



FINANCIAL STATEMENTS

DECEMBER 31, 2008

AUDITORS' REPORT

Partners

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To the Shareholders of
PrimeWest Mortgage Investment Corporation

We have audited the balance sheet of PrimeWest Mortgage Investment Corporation as at December 31, 2008 and 2007 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, 2008 and 2007 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 5, 2009

"Hergott Duval Stack LLP"

Chartered Accountants

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

DECEMBER 31, 2008

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**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
BALANCE SHEET
DECEMBER 31, 2008**

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash	\$ 500	\$ 2,909,446
Cash held in trust (Note 4)	160,392	76,694
Loans receivable (Note 5)	73,000	72,670
Prepaid expenses	28,881	17,026
Mortgages receivable (Note 6)	14,780,378	8,789,936
Property, plant and equipment (Note 7)	33,447	32,525
Deferred share issuance costs (Note 8)	-	136,042
	<u>\$ 15,076,598</u>	<u>\$ 12,034,339</u>
<u>LIABILITIES</u>		
Bank indebtedness (Note 9)	\$ 4,710,388	\$ -
Accounts payable and accrued liabilities	107,958	120,261
Operating loan	-	4,813,000
Trust fund liability (Note 10)	160,392	76,694
Convertible debentures (Note 11)	713,424	545,545
	<u>5,692,162</u>	<u>5,555,500</u>
Commitments and contingencies (Note 12)		
<u>SHAREHOLDERS' EQUITY</u>		
Share capital (Note 13)	9,319,289	6,398,828
Contributed surplus (Note 14)	24,576	18,455
Retained earnings	40,571	61,556
	<u>9,384,436</u>	<u>6,478,839</u>
	<u>\$ 15,076,598</u>	<u>\$ 12,034,339</u>

Approved by the Board

Tom Archibald (signed) Director

Doug Frondall (signed) Director

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF EARNINGS AND RETAINED EARNINGS
DECEMBER 31, 2008**

	<u>2008</u>	<u>2007</u>
Income		
Mortgage interest	\$ 1,029,261	\$ 746,700
Fees	650,541	400,673
Interest on short-term investments	15,031	16,708
	<u>1,694,833</u>	<u>1,164,081</u>
Interest and fees expense		
Interest expense	241,649	357,749
Broker and agent fees	100,216	83,336
	<u>341,865</u>	<u>441,085</u>
Net interest and fees income	1,352,968	722,996
Provision for mortgage losses (Note 6)	117,545	7,806
Net interest and fees income after provision for mortgage losses	<u>1,235,423</u>	<u>715,190</u>
Other income	4,900	7,770
Net interest, fees and other income	<u>1,240,323</u>	<u>722,960</u>
Expenses		
Advertising and promotion	68,127	51,275
Amortization	12,844	7,478
Contracted services	30,539	22,621
Directors' fees	43,305	41,818
Insurance	8,593	3,314
Office and administration	58,633	63,164
Professional fees	58,546	55,185
Rent	26,762	17,395
Wages and employee benefits	238,290	140,501
	<u>545,639</u>	<u>402,751</u>
Net income	694,684	320,209
Retained earnings, beginning of year	61,556	53,805
Dividends	(654,694)	(303,082)
Excess of redemption value of shares over stated capital	(60,975)	(9,376)
	<u>40,571</u>	<u>61,556</u>
Retained earnings, end of year	\$ 40,571	\$ 61,556
Basic earnings per share (Note 15)	<u>\$ 0.87</u>	<u>\$ 0.85</u>
Diluted earnings per share (Note 15)	<u>\$ 0.85</u>	<u>\$ 0.74</u>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
DECEMBER 31, 2008**

	<u>2008</u>	<u>2007</u>
Net assets, beginning of year	\$ <u>6,478,839</u>	\$ <u>2,247,228</u>
Increase in net assets from operations	<u>694,684</u>	<u>320,209</u>
Share capital transactions		
Proceeds from issuance of shares	3,764,400	4,559,900
Shares issued on debenture conversion	58,000	-
Share issuance costs charged to share capital	(333,414)	(274,871)
Cost of shares redeemed	(629,500)	(89,000)
Equity component of convertible debentures	6,121	18,455
	<u>2,865,607</u>	<u>4,214,484</u>
Distributions to shareholders		
Dividend to shareholders	<u>(654,694)</u>	<u>(303,082)</u>
Net assets, end of year	\$ <u><u>9,384,436</u></u>	\$ <u><u>6,478,839</u></u>

(see accompanying notes)



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
DECEMBER 31, 2008

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net income	\$ 694,684	\$ 320,209
Items not affecting cash		
Amortization	12,844	7,478
Provision for mortgage losses	117,545	7,806
Net changes in non-cash working capital items related to operations:		
Cash held in trust	(83,698)	(76,694)
Prepaid expenses	(11,855)	(14,587)
Accounts payable	(12,302)	(27,036)
Trust fund liability	83,698	76,694
	<u>800,916</u>	<u>293,870</u>
Cash flows from investing activities		
Mortgages receivable	(6,107,987)	(1,592,733)
Purchase of capital assets	(13,767)	(34,960)
Increase in loans receivable	(330)	-
Repayment of loans receivable	-	80,930
Decrease in term deposit	-	190,995
	<u>(6,122,084)</u>	<u>(1,355,768)</u>
Cash flows from financing activities		
Proceeds from operating loan	-	2,813,000
Repayment of operating loan	(4,813,000)	-
Dividends payable	-	(73,236)
Dividends paid	(654,694)	(303,082)
Proceeds from issuance of shares	3,764,400	4,559,900
Proceeds from issuance of convertible debentures	232,000	564,000
Redemption of shares	(629,500)	(89,000)
Repayment of term demand loan	-	(3,300,000)
Deferred share issuance costs	136,042	(136,042)
Share issuance costs charged to share capital	(333,414)	(274,871)
	<u>(2,298,166)</u>	<u>3,760,669</u>
Net (decrease) increase in cash during the year	(7,619,334)	2,698,771
Cash, beginning of year	<u>2,909,446</u>	<u>210,675</u>
Cash, end of year	\$ (4,709,888)	\$ 2,909,446
Supplementary cash flow information		
Interest paid	\$ 207,268	\$ 362,877
Income taxes paid	-	-

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF INVESTMENT PORTFOLIO
DECEMBER 31, 2008**

	<u>Principal Value</u>	<u>Amortized Cost</u>	<u>Current Value</u>
Mortgages	\$ <u>14,698,634</u>	\$ <u>14,698,634</u>	\$ <u>14,780,378</u>
Convertible debentures and other net debt			\$ <u>(685,554)</u>
Operating line of credit			\$ <u>(4,710,388)</u>
Net assets			\$ <u>9,384,436</u>

Distribution of mortgages

Mortgages are 94% residential, 6% commercial	<u>Interest Rates %</u>	<u>Number of Mortgages</u>	<u>Amortized Cost</u>	<u>Current Value</u>
All mortgages are pre-	7 - 8	4	\$ 658,523	\$ 658,523
payable, uninsured,	8 - 9	7	1,629,486	1,629,486
conventional mortgages, with	9 - 10	21	3,937,848	3,937,848
terms to maturity of up to two	10 - 11	21	3,635,301	3,635,301
years	11 - 12	33	4,668,734	4,668,734
	12 - 13	6	255,384	255,384
	13 - 14	2	74,811	74,811
Add, accrued interest receivable			-	81,744
Less, allowance for mortgage losses (Note 6)			(161,453)	(161,453)
		<u>94</u>	<u>\$ 14,698,634</u>	<u>\$ 14,780,378</u>

(see accompanying notes)

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008**

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:

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.

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.

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.

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 that the mortgage receivable is impaired.



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

2. Significant accounting policies (continued)

Mortgages receivable (continued)

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.

Property, plant and equipment

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

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008**

2. Significant accounting policies (continued)

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.

Newly adopted standards:

The Canadian Institute of Chartered Accountants (CICA) has issued recommendations for the disclosure of capital structure and management, and for the presentation and disclosure of financial instruments. Specifically, Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments – Disclosure" and Section 3865 "Financial Instruments – Presentation". The Company adopted these sections effective January 1, 2008 as discussed in Note 3 and Note 17.

Recently issued standards:

Financial Instruments – Recognition and Measurement

The CICA has issued amendments to the accounting standards in Section 3855 "Financial Instruments – Recognition and Measurement" effective for year ends beginning on or after August 31, 2008. These amendments will be reviewed by the Company's management to determine what, if any, implications these amendments may have on the financial statements of the Company.

International Financial Reporting Standards

The CICA has announced that public companies will be required to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS). For the Company, this will take place over a transition year ending with its 2011 year end. The impact of IFRS convergence on the Company's financial statements is not yet determinable.

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.

The Company's definition of capital includes shareholders' equity, long-term debt, cash and temporary investments and securitized accounts receivable. Capital is monitored for any of these items if applicable.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008**

3. Capital structure financial policies (continued)

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>2008</u>	<u>2007</u>
Net interest and fees income after provision for mortgage losses	\$ 1,235,423	\$ 715,190
Net interest margin	72.9%	61.4%
Dividend payout ratio	94.2%	94.7%
Net assets	\$ 9,384,436	\$ 6,478,839
Net available cash:		
As a percentage of net assets	26.5%	47.8%
Net debt to net income	8	17
Debt to capital ratio	60.0%	85.7%
Average portfolio yield	10.3%	9.6%
Turnover ratio	63.7%	82.6%

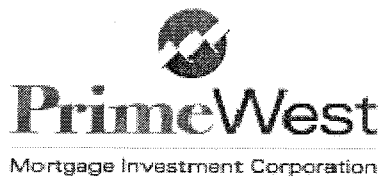
During the year, the Company's strategy was unchanged from the prior year.

4. Cash held in trust

These trust amounts represent a portion of mortgage funds held back for the 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. 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 company.

5. Loans receivable

The loans receivable relate to loans to one (2007 - four) existing director and one past director 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%. This program has been discontinued. Since year end, \$35,000 has been collected.



PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

6. Mortgages receivable

	<u>2008</u>	<u>2007</u>
Portfolio of 94 (2007 - 58) mortgages bearing interest at fixed rates from 7.95% to 13.5%, maturities ranging from January 2009 to July 2010, secured by mortgages on subject properties and by additional security in certain circumstances	\$ 14,860,087	8,781,627
Accrued interest receivable	81,744	52,217
Allowance for mortgage losses:		
General	(66,453)	(43,908)
Specific	(95,000)	-
Balance, end of year	\$ <u>14,780,378</u>	\$ <u>8,789,936</u>

	<u>3 months</u>	<u>to 1 year</u>	<u>2 years</u>	<u>2008</u>	<u>2007</u>
Total loans	\$ 5,196,689	\$ 7,163,529	\$ 2,499,869	\$ 14,860,087	\$ 8,781,627
Average effective yield	19.5%	20.3%	20.3%	20.0%	14.4%

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

Allowance for mortgage losses	<u>2008</u>			<u>2007</u>		
	Total	Specific	General	Total	Specific	General
	Allowance	Allowance	Allowance	Allowance	Allowance	Allowance
	\$ 161,453	\$ 95,000	\$ 66,453	\$ 43,908	\$ -	\$ 43,908

7. Property, plant and equipment

	<u>2008</u>			<u>2007</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 31,426	\$ 14,455	\$ 16,971	\$ 18,740
Furniture and equipment	22,343	5,867	16,476	13,785
	\$ <u>53,769</u>	\$ <u>20,322</u>	\$ <u>33,447</u>	\$ <u>32,525</u>



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008**

8. 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. At prior year end, the deferred share issuance costs consisted of the costs related to the shares that had not been issued as at the time of the initial closing of the prospectus on December 28, 2007. The Company does not expect any further shares to be issued related to these costs and this balance was charged to share capital during the year.

9. 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 prime plus 1.25%, has an authorized limit of \$7,500,000 and is secured by a general security agreement and an assignment of mortgage debentures.

	<u>2008</u>	<u>2007</u>
Line of credit	\$ 4,762,619	\$ -
Less deferred financing charges	<u>(52,231)</u>	<u>-</u>
	<u>\$ 4,710,388</u>	<u>\$ -</u>

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

At year end, the Company has entered into negotiations on the operating line of credit agreement to increase the authorized limit to \$9,000,000.

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.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

11. Convertible debentures

December 5, 2007 prospectus	2008	2007
Debtures issued		
Beginning balance	564	-
Issued during the year	232	564
Converted during the year	(58)	-
Total outstanding	738	564
Proceeds		
Beginning balance	\$ 545,545	\$ -
Issued during the year	232,000	564,000
Less equity component	(8,023)	(18,455)
	769,522	545,545
Conversion to Class A shares		
Face amount	(58,000)	-
Equity component	1,902	-
Liability component	(56,098)	-
Total liability component	\$ 713,424	\$ 545,545

The total potential redemption value of the debentures is \$738,000 (2007 – 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.

12. Commitments and contingencies

As at year end, the Company was committed to funding two (2007 - one) mortgages, for a total of \$377,000 (2007 - \$682,500).

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

13. 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	2008		2007	
	Shares	Amount	Shares	Amount
Balance Class A shares, beginning of the year	692,260	\$ 6,398,828	245,170	\$ 2,193,423
Issued during the year				
New shares issued	376,440	3,764,400	455,990	4,559,900
Shares issued on debenture conversion	5,800	58,000	-	-
Redemptions during the year	(62,950)	(629,500)	(8,900)	(89,000)
Excess of redemption value over book value		60,975		9,376
Share issue costs		*(333,414)		(274,871)
Balance Class A shares at year end	<u>1,011,550</u>	<u>\$ 9,319,289</u>	<u>692,260</u>	<u>\$ 6,398,828</u>

The aggregate potential redemption amount of the outstanding Class A shares is \$10,115,500 (2007 - \$6,922,600). 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, notwithstanding the recommendations of Section 3861 of the Canadian Institute of Chartered Accountants Handbook.

14. Contributed surplus

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

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 shares issued in the year were issued throughout the fiscal year, resulting in a weighted average number of shares outstanding in the year of 800,929 (2007 - 375,754), with the total number of shares outstanding at year end of 1,011,550 (2007 - 692,260).

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

15. Basic and diluted earnings per share (continued)

	<u>2008</u>	<u>2007</u>
Basic earnings per share		
Net income available to shareholders	\$ 694,684	\$ 320,209
Weighted average number of common shares	800,929	375,754
Basic earnings per share	\$ <u>0.87</u>	\$ <u>0.85</u>
Diluted earnings per share		
Net income available to shareholders	\$ 694,684	\$ 320,209
Add back interest on convertible debentures	51,607	-
Total adjusted net income available to shareholders	\$ <u>746,291</u>	\$ <u>320,209</u>
Weighted average number of common shares	800,929	375,754
Add incremental shares from assumed conversions	73,800	56,400
Dilutive potential common shares	<u>874,729</u>	<u>432,154</u>
Diluted earnings per share	\$ <u>0.85</u>	\$ <u>0.74</u>

16. Related party transactions

The Company incurred \$43,305 (2007 - \$84,300) 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.

17. 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 are accounted for at fair value. Loans and receivables include all receivables and are accounted for at amortized cost.

PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

17. Financial instruments (continued)

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, 2008		December 31, 2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash and cash equivalents	\$ 500	\$ 500	\$ 2,909,446	\$ 2,909,446
Cash held in trust	160,392	160,392	76,694	76,694
Loans and receivables				
Loans receivable	73,000	73,000	72,670	72,670
Mortgages receivable	14,780,378	14,780,378	8,789,936	8,789,936
Other financial liabilities				
Bank indebtedness	4,710,388	4,710,388	-	-
Accounts payable	107,958	107,958	120,261	120,261
Operating loan	-	-	4,813,000	4,813,000
Trust fund liability	160,392	160,392	76,694	76,694
Convertible debentures	713,424	713,424	545,545	545,545

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.

Fair values

The fair values of the other accounts receivable, accounts payable, term deposits, 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. The fair value of the convertible debentures is considered to be carrying value, the calculation of which is detailed in Note 11.

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.



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17. Financial instruments (continued)

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 discount 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 weighted average interest rate of the mortgages as at year end was 10.25% (2007 – 9.61%).

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.

18. Income taxes

The Company has non-capital loss carryforwards for income tax purposes of \$177,991 which will expire as follows:

2015	\$17,966
2026	7,219
2027	51,128
2028	101,678

In addition, the Company has financing costs of \$483,315 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.

19. Subsequent event

Subsequent to year end, in January 2009, the Company entered into an agreement with Union Securities Ltd. related to the December 5, 2007 equity issuance whereby all future trailer fees related to the equity issuance are cancelled in exchange for a lump-sum payment of \$66,248. The full amount of the buy out will be expensed in the Company's 2009 financial statements.

20. Comparative figures

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