Financial Statements

First National Financial LP

December 31, 2009 and 2008

AUDITORS' REPORT

To the Partners of
First National Financial LP

We have audited the balance sheets of **First National Financial LP** as at December 31, 2009 and 2008 and the statements of income and retained earnings 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 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.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
March 9, 2010.

First National Financial LP

BALANCE SHEETS

[in thousands of dollars]

As at December 31

	2009	2008
	$	$
ASSETS		
Accounts receivable and sundry	**37,161**	26,566
Mortgages accumulated for sale	**383,257**	224,570
Securitization receivable *[note 3]*	**103,964**	51,104
Deferred placement fees receivable *[note 3]*	**98,121**	63,977
Cash collateral and short-term notes held by securitization trusts *[note 3]*	**45,112**	54,198
Mortgage and loan investments *[note 4]*	**54,737**	75,450
Purchased mortgage servicing rights *[note 5]*	**6,607**	8,631
Securities purchased under resale agreements and owned *[note 10]*	**333,705**	227,304
Property, plant and equipment, net *[note 6]*	**5,026**	5,265
Total assets	**1,067,690**	737,065
LIABILITIES AND EQUITY		
Liabilities		
Bank indebtedness *[note 7]*	**249,336**	331,003
Obligations related to securities and mortgages sold under repurchase agreements *[note 11]*	**221,937**	—
Accounts payable and accrued liabilities	**18,097**	16,692
Distributions payable	**10,494**	10,944
Servicing liability *[note 3]*	**21,022**	15,697
Securities sold under repurchase agreements and sold short *[note 10]*	**332,427**	224,882
Total liabilities	**853,313**	599,218
Commitments and guarantees *[note 9]*		
Equity		
GP units *[notes 1 and 18]*	**59**	59
Class A LP units *[notes 1 and 18]*	**120,171**	120,171
Exchangeable Class B LP units *[notes 1 and 18]*	**(22,940)**	(22,940)
Retained earnings	**117,087**	40,557
Total equity	**214,377**	137,847
Total liabilities and equity	**1,067,690**	737,065

See accompanying notes

Stephen Smith　　　Moray Tawse

First National Financial LP

STATEMENTS OF INCOME AND RETAINED EARNINGS

[in thousands of dollars, except earnings per unit]

Years ended December 31

	2009	2008
	$	$
REVENUE		
Placement fees	**123,882**	145,930
Gains on deferred placement fees *[note 3]*	**51,805**	40,760
Gains on securitization *[note 3]*	**55,417**	26,524
Mortgage investment income *[note 4]*	**23,428**	22,148
Mortgage servicing income	**64,440**	62,258
Residual securitization income *[note 3]*	**22,853**	9,005
Realized and unrealized losses on financial instruments *[notes 2 and 13]*	**(109)**	(12,666)
	341,716	293,959
EXPENSES		
Brokerage fees	**98,677**	105,757
Salaries and benefits	**48,204**	40,376
Interest	**13,439**	15,663
Management salaries	**1,500**	1,500
Other operating	**16,413**	22,642
	178,233	185,938
Net income for the year	**163,483**	108,021
Retained earnings, beginning of year	**40,557**	13,769
Less distributions declared	**(86,953)**	(81,233)
Retained earnings, end of year	**117,087**	40,557
Earnings per unit *[note 16]*		
Basic	**$2.73**	$1.81

See accompanying notes

First National Financial LP

STATEMENTS OF CASH FLOWS

[in thousands of dollars]

Years ended December 31

	2009 $	2008 $
OPERATING ACTIVITIES		
Net income for the year	**163,483**	108,021
Add (deduct) items not affecting cash		
Gains on securitization and gains on deferred placement fees	**(121,565)**	(75,506)
Amortization of securitization receivable and deferred placement fees receivable	**48,019**	45,283
Amortization of purchased mortgage servicing rights	**2,024**	1,123
Amortization of property, plant and equipment	**1,749**	1,655
Unrealized losses on financial instruments	**32**	6,809
Amortization of servicing liability	**(5,743)**	(6,399)
	87,999	80,986
Net change in non-cash working capital balances related to operations *[note 12]*	**(171,548)**	(160,783)
Cash used in operating activities	**(83,549)**	(79,797)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(1,510)**	(1,992)
Repayment of cash collateral and short-term notes, net	**8,614**	1,210
Investment in mortgage and loan investments	**(82,924)**	(60,887)
Repayment of mortgage and loan investments	**101,063**	81,436
Cash provided by investing activities	**25,243**	19,767
FINANCING ACTIVITIES		
Issuance of Class A LP units *[note 1]*	**—**	11,031
Distributions paid	**(87,403)**	(79,989)
Obligations related to securities and mortgages sold under repurchase agreements	**221,937**	—
Securities purchased under resale agreements and owned, net	**(106,401)**	(104,440)
Securities sold under repurchase agreements and sold short, net	**111,840**	100,925
Cash provided by (used in) financing activities	**139,973**	(72,473)
Net decrease (increase) in bank indebtedness during the year	**81,667**	(132,503)
Bank indebtedness, beginning of year	**(331,003)**	(198,500)
Bank indebtedness, end of year	**(249,336)**	(331,003)
Supplemental cash flow information		
Interest paid	**13,330**	15,951

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars, except per unit amounts or unless otherwise noted]

December 31, 2009 and 2008

1. GENERAL ORGANIZATION AND BUSINESS OF FIRST NATIONAL FINANCIAL LP

First National Financial LP [the "Company" or "FNFLP"], a limited partnership established under the laws of Ontario, is a Canadian-based originator, underwriter and servicer of predominantly prime single-family residential and multi-unit residential and commercial mortgages.

As a Canada Mortgage and Housing Corporation approved lender, the Company is active in the single-family residential and commercial mortgage markets. As at December 31, 2009, the Company had mortgages under administration of $47,793,045 [2008 - $40,596,013] and cash held in trust of $435,358 [2008 - $334,451]. Mortgages under administration are serviced for financial institutions such as insurance companies, pension funds, mutual funds, trust companies, credit unions and special purpose entities [including trusts], also referred to as securitization vehicles. As at December 31, 2009, the Company administered 155,401 mortgages [2008 - 133,177] for 98 institutional investors [2008 - 109] with an average remaining term to maturity of 47 months [2008 - 51 months].

Pursuant to the Limited Partnership Agreement between FNFLP, First National Financial Operating Trust [the "Trust"] and First National Financial Corporation ["FNFC"] dated June 15, 2006, First National Financial GP Corporation, as general partner, has full power and exclusive authority to employ all persons necessary for the conduct of the partnership, to enter into an agreement and to incur any obligation related to the affairs of the partnership and is entitled to full reimbursement of all costs and expenses incurred on behalf of the partnership. As general and administrative costs incurred by First National Financial GP Corporation are on behalf of the partnership, these costs have been reflected in the financial statements of FNFLP.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including contingencies, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Major areas requiring use of estimates by management are the securitization receivable and the fair values of financial assets and liabilities.

December 31, 2009 and 2008

Adoption of new accounting standards

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants ["CICA"] issued Abstract EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which establishes guidance requiring an entity to consider its own credit and the credit risk of the counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 should be applied retroactively, without restatement of prior periods. The adoption of this abstract did not have a significant impact on the Company's financial statements.

Financial instruments disclosures

In June 2009, the CICA amended Handbook Section 3862, "Financial Instruments - Disclosures", to enhance disclosures about fair value measurements and the liquidity risk of financial instruments. All financial instruments recognized at fair value on the balance sheets must be classified into three fair value hierarchy levels, which are as follows:

Level 1 - valuation based on quoted prices [unadjusted] observed in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 - valuation techniques with significant unobservable market inputs.

The amendments have no impact on how the Company determines the fair value of financial instruments; however, they require additional disclosures, which details are provided in note 13.

Impairment of financial assets

In August 2009, the CICA amended Handbook Section 3855, "Financial Instruments – Recognition and Measurement". The amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008 with retroactive application to the beginning of the fiscal year. The amendments allow certain debt securities not quoted in an active market to be classified as loans and receivables and measured at amortized cost, with impairment being measured using the incurred credit loss model of Section 3025, "Impaired Loans". Loans and receivables that an entity intends to sell immediately or in the near term must be classified as held-for-trading, and loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale. Impairment losses recognized in income relating to an available-for-sale debt security must be reversed in income when, in a subsequent period, the fair value of the security increases, and the increase can be objectively related to an event occurring after the loss was recognized. The initial application of these amendments had no significant impact on the Company's financial statements, primarily because the Company has not classified any assets as available-for-sale.

Revenue recognition

The Company earns revenue from placement, securitization and servicing activities related to its mortgage business. The majority of originated mortgages are funded either by placement of mortgages with institutional investors or the sale of mortgages to securitization conduits. The Company retains servicing rights on substantially all of the mortgages it originates, providing the Company with servicing fees.

The Company complies with CICA Accounting Guideline 12, "Transfers of Receivables". Accordingly, gains on securitization are recognized in income at such time as the Company transfers mortgages to securitization vehicles and surrenders control whereby the transferred assets have been isolated presumptively beyond the reach of the Company and its creditors, even in bankruptcy or other receivership. When the Company securitizes mortgages, it generally retains a residual interest, presented in the balance sheets as securitization receivable, and the rights and obligations associated with servicing the mortgages. The measurement of gains or losses recognized on the sale of mortgages depends in part on the previous carrying amount of the transferred mortgages, as allocated between the assets sold and the interests that are retained by the Company as the seller, based on the relative fair value of the assets and the retained interest at the date of transfer. To obtain fair values, quoted market prices are used where available. Since quoted prices are generally not available for retained interests, the Company estimates fair value based on the net present value of future expected cash flows, calculated using management's best estimates of key assumptions related to expected credit loss experience, prepayment rates and discount rates commensurate with the risks involved.

Placement fees are earned by the Company for its origination and underwriting activities on a completed transaction basis when the mortgage is funded. Amounts collected or collectible in excess of the mortgage principal are recognized as placement fees. When placement fees are earned over the term of the related mortgages, the Company determines the present value of the ongoing placement fees. This amount is recorded in income as gains on deferred placement fees. The same accounting methodology is applied as described above for gains on securitization.

Residual securitization income represents primarily the difference between the actual cash flows received on securitized mortgages and the assumed cash flows, and is recognized in income as received. It also includes the difference between the actual cash flows received on mortgages sold under deferred placement arrangements and the assumed cash flows. Further, subsequent to securitization/placement, the fair value of retained interests is measured quarterly and compared to the receivables at the balance sheet dates. Should the carrying value of the receivables differ from the fair value of the retained interests determined by reference to the underlying remaining expected cash flows, unrealized gains or losses on financial instruments are recorded in the statements of income and retained earnings to adjust the carrying value of the receivables.

The Company services substantially all of the mortgages that it originates whether the mortgage is placed with institutional investors or transferred to a securitization vehicle. In addition, mortgages are serviced on behalf of third-party institutional investors and securitization structures. Servicing revenue is recognized in income on an accrual basis and is collected on a monthly basis from institutional investors. For securitized mortgages, the Company retains the rights and obligations to service the mortgages and records a liability for future servicing and a reduction to gains on securitization revenue at the time of transfer. Servicing income related to securitized mortgages is accreted to income over the life of the servicing obligation and included in residual securitization income. Interest income earned by the Company related to servicing activities is classified as mortgage servicing income.

In addition to the foregoing sources of revenue, the Company earns interest income which is recorded on an accrual basis from its interest bearing assets including securitization receivable, deferred placement fees receivable, mortgage and loan investments and mortgages accumulated for sale. Prior to placement or transfer, funded mortgages are presented in the balance sheets as mortgages accumulated for sale which are typically held for a period of less than 90 days and are carried at fair value.

Brokerage fees

Brokerage fees relating to the mortgages recorded at fair value are expensed as incurred and brokerage fees relating to mortgages recorded at amortized cost are deferred and amortized over the term of the mortgages.

Cash collateral and short-term notes

Cash collateral and short-term notes held by securitization trusts are classified as held-for-trading under the Fair Value Option ["FVO"] and recorded at fair value.

Mortgage and loan investments

Mortgage and loan investments are carried at their outstanding principal balances adjusted for unamortized premiums or discounts and are net of specific provisions for credit losses, if any.

Mortgage and loan investments are recognized as being impaired when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. An allowance for loan losses is established for mortgages and loans that are known to be uncollectible. When management considers there to be no probability of collection, the investments are written off.

Mortgages accumulated for sale

Mortgages accumulated for sale are mortgages funded on behalf of the Company's investors. These mortgages are held for terms usually not exceeding 90 days. These mortgages are classified as held-for-trading under the FVO and recorded at fair value.

Purchased mortgage servicing rights

The Company purchases the rights to service mortgages from third parties. Purchased mortgage servicing rights are initially recorded at cost and charged to income over the life of the underlying mortgage servicing obligation. The fair value of such rights is determined on a periodic basis to assess the continued recoverability of the unamortized cost in relation to estimated future cash flows associated with the underlying serviced assets. Any loss arising from an excess of the unamortized cost over the fair value is immediately recorded as a charge to income.

Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated amortization, at the following annual rates and bases:

Computer equipment	30% declining balance
Office equipment	20% declining balance
Leasehold improvements	straight-line over the term of the lease
Computer software	30% declining balance except for a computer license, which is straight-line over 10 years

Securities sold short and securities purchased under resale agreements

Securities sold short consist of the short sale of a bond. Bonds purchased under resale agreements consist of the purchase of a bond with the commitment by the Company to resell the bond to the original seller at a specified price. The Company uses combinations of bonds sold short and bonds purchased under resale agreements to economically hedge its mortgage commitments and the portion of mortgages accumulated for sale that it intends to sell.

Bonds sold short are classified as held-for-trading under the FVO and recorded at fair value. The accrued coupon on bonds sold short is recorded as interest expense. Bonds purchased under resale agreements are carried at cost plus accrued interest, which approximates market value. The difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement is recorded over the term of the hedged mortgages as an offset to interest expense. Transactions are recorded on a settlement date basis.

Securities sold under repurchase agreements

The Company purchases bonds and enters into bond repurchase agreements to close out economic hedging positions when mortgages are sold to institutional investors or securitization vehicles.

These transactions are accounted for in a similar manner as the transactions described for securities sold short and securities purchased under resale agreements.

Income taxes

These financial statements are those of the Company and do not reflect the assets, liabilities, revenues and expenses of its partners. FNFLP is a partnership carrying on business in Canada, and consequently, is not directly subject to federal or provincial income taxes. The income or loss for income tax purposes of the Company is required to be allocated to FNFLP's partners.

The calculation of taxable income of the Company is based on estimates and the interpretations of tax legislation. In the event that the tax authorities take a different view, income for tax purposes of the Company as allocated to FNLP partners could change and the change could be significant.

Cash and cash equivalents

Cash and cash equivalents consist of cash balances with banks and bank indebtedness.

Derivative instruments

Derivative instruments are marked to market and recorded at fair value with the changes in fair value recognized in income as they occur. Positive values are recorded as assets and negative values are recorded as liabilities.

Financial Instruments - Disclosures and Presentation

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, "Financial Instruments – Disclosures", and 3863, "Financial Instruments – Presentation". These sections require the disclosure of information with regard to the significance of financial instruments for the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet dates, and how the Company manages those risks. In 2009, Section 3862 was amended to enhance the disclosure requirements regarding the liquidity risk of financial instruments. As these are disclosure items, they had no measurement effect on the Company's financial statements.

Financial instrument classification is as follows:

Accounts receivable and sundry	Loans and receivables
Securities purchased under resale agreement	Loans and receivables
Securitization receivable	Held-for-trading
Deferred placement fees receivable	Held-for-trading
Mortgages accumulated for sale	Held-for-trading
Cash collateral and short-term notes held by securitization trusts	Held-for-trading
Mortgage commitments	Held-for-trading
Securities owned and sold short	Held-for-trading
Obligation related to securities and mortgages sold under repurchase agreements	Other liabilities
Mortgage and loan investments, except for long-term commercial mortgages	Loans and receivables
Accounts payable and bank indebtedness	Other liabilities
Long-term commercial mortgages included in mortgage and loan investments	Held-for-trading

Variable interest entities

The Company applies the guidance in CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities", ["AcG-15"] when preparing its financial statements. AcG-15 provides a framework for identifying a variable interest entity ["VIE"] and requires a primary beneficiary to consolidate a VIE. A primary beneficiary is the enterprise that absorbs the majority of the VIE's expected losses or receives a majority of the VIE's residual returns, or both. The Company has interests in VIEs that are not consolidated because the Company is not considered the primary beneficiary.

3. SECURITIZATION AND DEFERRED PLACEMENT FEES RECEIVABLE

Beginning in the first quarter of 2009, the Company changed the presentation of its activities that were previously disclosed generally as securitizations. Going forward, the Company separates this revenue into "Gains on deferred placement fees" and "Gains on securitization", and the resultant assets between "Securitization receivable" and "Deferred placement fees receivable". This distinction acknowledges the nature of the future payments being received. Originally, these future payments represented primarily the present value of future payments from direct securitization by the Company where the Company was the principal risk taker. This included securitizations through Asset Backed Commercial Paper ["ABCP"], NHA-MBS, and the Canada Mortgage Bonds ["CMB"] program. At that time, the Company also entered into transactions with institutional investors in which placement fees were received over time instead of just at the time of the mortgage sale. In these cases, the Company applied the same accounting methodology as it had with the direct securitization transactions; future expected cash flows were discounted to present value and a gain on securitization was recorded. Because of the growth of transactions that attract deferred placement fees, the Company considers this change appropriate. It has used this new presentation for its revenue beginning in the first quarter of 2009 and presented reclassified comparative figures on the same basis.

The Company securitizes residential and commercial mortgage loans. In all of these securitizations, the Company retains servicing responsibilities and subordinate interests. Most of these securitizations consist of sales of fixed and floating rate mortgages to special purpose entities [including direct sales into the CMB program]. In these cases, the Company does not receive an explicit servicing fee; instead, the Company receives subordinated interests consisting of rights to future cash flows arising after the investors in the special purpose entities have received the return for which they contracted, and provides credit enhancement to the special purpose entity in the form of cash collateral accounts and short-term notes. The special purpose entities and other securitization vehicles have no recourse to the Company's other assets for failure of debtors to pay when due. The Company's retained interests are subject to credit, prepayment and interest rate risks on the transferred receivables. The Company also places residential and commercial mortgages with institutions and earns fees which are collected over future periods. These placement fees consist of sales of fixed and floating rate mortgages to institutional investors. The investors have no recourse to the Company's other assets for failure of debtors to pay when due. The Company's deferred placement fees receivable are subject primarily to prepayment risk on the mortgages sold.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

During the year ended December 31, 2009, the Company securitized $2,543,505 [2008 - $671,987] of mortgage loans to special purpose entities and other securitization vehicles, recognizing gains on securitization of $55,417 [2008 - $26,524]. Gains on securitization are net of losses from interest rate hedging of $9,638 [2008 - $8,241]. During the year ended December 31, 2009, the Company sold $4,606,051 [2008 - $4,776,930] of mortgage loans to institutional investors which created placement fees receivable in future periods, recognizing gains on deferred placement fees of $51,805 [2008 - $40,760]. These gains are net of losses from interest rate hedging of $4,705 [2008 - gains of $19].

The liability for implicit servicing on securitization was $21,022 as at December 31, 2009 [2008 - $15,697]. In the absence of quoted market rates for servicing securitized assets, management has estimated, based on industry expertise, that the fair market value of this liability approximates its carrying value. Amortization of the servicing liability during the year ended December 31, 2009 amounted to $5,743 [2008 - $6,399] and is included in residual securitization income.

As part of its securitization activities, the Company provides cash collateral and invests in short-term notes for credit enhancement purposes as required by the rating agency. Credit exposure to securitized mortgages is limited to the securitization receivable, cash collateral and amounts invested in the notes. The securitization receivable is paid to the Company by the special purpose entity over the term of the mortgages, as monthly net spread income. The full amount of the cash collateral and the notes held by the securitization trusts, and accrued interest thereon, is also recorded as a receivable and the Company anticipates full recovery of these amounts. As at December 31, 2009, the cash collateral was $32,178 [2008 - $40,264] and the short-term notes were $12,934 [2008 - $13,934].

The key weighted average assumptions used in determining gains on deferred placement fees and securitization were as follows:

	2009	**2008**
Prepayment rate	**13.5%**	11.1%
Discount rate	**5.4%**	4.6%

[in thousands of dollars, except per unit amounts or unless otherwise noted]

There was no credit loss assumption used for insured mortgages as no loss is expected. For uninsured mortgages, the expected weighted average credit loss assumption used was 0.51% [2008 - 0.33%]. In 2009 the Company increased its assumption in its securitization models for credit losses from 0.35% annually to 0.70%. The result of this change was to decrease the securitization receivable and income by $4.3 million.

Cash flows received from securitization vehicles for the years ended December 31 are as follows:

	2009 $	2008 $
Proceeds from new securitizations and deferred placements	**7,149,556**	5,494,918
Receipts on securitization and deferred placement fees receivable	**71,126**	53,088

The Company uses various assumptions to value the securitization receivable and deferred placement fee receivable [excluding cash collateral and short-term notes held by the securitization trusts], which are set out below in the table, including the rate of unscheduled prepayments. Accordingly, the securitization receivable is subject to measurement uncertainty. The effect of variations between actual experience and assumptions will be recorded in future statements of income and retained earnings. Key economic weighted average assumptions and the sensitivity of the current carrying value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions are as follows:

	2009			
	Commercial mortgage loans		**Residential mortgage loans**	
	Fixed rate	**Adjustable**	**Fixed rate**	**Adjustable**
Fair value of securitization receivable and deferred placement fees receivable [FVO]	**$78,012**	**$958**	**$48,399**	**$74,716**
Average life [in months] [1]	**56**	**11**	**39**	**43**
Prepayment speed assumption [annual rate]	**0.6%**	**33.7%**	**15.2%**	**25.5%**
Impact on fair value of 10% adverse change	**$88**	**$28**	**$1,091**	**$2,854**
Impact on fair value of 20% adverse change	**$173**	**$54**	**$2,144**	**$5,537**
Residual cash flows discount rate [annual]	**5.6%**	**3.7%**	**5.1%**	**5.3%**
Impact on fair value of 10% adverse change	**$1,029**	**$3**	**$378**	**$607**
Impact on fair value of 20% adverse change	**$2,033**	**$6**	**$751**	**$1,205**
Expected credit losses	**0.0%**	**0.1%**	**0.0%**	**0.0%**
Impact on fair value of 10% adverse change	**$65**	**$3**	**$423**	**$177**
Impact on fair value of 20% adverse change	**$129**	**$7**	**$847**	**$353**
Spread assumption	**0.5%**	**0.7%**	**0.6%**	**1.0%**
Impact on fair value of 10% adverse change	**$7,847**	**$96**	**$5,161**	**$7,435**
Impact on fair value of 20% adverse change	**$15,693**	**$191**	**$10,323**	**$14,869**

[in thousands of dollars, except per unit amounts or unless otherwise noted]

	2008			
	Commercial mortgage loans		Residential mortgage loans	
	Fixed rate	Adjustable	Fixed rate	Adjustable
Fair value of securitization receivable and deferred placement fees receivable [FVO]	$37,620	$1,796	$38,263	$37,402
Average life [in months] [1]	61	22	45	37
Prepayment speed assumption [annual rate]	0.0%	32.2%	15.7%	16.3%
Impact on fair value of 10% adverse change	$19	$55	$1,081	$792
Impact on fair value of 20% adverse change	$38	$105	$2,117	$1,557
Residual cash flows discount rate [annual]	4.8%	4.1%	4.5%	4.4%
Impact on fair value of 10% adverse change	$449	$8	$304	$240
Impact on fair value of 20% adverse change	$889	$15	$604	$476
Expected credit losses	0.0%	0.1%	0.0%	0.0%
Impact on fair value of 10% adverse change	$107	$11	$410	$140
Impact on fair value of 20% adverse change	$214	$22	$821	$280
Spread assumption	0.3%	0.7%	0.5%	0.9%
Impact on fair value of 10% adverse change	$3,942	$180	$4,100	$9,080
Impact on fair value of 20% adverse change	$7,884	$359	$8,201	$16,959

[1] The weighted-average life of prepayable assets in periods [for example, months or years] can be calculated by multiplying the principal collections expected in each future period by the number of periods until that future period, summing those products, and dividing the sum by the initial principal balance.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in carrying value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another [for example, increases in market interest rates may result in lower prepayments and increased credit losses], which might magnify or counteract the sensitivities.

The sensitivity for spread assumptions disclosed above includes the sensitivity of securitization receivables to changes in ABCP spreads. The securitization receivable assumes ABCP will trade at 0.25 percentage points in excess of Bankers' Acceptances rates. If this spread increased by 0.10 percentage points, the related fair value of the securitization receivable would be decreased by approximately $1,912.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

The Company estimates that the expected cash flows of the securitization receivable and the deferred placement fees receivable will be as follows:

	$
2010	73,090
2011	53,122
2012	37,964
2013	22,704
2014 and thereafter	15,205
	202,085

Mortgages under administration are serviced as follows:

	2009 $	**2008** $
Institutional investors	**33,316,698**	28,723,298
Securitization vehicles	**9,445,142**	6,503,294
CMBS conduits	**5,031,205**	5,369,421
	47,793,045	40,596,013

The Company's exposure to credit loss is limited to mortgages under administration totalling $858,023 [2008 - $1,114,466] of which $60,928 of mortgages have principal and interest payments outstanding as at December 31, 2009 [2008 - $20,259]. The Company incurred actual credit losses, net of recoveries, of $3,736 during the year ended December 31, 2009 [2008 - $8,250]. As at December 31, 2009, the Company has $9,296 [2008 - $322] of uninsured non-performing mortgages [net of provisions for credit losses] included in accounts receivable and sundry related to defaulted mortgages purchased from securitization trusts.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

4. MORTGAGE AND LOAN INVESTMENTS

As at December 31, 2009, mortgage and loan investments consist primarily of commercial first and second mortgages held for various terms up to nine years.

Mortgage and loan investments consist of the following:

	2009 $	2008 $
Mortgage loans, classified as loans and receivable	**44,133**	55,191
Mortgage loans, designated as held-for-trading	**9,604**	12,389
Mortgage-backed securities, designated as held-for-trading	**—**	5,370
Subordinated note	**1,000**	2,500
	54,737	75,450

Mortgage and loan investments classified as loans and receivables are carried at outstanding principal balances adjusted for unamortized premiums or discounts and are net of specific provisions for credit losses, if any.

The following table discloses the composition of the Company's portfolio of mortgage and loan investments by geographic region as at December 31, 2009:

Province	Portfolio balance $	Percentage of portfolio $
Alberta	**5,217**	**9.53**
British Columbia	**901**	**1.65**
Manitoba	**11,758**	**21.48**
New Brunswick	**545**	**1.00**
Newfoundland	**105**	**0.19**
Nunavut	**400**	**0.73**
Nova Scotia	**31**	**0.06**
Ontario	**19,242**	**35.15**
Quebec	**15,768**	**28.80**
Saskatchewan	**223**	**0.41**
Yukon	**547**	**1.00**
	54,737	**100.00**

[in thousands of dollars, except per unit amounts or unless otherwise noted]

These balances are net of discounts of $674 [2008 - $1,286], and provisions for credit losses of $4,306 [2008 - $3,437]. The portfolio contains $869 [2008 - $5,938] of insured mortgages and $53,868 [2008 - $69,512] of uninsured mortgage and loan investments as at December 31, 2009.

The following table discloses the mortgages that are past due as at December 31:

Days	2009 $	2008 $
31 to 60	**400**	—
61 to 90	**—**	6,771
Greater than 90	**5,956**	2,739
	6,356	9,510

Of the above total amount, the Company considers $5,956 [2008 - $5,433] as impaired for which it has provided an allowance for potential loss of $4,306 [2008 - $3,437] as at December 31, 2009.

Allowance for loan losses

The following table discloses credit losses which the Company has provided for impaired mortgage and loan investments:

	2009 $	2008 $
Balance, beginning of year	**3,437**	55
Provisions for credit losses	**1,313**	6,795
Write-offs	**(444)**	(3,413)
Balance, end of year	**4,306**	3,437

Due to loan specific issues, the Company has experienced credit losses of $1,313 for the year ended December 31, 2009 [2008 - $6,795]. These losses are included in other operating expenses in the statements of income and retained earnings.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

The contractual repricing on the table below is based on the earlier of contractual repricing or maturity dates.

	2009					2008
	Within 1 year	**Over 1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Book value**	**Book value**
	$	$	$	$	$	$
Residential	**5,492**	**—**	**32**	**—**	**5,524**	11,379
Commercial	**29,050**	**4,585**	**1,267**	**14,311**	**49,213**	64,071
					54,737	75,450

The maturity profile of mortgage and loan investments is as follows:

	$
2010	34,542
2011	2,886
2012	1,699
2013	1,128
2014 and thereafter	14,482
	54,737

The subordinated note was issued by a securitization trust not related to the Company. The Company's exposure is limited to $1,000 [2008 - $2,500].

Interest income for the year was $9,626 [2008 - $8,711] and is included in mortgage investment income on the statements of income and retained earnings.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

5. PURCHASED MORTGAGE SERVICING RIGHTS

Purchased mortgage servicing rights consist of the following components:

	2009			2008		
	Cost $	**Accumulated amortization** $	**Net book value** $	**Cost** $	**Accumulated amortization** $	**Net book value** $
Third-party commercial mortgage servicing rights	**3,614**	**2,462**	**1,152**	3,614	2,283	1,331
Commercial mortgage backed securities primary and master servicing rights	**8,705**	**3,250**	**5,455**	8,705	1,405	7,300
	12,319	**5,712**	**6,607**	12,319	3,688	8,631

The Company did not purchase any new servicing rights during the years ended December 31, 2009 and 2008. Amortization, including impairment, charged to income for the year ended December 31, 2009 was $2,024 [2008 - $1,123].

During the year ended December 31, 2009, management performed an impairment test on these assets and concluded that the Company's unamortized cost exceed the fair market value, and as a result, the Company recorded an impairment charge of $1,194.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2009			2008		
	Cost $	**Accumulated amortization** $	**Net book value** $	**Cost** $	**Accumulated amortization** $	**Net book value** $
Computer equipment	**6,327**	**3,662**	**2,665**	5,065	2,790	2,275
Office equipment	**3,006**	**2,016**	**990**	2,945	1,776	1,169
Computer software	**1,869**	**1,259**	**610**	1,682	984	698
Leasehold improvements	**2,429**	**1,668**	**761**	2,429	1,306	1,123
	13,631	**8,605**	**5,026**	12,121	6,856	5,265

7. BANK INDEBTEDNESS

Bank indebtedness includes a one-year revolving line of credit of $378,330 [2008 - $378,330] maturing in June 2010, of which $240,704 [2008 - $320,100] was drawn at December 31, 2009 and against which the following have been pledged as collateral:

[a] a general security agreement over all assets, other than real property, of the Company; and

[b] a general assignment of all mortgages owned by the Company.

The revolving line of credit bears a variable rate of interest based on prime and bankers' acceptance rates.

On February 12, 2010, the Company elected to cancel $78,000 of its line of credit commitment, reducing the revolving line of credit to $300,330.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

8. SWAP CONTRACTS

Swaps are over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed upon rates to a notional amount. The Company used an interest rate swap to manage interest rate exposure relating to variability of interest earned on a portion of mortgages accumulated for sale held on the balance sheets. The swap agreement that the Company entered into was an interest rate swap where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency.

The following table presents the notional amounts and fair value of the swap contract as at December 31, 2009 and 2008 by remaining term to maturity:

	2009			
	3 to 5 years $	**> 5 years** $	**Total notional amount** $	**Fair value** $
Interest rate swap contract	**33,000**	**—**	**33,000**	**(209)**

	2008			
	3 to 5 years $	**> 5 years** $	**Total notional amount** $	**Fair value** $
Interest rate swap contract	33,000	—	33,000	(737)

Positive fair values of the interest rate swap contracts are included in accounts receivable and sundry and negative fair values are included in accounts payable and accrued liabilities on the balance sheets.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

9. COMMITMENTS AND GUARANTEES

As at December 31, 2009, the Company has the following operating lease commitments for its office premises:

	$
2010	3,037
2011	2,752
2012	719
2013	329
2014	155
	6,992

Outstanding commitments for future advances on mortgages with terms of one to 10 years amounted to $1,835,674 as at December 31, 2009 [2008 - $1,277,364]. The commitments generally remain open for a period of up to 90 days. These commitments have credit and interest rate risk profiles similar to those mortgages which are currently under administration. Certain of these commitments have been sold to institutional investors while others will expire before being drawn down. Accordingly, these amounts do not necessarily represent future cash requirements of the Company.

In the normal course of business, the Company enters into a variety of guarantees. Guarantees include contracts where the Company may be required to make payments to a third party, based on changes in the value of an asset or liability that the third party holds. In addition, contracts under which the Company may be required to make payments if a third party fails to perform under the terms of the contract [such as mortgage servicing contracts] are considered guarantees. The Company has determined that the estimated potential loss from these guarantees is insignificant.

10. SECURITIES TRANSACTIONS UNDER REPURCHASE AND RESALE TRANSACTIONS

The Company's outstanding securities purchased under resale agreements and securities sold under repurchase agreements have a remaining term to maturity of less than one month.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

11. OBLIGATIONS RELATED TO SECURITIES AND MORTGAGES SOLD UNDER REPURCHASE AGREEMENTS

The Company uses repurchase agreements to fund specific mortgages included in mortgages accumulated for sale. The current contracts are with financial institutions and have a weighted average interest rate of 1.0% and mature on or before February 10, 2010. This liability includes $62.5 million for repo transactions related to mortgages carried by the Company in the form of NHA-MBS, and $159.5 million related to the sale of whole loan mortgages. The sale is entered into concurrently with a total return swap which with the mortgage sale is the economic equivalent of a repurchase agreement.

12. STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2009 $	2008 $
Accounts receivable and sundry	**(10,068)**	(7,396)
Mortgages accumulated for sale	**(161,966)**	(158,123)
Accounts payable and accrued liabilities	**936**	3,492
Distributions payable	**(450)**	1,244
	(171,548)	(160,783)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management

The various risks to which the Company is exposed and the Company's policies and processes to measure and manage them individually are set out below:

Interest rate risk

Interest rate risk arises when changes in interest rates will affect the fair value of financial instruments.

The Company uses various strategies to reduce interest rate risk. The Company's risk management objective is to maintain interest rate spreads from the point that a mortgage commitment is issued to the sale of the mortgage to the related securitization vehicle or institutional investor. Primary among these strategies is the Company's decision to sell mortgages at the time of commitment, passing on interest rate risk that exists prior to funding to institutional investors. The Company uses bond forwards [consisting of bonds sold short and bonds purchased under resale agreements] to manage interest rate exposure between the time a mortgage rate is committed to borrowers and the time the mortgage is sold to a securitization vehicle and the underlying cost of funding is fixed. As interest rates change, the values of these interest rate dependent financial instruments vary inversely with the values of the mortgage contracts. As interest rates increase, a gain will be recorded on the economic hedge which will be offset by the loss on the sale of the mortgage to the securitization vehicle or institutional investor as the mortgage rate committed to the borrower is fixed at the point of commitment. For single-family mortgages, only a portion of the commitments issued by the Company eventually fund. The Company must assign a probability of funding to each mortgage in the pipeline and estimate how that probability changes as mortgages move through the various stages of the pipeline. The amount that is actually economically hedged is the expected value of the mortgage funding within the future commitment period. The Company also hedges against interest rate fluctuations by offsetting the exposure of the Company's bank indebtedness and funds held in trust. The bank indebtedness consists entirely of floating rate bank debt; the funds held in trust earn the Company interest based on the same floating rate basis [essentially the prime lending rate]. Because both are very similar in terms of amount [bank indebtedness and obligations related to securities and mortgages sold under repurchase agreements is $471,273 [2008 - $331,003] at December 31, 2009, funds held in trust are $435,358 [2008 - $334,451] on the same date], the Company considers the arrangement to be a natural hedge against short-term interest rate fluctuations. Accordingly, as short-term interest rates change, the Company is not exposed to large fluctuations in net income.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

The table below provides the financial impact that an immediate and sustained 100 basis point and 200 basis point increase and decrease in short-term interest rates would have had on the net income of the Company in 2009 and 2008.

	Increase in interest rate		**Decrease in interest rate**	
	2009	**2008**	**2009**	**2008**
	$	$	$	$
100 basis points shift				
Impact on net income and unitholders' equity	**1,024**	377	**1,802**	(377)
200 basis point shift				
Impact on net income and unitholders' equity	**2,049**	755	**4,417**	(755)

Interest revenue earned on funds held in trust is included in mortgage servicing income on the statements of income and retained earnings. These funds are administered by the Company and include borrowers' property tax escrow. For the year ended December 31, 2009, this revenue was $1,260 [2008 - $9,577].

As at December 31, 2009, the Company administered $68,025 of fixed rate commercial mortgages of which it has a direct face value interest of $13,719 included in mortgage and loan investments. The other interests in these mortgages are owned by an arm's-length investor and are subject to participation agreements such that this investor receives a floating rate of return on their portion of these mortgages. The Company has exposure to the risk that short-term interest rates increase, which represents a first loss position. Accordingly, these mortgages are much more sensitive to changes in interest rates and credit loss than the Company's typical mortgage and loan investments.

The Company's accounts receivable and sundry, accounts payable and accrued liabilities, distributions payable, purchased mortgage servicing rights and servicing liability are not exposed to interest rate risk. The Company's floating rate interest bearing assets and liabilities such as mortgage and loan investments and bank indebtedness are subject to liquidity risk.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. The Company's credit risk is mainly lending-related in the form of mortgage default. The Company uses stringent underwriting criteria and experienced adjudicators to mitigate this risk. The Company's approach to managing credit risk is based on the consistent application of a detailed set of credit policies and prudent arrears management. The Company's exposure is also mitigated by the short period over which a mortgage is held by the Company prior to securitization.

The maximum credit exposures of the financial assets are their carrying values as reflected on the balance sheets. The Company does not have significant concentration of credit risk within any particular geographic region or group of customers.

Mortgages accumulated for sale consist primarily of $383,257 prime mortgages of which 90% are insured, 1% are uninsured but sold on commitment to institutional investors, and the remainder is low loan-to-value conventional. Securitization receivables, cash collateral and short-term notes held by securitization trusts represent the Company's retained interest in various securitizations as described in note 3. Mortgage and loan investments are primarily first and second mortgage charges on commercial properties with an average loan to value of 56% and average yield of 6.6% as described in detail in note 4. These mortgages are primarily bridge financing for the Company's borrowers and have a higher exposure to credit risk than the Company's primary commercial mortgage products. The majority of purchased mortgage servicing rights are investments in the servicing component of CMBS securitizations. The Company is at risk that the underlying mortgages default and the servicing cash flows cease. The large portfolio of individual mortgages that underlies these assets is diverse in terms of geographical locations, borrower exposure and underlying type of real estate. This and the priority ranking of the Company's rights mitigate the potential size of any credit losses. Securities purchased under resale agreements are transacted with large regulated Canadian institutions such that the risk of credit loss is very remote. Securities owned are all government of Canada bonds, and, as such, have virtually no risk of credit loss.

Liquidity risk and capital resources

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due.

The Company's liquidity strategy has been to use bank credit to fund working capital requirements and to use cash flow from operations to fund longer-term assets, providing relatively low leveraged balance sheets. The Company's credit facilities are typically drawn to fund: [i] mortgages accumulated for sale, [ii] securitization receivable, [iii] deferred placement fees receivable and [iv] mortgage and loan investments. The Company has a credit facility with a syndicate of five banks which provides for a total of $378,330 in financing. Bank indebtedness also includes borrowings obtained through securitization transactions, outstanding cheques, and overdraft facilities.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and credit spreads. The level of market risk to which the Company is exposed varies depending on market conditions, expectations of future interest rates and credit spreads.

Fair value measurement

The Company uses the following hierarchy for determining and disclosing fair value of financial instruments recorded at fair value in the balance sheets:

Level 1 – quoted market price observed in active markets for identical instruments;
Level 2 – quoted market price observed in active markets for similar instruments or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3 – valuation techniques in which one or more significant inputs are unobservable.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

The following table represents the Company's financial instruments measured at fair value on a recurring basis:

	December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Mortgages accumulated for sale	—	383,257	—	383,257
Securitization receivable	—	—	103,964	103,964
Deferred placement fees receivable	—	—	98,121	98,121
Cash collateral and short-term notes held by securitization trusts	—	—	45,112	45,112
Mortgage and loan investments	—	—	9,604	9,604
Total financial assets	—	383,257	256,801	640,058
Financial liabilities				
Securities sold under repurchase agreements and sold short	332,427	—	—	332,427
Mortgage commitments	—	(29)	—	(29)
Interest rate swaps	—	209	—	209
Total financial liabilities	332,427	180	—	332,607

In estimating the fair value of financial assets and financial liabilities using valuation techniques or pricing models, certain assumptions are used including those that are not fully supported by observable market prices or rates [Level 3]. The amount of the change in fair value recognized by the Company in net income for the year ended December 31, 2009 that was estimated using a valuation technique based on assumptions that are not fully supported by observable market prices or rates was approximately $(733) [2008 - $(9,670)]. Although the Company's management believes that the estimated fair values are appropriate at the balance sheet dates, those fair values may differ if other reasonably possible alternative assumptions are used.

The following table presents changes in the fair values [including realized losses of $77 [2008 - $5,857]] of the Company's financial assets and financial liabilities for the years ended December 31, 2009 and 2008, all of which have been designated as held-for-trading under the FVO except for the interest rate swaps which are required to be classified as held-for-trading:

[in thousands of dollars, except per unit amounts or unless otherwise noted]

	2009 $	2008 $
Mortgages accumulated for sale	**(3,279)**	3,528
Securitization receivable	**4,048**	(11,872)
Deferred placement fees receivable	**(1,658)**	1,840
Cash collateral and short-term notes held by securitization trusts	**(472)**	(165)
Mortgage and loan investments	**(2,651)**	527
Securities owned and sold short	**4,294**	(7,798)
Mortgage commitments	**(919)**	940
Interest rate swaps	**528**	334
	(109)	(12,666)

Valuation methods and assumptions

The Company uses valuation techniques to estimate fair values, including reference to third-party valuation service providers using proprietary pricing models and internal valuation models such as discounted cash flow analysis. The valuation methods and key assumptions used in determining fair values for the financial assets and financial liabilities are as follows:

[a] Mortgages accumulated for sale and mortgage and loan investments

The fair value of these mortgages is determined by discounting projected cash flows using market industry pricing practices for discount rates at which similar loans made to borrowers with similar credit profiles and maturities would be discounted and, therefore, reflects changes in interest rates which have occurred since the mortgages were originated. Impaired mortgages are recorded at net realizable value.

[b] Securitization receivable and deferred placement fees receivable

The fair values of securitization receivable and deferred placement fees receivable are determined by internal valuation models consistent with industry practice using market data inputs, where possible. The fair value is determined by discounting the expected future cash flows related to the mortgages securitized and placed at market interest rates. The expected future cash flows are estimated based on certain assumptions which are not supported by observable market data. Refer to note 3 "Securitization and deferred placement fees receivable" for the key assumptions used and sensitivity analysis.

[c] Cash collateral and short-term notes held by securitization trusts

The fair value is determined by discounting the expected cash flows related to these assets at estimated market interest rates. These rates are determined based on the amount of variability, mitigated by the assumptions inherent in the calculation of the securitization receivable.

[d] Securities owned and sold short

The fair value of securities owned and sold short used by the Company to hedge its interest rate exposure is determined by quoted prices.

[e] Mortgage commitments

The fair value reflects changes in interest rates which have occurred since the mortgage commitments were issued and is determined using standard industry pricing practices.

[f] Other financial assets and liabilities

The fair value of mortgage and loan investments classified as loans and receivables and bank indebtedness corresponds to the respective outstanding amounts due to their short-term maturity profiles.

Movement in Level 3 financial instruments measured at fair value

The following table shows the movement in Level 3 financial instruments in the fair value hierarchy for the year ended December 31, 2009. The Company classifies financial instruments to Level 3 when there is reliance on at least one significant unobservable input in the valuation models.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

	Fair value as at Jan. 1, 2009 $	Investments and repayments $	Realized and unrealized gain (loss) recorded in income $	Amortization $	Fair value as at Dec. 31, 2009 $
Financial assets					
Securitization receivable	51,104	73,424	4,048	(24,612)	**103,964**
Deferred placement fees receivable	63,977	59,209	(1,658)	(23,407)	**98,121**
Cash collateral and short-term notes held by securitization trusts	54,198	(8,614)	(472)	—	**45,112**
Mortgage and loan investments	12,389	—	(2,651)	(134)	**9,604**
Total financial assets	181,668	124,019	(733)	(48,153)	**256,801**

Note 3 provides detailed sensitivity analysis of the securitization receivable and deferred placement fees receivable, using various assumptions. The following table shows the potential impact on fair values of the remaining Level 3 financial instruments by changing key assumptions. The sensitivity analysis is calculated based on a 10% change in discount rates and spread over risk free rates for cash collateral and short-term notes held by securitization trusts and mortgage and loan investments.

	Increase in fair value $	Decrease in fair value $
Financial assets		
Cash collateral and short-term notes held by securitization trusts	545	(545)
Mortgage and loan investments	1,218	(1,218)
Total	1,763	(1,763)

[in thousands of dollars, except per unit amounts or unless otherwise noted]

14. CAPITAL MANAGEMENT

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain future development of the business. Management defines capital as the Company's equity and retained earnings. The Company does not have any long-term debt and therefore the net income generated from operations is available for reinvestment in the Company or distribution to the unitholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profit growth. The Board of Directors also reviews on a quarterly basis the level of distributions paid to the unitholders. There were no changes in the Company's approach to capital management during the year ended December 31, 2009. The Company has a minimum capital requirement as stipulated by its bank credit facility. The agreement requires a debt to equity ratio of 4:1. As at December 31, 2009, the ratio was 2.20:1 [2008 - 2.32:1]. The Company was in compliance with the bank agreement throughout the year.

15. INFORMATION ABOUT MAJOR CUSTOMERS

Placement fees, mortgage servicing income and gains on deferred placement fees revenue from three Canadian financial institutions represent approximately 41% [2008 - 51%] of the Company's total revenue. During the year ended December 31, 2009, the Company placed 51% [2008 - 87%] of all mortgages it originated with the same three institutional investors.

16. EARNINGS PER UNIT

Earnings per unit are calculated as follows:

	2009	2008
Net income for the year available to unitholders	**$163,483**	$108,021
Number of equivalent unitholders [Class A and B [000's]]	**59,967**	59,595
Basic earnings per unit	**$2.73**	$1.81

[in thousands of dollars, except per unit amounts or unless otherwise noted]

17. EARNINGS BY BUSINESS SEGMENT

The Company operates principally in two business segments, Residential and Commercial. These segments are organized by mortgage type and contain revenue and expenses related to origination, underwriting, securitization and servicing activities. Expenses not allocated to segments relate to compensation paid to senior management. Identifiable assets are those used in the operations of the segments.

	2009		
	Residential $	**Commercial** $	**Total** $
REVENUE			
Placement, securitization and servicing	**229,096**	**89,192**	**318,288**
Mortgage investment income	**11,167**	**12,261**	**23,428**
	240,263	**101,453**	**341,716**
EXPENSES			
Amortization	**1,353**	**396**	**1,749**
Interest	**10,333**	**3,106**	**13,439**
Other operating	**134,714**	**26,831**	**161,545**
Corporate non-allocated expenses	**—**	**—**	**1,500**
	146,400	**30,333**	**178,233**
Net income for the year	**93,863**	**71,120**	**163,483**
Identifiable assets	**530,908**	**536,782**	**1,067,690**
Capital expenditures	**1,056**	**454**	**1,510**

[in thousands of dollars, except per unit amounts or unless otherwise noted]

	2008		
	Residential $	**Commercial** $	**Total** $
REVENUE			
Placement, securitization and servicing	218,934	52,877	271,811
Mortgage investment income	10,437	11,711	22,148
	229,371	64,588	293,959
EXPENSES			
Amortization	1,310	345	1,655
Interest	10,568	5,095	15,663
Other operating	141,568	25,552	167,120
Corporate non-allocated expenses	—	—	1,500
	153,446	30,992	185,938
Net income for the year	75,925	33,596	108,021
Identifiable assets	399,185	337,880	737,065
Capital expenditures	1,393	599	1,992

18. UNITHOLDERS' EQUITY

Pursuant to the Fund Distribution Reinvestment Plan ["DRIP"] initiated in April 2008, eligible Canadian unitholders are allowed to elect to have their cash distributions from the Fund automatically reinvested in additional units. Unitholders who participate in the DRIP will receive a further bonus distribution of units equal in value to 5% of each distribution that was reinvested. The DRIP was suspended in 2008 and no DRIP units were issued in fiscal 2009.

[in thousands of dollars, except per unit amounts or unless otherwise noted]

The following units are issued and outstanding:

	Number of units #	Amount $
GP units		
Units outstanding, January 1, 2009 and 2008	1	59
Units outstanding, December 31, 2009	**1**	**59**
Class A LP units		
Units outstanding, January 1, 2008	11,800,000	109,140
Issued pursuant to the DRIP in 2008	881,113	11,031
Units outstanding, December 31, 2008 and 2009	**12,681,113**	**120,171**
Class B LP units		
Units outstanding, January 1, 2009 and 2008	47,286,316	(22,940)
Units outstanding, December 31, 2009	**47,286,316**	**(22,940)**

The Company is authorized to issue an unlimited number of GP units, Class A LP units and Class B LP units. The Class B LP units are exchangeable for units of the Fund at the option of the holder subject to certain conditions.

19. RELATED PARTY TRANSACTIONS

During the past two years, several of the Company's borrowers tendered opportunities to invest in large commercial mezzanine mortgages. The amounts of the mortgages were in excess of the Company's internal investment policies for investments of that nature; however, a business controlled by a senior executive of the Company entered into agreements with the borrowers to fund the mortgages. The Company serviced these mortgages during their terms at normal commercial servicing rates. The mortgages are administered by the Company at market rates and have a balance of $5,483 as at December 31, 2009 [2008 - nil].

20. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards ["IFRS"]

In February 2008, the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises would be required to report under IFRS for fiscal years beginning on or after January 1, 2011. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and will be applicable for the Company's first quarter of 2011.

In preparation for the changeover to IFRS, the Company has developed an IFRS transition plan consisting of three phases:
1. Scoping and Diagnostic Phase
2. Impact Analysis and Design Phase, and
3. Implementation and Review Phase

Pursuant to the plan, an initial diagnostic impact assessment has been completed to identify the IFRS standards that represent key accounting differences from Canadian GAAP for the Company. A number of differences have been identified with respect to the recognition and measurement of certain balance sheet items. While the Company's key analyses are progressing well, preliminary conclusions have not yet been reached and as such, they have not been reported at this time.

The evolving nature of IFRS will likely result in additional accounting changes, and as a result, the final impact on the Company's financial statements of applying IFRS in full will only be entirely measurable once all applicable IFRS requirements are known. While the Company continues to execute the IFRS transition plan, the Company will monitor changes in the standards and report on the status of the plan, significant findings, and provide more detailed information on preliminary conclusions reached.

21. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 financial statements.