



**CONSOLIDATED FINANCIAL STATEMENTS 2009  
MCAN MORTGAGE CORPORATION**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

The accompanying consolidated financial statements of MCAN Mortgage Corporation ("MCAN" or the "Company") are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements, the Management's Discussion and Analysis of Operations and all other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada.

The Company's accounting system and related internal controls are designed, and supporting procedures maintained to provide reasonable assurance that the Company's financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition.

The Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of MCAN as deemed necessary to be satisfied that the provisions of the Trust and Loan Companies Act are being duly observed for the benefit of depositors and that the Company is in sound financial condition.

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors. The Chief Financial Officer reviews internal controls, control systems and compliance matters and reports thereon to the Audit Committee.

The Audit Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.



Blaine Welch  
President and Chief Executive Officer



Tammy Oldenburg  
Vice President and Chief Financial Officer

*Toronto, Canada,  
February 5, 2010*

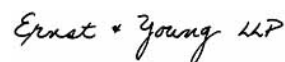
**AUDITORS' REPORT**

To the Shareholders of MCAN Mortgage Corporation

We have audited the consolidated balance sheets of MCAN Mortgage Corporation as at December 31, 2009 and 2008 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants  
Licensed Public Accountants**  
*Toronto, Canada,  
February 5, 2010*

**CONSOLIDATED BALANCE SHEETS**  
(dollars in thousands)

| As at December 31                           | Note | 2009              | 2008              |
|---|------|-------------------|-------------------|
| <b>Assets</b>                               |      |                   |                   |
| <b>Investments</b>                          |      |                   |                   |
| Cash and cash equivalents                   | 3    | \$ 89,843         | \$ 58,071         |
| Mortgages                                   | 4    | 295,415           | 393,010           |
| Securitization investments                  | 5    | 73,590            | 39,743            |
| Loans receivable and other investments      | 6    | 16,885            | 35,624            |
| Equity investment in MCAP Commercial LP     | 8    | 17,905            | 18,300            |
|   |      | <b>493,638</b>    | <b>544,748</b>    |
| <b>Other</b>                                |      |                   |                   |
| Derivative financial instruments            | 9    | 11,490            | 23,541            |
| Other assets                                | 10   | 1,555             | 1,865             |
|   |      | <b>\$ 506,683</b> | <b>\$ 570,154</b> |
| <b>Liabilities and Shareholders' Equity</b> |      |                   |                   |
| <b>Liabilities</b>                          |      |                   |                   |
| Term deposits                               | 11   | \$ 360,744        | \$ 426,663        |
| Securitization liabilities                  | 12   | 5,048             | 7,095             |
| Accounts payable and accrued charges        | 13   | 11,001            | 12,186            |
| Future taxes payable                        | 15   | 7,011             | 7,601             |
|   |      | <b>383,804</b>    | <b>453,545</b>    |
| <b>Shareholders' Equity</b>                 |      |                   |                   |
| Share capital                               | 16   | 98,490            | 97,493            |
| Contributed surplus                         | 16   | 510               | 510               |
| Retained earnings                           |      | 22,165            | 17,313            |
| Accumulated other comprehensive income      | 17   | 1,714             | 1,293             |
|   |      | <b>122,879</b>    | <b>116,609</b>    |
|   |      | <b>\$ 506,683</b> | <b>\$ 570,154</b> |

See accompanying notes

On behalf of the Board:



Blaine Welch  
President and Chief Executive Officer



David G. Broadhurst  
Director, Chairman of the Audit Committee

**CONSOLIDATED STATEMENTS OF INCOME**  
(dollars in thousands except for per share amounts)

| Years Ended December 31                                     | Note | 2009             | 2008             |
|---|------|------------------|------------------|
| <b>Investment Income</b>                                    |      |                  |                  |
| Mortgage interest   |      | \$ 27,420        | \$ 33,429        |
| Interest on loans and investments                           |      | 3,878            | 5,617            |
| Securitization income                                       | 7    | 7,558            | 7,761            |
| Fees  |      | 8,024            | 5,051            |
| Equity income from MCAP Commercial LP                       | 8    | 1,456            | 3,025            |
| Interest on cash and cash equivalents                       |      | 234              | 1,109            |
| Gain on sale of mortgages                                   | 7    | -                | 5,326            |
| Marketable securities                                       |      | -                | (97)             |
|   |      | <b>48,570</b>    | <b>61,221</b>    |
| <b>Financial Expenses</b>                                   |      |                  |                  |
| Term deposit interest and expenses                          |      | 13,133           | 20,684           |
| Mortgage expenses   |      | 2,761            | 3,524            |
| Provision for losses  | 4, 6 | 2,035            | 931              |
|   |      | <b>17,929</b>    | <b>25,139</b>    |
| <b>Net Investment Income</b>                                |      | <b>30,641</b>    | <b>36,082</b>    |
| <b>Operating Expenses</b>                                   |      |                  |                  |
| Salaries and benefits                                       |      | 2,587            | 2,226            |
| General and administrative                                  |      | 3,312            | 3,508            |
|   |      | <b>5,899</b>     | <b>5,734</b>     |
| <b>Income Before Income Taxes</b>                           |      | <b>24,742</b>    | <b>30,348</b>    |
| Provision for income taxes                                  | 15   | -                | -                |
| <b>Net Income</b>   |      | <b>\$ 24,742</b> | <b>\$ 30,348</b> |
| Basic and diluted earnings per share                        |      | \$ 1.73          | \$ 2.14          |
| Dividends per share   |      | \$ 1.44          | \$ 0.96          |
| Weighted average number of basic and diluted shares (000's) |      | 14,294           | 14,192           |

See accompanying notes

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(dollars in thousands)

| Years Ended December 31                               | Note | 2009              | 2008              |
|---|------|-------------------|-------------------|
| <b>Share capital</b>                                  |      |                   |                   |
| Balance, beginning of year                            |      | \$ 97,493         | \$ 96,370         |
| Common shares issued                                  |      | 997               | 1,123             |
| Balance, end of year                                  |      | <b>98,490</b>     | <b>97,493</b>     |
| <b>Contributed surplus</b>                            |      |                   |                   |
| Balance, beginning of year                            |      | 510               | 510               |
| Changes to contributed surplus                        |      | -                 | -                 |
| Balance, end of year                                  |      | <b>510</b>        | <b>510</b>        |
| <b>Retained earnings</b>                              |      |                   |                   |
| Balance, beginning of year                            |      | 17,313            | 6,654             |
| Net income  |      | 24,742            | 30,348            |
| Income taxes recovered (charged) to retained earnings | 15   | 679               | (6,059)           |
| Dividends declared                                    |      | (20,569)          | (13,630)          |
| Balance, end of year                                  |      | <b>22,165</b>     | <b>17,313</b>     |
| <b>Accumulated other comprehensive income (loss)</b>  |      |                   |                   |
| Balance, beginning of year                            |      | 1,293             | (527)             |
| Other comprehensive income                            |      | 421               | 1,820             |
| Balance, end of year                                  |      | <b>1,714</b>      | <b>1,293</b>      |
| <b>Total shareholders' equity</b>                     |      | <b>\$ 122,879</b> | <b>\$ 116,609</b> |

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(dollars in thousands)

| Years Ended December 31  | 2009             | 2008             |
|--|------------------|------------------|
| <b>Net income</b>  | \$ 24,742        | \$ 30,348        |
| <b>Other comprehensive income, net of taxes</b>                            |                  |                  |
| Change in unrealized gain on available for sale mortgages                  | (410)            | 2,429            |
| Change in unrealized gain on available for sale securitization investments | 823              | (278)            |
| Other changes  | 8                | 8                |
| Change in unrealized gain on available for sale marketable securities      | -                | (74)             |
| Transfer of losses on sale of marketable securities to net income          | -                | 108              |
| Transfer of gains on sale of mortgages to net income                       | -                | (373)            |
| Other comprehensive income   | 421              | 1,820            |
| <b>Comprehensive income</b>  | <b>\$ 25,163</b> | <b>\$ 32,168</b> |

See accompanying notes

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(dollars in thousands)

| Years Ended December 31                                     | Note | 2009             | 2008             |
|---|------|------------------|------------------|
| <b>Cash provided by (used for):</b>                         |      |                  |                  |
| <b>Operating Activities</b>                                 |      |                  |                  |
| Net income  |      | \$ 24,742        | \$ 30,348        |
| Adjusted for non-cash items:                                |      |                  |                  |
| Equity income   |      | (1,497)          | (3,028)          |
| Provision for losses  |      | 2,035            | 901              |
| Securitization income                                       |      | (1,615)          | (12,162)         |
| Amortization of other assets                                |      | 650              | 823              |
| Amortization of mortgage discounts                          |      | 145              | (160)            |
| Gain on sale of mortgages                                   | 7    | -                | (5,326)          |
| Distributions from MCAP Commercial LP                       | 8    | 1,851            | 1,820            |
| Decrease in other receivables                               |      | 308              | 281              |
| Increase (decrease) in accounts payable and accrued charges |      | (3,176)          | 2,626            |
| <b>Cash flows from operating activities</b>                 |      | <b>23,443</b>    | <b>16,123</b>    |
| <b>Investing Activities</b>                                 |      |                  |                  |
| Mortgage advances   |      | (1,971,788)      | (2,837,013)      |
| Mortgage reductions   |      | 341,923          | 361,473          |
| Proceeds on sale of mortgages                               |      | 1,724,664        | 2,503,677        |
| Increase in loans and investments                           |      | (665)            | (8,202)          |
| Additions to other assets                                   |      | (481)            | (1,122)          |
| Marketable securities                                       |      | -                | 229              |
| <b>Cash flows from investing activities</b>                 |      | <b>93,653</b>    | <b>19,042</b>    |
| <b>Financing Activities</b>                                 |      |                  |                  |
| Issue of term deposits                                      |      | 511,082          | 606,298          |
| Repayment of term deposits                                  |      | (577,001)        | (625,003)        |
| Issue of common shares                                      |      | 997              | 1,123            |
| Dividends paid  |      | (20,402)         | (13,316)         |
| <b>Cash flows for financing activities</b>                  |      | <b>(85,324)</b>  | <b>(30,898)</b>  |
| Increase in cash and cash equivalents                       |      | 31,772           | 4,267            |
| Cash and cash equivalents, beginning of year                |      | 58,071           | 53,804           |
| <b>Cash and cash equivalents, end of year</b>               |      | <b>\$ 89,843</b> | <b>\$ 58,071</b> |
| <b>Supplementary Information</b>                            |      |                  |                  |
| <b>Interest paid during the year</b>                        |      | <b>\$ 15,060</b> | <b>\$ 20,196</b> |
| <b>Taxes paid during the year</b>                           |      | <b>\$ 345</b>    | <b>\$ 505</b>    |

*See accompanying notes*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 1. Basis of Presentation

MCAN Mortgage Corporation (the “Company” or “MCAN”) is a Loan Company under the Trust and Loan Companies Act (the “Trust Act”) and a Mortgage Investment Corporation (“MIC”) under the Income Tax Act (Canada) (the “Tax Act”).

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company’s 22.3% partnership interest in MCAP Commercial LP (“MCLP”) is accounted for using the equity method. MCAN holds a 25% voting interest in MCLP.

The purchase method has been used to account for all acquisitions. Intercompany balances and transactions of fully consolidated subsidiaries are eliminated. All related party transactions took place under normal trade terms and have been recorded at the exchange amounts.

## 2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements and accounting principles followed by the Company including the accounting requirements of the Superintendent of Financial Institutions Canada (“OSFI”) conform with Canadian generally accepted accounting principles (“GAAP”). Significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

### Measurement Uncertainty and Use of Estimates

Management of the Company exercises its best judgment with regard to certain estimates and assumptions, which affect the reported amounts of revenue, expenses, assets and liabilities. Actual results could differ from management’s estimates.

### Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions, and classified based on management’s intention. Financial assets are classified as held for trading, held to maturity, available for sale or loans and receivables, and financial liabilities are classified as held for trading or other. Changes in the unrealized fair value of financial instruments classified as held for trading are recognized to income. Changes in the unrealized fair value of available for sale financial assets are recognized in accumulated other comprehensive income, except for those considered to be changes attributable to impairment which are charged to income. Upon disposal, the cumulative change in fair value is transferred to income. Other classifications are subsequently measured at amortized cost. From time to time, the Company may use derivative and non-derivative financial instruments to manage interest rate risk. Hedge accounting is optional, and where it can be applied, it requires the Company to document the hedging relationship and to test the effectiveness of the hedging item to offset changes in value of the underlying hedged item on an ongoing basis. At December 31, 2009, the Company did not have any hedge accounting relationships.

Transaction costs for all financial asset classifications except for held for trading are capitalized and are included in other assets.

The classification of each financial instrument is discussed in the respective note disclosure.

### Equity Accounting

Equity investments over which the Company can exercise significant influence but does not exercise control are recorded using the equity method of accounting. The Company records equity income equal to its proportionate share of the equity investment’s net income.

### Impaired Mortgages

Interest on mortgages is accrued as earned until such time that a mortgage is classified as impaired. At that time, a specific provision is made to reflect management’s estimate of realizable amounts. Impaired mortgages are restored to an accrual basis when principal and interest payments in arrears become current and there is reasonable assurance as to ultimate collectibility.

Impaired mortgages include uninsured mortgages which are more than 90 days in arrears or are less than 90 days in arrears but for which management does not have reasonable assurance that the full amount of principal and interest will be collected in a timely manner. An insured mortgage is considered impaired when the mortgage is 365 days past due, whether or not collection is in doubt.

### **Allowance for Credit Losses**

An allowance for mortgage credit losses, consisting of specific and general provisions, is maintained at a level that, in management's judgment, is adequate to absorb all credit related losses in the Company's portfolio. Specific provisions include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The general provision includes provisions for losses which are considered to have occurred but cannot be determined on an item-by-item basis. The general provision is established by considering historical loss trends during economic cycles, the risk profile of the Company's current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience.

The allowance is increased by provisions for losses, which are charged against income, and reduced by write-offs, net of recoveries. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further collection is considered to be remote.

### **Asset Sales**

The Company accounts for the sale of assets when control over the assets is transferred to a third party. At this point, the assets are removed from the balance sheet.

The Company participates in the Canada Mortgage Bonds ("CMB") program, which involves the securitization of insured single family and multi family mortgages. On the sale date, the Company sells mortgages to the Canada Housing Trust and recognizes an interest-only strip, which is a retained interest in the securitized mortgages. The Company also recognizes a liability for future mortgage servicing and other costs. At this time, the Company recognizes an upfront gain on securitization. The gain on securitization depends on the previous carrying values of the mortgages involved in the transfer, allocated between the mortgages sold and the interest-only strip based on their relative fair values at the date of transfer.

In other mortgage sales, the Company records a gain or loss at the time of sale of the mortgages that is equal to the fair value of the proceeds received less the carrying value of the mortgages. The Company receives full cash consideration at the time of sale.

The Company may retain servicing obligations on asset sales and subcontracts such servicing obligations to MCLP or other private companies. In these cases, the Company includes the servicing obligations in its gain on sale calculation.

### **Revenue and Expense Recognition**

- (a) The Company is entitled to fees for mortgage commitments. These fees are deferred and amortized into income over the term of the mortgage.
- (b) Origination costs paid on the Company's mortgage portfolio are deferred and amortized over the term of the mortgage.
- (c) Commissions paid on the issue of term deposits are deferred and amortized over the term of the term deposit.

### **Discount Income Recognition**

The Company may acquire mortgage portfolios from third parties at fair market value. A mortgage discount will exist to the extent that the fair market value of a mortgage is less than its par value. The discount is allocated between a valuation reserve component and an accretion component. The valuation reserve component represents the risk of credit loss in addition to the general mortgage allowance, while the accretion component represents the part of the discount to be recognized to income over time, thereby adjusting the yield on the mortgage from its face rate to an effective yield. The accretion component is amortized to income over the term of the related mortgage through the application of the effective interest rate method. The valuation reserve component is only recognized into income upon payout, less any realized credit loss.

### **Income Taxes**

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company is a MIC under the Tax Act. As such, it is permitted to deduct from income for tax purposes dividends paid to shareholders during the year and within 90 days thereafter. The Company intends to continue conducting its affairs in such a manner as to continue qualifying as a MIC. When it is considered more likely than not that future dividends will be sufficient to recover current or future income tax liabilities, the Company charges the related provision for (recovery of) income taxes directly to retained earnings rather than to income.

### Variable Interest Entities

*CICA Accounting Guideline 15 (“AcG 15”)* defines the consolidation rules for variable interest entities (“VIEs”). A VIE is an entity where the equity is considered insufficient to finance the entity’s activities or the equity holders do not have a controlling financial interest. These rules require the holder of the majority of variable interests of a VIE to consolidate the entity. Variable interests are defined as the exposure to both expected losses and expected gains. These rules do not apply to VIEs considered to be Qualifying Special Purpose Entities. The Company did not hold a majority of the variable interests in any VIE at the time of, or since, adoption of *AcG 15*.

### Changes in Accounting Policy

On January 1, 2008, the Company adopted the standard of the Canadian Institute of Chartered Accountants (“CICA”), Section 1535, *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity’s objectives, policies and processes for managing capital.

On January 1, 2008, the Company adopted the standards of the CICA, Section 3862, *Financial Instruments - Disclosures* and Section 3863, *Financial Instruments - Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

On January 1, 2009, the Company adopted amendments to the standard of the CICA, Section 3862, *Financial Instruments - Disclosures*. These amendments require additional disclosures of fair value measurements of financial instruments and liquidity risk. The additional disclosures include the classification of fair value measurements into one of three levels, as follows: quoted prices in an active market (Level 1), fair value based on observable inputs other than quoted prices (Level 2) and fair value based on inputs that are not based on observable data (Level 3).

On January 1, 2009, the Company adopted EIC 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The guideline clarifies how the Company’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. The new guidelines did not have a material effect on the financial position or income of the Company.

On January 1, 2009, the Company adopted amendments to the standard of the CICA, Section 3855, *Financial Instruments - Recognition and Measurement*. Accordingly, held to maturity debt instruments with fixed or determinable payments that are not quoted in an active market were reclassified from held to maturity to loans and receivables.

### Other Accounting Policies

Other specific accounting policies are disclosed in the notes to the consolidated financial statements, where applicable.

### Future Changes in Accounting Policy

For the fiscal year commencing January 1, 2011, the Company will cease to use GAAP and will adopt International Financial Reporting Standards (“IFRS”). The Company has completed its assessment of the impact of IFRS differences on its accounting policies and information systems. During 2010, the Company will complete its assessment of the impact of IFRS on its financial reporting, control environment and business policies. The Company has begun the implementation of its conversion plan, which remains on schedule. The impact of the transition to IFRS on the Company’s consolidated financial statements is not yet determinable.

## 3. Cash and Cash Equivalents

|  | 2009             | 2008             |
|--|------------------|------------------|
| Cash balances with banks                 | \$ 43,201        | \$ 28,099        |
| Bankers’ acceptances and term deposits   | 45,000           | 29,972           |
| Cash pledged as collateral - CMB program | 1,642            | -                |
|  | <b>\$ 89,843</b> | <b>\$ 58,071</b> |

Cash and cash equivalents include balances with banks and short-term investments with maturity dates of less than 90 days from the date of acquisition. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

**4. Mortgages**

|   | Principal         | Allowance       |                 |                 | 2009<br>Net       |
|---|-------------------|-----------------|-----------------|-----------------|-------------------|
|   |                   | General         | Specific        | Total           |                   |
| Single family mortgages                 |                   |                 |                 |                 |                   |
| - Uninsured                             | \$ 96,050         | \$ 621          | \$ 55           | \$ 676          | \$ 95,374         |
| - Uninsured (completed inventory loans) | 30,227            | 198             | -               | 198             | 30,029            |
| - Insured                               | 38,465            | -               | -               | -               | 38,465            |
| Construction loans                      |                   |                 |                 |                 |                   |
| - Residential                           | 125,403           | 1,001           | 2,727           | 3,728           | 121,675           |
| - Non-residential                       | 23                | -               | -               | -               | 23                |
| Commercial loans                        |                   |                 |                 |                 |                   |
| - Uninsured                             | 6,699             | 128             | -               | 128             | 6,571             |
| - Insured                               | 479               | -               | -               | -               | 479               |
|   | 297,346           | 1,948           | 2,782           | 4,730           | 292,616           |
| Fair value adjustment                   | 1,490             | -               | -               | -               | 1,490             |
|   | 298,836           | 1,948           | 2,782           | 4,730           | 294,106           |
| Accrued interest                        | 1,309             | -               | -               | -               | 1,309             |
|   | <b>\$ 300,145</b> | <b>\$ 1,948</b> | <b>\$ 2,782</b> | <b>\$ 4,730</b> | <b>\$ 295,415</b> |

|   | Principal         | Allowance       |               |                 | 2008<br>Net       |
|---|-------------------|-----------------|---------------|-----------------|-------------------|
|   |                   | General         | Specific      | Total           |                   |
| Single family mortgages                 |                   |                 |               |                 |                   |
| - Uninsured                             | \$ 154,602        | \$ 837          | \$ 164        | \$ 1,001        | \$ 153,601        |
| - Uninsured (completed inventory loans) | 32,477            | 369             | -             | 369             | 32,108            |
| - Insured                               | 27,694            | -               | -             | -               | 27,694            |
| Construction loans                      |                   |                 |               |                 |                   |
| - Residential                           | 144,893           | 1,263           | -             | 1,263           | 143,630           |
| - Non-residential                       | 8,085             | 70              | -             | 70              | 8,015             |
| Commercial loans                        |                   |                 |               |                 |                   |
| - Uninsured                             | 6,433             | 100             | -             | 100             | 6,333             |
| - Insured                               | 17,478            | -               | -             | -               | 17,478            |
|   | 391,662           | 2,639           | 164           | 2,803           | 388,859           |
| Fair value adjustment                   | 2,023             | -               | -             | -               | 2,023             |
|   | 393,685           | 2,639           | 164           | 2,803           | 390,882           |
| Accrued interest                        | 2,128             | -               | -             | -               | 2,128             |
|   | <b>\$ 395,813</b> | <b>\$ 2,639</b> | <b>\$ 164</b> | <b>\$ 2,803</b> | <b>\$ 393,010</b> |

MCAN does not invest in the United States mortgage market. The Company invests in insured and uninsured single family mortgages in Canada, which are lower risk than United States sub-prime mortgages. The uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. Residential mortgages insured by Canada Mortgage and Housing Corporation or Genworth Financial Mortgage Insurance Company Canada may exceed this ratio.

Uninsured completed inventory loans are credit facilities extended to provide interim mortgage financing on fully completed residential units (condominium or freehold).

Residential construction loans are made to homebuilders to finance residential construction projects.

Commercial loans include commercial term mortgages and high ratio mortgage loans.

Mortgages are designated as available for sale. Outside of the change during the year shown in the above tables, there were no significant fluctuations in mortgage balances within the year.

Principal balances presented above are net of the unamortized discount on the Company's portfolio of single family mortgages purchased at a discount. As at December 31, 2009, the Company holds discounted mortgages with an aggregate discount of \$22,036 (2008 - \$33,290). Upon the payout of a mortgage, the remaining unamortized discount is recognized as income. The Company retains 50% of any recoveries of the discount and pays the remaining 50% to MCLP (refer to note 13 for profit sharing fees paid to/from MCLP). In addition, the Company amortizes the portion of the discount that it expects to recover into income over the remaining term of the mortgage on an effective interest rate method basis. The amount of the discount ultimately recovered is dependent on the value of the real estate securing the mortgage, as well as the financial capacity of the borrower. Additionally, these mortgages have maturity dates ranging

from 2010 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered.

The composition of the discount is as follows:

|                                   | 2009             | 2008             |
|-----------------------------------|------------------|------------------|
| Fixed rate                        | \$ 4,824         | \$ 10,812        |
| Floating rate                     | 17,227           | 22,638           |
| Gross discount                    | 22,051           | 33,450           |
| Accumulated discount amortization | 15               | 160              |
| Net discount                      | <b>\$ 22,036</b> | <b>\$ 33,290</b> |

The geographical breakdown of mortgages by province is as follows:

|                  | Single<br>Family  | Construction      | Commercial      | 2009<br>Total     |               |
|------------------|-------------------|-------------------|-----------------|-------------------|---------------|
| Ontario          | \$ 82,195         | \$ 52,435         | \$ 4,247        | \$ 138,877        | 47.0%         |
| Alberta          | 52,849            | 47,682            | 2,832           | 103,363           | 35.0          |
| British Columbia | 15,853            | 15,826            | -               | 31,679            | 10.7          |
| Other            | 15,109            | 6,387             | -               | 21,496            | 7.3           |
|                  | <b>\$ 166,006</b> | <b>\$ 122,330</b> | <b>\$ 7,079</b> | <b>\$ 295,415</b> | <b>100.0%</b> |

|                  | Single<br>Family  | Construction      | Commercial       | 2008<br>Total     |               |
|------------------|-------------------|-------------------|------------------|-------------------|---------------|
| Ontario          | \$ 99,325         | \$ 51,688         | \$ 4,791         | \$ 155,804        | 39.6%         |
| Alberta          | 62,815            | 64,983            | -                | 127,798           | 32.5          |
| British Columbia | 26,187            | 33,870            | 17,657           | 77,714            | 19.8          |
| Other            | 28,204            | 1,898             | 1,592            | 31,694            | 8.1           |
|                  | <b>\$ 216,531</b> | <b>\$ 152,439</b> | <b>\$ 24,040</b> | <b>\$ 393,010</b> | <b>100.0%</b> |

As at December 31, 2009, the Company had \$4,861 (2008 - \$11,798) of its single family mortgage portfolio pledged as collateral related to the CMB program.

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are \$96,173 at December 31, 2009 (2008 - \$64,656). Substantially all of these commitments relate to floating rate construction loans.

The details of the mortgage allowances are as follows:

|                             | General         | Specific        | 2009<br>Total   | General         | Specific      | 2008<br>Total   |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|
| Balance, beginning of year  | \$ 2,639        | \$ 164          | \$ 2,803        | \$ 3,217        | \$ 67         | \$ 3,284        |
| Provisions (recoveries)     | (497)           | 2,618           | 2,121           | (478)           | 97            | (381)           |
| Write-offs                  | (194)           | -               | (194)           | (100)           | -             | (100)           |
| <b>Balance, end of year</b> | <b>\$ 1,948</b> | <b>\$ 2,782</b> | <b>\$ 4,730</b> | <b>\$ 2,639</b> | <b>\$ 164</b> | <b>\$ 2,803</b> |

At December 31, 2009, the Company had \$2,782 of specific provisions (2008 - \$164), as follows: uninsured single family - \$55 (2008 - \$164), residential construction - \$2,727 (2008 - \$nil).

Mortgages past due but not impaired are as follows:

|                           | 1 to 30<br>days | 31 to 60<br>days | 61 to 90<br>days | Over 90<br>days | 2009<br>Total    |
|---------------------------|-----------------|------------------|------------------|-----------------|------------------|
| Single family - uninsured | \$ 5,232        | \$ 2,561         | \$ 1,560         | \$ -            | \$ 9,353         |
| Single family - insured   | 278             | 113              | -                | 251             | 642              |
| Residential construction  | 1,627           | 406              | 1,316            | -               | 3,349            |
|                           | <b>\$ 7,137</b> | <b>\$ 3,080</b>  | <b>\$ 2,876</b>  | <b>\$ 251</b>   | <b>\$ 13,344</b> |

|                           | <b>1 to 30<br/>days</b> | <b>31 to 60<br/>days</b> | <b>61 to 90<br/>days</b> | <b>Over 90<br/>days</b> | <b>2008<br/>Total</b> |
|---------------------------|-------------------------|--------------------------|--------------------------|-------------------------|-----------------------|
| Single family - uninsured | \$ 11,732               | \$ 5,414                 | \$ 4,747                 | \$ -                    | \$ 21,893             |
| Single family - insured   | 880                     | 423                      | 108                      | -                       | 1,411                 |
| Residential construction  | 7,108                   | -                        | 199                      | -                       | 7,307                 |
|                           | <b>\$ 19,720</b>        | <b>\$ 5,837</b>          | <b>\$ 5,054</b>          | <b>\$ -</b>             | <b>\$ 30,611</b>      |

Impaired mortgages (net of specific provisions) are as follows:

|                  | <b>Single<br/>Family</b> | <b>Residential<br/>Construction</b> | <b>2009<br/>Total</b> | <b>Single<br/>Family</b> | <b>Residential<br/>Construction</b> | <b>2008<br/>Total</b> |
|------------------|--------------------------|-------------------------------------|-----------------------|--------------------------|-------------------------------------|-----------------------|
| Ontario          | \$ 266                   | \$ 8,916                            | \$ 9,182              | \$ 1,609                 | \$ -                                | \$ 1,609              |
| Alberta          | 831                      | 6,899                               | 7,730                 | 1,436                    | -                                   | 1,436                 |
| British Columbia | 259                      | -                                   | 259                   | 393                      | -                                   | 393                   |
|                  | <b>\$ 1,356</b>          | <b>\$ 15,815</b>                    | <b>\$ 17,171</b>      | <b>\$ 3,438</b>          | <b>\$ -</b>                         | <b>\$ 3,438</b>       |

## 5. Securitization Investments

### Investments in Securitization Programs

|   | <b>2009</b>      | <b>2008</b>      |
|---|------------------|------------------|
| Subordinated loan - residential mortgage securitization program                           | \$ 4,578         | \$ 8,035         |
| Asset-backed commercial paper   | 2,480            | 2,122            |
| Deferred purchase price receivable - residential construction loan securitization program |                  |                  |
| - senior position   | 3,908            | 6,819            |
| - first loss position   | 1,671            | 3,020            |
| Bonds - commercial securitization program   | -                | 458              |
|   | <b>\$ 12,637</b> | <b>\$ 20,454</b> |

### Other Securitization Investments

|   | <b>Note</b> | <b>2009</b>      | <b>2008</b>      |
|---|-------------|------------------|------------------|
| CMB - interest-only strips              | 7, 12       | \$ 16,921        | \$ 3,215         |
| Insured mortgage-backed securities      |             | 43,409           | 15,051           |
| Other securitization assets             |             | 623              | 1,023            |
|   |             | <b>\$ 60,953</b> | <b>\$ 19,289</b> |
| <b>Total securitization investments</b> |             | <b>\$ 73,590</b> | <b>\$ 39,743</b> |

The subordinated loan - residential mortgage securitization program bears interest at 10% (2008 - 10%). The loan is rated BB high by Dominion Bond Rating Service ("DBRS"), classified as loans and receivables as of January 1, 2009 (previously held to maturity - note 2) and has no specific maturity date.

The restructuring of Third Party Structured Asset-Backed Commercial Paper ("ABCP") by the Pan-Canadian Investors Committee (the "Montreal Accord") was finalized on January 21, 2009. The restructuring converted the ABCP held at that time into Master Asset Vehicle II ("MAV II") investments as follows: class A-1 notes rated A by DBRS (66.7%), class A-2 notes rated A by DBRS (25.7%) and unrated B (4.6%) and C (3.0%) notes, and converted the existing commercial securitization program investment to Master Asset Vehicle III ("MAV III") class 20 A-1 notes. After performing a valuation of the new ABCP, the Company recorded a \$2,000 write-down on the MAV II investment, which was increased to \$2,100 at year-end based on its fair market value at that time. The MAV II investment (fair market value of \$2,022) is designated as held for trading using the fair value option, while the MAV III investment (net book value of \$458) is classified as loans and receivables as of January 1, 2009 (previously held to maturity - note 2). Both investments mature in more than five years.

MCAN purchased an interest in the deferred purchase price receivable - residential construction loan securitization program ("DPPR") from a VIE. The DPPR represents funds receivable from the VIE in connection with the sale of mortgages by Warehouse Trust to the VIE. The DPPR constitutes 10% of the total funding for the program. MCAN has purchased the senior 3% on which it earns an interest return of prime plus 5%, 7.25% at December 31, 2009 (2008 - 8.5%) in priority to the more junior interests in the DPPR. The senior position is rated BBB low by DBRS. MCAN also

purchased a 25% interest in the most junior 4% (the “first loss position”) for which it receives 25% of the residual cash flow from the program. The receivables are classified as loans and receivables as of January 1, 2009 (previously held to maturity - note 2) and have no specific maturity date.

The residential construction loan securitization program began its wind-down phase during 2009. As a result of the wind-down, interest on both DPPR positions has not been paid on a monthly basis; however MCAN has continued to accrue interest on the senior position as there are adequate funds in the program’s cash collateral account to pay the interest. MCAN does not accrue interest on the first loss position.

The Company holds insured mortgage-backed securities with a weighted average yield of CDOR plus 1.14%, 1.54% at December 31, 2009 (2008 - CDOR minus 0.11%, 1.51%). The securities are designated as available for sale and mature within one to five years.

The subordinated loans and DPPR under the securitization programs discussed above are receivable from VIEs. The Company did not hold the majority of the variable interests in any of its VIE investments and therefore does not consolidate them. The repayment of these investments follows the cash flows in the respective securitization programs.

## 6. Loans Receivable and Other Investments

|                                       | Note | Principal        | Allowance     | 2009<br>Net      | 2008<br>Net      |
|---------------------------------------|------|------------------|---------------|------------------|------------------|
| Loans receivable - private companies  |      | \$ 10,281        | \$ 125        | \$ 10,156        | \$ 14,303        |
| Loan receivable - bridge lending fund |      | 2,424            | 31            | 2,393            | 5,243            |
| Loans receivable - employees          | 16   | 1,397            | -             | 1,397            | 1,373            |
| Investment in mortgage trusts         |      | 1,808            | 26            | 1,782            | 2,516            |
| Other loans and investments           |      | 1,158            | 1             | 1,157            | 1,292            |
| Loan receivable from Warehouse Trust  |      | -                | -             | -                | 7,872            |
| Other equity investment               |      | -                | -             | -                | 3,025            |
|                                       |      | <b>\$ 17,068</b> | <b>\$ 183</b> | <b>\$ 16,885</b> | <b>\$ 35,624</b> |

Loans receivable have been made to two private companies. Three loans made to one company bear interest at the greater of 7% and prime plus 4%, 7% at December 31, 2009 (2008 - 7.5%) and have an aggregate outstanding balance of \$1,670 at December 31, 2009 (2008 - \$3,584). One loan has been advanced to a private company bearing interest at the greater of 7¾% and prime plus 1¾%, 7¾% at December 31, 2009 (2008 - 6¼%). This loan has an outstanding balance of \$8,486 at December 31, 2009 (2008 - \$10,719). All of these loans are payable on demand.

The Company participates in a bridge lending fund in which it has a fixed proportionate share. As funds are advanced to borrowers of the lending fund, the Company advances its proportionate share to the fund to finance the loans. There is no fixed interest rate on the loan, but the Company is entitled to its pro-rata share of interest and fees collected from borrowers. During 2009, the Company earned \$580 on this loan (2008 - \$412).

Both the loan receivable from Warehouse Trust, which is a residential construction mortgage loan accumulation entity beneficially owned by MCLP, and an equity investment in a private entity paid out in full during 2009.

All loans receivable and other investments are classified as loans and receivables except for a \$796 (2008 - \$848) item included in other loans and investments that is not a financial asset.

## 7. Asset Sales

The Company securitizes insured mortgages through the CMB program, in which it participates with MCLP and a private company. The current year was the first in which the Company securitized insured multi family mortgages. Upon sale, the Company recognizes an interest-only strip, which is a retained interest in the securitized mortgages. The interest-only strips consist of the discounted value of future mortgage interest, principal reinvestment receipts and penalty income less fixed coupon interest payments. The interest-only strips are generally in asset positions, however they can potentially go into liability positions upon a significant decrease in forward interest rates after issuance. In addition, the Company recognizes liabilities for future mortgage servicing and other costs, which are included in accounts payable and accrued charges. The Company subcontracts mortgage servicing obligations to MCLP and the private company that participates in the CMB program.

During 2009, the Company securitized \$836,266 (2008 - \$954,863) of mortgages as part of the CMB program as follows: single family - \$786,375 (2008 - \$954,863), multi family - \$49,891 (2008 - \$nil). The Company recorded interest-only strips of \$10,892 (2008 - \$10,585) and servicing and other liabilities of \$1,493 (2008 - \$1,219) on the respective closing dates.

December 31, 2009 (Dollar amounts in thousands except for per share amounts)

The following table sets out certain amounts recognized in the Company's consolidated statements of income related to the CMB program.

|                                    | <b>2009</b>     | <b>2008</b>     |
|------------------------------------|-----------------|-----------------|
| Gain on securitization             | \$ 6,410        | \$ 3,256        |
| Write-down of interest-only strips | (1,235)         | (232)           |
| Residual securitization income     | 2,383           | 4,737           |
|                                    | <b>\$ 7,558</b> | <b>\$ 7,761</b> |

Residual securitization income includes the net yield earned on the interest-only strips and the CMB liabilities, refinancing and renewal gains, interest rate swap receipts (payments) and fair value changes in the interest-only strips (which are designated as held for trading using the fair value option) and the interest rate swaps. Fair value changes had a negative impact on residual securitization income of \$2,350 during the year (2008 - positive impact of \$3,403). In general, fair value changes in the interest rate swaps largely offset those in the interest-only strips, however significant fluctuations in the forward rate curve during 2009 had a negative impact to income. Other components of residual securitization income were \$4,733 in the current year compared to \$1,334 in the prior year. In 2009, there was a significant increase in refinancing and renewal gains and a larger CMB portfolio.

During the year, a net write-down of \$1,235 was recorded on the outstanding interest-only strips. To the time of the write-down, the prepayment level of CMB mortgages was significantly higher than anticipated and decreased expected future cash flows, as the assets in which principal collections are reinvested generally yield less than the securitized mortgages. At the time that the write-down was recorded, the calculation of the fair value of the interest-only strips was revised to include the discounted value of future penalty income as a result of a recent significant increase in mortgage liquidations. This revision had a positive impact to income of \$1,023, which is included in the net interest-only strip write-down of \$1,235.

The amounts reported in the consolidated financial statements represent only the Company's share in the economics of its participation in the CMB program with MCLP and the private company.

The following table summarizes certain cash flows received from the CMB program.

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Proceeds from new securitizations                          | \$ 841,785  | \$ 962,232  |
| Net cash flows received on interest-only strips            | \$ 500      | \$ 1,842    |
| Net cash flows paid on CMB servicing and other liabilities | \$ 809      | \$ 479      |

The following table outlines the key assumptions used to measure the fair value of the interest-only strips and the sensitivity to immediate changes of 10% and 20% in these assumptions. The sensitivities are hypothetical and should be used with caution. Interest rates and credit losses have minimal impact and are not included below.

|                     | <b>2009</b> | <b>2008</b> |
|---------------------|-------------|-------------|
| Prepayment rate (%) | 17.7%       | 14.4%       |
| Discount rate (%)   | 5.3%        | 5.9%        |

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Net interest-only strip asset (liability)            | \$ 11,873   | \$ (3,880)  |
| Adverse impact of change in prepayment rate          |             |             |
| Prepayment rate                                      | 17.7%       | 14.4%       |
| 10% increase   | \$ 721      | \$ 880      |
| 20% increase   | \$ 1,405    | \$ 1,742    |
| Adverse (positive) impact of change in discount rate |             |             |
| Discount rate  | 5.3%        | 5.9%        |
| 10% increase   | \$ 106      | \$ (231)    |
| 20% increase   | \$ 211      | \$ (455)    |

In addition to the aforementioned sales, the Company may sell other residential mortgages, commercial loans and residential construction loans. During 2009, the Company sold \$1,382,929 (2008 - \$1,543,489) of these mortgages, recognizing a gain on sale of \$nil (2008 - \$5,326). Of these mortgage sales, \$1,372,135 (2008 - \$1,276,266) were made to MCLP. The Company has a retained interest in 0% (2008 - 0%) of these sales. Purchasers of these mortgages have no recourse to the Company.

## 8. Equity Investment in MCAP Commercial LP

|                             | 2009             | 2008             |
|-----------------------------|------------------|------------------|
| Balance, beginning of year  | \$ 18,300        | \$ 17,095        |
| Equity income               | 1,456            | 3,025            |
| Distributions received      | (1,851)          | (1,820)          |
| <b>Balance, end of year</b> | <b>\$ 17,905</b> | <b>\$ 18,300</b> |

During 2009, MCLP redeemed non-voting class B units such that MCAN's interest in MCLP increased from 22.0% to 22.3%.

MCAN holds a 25% voting interest in MCLP. The remaining 75% is held by Cadcap Limited Partnership, a subsidiary of the Caisse de dépôt et placement du Québec.

## 9. Derivative Financial Instruments

As part of the CMB program, the Company enters into "pay-floating, receive-fixed" interest rate swaps. The purpose of these swaps is to hedge interest rate risk on the interest-only strips. The Company receives interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only strips.

The following table outlines the Company's pro-rata share of derivative financial instruments by term to maturity:

|  | Less than<br>one year | One to<br>five years | Over five<br>years | 2009<br>Total | 2008<br>Total |
|--|-----------------------|----------------------|--------------------|---------------|---------------|
| CMB interest rate swaps - fair value           | \$ -                  | \$ 11,490            | \$ -               | \$ 11,490     | \$ 23,541     |
| CMB interest rate swaps - outstanding notional | \$ -                  | \$ 260,095           | \$ -               | \$ 260,095    | \$ 105,281    |

## 10. Other Assets

|                                       | 2009            | 2008            |
|---------------------------------------|-----------------|-----------------|
| Capital assets                        | \$ 291          | \$ 356          |
| Deferred charges and prepaid expenses | 995             | 1,099           |
| Other receivables                     | 269             | 410             |
|                                       | <b>\$ 1,555</b> | <b>\$ 1,865</b> |

## 11. Term Deposits

|                   | 2009              | 2008              |
|-------------------|-------------------|-------------------|
| Term deposits     | \$ 357,150        | \$ 419,669        |
| Accrued interest  | 3,594             | 6,994             |
|                   | <b>\$ 360,744</b> | <b>\$ 426,663</b> |
| <b>Fair value</b> | <b>\$ 364,021</b> | <b>\$ 432,494</b> |

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years (2008 - 30 days to five years) and bear interest at rates ranging from 0.10% to 5.10% (2008 - 1.60% to 5.25%). The Company's term deposits are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance.

Term deposits are classified as other financial liabilities and are recorded at amortized cost. The estimated fair value of term deposits as presented above is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

**12. Securitization Liabilities**

|                            | <b>2009</b> | <b>2008</b> |
|----------------------------|-------------|-------------|
| CMB - interest-only strips | \$ 5,048    | \$ 7,095    |

As at December 31, 2009, certain CMB interest-only strips were in a liability position. CMB interest-only strips in an asset position (note 5) totalled \$16,921 at December 31, 2009 (2008 - \$3,215). On a net basis, CMB interest-only strips were in an asset position of \$11,873 at December 31, 2009 (2008 - net liability position of \$3,880). All interest-only strips mature within one to five years.

The Company's interest rate risk that arises from the reinvestment of CMB principal collections in primarily floating rate assets is hedged by interest rate swaps, which were in an asset position of \$11,490 at December 31, 2009 (2008 - asset position of \$23,541).

**13. Accounts Payable and Accrued Charges**

|                                      | <b>2009</b>      | <b>2008</b>      |
|--------------------------------------|------------------|------------------|
| Accounts payable and accrued charges | \$ 5,670         | \$ 5,936         |
| Dividends payable                    | 3,723            | 3,556            |
| Deferred mortgage commitment fees    | 593              | 977              |
| Related party payable - MCLP         | 1,015            | 1,717            |
|                                      | <b>\$ 11,001</b> | <b>\$ 12,186</b> |

During 2009, the Company purchased certain corporate services and mortgage origination and administration services from MCLP in the amount of \$2,188 (2008 - \$3,705). During 2009, the Company received \$2,382 (2008 - \$2,874) of mortgage fee income from MCLP.

During 2009, the Company paid fees in the amount of \$5,593 (2008 - \$2,941) to MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages. During 2009, the Company received \$4,855 (2008 - \$2,133) of fees from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

As part of the aforementioned profit sharing arrangements, MCLP pays MCAN 50% of any recoveries of discounts on mortgages held on MCLP's balance sheet, which is reflected in fee income. In addition, MCAN reimburses MCLP for 50% of any credit losses on discounted mortgages held on MCLP's balance sheet, and vice versa. Management does not expect any significant losses as a result of the profit sharing agreement.

During 2009, the Company received \$nil (2008 - \$552) of interest from Warehouse Trust.

**14. Credit Facilities**

The Company has a line of credit from a Canadian chartered bank that is a \$50,000 facility bearing interest at prime plus 1.5%, 3.75% at December 31, 2009 (2008 - prime plus 0.5%, 4.0%). The facility has a sub limit of \$30,000 for letters of credit and \$30,000 for overdrafts, and is due and payable upon demand. The letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with developer loans. At December 31, 2009, there were letters of credit in the amount of \$11,143 issued (2008 - \$12,910) and additional letters of credit in the amount of \$7,670 committed but not issued (2008 - \$5,734).

## 15. Income Taxes

|   | 2009            | 2008            |
|---|-----------------|-----------------|
| Income before income taxes  | \$ 24,742       | \$ 30,348       |
| Less: dividends   | (20,569)        | (13,630)        |
| Income subject to tax   | 4,173           | 16,718          |
| Statutory rate of tax   | 42%             | 42%             |
| Tax provision before the following:   | 1,753           | 7,022           |
| Statutory rate difference in subsidiaries                                     | (533)           | (371)           |
| Rate changes and other differences  | (951)           | (63)            |
| Non-taxable portion of capital gains  | (948)           | (675)           |
| CMB-related items   | -               | 146             |
| <b>Tax provision (recovery) per consolidated financial statements</b>         | <b>\$ (679)</b> | <b>\$ 6,059</b> |
| Presentation of tax provision (recovery) in consolidated financial statements |                 |                 |
| Provision against income  | \$ -            | \$ -            |
| Charge (recovery) to retained earnings  | (679)           | 6,059           |
|   | <b>\$ (679)</b> | <b>\$ 6,059</b> |

The details of the future tax assets (liabilities) are as follows:

|   | 2009              | 2008              |
|---|-------------------|-------------------|
| Provision for loan losses               | \$ 1,821          | \$ 2,065          |
| Equity investment in MCAP Commercial LP | (475)             | 246               |
| Dividends deductible for tax purposes   | (2,389)           | (4,035)           |
| CMB-related items                       | (6,333)           | (6,457)           |
| Capital assets                          | (72)              | (110)             |
| Financial assets                        | (444)             | (416)             |
| Loss carryforward benefit               | 881               | 1,106             |
|   | <b>\$ (7,011)</b> | <b>\$ (7,601)</b> |

The Company has loss carryforward amounts of \$2,809 (2008 - \$3,548), the benefit of which has been recorded to future taxes, expiring as follows:

|      |          |
|------|----------|
| 2028 | \$ 1,293 |
| 2029 | \$ 1,516 |

## 16. Share Capital and Contributed Surplus

The authorized share capital of the Company is unlimited common shares with no par value.

| Issued                        | Number<br>of Shares | 2009             | Number<br>of Shares | 2008             |
|-------------------------------|---------------------|------------------|---------------------|------------------|
| Balance, January 1            | 14,223,506          | \$ 97,493        | 14,097,994          | \$ 96,370        |
| Issued                        |                     |                  |                     |                  |
| Dividend reinvestment plan    | 80,872              | 843              | 86,571              | 787              |
| Executive Share Purchase Plan | 16,602              | 154              | 38,941              | 336              |
| <b>Balance, December 31</b>   | <b>14,320,980</b>   | <b>\$ 98,490</b> | <b>14,223,506</b>   | <b>\$ 97,493</b> |

During 2009, the Company issued 80,872 (2008 - 86,571) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 20 days preceding such issue.

The Company had no potentially dilutive instruments for the years ended December 31, 2009 and 2008.

Contributed surplus of \$510 represents the discount on the repurchase of warrants in 2004.

**Executive Share Purchase Plan**

The Company has established an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board of Directors can approve loans to key personnel for the purpose of purchasing the Company's shares. During 2009, 16,602 shares were issued out of treasury under the Share Purchase Plan (2008 - 38,941). The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares. Dividend distributions on the shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions, and 75% of capital gain distributions. Shares are issued out of treasury for the Share Purchase Plan at the weighted average trading price for the 20 days preceding such issue.

MCAN advanced \$154 of loans under the Share Purchase Plan in 2009 (2008 - \$336). At December 31, 2009, \$1,397 of loans were outstanding (2008 - \$1,373) (note 6). The loans under the Share Purchase Plan bear interest at prime plus 1%, 3.25% at December 31, 2009 (2008 - 4.5%), and have a five-year term. The shares are pledged as security for the loans and have a market value of \$2,313 at December 31, 2009 (2008 - \$1,500).

**17. Accumulated Other Comprehensive Income**

Accumulated other comprehensive income includes unrealized gains and losses (net of taxes) on available for sale mortgages and securitization investments.

|   | Note | 2009            | 2008            |
|---|------|-----------------|-----------------|
| Unrealized gain on available for sale mortgages                         | 4    | \$ 1,192        | \$ 1,602        |
| Unrealized gain (loss) on available for sale securitization investments | 5    | 544             | (279)           |
| Other   |      | (22)            | (30)            |
|   |      | <b>\$ 1,714</b> | <b>\$ 1,293</b> |

**18. Interest Rate Sensitivity**

Interest rate risk arises when principal and interest cash flows, both on and off balance sheet, have mismatched repricing and maturity dates. Interest rate risk, or sensitivity, is the potential impact of changes in interest rates on financial assets and liabilities.

An interest rate gap is a common measure of interest rate sensitivity. A positive gap occurs when more assets than liabilities reprice within a particular time period. A negative gap occurs when there is an excess of liabilities over assets repricing. The former provides a positive earnings impact in the event of an increase in interest rates during the time period. Conversely, negative gaps are positively positioned for decreases in interest rates during that particular time period. The determination of the interest rate sensitivity or gap position is based upon the earlier of the repricing or maturity date of each asset and liability, and includes numerous assumptions.

The interest rate sensitivity analysis is based on the Company's balance sheet as at December 31, 2009 and does not incorporate mortgage and loan prepayments. The analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

Floating rate assets and liabilities are immediately sensitive to a change in interest rates while other assets are sensitive to changing interest rates periodically, either as they mature, as interest payments are collected or paid, or as contractual repricing events occur. Non-interest rate sensitive assets and liabilities are not directly affected by changes in interest rates.

The Company manages interest rate risk by matching the terms of invested assets and term deposits. To the extent that the two components offset each other, the risks associated with interest rate changes are reduced. The Asset and Liability Management Committee ("ALCO") reviews the Company's interest rate exposure on a monthly basis using interest rate spread and gap analysis as well as interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the Investment Committee of the Board ("ICB") each quarter. The Company does not currently use derivative financial instruments outside of the CMB program, however the potential use of such instruments for the Company's on-balance sheet assets is analyzed and reported to ALCO on a monthly basis.

The following table presents the assets and liabilities of the Company by interest rate sensitivity:

|   | Floating<br>Rate  | Within<br>3 Months | 3 Months<br>to 1 Year | 1 to 5<br>Years  | Over 5<br>Years  | Non-<br>Interest<br>Sensitive | 2009<br>Total | 2008<br>Total |
|---|-------------------|--------------------|-----------------------|------------------|------------------|-------------------------------|---------------|---------------|
| <b>ASSETS</b>                                 |                   |                    |                       |                  |                  |                               |               |               |
| <b>Investments</b>                            |                   |                    |                       |                  |                  |                               |               |               |
| Cash and cash equivalents                     | \$ 89,843         | \$ -               | \$ -                  | \$ -             | \$ -             | \$ -                          | \$ 89,843     | \$ 58,071     |
| Mortgages                                     | 170,824           | 22,408             | 54,714                | 27,569           | 3,201            | 16,699                        | 295,415       | 393,010       |
| Securitization investments                    | 46,911            | 203                | -                     | 16,921           | 8,674            | 881                           | 73,590        | 39,743        |
| Loans receivable and other<br>investments     | 11,605            | 243                | -                     | 2,458            | -                | 2,579                         | 16,885        | 35,624        |
| Equity investment in<br>MCAP Commercial LP    | -                 | -                  | -                     | -                | -                | 17,905                        | 17,905        | 18,300        |
|   | 319,183           | 22,854             | 54,714                | 46,948           | 11,875           | 38,064                        | 493,638       | 544,748       |
| Derivative financial<br>instruments           | -                 | -                  | -                     | 11,490           | -                | -                             | 11,490        | 23,541        |
| Other assets                                  | -                 | -                  | -                     | -                | -                | 1,555                         | 1,555         | 1,865         |
| Total Assets                                  | \$ 319,183        | \$ 22,854          | \$ 54,714             | \$ 58,438        | \$ 11,875        | \$ 39,619                     | \$ 506,683    | \$ 570,154    |
| Yield   | 3.42%             | 7.30%              | 7.64%                 | 6.18%            | 5.40%            |                               |               |               |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                   |                    |                       |                  |                  |                               |               |               |
| Term deposits                                 | \$ -              | \$ 93,724          | \$ 245,829            | \$ 21,191        | \$ -             | \$ -                          | \$ 360,744    | \$ 426,663    |
| Securitization liabilities                    | -                 | -                  | -                     | 5,048            | -                | -                             | 5,048         | 7,095         |
| Accounts payable and<br>accrued charges       | -                 | -                  | -                     | -                | -                | 11,001                        | 11,001        | 12,186        |
| Future taxes payable                          | -                 | -                  | -                     | -                | -                | 7,011                         | 7,011         | 7,601         |
| Shareholders' equity                          | -                 | -                  | -                     | -                | -                | 122,879                       | 122,879       | 116,609       |
| Total Liabilities and<br>Shareholders' Equity | \$ -              | \$ 93,724          | \$ 245,829            | \$ 26,239        | \$ -             | \$ 140,891                    | \$ 506,683    | \$ 570,154    |
| Yield   | -                 | 2.13%              | 1.87%                 | 2.83%            | -                |                               |               |               |
| <b>GAP</b>                                    | <b>\$ 319,183</b> | <b>\$ (70,870)</b> | <b>\$ (191,115)</b>   | <b>\$ 32,199</b> | <b>\$ 11,875</b> | <b>\$ (101,272)</b>           | <b>\$ -</b>   | <b>\$ -</b>   |
| <b>YIELD SPREAD</b>                           | <b>3.42%</b>      | <b>5.17%</b>       | <b>5.77%</b>          | <b>3.35%</b>     | <b>5.40%</b>     |                               |               |               |

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2009 would have a positive (adverse) effect of \$2,144 (2008 - \$1,181) to net income over the following twelve month period.

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2009 would have an adverse effect to accumulated other comprehensive income of \$1,902 (2008 - \$2,269).

When calculating the effect of an immediate and sustained 1% change in market interest rates on net investment income, the Company determines which assets and liabilities reprice over the following twelve months and applies a 1% change to their respective yields at the time of repricing to determine the change in net investment income for the duration of the twelve month period.

## 19. Capital Management

The Company's primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk weighted returns for shareholders. Through its risk management and corporate governance framework, the Company assesses current and projected economic, housing market, interest rate and credit conditions to determine appropriate levels of capital. The Company typically pays out all of its taxable income by way of dividends. Capital growth is achieved through retained earnings, rights offerings and the dividend reinvestment plan.

The Company's capital management is driven by the guidelines set out by the Tax Act and OSFI. As a MIC under the Tax Act, the Company is limited to a liabilities to capital ratio of 5:1 (or an assets to capital ratio of 6:1), based on the non-consolidated balance sheet measured at its tax value. As a loan company under the Trust Act, the Company has been granted a maximum consolidated regulatory assets to capital ratio by OSFI. The Company manages its assets to a level of 5.75 times capital on a non-consolidated tax basis to provide a prudent cushion between its limit and total actual assets. The Company manages its capital to comply with the requirements of the MIC test and OSFI regulations at all times.

The Company adopted the Basel II capital management framework effective January 1, 2008. The Company has implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach for the calculation of operational risk.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / 2009 CONSOLIDATED FINANCIAL STATEMENTS**  
**MCAN MORTGAGE CORPORATION**

December 31, 2009 (Dollar amounts in thousands except for per share amounts)

Tier 1 capital includes common shares, contributed surplus, retained earnings and certain components of accumulated other comprehensive income. Tier 1 and Tier 2 capital are both reduced by 50% of unrated securitization exposures and Tier 1 capital is reduced by a portion of gains on securitization. OSFI's target minimum Tier 1 and Total capital ratios for the Company are 7% and 10%, respectively. The Company's target minimum Tier 1 and Total capital ratios are both 15%.

| <b>As at December 31</b>                     | <b>2009</b>       | <b>2008</b>       |
|--|-------------------|-------------------|
| <b>Tax Act Test</b>                          |                   |                   |
| Income tax assets                            | \$ 488,024        | \$ 551,589        |
| Income tax capital                           | \$ 120,732        | \$ 115,998        |
| Income tax assets to capital ratio           | 4.04              | 4.76              |
| Income tax liabilities to capital ratio      | 3.04              | 3.76              |
| <b>Regulatory Tests (OSFI)</b>               |                   |                   |
| Tier 1 capital                               |                   |                   |
| Share capital                                | \$ 98,490         | \$ 97,493         |
| Contributed surplus                          | 510               | 510               |
| Retained earnings                            | 22,165            | 17,313            |
| Tier 1 capital deductions                    | (9,792)           | (5,511)           |
|  | 111,373           | 109,805           |
| Tier 2 capital                               |                   |                   |
| Tier 2 capital deductions                    | (1,142)           | (1,814)           |
|  | (1,142)           | (1,814)           |
| <b>Total capital</b>                         | <b>\$ 110,231</b> | <b>\$ 107,991</b> |
| <b>Total regulatory assets</b>               | <b>\$ 508,351</b> | <b>\$ 578,124</b> |
| <b>Capital ratios</b>                        |                   |                   |
| Tier 1 capital to risk-weighted assets ratio | 27.75%            | 24.09%            |
| Total capital to risk-weighted assets ratio  | 27.47%            | 23.69%            |
| Assets to capital multiple                   | 4.61              | 5.35              |

As at December 31, 2009, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

The Company's assets, analyzed on a risk-weighted basis, are as follows:

| As at December 31                       | 2009              |                   | 2008              |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | Balance           | Risk-Weighted     | Balance           | Risk-Weighted     |
| <b>On-Balance Sheet Assets</b>          |                   |                   |                   |                   |
| Cash and cash equivalents               | \$ 89,843         | \$ 18,260         | \$ 58,071         | \$ 12,092         |
| Mortgages                               | 295,415           | 202,272           | 393,010           | 265,668           |
| Securitization investments              | 73,590            | 29,759            | 39,743            | 36,469            |
| Loans receivable and other investments  | 16,885            | 16,885            | 35,624            | 35,624            |
| Equity investment in MCLP               | 17,905            | 17,905            | 18,300            | 18,300            |
| Derivative financial instruments        | 11,490            | -                 | 23,541            | -                 |
| Other assets                            | 1,555             | 1,555             | 1,865             | 1,865             |
|   | <u>\$ 506,683</u> | <u>\$ 286,636</u> | <u>\$ 570,154</u> | <u>\$ 370,018</u> |
| <b>Off-Balance Sheet Assets</b>         |                   |                   |                   |                   |
| Letters of credit                       |                   | 5,572             |                   | 6,455             |
| Mortgage funding commitments            |                   | 48,087            |                   | 32,328            |
|   |                   | <u>53,659</u>     |                   | <u>38,783</u>     |
| <b>Derivative Financial Instruments</b> |                   |                   |                   |                   |
| CMB interest rate swaps                 |                   |                   |                   |                   |
| Outstanding notional                    | \$ 260,095        |                   | \$ 105,281        |                   |
| Add-on factor                           | 0.5%              |                   | 0.5%              |                   |
| Potential credit exposure               | 1,300             |                   | 526               |                   |
| Positive replacement cost               | 11,490            |                   | 23,541            |                   |
| Credit equivalent                       | 12,790            |                   | 24,067            |                   |
| Risk weighting                          | 20%               |                   | 20%               |                   |
| Risk-weighted equivalent                |                   | 2,558             |                   | 4,813             |
| Charge for operational risk             |                   | 58,475            |                   | 42,175            |
| <b>Total Risk-Weighted Assets</b>       |                   | <u>\$ 401,328</u> |                   | <u>\$ 455,789</u> |

The risk-weighting of all on-balance sheet assets (except derivative financial instruments) and all off-balance sheet assets is based on a prescribed percentage of the underlying asset position, in addition to adjustments for other items such as impaired mortgages and unrated securitization investments. The derivative financial instrument credit equivalent consists of the fair market value of the derivative and an amount representing the potential future credit exposure. Risk-weighted assets also include an operational risk charge, which is based on certain components of the Company's net investment income over the past three years.

## 20. Financial Instruments

The majority of the Company's consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, mortgages, securitization investments, loans receivable and other investments, term deposits and derivative financial instruments.

All financial instruments that are carried on the consolidated balance sheet at fair value (mortgages, certain securitization investments and derivative financial instruments) are estimated using valuation techniques based on observable market data such as market interest rates currently charged for similar financial investments to expected maturity dates.

The fair value of the Company's mortgages considers the existing terms of the portfolio of mortgages (e.g. interest rate, term to maturity, risk rating) relative to the current market for similar mortgages.

The Company holds MAV II notes (note 5) that were restructured under the Montreal Accord. At the time of restructuring, there was no active market for these instruments. The Company's initial calculation of the fair value of these investments discounted the expected future cash flows with the assumption that no interest would be received for the first five years, and incorporated a principal loss assumption. Based on this analysis, the Company recorded a \$2,000 write-down in the first quarter of 2009. Based on trading data from late 2009, the Company increased the write-down to \$2,100 at year-end.

The following table summarizes financial assets and liabilities reported at fair value as at December 31, 2009.

|                                  | Level 1 | Level 2    | Level 3   |
|----------------------------------|---------|------------|-----------|
| <b>Financial Assets</b>          |         |            |           |
| Mortgages                        | \$ -    | \$ 295,415 | \$ -      |
| Securitization investments       | -       | 43,409     | 18,943    |
| Derivative financial instruments | -       | 11,490     | -         |
|                                  | \$ -    | \$ 350,314 | \$ 18,943 |
| <b>Financial Liabilities</b>     |         |            |           |
| Securitization liabilities       | \$ -    | \$ -       | \$ 5,048  |

The following table is a reconciliation of changes in the fair value of Level 3 financial instruments:

|                              | Opening Balance | Additions | Settlements | Changes in Fair Value | Closing Balance |
|------------------------------|-----------------|-----------|-------------|-----------------------|-----------------|
| <b>Financial Assets</b>      |                 |           |             |                       |                 |
| Securitization investments   | \$ 5,337        | \$ 10,892 | \$ (1,625)  | \$ 4,339              | \$ 18,943       |
| <b>Financial Liabilities</b> |                 |           |             |                       |                 |
| Securitization liabilities   | \$ 7,095        | \$ -      | \$ (1,125)  | \$ (922)              | \$ 5,048        |

### Risk Management

The types of risks to which the Company is exposed include interest rate, credit, liquidity and market risk. The Company's enterprise risk management framework includes policies, guidelines and procedures, with oversight by senior management and the Board of Directors. These policies are developed and implemented by management and reviewed and approved annually by the Board of Directors.

### Interest Rate Risk

The Company's exposure to interest rate risk is discussed in note 18.

### Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from the Company's mortgage and lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. In the current economic environment, the Company has increased its monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears. All members of management are subject to limits on their ability to commit the Company to credit risk. Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving ALCO and a formal quarterly review involving the ICB. Furthermore, the Company's exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of its investments. The Company's policies establish limits on concentration by asset class, geographic region, dollar amount and borrower.

The Company identifies potential risk in its mortgage portfolio by way of regular review of market metrics, which are a key component of semi-annual market reports provided to the Board of Directors. The Company also undertakes site visits of active mortgages. Existing risks in the Company's mortgage portfolio are identified by arrears reporting, portfolio diversification analysis, annual reviews of large loans and risk rating trends of the entire mortgage portfolio. The aforementioned reporting and analysis provides adequate monitoring of and control over the Company's exposure to credit risk.

MCAN assesses a credit score and risk rating for all mortgages at the time of underwriting based on the quality of the borrower and the underlying real estate. Subsequent to the initial mortgage advance, the ongoing monitoring of a mortgage may lead to the downgrading of the status of a mortgage to monitored, in arrears, or impaired.

The Company has established a methodology for determining the adequacy of its general allowances. The adequacy of general allowances is assessed periodically, taking into consideration such factors as economic and housing market conditions.

The Company records a specific allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Specific allowances include all of the accumulated provisions for losses on a particular mortgage. At December 31, 2009, the Company has recorded \$2,782 of specific allowances on its mortgage portfolio (note 4).

The Company's maximum credit exposure on its individual financial assets is equal to the par value of the respective assets.

### Liquidity Risk

Liquidity risk is the risk that cash inflows, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on and off-balance sheet) as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that the Company may eventually collect the amounts outstanding. The Company closely monitors its liquidity position to ensure that it has sufficient cash to meet liability obligations as they become due. The ICB is responsible for the review and approval of liquidity policies. In general, the Company maintains a standard level of liquid investments and credit facilities of at least 20% of term deposits maturing within 100 days. In addition, all single family mortgages are readily marketable within a time frame of one to three months, providing the Company with added flexibility to meet its liquidity needs. The Company has access to funding through its ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide the Company with the ability to fund asset growth as needed. There is also a \$30,000 overdraft facility in place to fund asset growth or meet short-term obligations as required (note 14).

Management has developed a Liquidity Risk Management Framework that is reviewed and approved annually by the Board of Directors. This framework details the daily, monthly and quarterly analysis that is performed by management. Management monitors changes in cash and cash requirements on a daily basis and formally reports to ALCO on a monthly basis. Management also completes monthly and quarterly stress testing which is reviewed by ALCO and the ICB. Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis.

The Company's liquidity position and access to funding support its ability to meet current and future commitments. The Company's liquid investments and credit facilities were 106% of term deposits maturing within 100 days at December 31, 2009. For further details on the Company's liquid assets and its ability to meet liability obligations, refer to note 18.

The Company's sources and uses of liquidity are outlined in the table below. The Company manages its net liquidity surplus/deficit by raising term deposits as mentioned above.

|   | Within<br>3 Months | 3 Months<br>to 1 Year | 1 to 5<br>Years  | Over 5<br>Years  | 2009<br>Total   | 2008<br>Total    |
|---|--------------------|-----------------------|------------------|------------------|-----------------|------------------|
| <b>Sources of liquidity</b>               |                    |                       |                  |                  |                 |                  |
| Cash and cash equivalents                 | \$ 89,843          | \$ -                  | \$ -             | \$ -             | \$ 89,843       | \$ 58,071        |
| Mortgages                                 | 84,629             | 130,980               | 35,913           | 43,893           | 295,415         | 393,010          |
| Securitization investments                | 203                | -                     | 65,732           | 7,655            | 73,590          | 39,743           |
| Loans receivable and other<br>investments | 243                | 11,984                | 2,558            | 2,100            | 16,885          | 35,624           |
|   | 174,918            | 142,964               | 104,203          | 53,648           | 475,733         | 526,448          |
| <b>Uses of liquidity</b>                  |                    |                       |                  |                  |                 |                  |
| Term deposits                             | 93,724             | 245,829               | 21,191           | -                | 360,744         | 426,663          |
| Securitization liabilities                | -                  | -                     | 5,048            | -                | 5,048           | 7,095            |
| Accounts payable and<br>accrued charges   | 10,408             | -                     | -                | -                | 10,408          | 11,209           |
|   | 104,132            | 245,829               | 26,239           | -                | 376,200         | 444,967          |
| Unfunded mortgage commitments             | 9,617              | 76,939                | 9,617            | -                | 96,173          | 64,656           |
|   | 113,749            | 322,768               | 35,856           | -                | 472,373         | 509,623          |
| <b>Net liquidity surplus (deficit)</b>    | <b>\$ 61,169</b>   | <b>\$ (179,804)</b>   | <b>\$ 68,347</b> | <b>\$ 53,648</b> | <b>\$ 3,360</b> | <b>\$ 16,825</b> |

### Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. For the Company, market risk factors include interest rates, real estate values and commodity prices, among others.

**21. Lease Commitments**

The future minimum annual lease commitments for premises are as follows:

|                     |               |
|---------------------|---------------|
| 2010                | \$ 171        |
| 2011                | 171           |
| 2012                | 128           |
| 2013 and thereafter | -             |
|                     | <b>\$ 470</b> |

**22. Guarantees**

The Company guarantees certain of the credit and operating activities of MCAP Financial Corporation (“MFC”) and MCLP. CDP Capital - Real Estate Advisory Inc. (“CDP Capital - Real Estate Advisory”) indemnifies the Company to the extent of 75% of the costs resulting from any claims on the guarantees. The effect of this indemnity is that the cost of any claim will be borne by the Company and CDP Capital - Real Estate Advisory pro rata to their respective voting interests in MCLP.

The guarantees subject to the CDP Capital - Real Estate Advisory indemnity are as follows:

- (a) guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to MCLP’s residential construction loan securitization program;
- (b) guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to the warehousing of residential construction loans intended for MCLP’s residential construction loan securitization program; and
- (c) guarantee of the premises lease with respect to the premises occupied by MFC, MCLP and the Company at 200 King Street West, Toronto with a current monthly rent of \$108 increasing to \$116 in 2010 and expiring in September 2014.

Management does not expect any losses as a result of these guarantees.

MCLP has issued Class B units to management of MCLP, which were financed by bank loans to management. Under certain circumstances as a partner in MCLP, the Company may be required to contribute up to 25% of the fair value of the Class B units to MCLP in order to repurchase the Class B units or to repay the bank financing and subrogate the bank’s position. At December 31, 2009, the outstanding bank loan balances were \$7,222.

**23. Comparative Amounts**

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year. There was no impact to the financial position or net income as a result of these reclassifications.