



FINANCIAL STATEMENTS

DECEMBER 31, 2010

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

DECEMBER 31, 2010

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FINANCIAL STATEMENTS

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**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash held in trust (Note 4)	752,512	479,805
Loan receivable (Note 5)	24,750	24,750
Prepaid expenses	13,234	10,694
Assets taken in settlement of debt	488,958	223,858
Deferred share issuance costs	-	16,782
Mortgages receivable (Note 6)	27,005,174	18,323,977
Property, plant and equipment (Note 7)	<u>22,600</u>	<u>25,380</u>
	\$ <u>28,307,228</u>	\$ <u>19,105,246</u>
<u>LIABILITIES</u>		
Bank indebtedness (Note 8)	\$ 6,541,731	\$ 3,406,258
Accounts payable and accrued liabilities	173,619	108,794
Loans payable (Note 9)	-	1,500,000
Trust fund liability (Note 10)	<u>752,512</u>	<u>479,805</u>
	<u>7,467,862</u>	<u>5,494,857</u>
Commitments and contingencies (Note 11)		
<u>NET ASSETS</u>		
Share capital (Note 12)	20,839,731	13,580,440
(Deficit) Retained earnings	<u>(365)</u>	<u>29,949</u>
	<u>20,839,366</u>	<u>13,610,389</u>
	\$ <u>28,307,228</u>	\$ <u>19,105,246</u>

Approved on behalf of the Board of Directors

_____ Director

_____ Director

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF EARNINGS AND DEFICIT
DECEMBER 31, 2010**

	<u>2010</u>	<u>2009</u>
Income		
Mortgage interest	\$ 2,004,744	\$ 1,539,271
Fees	1,262,527	703,925
Interest on short-term investments	35,555	17,444
	<u>3,302,826</u>	<u>2,260,640</u>
Interest and fees expense		
Interest expense and bank charges	179,922	291,730
Broker and agent fees	283,825	118,300
Trailer fees (Note 13)	82,551	76,797
	<u>546,298</u>	<u>486,827</u>
Net interest and fees income	<u>2,756,528</u>	<u>1,773,813</u>
Provision for mortgage losses (Note 6)	101,285	59,593
Net interest and fees income after provision for mortgage losses	<u>2,655,243</u>	<u>1,714,220</u>
Other expense	(33,932)	(7,806)
Net interest, fees and other income	<u>2,621,311</u>	<u>1,706,414</u>
Expenses		
Advertising and promotion	144,800	80,100
Amortization	19,720	14,361
Contracted services	34,082	55,162
Directors' fees	60,600	48,600
Insurance	13,999	9,145
Office and administration	147,088	81,419
Professional fees	102,870	78,875
Rent	42,639	37,507
Wages and employee benefits	476,714	304,454
	<u>1,042,512</u>	<u>709,623</u>
Net income	<u>1,578,799</u>	<u>996,791</u>
Retained earnings, beginning of year	29,949	40,571
Dividends	(1,595,901)	(986,709)
Excess of redemption value of shares over stated capital	(13,212)	(20,704)
(Deficit) retained earnings, end of year	<u>\$ (365)</u>	<u>\$ 29,949</u>
Basic earnings per share (Note 14)	<u>\$ 0.81</u>	<u>\$ 0.82</u>
Diluted earnings per share (Note 14)	<u>\$ 0.81</u>	<u>\$ 0.82</u>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
DECEMBER 31, 2010**

	<u>2010</u>	<u>2009</u>
Net assets, beginning of year	\$ 13,610,389	\$ 9,384,436
Increase in net assets from operations	<u>1,578,799</u>	<u>996,791</u>
Share capital transactions		
Proceeds from issuance of shares	7,788,140	4,078,870
Shares issued on debenture conversion	-	728,000
Share issuance costs charged to share capital	(362,561)	(303,373)
Cost of shares redeemed	(179,500)	(263,050)
Equity component of convertible debentures	-	(24,576)
	<u>7,246,079</u>	<u>4,215,871</u>
Distributions to shareholders		
Dividends to shareholders	<u>(1,595,901)</u>	<u>(986,709)</u>
Net assets, end of year	\$ <u>20,839,366</u>	\$ <u>13,610,389</u>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
DECEMBER 31, 2010**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Net income	\$ 1,578,799	\$ 996,791
Items not affecting cash		
Amortization	19,720	14,361
Provision for mortgage losses	101,285	59,593
Loss on sale of capital assets	1,306	7,806
Net changes in non-cash working capital items related to operations:		
Cash held in trust	(272,707)	(319,413)
Prepaid expenses	(2,540)	18,187
Accounts payable and accrued liabilities	64,825	837
Trust fund liability	272,707	319,413
	<u>1,763,395</u>	<u>1,097,575</u>
Cash flows from investing activities		
Net mortgages receivable	(9,047,582)	(3,827,050)
Purchase of capital assets	(18,746)	(18,801)
Proceeds from disposition of capital assets	500	4,700
Repayment of loans receivable	-	48,250
	<u>(9,065,828)</u>	<u>(3,792,901)</u>
Cash flows from financing activities		
Proceeds from loan	-	1,500,000
Repayment of loan	(1,500,000)	-
Dividends paid	(1,595,901)	(986,709)
Proceeds from issuance of shares	7,788,140	4,078,870
Redemption of shares	(179,500)	(263,050)
Redemption of bonds	-	(10,000)
Deferred share issuance costs	16,782	(16,782)
Share issuance costs charged to share capital	(362,561)	(303,373)
	<u>4,166,960</u>	<u>3,998,956</u>
Net increase (decrease) in bank indebtedness during the year	(3,135,473)	1,303,630
Bank indebtedness, beginning of year	<u>(3,406,258)</u>	<u>(4,709,888)</u>
Bank indebtedness, end of year	<u>\$ (6,541,731)</u>	<u>\$ (3,406,258)</u>
Supplementary cash flow information		
Interest paid	\$ 182,501	\$ 248,209

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF INVESTMENT PORTFOLIO
DECEMBER 31, 2010**

	<u>Fair Value</u>	<u>Carrying Value</u>
Mortgages	\$ <u>27,005,174</u>	\$ <u>27,005,174</u>
Cash and other net liabilities		\$ <u>375,923</u>
Bank indebtedness		\$ <u>(6,541,731)</u>
Net assets		\$ <u>20,839,366</u>

Distribution of mortgages

Mortgages are 94% residential, 6% commercial	<u>Interest Rates %</u>	<u>Number of Mortgages</u>	<u>Amortized Cost and Fair Value</u>
	6 - 7	6	\$ 1,003,862
	7 - 8	10	2,428,303
	8 - 9	14	3,450,286
	9 - 10	24	7,136,150
	10 - 11	31	6,531,436
	11 - 12	25	6,118,239
	12 - 13	3	282,778
	13 - 14	1	44,224
	14 - 15	1	78,341
Add, accrued interest receivable			156,946
Less, allowance for mortgage losses (Note 6)			<u>(225,391)</u>
		<u>115</u>	<u>\$ 27,005,174</u>

(see accompanying notes)

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

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 in accordance with Canadian generally accepted accounting principles. These financial statements have been prepared to reflect the following significant accounting policies:

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 year, 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. Financial results as determined by actual events could differ from those estimates and assumptions and the difference could be material.

Share issue costs

Share issue costs include legal and accounting fees and brokerage commissions. These costs are charged against share capital in the year of share issuance. Costs incurred for shares that have not been issued at year end are deferred until such time as the related shares are issued.

Revenue recognition

Interest revenue on mortgages and other investments is recognized on the accrual basis in the year 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.

Assets taken as settlement of debt

Assets taken as settlement of debt are recorded at the lower of cost and net realizable value. Cost is determined as the value of the loan outstanding at the time the asset was taken in settlement, including any costs related to settlement, and any direct carrying costs.

Mortgages receivable

Mortgages receivable are initially measured at fair value plus incremental direct transaction costs. Mortgages receivable are subsequently re-measured at their amortized cost, net of allowance for credit losses, using the effective interest method which approximates fair value.



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

2. Significant accounting policies (continued)

Mortgages receivable (continued)

A mortgage receivable is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Impairment is assessed monthly, on a mortgage-by-mortgage basis and specific allowances are recorded if management determines the mortgage receivable is impaired.

When a mortgage receivable is classified as impaired, accrual of interest on the receivable ceases and the carrying amount of the receivable is reduced to its estimated realizable amount. Estimated realizable amounts are measured by discounting the expected future cash flows, if they can be reasonably estimated, using the effective interest rate inherent in the receivable. When the amounts and timing of cash flows cannot be reasonably estimated, the carrying amount of the receivable is reduced to its estimated net realizable value based on the fair value of any security underlying the receivable, net of expected costs of realization.

As long as the receivable remains classified as impaired, payments received will be credited to the carrying value of the receivable. A mortgage receivable will be returned to accrual status only when the timely collection of both principal and interest is reasonably assured and all arrears payments of principal and interest are brought current.

Allowance for mortgage losses

The Company maintains general and specific allowances for mortgage losses which, in management's opinion, are adequate to absorb all mortgage related losses in its portfolio. The Company records allowances for mortgage 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. Specific provisions against specific mortgage exposures are determined on a mortgage-by-mortgage basis.

Basic and dilutive earnings per share

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

Diluted net earnings per share are computed similarly to basic net earnings per share, 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 are 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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

2. Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized over three years using the straight-line method.

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 the Company will ever pay corporate income tax.

Recently issued standards

International Financial Reporting Standards

The CICA will transition Canadian Generally Accepted Accounting Principles for publicly accountable entities to International Financial Reporting Standards (IFRS). For the Company, this will take place over a transition year ending with its 2013 year end.

The Company is carrying out a project to identify and evaluate the impact of the transition to IFRS on its financial statements and develop a plan to complete the transition. This plan includes the following phases; diagnostics, design and planning, implementation and training.

Management is currently assessing the impact of adopting the new standards on its financial statements.

3. Capital structure financial policies

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 is required to have at all times approximately 10% of its total assets in cash or near cash securities in order to meet redemption requests and thereby provide an element of liquidity to the investor.



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

3. Capital structure financial policies (continued)

The Company's definition of capital includes net assets. Capital is monitored for any of these items if applicable.

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, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and issue new debt to replace existing debt.

The Company monitors capital using the following measures:

	<u>2010</u>	<u>2009</u>
Net interest and fees income after provision for mortgage losses	\$ 2,655,243	\$ 1,714,220
Net interest margin	80.4%	78.5%
Dividend payout ratio	101.1%	99.0%
Net assets	\$ 20,839,366	\$ 13,610,389
Net available cash		
As a percentage of net assets	12.8%	29.7%
Net debt to net income	5	5
Debt to capital ratio	35.8%	40.2%
Average portfolio yield	13.4%	14.9%
Turnover ratio	55.6%	53.5%

During the year, the Company's strategy was unchanged from the prior year.

4. Cash held in trust

These trust amounts represent a portion of mortgage funds held back for the purpose of making monthly payments on the related outstanding mortgage receivable (see Note 10). During the year, the Company acted as a joint account holder for these funds. The 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 company.

5. Loan receivable

The loan receivable relates to a loan to a past director to acquire shares of the Company. This loan is non-interest bearing, due on demand and is secured by Company shares held in trust. On demand, this loan bears interest at prime plus 2%. This program has been discontinued. Subsequent to year end, \$13,950 has been collected.



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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6. Mortgages receivable

	<u>2010</u>	<u>2009</u>
Portfolio of 115 (2009 - 98) mortgages bearing interest at fixed rates from 6.75% to 14.5%, maturities ranging from January 2011 to January 2013, secured by mortgages on subject properties and by additional security in certain circumstances	\$ 27,073,619	18,383,582
Accrued interest receivable	156,946	122,981
Allowance for mortgage losses		
General	(130,391)	(85,939)
Specific	<u>(95,000)</u>	<u>(96,647)</u>
Balance, end of year	<u>\$ 27,005,174</u>	<u>\$ 18,323,977</u>

Maturities and yields:	Within	3 months	1 year to		
	3 months	to 1 year	2 years	2010	2009
Total loans	\$ 10,531,284	\$ 11,108,952	\$ 5,433,383	\$ 27,073,619	\$ 18,383,582
Average effective yield	15.3%	15.2%	15.0%	15.2%	16.0%

Average yields are based on book values and contractual interest rates, adjusted for application and other fees.

Allowance for mortgage losses	2010			2009		
	Total	Specific	General	Total	Specific	General
	Allowance	Allowance	Allowance	Allowance	Allowance	Allowance
	\$ 225,391	\$ 95,000	\$ 130,391	\$ 182,586	\$ 96,647	\$ 85,939

7. Property, plant and equipment

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 53,536	\$ 34,715	\$ 18,821	\$ 17,145
Furniture and equipment	15,197	11,418	3,779	8,235
	<u>\$ 68,733</u>	<u>\$ 46,133</u>	<u>\$ 22,600</u>	<u>\$ 25,380</u>



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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8. Bank indebtedness

Bank indebtedness consists of an operating line of credit net of cash on hand. The margined, demand operating line of credit bears interest at the greater of 4.25% and prime plus 2.0%, has an authorized limit which is the lesser of the margin calculation and \$12,500,000 and is secured by a general security agreement and an assignment of mortgage debentures. The operating line's margin is calculated using variable percentages of eligible mortgages as set out by the bank. At year end, the maximum margin available was \$9,198,301 (2009 - \$7,443,423). The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2010 the Company was in compliance with all financial covenants.

	2010	2009
Line of credit	\$ 6,580,397	\$ 3,454,426
Less cash on hand	(500)	(534)
Less deferred financing charges	<u>(38,166)</u>	<u>(47,634)</u>
	<u>\$ 6,541,731</u>	<u>\$ 3,406,258</u>

Deferred financing charges consist of bank and legal fees related to the establishment of the banking agreement. These costs are being amortized over five years using the straight-line method.

9. Loans Payable

Loans payable consisted of two unsecured short term loans in 2009. The first loan had a principal balance of \$1,000,000, and an interest rate of 7.0%, included monthly interest only payments of \$5,833 and matured April 21, 2010. The second loan had a principal balance of \$500,000, and an interest rate of 7%, included monthly interest only payments of \$2,917 and matured May 1, 2010. Both loans were paid in full upon maturity.

10. 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 4). During the year, the Company acted as a joint account holder for these funds.

11. Commitments and contingencies

As at year end, the Company was committed to funding seven (2009 - four) mortgages, for a total of \$1,293,000 (2009 - \$1,401,685).



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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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 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 the number of shares to be issued and the designation, rights, privileges, restrictions and conditions attached to those shares.

Issued and outstanding	2010		2009	
	Shares	Amount	Shares	Amount
Balance Class A shares, beginning of the year	1,465,932	\$ 13,580,440	1,011,550	\$ 9,319,289
Issued during the year				
New shares issued	778,814	7,788,140	407,887	4,078,870
Shares issued on debenture conversion	-	-	72,800	728,000
Redemptions during the year	(17,950)	(179,500)	(26,305)	(263,050)
Excess of redemption value over book value		13,212		20,704
Share issue costs		(362,561)		(303,373)
Balance Class A shares at year end	<u>2,226,796</u>	<u>\$ 20,839,731</u>	<u>1,465,932</u>	<u>\$ 13,580,440</u>

The aggregate potential redemption amount of the outstanding Class A shares is \$22,267,960 (2009 - \$14,659,320). 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 in accordance with Emerging Issues Committee Abstract 149.

13. Trailer fees

The 2009 trailer fees expense was a buyout of all future trailer fees associated with an offering memorandum for share issuance dated December 5, 2007.



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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13. Trailer fees (continued)

In 2009, additional offering memorandums for share issuances dated March 23, 2009 and December 9, 2009 were issued. As a result of the shares issued under these offering memorandums, the Company is committed to pay future trailer fees as follows:

2011	\$ 78,263
2012	\$ 47,839
2013	\$ 46,166
2014	\$ 32,097
2015	\$ 1,672

14. 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 shares issued in the year were issued throughout the fiscal year, resulting in a weighted average number of shares outstanding in the year of 1,954,523 (2009 – 1,209,102), with the total number of shares outstanding at year end of 2,226,796 (2009 – 1,465,932).

	<u>2010</u>	<u>2009</u>
Basic earnings per share		
Net income available to shareholders	\$ 1,578,799	\$ 996,791
Weighted average number of common shares	<u>1,954,523</u>	<u>1,209,102</u>
Basic earnings per share	\$ <u>0.81</u>	\$ <u>0.82</u>
Diluted earnings per share		
Net income available to shareholders	\$ 1,578,799	\$ 996,791
Add back interest on convertible debentures	-	21,481
Total adjusted net income available to shareholders	<u>\$ 1,578,799</u>	<u>\$ 1,018,272</u>
Weighted average number of common shares	1,954,523	1,209,102
Add incremental shares from assumed conversions	-	29,630
Dilutive potential common shares	<u>1,954,523</u>	<u>1,238,732</u>
Diluted earnings per share	\$ <u>0.81</u>	\$ <u>0.82</u>

At December 31, 2010, there are no convertible debentures outstanding.

15. Related party transactions

The Company incurred \$60,600 (2009 - \$48,600) of directors' fees, which were paid in full during the year.

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.



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

16. Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity ("HTM"), and available-for-sale ("AFS") financial assets that do not have quoted market prices in an active market. The Company has designated its financial instruments as follows:

Financial assets are classified as loans and receivables and held-for-trading. Cash and cash equivalents and mortgage receivables are accounted for at fair value. Loans and receivables include the receivable and is accounted for at amortized cost.

Financial liabilities are classified as other liabilities and are accounted for at amortized cost with gains and losses reported in net income in the year that the liability is derecognized.

	December 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash held in trust	\$ 752,512	\$ 752,512	\$ 479,805	\$ 479,805
Mortgages receivable	27,005,174	27,005,174	18,323,977	18,323,977
Loans and receivables				
Loans receivable	24,750	24,750	24,750	24,750
Other financial liabilities				
Bank indebtedness	6,541,731	6,541,731	3,406,258	3,406,258
Accounts payable	173,619	173,619	108,794	108,794
Loan payable	-	-	1,500,000	1,500,000
Trust fund liability	752,512	752,512	479,805	479,805

Comprehensive income

The Company does not have any items that require separate recognition outside of net income.

Credit risk

The Company is exposed to credit risk due to the possibility of mortgagors being unable to fulfill their mortgage commitments. The Company mitigates this risk by having well established lending policies in place that ensure mortgages are well secured and by limiting its exposure to any one mortgagor.

The maximum exposure to credit risk at December 31, 2010 is the fair value of its mortgage receivables, loan receivable and assets taken in settlement of debt that total \$27,518,882.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
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16. Financial instruments (continued)

The Company has recourse under the mortgage receivables in the event of default by the borrower, in which case the Company would have a claim against the underlying property.

Fair values

The fair values of the other accounts receivable, accounts payable, and the trust fund liability approximate their carrying value due to the short-term nature of these instruments. The fair value of the mortgages receivable is considered to be the amortized cost, net of allowance for credit losses, using the effective interest method.

In accordance with Canadian generally accepted accounting principles, the Fund must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making fair value measurements. The following hierarchy is used in determining and disclosing fair value of financial instruments:

- Level 1 – quoted prices in active markets for the same instrument (i.e., without modification or repackaging)
- Level 2 – quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3 – valuation techniques for which any significant input is not based on observable market data.

The Company's financial assets consist of mortgage investments, which are all classified using the fair value hierarchy as level 3.

I. Mortgage investments:

Fair value is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties under no compulsion to act. As there are no quoted prices in an active market for these mortgage investments, the Company makes its determination of fair value based on its assessment of the current mortgage market for mortgage investments of same or similar terms. Typically, these mortgage investments approximate their carrying values given the mortgage investments 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 FINANCIAL STATEMENTS
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16. Financial instruments (continued)

II. Other financial assets:

The fair values of cash and cash equivalents approximate their carrying amounts due to their short-term maturities.

Changes in Level 3 financial instruments recorded at fair value are shown in a reconciliation of the opening and closing balance of mortgage investments in the following table:

	As at January 1, 2010	Realized fair value gain	Unrealized fair value gain	Net advances and repayments	As at December 31, 2010
Financial assets:					
Mortgage investments	\$ 18,323,977	\$ -	\$ -	\$ 8,681,197	\$ 27,005,174

Interest rate price risk

The Company is subject to interest rate price risk on the spread between its bank indebtedness and mortgage portfolio, or net interest income. Interest rate price risk on the bank indebtedness issued at variable rates expose the Company to cash flow interest rate risk. Interest rate price risk on the mortgage portfolio arises from the possibility that at the end of a mortgage's term it will be re-priced to a prevailing interest rate lower than the original one.

This risk is mitigated by the fact that the Company is not as exposed to market mortgage rates because there is no specific market for mortgages of similar type, term and credit risk. This has allowed the Company to renew its mortgages at a premium from market rates.

The short-term maturities of the mortgage portfolio allow the Company to manage the interest rate price risk on the spread. Mortgages are issued with either one or two year terms, have fixed interest rates and can be paid in full without penalty. The average interest rate of the mortgages as at year end was 10.13% (2009 – 10.63%).

The Company considers interest rate risk related to cash and cash equivalents to be low because of their short-term nature.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they fall due. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under both normal and stressed circumstances. The Company maintains significant committed borrowing facilities from its bank for credit room at least equal to ten percent of the line of credit plus two months operating costs.



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17. Income taxes

The Company has non-capital loss carryforwards for income tax purposes of \$974,942 which will expire as follows:

2015	\$17,966
2026	7,219
2027	51,128
2028	304,022
2029	216,424
2030	378,183

In addition, the Company has financing costs of \$629,849 which will be deductible for tax purposes over the next four years. The potential benefit of these loss carryforwards and undeducted financing costs has not been recognized in these financial statements.