	$533,639
Total Assets	$17,848,686	$19,578,370*	$22,652,380*	$23,310,940*	$23,521,110*	$25,094,328*	$25,491,649*	$25,749,941*
Total Liabilities	$5,567,156	$7,493,615	$7,634,747	$9,352,498	$10,093,019	$8,516,665	$9,203,674	$9,589,758
Shareholders' Equity	$12,281,530	$12,084,755*	$15,017,633*	$13,958,442*	$13,428,091*	$16,577,663*	$16,287,975*	$16,160,183*
Shares Outstanding	1,890,729	1,890,729	1,890,729	1,705,069	1,662,759	1,740,086	1,722,193	1,722,193
Shareholders' Equity per share	$6.50	$6.39*	$7.94*	$8.19*	$8.08*	$9.53*	$9.46*	$9.38*
Cash Dividends Declared	0	0	$378,146	$332,552	$332,551	$338,631	$344,438	$344,439
Cash Dividends Declared per Class A Share	0	0	$.20	$.20	$.20	$.20	$.20	$.20

*Indicates restated amounts due to a portion of loan losses identified in 2016 being recorded to previous periods.

IMPORTANT EVENTS

In an effort to create improved liquidity for shareholders, while planning to grow the company, the Corporation began trading on the Canadian Securities Exchange ("CSE") on March 10, 2016 under the symbol PRI.

INVESTMENT OBJECTIVES

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

OPERATING RESTRICTIONS

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

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

(i) make a mortgage loan if, immediately after the closing of the loan transaction, the amount so lent would be greater than 20% of the Corporation's net assets, while the net assets are in excess of $2,000,000;
(ii) guarantee securities or obligations of any person or Corporation;
(iii) engage in securities lending;
(iv) engage in derivative transactions for any purpose;
(v) develop, manage or acquire (except by foreclosure or other enforcement of its rights as mortgagee) any real property;
(vi) enter into a forward commitment binding on the Corporation unless the Corporation has, at the time such commitment is made, sufficient cash or "near cash" securities to fund the loan to which the commitment relates; or
(vii) otherwise conduct its business in a manner that would cause the Corporation not to qualify as a MIC, that would result in the Common Shares not being a "qualified investment" for a trust governed by a registered retirement savings plan, registered retirement income fund, registered education savings plan or deferred profit sharing plan (**"Registered Plans"**) or that would result in Common Shares being foreign property for the purpose of the Tax Act.

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

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

INVESTMENT POLICIES

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

(i) the Corporation may only invest in commercial and residential mortgage loans secured against real property situated in Canada and primarily in Saskatchewan, Manitoba, and Alberta.
(ii) the Corporation as a general practice maintains a portion of its total assets in cash or "near-cash" securities (such as units of money market funds) or an equivalent amount of funds available under the Corporation's line of credit financing in order to meet redemption requests and also to be in a position to redeem a prior mortgagee's interest in a given property if a Broker considers that it would be advantageous for the Corporation to do so having regard to the market value of the property and the amount of mortgage debt due to the Corporation. The Board will monitor the cash and credit position of the Corporation on a regular basis in order to maintain its cash, near-cash and/or credit reserve positions at a necessary level;
(iii) all bridge financing loans in which the Corporation invests will be secured by an interest against title to the real property that is the subject of the bridge financing loan and an irrevocable assignment of proceeds from the sale of such real property;

INVESTMENT POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INVESTMENT CRITERIA

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

(i) the Corporation will make investments so that it maintains its status as a MIC;

(ii) loans will be secured by mortgages and/or other appropriate security interests in favour of the Corporation, either as sole mortgagee or co-mortgagee, and each mortgage will be duly registered as a charge against the real property which is the subject of the mortgage. All investments made with respect to loan applications submitted by a Broker, will be reviewed and will have received a positive recommendation by such Broker;

INVESTMENT CRITERIA (continued)

(iii) bridge financing loans will be secured by an irrevocable direction to pay such loans from the proceeds of a binding contract to sell real property and an irrevocable assignment of such proceeds in favour of the Corporation, either as sole assignee or co-assignee;

(iv) loans will be made to borrowers who deal with the Corporation, the Brokers and their affiliates, shareholders, officers and directors at arm's length;

(v) mortgages will be registered as a charge against real property, provided that the overall loan to appraised value ratio does not exceed 95% (including prior charges);

(vi) prior to funding the loan, the Corporation will obtain current appraisals on all properties which secure the loan. The appraisals will be completed by an accredited appraiser approved by the Corporation;

(vii) the initial term of each loan will not exceed a term of 24 months;

(viii) the Corporation will make loans primarily in the Province of Saskatchewan and may expand to other provinces and territories in Canada. While the Corporation will look, at least initially, primarily to Saskatchewan based mortgages for its investment opportunities, there are no restrictions on the amount of funds that may be invested by the Corporation in any particular Province or Territory of Canada;

(ix) the Corporation may advance additional monies on a loan in order to protect the loan, notwithstanding that the additional advance of funds may increase the loan to value ratio over and above the parameters set out above.

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

OPERATING RESULTS FOR THE QUARTER AND YEAR ENDED DECEMBER 31, 2016

Total comprehensive (loss) for the year ended December 31, 2016 was ($2,601,558) compared to the restated comprehensive (loss) of ($563,437) for the year ended December 31, 2015.

The loss is a result of both specific and collective loan loss provisions being established following an in depth review of the mortgage portfolio. The specific loan loss provision at December 31, 2016 is $5,404,882 versus the restated specific loan loss provision at December 31, 2015 of $2,382,419. Specific loan loss provisions include estimates of foreclosure and sale costs. The collective loan loss provision at December 31, 2016 is $859,554 versus the restated collective loan loss provision at December 31, 2015 of $720,722.

At December 31, 2016 the Corporation's total value of the mortgage portfolio was $16.0 million. This represents a reduction of $6.0 million from December 31, 2015 restated amounts.

At December 31, 2016, the Corporation had 44 mortgages outstanding with an average balance of $363,963. This was down by 14 mortgages from December 31, 2015 at which time the average restated mortgage balance was $381,204. The reduction of 14 mortgages was comprised of eight mortgages being paid out and six mortgages being settled by PrimeWest taking the asset in settlement of debt. Two of these assets taken were subsequently sold bringing net proceeds of $580,660. Two additional assets have been sold subsequent to year end with estimated proceeds to be received by March 31, 2017 in the amount of $512,000.

OPERATING RESULTS FOR THE QUARTER AND YEAR ENDED DECEMBER 31, 2016 (continued)

Revenue

Mortgage revenue for the three months ended December 31, 2016 was $701,633. This represents a decrease from the $865,902 generated in the three months ended December 31, 2015. The 2016 revenue consisted of $631,746 in interest and $69,887 in lender fees charged to borrowers.

For the year ended December 31, 2016 mortgage revenue was $3,205,297 consisting of $2,690,693 in interest and $514,604 in mortgage fees.

Expenses

Interest on the operating line for the three months ended December 31, 2016 was $78,198. This was down by $17,600 from December 2015. This was a result of the decreased available margining in 2016.

Additional interest charges for the three months ended December 31, 2016 were $20,303 as a result of the related third party debenture the company obtained. The debenture was obtained to address short term cash flow issues related to the decreased margin available. As the sale of foreclosed properties and other realization steps are being undertaken, the Company is confident of its ability to repay the debenture on or before maturity.

Year to date Professional Fees of $338,410 are up by $238,976 from 2015. The increase was a result of legal and licensing costs relative to obtaining the CSE Listing in excess of $36,700 and legal fees as a result of the 2016 Capital Raise through Private Placement of $14,700. In addition, in excess of $115,000 in legal fees have been expended on matters related to the dismissal of the previous President and CEO.

Year to date Wages and benefits of $325,572 reflect a decrease from the 2015 Year to date amount of $538,091, primarily as a result of terminating the former CEO.

INVESTMENT PORTFOLIO

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

The following tables illustrate the Corporation's net mortgage investments allocated by Security Position, Region and Interest Rate:

i) Security Position

	December 31, 2016	December 31, 2015
	% of Net Mortgage Investments ($)	% of Net Mortgage Investments ($)
Residential - First Mortgages	38.1%	55.2%
Residential - Non-First mortgages	21.7%	15.5%
Commercial - First Mortgages	25.1%	19.0%
Commercial – Non-First Mortgages	15.1%	10.3%
	100.0%	**100.0%**

ii) Region

	December 31, 2016	December 31, 2015
	% of Net Mortgage Investments ($)	% of Net Mortgage Investments ($)
Saskatchewan	91.7%	93.0%
Alberta	8.0%	4.6%
Manitoba	.3%	2.4%
	100.0%	**100.0%**

INVESTMENT PORTFOLIO (continued)

iii) Interest Rate

<u>Distribution of mortgages:</u>

	Effective interest rates	Number of mortgages	December 31 2016 Amortized cost and fair value	Number of mortgages	December 31 2015 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%	**9**	**6,771,461**	4	1,512,126
	10 – 11%	**4**	**3,438,446**	6	6,648,386
	11 – 12%	**2**	**1,056,832**	5	2,569,362
	12 – 13%	**17**	**3,560,840**	26	5,960,782
	13 – 14%	**4**	**4,090,001**	8	4,668,685
Allowance for mortgage losses			**(6,264,436)**		(3,103,141)*
		44	**16,014,374**	58	22,109,848*

*Indicates restated amounts due to a portion of loan losses identified in 2016 being recorded to previous period.

CAPITAL MANAGEMENT

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

	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**	-
Total debt	**5,516,229**	9,803,369
Shareholders' equity	**12,281,530**	13,428,091*
Total capitalization	**12,281,530**	13,428,091*

*Indicates restated amounts due to a portion of loan losses identified in 2016 being recorded to previous period.

CAPITAL MANAGEMENT (continued)

	December 31, 2016	December 31, 2015 (restated)
Total Assets	$17,848,686	$23,521,110*
Total Debt	$5,567,156	$10,093,019
Shareholders' Equity	$12,281,530	$13,428,091*
Total Liabilities and Shareholders' Equity	$17,848,686	$23,521,110*
Debt to total capitalization (%)	31.2%	42.9%
Net interest & fees income (loss) after provision for mortgage losses	$(1,552,267)	$543,778*

*Indicates restated amounts due to a portion of loan losses identified in 2016 being recorded to previous period.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and issue new debt to replace existing debt.

DIVIDEND DISTRIBUTIONS

The Corporation's policy is to distribute dividends to its shareholders from profit available within the Corporation on a quarterly basis.

On September 20, 2016, the Board of Directors suspended the declaration of dividends for the remainder of 2016.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

LIQUIDITY AND CAPITAL RESOURCES (continued)

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

During the year ended December 31, 2016, the Corporation'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 being recorded in the current year and prior years as previously discussed. Refer to the notes under Critical Accounting Estimates for further disclosure.

OFF-BALANCE SHEET TRANSACTIONS

The Corporation's business constitutes of advancing funds secured by real estate mortgage and the administration and collection of principle and interest under these mortgages. The Corporation does not have any off-balance sheet transactions with the exception of the lease agreement for its premises. The future lease commitments expire May 31, 2018.

RELATED PARTY TRANSACTIONS

The Corporation is managed by the Chief Executive Officer, the Chief Financial Officer and the administration of business activities is handled by employees. The Board of Directors oversee and provide direction to management.

Two Directors are shareholders in a third party from whom an initial advance of $1,000,000 on a debenture was secured. Subsequent to year end, the debenture was increased by an additional $500,000. The debenture is at 8% per annum interest with repayment due on July 31, 2017. The short term loan is to assist the cash flow of the Corporation and provide time within which realization of foreclosed and redundant assets may occur.

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

FINANCIAL INSTRUMENTS

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

The authorized limit of the credit facility is the lesser of the margin calculation and $15,000,000. It bears interest at the rate of prime interest plus 1.5%. The credit facility is secured by a general security agreement over the assets of the Corporation. As at December 31, 2016, the maximum margin available was $3,679,200. This represents a reduction of $6,757,600 available margin from December 2015.

At December 31, 2016 the Corporation was not in compliance with all financial covenants and arrangements were made with Conexus for a temporary increase to the line of credit of $1,000,000 with an interest rate of 21.0%. At December 31, 2016 the Corporation utilized $641,921 of the increased line of credit.

The Corporation continues to manage the reduced margin with proceeds from mortgage payouts, sales of assets held and the debenture funding received.

The Corporation is currently in compliance with all financial covenants.

CRITICAL ACCOUNTING ESTIMATES

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

In addition to individual assessment the mortgages are collectively assessed. Based on amounts determined from the analysis, Management uses its judgement to determine whether or not actual future losses are expected to exceed or be less than the amounts calculated.

As of December 31, 2016 the Corporation had an impairment allowance of $6,264,436 which includes a Specific Allowance of $5,404,882 and a Collective Allowance of $859,554. The restated impairment allowance at December 31, 2015 was $3,103,141 which included a Specific Allowance of $2,382,419 and a Collective Allowance of $720,722. Approximately 80% of the Specific Allowance at December 31, 2016 can be attributed to 2 Commercial mortgages and 4 residential mortgages, representing $4,348,838 in Specific Allowances.

MANAGEMENT/CONTROL/PROCEDURES

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

The Board of Directors provide an oversight role, and the Audit Committee assists in the provision and review of financial information contained with the MD&A and the financial statements for the year ended December 31, 2016.

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

MARKET OUTLOOK & CORPORATE RISKS

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

While the Corporation conducts its business in the Western Provinces of Saskatchewan, Manitoba and Alberta our primary market for residential and commercial mortgages continues to be Saskatchewan. With a slowdown in the economy Investors in the Corporation may have concerns relative to the real estate market in general and the potential impact on companies in this industry affecting their ability to generate profits, pay dividends and redeem shares to their investors in the future.

Management and the Board have deferred pursuing capital and equity investment opportunities until its mortgage portfolio is stabilized and the effect of potential economic decline in residential and commercial properties sectors is better understood. The timing within which market conditions improve will directly impact further actions of the Corporation.

The Corporation is focussed on ensuring the borrowing policies and guidelines are properly followed.

MARKET OUTLOOK & CORPORATE RISKS (continued)

We consider and establish a number of strategies to limit market risks due to changes in the overall economy and or specific sectors of the economy which may impact our business model and our resulting mortgage portfolio. We maintain prudent lending practices within the guidelines established for Mortgage Investment Corporation's ("MIC") by Government Regulations. MIC's are allowed to lend to an initial maximum Loan To Value ("LTV") of up to 95% of the appraised value of property being mortgaged and we have internal guidelines established to utilize a lower threshold of 85% LTV to provide a more solid underlying security value for our mortgage loans and as such improved investment value for our shareholders.

The lack of accurate reporting and the failure by the prior CEO to identify to the Board and to make specific allowances for non-performing mortgages hindered the Corporation in dealing with the allocation of dividends and implementation of its redemption policy.

While MIC's are allowed to enter into mortgages with initial terms of up to 2 years in duration, we continue to concentrate on shorter term maturities to facilitate more immediate cash flow issues while working to convert investment assets to cash to provide the most efficient use of shareholder capital.

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

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

ADDITIONAL INFORMATION

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