



Pacific & Western

Credit Corp.

Fourth Quarter Report October 31, 2006

PACIFIC & WESTERN CREDIT CORP. ANNOUNCES RECORD NET EARNINGS OF \$17 MILLION FOR THE YEAR ENDED OCTOBER 31, 2006 AND NET EARNINGS OF \$1.5 MILLION FOR THE FOURTH QUARTER.

FOURTH QUARTER FINANCIAL HIGHLIGHTS

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

- Net earnings of \$1.5 million or \$0.11 per share (\$0.10 diluted) compared to \$1.8 million or \$0.13 per share (\$0.13 diluted).
- Net earnings for fiscal 2006 of \$17.0 million or \$1.25 per share (\$1.22 diluted) compared to \$7.0 million or \$0.51 per share (\$0.50 diluted) last year.
- Net interest income (teb) for the year was \$19.2 million compared to \$16.0 million a year ago.
- Other income of \$16.2 million for the year compared to \$8.9 million in the prior year.
- Total revenue (teb) for the year of \$34.6 million compared to \$24.9 million last year.
- Lending assets increased by 15% to \$864 million from \$749 million a year ago and from \$820 million the previous quarter.
- Return on average assets for the year of 1.38% compared to 0.65% last year.
- Return on average common shareholders' equity of 28.75% for the year compared to 14.79% last year.

PRESIDENT'S COMMENTS

2006 was a very successful year. Assets grew by 17% and loans grew by 15% with spread (teb) improving from 1.49% to 1.56%. This gave rise to an increase in net interest income (teb) of 20% from \$16.0 million to \$19.2 million. We also were able to launch Discovery Air Inc. (DA), as a TSX listed public company, direct the acquisition of Great Slave Helicopters Ltd., and reduce the Bank's ownership of DA to 10%. This yielded a substantial profit (after income taxes) for the Bank of \$13.8 million. Throughout the course of 2006, members of our Bank staff worked tirelessly to maximize the value of our DA investment and complete its divesture. DA is now a stand-alone public company with all key positions filled by capable executives. Going forward, the Bank will be earning financial advisory fees from DA.

I am very excited about the prospects for our continued growth both in assets and profitability. Gains taken on our DA investment have afforded us significant room for further loan growth. We are actively in discussions with several very large prospects for our Receivable Purchase Program and I am confident that we will be successful in signing at least one of these prospects as a new lending client for the Bank.

FINANCIAL HIGHLIGHTS

(unaudited)	for the three months ended		for the year ended	
	October 31 2006	October 31 2005	October 31 2006	October 31 2005
(\$ thousands, except per share amounts)				
Results of operations (teb)				
Net interest income before provisions per financial statements	\$ 4,262	\$ 3,999	\$ 17,571	\$ 14,244
Teb adjustment	432	484	1,650	1,775
Net interest income	4,694	4,483	19,221	16,019
Spread	1.42%	1.63%	1.56%	1.49%
Provisions (recovery) for credit losses	339	147	787	(61)
Net interest income after provision for credit losses	4,355	4,336	18,434	16,080
Other income	1,116	2,592	16,162	8,869
Total revenue	5,471	6,928	34,596	24,949
Non-interest expenses	3,252	3,904	12,855	12,423
Net income before income taxes	2,219	3,024	21,741	12,526
Provision for income taxes	737	1,196	5,109	4,734
Net earnings	1,482	1,756	16,986	7,016
Earnings per common share:				
Basic	\$ 0.11	\$ 0.13	\$ 1.25	\$ 0.51
Diluted	\$ 0.10	\$ 0.13	\$ 1.22	\$ 0.50
Efficiency ratio	\$ 0.56	\$ 0.55	\$ 0.36	\$ 0.50
Return on average common shareholders' equity	8.54%	13.91%	28.75%	14.79%
Return on average total assets	0.45%	0.64%	1.38%	0.65%
Gross impaired loans to total assets	0.23%	0.03%	0.23%	0.03%
Number of full time equivalent staff	61	48	61	48
Balance Sheet Summary				
Cash and securities	\$ 425,418	\$ 352,383	\$ 425,418	\$ 352,383
Total loans	863,830	749,307	863,830	749,307
Total assets	1,329,729	1,131,227	1,329,729	1,131,227
Average assets	1,308,594	1,089,231	1,230,478	1,073,408
Deposits	1,210,555	935,758	1,210,555	935,758
Notes payable	36,184	36,186	36,184	36,186
Shareholders' equity	70,650	52,923	70,650	52,923

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 fourth quarter of fiscal 2006 should be read in conjunction with the unaudited interim consolidated financial statements for the period ended October 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 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 \$1.5 million or \$0.11 per share (\$0.10 diluted) compared to \$1.8 million or \$0.13 per share (\$0.13 diluted) for the same period last year. For the fiscal year, net earnings were \$17.0 million or \$1.25 per share (\$1.22 diluted) compared to \$7.0 million or \$0.51 per share (\$0.50 diluted) last year. Net earnings for the year increased over last year as a result of an increase in net interest income and other income. Net interest income (teb) for the quarter was \$4.7 million compared to \$4.5 million for the same quarter last year and for the year increased to \$19.2 million from \$16.0 million last year. Other income for the fourth quarter was \$1.1 million compared to \$2.6 million for the same period last year and for the year was \$16.2 million compared to \$8.9 million last year. Spread (teb) for the fourth quarter was 1.42% compared to 1.63% a year ago and for the year increased to 1.56% from 1.49% last year.

At October 31, 2006, total assets were \$1.33 billion compared to \$1.13 billion a year ago and increased from \$1.29 billion at the end of the previous quarter. Lending assets continued to show steady growth, increasing to \$864 million at the end of the quarter from \$749 million a year ago and from \$820 million at the end of the previous quarter. Credit quality remains strong with gross impaired loans at the end of the quarter totalling \$3.1 million or 0.23% of total assets.

Return on average assets for the for the fourth quarter was 0.45% compared to 0.64% for the same period last year and was 1.38% for the year compared to 0.65% for the previous year. Return on average common shareholders' equity for the fourth quarter was 8.54% compared to 13.91% for the same period last year and 28.75% for 2006 compared to 14.79% for the previous year. The improvement in both ratios was a result of increased net interest income and other income.

Total Revenue (teb)

Total revenue (teb), which is comprised of net interest income and other income, was \$5.5 million for the fourth quarter compared to \$6.9 million for same period last year and \$34.6 million for the year compared to \$25.0 million last year. The primary reason for the increase in 2006 compared to 2005 was an increase in other income which grew by \$7.3 million.

Net Interest Income

Net interest income (teb) for the fourth quarter was \$4.7 million compared to \$4.5 million for the same quarter last year and for the year was \$19.2 million compared to \$16.0 million last year. The increase in net interest income was primarily due to an increase in lending assets which grew to \$864 million from \$749 million last year and an increase in securities which grew to \$425 million from \$352 million last year. Spread (teb) for the fourth quarter was 1.42% compared to 1.63% for the same period last year. For the year, spread (teb) improved to 1.56% from 1.49% last year with the improvement due to the increases in lending assets and securities.

Other Income

Other income for the fourth quarter was \$1.1 million compared to \$2.6 million for the same period last year and for the year was \$16.2 million compared to \$8.9 million. Other income for the fourth quarter consisted primarily of equity earnings of \$807,000 earned from Discovery Air Inc. (DA). For the year, other income consisted primarily of equity earnings of \$1.7 million and a pre-tax dilution gain of \$16.9 million which resulted from the issue of shares by DA. Also included in other income for the year was an impairment writedown of \$3.2 million relating to an investment included in our securities portfolio which had been trading below our book value, a decline in value which management determined to be other than temporary, and an impairment writedown of \$616,000 relating to a real estate investment property remaining from Pacwest Ventures Ltd., a venture capital company which was amalgamated with the Corporation in 2002.

Non-Interest Expenses

Non-interest expenses for the fourth quarter were \$3.3 million compared to \$3.9 million for the same quarter last year and for the year were \$12.9 million compared to \$12.4 million in 2005. Non-interest expenses for the quarter were lower than last year due primarily to the inclusion of the non-interest expenses of DA in 2005 when DA was accounted for on the consolidation basis. During the second quarter of 2006, the Corporation ceased consolidating the results of DA in its financial statements when its voting interest reduced to below 50%. Non-interest expenses for the year increased in 2006 compared to 2005 due to an increase in salaries and benefits resulting from the hiring of additional staff primarily in the lending area, the effect of annual salary adjustments and salaries and benefits and premises costs relating to the opening of an office in Calgary during the summer of 2006.

Our efficiency ratio (teb) for the fourth quarter was \$0.56, compared to \$0.55 for the same quarter last year and for the year was \$0.36 compared to \$0.50. The improvement in the efficiency ratio for the year resulted from the increase in other income and the Corporation no longer consolidating the non-interest expenses of DA. At the end of the year, our ratio of assets per full time employee was \$21.8 million compared to \$23.6 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 fourth quarter was \$305,000. For the year, the income tax provision was \$3.5 million of which \$322,000 represented a current provision. The remainder represents a reduction in the Corporation's future income tax asset which had been recorded in prior years primarily as a result of income tax losses incurred in those years. In 2006, the Corporation's statutory federal and provincial income tax rate was approximately 37%, the same rate that was in effect for 2005. However, the effective income tax rate for the fourth quarter and for the year was 17% compared to 28% for the same periods last year with the difference due to a lower level of tax on dilution gains and the impact of non-taxable income from securities earned in the period.

Balance Sheet

Total assets at the end of the year were \$1.33 billion compared to \$1.13 billion at the end of 2005, an increase of 17% with the largest increase being in lending assets.

Cash and Securities

Cash and securities, which are held for liquidity management purposes and to earn investment income, increased to \$425 million from \$352 million at the end of 2005. This increase was a result of earlier than scheduled loan repayments as noted below and the raising of deposits in the fourth quarter in anticipation of loan fundings in the coming months.

At October 31, 2006, net unrealized losses in our securities portfolio totalled \$1.1 million compared to \$623,000 at the end of the previous quarter and \$8.1 million a year ago. The change in unrealized losses from 2005 to the end of 2006 is a result of the change in general market conditions and the impact of an impairment writedown of \$3.2 million relating to an investment included in our securities portfolio which had been trading below our book value for an extended period of time.

Loans

Lending assets grew to \$864 million at the end of the year from \$749 million at the end of 2005, an increase of 15%. New lending in the fourth quarter totalled \$192 million but was offset by loan repayments of \$148 million. For the year, loan fundings totalled \$444 and were offset by loan repayments of \$329 million. Loan repayments in 2006 were higher than anticipated due to earlier than scheduled repayments in our residential development portfolio which were a result of a strong housing market. The loan categories which showed the largest growth in 2006 were lending to public sector entities and investment grade corporations.

Deposits and Financing

Deposits at the end of the year increased to \$1.2 billion from \$936 million at the end of 2005 with the increase due to the raising of new deposits in the fourth quarter in anticipation of loan fundings. Deposits are used as a primary source of financing the growth in assets and are raised entirely through an agent network across Canada. A second source of financing for asset growth is the use of securities sold under repurchase agreements which were \$nil at the end of the year compared to \$98 million at the end of 2005. The decrease in securities sold under repurchase agreements at the end of the year was due to the amount of cash and securities being held.

Credit Quality

Credit quality remains strong with gross impaired loans at October 31, 2006, totalling \$3.1 million or 0.23% of total assets. The provision for credit losses for the fourth quarter was \$339,000 compared to \$147,000 for the same period a year ago with the increase due to additions to our general allowance for credit losses and specific provisions. For the year, our provision for credit losses totalled \$787,000 compared to a net recovery of \$61,000 for 2005. Total allowances for credit losses, including specific and general allowances, were \$2.6 million at the end of the year compared to \$1.9 million at the end of 2005.

Shareholders' Equity

Shareholders' equity at October 31, 2006, was \$70.7 million compared to \$52.9 million a year ago with the increase due primarily to the retention of earnings. Total common shares outstanding at the end of the year were 13,421,585 compared to 13,308,778 at the end of 2005 with the increase due to the exercise of common share options. Outstanding common share options totalled 1,291,160 at the end of the year compared to 1,421,600 at the end of 2005. Our book value per common share at October 31, 2006, increased to \$5.00 per share from \$3.71 a year ago.

Updated Share Information

At November 29, 2006, there were 13,461,585 common shares outstanding and 1,255,960 common share options outstanding with the changes due to the exercise of common share options.

Performance Targets

Revised performance targets established for the 2006 fiscal year are noted below with actual results for the year ended October 31, 2006.

	Actual 2005 Results	2006 Target	Actual 2006 Results
Earnings per common share	\$0.51	\$1.30	\$1.25
Spread (teb)	1.49%	1.75%	1.56%
Loan growth	32.00%	35.00%	15.00%
Total asset growth	17.00%	15.00%	17.00%
Return on average common shareholders' equity	14.79%	29.97%	28.75%
Return on average total assets	0.65%	1.45%	1.38%

Actual results for 2006 for earnings per share and return on average common shareholders' equity were close to the revised targets while total asset growth for 2006 exceeded the revised target by 2%. Actual spread (teb), loan growth and return on average total assets for 2006 did not meet the revised year end targets as a result of a shortfall in loan growth.

Total loans of \$864 million at the end of 2006 fell short of our target of \$1.0 billion which also resulted in a lower spread and a lower return on average total assets than targeted. Total loans fell short of the target due to higher than anticipated loan repayments in the year and a shortfall in new loan fundings.

Summary of Quarterly Results

(thousands of dollars except per share amounts)	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Total interest income								
per financial statements	\$ 18,677	\$ 16,418	\$ 15,104	\$ 15,138	\$ 13,845	\$ 13,117	\$ 13,298	\$ 13,692
Teb adjustment	432	440	352	427	484	423	446	422
Total interest income	19,109	16,858	15,456	15,565	14,329	13,540	13,744	14,114
Yield on assets (%)	5.79%	5.37%	5.37%	5.40%	5.21%	5.11%	5.41%	5.48%
Interest expense	14,415	12,200	10,560	10,591	9,846	10,000	9,666	10,196
Cost of funds (%)	4.37%	3.89%	3.67%	3.68%	3.58%	3.77%	3.80%	3.96%
Net interest income	4,694	4,658	4,896	4,974	4,483	3,540	4,078	3,918
Spread (%)	1.42%	1.48%	1.70%	1.72%	1.63%	1.34%	1.61%	1.52%
Provisions (recoveries) for credit losses	339	321	78	49	147	91	38	(337)
Other income	1,116	12,963	1,251	832	2,592	4,275	1,078	924
Total revenue	5,471	17,300	6,069	5,757	6,928	7,724	5,118	5,179
Non-interest expenses	3,252	3,215	3,104	3,284	3,904	3,652	2,746	2,121
Income before income taxes	2,219	14,085	2,965	2,473	3,024	4,072	2,372	3,058
Income tax provision	737	2,282	1,040	1,051	1,196	1,507	840	1,191
Non-controlling interest	-	-	117	237	(72)	(826)	107	15
Net earnings	1,482	11,803	2,042	1,659	1,756	1,739	1,639	1,882
Earnings per share								
-basic	\$ 0.11	\$ 0.88	\$ 0.15	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.14
-diluted	\$ 0.10	\$ 0.85	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.12	\$ 0.12	\$ 0.13

Dated: November 29, 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)

	October 31 2006 (unaudited)	October 31 2005
Assets		
Cash resources	\$ 207,720	\$ 72,532
Securities	217,698	279,851
Mortgages and loans	863,830	749,307
Other assets	40,481	29,537
	<u>\$ 1,329,729</u>	<u>\$ 1,131,227</u>
 Liabilities and Shareholders' Equity		
Deposits	\$ 1,210,555	\$ 935,758
Notes payable	36,184	36,186
Other liabilities	12,340	105,606
	<u>1,259,079</u>	<u>1,077,550</u>
Non-controlling interest	-	754
 Shareholders' equity		
Share capital	37,775	36,794
Retained earnings	32,875	16,129
	<u>70,650</u>	<u>52,923</u>
	<u>\$ 1,329,729</u>	<u>\$ 1,131,227</u>
 <i>Number of common shares outstanding</i>		
	<i>13,421,585</i>	<i>13,308,778</i>
<i>Number of Class A preferred shares outstanding</i>		
	<i>1,142,556</i>	<i>1,142,556</i>
<i>Number of common share options outstanding</i>		
	<i>1,291,160</i>	<i>1,421,600</i>
<i>Number of warrants outstanding</i>		
	<i>-</i>	<i>12,000</i>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Earnings

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31	October 31	October 31	October 31
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	
Interest income				
Interest income on loans	\$ 12,492	\$ 10,761	\$ 47,171	\$ 40,286
Interest and income from securities	5,508	2,642	15,908	11,987
Loan fee income	677	442	2,258	1,679
	<u>18,677</u>	<u>13,845</u>	<u>65,337</u>	<u>53,952</u>
Interest expense				
Deposits and other	13,539	8,968	44,294	36,289
Notes payable	876	878	3,472	3,419
	<u>14,415</u>	<u>9,846</u>	<u>47,766</u>	<u>39,708</u>
Net interest income	4,262	3,999	17,571	14,244
Provision for (recovery of) credit losses	339	147	787	(61)
Net interest income after provision for (recovery of) credit losses	3,923	3,852	16,784	14,305
Other income (note 4)	1,116	2,592	16,162	8,869
	<u>5,039</u>	<u>6,444</u>	<u>32,946</u>	<u>23,174</u>
Non-interest expenses				
Salaries and benefits	1,783	1,945	7,208	6,034
General and administrative	1,073	1,453	4,391	4,889
Premises and equipment	396	506	1,256	1,500
	<u>3,252</u>	<u>3,904</u>	<u>12,855</u>	<u>12,423</u>
Earnings before income taxes and other	1,787	2,540	20,091	10,751
Income tax provision	305	712	3,459	2,959
Non-controlling interest	-	72	(354)	776
Net earnings	\$ 1,482	\$ 1,756	\$ 16,986	\$ 7,016
Basic earnings per share	\$ 0.11	\$ 0.13	\$ 1.25	\$ 0.51
Diluted earnings per share	\$ 0.10	\$ 0.13	\$ 1.22	\$ 0.50
Weighted average number of common shares	<u>13,366,000</u>	<u>13,275,000</u>	<u>13,343,000</u>	<u>13,249,000</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 year ended</i>	
	October 31	October 31	October 31	October 31
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	
Common shares				
Balance, beginning of period	\$ 33,381	\$ 32,946	\$ 33,191	\$ 32,877
Proceeds of shares issued	605	245	795	314
Balance, end of period	<u>\$ 33,986</u>	<u>\$ 33,191</u>	<u>\$ 33,986</u>	<u>\$ 33,191</u>
Class A preferred shares				
Balance, beginning and end of period	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>	<u>\$ 3,545</u>
Stock-based compensation				
Balance, beginning of period	\$ 208	\$ 55	\$ 58	\$ 43
Fair value of stock options granted (note 3)	36	3	186	15
Balance, end of period	<u>\$ 244</u>	<u>\$ 58</u>	<u>\$ 244</u>	<u>\$ 58</u>
Retained earnings				
Balance, beginning of period	\$ 31,393	\$ 14,373	\$ 16,129	\$ 9,353
Net earnings	1,482	1,756	16,986	7,016
Dividends paid	-	-	(240)	(240)
Balance, end of period	<u>\$ 32,875</u>	<u>\$ 16,129</u>	<u>\$ 32,875</u>	<u>\$ 16,129</u>
Total shareholders' equity	<u><u>\$ 70,650</u></u>	<u><u>\$ 52,923</u></u>	<u><u>\$ 70,650</u></u>	<u><u>\$ 52,923</u></u>

PACIFIC & WESTERN CREDIT CORP.

Consolidated Statement of Cash Flows

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31	October 31	October 31	October 31
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	
Cash provided by (used in):				
Operations:				
Net earnings	\$ 1,482	\$ 1,756	\$ 16,986	\$ 7,016
Items not involving cash:				
Provision for (recovery of) credit losses	339	147	787	(61)
Impairment writedowns	(136)	-	3,846	-
Future income tax provision (recovery)	(17)	646	3,137	2,263
Stock-based compensation (note 3)	36	3	186	15
Non-controlling interest	-	72	(354)	776
Dilution gains	3	(130)	(16,933)	(655)
Equity earnings	(807)	-	(1,721)	-
Change in other assets and liabilities	2,436	3,266	7,943	(5,631)
	<u>3,336</u>	<u>5,760</u>	<u>13,877</u>	<u>3,723</u>
Investing:				
Securities	76,408	(30,954)	58,923	3,867
Mortgages and loans	(44,270)	(59,363)	(115,310)	(85,609)
Acquisition of subsidiary operations	-	(1,811)	-	(2,346)
	<u>32,138</u>	<u>(92,128)</u>	<u>(56,387)</u>	<u>(84,088)</u>
Financing:				
Deposits	76,313	32,083	274,797	48,513
Short term financings	(39,680)	48,950	(97,652)	57,356
Proceeds of common shares issued	605	245	795	314
Net proceeds of common shares issued by subsidiary	-	500	-	1,226
Notes payable	(2)	-	(2)	2,000
Dividends paid	-	-	(240)	(240)
	<u>37,236</u>	<u>81,778</u>	<u>177,698</u>	<u>109,169</u>
Increase (decrease) in cash resources	72,710	(4,590)	135,188	28,804
Cash resources, beginning of period	<u>135,010</u>	<u>77,122</u>	<u>72,532</u>	<u>43,728</u>
Cash resources, end of period	<u>\$ 207,720</u>	<u>\$ 72,532</u>	<u>\$ 207,720</u>	<u>\$ 72,532</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 8,985	\$ 7,049	\$ 40,033	\$ 36,787
Income taxes paid during the period	\$ -	\$ 12	\$ 853	\$ 204

PACIFIC & WESTERN CREDIT CORP.
Notes to the interim consolidated financial statements (unaudited)
For the year ended October 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 voting interest in Discovery Air Inc. (DA), its investment was accounted for on the equity basis rather than on the consolidation basis as in previous periods.

2 Allowance for Credit Losses

(thousands of dollars)	<i>for the three months ended</i>				<i>for the year ended</i>			
			October 31,	October 31,			October 31,	October 31,
	General	Specific	2006	2005	General	Specific	2006	2005
	allowance	allowance	Total	Total	allowance	allowance	allowance	Total
			allowance	allowance				allowance
Balance, beginning of the period	\$ 2,056	\$ 219	\$ 2,275	\$ 1,742	\$ 1,889	\$ -	\$ 1,889	\$ 1,723
Provision for (recovery of) credit losses	152	187	339	147	319	468	787	(61)
Recoveries (write-offs)	-	(48)	(48)	-	-	(110)	(110)	227
Balance, end of period	\$ 2,208	\$ 358	\$ 2,566	\$ 1,889	\$ 2,208	\$ 358	\$ 2,566	\$ 1,889

Impaired loans at October 31, 2006 totalled \$3,096,000 (October 31, 2005 - \$362,000).

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	100,807	(100,807)	4.00
Expired	-	(41,833)	11.34
Issued on exercise of warrants	12,000	-	-
Outstanding, October 31, 2006	13,421,585	1,291,160	\$ 7.65

During the year ended October 31, 2006, the Corporation recognized \$186,000 of salaries and benefits expense relating to the estimated fair value of stock options granted by the Corporation and its subsidiaries. The fair value of options granted during the year was estimated using the Black-Scholes option pricing model based on the following weighted-average assumptions: (i) risk-free interest rate of 4.02% (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 \$4.72 (2005-\$5.67) per share.

4 Other income

(thousands of dollars)	<i>for the three months ended</i>		<i>for the year ended</i>	
	October 31, 2006	October 31, 2005	October 31, 2006	October 31, 2005
Dilution gains	\$ (3)	\$ 130	\$ 16,933	\$ 655
Equity earnings	807	-	1,721	-
Aerial forest fire services	-	1,525	26	5,059
Impairment writedown on securities	136	-	(3,230)	-
Impairment writedown on other assets	-	-	(616)	-
Other	176	937	1,328	3,155
	<u>\$ 1,116</u>	<u>\$ 2,592</u>	<u>\$ 16,162</u>	<u>\$ 8,869</u>

5 Derivative instruments

At October 31, 2006, the Corporation had outstanding contracts for asset liability management purposes to swap between floating and fixed interest rates with notional amounts totalling \$49,308,000. 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 \$880,000 and a risk weighted balance of \$176,000. At October 31, 2006, these contracts were in an unfavorable position of \$1,767,000.

At October 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 October 31, 2006, the counterparties to these contracts which totalled \$43.7 million (2005-\$22 million) consisted of Canadian chartered banks. The contracts have a nominal fair value and mature within three 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	\$ 118,337,000
Letters of credit	<u>23,327,000</u>
	<u>\$ 141,664,000</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 October 31, 2006, the Corporation had loans due from DA, including accrued interest, of \$1,192,000 (2005-\$nil) and accounts receivable due from DA of \$75,000 (2005 - \$nil) which are included in other assets. For the year ending October 31, 2006 interest income on the loans totalled \$139,000 (2005-\$nil). In addition, the Corporation provides financial services to DA and receives fees which are calculated based on revenue. For the year ended October 31, 2006 these fees totalled \$758,000 (2005 - \$nil).

CORPORATE INFORMATION

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