

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

# HERGOTT DUVAL STACK LLP

CHARTERED ACCOUNTANTS

## PARTNERS

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## AUDITORS' REPORT

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

We have audited the balance sheet of Primewest Mortgage Investment Corporation as at December 31, 2006 and December 31, 2005 and the statements of income and retained earnings and cash flows for the year and year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and December 31, 2005 and the results of its operations and cash flows for the year and year then ended in accordance with Canadian generally accepted accounting principles.

SASKATOON, SASKATCHEWAN

March 28, 2007

*Hergott Duval Stack LLP*

Chartered Accountants

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**BALANCE SHEET**

**DECEMBER 31, 2006**

	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
Cash	\$ 210,675	\$ 951,555
Term deposit (Note 3)	190,995	-
Accrued interest receivable	20,748	988
Prepaid expenses	2,439	-
Mortgages receivable (Note 4)	7,184,261	208,950
Long-term loans receivable (Note 5)	153,600	-
Capital assets (Note 6)	<u>5,042</u>	<u>-</u>
	<b><u>\$ 7,767,760</u></b>	<b><u>\$ 1,161,493</u></b>

<b><u>LIABILITIES</u></b>		
Operating loan (Note 7)	\$ 2,000,000	\$ -
Term demand loan (Note 8)	3,300,000	-
Accounts payable	147,296	6,689
Dividends payable	<u>73,236</u>	<u>-</u>
	<b><u>5,520,532</u></b>	<b><u>6,689</u></b>

<b><u>SHAREHOLDERS' EQUITY</u></b>		
Share Capital (Note 9)	2,193,423	1,167,932
Aggregate potential redemption amount of the outstanding shares is \$2,451,700 (2005 - \$1,297,200)		
Retained earnings (deficit)	<u>53,805</u>	<u>(13,128)</u>
	<b><u>2,247,228</u></b>	<b><u>1,154,804</u></b>
	<b><u>\$ 7,767,760</u></b>	<b><u>\$ 1,161,493</u></b>

Approved by the Board

\_\_\_\_\_  
"Gord Wyant" Director  
(signed)

\_\_\_\_\_  
"Darryn Knibbs" Director  
(signed)

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**STATEMENT OF INCOME AND RETAINED EARNINGS**

**YEAR ENDED DECEMBER 31, 2006**

	<u>2006</u>	(3 months) <u>2005</u>
<b>Revenue</b>		
Fees and related revenues (Note 11)	\$ 216,558	\$ 4,315
Interest on short-term investments	32,745	2,771
Mortgage interest	<u>342,931</u>	<u>988</u>
	<u><b>592,234</b></u>	<u><b>8,074</b></u>
<b>Expenses</b>		
Allowance for mortgage losses	35,052	1,050
Contracted services	36,045	-
Directors' fees	32,250	15,000
Interest and bank charges	192,823	16
Office and administration	8,544	1,136
Professional fees	21,778	4,000
Wages and employee benefits	<u>49,454</u>	<u>-</u>
	<u><b>375,946</b></u>	<u><b>21,202</b></u>
<b>Net income (loss)</b>	<b>216,288</b>	<b>(13,128)</b>
Deficit, beginning of year	(13,128)	-
Dividends	<u>(149,355)</u>	<u>-</u>
<b>Retained earnings (deficit), end of year</b>	<u><b>\$ 53,805</b></u>	<u><b>\$ (13,128)</b></u>
<b>Basic and dilutive earnings (loss) per share (Note 12)</b>	<u><b>\$ 1.39</b></u>	<u><b>\$ (0.51)</b></u>

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2006**

	<u>2006</u>	(3 months) <u>2005</u>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 216,288	\$ (13,128)
Allowance for mortgage losses	35,052	1,050
Net changes in non-cash working capital items related to operations:		
Accrued interest receivable	(19,760)	(988)
Prepaid expenses	(2,439)	-
Accounts payable	<u>140,607</u>	<u>6,689</u>
	<u><b>369,748</b></u>	<u><b>(6,377)</b></u>
<b>Cash flows from investing activities</b>		
Mortgage advances	(7,325,400)	(210,000)
Mortgage repayments	315,037	-
Purchase of capital assets	(5,042)	-
Increase in long-term loans receivable	(160,000)	-
Repayment of long-term loans receivable	6,400	-
Net increase in term deposit	<u>(190,995)</u>	<u>-</u>
	<u><b>(7,360,000)</b></u>	<u><b>(210,000)</b></u>
<b>Cash flows from financing activities</b>		
Dividends paid	(76,119)	-
Proceeds from issuance of shares	1,244,000	1,277,220
Redemption of shares	(87,502)	-
Proceeds from increase in operating line	2,000,000	-
Proceeds from issuance of term demand loan	3,300,000	-
Share issuance costs	<u>(131,007)</u>	<u>(109,288)</u>
	<u><b>6,249,372</b></u>	<u><b>1,167,932</b></u>
<b>Net (decrease) increase in cash during the year</b>	<b>(740,880)</b>	<b>951,555</b>
Cash, beginning of year	<u>951,555</u>	<u>-</u>
<b>Net increase in cash during the year and cash, end of year</b>	<b>\$ <u>210,675</u></b>	<b>\$ <u>951,555</u></b>

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

**1. Description of business**

Primewest Mortgage Investment Corporation (the "Company") was incorporated under The Business Corporations Act of Saskatchewan on March 22, 2005. The Company operates as a Mortgage Investment Corporation as defined in the Income Tax Act. Share equity was raised in July and October 2005, and the Company commenced operations in October 2005. The Company's first mortgage was issued in December 2005.

**2. Significant accounting policies**

These financial statements have been prepared to reflect the following significant accounting policies:

**Mortgages receivable**

Mortgages receivable are recorded at their fair value less allowance for mortgage losses. The estimated fair value of mortgages is determined by discounting the future cash flow from the mortgages at the Company's prevailing rate of return on new mortgages of similar type, term and credit risk.

**Allowance for mortgage losses**

The Company records an allowance for mortgage loan losses to reduce mortgage receivable carrying values to their estimated realizable amounts. Specific allowances are established for specific mortgages which have been identified as being impaired. Impairment is assessed monthly, on a mortgage by mortgage basis. In addition to specific allowances, a general allowance has been established at 0.50% of the carrying value of the outstanding mortgages receivable balance.

**Capital assets**

Capital assets are recorded at cost. Computer equipment is amortized over three years using the straight-line method.

**Share issue costs**

Share issue costs are charged against share capital in the year of share issuance.

**Revenue recognition**

Interest revenue on mortgages and other investments is recognized on the accrual basis in the period earned. Interest is not accrued on mortgages that are identified as impaired. Other fees, including mortgage fees, are recognized as income as services are provided.

**Basic and dilutive earnings per share**

The basic and dilutive earnings (loss) per share has been calculated using the weighted average number of common shares outstanding during the year. Since there are not any items of a dilutive nature, the basic and dilutive share amounts are the same.

**Income taxes**

The Company is a Mortgage Investment Corporation as defined in the Income Tax Act. As such, the Company is not taxable on income which flows through to shareholders in the form of dividends paid within 90 days of the Company's fiscal year end. It is the Company's policy to always flow income earned out to shareholders in the form of dividends. It is therefore unlikely that the Company will ever pay corporate income tax.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

**2. Significant accounting policies (continued)**

**Use of estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amount of revenues and expenses during the reporting period, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates which are subject to measurement uncertainty include the determination of mortgage impairment, the allowance for mortgage losses and the determination of mortgage fair value.

**3. Term deposit**

The term deposit bears interest at 2.15%, is renewable monthly and has been pledged as security in respect of a condition of financing for the term demand loan (see Note 8).

**4. Mortgages receivable**

	<u>2006</u>	<u>2005</u>
Portfolio of 34 (2005 - 1) mortgages bearing interest at fixed rates from 8.0% to 11.5%, maturities ranging from January 2007 to October 2008, secured by mortgages on subject properties and by additional security in certain circumstances	\$ 7,220,363	\$ 210,000
Allowance for mortgage losses	<u>(36,102)</u>	<u>(1,050)</u>
	<b><u>\$ 7,184,261</u></b>	<b><u>\$ 208,950</u></b>

As at year end, there were nil (2005 - nil) mortgages greater than 60 days in arrears.

**5. Long term loans receivable**

The long term loans receivable relate to loans to four directors to acquire shares of the Company. These loans are non-interest bearing, due on demand and are secured by Company shares held in trust. On demand, these loans bear interest at prime plus 2%. These loans are repayable as dividends are paid by the Company.

**6. Capital assets**

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	<u>\$ 5,042</u>	<u>\$ -</u>	<u>\$ 5,042</u>	<u>\$ -</u>

**7. Operating loan**

The margined, demand operating loan bears interest at prime plus 2%, has an authorized limit of \$2,000,000 and is secured by a general security agreement and an assignment of debenture mortgages.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

**8. Term demand loan**

The term demand loan, used to finance a specific mortgage receivable, bears interest at prime plus 2%, is due August 1, 2007, and is secured by an assignment of a specific mortgage receivable and term deposit (see Note 3). As well, additional mortgage security, which the Company received from the mortgage, has been assigned as security to this loan.

**9. Share capital**

Authorized an unlimited number of

Class A common, voting shares, redeemable at the option of the Company at \$10 per share and retractable at the option of the holder at \$10 per share. If the shareholder requests share redemption within the first year of share issuance, a redemption penalty of 3% will apply, unless waived by the Board of Directors. The Company is only required to redeem 20% of the issued and outstanding shares per year where the Company has a net asset value of \$1,000,000 or less and is only required to redeem 30% of the issued and outstanding shares per year where the Company has a net asset value of greater than \$1,000,000. Share redemption requests by Estates will have priority

Class B 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 the number of shares to be issued and the designation, rights, privileges, restrictions and conditions attached to those shares

	<u>2006</u>	<u>2005</u>
Issued		
245,170 Class A shares (2005 - 129,720)	<u>\$ 2,193,423</u>	<u>\$ 1,167,932</u>

During the year, 124,400 Class A shares were issued for net proceeds of \$1,112,993 and 8,950 Class A shares were redeemed for \$87,502. The aggregate potential redemption amount of the outstanding Class A shares is \$2,451,700.

Consistent with Section 3861 of the Canadian Institute of Chartered Accountants Handbook, shares with rights of retraction by the holder generally must be presented as a liability. However, Emerging Issues Abstract 149, also of the Canadian Institute of Chartered Accountants, allows retractable shares to be reflected as equity where certain criteria are met. The Company's issued Class A shares meet these criteria as the 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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

**10. Commitment**

As at year end, the Company was committed to funding two (2005 - two) mortgages for a total of \$232,248 (2005 - \$212,350).

**11. Fees and related revenues**

Fees are recorded net of \$129,789 (2005 - \$1,685) of fees paid to brokers and agents who sourced the mortgages.

**12. Basic and diluted loss per share**

As indicated in Note 2, generally accepted accounting principles require that the weighted average number of common shares be used in calculating the basic and diluted loss per share. For both 2005 and 2006, the Company issued most of its common shares in the latter part of the respective years and, as a result, the weighted average number of shares outstanding for 2005 was 25,613 (compared to the 129,720 total issued and outstanding shares as at December 31, 2005) and the weighted average number of shares outstanding for 2006 was 155,747 (compared to the 245,170 total issued and outstanding shares as at December 31, 2006). Therefore, had all the shares been issued on January 1st of the respective years, the earnings per share for 2006 would have been \$0.94 per share and the loss per share for 2005 would have been \$0.10 per share.

**13. Related party transactions**

The Company had various transactions with directors and companies owned by certain directors. These transactions included \$32,250 (2005 - \$15,000) of directors' fees, \$3,000 (2005 - \$nil) to certain directors for expense allowances, \$78,729 (2005 - \$1,575) to certain directors in respect of mortgage broker fees and \$9,000 (2005 - \$nil) to a director in respect of share issue costs.

These transactions are in the normal course of operations and are measured at the exchange amount, which approximates fair value and is the amount of consideration established and agreed to by the related parties.

**14. Financial instruments**

**Fair value of financial instruments**

The carrying amount of current financial assets and current financial liabilities approximate their fair value because of the short-term maturities of these items. The mortgage receivable has been recorded at fair value, which approximates cost.

**Interest rate price risk**

The Company is subject to interest rate price risk on its mortgage portfolio. This risk relates to the risk that the current mortgage may not be repriced at the respective repricing date(s) at the existing interest rate.

**Credit risk**

The Company is exposed to credit risk due to the possibility of mortgagors being unable to fulfil their mortgage commitments. There is currently a concentrated credit risk with respect to one mortgage receivable in the amount of \$3,545,546. This credit risk has been partially mitigated as the Company has received, in addition to normal mortgage security, additional mortgage security on other properties held by the mortgagor. The remaining mortgage portfolio of 33 mortgages has an average balance of approximately \$106,000 and therefore no concentrated credit risk in any one mortgage.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

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**15. Loss carryforwards**

The Company has non-capital loss carryforwards for income tax purposes of \$25,184. These losses begin to expire in 2015 and the potential benefit of these loss carryforwards has not been recognized in these financial statements.

**16. Comparative figures**

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

**17. Subsequent event**

Subsequent to the year end, on March 28, 2007, the board of directors declared a dividend of \$0.20 per share, payable March 30, 2007, to shareholders of record as of March 15, 2007.