

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**



## AUDITORS' REPORT

### Partners

R. Joe Parker\*  
Thomas Stack\*  
Barry Frank\*  
Blair Davidson\*  
Bernie Broughton\*  
David Ballantyne  
Craig Hermann\*  
Carol Mailloux\*  
Evan Shoforost\*  
Orlo Drewitz\*  
Greg Keller\*  
Irene Boychuk\*  
Ryan Ball\*  
Timothy R. Timmerman  
Wes Unger\*  
Lane Wallace  
  
Senior Counsel  
Lee Hergott  
Maurice Duval  
Lyle Zdunich\*

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

We have audited the balance sheet of Primewest Mortgage Investment Corporation as at December 31, 2007 and December 31, 2006 and the statements of income and retained earnings, changes in net assets, cash flows, and investment portfolio for the years 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, 2007 and December 31, 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SASKATOON, SASKATCHEWAN

February 12, 2008

Chartered Accountants

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**BALANCE SHEET**

**DECEMBER 31, 2007**

	<u>2007</u>	<u>2006</u>
<b><u>ASSETS</u></b>		
Cash (Note 3)	\$ 2,986,140	\$ 210,675
Term deposits	-	190,995
Loans receivable (Note 4)	72,670	153,600
Prepaid expenses	17,026	2,439
Mortgages receivable (Note 5)	8,789,936	7,205,009
Capital assets (Note 6)	32,525	5,042
Deferred share issuance costs (Note 7)	136,042	-
	<u>\$ 12,034,339</u>	<u>\$ 7,767,760</u>

<b><u>LIABILITIES</u></b>		
Accounts payable	\$ 120,261	\$ 147,296
Operating loan (Note 8)	4,813,000	2,000,000
Term demand loan	-	3,300,000
Dividends payable	-	73,236
Trust fund liability (Note 9)	76,694	-
Convertible debentures (Note 10)	545,545	-
	<u>5,555,500</u>	<u>5,520,532</u>
Commitments (Note 11)		

<b><u>SHAREHOLDERS' EQUITY</u></b>		
Share Capital (Note 12)	6,398,828	2,193,423
Aggregate potential redemption amount of the outstanding shares is \$6,922,600 (2006 - \$2,451,700)		
Contributed surplus (Note 13)	18,455	-
Retained earnings	61,556	53,805
	<u>6,478,839</u>	<u>2,247,228</u>
	<u>\$ 12,034,339</u>	<u>\$ 7,767,760</u>

Approved by the Board

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**STATEMENT OF INCOME AND RETAINED EARNINGS**

**YEAR ENDED DECEMBER 31, 2007**

	<u>2007</u>	<u>2006</u>
<b>Revenue</b>		
Fees and related revenues (Note 14)	\$ 317,337	\$ 216,558
Interest on short-term investments	16,708	32,745
Mortgage interest	746,700	342,931
Rental revenue	7,770	-
	<u>1,088,515</u>	<u>592,234</u>
<b>Expenses</b>		
Advertising and promotion	46,291	-
Amortization	7,478	-
Allowance for mortgage losses	7,806	35,052
Contracted services	39,184	36,045
Directors' fees	41,818	32,250
Insurance	3,314	-
Interest and bank charges	357,749	192,823
Office and administration	97,529	8,544
Professional fees	25,310	21,778
Repairs and maintenance	1,326	-
Wages and employee benefits	140,501	49,454
	<u>768,306</u>	<u>375,946</u>
<b>Net income</b>	<b>320,209</b>	<b>216,288</b>
Retained earnings (deficit), beginning of year	53,805	(13,128)
Dividends	(303,082)	(149,355)
Excess of redemption value of shares over stated capital	(9,376)	-
	<u>61,556</u>	<u>53,805</u>
<b>Retained earnings, end of year</b>	<b>\$ 61,556</b>	<b>\$ 53,805</b>
<b>Basic and diluted earnings per share (Note 15)</b>	<b>\$ 0.85</b>	<b>\$ 1.39</b>

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**STATEMENT OF CHANGES IN NET ASSETS**

**YEAR ENDED DECEMBER 31, 2007**

	<u>2007</u>	<u>2006</u>
<b>Net assets, beginning of year</b>	<b><u>\$ 2,247,228</u></b>	<b><u>\$ 1,154,804</u></b>
Increase in net assets from operations	<u>320,209</u>	<u>216,288</u>
<b>Share capital transactions</b>		
Proceeds from issuance of shares	4,559,900	1,244,000
Share issuance costs applied to share capital	(274,871)	(131,007)
Cost of shares redeemed	(79,624)	(87,502)
Equity component of convertible debentures	18,455	-
	<u>4,223,860</u>	<u>1,025,491</u>
<b>Distributions to shareholders</b>		
Dividends to shareholders	(303,082)	(149,355)
Excess of redemption amount over stated capital	(9,376)	-
	<u>(312,458)</u>	<u>(149,355)</u>
<b>Net assets, end of year</b>	<b><u>\$ 6,478,839</u></b>	<b><u>\$ 2,247,228</u></b>

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2007**

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 320,209	\$ 216,288
Items not affecting cash		
Amortization	7,478	-
Allowance for mortgage losses	7,806	35,052
Net changes in non-cash working capital items related to operations:		
Accrued interest receivable	(31,469)	(19,760)
Prepaid expenses	(14,587)	(2,439)
Accounts payable	(27,036)	140,607
Trust fund liability	76,694	-
	<u>339,095</u>	<u>369,748</u>
<b>Cash flows from investing activities</b>		
Mortgage advances, net of repayments	(1,561,264)	(7,010,363)
Purchase of capital assets	(34,960)	(5,042)
Increase in long-term loans receivable	-	(160,000)
Repayment of long-term loans receivable	80,930	6,400
Net decrease (increase) in term deposit	190,995	(190,995)
	<u>(1,324,299)</u>	<u>(7,360,000)</u>
<b>Cash flows from financing activities</b>		
Dividends payable	(73,236)	-
Dividends paid	(303,082)	(76,119)
Proceeds from issuance of shares	4,559,900	1,244,000
Proceeds from issuance of convertible debentures	564,000	-
Redemption of shares	(89,000)	(87,502)
Proceeds from increase in operating line	2,813,000	2,000,000
Repayment of term demand loan	(3,300,000)	3,300,000
Deferred share issuance costs	(136,042)	-
Share issuance costs charged to share capital	(274,871)	(131,007)
	<u>3,760,669</u>	<u>6,249,372</u>
<b>Net increase (decrease) in cash during the year</b>	<b>2,775,465</b>	<b>(740,880)</b>
Cash, beginning of year	210,675	951,555
<b>Cash, end of year</b>	<b><u>\$ 2,986,140</u></b>	<b><u>\$ 210,675</u></b>
<b>Supplementary cash flow information</b>		
Interest paid	\$ 362,877	\$ 156,395
Income taxes paid	-	-

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**STATEMENT OF INVESTMENT PORTFOLIO**

**YEAR ENDED DECEMBER 31, 2007**

	<u>Principal Value</u>	<u>Amortized Cost</u>	<u>Current Value</u>
Mortgages	<u>\$ 8,737,719</u>	<u>\$ 8,737,719</u>	<u>\$ 8,789,936</u>
Cash and other net assets			<u>\$ 2,501,903</u>
Operating line of credit			<u>\$ (4,813,000)</u>
Net assets			<u>\$ 6,478,839</u>

**Distribution of mortgages**

	<u>Interest Rates %</u>	<u>Number of Mortgages</u>	<u>Amortized Cost</u>	<u>Current Value</u>
Mortgages are 100% residential				
All mortgages are pre-payable, uninsured, conventional mortgages, with terms to maturity ranging from one to two years	7 - 8	1	195,448	195,448
	8 - 9	10	1,607,380	1,607,380
	9 - 10	17	2,448,929	2,448,929
	10 - 11	19	3,341,599	3,341,599
	11 - 12	9	927,399	927,399
	12 - 13	1	214,000	214,000
	13 - 14	1	46,872	46,872
Add, accrued interest receivable				52,217
Less, allowance for mortgage losses			<u>(43,908)</u>	<u>(43,908)</u>
		58	<u>8,737,719</u>	<u>8,789,936</u>

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

**1. Description of business**

PrimeWest Mortgage Investment Corporation (the "Company") was incorporated under The Business Corporations Act of Saskatchewan on March 22, 2005 and commenced operations in October 2005. The Company operates as a Mortgage Investment Corporation as defined in the Income Tax Act.

**2. Significant accounting policies**

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

**Adoption of new accounting policies**

The Canadian Institute of Chartered Accountants has issued recommendations for the recognition, measurement, and disclosure of financial instruments. Specifically, Section 3855 "Financial Instruments—Recognition and Measurement" and Section 3861 "Financial Instruments—Disclosure and Presentation" establish standards for the recognition, classification, measurement, presentation, and disclosure of financial assets, financial liabilities, and non-financial derivatives. The Company adopted these Sections effective January 1, 2007 and has designated its financial instruments as being held to maturity. Aside from required disclosures, this treatment does not impact the carrying value of the financial instruments.

**Mortgages receivable**

Mortgages receivable are stated at cost, which approximates fair value, given that any restructuring of the existing portfolio of loans would be made at the same or similar rates, and given the short maturities of the loans.

**Allowance for mortgage losses**

The Company records an allowance for mortgage loan losses to reduce mortgage receivable carrying values to their estimated realizable amounts. A general allowance has been established at 0.50% of the carrying value of the outstanding mortgages receivable balance. Impairment is assessed monthly, on a mortgage-by-mortgage basis and specific allowances are recorded if in excess of the general allowance.

**Capital assets**

Capital assets are recorded at cost. All 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. Costs incurred for shares that have not been issued at year end are deferred until such time as the related shares are issued. If it becomes apparent that no further shares will be issued that relate to these costs, the full amount will be charged to share capital immediately.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

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

**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**

Basic net earnings per share is computed by dividing net earnings for the year by the weighted average number of units outstanding during the year.

Diluted net earnings per share are computed similarly to basic net earnings per unit, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed conversion of the convertible debentures, if dilutive, and net earnings is adjusted to remove any interest paid to the holders of the convertible debentures. The number of additional shares is calculated by assuming that the outstanding convertible debentures were exercised at the earlier of issue date and the beginning of the fiscal year, and that the proceeds from such conversions were used to acquire shares at the average market price during the year.

**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.

**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.

**Future accounting pronouncements**

The CICA has issued three new accounting standards, which are effective for fiscal periods beginning on or after October 1, 2007. Specifically, Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments-Disclosures", and Section 3865 "Financial Instruments-Presentation". These new accounting standards will be reviewed by the Company's management to determine what, if any, implications these new pronouncements may have on the financial statements of the Company.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

**3. Cash**

Cash includes \$76,694 of cash held in trust. These trust amounts represent a portion of mortgage funds held back for the purposes of making monthly payments on the related outstanding mortgage receivable. During the year, the Company acted as a joint account holder for these funds. Subsequent to year end, the Company is no longer named on the accounts. This use of this trust cash is restricted for use to pay down the related mortgage receivable and cannot be used in the operations of the corporation.

**4. Loans receivable**

The loans receivable relate to loans to two (2006 - 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. Subsequent to year end, the remaining balance was received from the directors and the director loan program was terminated.

**5. Mortgages receivable**

	<u>2007</u>	<u>2006</u>
Portfolio of 58 (2006 - 34) mortgages bearing interest at fixed rates from 7.95% to 13.5%, maturities ranging from January 2008 to November 2009, secured by mortgages on subject properties and by additional security in certain circumstances	\$ 8,781,627	\$ 7,220,363
Accrued interest receivable	52,217	20,748
Allowance for mortgage losses	<u>(43,908)</u>	<u>(36,102)</u>
	<b><u>\$ 8,789,936</u></b>	<b><u>\$ 7,205,009</u></b>

As at year end, there were four (2006 - nil) mortgages totalling \$333,345 greater than 60 days in arrears. Subsequent to year end, two of these mortgages were collected, in the amount of \$283,403.

**6. Capital assets**

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 23,754	\$ 5,014	\$ 18,740	\$ 5,042
Furniture and equipment	<u>16,248</u>	<u>2,463</u>	<u>13,785</u>	<u>-</u>
	<b><u>\$ 40,002</u></b>	<b><u>\$ 7,477</u></b>	<b><u>\$ 32,525</u></b>	<b><u>\$ 5,042</u></b>

**7. Deferred share issuance costs**

The deferred share issuance costs relate to the costs incurred in issuing shares in accordance with the prospectus filed on December 5, 2007. A portion of the total share issuance costs incurred have been charged to share capital. The deferred portion consists of the share issuance costs related to the shares that were not issued as at the time of the initial closing of the prospectus on December 28, 2007. These costs will be charged to any and all subsequent shares issued under this prospectus up to and including the date of the final close in 2008. If no further shares are issued, the full amount will be charged to existing share capital.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

**8. Operating loan**

The margined, demand operating loan bears interest at prime plus 2%, has an authorized limit of \$5,000,000 and is secured by a general security agreement and an assignment of debenture mortgages.

**9. Trust fund liability**

The trust fund liability represents a portion of the mortgage proceeds that have been held back on certain mortgages to fund the monthly payments on these mortgages (see Note 3). During the year, the Company acted as a joint account holder for these funds. Subsequent to year end, the Company is no longer named on the accounts.

**10. Convertible debentures**

On December 28, 2007, the Company completed the initial close related to the prospectus filed on December 5, 2007 of 564 7.25% convertible, unsecured, subordinated debentures at a price of \$1,000 per debenture for gross proceeds of \$564,000. The debentures mature on December 31, 2010 and pay interest quarterly and in arrears on April 15, July 15, October 15, and December 15 of each year. The debentures are convertible at the option of the holder at any time prior to maturity at a conversion price of \$10, provided that the Company's common shares are not listed on a recognized stock exchange. If the Company's shares are listed on a recognized stock exchange, the convertible debentures can be converted prior to the first anniversary date of the issuance of the debenture for a conversion price of \$10, prior to the second anniversary date of the issuance of the debenture for a conversion price of \$10.50, or prior to the maturity date of the issuance of the debenture for a conversion price of \$11.

The Company may redeem the debentures up to 25% of the face amount prior to the first anniversary date of the issuance of the debenture, up to 25% of the remaining face value prior to the second anniversary date of the issuance of the debenture, and the remaining face value after the second anniversary date of the issuance of the debenture but prior to the maturity date.

On issuance of the convertible debentures, \$18,455 was recognized as the equity component of the convertible debentures. This represents the value placed on the conversion feature of the debentures. The remaining \$545,545 represents the liability component.

**11. Commitments**

As at year end, the Company was committed to funding one (2006 - two) mortgage, for a total of \$682,500 (2006 - \$232,248).

The Company is committed to paying a trailer commission to Union Securities Ltd. (the "Agent"), equal to the sum of (i) 0.5% of the Common Shares sold through the Agent prior to the December 5, 2007 offering and issued from time to time; and (ii) 1% of the Common Shares issued pursuant to the December 5, 2007 offering and outstanding from time to time, paid quarterly in arrears to the Agent.

**PRIMWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

**12. Share capital**

Authorized an unlimited number of

Class A voting, common shares, redeemable at the option of the Company and retractable at the option of the holder at \$10 per share. If the shareholder requests redemption within the first year of issuance, a redemption penalty of 3% will apply, unless waived by the Board of Directors. The Company is only required to redeem 30% of the issued and outstanding shares per year

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>2007</u>	<u>2006</u>
Issued		
692,260 Class A shares (2006 - 245,170)	<u>\$ 6,398,828</u>	<u>\$ 2,193,423</u>

During the year, 455,990 (2006 - 124,400) Class A shares were issued for net proceeds of \$4,236,401 (2006 - \$1,112,993), and 8,900 (2006 - 8,950) Class A shares were redeemed for \$89,000 (2006 - \$87,502). The aggregate potential redemption amount of the outstanding Class A shares is \$6,922,600 (2006 - \$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 Handbook, 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.

**13. Contributed surplus**

The amount recorded as contributed surplus relates to the equity component of the convertible debentures.

**14. Fees and related revenues**

Fees are recorded net of \$83,336 (2006 - \$129,789) of fees paid to brokers and agents who sourced the mortgages.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

**15. Basic and diluted earnings per share**

Basic earnings per share have been calculated using the weighted average number of shares outstanding during the year. The majority of the shares issued in the year were issued in the latter half of the fiscal year, resulting in a weighted average number of shares outstanding in the period of 375,754, while the total number of shares outstanding at year end of 692,260. The dilutive effect of the convertible debentures with respect to the weighted average number of shares outstanding is nil, as the proceeds of conversion would be used by the Company to re-purchase shares at the average annual share price, which is equal to the conversion price in this case.

Net earnings available to common shareholders for the year are \$320,209. As no interest has been paid or accrued on the convertible debentures, the income available for common shareholders is the same for both basic and diluted earnings per share. The resulting earnings per share, both basic and diluted, is \$0.85 (2006 - \$1.35).

**16. Related party transactions**

The Company had various transactions with directors and companies owned by certain directors. These transactions included \$84,300 (2006 - \$32,250) of directors' fees, \$nil (2006 - \$3,000) to certain directors for expense allowances, \$nil (2006 - \$78,729) to certain directors in respect of mortgage broker fees, and \$nil (2006 - \$9,000) 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.

**17. 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.

**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 fulfill their mortgage commitments. The mortgage portfolio of 58 (2006 - 34) mortgages has an average balance of approximately \$151,000 (2006 - \$106,000) and therefore no concentrated credit risk in any one mortgage.

**18. Loss carryforwards**

The Company has non-capital loss carryforwards for income tax purposes of \$76,312. These losses begin to expire in 2015, and the potential benefit of these loss carryforwards has not been recognized in these financial statements.

**19. Comparative figures**

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