



PrimeWest
Mortgage Investment Corporation

FINANCIAL STATEMENTS

DECEMBER 31, 2009

PRIMEWEST MORTGAGE INVESTMENT CORPORATION

DECEMBER 31, 2009

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FINANCIAL STATEMENTS

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AUDITORS' REPORT

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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, 2009 and 2008 and the statements of earnings 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, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SASKATOON, SASKATCHEWAN

March 9, 2010

Hergott Duval Stack LLP

Chartered Accountants



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
BALANCE SHEET
DECEMBER 31, 2009**

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash held in trust (Note 4)	479,805	160,392
Loans receivable (Note 5)	24,750	73,000
Prepaid expenses	10,694	28,881
Assets taken in settlement of debt	223,858	-
Deferred share issuance costs (Note 6)	16,782	-
Mortgages receivable (Note 7)	18,323,977	14,780,378
Property, plant and equipment (Note 8)	25,380	33,447
	<u>\$ 19,105,246</u>	<u>\$ 15,076,098</u>
<u>LIABILITIES</u>		
Bank indebtedness (Note 9)	\$ 3,406,258	\$ 4,709,888
Accounts payable and accrued liabilities	108,794	107,958
Loans payable (Note 10)	1,500,000	-
Trust fund liability (Note 11)	479,805	160,392
Convertible debentures (Note 12)	-	713,424
	<u>5,494,857</u>	<u>5,691,662</u>
Commitments and contingencies (Note 13)		
<u>SHAREHOLDERS' EQUITY</u>		
Share capital (Note 14)	13,580,440	9,319,289
Contributed surplus	-	24,576
Retained earnings	29,949	40,571
	<u>13,610,389</u>	<u>9,384,436</u>
	<u>\$ 19,105,246</u>	<u>\$ 15,076,098</u>

Approved by the Board

_____ Director

_____ Director

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF EARNINGS AND RETAINED EARNINGS
DECEMBER 31, 2009**

	<u>2009</u>	<u>2008</u>
Income		
Mortgage interest	\$ 1,539,271	\$ 1,029,261
Fees	703,925	650,541
Interest on short-term investments	17,444	15,031
	<u>2,260,640</u>	<u>1,694,833</u>
Interest and fees expense		
Interest expense and bank charges	291,730	241,649
Broker and agent fees	118,300	100,216
Trailer fee buyout	76,797	-
	<u>486,827</u>	<u>341,865</u>
Net interest and fees income	<u>1,773,813</u>	<u>1,352,968</u>
Provision for mortgage losses (Note 7)	59,593	117,545
Net interest and fees income after provision for mortgage losses	<u>1,714,220</u>	<u>1,235,423</u>
Other (expense) income	(7,806)	4,900
Net interest, fees and other income	<u>1,706,414</u>	<u>1,240,323</u>
Expenses		
Advertising and promotion	80,100	68,127
Amortization	14,361	12,844
Contracted services	55,162	30,539
Directors' fees	48,600	43,305
Insurance	9,145	8,593
Office and administration	81,419	58,633
Professional fees	78,875	58,546
Rent	37,507	26,762
Wages and employee benefits	304,454	238,290
	<u>709,623</u>	<u>545,639</u>
Net income	<u>996,791</u>	<u>694,684</u>
Retained earnings, beginning of year	40,571	61,556
Dividends	(986,709)	(654,694)
Excess of redemption value of shares over stated capital	(20,704)	(60,975)
	<u>29,949</u>	<u>40,571</u>
Retained earnings, end of year	<u>\$ 29,949</u>	<u>\$ 40,571</u>
Basic earnings per share (Note 15)	<u>\$ 0.82</u>	<u>\$ 0.87</u>
Diluted earnings per share (Note 15)	<u>\$ 0.82</u>	<u>\$ 0.85</u>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
DECEMBER 31, 2009**

	<u>2009</u>	<u>2008</u>
Net assets, beginning of year	\$ 9,384,436	\$ 6,478,839
Increase in net assets from operations	996,791	694,684
Share capital transactions		
Proceeds from issuance of shares	4,078,870	3,764,400
Shares issued on debenture conversion	728,000	58,000
Share issuance costs charged to share capital	(303,373)	(333,414)
Cost of shares redeemed	(263,050)	(629,500)
Equity component of convertible debentures	(24,576)	6,121
	<u>4,215,871</u>	<u>2,865,607</u>
Distributions to shareholders		
Dividends to shareholders	(986,709)	(654,694)
Net assets, end of year	\$ <u>13,610,389</u>	\$ <u>9,384,436</u>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
DECEMBER 31, 2009**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net income	\$ 996,791	\$ 694,684
Items not affecting cash		
Amortization	14,361	12,844
Provision for mortgage losses	59,593	117,545
Loss on sale of capital assets	7,806	-
Net changes in non-cash working capital items related to operations:		
Cash held in trust	(319,413)	(83,698)
Prepaid expenses	18,187	(11,855)
Accounts payable	837	(12,302)
Trust fund liability	319,413	83,698
	<u>1,097,575</u>	<u>800,916</u>
Cash flows from investing activities		
Net mortgages receivable	(3,827,050)	(6,107,987)
Purchase of capital assets	(18,801)	(13,767)
Proceeds from disposition of capital assets	4,700	-
Increase in loans receivable	-	(330)
Repayment of loans receivable	48,250	-
	<u>(3,792,901)</u>	<u>(6,122,084)</u>
Cash flows from financing activities		
Proceeds from loan	1,500,000	-
Repayment of operating loan	-	(4,813,000)
Dividends paid	(986,709)	(654,694)
Proceeds from issuance of shares	4,078,870	3,764,400
Proceeds from issuance of convertible debentures	-	232,000
Redemption of shares	(263,050)	(629,500)
Redemption of bonds	(10,000)	-
Deferred share issuance costs	(16,782)	136,042
Share issuance costs charged to share capital	(303,373)	(333,414)
	<u>3,998,956</u>	<u>(2,298,166)</u>
Net increase (decrease) in cash during the year	1,303,630	(7,619,334)
Bank indebtedness, beginning of year	(4,709,888)	2,909,446
Bank indebtedness, end of year	\$ (3,406,258)	\$ (4,709,888)
Supplementary cash flow information		
Interest paid	\$ 248,209	\$ 207,268
Income taxes paid	-	-

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
STATEMENT OF INVESTMENT PORTFOLIO
DECEMBER 31, 2009**

	<u>Principal Value</u>	<u>Amortized Cost</u>	<u>Current Value</u>
Mortgages	\$ 18,200,996	\$ 18,200,996	\$ 18,323,977
Net debt			\$ (1,307,330)
Operating line of credit			\$ (3,406,258)
Net assets			\$ 13,610,389

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-payable, uninsured, conventional mortgages, with terms to maturity of up to two years	7 - 8	7	\$ 1,277,718	\$ 1,277,718
	8 - 9	5	784,408	784,408
	9 - 10	14	3,418,700	3,418,700
	10 - 11	22	4,266,353	4,266,353
	11 - 12	42	7,954,628	7,954,628
	12 - 13	6	521,065	521,065
	13 - 14	1	53,233	53,233
	14 - 15	1	107,477	107,477
Add, accrued interest receivable			-	122,981
Less, allowance for mortgage losses (Note 7)			(182,586)	(182,586)
		98	\$ 18,200,996	\$ 18,323,977

(see accompanying notes)

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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.

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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

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 that 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, 2009**

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 that the Company will ever pay corporate income tax.

Newly adopted standards

The Canadian Institute of Chartered Accountants (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 and Section 3862 "Financial Instruments – Disclosure" effective for years ended after September 30, 2009. The Company adopted these sections effective January 1, 2009 as discussed in Note 3 and Note 17.

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 2011 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.

The impact of the transition to IFRS 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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

3. Capital structure financial policies (continued)

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.

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>2009</u>	<u>2008</u>
Net interest and fees income after provision for mortgage losses	\$ 1,714,220	\$ 1,235,423
Net interest margin	78.5%	72.9%
Dividend payout ratio	99.0%	94.2%
Net assets	\$ 13,610,389	\$ 9,384,436
Net available cash		
As a percentage of net assets	29.7%	26.5%
Net debt to net income	5	8
Debt to capital ratio	40.2%	60.0%
Average portfolio yield	14.9%	14.1%
Turnover ratio	53.5%	63.7%

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 (see Note 11). 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 a loan to one (2008 - one) 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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

6. Deferred share issuance costs

The deferred share issuance costs relate to the costs incurred in issuing shares in accordance with the Offering Memorandum ("memorandum") filed on December 1, 2009. At year end, none of the shares issued under the memorandum had been issued, and the deferred share issuance costs remain deferred until 2010 when the shares were issued.

7. Mortgages receivable

	<u>2009</u>	<u>2008</u>
Portfolio of 98 (2008 - 94) mortgages bearing interest at fixed rates from 7.95% to 14.5%, maturities ranging from January 2010 to October 2011, secured by mortgages on subject properties and by additional security in certain circumstances	\$ 18,383,582	14,860,087
Accrued interest receivable	122,981	81,744
Allowance for mortgage losses		
General	(85,939)	(66,453)
Specific	<u>(96,647)</u>	<u>(95,000)</u>
Balance, end of year	<u>\$ 18,323,977</u>	<u>\$ 14,780,378</u>

	<u>3 months</u>	<u>to 1 year</u>	<u>2 years</u>	<u>2009</u>	<u>2008</u>
Total loans	\$ 6,340,430	\$ 9,980,416	\$ 2,062,736	\$ 18,383,582	\$ 14,860,087
Average effective yield	16.3%	15.2%	17.5%	16.0%	20.0%

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

Allowance for mortgage losses	<u>2009</u>			<u>2008</u>		
	Total Allowance	Specific Allowance	General Allowance	Total Allowance	Specific Allowance	General Allowance
	\$ 182,586	\$ 96,647	\$ 85,939	\$ 161,453	\$ 95,000	\$ 66,453

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

8. Property, plant and equipment

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 38,062	\$ 20,917	\$ 17,145	\$ 16,971
Furniture and equipment	14,634	6,399	8,235	16,476
	<u>\$ 52,696</u>	<u>\$ 27,316</u>	<u>\$ 25,380</u>	<u>\$ 33,447</u>

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 the greater of 4.75% and prime plus 2.0%, has an authorized limit which is the lesser of the margin calculation and \$10,500,000 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 \$7,443,423 (2008 - \$7,198,962).

	2009	2008
Line of credit	\$ 3,454,426	\$ 4,762,619
Less cash on hand	(534)	(500)
Less deferred financing charges	<u>(47,634)</u>	<u>(52,231)</u>
	<u>\$ 3,406,258</u>	<u>\$ 4,709,888</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.

10. Loans payable

Loans payable consist of two unsecured short term loans. The first loan has a principal balance of \$1,000,000, bears interest at 7.0%, includes monthly interest only payments of \$5,833 and matures April 21, 2010. The second loan has a principal balance of \$500,000, bears interest at 7%, includes monthly interest only payments of \$2,917 and matures May 1, 2010.

11. 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, 2009**

12. Convertible debentures

	<u>2009</u>	<u>2008</u>
Debentures issued		
Beginning balance	738	564
Issued during the year	-	232
Converted during the year	(728)	(58)
Redeemed during the year	(10)	-
Total outstanding	<u>-</u>	<u>738</u>
Proceeds		
Beginning balance	\$ 713,424	\$ 545,545
Issued during the year	-	232,000
Less equity component	-	(8,023)
	<u>713,424</u>	<u>769,522</u>
Conversion to Class A shares		
Face amount	(728,000)	(58,000)
Equity component	24,243	1,902
Liability component	<u>(703,757)</u>	<u>(56,098)</u>
Redeemed during the year		
Face amount	(10,000)	-
Equity component	333	-
Liability component	<u>(9,667)</u>	<u>-</u>
Total liability component	<u>\$ -</u>	<u>\$ 713,424</u>

All outstanding bonds were redeemed or converted to share capital during the year.

13. Commitments and contingencies

As at year end, the Company was committed to funding four (2008 - two) mortgages, for a total of \$1,401,685 (2008 - \$377,000).

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

14. 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	2009		2008	
	Shares	Amount	Shares	Amount
Balance Class A shares, beginning of the year	1,011,550	\$ 9,319,289	692,260	\$ 6,398,828
Issued during the year				
New shares issued	407,887	4,078,870	376,440	3,764,400
Shares issued on debenture conversion	72,800	728,000	5,800	58,000
Redemptions during the year	(26,305)	(263,050)	(62,950)	(629,500)
Excess of redemption value over book value		20,704		60,975
Share issue costs		(303,373)		(333,414)
Balance Class A shares at year end	<u>1,465,932</u>	<u>\$ 13,580,440</u>	<u>1,011,550</u>	<u>\$ 9,319,289</u>

The aggregate potential redemption amount of the outstanding Class A shares is \$14,659,320 (2008 - \$10,115,500). 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.

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 1,209,102 (2008 - 800,929), with the total number of shares outstanding at year end of 1,465,932 (2008 - 1,011,550).

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

15. Basic and diluted earnings per share (continued)

	<u>2009</u>	<u>2008</u>
Basic earnings per share		
Net income available to shareholders	\$ 996,791	\$ 694,684
Weighted average number of common shares	<u>1,209,102</u>	<u>800,929</u>
Basic earnings per share	\$ <u>0.82</u>	\$ <u>0.87</u>
Diluted earnings per share		
Net income available to shareholders	\$ 996,791	\$ 694,684
Add back interest on convertible debentures	<u>21,481</u>	<u>51,607</u>
Total adjusted net income available to shareholders	\$ <u>1,018,272</u>	\$ <u>746,291</u>
Weighted average number of common shares	1,209,102	800,929
Add incremental shares from assumed conversions	<u>29,630</u>	<u>73,800</u>
Dilutive potential common shares	<u>1,238,732</u>	<u>874,729</u>
Diluted earnings per share	\$ <u>0.82</u>	\$ <u>0.85</u>

At December 31, 2009, there are no convertible debentures outstanding.

16. Related party transactions

The Company incurred \$48,600 (2008 - \$43,305) 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, 2009

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, 2009		December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Held for trading				
Cash held in trust	\$ 479,805	\$ 479,805	\$ 160,392	\$ 160,392
Loans and receivables				
Loans receivable	24,750	24,750	73,000	73,000
Mortgages receivable	18,323,977	18,323,977	14,780,378	14,780,378
Other financial liabilities				
Bank indebtedness	3,406,258	3,406,258	4,709,888	4,709,888
Accounts payable	108,794	108,794	107,958	107,958
Loan payable	1,500,000	1,500,000	-	-
Trust fund liability	479,805	479,805	160,392	160,392
Convertible debentures	-	-	713,424	713,424

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.

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 10.63% (2008 – 10.25%).

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 \$596,759 which will expire as follows:

2015	\$17,966
2026	7,219
2027	51,128
2028	304,022
2009	216,424

In addition, the Company has financing costs of \$569,924 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 2010, the Company issued 155,037 Class A shares under the December 1, 2009 Offering Memorandum for net proceeds of \$1,484,423.