



## **FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

**(UNAUDITED)**

**Notice Under National Instrument 81-106 (para 2.12):** Management has compiled the unaudited interim financial information of PrimeWest Mortgage Investment Corporation consisting of the Balance Sheet as at June 30, 2009, the Statement of Earnings and Retained Earnings, the Statement of Changes in Net Assets, the Statement of Cash Flow and the Statement of Investment Portfolio for the six months ended June 30, 2009. All Amounts are in Canadian Dollars. The independent external auditor, Hergott Duval Stack LLP Chartered Accountants, has not performed a review of these financials for the six months ended June 30, 2009.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**

**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

**CONTENTS**

**FINANCIAL STATEMENTS**

Balance Sheet	1
Statement of Earnings and Retained Earnings	2
Statement of Changes in Net Assets	3
Statement of Cash Flow	4
Statement of Investment Portfolio	5
Notes to Financial Statements	6



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2009**  
**(unaudited)**

	<u>June 30</u> <u>2009</u>	<u>June 30</u> <u>2008</u>	<u>December 31</u> <u>2008</u> <u>(audited)</u>
<b><u>ASSETS</u></b>			
Cash	\$ 500	\$ -	\$ 500
Cash held in trust (Note 4)	150,548	86,136	160,392
Loan receivable (Note 5)	24,750	73,000	73,000
Prepaid expenses	6,174	2,610	28,881
Mortgages receivable (Note 6)	15,853,278	9,810,651	14,780,378
Property, plant and equipment (Note 7)	<u>20,791</u>	<u>33,169</u>	<u>33,447</u>
	<b><u>\$ 16,056,041</u></b>	<b><u>\$ 10,005,566</u></b>	<b><u>\$ 15,076,598</u></b>
<b><u>LIABILITIES</u></b>			
Bank indebtedness (Note 8)	\$ 4,635,760	\$ 1,304,386	\$ 4,710,388
Accounts payable and accrued liabilities	31,993	5,406	107,958
Dividends payable	235,649	-	-
Trust fund liability (Note 9)	150,548	86,136	160,392
Convertible debentures (Note 10)	<u>9,667</u>	<u>769,522</u>	<u>713,424</u>
	<b><u>5,063,617</u></b>	<b><u>2,165,450</u></b>	<b><u>5,692,162</u></b>
Commitments and Contingencies (Note 11)			
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Share capital (Note 12)	11,084,920	7,739,676	9,319,289
Contributed surplus (Note 13)	333	26,478	24,576
Retained earnings	<u>(92,829)</u>	<u>73,962</u>	<u>40,571</u>
	<b><u>10,992,424</u></b>	<b><u>7,840,116</u></b>	<b><u>9,384,436</u></b>
	<b><u>\$ 16,056,041</u></b>	<b><u>\$ 10,005,566</u></b>	<b><u>\$ 15,076,598</u></b>

Approved by the Board

\_\_\_\_\_ Director

\_\_\_\_\_ Director

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
STATEMENT OF EARNINGS AND RETAINED EARNINGS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

	<u>June 30</u> <u>2009</u>	<u>June 30</u> <u>2008</u>
<b>Income</b>		
Mortgage interest	\$ 736,986	\$ 429,918
Fees	225,395	241,901
Interest on short-term investments	5,895	5,698
	<u>968,276</u>	<u>677,517</u>
<b>Interest and fees expense</b>		
Interest expense	136,148	89,297
Broker and agent fees	110,519	33,471
	<u>246,667</u>	<u>122,768</u>
<b>Net interest and fees income</b>	<b>721,609</b>	<b>554,749</b>
Provision for mortgage losses (Note 6)	(1,361)	5,123
Net interest and fees income after provision for mortgage losses	<u>722,970</u>	<u>549,626</u>
Other income	(7,806)	2,800
<b>Net interest, fees and other income</b>	<u><b>715,164</b></u>	<u><b>552,426</b></u>
<b>Expenses</b>		
Advertising and promotion	36,665	35,570
Amortization	6,749	6,003
Contracted services	43,462	12,908
Directors' fees	24,900	17,680
Insurance	5,523	4,914
Office and administration	45,269	29,531
Professional fees	34,823	26,288
Rent	20,806	11,572
Wages and employee benefits	167,033	108,020
	<u>385,230</u>	<u>252,486</u>
<b>Net income</b>	<b>329,934</b>	<b>299,940</b>
Retained earnings, beginning of period	40,571	70,932
Dividends	(443,514)	(287,534)
Excess of redemption value of shares over stated capital	(19,820)	(9,376)
<b>Retained earnings, end of period</b>	<u><b>\$ (92,829)</b></u>	<u><b>\$ 73,962</b></u>
<b>Basic earnings per share (Note 14)</b>	<u><b>\$ 0.31</b></u>	<u><b>\$ 0.43</b></u>
<b>Diluted earnings per share (Note 14)</b>	<u><b>\$ 0.33</b></u>	<u><b>\$ 0.45</b></u>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

	<u>June 30 2009</u>	<u>June 30 2008</u>
<b>Net assets, beginning of period</b>	\$ <b>9,384,436</b>	\$ <b>6,478,839</b>
<b>Increase in net assets from operations</b>	<u><b>329,934</b></u>	<u><b>299,940</b></u>
<b>Share capital transactions</b>		
Proceeds from issuance of shares	1,199,200	1,792,400
Shares issued on debenture conversion	728,000	-
Share issuance costs applied to share capital	(98,339)	(247,892)
Cost of shares redeemed	(83,050)	(203,660)
Equity component of convertible debentures	(24,243)	8,023
	<u><b>1,721,568</b></u>	<u><b>1,348,871</b></u>
<b>Distributions to shareholders</b>		
Dividend to shareholders	<u><b>(443,514)</b></u>	<u><b>(287,534)</b></u>
<b>Net assets, end of period</b>	\$ <u><u><b>10,992,424</b></u></u>	\$ <u><u><b>7,840,116</b></u></u>

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**  
**(unaudited)**

	<u>June 30</u> <u>2009</u>	<u>June 30</u> <u>2008</u>
<b>Cash flows from operating activities</b>		
Net Income	\$ 329,934	\$ 299,940
Items not affecting cash		
Amortization	6,750	6,003
Loss on disposal of property, plant and equipment	7,806	-
Provision for mortgage losses	(1,477)	5,123
Net changes in non-cash working capital items related to operations:		
Cash held in trust	9,844	-
Prepaid expenses	22,707	(44,081)
Accounts payable	(75,965)	(114,855)
Dividends payable	235,649	-
Trust fund liability	(9,844)	9,442
	<u><b>525,404</b></u>	<u><b>161,572</b></u>
<b>Cash flows from investing activities</b>		
Mortgages receivable	(1,071,423)	(1,025,838)
Purchase of property, plant and equipment	(6,600)	(6,647)
Proceeds on disposal of property, plant and equipment	4,700	-
received on loan receivable	48,250	-
Increase in loan receivable	-	(330)
	<u><b>(1,025,073)</b></u>	<u><b>(1,032,815)</b></u>
<b>Cash flows from financing activities</b>		
Repayment of operating loan	-	(4,813,000)
Dividends paid	(443,514)	(287,534)
Proceeds from issuance of shares	1,199,200	1,792,400
Proceeds from issuance of convertible debentures	-	232,000
Redemption of shares	(83,050)	(203,660)
Deferred share issuance costs	-	136,042
Share issuance costs charged to share capital	(98,339)	(247,892)
	<u><b>574,297</b></u>	<u><b>(3,391,644)</b></u>
<b>Net increase (decrease) in cash during the period</b>	<b>74,628</b>	<b>(4,262,887)</b>
Cash, beginning of year	(4,709,888)	2,986,140
<b>Cash, end of year</b>	<u><b>\$ (4,635,260)</b></u>	<u><b>\$ (1,276,747)</b></u>
<b>Supplementary cash flow information</b>		
Interest paid	\$ 123,301	\$ 80,185
Income taxes paid	-	-

(see accompanying notes)



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
STATEMENT OF INVESTMENT PORTFOLIO  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

	<u>Principal Value</u>	<u>Amortized Cost</u>	<u>Current Value</u>
<b>Mortgages</b>	<b>\$ 15,755,529</b>	<b>\$ 15,853,278</b>	<b>\$ 15,853,278</b>
<b>Convertible debentures and other net debt</b>			<b>\$ (225,094)</b>
<b>Operating line of credit</b>			<b>\$ (4,635,760)</b>
<b>Net assets</b>			<b>\$ 10,992,424</b>

**Distribution of mortgages**

Mortgages are 95% residential, 5% 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	2	\$ 190,035	\$ 190,035
	8 - 9	8	1,776,596	1,776,596
	9 - 10	19	3,644,989	3,644,989
	10 - 11	27	4,970,332	4,970,332
	11 - 12	36	5,058,518	5,058,518
	12 - 13	4	221,610	221,610
	13 - 14	1	53,425	53,425
Add, accrued interest receivable			97,749	97,749
Less, provision for mortgage losses (Note 6)			(159,976)	(159,976)
		<b>97</b>	<b>\$ 15,853,278</b>	<b>\$ 15,853,278</b>

(see accompanying notes)

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

**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.

These interim condensed financial statements include the accounts of the Company; however, they do not include all disclosures normally provided in annual audited financial statements and should be read in conjunction with the 2008 annual audited financial statements. In management's opinion, the unaudited financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

**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 period, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates, which are subject to measurement uncertainty, include the determination of mortgage impairment, the provision 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 period of share issuance. Costs incurred for shares that have not been issued at period 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 period earned. Interest is not accrued on mortgages that are identified as impaired. Other fees, including mortgage fees, are recognized as income as services are provided.

**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**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**  
**(unaudited)**

**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 provisions 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.

**Provision for mortgage losses:**

The Company maintains general and specific provisions for mortgage losses which, in management's opinion, are adequate to absorb all mortgage related losses in its portfolio. The Company records provisions for mortgage losses to reduce mortgage receivable carrying values to their estimated realizable amounts. A general provision 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 period by the weighted average number of shares outstanding during the period.

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 period, and that the proceeds from such conversions were used to acquire shares at the average market price during the period.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

**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.

**Recently issued standards:**

***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.

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.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

**3. Capital structure financial policies (continued)**

The Company monitors capital using the following measures:

	<u>2009</u>	<u>2008</u>
Net interest and fees income after provision for mortgage losses	\$ 722,970	\$ 549,626
Net interest margin	74.7%	81.1%
Dividend payout ratio	134.4%	95.9%
Net assets	\$ 10,992,424	\$ 7,840,116
Net available cash:		
As a percentage of net assets	39.7%	79.0%
Net debt to net income	15	7
Debt to capital ratio	43.9%	27.6%
Average portfolio yield	14.6%	14.4%
Turnover ratio	16.9%	41.6%

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

**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 period, 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. Loan receivable**

The loan receivable relates 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. Since year end, \$48,250 has been collected.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

**6. Mortgages receivable**

	<u>2009</u>	<u>2008</u>
Portfolio of 97 (2008 - 62) mortgages bearing interest at fixed rates from 7.95% to 13.5%, maturities ranging from July 1, 2009 to Nov. 15, 2010, secured by mortgages on subject properties and by additional security in certain circumstances	\$ 15,915,505	\$ 9,806,189
Accrued interest receivable	97,749	53,493
Provision for mortgage losses		
General	(73,726)	(49,031)
Specific	(86,250)	-
<b>Balance, end of period</b>	<b><u>\$ 15,853,278</u></b>	<b><u>\$ 9,810,651</u></b>

Maturities and yields:	<u>June 30, 2009</u>				<u>June 30</u>
	Within 3 months	3 months to 1 year	1 year to 2 years	Total	2008
Total loans	\$ 8,151,272	\$ 6,483,462	\$ 1,280,771	\$ 15,915,505	\$ 9,806,189
Average effective yield	14.4%	14.6%	15.2%	14.7%	20.0%

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

Provision for mortgage losses	<u>June 30, 2009</u>			<u>June 30, 2008</u>		
	Total Allowance	Specific Allowance	General Allowance	Total Allowance	Specific Allowance	General Allowance
	\$ 159,976	\$ 86,250	\$ 73,726	\$ 49,031	\$ -	\$ 49,031

**7. Property, plant and equipment**

	<u>2009</u>			<u>2008</u>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 25,862	\$ 15,560	\$ 10,302	\$ 20,519
Furniture and equipment	14,634	4,144	10,490	12,650
	<b><u>\$ 40,496</u></b>	<b><u>\$ 19,704</u></b>	<b><u>\$ 20,791</u></b>	<b><u>\$ 33,169</u></b>

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**  
**(unaudited)**

**8. Bank indebtedness**

Bank indebtedness consists of an operating line of credit net of deferred financing charges. The margined, demand operating line of credit bears interest at prime plus 1.25%, has an authorized limit of \$9,000,000 and is secured by a general security agreement and an assignment of mortgage debentures.

	<u>2009</u>	<u>2008</u>
Line of credit	\$ 4,687,724	\$ 1,362,883
Less deferred financing charges	<u>(51,964)</u>	<u>(58,497)</u>
	<u><b>\$ 4,635,760</b></u>	<u><b>\$ 1,304,386</b></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.

**9. Trust fund liability**

The trust fund liability represents a portion of the mortgage proceeds that have been held back on certain mortgages to fund the monthly payments on these mortgages (see Note 4). During the period, the Company acted as a joint account holder for these funds.

**10. Convertible debentures (December 5, 2007 prospectus)**

	<u>2009</u>	<u>2008</u>
Debtures issued		
Beginning balance	738	564
Issued during the period	-	232
Converted during the period	<u>(728)</u>	<u>(50)</u>
<b>Total outstanding</b>	<u><b>10</b></u>	<u><b>746</b></u>
Proceeds		
Beginning balance	\$ 713,424	\$ 545,545
Issued during the period	-	232,000
Less equity component	<u>-</u>	<u>(8,023)</u>
	<u>713,424</u>	<u>769,522</u>
Conversion to Class A shares		
Face amount	(728,000)	-
Equity component	<u>24,243</u>	<u>-</u>
Liability component	<u>(703,757)</u>	<u>-</u>
<b>Total liability component</b>	<u><b>\$ 9,667</b></u>	<u><b>\$ 769,522</b></u>

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

**10. Convertible debentures (continued)**

The total potential redemption value of the debentures is \$10,000 (2008 – 746,000). 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.

**11. Commitments**

As at period end, the Company was committed to funding three (2008 - eight) mortgages, for a total of \$1,902,950 (2008 - \$1,361,800).

**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.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

**12. Share capital (continued)**

Issued and outstanding	2009		2008	
	Shares	Amount	Shares	Amount
Balance Class A shares, beginning of the period	1,011,550	\$ 9,319,289	692,260	\$ 6,398,828
Issued during the period				
New shares issued	119,920	1,199,200	179,240	1,792,400
Shares issued on debenture conversion	72,800	728,000	-	-
Redemptions during the period	(8,305)	(83,050)	(20,366)	(203,660)
Excess of redemption value over book value		19,820		-
Share issue costs		(98,339)		(247,892)
Balance Class A shares at period end	<u>1,195,965</u>	<u>\$ 11,084,920</u>	<u>851,134</u>	<u>\$ 7,739,676</u>

The aggregate potential redemption amount of the outstanding Class A shares is \$11,959,650 (2008 - \$8,511,340). 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.

**13. Contributed surplus**

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

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

Basic earnings per share have been calculated using the weighted average number of shares outstanding during the period. The shares issued in the period were issued throughout the fiscal period, resulting in a weighted average number of shares outstanding in the period of 1,061,265 (2008 – 690,204), with the total number of shares outstanding at period end of 1,195,965 (2008 – 851,134).

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

**14. Basic and diluted earnings per share (continued)**

	<u>2009</u>	<u>2008</u>
<b>Basic earnings per share</b>		
Net income available to shareholders	\$ 329,934	\$ 299,940
Weighted average number of common shares	1,061,265	690,204
<b>Basic earnings per share</b>	<b>\$ <u>0.31</u></b>	<b>\$ <u>0.43</u></b>
<b>Diluted earnings per share</b>		
Net income available to shareholders	\$ 329,934	\$ 299,940
Add back interest on convertible debentures	21,249	13,101
Total adjusted net income available to shareholders	<b>\$ <u>351,183</u></b>	<b>\$ <u>313,041</u></b>
Weighted average number of common shares	1,061,265	690,204
Add incremental shares from assumed conversions	1,000	-
Dilutive potential common shares	<b><u>1,062,265</u></b>	<b><u>690,204</u></b>
<b>Diluted earnings per share</b>	<b>\$ <u>0.33</u></b>	<b>\$ <u>0.45</u></b>

**15. Related party transactions**

The Company incurred \$24,900 (2008 - \$17,680) of directors' fees, which were paid in full during the period.

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.

**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 are accounted for at fair value. Loans and receivables include all receivables and are 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 period that the liability is derecognized.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

**16. Financial instruments (continued)**

	June 30, 2009		June 30, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Held for trading</b>				
Cash and cash equivalents	\$ 500	\$ 500	\$ -	\$ -
Cash held in trust	150,548	150,548	86,136	86,136
<b>Loans and receivables</b>				
Loans receivable	24,750	24,750	73,000	73,000
Mortgages receivable	15,853,278	15,853,278	9,810,651	9,810,651
<b>Other financial liabilities</b>				
Bank indebtedness	4,635,760	4,635,760	1,362,883	1,362,883
Accounts payable	31,993	31,993	5,406	5,406
Dividends payable	235,649	235,649	-	-
Trust fund liability	150,548	150,548	6,136	6,136
Convertible debentures	9,667	9,667	769,522	769,522

**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 10.

**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.



**PRIMEWEST MORTGAGE INVESTMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2009  
(unaudited)**

**16. 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 period end was 10.25% (2008 – 10.43%).

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.

**17. 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.

**18. Comparative figures**

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