



# Pacific & Western

*Credit Corp.*

## Third Quarter Report July 31, 2006

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**PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RECORD NET EARNINGS OF \$11.8 MILLION FOR THE THIRD QUARTER AND \$15.5 MILLION FOR THE NINE MONTHS ENDED JULY 31, 2006.**

### **THIRD QUARTER FINANCIAL HIGHLIGHTS**

(three months ended July 31, 2006 compared to three months ended July 31, 2005 unless otherwise noted)

- Record net earnings of \$11.8 million or \$0.88 per share (\$0.85 diluted) compared to \$1.7 million or \$0.12 per share (\$0.12 diluted).
- Net earnings for the nine months ended July 31, 2006 of \$15.5 million or \$1.15 per share (\$1.11 diluted) compared to \$5.3 million or \$0.38 per share (\$0.37 diluted).
- Other income totalled \$13.0 million compared to \$4.3 million.
- Return on average common shareholders' equity was 79% compared to 14%.
- Lending assets increased to \$820 million from \$690 million.
- Regulatory capital in our Bank subsidiary grew to over \$100 million from \$82 million a year ago.

### **PRESIDENT'S COMMENTS**

I am pleased to announce record net earnings of \$11.8 million for our third quarter bringing net earnings for the nine months ended July 31, 2006, to \$15.5 million. Lending assets continued to show strong growth increasing to \$820 million with \$118 million in new loans and leases funded in the quarter bringing total new loans and leases funded for the year to \$328 million with \$101 million in outstanding loan commitments.

In addition to record net earnings and continued growth in our lending assets, the third quarter saw Discovery Air Inc. (DA), a company which we incorporated in 2004 with a nominal investment, have several achievements. These included the closing of a private placement, obtaining a listing on the Toronto Stock Exchange and completion of the acquisition of Great Slave Helicopters Ltd., a helicopter services company based in the Northwest Territories. The shares issued by DA pursuant to these transactions resulted in our ownership interest in DA being reduced to approximately 21% and a pre-tax dilution gain of approximately \$15.6 million being recorded in the quarter. This resulted in an increase in the regulatory capital of our Bank subsidiary to over \$100 million and positions the Corporation for continued loan growth and profitability in the future.

## FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		for the nine months ended	
	July 31 2006	July 31 2005	July 31 2006	July 31 2005
(\$ thousands, except per share amounts)				
<b>Results of operations (teb)</b>				
Net interest income before provisions per financial statements	\$ 4,218	\$ 3,117	\$ 13,039	\$ 10,245
Teb adjustment	440	423	1,218	1,291
Net interest income	4,658	3,540	14,527	11,536
Spread	1.48%	1.34%	1.61%	1.50%
Provisions (recovery) for credit losses	321	91	448	(208)
Net interest income after provision for credit losses	4,337	3,449	14,079	11,744
Other income	12,963	4,275	15,046	6,277
Total revenue	17,300	7,724	29,125	18,021
Non-interest expenses	3,215	3,652	9,603	8,519
Net income before income taxes	14,085	4,072	19,522	9,502
Provision for income taxes	2,282	1,507	4,372	3,538
Net earnings	11,803	1,739	15,504	5,260
Earnings per common share:				
Basic	\$ 0.88	\$ 0.12	\$ 1.15	\$ 0.38
Diluted	\$ 0.85	\$ 0.12	\$ 1.11	\$ 0.37
Efficiency ratio	\$ 0.18	\$ 0.47	\$ 0.32	\$ 0.48
Return on average common shareholders' equity	78.88%	14.33%	35.83%	15.15%
Return on average total assets	3.76%	0.66%	1.71%	0.68%
Gross impaired loans to total assets	0.12%	0.03%	0.12%	0.03%
Number of full time equivalent staff	52	46	52	46
<b>Balance Sheet Summary</b>				
Cash and securities	\$ 428,980	\$ 326,019	\$ 428,980	\$ 326,019
Total loans	819,899	690,091	819,899	690,091
Total assets	1,287,458	1,047,236	1,287,458	1,047,236
Average assets	1,245,586	1,050,575	1,209,343	1,031,412
Deposits	1,134,242	903,675	1,134,242	903,675
Notes payable	36,186	36,186	36,186	36,186
Shareholders' equity	68,526	50,919	68,526	50,919
<b>Capital ratios</b>				
(Based on the subsidiary Pacific & Western Bank of Canada)				
Assets to capital ratio	12.76	12.95	12.76	12.95
Tier 1 risk-based capital ratio	9.53%	7.77%	9.53%	7.77%
Total risk-based capital ratio	13.12%	11.49%	13.12%	11.49%

### Non-GAAP measures:

Like most banks, the Corporation analyzes revenue on a taxable equivalent basis (teb) to permit uniform measurement and comparison of net interest income. Net interest income includes tax-exempt income on certain securities. Since this income is not taxable, the rate of interest or dividends received is lower than would apply to a loan or taxable security of the same amount. The taxable equivalent basis includes an adjustment that increases interest income and the provision for income taxes by the same amount that adjusts the income on the tax-exempt securities to what income would have been had it been taxed at the statutory rate.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

This management's discussion and analysis (MD&A) of operations and financial condition for the third quarter of fiscal 2006 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended July 31, 2006, included herein, and the audited consolidated financial statements and MD&A for the year ended October 31, 2005, which are available on SEDAR at [www.sedar.com](http://www.sedar.com) or included on pages 12 through 55 of the 2005 Annual Report. Except as discussed below, all other factors discussed and referred to in the MD&A for the year ended October 31, 2005, remain substantially unchanged.

### Overview

Net earnings for the quarter were \$11.8 million or \$0.88 per share compared to \$1.7 million or \$0.12 per share for the same quarter last year. On a year-to-date basis, net earnings were \$15.5 million or \$1.15 per share compared to \$5.3 million or \$0.38 per share last year. Net interest income (teb) for the quarter was \$4.7 million compared to \$3.5 million for the same quarter last year and on a year-to-basis increased to \$14.5 million from \$11.5 million last year. Spread (teb) for the third quarter increased to 1.48% from 1.34% a year ago and on a year-to-date basis increased to 1.61% compared to 1.50% last year.

Other income for the quarter was \$13.0 million compared to \$4.3 million for the same quarter last year and on a year-to-date basis was \$15.0 million compared to \$6.3 million. Other income for the third quarter of 2006 included a pre-tax dilution gain of \$15.6 million, and \$16.9 million pre-tax on a year-to-date basis, resulting from the issue of shares by Discovery Air Inc. (DA), a company in which the Corporation currently holds a 21% interest. Included in other income for the quarter was a provision of \$616,000 relating to a real estate investment remaining from Pacwest Ventures Ltd., and a write-down of \$3.4 million relating to an investment included in our securities portfolio. Total revenue (teb) for the third quarter was \$17.3 million compared to \$7.7 million for the same quarter last year and on a year-to-date basis was \$29 million compared to \$18 million.

At July 31, 2006, total assets were \$1.29 billion, an increase from \$1.20 billion at the end of the previous quarter and compared to \$1.05 billion a year ago. Lending assets continued to show steady growth, increasing to \$820 million at the end of the quarter from \$797 million at the end of the previous quarter and from \$690 million a year ago. Credit quality remains strong with gross impaired loans at the end of the quarter totalling \$1.5 million or 0.12% of total assets.

### Net Interest Income

Net interest income (teb) for the third quarter was \$4.7 million compared to \$3.5 million for the same quarter last year and on a year-to-date basis was \$14.5 million compared to \$11.5 million. The increase in net interest income was primarily due to the growth in lending assets which saw an increase of \$130 million to \$820 million at the end of the quarter. Spread (teb) for the third quarter was 1.48% compared to 1.34% for the same quarter last year. On a year-to-date basis, spread (teb) was 1.61% compared to 1.50% last year. During the remainder of 2006, we anticipate loan growth will continue, particularly in our lending to public sector entities and investment grade corporations. We expect that as new loans are booked, treasury assets will reduce allowing the increase in spreads to continue.

### Other Income

Other income for the quarter was \$13.0 million compared to \$4.3 million for the same quarter last year and on a year-to-date basis was \$15.0 million compared to \$6.3 million last year. As noted above, other income for the third quarter of 2006 included several items, the most significant of which was a pre-tax dilution gain of \$15.6 million from the issue of shares by DA, a company in which the Corporation owns a 21% interest and accounts for on an equity basis. For the nine months ended July 31, 2006, we have earned approximately \$16.9 million in pre-tax dilution gains from the issue of shares by DA. Also included in other income for the quarter was a provision of \$616,000 related to a real estate investment remaining from Pacwest Ventures Ltd., a venture capital company which was amalgamated with the Corporation in 2002, and a write-down of \$3.4 million relating to an investment included in our securities portfolio which had been trading below our book value for an extended period of time, a decline in value which management determined to be other than temporary. Additional amounts included in other income during the quarter were equity earnings of DA which totalled \$969,000 and management fees totalling \$327,000 earned through a management services agreement with DA.

### Non-Interest Expenses

Non-interest expenses for the third quarter were \$3.2 million compared to \$3.7 million for the same quarter last year and on a year-to-date basis were \$9.6 million compared to \$8.5 million. Non-interest expenses for the quarter last year were

higher than this quarter due to \$1.0 million of DA's non-interest expenses being consolidated last year. For the nine months ended July 31, 2006, non-interest expenses of DA totalling \$980,000 were consolidated compared to \$3.2 million last year. During the second quarter of 2006, when the Corporation's ownership of DA decreased below 50%, it began accounting for its investment on the equity basis and no longer consolidates the results of DA. The decreases in the non-interest expenses from the change in accounting for DA were partially offset by an increase in the Corporation's salaries and benefits which resulted from the hiring of additional staff primarily in the lending area, and the effect of annual salary adjustments.

Our efficiency ratio (teb) for the third quarter was \$0.18, improving from \$0.47 for the same quarter last year and for the nine months ended July 31, 2006, was \$0.32 compared to \$0.48 for the same period last year. This improvement resulted from the increase in other income and the Corporation no longer consolidating the non-interest expenses of DA. At the end of the third quarter, our ratio of assets per full time employee was \$24.8 million compared to \$22.8 million a year ago. At the current levels, the Corporation remains one of the most efficient of the domestic banks.

### ***Income Taxes***

The income tax provision for the third quarter was \$1.8 million of which \$14,000 represents a current provision. The balance represents a net reduction in the Corporation's future income tax asset that had been recorded in prior years as a result of income tax losses incurred in those years. On a year-to-date basis, the income tax provision was \$3.2 million of which \$63,000 represents a current provision. In 2006, the Corporation's statutory federal and provincial income tax rate remains approximately 38%, the same rate that was in effect for 2005. However, the effective income tax rate for the third quarter was 14% compared to 30% for the same period last year with the difference due to a lower effective rate of tax being applied to dilution gains and the impact of non-taxable income from securities earned in the period. On a year-to-date basis, the effective income tax rate was 17% compared to 27% for the same period last year with the reasons for the difference being the income tax provision of DA which had been consolidated in 2005. We anticipate that for the remainder of 2006, the effective income tax rate will approximate 20%.

### ***Balance Sheet***

Total assets during the third quarter grew to \$1.29 billion from \$1.20 billion at the end of the previous quarter and from \$1.05 billion a year ago with the largest increase being in lending assets. Total loans grew to \$820 million at July 31, 2006, from \$797 million at the end of the previous quarter and from \$690 million a year ago. Loan growth in the third quarter was strong with \$118 million in new loans and leases being funded bringing the total for the year-to-date to \$328 million. These fundings were partially offset by loan paydowns of \$95 million for the quarter and \$258 million year-to-date. The loan categories which showed the largest growth from the previous quarter were in lending to public sector entities and CMHC residential mortgages.

Cash and securities, which are held for liquidity management purposes and to earn investment income, increased to \$429 million at July 31, 2006, from \$387 million at the end of the previous quarter and from \$326 million a year ago. This increase was a result of earlier than scheduled loan repayments and the raising of deposits in the third quarter in anticipation of loan fundings in the coming months. As the 2006 year progresses, we anticipate that new lending activity will continue, particularly to public sector entities and investment grade corporations, allowing the level of cash and securities to reduce to lower levels.

Deposits in the quarter increased to \$1.1 billion at July 31, 2006, from \$954 million at the end of the previous quarter and from \$904 million last year with the increase at the end of the quarter due to the raising of new deposits in anticipation of loan fundings in the coming months. Deposits are used as a primary source of financing the growth in assets and continue to be raised entirely through an agent network throughout Canada. A second source of financing for growth in assets is the use of securities sold under repurchase agreements which totalled \$40 million at July 31, 2006.

### ***Credit Quality***

Credit quality remains strong with gross impaired loans at July 31, 2006, totalling \$1.5 million or 0.12% of total assets. The provision for credit losses for the third quarter was \$321,000 compared to \$91,000 for the same quarter last year with the increase due to additions to our general allowance for credit losses and specific provisions. On a year-to-date basis, our provision for credit losses totalled \$448,000 compared to a net recovery of \$208,000 for the same period a year ago. The net recovery last year was due to a reversal of a provision recorded previously in 2004. Total allowances for credit losses, including specific and general allowances, were \$2.3 million at July 31, 2006, compared to \$2.0 million at the end of the previous quarter.

### **Shareholders' Equity**

Shareholders' equity at July 31, 2006, was \$68.5 million compared to \$56.7 million at the end of the previous quarter and \$50.9 million a year ago with the increases due to the retention of earnings. Total common shares outstanding at the end of the quarter increased to 13,348,695 from 13,334,595 at the end of the previous quarter with the increase due to the exercise of common share options. Outstanding common share options totalled 1,365,550 at the end of the quarter compared to 1,365,700 at the end of the previous quarter. Our book value per common share at July 31, 2006, increased to \$4.87 per share from \$3.98 at the end of the previous quarter and from \$3.58 a year ago.

### **Updated Share Information**

At August 30, 2006, there were 13,349,695 common shares outstanding with the increase due to shares being issued on the exercise of 1,000 common share options. At August 30, 2006, there were 1,364,050 common share options outstanding with the change due to the exercise of the 1,000 common share options and 500 common share options that lapsed.

### **Capital Adequacy**

Total regulatory capital in the Corporation's principal subsidiary, Pacific & Western Bank of Canada, totalled \$102 million at the end of the quarter compared to \$90 million at the end of the previous quarter and \$82 million a year ago. At July 31, 2006, regulatory capital consisted of \$74 million in shareholder's equity (Tier 1 capital) and \$28 million in subordinated debentures of the Bank (Tier 2 capital).

The Bank's total risk-based capital ratio, which is the ratio of regulatory capital to risk-weighted assets, was 13.12% at the end of the quarter compared to 12.12% at the end of the previous quarter and 11.49% a year ago. The Bank's Tier 1 risk-based capital ratio, which is the ratio of Tier 1 capital to risk-weighted assets, was 9.53% at the end of the quarter compared to 8.34% at the end of the previous quarter and 7.77% a year ago. The Bank's assets to capital ratio was 12.76 at the end of the quarter compared to 13.61 at the end of the previous quarter and 12.95 a year ago.

### **Performance Targets**

Revised performance targets established for the 2006 fiscal year and 2006 year-to-date are noted below with actual results for the nine months ended July 31, 2006.

	2006		
	Annual Target	Year-to-Date Target	Year-to-Date Results
Earnings per common share	\$1.30	\$1.15	\$1.15
Spread (teb)	1.75%	1.74%	1.61%
Loan growth	35.00%	7.00%	9.42%
Total asset growth	15.00%	14.89%	13.71%
Return on average common shareholders' equity	29.97%	36.04%	35.83%
Return on average total assets	1.45%	1.70%	1.71%

## Summary of Quarterly Results

(thousands of dollars except per share amounts)	2006			2005			2004	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Results of operations:</b>								
Total interest income								
per financial statements	\$ 16,418	\$ 15,104	\$ 15,138	\$ 13,845	\$ 13,117	\$ 13,298	\$ 13,692	\$ 13,807
Teb adjustment	440	352	427	484	423	446	422	553
Total interest income	16,858	15,456	15,565	14,329	13,540	13,744	14,114	14,360
Yield on assets (%)	5.37%	5.37%	5.40%	5.21%	5.11%	5.41%	5.48%	5.64%
Interest expense	12,200	10,560	10,591	9,846	10,000	9,666	10,196	10,256
Cost of funds (%)	3.89%	3.67%	3.68%	3.58%	3.77%	3.80%	3.96%	4.03%
Net interest income	4,658	4,896	4,974	4,483	3,540	4,078	3,918	4,104
Spread (%)	1.48%	1.70%	1.72%	1.63%	1.34%	1.61%	1.52%	1.61%
Provisions (recoveries) for credit losses	321	78	49	147	91	38	(337)	(749)
Other income	12,963	1,251	832	2,592	4,275	1,078	924	66
Total revenue	17,300	6,069	5,757	6,928	7,724	5,118	5,179	4,920
Non-interest expenses	3,215	3,104	3,284	3,904	3,652	2,746	2,121	2,481
Income before income taxes	14,085	2,965	2,473	3,024	4,072	2,372	3,058	2,439
Income tax provision	2,282	1,040	1,051	1,196	1,507	840	1,191	830
Non-controlling interest	-	117	237	(72)	(826)	107	15	-
Net earnings	11,803	2,042	1,659	1,756	1,739	1,639	1,882	1,609
Earnings per share								
-basic	\$ 0.88	\$ 0.15	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.14	\$ 0.12
-diluted	\$ 0.85	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.13	\$ 0.12

**Dated: August 30, 2006**

### Forward-Looking Statements

The statements in this management's discussion and analysis which relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, the strength of the Canadian economy in general and the strength of the local economies within Canada in which we conduct operations; the effects of changes in monetary and fiscal policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which we operate; inflation; capital market fluctuations; the timely development and introduction of new products in receptive markets; the impact of changes in the laws and regulations regulating financial services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; unexpected changes in consumer spending and savings habits; and our anticipation of and success in managing the risks implicated by the foregoing.

The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. There is no undertaking to update any forward-looking statement that is contained in this management's discussion and analysis or made from time to time by the Corporation.

**PACIFIC & WESTERN CREDIT CORP.**

**Consolidated Balance Sheet**  
(thousands of dollars)

	<b>July 31</b> <b>2006</b> <hr/> (unaudited)	<b>October 31</b> <b>2005</b> <hr/>	<b>July 31</b> <b>2005</b> <hr/> (unaudited)
<b>Assets</b>			
Cash resources	\$ 135,010	\$ 72,532	\$ 77,122
Securities	293,970	279,851	248,897
Mortgages and loans	819,899	749,307	690,091
Other assets	<u>38,579</u>	<u>29,537</u>	<u>31,126</u>
	<u><u>\$ 1,287,458</u></u>	<u><u>\$ 1,131,227</u></u>	<u><u>\$ 1,047,236</u></u>
<b>Liabilities and Shareholders' Equity</b>			
Deposits	\$ 1,134,242	\$ 935,758	\$ 903,675
Notes payable	36,186	36,186	36,186
Other liabilities	<u>48,504</u>	<u>105,606</u>	<u>55,045</u>
	<u>1,218,932</u>	<u>1,077,550</u>	<u>994,906</u>
Non-controlling interest in subsidiary	-	754	1,411
<b>Shareholders' equity</b>			
Share capital	37,134	36,794	36,546
Retained earnings	<u>31,392</u>	<u>16,129</u>	<u>14,373</u>
	<u>68,526</u>	<u>52,923</u>	<u>50,919</u>
	<u><u>\$ 1,287,458</u></u>	<u><u>\$ 1,131,227</u></u>	<u><u>\$ 1,047,236</u></u>
<i>Number of common shares outstanding</i>	<i>13,348,695</i>	<i>13,308,778</i>	<i>13,241,778</i>
<i>Number of Class A preferred shares outstanding</i>	<i>1,142,556</i>	<i>1,142,556</i>	<i>1,142,556</i>
<i>Number of common share options outstanding</i>	<i>1,365,550</i>	<i>1,421,600</i>	<i>1,488,600</i>
<i>Number of warrants outstanding</i>	<i>12,000</i>	<i>12,000</i>	<i>17,000</i>

## **PACIFIC & WESTERN CREDIT CORP.**

### **Consolidated Statement of Earnings**

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Interest income</b>				
Interest income on loans	\$ 12,090	\$ 9,844	\$ 34,679	\$ 29,525
Interest and income from securities	3,850	2,877	10,400	9,345
Loan fee income	478	396	1,581	1,237
	<u>16,418</u>	<u>13,117</u>	<u>46,660</u>	<u>40,107</u>
<b>Interest expense</b>				
Deposits and other	11,311	9,118	30,755	27,321
Notes payable	889	882	2,596	2,541
	<u>12,200</u>	<u>10,000</u>	<u>33,351</u>	<u>29,862</u>
Net interest income	4,218	3,117	13,309	10,245
Provision (recovery) for credit losses	321	91	448	(208)
Net interest income after provision (recovery) for credit losses	3,897	3,026	12,861	10,453
Other income (note 4)	12,963	4,275	15,046	6,277
	<u>16,860</u>	<u>7,301</u>	<u>27,907</u>	<u>16,730</u>
<b>Non-interest expenses</b>				
Salaries and benefits	1,801	1,722	5,425	4,089
General and administrative	1,092	1,422	3,318	3,436
Premises and equipment	322	508	860	994
	<u>3,215</u>	<u>3,652</u>	<u>9,603</u>	<u>8,519</u>
Earnings before income taxes and other	13,645	3,649	18,304	8,211
Income tax provision	1,842	1,084	3,154	2,247
Non-controlling interest	-	(826)	354	(704)
<b>Net earnings</b>	<b>\$ 11,803</b>	<b>\$ 1,739</b>	<b>\$ 15,504</b>	<b>\$ 5,260</b>
Basic earnings per share	\$ 0.88	\$ 0.12	\$ 1.15	\$ 0.38
Diluted earnings per share	\$ 0.85	\$ 0.12	\$ 1.11	\$ 0.37
Weighted average number of common shares	<u>13,347,000</u>	<u>13,235,000</u>	<u>13,335,000</u>	<u>13,235,000</u>

**PACIFIC & WESTERN CREDIT CORP.****Consolidated Statement of Changes in Shareholders' Equity**

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Common shares</b>				
Balance, beginning of period	\$ 33,353	\$ 32,904	\$ 33,191	\$ 32,877
Proceeds of shares issued	28	42	190	69
Balance, end of period	<u>\$ 33,381</u>	<u>\$ 32,946</u>	<u>\$ 33,381</u>	<u>\$ 32,946</u>
<b>Class A preferred shares</b>				
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>
<b>Stock-based compensation</b>				
Balance, beginning of period	\$ 208	\$ 55	\$ 58	\$ 43
Fair value of stock options granted (note 3)	-	-	150	12
Balance, end of period	<u>\$ 208</u>	<u>\$ 55</u>	<u>\$ 208</u>	<u>\$ 55</u>
<b>Retained earnings</b>				
Balance, beginning of period	\$ 19,590	\$ 12,634	\$ 16,129	\$ 9,353
Net earnings	11,803	1,739	15,504	5,260
Dividends paid	-	-	(240)	(240)
Balance, end of period	<u>\$ 31,393</u>	<u>\$ 14,373</u>	<u>\$ 31,393</u>	<u>\$ 14,373</u>
<b>Total shareholders' equity</b>	<u>\$ 68,527</u>	<u>\$ 50,919</u>	<u>\$ 68,527</u>	<u>\$ 50,919</u>

# PACIFIC & WESTERN CREDIT CORP.

## Consolidated Statement of Cash Flows

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net earnings	\$ 11,803	\$ 1,739	\$ 15,504	\$ 5,260
Items not involving cash:				
Provision (recovery) for credit losses	321	91	448	(208)
Other provisions	3,982	-	3,982	-
Future income tax provision	1,828	346	3,091	1,617
Stock-based compensation (note 3)	-	-	250	12
Non-controlling interest in subsidiary	-	826	(354)	704
Dilution gain on issue of subsidiary common shares	(15,647)	(59)	(16,936)	(525)
Equity earnings	(969)	-	(914)	-
Change in other assets and liabilities	1,857	(3,380)	5,470	(8,897)
	<u>3,175</u>	<u>(437)</u>	<u>10,541</u>	<u>(2,037)</u>
<b>Investing:</b>				
Securities	(11,420)	4,531	(17,485)	34,821
Mortgages and loans	(27,549)	(11,353)	(71,040)	(26,246)
Acquisition of subsidiary operations	-	-	-	(535)
	<u>(38,969)</u>	<u>(6,822)</u>	<u>(88,525)</u>	<u>8,040</u>
<b>Financing:</b>				
Deposits	180,330	(18,620)	198,484	16,430
Short term financings	(110,273)	8,718	(57,972)	8,406
Proceeds of common shares issued	28	42	190	69
Net proceeds of common shares issued by subsidiary	-	133	-	726
Notes payable	-	-	-	2,000
Dividends paid	-	-	(240)	(240)
	<u>70,085</u>	<u>(9,727)</u>	<u>140,462</u>	<u>27,391</u>
Increase (decrease) in cash resources	34,291	(16,986)	62,478	33,394
Cash resources, beginning of period	<u>100,719</u>	<u>94,108</u>	<u>72,532</u>	<u>43,728</u>
Cash resources, end of period	<u>\$ 135,010</u>	<u>\$ 77,122</u>	<u>\$ 135,010</u>	<u>\$ 77,122</u>
<b>Supplementary cash flow information:</b>				
Interest paid during the period	\$ 13,429	\$ 13,351	\$ 31,048	\$ 29,738
Income taxes paid during the period	\$ 17	\$ 5	\$ 66	\$ 192

**PACIFIC & WESTERN CREDIT CORP.**  
**Notes to the interim consolidated financial statements (unaudited)**  
**For the nine months ended July 31, 2006**

**1 Basis of presentation**

The interim consolidated financial statements of Pacific & Western Credit Corp. (the Corporation) should be read in conjunction with our consolidated financial statements for the year ended October 31, 2005 as set out in pages 34 to 55 of our 2005 Annual Report. These consolidated financial statements have been prepared in accordance with Canadian accepted accounting principles using the same accounting policies and methods as were used for the Corporation's financial statements for the year ended October 31, 2005.

Effective April 6, 2006, due to a reduction in the Corporation's ownership interest in Discovery Air Inc. (DA), its investment was accounted for on the equity basis rather than on a consolidated basis as in previous periods.

**2 Allowance for Credit Losses**

(thousands of dollars)	<i>for the three months ended</i>				<i>for the nine months ended</i>			
			July 31,	July 31,			July 31,	July 31,
	General	Specific	2006	2005	General	Specific	2006	2005
	allowance	allowance	Total allowance	Total allowance	allowance	allowance	Total allowance	Total allowance
Balance, beginning of the period	\$ 1,999	\$ 18	\$ 2,017	\$ 1,788	\$ 1,889	\$ -	\$ 1,889	\$ 1,723
Provision (recovery) for credit losses	57	264	321	91	167	281	448	(208)
Recoveries (write-offs)	-	(63)	(63)	(138)	-	(62)	(62)	226
Balance, end of period	\$ 2,056	\$ 219	\$ 2,275	\$ 1,741	\$ 2,056	\$ 219	\$ 2,275	\$ 1,741

Impaired loans at July 31, 2006 totalled \$1,501,000 (July 31, 2005 - \$361,000).

**3 Stock-based compensation**

	Common shares outstanding	Employee Stock Options	
		Number	Weighted-average exercise price
Outstanding, October 31, 2005	13,308,778	1,421,600	\$ 7.71
Granted	-	12,200	10.56
Exercised	39,917	(39,917)	4.75
Expired	-	(28,333)	11.46
Outstanding, July 31, 2006	13,348,695	1,365,550	\$ 7.74

During the nine months ended July 31, 2006, the Corporation recognized \$250,000 of salaries and benefits expense relating to the estimated fair value of stock options granted by the Corporation and its subsidiaries since November 1, 2004. The fair value of options granted during the quarter was estimated using the Black-Scholes option pricing model based on the following assumptions: (i) risk-free interest rate of 3.90% (2005-3.55%), (ii) expected option life of 5 years (2005-5 years), (iii) expected volatility of 45% (2005-86%), and (iv) expected forfeiture rate of 5% (2005-5%). The weighted average fair value of options granted was estimated at \$4.94 (2005-\$5.67) per share.

#### 4 Other income

(thousands of dollars)	<u>for the three months ended</u>		<u>for the nine months ended</u>	
	July 31, 2006	July 31, 2005	July 31, 2006	July 31, 2005
Dilution gain	\$ 15,647	\$ 59	\$ 16,936	\$ 525
Equity earnings	969	-	914	-
Aerial forest fire services	-	3,088	26	3,534
Provision for loss on securities	(3,366)	-	(3,366)	-
Provision for real estate investment company	(616)	-	(616)	-
Other	329	1,128	1,152	2,218
	<u>\$ 12,963</u>	<u>\$ 4,275</u>	<u>\$ 15,046</u>	<u>\$ 6,277</u>

#### 5 Derivative instruments

At July 31, 2006, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$47,231,000. The Corporation only enters into these interest rate contracts for its own account and does not act as an intermediary in this market. These contracts have a current replacement cost of \$nil, a credit equivalent amount of \$673,000 and a risk weighted balance of \$135,000. At July 31, 2006, these contracts were in an unfavorable position of \$604,000.

At July 31, 2006, the Corporation had outstanding credit derivative contracts for credit risk management purposes under which the Corporation would be compensated by the counterparty to the contract for losses on a security or loan in the event a default occurs. At July 31, 2006, the counterparties to these contracts which totalled \$40.3 million (2005-\$32 million) consisted of Canadian chartered banks. The contracts have a nominal fair value and mature within two years.

#### 6 Commitments and contingencies

The amounts of credit related commitments represents the maximum amount of additional credit that the Corporation could be obligated to extend. The amounts with respect to the letters of credit are not necessarily indicative of credit risk as many of these arrangements are contracted for a limited period of usually less than one year and will expire or terminate without being drawn upon.

Loan commitments	\$ 100,856,000
Letters of credit	20,701,000
	<u>\$ 121,557,000</u>

The Corporation has guaranteed the repayment of bank indebtedness of one of its equity investments to the extent of \$1,000,000. The guarantee expires when the related bank indebtedness has been repaid in full. Payments under the guarantee would be required if the investee fails to meet the scheduled repayments. While the Corporation does not expect to be required to make any payments related to the guarantee, any amounts paid may not be recoverable.

#### 7 Related Party Transactions

At July 31, 2006, the Corporation had loans due from DA, including accrued interest, of \$2,242,000 (2005-\$nil) and accounts receivable due from DA of \$732,000 (2005 - \$nil) which are included in other assets. For the period ending July 31, 2006 interest income on the loans totalled \$125,000 (2005-\$nil). In addition, the Corporation provides management services to DA and receives management fees which are calculated based on revenue. For the period ended July 31, 2006 these management fees totalled \$327,000 (2005 - \$nil).

## CORPORATE INFORMATION

### *PACIFIC & WESTERN CREDIT CORP. and PACIFIC & WESTERN BANK OF CANADA*

#### DIRECTORS

**Douglas W. Gough, B.B.A. (Hons.), M.B.A.**

Director, Chairman of the Board  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
President, Kaldo Investments Corporation

**David A. Bratton, B.A.(Hons.), M.B.A., CHRP, FCMC**

Director - Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
President, Bratton Consulting Inc.

**Arnold E. Hillier, B.Comm., C.A.**

Director - Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Retired, former Chief Executive Officer  
and Chief Financial Officer, Claude Resources Inc.

**Honourable Thomas A. Hockin, P.C., Hons.B.A.  
(Business), M.P.A., Ph.D., ICD.D.**

Director – Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Retired, former President & C.E.O., The Investment Funds  
Institute of Canada and Canadian Institute of Financial  
Planning

**William T. Mitchell, FCA**

Director – Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Retired, former Senior Partner, PricewaterhouseCoopers  
LLP

**Francis J.C. Newbould, B.A., LL.B., Q.C.**

Director - Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Partner, Borden Ladner Gervais LLP,  
Barristers and Solicitors

**Paul G. Oliver, FCA, ICD.D.**

Director – Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Retired, former Senior Partner, PricewaterhouseCoopers  
LLP

**C. Scott Ritchie, Hons.B.A. (Business), LL.B., Q.C.**

Director – Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
Partner, Siskind, Cromarty, Ivey, Dowler LLP,  
Barristers and Solicitors

**David R. Taylor, B.Sc. (Hons.), M.B.A., F.I.C.B.**

Director - Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.  
President and Chief Executive Officer, Pacific & Western  
Bank of Canada and Pacific & Western Credit Corp.

#### OFFICERS

**David R. Taylor, B.Sc. (Hons.), M.B.A., F.I.C.B.**

President and Chief Executive Officer  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**John W. Asma, B.A. (Hons.), M.B.A.**

Senior Vice-President, Credit Risk and Treasurer  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Richard H.L. Jankura, B.B.A.(Hons.), C.A.**

Senior Vice-President, Structured Finance  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Jonathan F.P. Taylor, B.B.A.**

Senior Vice-President, Operations  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Barry D. Walter, B.Comm., C.A.**

Senior Vice-President and Chief Financial Officer  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Brian Conley**

Vice President, Credit & Administration  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Ross P. Duggan**

Vice-President, Regional Lending  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Barbara E.M. Hale, LL.B.**

Vice-President, Compliance,  
General Counsel and Secretary  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Tel G. Matrundola, M.A., Ph.D.**

Vice-President, Public & Government Relations  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

**Bruce M. Schruder, B.B.A. (Hons.) F.I.C.B.**

Vice-President, Marketing & Promotion  
Pacific & Western Bank of Canada  
and Pacific & Western Credit Corp.

## **SOLICITORS**

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Saskatoon, Saskatchewan S7K 5T6

## **AUDITORS**

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Saskatoon, Saskatchewan S7K 1M8

## **BANK**

Royal Bank of Canada  
Main Branch, 154 1<sup>st</sup> Avenue South  
Saskatoon, Saskatchewan S7K 1K2

## **TRANSFER AGENT**

Computershare Trust Company of Canada  
100 University Avenue  
Toronto, Ontario M5J 2Y1

## **STOCK EXCHANGE LISTING**

Toronto Stock Exchange  
Trading Symbol: PWC

## **CORPORATE OFFICES**

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## **INVESTOR RELATIONS**

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