



## Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2018

## **REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by PrimeWest Mortgage Investment Corporation's management.

These unaudited condensed interim financial statements have not been reviewed by the Company's external auditors.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**Unaudited Condensed Interim Statements of Financial Position**  
**As at March 31, 2018**  
(Expressed in Canadian Dollars)

	Notes	March 31, 2018 \$	December 31, 2017 \$
<b>ASSETS</b>			
Cash and cash equivalents		50,416	50,431
Mortgages receivable	5	6,224,067	5,719,891
Assets taken in settlement of debt	6	6,377,876	6,377,715
Other assets		57,108	54,090
<b>Total Assets</b>		<b>12,709,467</b>	<b>12,202,127</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Demand loan	7	3,631,122	2,907,037
Due to related parties	9	-	-
Other liabilities		116,615	91,448
		<u>3,747,737</u>	<u>2,998,485</u>
<b>Shareholders' Equity</b>			
Shareholders' capital	8	15,681,364	15,681,364
Accumulated deficit		(6,719,634)	(6,477,722)
		<u>8,961,730</u>	<u>9,203,642</u>
<b>Total Liabilities and Shareholders' Equity</b>		<b>12,709,467</b>	<b>12,202,127</b>
Shares outstanding	8	1,890,729	1,890,729
Commitments	12		
Going Concern	1		

The accompanying notes are an integral part of these Financial Statements.

*"Tom Robinson"*

Director

*"Wil Olive"*

Director

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**Unaudited Condensed Interim Statements of Comprehensive Loss**  
**For the three months ended March 31, 2018 and 2017**  
(Expressed in Canadian Dollars)

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		For the three months ended	
	Notes	March 31, 2018 \$	March 31, 2017 \$
<b>Interest income</b>			
Mortgage interest		347,477	585,968
Fees		19,533	53,715
		367,010	639,683
<b>Interest expense</b>			
		46,409	77,302
<b>Net interest income</b>		320,601	562,381
Less:			
Provision for mortgage losses	5	417,494	303,772
Loss on assets taken in settlement of debt	6	109	9,702
<b>Net interest income (loss) after provision for losses</b>		(97,002)	248,907
<b>Non-interest expenses</b>			
Advertising and promotion		1,628	12
Contracted services		2,448	6,768
Depreciation of property and equipment		223	274
Directors' fees	9	19,500	24,900
Insurance		6,709	4,143
Office and administration		16,280	16,415
Professional fees		35,155	31,426
Rent		9,232	9,666
Wages and benefits		53,735	77,814
		144,910	171,418
<b>Total comprehensive income (loss) for the period</b>		(241,912)	77,489
<b>Income (Loss) per share</b>			
Basic and diluted		(\$).13	\$.04

The accompanying notes are an integral part of these Financial Statements.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**Unaudited Condensed Interim Statements of Changes in Shareholders’**  
**Equity**  
**For the three months ended March 31, 2018 and 2017**  
(Expressed in Canadian Dollars)

	Notes	Shareholders’ capital \$	(Accumulated losses) \$	Total equity \$
As at January 1, 2017		15,681,364	(3,399,834)	12,281,530
Total comprehensive income for the period		-	77,489	77,489
As at March 31, 2017		15,681,364	(3,322,345)	12,359,019
As at January 1, 2018		15,681,364	(6,477,722)	9,203,642
Total comprehensive loss for the period		-	(241,912)	(241,912)
<b>As at March 31, 2018</b>		15,681,364	(6,719,634)	8,961,730

The accompanying notes are an integral part of these Financial Statements.

**PRIMEWEST MORTGAGE INVESTMENT CORPORATION**  
**Unaudited Condensed Interim Statements of Cash Flows**  
**For the three months ended March 31, 2018 and 2017**  
(Expressed in Canadian Dollars)

	Notes	March 31, 2018 \$	March 31, 2017 \$
<b>Operating activities</b>			
Total comprehensive loss for the period		(241,912)	77,489
Adjustments to reconcile income (loss) from operations to net cash flows:			
Interest income		(367,010)	(639,683)
Interest expense		46,409	77,302
Provision for mortgage losses	5	417,494	303,772
Loss on assets taken in settlement of debt	6	109	9,702
Depreciation of property and equipment		223	274
Interest received		112,614	352,848
Interest paid		(46,409)	(77,302)
Proceeds from disposal of assets taken in settlement of debt		30,000	1,145,900
Costs incurred to sell asset taken in settlement of debt		(30,270)	(202,617)
Change in operating assets and liabilities:			
Mortgages receivable		(667,275)	209,346
Other assets		(3,240)	(38,528)
Other liabilities		<u>25,167</u>	<u>(47,633)</u>
<b>Net cash flows from operating activities</b>		<b>(724,100)</b>	<b>1,170,870</b>
<b>Financing activities</b>			
Advances (repayments) of related party loans	11	-	527,142
Repayment of demand loan		724,085	(1,698,052)
<b>Net cash flows used in financing activities</b>		<b>724,085</b>	<b>(1,170,910)</b>
Net decrease in cash and cash equivalents		(15)	(40)
Cash and cash equivalents, beginning of period		50,431	52,435
<b>Cash and cash equivalents, end of period</b>		<b>50,416</b>	<b>52,395</b>

The accompanying notes are an integral part of these Financial Statements.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

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### 1 Nature of Operations and Going Concern

PrimeWest Mortgage Investment Corporation (the “Company”) was incorporated under *The Saskatchewan Business Corporations Act* on March 22, 2005 and commenced operations in October 2005, as a Mortgage Investment Corporation (MIC).

The Company lends on security of mortgages on real properties situated in the Provinces of Saskatchewan, Manitoba and Alberta. The mortgages transacted by the Company do not generally meet the underwriting criteria of conventional lenders. As a result the investments are subject to greater risk and accordingly earn a higher rate of interest than is generally obtainable through conventional mortgage lending activities.

The Company is a reporting issuer under securities laws trading on the Canadian Securities Exchange under the symbol PRI.

The address of the registered office is #700 – 750 Spadina Crescent East, Saskatoon, Saskatchewan S7K 3H3.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As a result of events incurred in 2016 the Company incurred a net loss of \$2,601,558 during the year ended December 31, 2016 and a further loss of \$3,077,888 during the year ended December 31, 2017. At period end, the Company incurred a loss of \$241,912 and currently has an accumulated deficit of \$6,719,634. The decrease in the estimated fair value of the loan portfolio, assets taken in settlement of debt and the reduced level of income generating assets may cast significant doubt on the Company’s ability to sustain operations for the upcoming year. While the Company is using its best efforts to achieve its business plans by examining various financing alternatives and sales of assets taken in settlement of debt, in the current economic conditions it is difficult to predict the outcome of these plans. All of these factors indicate the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. These financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements.

### 2 Statement of Compliance and Basis of Presentation

These unaudited condensed interim financial statements for the period ended March 31, 2018 represent the Company’s quarterly Financial Statements prepared in accordance with International Accounting Standard (“IFRS”), and interpretations as issued by the International Accounting Standards Board (“IASB”). These Financial Statements are presented in Canadian dollars, which is the Company’s functional currency.

The financial statements have been prepared on the historic cost basis, except for cash and cash equivalents and assets taken in settlement of debt, which are measured at fair value on each reporting date.

The Financial Statements of the Company for the period ended March 31, 2018 were authorized for issue in accordance with a resolution of the directors on May 15, 2018.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

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### 3 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the Financial Statements are:

#### **Allowance for mortgage losses**

The Company reviews its individually significant mortgages at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

In estimating these cash flows, the Company makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

#### *Key assumptions in determining the allowance for impaired loans provision*

The Company has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as commercial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the Company estimates the potential impairment using the loan type, industry, geographical location, type of loan security, the length of time the loans are past due and the historical loss experience. The circumstances may vary for each loan over time, resulting in higher or lower impairment losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Mortgages that have been assessed individually and found not to be impaired and all other performing loans are then assessed collectively to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account data from the mortgage portfolio about historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for judgments on the impact of current economic and credit conditions.

#### **Assets taken in settlement of debt**

The Company uses management's best estimates of the Fair Value of the Assets taken in settlement of debt by inspecting the property, obtaining appraisals and speaking with realtors in the area.



# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

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### 4 Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these interim financial statements are consistent with those described in Note 4 of the Company's audited consolidated financial statements for the year ended December 31, 2017, except for changes to the accounting resulting from the adoption of *IFRS 9 - Financial Instruments* ("IFRS 9") and *IFRS 15 - Revenue From Contracts With Customers* ("IFRS 15").

#### **IFRS 9 Financial instruments**

IFRS 9 has resulted in changes in accounting policies related to the classification, measurement and impairment of financial assets which are primarily comprised of mortgages. There are no significant changes in accounting policies for financial liabilities, derivative instruments and derecognition of financial assets and liabilities. This change in accounting policy was adopted retrospectively, with no restatement of comparatives. Changes in accounting policies resulting from the adoption of IFRS 9 are described below. The changes in accounting policy has not resulted in an adjustment to the financial statements.

#### ***Recognition and initial measurement***

The Company recognizes mortgages on the date of origination at the fair value of consideration advanced. The initial measurement includes transaction costs that are directly attributable to its issuance.

Mortgages continue to be classified as amortized cost instruments using the effective interest rate method. Classification of debt instruments is determined based on:

- (i) the business model under which the asset is held; and
- (ii) the contractual cash flow characteristics of the instrument

Mortgages are managed in order to generate cash flows from collection of contractual cash flows. Contractual cash flows are consistent with basic lending arrangements and represent cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments.

Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for liquidity risk and administrative costs, as well as a profit margin.

#### ***Impairment***

The Company has elected to apply a lifetime expected credit losses allowance over its mortgage portfolio not considered to be in default. Credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events over the expected life of a financial instrument.

The probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD") inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. The measurement of expected credit losses considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

### 4 Summary of Significant Accounting Policies (continued)

#### *Definition of default*

The Company considers a mortgage to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the mortgage.

The Company considers that default has occurred and classifies the mortgage as impaired when it is more than 90 days past due unless they are fully secured or collection efforts are reasonably expected to result in repayment of the debt.

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 provides a single principle-based framework that applies to contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The revenue arising from financial instruments is not within the scope of IFRS 15. The Company has adopted this standard effective January 1, 2018 and the change in accounting policy has not resulted in an adjustment to the financial statements.

### 5 Mortgages receivable

#### *Distribution of mortgages:*

Portfolio of 27 (2017 – 27) mortgages bearing interest at fixed rates from 5.0% to 13.0% (2017 – 5.0% to 13.0%) with maturities ranging from April 2018 to November 2021, secured by real property to which they relate and by additional security in certain circumstances.

		<b>March 31 2018</b>		<b>December 31 2017</b>
<i>Effective interest rates</i>	<i>Number of mortgages</i>	<i>Amortized cost and fair value</i>	<i>Number of mortgages</i>	<i>Amortized cost and fair value</i>
4 – 5%	1	76,198	1	75,753
5 – 6%	-	-	-	-
6 – 7%	-	-	-	-
7 – 8%	-	-	-	-
8 – 9%	2	80,654	3	137,680
9 – 10%	11	7,508,292	11	7,393,170
10 – 11%	3	3,437,689	3	3,355,392
11 – 12%	2	810,971	1	154,653
12 – 13%	8	2,305,627	8	2,218,310
Sub Total	27	14,219,431	27	13,334,958
Add: Accrued interest receivable		38,790		28,770
Less: Allowance for mortgage losses		(8,034,154)		(7,643,837)
Total	27	6,224,067	27	5,719,891

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

### 5 Mortgages receivable (continued)

#### Maturities and yields:

	<i>Within 3 months</i>	<i>Over 3 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
<b>March 31, 2018</b>				
Total mortgages	13,518,714	656,866	43,851	14,219,431
Effective interest rate %	10.7%	12.1%	10.9%	10.7%

	<i>Within 3 months</i>	<i>Over 3 months to 1 year</i>	<i>Over 1 year</i>	<i>Total</i>
<b>December 31, 2017</b>				
Total mortgages	12,843,190	445,948	45,820	13,334,958
Effective interest rate %	10.7%	10.3%	10.9%	10.7%

Residential mortgages contain a prepayment option whereby the borrower may repay the principal at any time prior to maturity without penalty.

#### Mortgage allowance details

<i>For the three months ended</i>	<i>March 31, 2018</i>			<i>March 31, 2017</i>
	<i>Expected Credit Losses on Defaulted Mortgages</i>	<i>Other Expected Lifetime Credit Losses</i>	<i>Total</i>	<i>Total</i>
Balance, beginning of period	7,345,868	297,969	7,643,837	6,264,436
Provision for mortgage losses				
Re-measurement	363,352	-	363,352	303,772
Newly originated loans	-	54,142	54,142	-
Transfers	-	-	-	-
Total provision for period	363,352	54,142	417,494	303,772
Accounts written off	(27,177)	-	(27,177)	(950,563)
<b>Balance, end of period</b>	<b>7,682,043</b>	<b>352,111</b>	<b>8,034,154</b>	<b>5,617,645</b>

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

### 5 Mortgages receivable (continued)

#### Impaired loans

	<i>Gross amount of Impaired loans</i>	<i>Impairment</i>	<i>March 31, 2018 Net Amount of Impaired loans</i>
Residential mortgages	2,581,202	1,505,616	1,075,586
Commercial mortgages	7,317,846	6,176,427	1,141,419
<b>Total</b>	<b>9,899,048</b>	<b>7,682,043</b>	<b>2,217,005</b>

	<i>Gross amount of Impaired loans</i>	<i>Impairment</i>	<i>December 31, 2017 Net Amount of Impaired loans</i>
Residential mortgages	2,496,443	1,290,551	1,205,892
Commercial mortgages	7,182,447	6,055,317	1,127,130
<b>Total</b>	<b>9,678,890</b>	<b>7,345,868</b>	<b>2,333,022</b>

#### Mortgages past due but not impaired

A mortgage is considered past due when a counterparty has not made a payment by the contractual due date. The table that follows presents the carrying value of mortgages at period end that are past due but not classified as impaired because they are either i) less than 90 days in arrears, or ii) fully secured and collection efforts are reasonably expected to result in repayment.

#### *March 31, 2018*

	<i>Under 30 days</i>	<i>31-60 days</i>	<i>61-90 days</i>	<i>91 days and greater</i>	<i>Total</i>
Residential	723,577	-	-	511,238	1,234,815
Commercial	-	-	-	-	-
	<b>723,577</b>	<b>-</b>	<b>-</b>	<b>511,238</b>	<b>1,234,815</b>
Appraised value of collateral	1,087,096	-	-	577,000	1,664,096

#### *December 31, 2017*

	<i>Under 30 days</i>	<i>31-60 days</i>	<i>61-90 days</i>	<i>91 days and greater</i>	<i>Total</i>
Residential	723,585	-	-	510,880	1,234,465
Commercial	-	-	-	-	-
	<b>723,585</b>	<b>-</b>	<b>-</b>	<b>510,880</b>	<b>1,234,465</b>
Appraised value of collateral	1,087,096	-	-	577,000	1,664,096

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

### 5 Mortgages receivable (continued)

The principal collateral and other credit enhancements the Company holds as security for loans include (i) property insurance, and mortgages over residential lots and properties, (ii) recourse to business assets such as real estate, equipment, inventory and accounts receivable, (iii) recourse to commercial real estate properties being financed, and (iv) recourse to liquid assets, guarantees and securities. Valuations of collateral are updated periodically depending on the nature of the collateral. The Company has policies in place to monitor the existence of undesirable concentration in the collateral supporting its credit exposure. In management's estimation, the fair value of the collateral is sufficient to offset the risk of loss on the mortgages past due but not impaired.

### 6 Assets taken in settlement of debt

<i>For the three months ended</i>	<i>March 31, 2018</i>		<i>March 31, 2017</i>	
	<i>Properties</i>	<i>Amount (\$)</i>	<i>Properties</i>	<i>Amount (\$)</i>
Balance, beginning of period	4	6,377,715	9	1,665,582
Mortgages settled by taking property	-	-	2	228,193
Costs incurred to sell		30,270		202,617
Incremental loss recognized		(109)		(9,702)
Properties sold	(2)	(30,000)	(5)	(1,145,900)
<b>Balance, end of period</b>	<b>2</b>	<b>6,377,876</b>	<b>6</b>	<b>940,790</b>

Assets taken in settlement of debt are carried at fair value using Level 3 inputs including property appraisals. All of the assets taken on settlement of debt are residential properties.

### 7 Demand loan

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
Operating line of credit	3,631,122	2,907,037
	<b>3,631,122</b>	<b>2,907,037</b>

The margined, demand operating line of credit bears interest at prime plus 1.5% (2017 – prime plus 1.5%), has an authorized limit which is the lesser of the margin calculation and \$7,500,000 (December 31, 2017 - \$7,500,000) and is secured by a general security agreement and an assignment of mortgages receivable. The operating line's margin is calculated using variable percentages of eligible mortgages as set out by the bank.

At period-end the maximum margin available was \$5,790,500 (December 31, 2017 - \$6,081,200).

The credit agreement is reviewed annually. The annual review of covenants and other terms is currently in process.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

### 8 Shareholders' equity

#### A) Authorized shares

The Company's authorized share capital consists of:

- An unlimited number of Class A voting, common shares, redeemable at the option of the Company and retractable at the option of the holder. A shareholder calls for redemption of shares held by such shareholder by giving notice to the Company during the period April 1 to April 30th of a particular year (the "Redemption Period"), the Company shall on or before July 31st, and provided redemption requests for the year do not exceed 10% of the issued and outstanding Class A Shares, redeem the shares at the price equal to the lesser of (a) \$10.00 per share; and (b) the book value per Class A Share as stated in the audited financial statements for the year ended immediately prior to the Redemption Period. The Board may at its discretion waive the restriction and increase the number of Class "A" shares that the Company may redeem in any fiscal year.
- 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 maximum annual redemption is 10% of the issued and outstanding shares at the beginning of the fiscal year. In an effort to enhance the share liquidity for the shareholders, the Company began trading on the Canadian Securities Exchange under the symbol PRI.
- An unlimited number of 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 upon issuance of any Class B shares the number of shares to be issued and the designation, rights, privileges, restrictions and conditions attached to those shares. None of these are defined in the articles of the Company and would therefore be presented to shareholders for approval.

#### B) Issued and outstanding

<b>Class A Common shares</b>	<b>Number of Shares</b>	<b>\$</b>
At December 31, 2016	1,890,729	15,681,364
Shares redeemed	-	-
Shares issued for cash	-	-
At December 31, 2017	<b>1,890,729</b>	<b>15,681,364</b>
Shares redeemed	-	-
Shares issued for cash	-	-
At March 31, 2018	<b>1,890,729</b>	<b>15,681,364</b>

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

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

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### 9 Related party disclosure

#### Compensation of key management personnel

Key management personnel ("KMP") consist of the CEO and CFO. KMP remuneration includes the following expenses:

	March 31, 2018	March 31, 2017
	\$	\$
Salaries, fees and short-term benefits	<u>30,000</u>	<u>56,250</u>

#### Transactions with directors

The remuneration of directors during the period consisted of directors fees in the amount of \$19,500 (2017 – 24,900).

### 10 Capital management

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's definition of capital includes shareholders' equity. Capital is monitored for any of these items if applicable.

*The Company* seeks to facilitate the management of its capital requirements by preparing annual expenditure budgets that are updated as necessary and approved by the Board of Directors. The Company may occasionally need to increase these levels to facilitate acquisition or expansion activities, however there are no established quantitative returns on capital requirements for management. The Company considers the capital structure to consist of debt and shareholders' equity. The Company considers debt to include bank indebtedness, demand loans and due to related parties.

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

Pursuant to the Company's credit agreement (Note 7) it is required to meet certain financial covenants. If the Company is in violation of any of these covenants its ability to pay dividends may be inhibited. The Company monitors these covenants to ensure it remains in compliance.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

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### 11 Financial instruments and risk management

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

#### **Risk management policy**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, and market risk. The Company's overall risk management program focuses on avoidance of undue concentrations of risk, hedging of risk exposures, and requirements for collateral to mitigate credit risk as risk management objectives. In seeking to meet these objectives, the Company follows risk management policies approved by its Board of Directors.

These risk management policies and procedures include the following:

- Ensure all activities are consistent with the mission, vision and values of the Company;
- Balance risk and return;
- Manage credit, market and liquidity risk through preventative and detective controls;
- Ensure credit quality is maintained;
- Ensure credit, market, and liquidity risk are maintained at acceptable levels;
- Diversify risk in transactions, customer relationships and loan portfolios;
- Price according to risk taken; and
- Use consistent credit risk exposure tools.

Risk management is carried out by senior management, the policies of which are determined by the Board of Directors.

There have been no significant changes from the previous year in the policies and procedures or methods used to measure risk.

#### **Credit risk**

Credit risk is defined as the risk that a mortgagor will be unable to fulfill their mortgage commitments. Credit risk primarily arises from mortgages receivable. Management and the Board of Directors review and update the credit risk policy annually.

#### ***Analysis of maximum exposure to credit and collateral***

The maximum exposure to credit risk at March 31, 2018 is the fair value of its mortgage receivables, mortgage interest receivable and loan receivables which total \$6,224,067 (December 31, 2017 - \$5,719,891).

To reduce the exposure the Company holds collateral as security on its mortgages. The collateral consists of a charge against real property on each mortgage. At March 31, 2018 the fair value of the collateral on the mortgages receivable is in excess of the fair value of the mortgages receivable.



# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

(Unaudited - Expressed in Canadian Dollars)

### 11 Financial instruments and risk management (continued)

#### *Credit quality, mortgage types and renegotiated mortgages*

The Company's portfolio consists of both residential and commercial mortgages as follows before the allowance for mortgage losses of \$8,034,154 (2017 - \$7,643,837)

	March 31, 2018 \$	December 31, 2017 \$
Residential first mortgages	4,934,581	4,194,850
Residential second mortgages	37,528	37,669
Commercial first mortgages	5,319,605	5,269,576
Commercial second mortgages	3,807,667	3,711,290
Residential mortgages with no security	120,050	121,573
	<b>14,219,431</b>	<b>13,334,958</b>

\*First mortgages are loans secured by a first priority mortgage charge with loan to values not exceeding 85% at funding.

\*\*Second mortgages are loans with mortgage charges not registered in first priority with loan to values not exceeding 85% at funding.

The mortgage portfolio consists of mortgages that have been registered 85.3% in Saskatchewan (December 31, 2017 – 84.7%), 14.3% in Alberta (December 31, 2017 – 14.9%) and 0.4% in Manitoba (December 31, 2017 – 0.4%).

The Company does not internally assign credit quality ratings to its mortgages that are neither past due nor impaired. In addition, there is a limited market for such a portfolio of mortgages so standard credit ratings have not been used. However, the Company actively monitors its mortgage portfolio, the quality of the mortgages and any impairment.

Additional information on credit quality and mortgages past due but not impaired is included in Note 5.

#### *Collateral obtained*

During the period the Company did not obtain any assets by taking possession of collateral it holds as security in settlement of debt. The Company took possession of \$Nil (December 31, 2017 - \$8,117,762) of property (Note 6). The Company's policy for these assets is to sell the assets to recover funds loaned.

#### *Liquidity risk*

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due. To limit this risk, the Company's approach is to ensure that it has sufficient cash and credit facilities to meet its liabilities when due, under both normal and stressed circumstances.

The Company maintains adequate cash held in trust to meet its trust fund obligations.

The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining additional debt financing. In addition, the mortgage receivables have short maturity terms (3 – 24 months) which provide additional liquidity in the event of an unforeseen interruption of cash flow. The Company can convert the mortgages, if needed, to cash instead of renewing for another term or lending under a new mortgage.

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### 11 Financial instruments and risk management (continued)

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
<b>As at March 31, 2018</b>					
Demand loan	3,631,122	-	-	-	3,631,122
Other liabilities	-	116,615	-	-	116,615
	<b>3,631,122</b>	<b>116,615</b>	-	-	<b>3,747,737</b>

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
<b>As at December 31, 2017</b>					
Demand loan	2,907,037	-	-	-	2,907,037
Other liabilities	-	91,448	-	-	91,448
	<b>2,907,037</b>	<b>91,448</b>	-	-	<b>2,998,485</b>

The Company manages liquidity risk on a net asset and liability basis. The following tables explain the contractual maturities of financial assets held for the purpose of managing liquidity risk. While best efforts are made to collect on mortgages due, payouts of mortgages receivable may not occur on the maturity dates.

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
<b>As at March 31, 2018</b>					
Cash and cash equivalents	50,416	-	-	-	50,416
Mortgages receivable	-	5,543,158	656,866	24,043	6,224,067
Other assets	57,108	-	-	-	57,108
	<b>107,524</b>	<b>5,543,158</b>	<b>656,866</b>	<b>24,043</b>	<b>6,331,591</b>

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
<b>As at December 31, 2017</b>					
Cash and cash equivalents	50,431	-	-	-	50,431
Mortgages receivable	-	5,248,915	445,948	25,028	5,719,891
Other assets	41,205	-	-	-	41,205
	<b>91,636</b>	<b>5,248,915</b>	<b>445,948</b>	<b>25,028</b>	<b>5,811,527</b>

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2018 and March 31, 2017

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### 11 Financial instruments and risk management (continued)

The following demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant:

	<i>Demand loan – sensitivity</i>	<i>Mortgages receivable – sensitivity</i>	<i>Total March 31, 2018</i>	<i>Demand loan – sensitivity</i>	<i>Mortgages receivable – sensitivity</i>	<i>Total December 31, 2017</i>
Increase in 25 basis points	(9,078)	15,560	6,482	(7,268)	14,300	7,032
Increase in 50 basis points	(18,156)	31,120	12,964	(14,536)	28,600	14,064
Decrease in 25 basis points	9,078	(15,560)	(6,482)	7,268	(14,300)	(7,032)
Decrease in 50 basis points	18,156	(31,120)	(12,964)	14,536	(28,600)	(14,064)

Demand Loan sensitivity is calculated by applying the basis point change to the balance of the demand loan at year end. The mortgage receivable sensitivity is calculated by applying the basis point change to the balance of the mortgage receivables at year end.

#### Interest rate re-price

	<i>On demand</i>	<i>Within 3 months</i>	<i>Over 3 months to 1 year</i>	<i>Over 1 year</i>	<i>Not interest sensitive</i>	<i>March 31, 2018 Total</i>	<i>December 31, 2017 Total</i>
<b>Assets</b>							
Cash and cash equivalents	50,416	-	-	-	-	50,416	50,431
Mortgages receivable	-	5,543,158	656,866	24,043	-	6,224,067	5,719,891
<i>Effective interest rate %</i>	-	10.7%	12.1%	10.9%	-	10.7%	10.7%
Other assets	-	-	-	-	57,108	57,108	41,205
	<b>50,416</b>	<b>5,543,158</b>	<b>656,866</b>	<b>24,043</b>	<b>57,108</b>	<b>6,331,591</b>	<b>5,811,527</b>

	<i>On demand</i>	<i>Within 3 months</i>	<i>Over 3 months to 1 year</i>	<i>Over 1 year</i>	<i>Not interest sensitive</i>	<i>March 31, 2018 Total</i>	<i>December 31, 2017 Total</i>
<b>Liabilities</b>							
Demand loan	3,631,122	-	-	-	-	3,631,122	2,907,037
<i>Effective interest rate %</i>	4.95%	-	-	-	-	4.95%	4.7%
Other liabilities	-	-	-	-	116,615	116,615	91,448
	<b>3,631,122</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116,615</b>	<b>3,747,737</b>	<b>2,998,485</b>

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## Notes to the Condensed Interim Financial Statements

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### 11 Financial instruments and risk management (continued)

#### Fair values

The Company's financial instruments recognized on the Statement of Financial Position consist of cash, other receivables, mortgages receivable, demand loan, trade and other payables, and due to related parties. The fair values of these recognized financial instruments, excluding mortgages receivable, approximate their carrying values due to their short-term maturity. The fair values of mortgages receivable approximates its carrying value given the mortgages receivable consist of short-term loans that are repayable at the option of the borrower without penalties.

#### Recurring fair value measurements

The Company's financial assets and liabilities measured at fair value on a recurring basis are comprised of cash which has been categorized in the fair value hierarchy as Level 1.

#### Financial assets and liabilities for which fair value is only disclosed

The following table analyses within the fair value hierarchy the Company's assets and liabilities (by class) not measured at fair value at March 31, 2018 but for which fair value is disclosed:

March 31, 2018	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Mortgages receivable	6,224,067	-	-	6,224,067
Other assets	57,108	-	-	57,108
<b>Total Assets</b>	<b>6,281,175</b>	<b>-</b>	<b>-</b>	<b>6,281,175</b>
<b>Liabilities</b>				
Demand loan	3,631,122	-	3,631,122	-
Due to related parties	-	-	-	-
Other liabilities	116,615	-	-	116,615
<b>Total Liabilities</b>	<b>3,747,737</b>	<b>-</b>	<b>3,631,122</b>	<b>116,615</b>

December 31, 2017	Fair value	Level 1	Level 2	Level 3
<b>Assets</b>				
Mortgages receivable	5,719,891	-	-	5,719,891
Other assets	54,090	-	-	54,090
<b>Total Assets</b>	<b>5,773,981</b>	<b>-</b>	<b>-</b>	<b>5,773,981</b>
<b>Liabilities</b>				
Demand loan	2,907,037	-	2,907,037	-
Other liabilities	91,448	-	-	91,448
<b>Total Liabilities</b>	<b>2,998,485</b>	<b>-</b>	<b>2,907,037</b>	<b>91,448</b>

All fair values disclosed and categorized within Level 2 of the hierarchy use a net present value valuation technique and inputs consisting of actual balances, actual rates, market rates (for similar instruments) and payment frequency.

# PRIMEWEST MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Interim Financial Statements

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(Unaudited - Expressed in Canadian Dollars)

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### 11 Financial instruments and risk management (continued)

For mortgages receivable classified as Level 3 of the hierarchy, as there are no quoted prices in an active market for these mortgages receivable, the Company makes its determination of fair value based on its assessment of the current mortgage market for mortgages receivable of same or similar terms. Typically, these mortgage investments approximate their carrying values given the mortgages receivable consist of short-term loans that are repayable at the option of the borrower without penalties. When collection of the principal amount of a mortgage is no longer reasonably assured, the fair value of the mortgage is reduced to the estimated net realizable value of the underlying security. The net realizable is estimated by looking at market information for comparable properties and market rents when using an income based approach.

### 12 Commitments

The Company has entered into a lease agreement for its premises with future minimum lease commitments as follows:

	\$
2018	15,925
2019	7,000
<b>Total</b>	<b>22,925</b>

At period end the Company committed to funding Nil (December 31, 2017 – 1) mortgages, for a total of \$Nil (December 31, 2017 - \$658,500)