



ANNUAL REPORT 2012
MCAN MORTGAGE CORPORATION

DESCRIPTION OF BUSINESS



MCAN is a public company listed on the Toronto Stock Exchange (“TSX”) under the symbol MKP and is a reporting issuer in all provinces and territories in Canada. MCAN is a Loan Company under the *Trust and Loan Companies Act* (the “Trust Act”) and also qualifies as a mortgage investment corporation (“MIC”) under the *Income Tax Act* (Canada) (the “Tax Act”).

Our objective is to generate a reliable stream of income by investing our funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of loans and investments, real estate and securitization investments. We employ leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation (“CDIC”) deposit insurance up to a maximum of five times capital (on a non-consolidated basis) as limited by the provisions of the Tax Act applicable to a MIC.

The term deposits are sourced through a network of independent financial agents. As a MIC, we are entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of non-capital gains dividends that we pay to shareholders. Such dividends are received by our shareholders as capital gains dividends and interest income, respectively.

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MESSAGE TO SHAREHOLDERS

In 2012, MCAN Mortgage Corporation (the “Company”, “MCAN” or “we”) continued to grow its corporate assets as it delivered \$197 million in growth, representing a 26% increase in the corporate asset portfolio. Portfolio quality continued to improve as impaired corporate mortgages as a percentage of the total corporate portfolio decreased to 1.16% at December 31, 2012 from 2.24% at December 31, 2011. Impaired mortgages as a percentage of total mortgages were 0.51% at December 31, 2012, down from 0.67% in the prior year. As a result of the growth and rebalancing of our corporate asset portfolio, our core earnings have increased and we have improved our earnings stability and risk profile.

Net income for 2012 of \$21.5 million decreased from \$27.1 million in the prior year. Earnings per share were \$1.22 compared to \$1.68 in the prior year due to the reduced earnings from securitization and the dilution effects of the \$20 million of new share capital raised through the rights offering in August 2012. Equity income from our investment in MCAP Commercial LP (“MCAP”) contributed significantly to MCAN’s operating results this year. MCAN shareholders were able to recapture some of the effects of the dilution from the rights offering through the gain in share price from the rights offering share price of \$11.85 to the present price level.

In 2012, we saw significant activity in our equity investment in MCAP. During the second quarter we participated in MCAP’s buyout of certain partners in MCAP Service Corporation, resulting in a \$14 million increase in our equity investment. This purchase left MCAN and Cadcap Limited Partnership (a subsidiary of the Caisse de dépôt et placement du Québec) as partners in a consolidated MCAP. Following the buyout, MCAP purchased the interests of ResMor Trust Company, increasing its origination capability and assets under administration. With a consolidated leadership team and refined strategy, MCAP went on to produce improved results in 2012, producing over \$10 billion in origination for the year and \$36 billion in assets under administration at December 31, 2012.

While our investment in MCAP produced improved income for accounting purposes in 2012, the growth in income from securitization activities and the tax effect of expensing origination and closing costs resulted in MCAP producing negligible distributable earnings to MCAN for the year. We expect MCAP’s securitization activity, over the duration of the mortgage portfolios, to contribute to the future income and dividends of MCAN.

On March 26, 2013, MCAN announced the signing of a definitive agreement to acquire all of the issued and outstanding shares of Xceed Mortgage Corporation (“Xceed”) for \$1.75 per share, for a total consideration of approximately \$53.0 million. Xceed is a specialized, single family insured and uninsured residential mortgage lender, focused primarily on the insured area of the mortgage market and, in recent years, has been focused on winding down its legacy securitization portfolio. The transaction is expected to be funded with a combination of cash and common shares, and will be effected pursuant to a plan of arrangement under Section 182 of the *Business Corporations Act* (Ontario).

This transaction provides MCAN with a unique opportunity to acquire an established mortgage origination and underwriting platform that is expected to deliver incremental asset growth and potential for increased income for MCAN. Cash and other liquid assets, including Canada Mortgage and Housing Corporation (“CMHC”) insured mortgages, are expected to represent a significant proportion of Xceed’s assets at closing. In addition, the acquisition provides new equity for MCAN on a cost effective basis, providing it with capacity to achieve its growth objectives.

In 2013, we plan to grow the profitability of the Company by continuing the growth of the corporate balance sheet while optimizing the yield performance of corporate assets as we utilize the remaining capacity from the 2012 rights offering. Our pipeline of new and existing unfunded mortgage commitments should result in the full investment of the balance sheet by the end of the first quarter of 2013. The equity component of the Xceed transaction is expected to provide capital for asset growth in the second half of the year. We expect our corporate net investment income to increase as a result of the increased investment in corporate assets, which we expect to have a positive impact on our taxable income.

Although regulatory changes are expected to result in some downward pressure on price points in our core markets, we do not expect them to contribute to a significant disruption to residential markets. We expect to see tighter underwriting standards on residential construction loans. Market conditions are expected to contribute to improved credit spreads and construction loan profitability which should enhance the overall return of our corporate asset portfolio in 2013.



William Jandrisits
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated balance sheets and accompanying notes as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been presented in Canadian currency. This MD&A has been prepared as at March 26, 2013.

Additional information regarding MCAN Mortgage Corporation (the "Company", "MCAN" or "we"), including copies of our continuous disclosure materials such as the Annual Information Form, is available on our website at www.mcanmortgage.com or through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of applicable Canadian securities laws. The words "may," "believe," "will," "anticipate," "expect," "planned," "estimate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Such statements reflect management's current beliefs and are based on information currently available to management. The forward-looking statements in this MD&A include, among others, statements and assumptions with respect to:

- the current business environment and outlook;
- possible or assumed future results;
- ability to create shareholder value;
- business goals and strategy;
- the stability of home prices;
- effect of challenging conditions on us;
- factors affecting our competitive position within the housing markets;
- sufficiency of our access to capital resources; and
- the timing of the effect of interest rate changes on our cash flows; and
- the completion of MCAN's proposed acquisition of Xceed Mortgage Corporation ("Xceed") (discussed below under "Recent Developments")

Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from the anticipated future results expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- global market activity;
- worldwide demand for and related impact on commodity prices;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- changes in interest rates;
- mortgage rate and availability changes;
- adverse legislation or regulation;
- technology changes;
- confidence levels of consumers;
- ability to raise capital on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- ability to retain our executive officers;
- litigation risk;
- relationships with our mortgage originators;
- additional risks and uncertainties, many of which are beyond our control, referred to in this MD&A and our other public filings with the applicable Canadian regulatory authorities; and
- the expected timing and completion of MCAN's proposed acquisition of Xceed is subject to Xceed shareholder approval, court and regulatory approvals, and other customary closing conditions; accordingly, there can be no certainty that the transaction will be completed or that anticipated benefits will be realized

Subject to applicable securities law requirements, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports should be consulted.

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SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)	2012	2011	2010	Change from 2011	
				(\$)	(%)
Operating Results					
Net investment income - corporate assets	\$ 31,135	\$ 25,650	\$ 27,380	\$ 5,485	21.4%
Net investment income - securitization assets					
before market value adjustment	2,778	5,830	9,055	(3,052)	(52.3%)
Fair market value adjustment	<u>(8,682)</u>	<u>228</u>	<u>1,629</u>	<u>(8,910)</u>	<u>(3,907.9%)</u>
Net investment income - securitization assets	<u>(5,904)</u>	<u>6,058</u>	<u>10,684</u>	<u>(11,962)</u>	<u>(197.5%)</u>
Net investment income	25,231	31,708	38,064	(6,477)	(20.4%)
Operating expenses	<u>8,993</u>	<u>6,860</u>	<u>6,100</u>	<u>2,133</u>	<u>31.1%</u>
Income before income taxes	16,238	24,848	31,964	(8,610)	(34.7%)
Provision for (recovery of) income taxes	<u>(5,255)</u>	<u>(2,255)</u>	<u>5,306</u>	<u>(3,000)</u>	<u>133.0%</u>
Net income	<u>\$ 21,493</u>	<u>\$ 27,103</u>	<u>\$ 26,658</u>	<u>\$ (5,610)</u>	<u>(20.7%)</u>
Average mortgage portfolio yield - corporate	5.81%	6.53%	7.59%		(11.0%)
Term deposit average interest rate	2.44%	2.36%	2.10%		3.4%
Average mortgage portfolio yield - securitized	4.00%	4.23%	4.32%		(5.4%)
Financial liabilities from securitization - average interest rate	3.54%	3.66%	3.64%		(3.3%)
Basic and diluted earnings per share	\$ 1.22	\$ 1.68	\$ 1.85	\$ (0.46)	(27.4%)
Taxable income per share	\$ 1.17	\$ 1.42	\$ 1.79	\$ (0.25)	(17.6%)
Dividends per share	\$ 1.42	\$ 1.81	\$ 1.19	\$ (0.39)	(21.5%)
Return on average shareholders' equity	13.03%	18.52%	21.97%		(29.6%)

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %)	December 31 2012	December 31 2011	December 31 2010	Change from 2011	
				(\$)	(%)
Balance Sheet Highlights					
Assets					
Corporate	\$ 950,686	\$ 753,799	\$ 538,118	\$ 196,887	26.1%
Securitization	<u>2,035,935</u>	<u>3,140,359</u>	<u>3,147,907</u>	<u>(1,104,424)</u>	<u>(35.2%)</u>
Total assets	<u>\$ 2,986,621</u>	<u>\$ 3,894,158</u>	<u>\$ 3,686,025</u>	<u>\$ (907,537)</u>	<u>(23.3%)</u>
Mortgages - corporate	\$ 739,812	\$ 640,351	\$ 420,322	\$ 99,641	15.5%
Mortgages - securitized	\$ 936,947	\$ 1,499,016	\$ 1,910,995	\$ (562,069)	(37.5%)
Liabilities					
Corporate	\$ 790,526	\$ 618,277	\$ 438,732	\$ 172,249	27.9%
Securitization	<u>2,018,314</u>	<u>3,117,416</u>	<u>3,122,214</u>	<u>(1,099,102)</u>	<u>(35.3%)</u>
Total liabilities	<u>\$ 2,808,840</u>	<u>\$ 3,735,693</u>	<u>\$ 3,560,946</u>	<u>\$ (926,853)</u>	<u>(24.8%)</u>
Shareholders' equity	\$ 177,781	\$ 158,465	\$ 125,079	\$ 19,316	12.2%
Capital Ratios					
Tax Assets to Capital Ratio	5.70	4.91	4.39		16.1%
Tier 1 Capital Ratio	21.74%	22.21%	22.10%		(2.1%)
Total Capital Ratio	21.84%	22.26%	22.06%		(1.9%)
Credit Quality					
Impaired mortgage ratio	0.51%	0.67%	0.63%		(23.9%)
Total mortgage arrears	\$ 63,489	\$ 76,279	\$ 91,828	\$ (8,833)	(11.6%)
Share Information (end of period)					
Number of common shares outstanding at year-end	18,729	16,862	14,448		11.1%
Book value per common share	\$ 9.49	\$ 9.40	\$ 8.66	\$ 0.71	7.6%
Common share price - close	\$ 14.01	\$ 13.40	\$ 13.86	\$ 0.61	4.6%
Market capitalization	\$ 262,393	\$ 225,951	\$ 200,249	\$ 36,442	16.1%

HIGHLIGHTS

- Corporate assets were \$951 million at December 31, 2012, up \$197 million from \$754 million at December 31, 2011.
- We completed a rights offering during 2012, issuing 1.7 million new common shares for net proceeds of \$20 million. The rights offering created \$115 million of new asset capacity based on our target assets to capital ratio of 5.75, which is measured on a tax basis.
- As at December 31, 2012, we had \$16 million of remaining asset capacity.
- Impaired corporate mortgages as a percentage of the corporate portfolio were 1.16% at December 31, 2012, down from 2.24% at December 31, 2011. Impaired mortgages as a percentage of total mortgages were 0.51% at December 31, 2012, down from 0.67% in the prior year.
- Net income was \$21.5 million in 2012 (\$1.22 per share), down from \$27.1 million in 2011 (\$1.68 per share). Our return on equity was 13.0% for the year compared to 18.5% in 2011.
- Total mortgage arrears decreased to \$63 million at December 31, 2012 from \$76 million at December 31, 2011.
- Dividends per share were \$1.42 in 2012, down from \$1.81 in 2011.
- We declared a 2013 first quarter dividend of \$0.31 per share to be paid on March 28, 2013 to shareholders of record as of March 15, 2013. This dividend comprises the regular quarterly dividend of \$0.28 per share and an extra dividend of \$0.03 per share.
- We entered into a definitive agreement on March 26, 2013 to acquire all of the issued and outstanding shares of Xceed. The proposed transaction is expected to close on or about June 24, 2013.

OUTLOOK

Residential housing markets in Canada continue to benefit from stable economic conditions. The Canadian economy is supported by employment and economic growth that should support housing markets in 2013. Changes to mortgage underwriting standards that took effect in 2012 may reduce housing demand and prices in some markets; however, consumers continue to benefit from low residential mortgage rates that remain at attractive levels and contribute to housing affordability. The prospect of future increases in mortgage rates also provides incentive for potential home buyers to purchase in the near term.

We expect housing markets to slow throughout 2013 as a result of adjusting market conditions, although we expect to take advantage of opportunities in mortgage markets during this transition. Regulatory changes to underwriting standards are expected to impact the number of eligible home buyers that are able to borrow under government-backed mortgage insurance programs. This reduction will create growth opportunities for MCAN in the uninsured mortgage market. We expect spreads to increase such that, on a risk-adjusted basis, we expect this asset class to provide superior returns.

Although regulatory changes are expected to result in some downward pressure on price points in our core markets, we do not expect them to contribute to a significant disruption to residential markets. We expect to see tighter underwriting standards on residential construction loans and the cancellation of construction projects within our core markets as developers concentrate on managing inventory. We expect these market conditions to improve credit spreads and construction loan profitability. Furthermore, we expect to observe more opportunities for short-term bridge/mezzanine lending which will enhance the overall return of our corporate asset portfolio in 2013.

Our investment in MCAP Commercial LP ("MCAP") continues to provide a stable source of residential mortgage and construction origination. MCAP continues to strengthen its origination capability, providing support to MCAN.

We continue to monitor mortgage markets for investment opportunities and will adjust our investment strategy accordingly. We concentrate our origination efforts on the entry-level/affordable segment within our core markets in an effort to minimize the potential impacts of any weakness in home values. We expect to be active in the uninsured single family mortgage market, and we expect this segment to improve its risk-adjusted returns as a result of recently announced regulatory changes.

NON-GAAP MEASURES

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). We use a number of financial measures to assess our performance. Some of these measures are not calculated in accordance with IFRS, are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. The non-GAAP measures used in this MD&A are defined as follows:

Return on Average Shareholders' Equity

Return on average shareholders' equity is a profitability measure that presents the annualized net income available to shareholders' equity as a percentage of the capital deployed to earn the income. We calculate return on equity using average shareholders' equity, including all components of shareholders' equity.

Taxable Income

Taxable income is a profitability measure that presents MCAN's income for tax purposes. We typically pay out all taxable income to shareholders through dividends.

Average Interest Rate

The average interest rate is a profitability measure that presents the average annualized yield of an asset or liability.

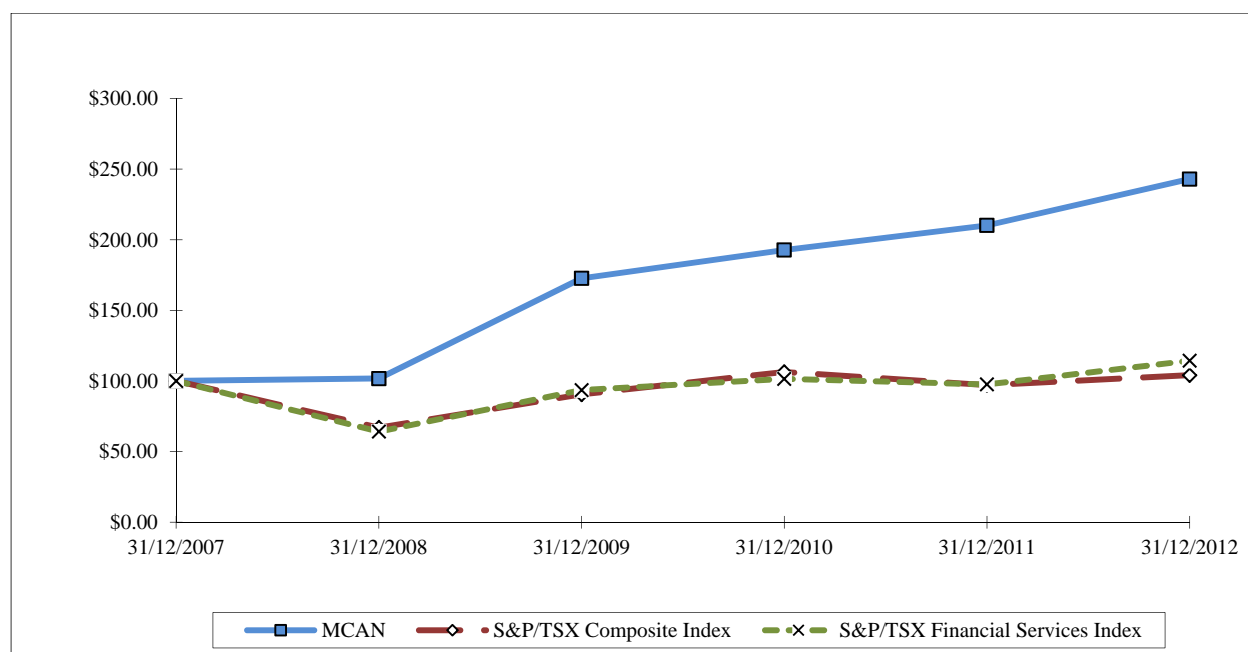
Tier 1 and Total Capital Ratios and Risk Weighted Assets

These measures provided in this MD&A are in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions ("OSFI") and are located on Table 21 of this MD&A and Note 33 to the consolidated financial statements.

PERFORMANCE CHARTS

The following graph compares MCAN's cumulative total shareholder return (assuming an investment of \$100 on December 31, 2007) on its common shares during the period from January 1, 2008 to December 31, 2012, with the S&P/TSX Composite Index (Total Return) and the S&P/TSX Financial Services Index (Total Return), assuming reinvestment of all dividends.

Figure 1: Shareholder Return



	Jan 1 2008	Dec 31 2008	Dec 31 2009	Dec 31 2010	Dec 31 2011	Dec 31 2012	Compound Annual Growth
MCAN	100	101.71	172.69	192.74	210.17	242.97	19.43%
S&P/TSX Composite Total Return Index	100	67.00	90.48	106.41	97.14	104.13	0.81%
S&P/TSX Capped Financial Index	100	64.18	93.55	101.51	97.61	114.34	2.72%

Note: Dividends declared on MCAN's common shares are assumed to be reinvested at the closing price on the payment date.

Figure 2: Dividend Growth

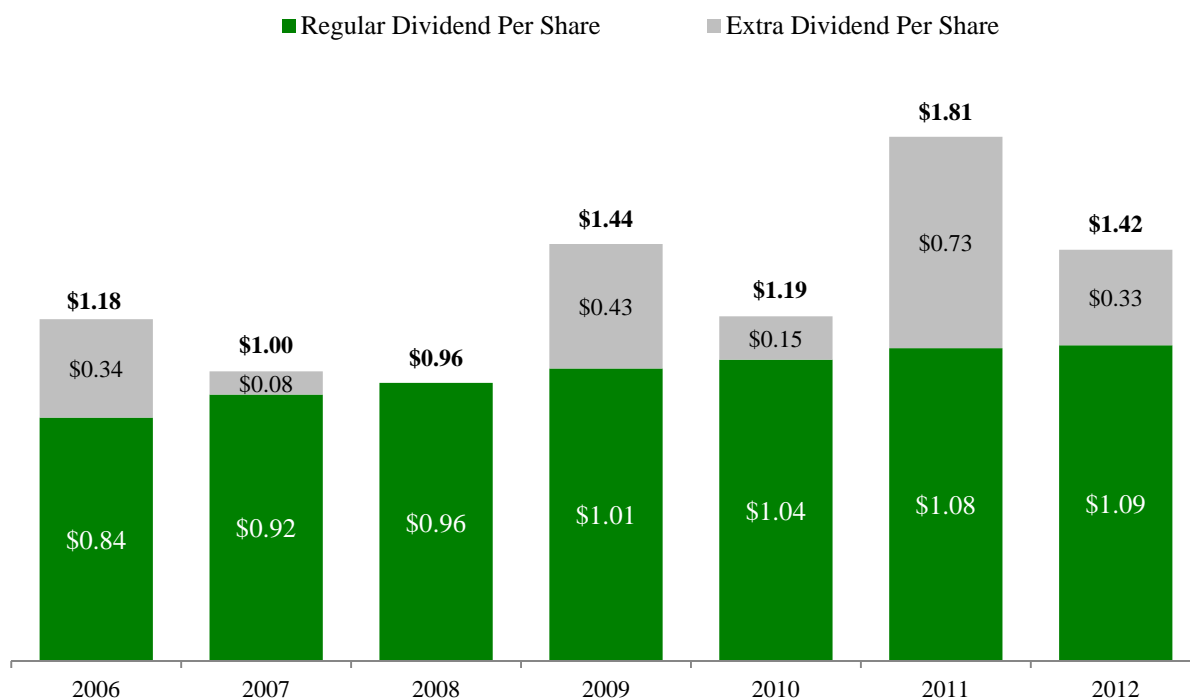


Table 3: Ten Year Financial Summary

(in thousands, except per share amounts)

December 31	Net Income	Earnings Per Share	Dividends Per Share	Assets ¹	Shareholders' Equity	Market Capitalization
2012 (IFRS)	\$ 21,493	\$ 1.22	\$ 1.42	\$ 950,686	\$ 177,781	\$ 262,393
2011 (IFRS)	27,103	1.68	1.81	753,799	158,465	225,951
2010 (IFRS)	26,658	1.85	1.19	538,118	125,079	200,249
2009 (CGAAP)	24,742	1.73	1.44	506,683	122,879	194,766
2008 (CGAAP)	30,348	2.14	0.96	570,154	116,609	129,438
2007 (CGAAP)	14,843	1.12	1.00	557,425	103,007	140,416
2006 (CGAAP)	15,211	1.23	1.18	498,107	84,611	141,052
2005 (CGAAP)	14,116	1.18	0.97	434,369	81,164	116,918
2004 (CGAAP)	11,601	1.12	1.11	454,365	74,965	103,374
2003 (CGAAP)	8,247	0.84	0.68	369,477	61,741	83,747

¹ 2012, 2011 and 2010 consist of corporate assets only as reported under IFRS. 2009 and earlier years consist of total assets under Canadian Generally Accepted Accounting Principles ("CGAAP").

RESULTS OF OPERATIONS

MCAN reported net income of \$21.5 million for the year ended December 31, 2012, down from \$27.1 million in the prior year. Earnings per share were \$1.22 compared to \$1.68 in the prior year. The decrease was primarily due to higher provisions for credit losses, lower securitization income and higher operating expenses, partially offset by an increase in spread income, higher equity income from MCAP, and an increased recovery of income taxes.

Table 4: Net Income - For the Years Ended December 31

(in thousands)	2012	2011
Net Investment Income - Corporate Assets		
Mortgage interest	\$ 41,395	\$ 32,593
Equity income from MCAP Commercial LP	6,906	5,007
Fees	2,236	1,593
Marketable securities	2,061	1,281
Interest on financial investments and other loans	1,422	1,342
Interest on cash and cash equivalents	544	592
	54,564	42,408
Financial Expenses		
Term deposit interest and expenses	17,157	12,293
Mortgage expenses	3,712	3,407
Provision for credit losses	2,560	1,058
	23,429	16,758
	31,135	25,650
Net Investment Income - Securitization Assets		
Mortgage interest	14,372	20,718
Interest on financial investments	4,763	5,714
Interest on short-term investments	1,547	814
Other securitization income	9,407	9,001
	30,089	36,247
Interest on financial liabilities from securitization	26,888	29,844
Mortgage expenses	423	573
	27,311	30,417
Net investment income before fair market value adjustment	2,778	5,830
Fair market value adjustment - derivative financial instruments	(8,682)	228
	(5,904)	6,058
Net investment income	25,231	31,708
Operating expenses	8,993	6,860
Income before income taxes	16,238	24,848
Provision for (recovery of) income taxes	(5,255)	(2,255)
Net income	\$ 21,493	\$ 27,103
Basic and diluted earnings per share	\$ 1.22	\$ 1.68
Taxable income per share	\$ 1.17	\$ 1.42
Dividends per share	\$ 1.42	\$ 1.81

Net Investment Income - Corporate Assets

Mortgage interest income increased by \$8.8 million from the prior year as a result of a \$180 million increase in the average mortgage portfolio (from \$511 million in 2011 to \$691 million in 2012), partially offset by a decrease in the average mortgage yield to 5.81% in 2012 from 6.53% in 2011. The decrease in yield was a result of lower average yields in the uninsured single family and construction portfolios. The construction loan portfolio is primarily floating rate, however, certain loans carry a minimum interest rate. The proportion of minimum rate loans declined from 2011, which led to the decrease in yield. The decrease in the uninsured single family mortgage yield was a result of the maturity in the current year of certain high-yielding

mortgages that contributed to the higher yield in 2011. Mortgage interest income includes \$1.2 million of realized discount income from MCAN's acquired mortgage portfolios compared to \$2.0 million in 2011.

Equity income from our ownership in MCAP increased by \$1.9 million from the prior year, primarily due a significant volume of mortgage securitizations in the current year and increases to income resulting from mortgages measured at fair value. The prior year had significant gains from sales of mortgages.

Fees consist of other mortgage fees of \$2.0 million (2011- \$1.3 million) and fee income from a profit sharing arrangement related to mortgage portfolios acquired by MCAP of \$190,000 (2011 - \$303,000). Other mortgage fees include extension, renewal and letter of credit fees earned on our corporate mortgage portfolio.

Marketable securities income increased by \$780,000 from the prior year, primarily due to \$943,000 of gains from the sales of securities during 2012 compared to \$nil in 2011.

Term deposit interest and expenses increased by \$4.9 million from 2011 as a result of a \$171 million increase in the average term deposit balance (from \$507 million in 2011 to \$678 million in 2012) and an increase in the average term deposit rate to 2.44% in 2012 from 2.36% in 2011.

Mortgage expenses, consisting primarily of mortgage servicing expenses, increased by \$305,000 from 2011 as a result of a significantly larger average portfolio, although the average mortgage servicing rate decreased in 2012.

Details of the provision for credit losses are discussed in "Credit Quality".

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to MCAN's participation in certain securitization programs, including the Canada Mortgage Bonds ("CMB") program. As existing CMB issuances mature, we expect net investment income from securitization assets to decrease as the related mortgages and reinvestment assets are removed from our balance sheet.

Net investment income from securitized assets before fair market value adjustments was \$2.8 million in 2012 compared to \$5.8 million in the prior year. Including fair market value adjustments on derivative financial instruments, net investment income on securitized assets was negative \$5.9 million in 2012 compared to positive \$6.1 million in the prior year.

Mortgage interest income decreased by \$6.3 million from the prior year, primarily due to a \$518 million decrease in the average mortgage portfolio over 2011. In addition, the average yield decreased from 4.23% in 2011 to 4.00% in 2012. As the securitized mortgages repay, we reinvest the collected principal in certain permitted investments (which include financial investments and short-term investments) until the maturity of the CMB issuance.

Interest on financial investments decreased by \$951,000 from 2011 as a result of a decrease in the average portfolio, while interest on short-term investments increased by \$733,000 from the prior year as a result of an increase in the average portfolio.

Other securitization income was \$9.4 million in 2012 compared to \$9.0 million in the prior year, consisting primarily of interest rate swap receipts of \$7.4 million (2011 - \$8.6 million). As part of the CMB program, we enter into "pay floating, receive fixed" interest rate swaps to hedge interest rate risk. In addition, we earned \$1.3 million of refinancing and renewal income (2011 - \$132,000) and \$978,000 from the sale of mortgage-backed securities ("MBS") (2011 - \$261,000).

Interest on financial liabilities from securitization decreased by \$3.0 million from 2011, primarily due to a lower average balance as a result of the maturity of certain CMB issuances in 2012. In addition, the average interest rate decreased to 3.54% in 2012 from 3.66% in 2011.

The negative fair market value adjustment to derivative financial instruments of \$8.7 million (2011 - positive \$228,000) relates to the CMB interest rate swaps. The unrealized portion of this fair market value adjustment can be volatile as it is driven by changes in the forward interest rate curve. From an economic perspective, this adjustment is generally offset by changes in future expected income from securitized mortgages and principal reinvestment assets that have a floating interest rate. We regularly monitor our interest rate swap hedge position to minimize our exposure to interest rate risk. From an accounting perspective, changes in future expected income from these floating rate assets are not reflected in the consolidated statement of income, which can cause significant volatility to net income since there is no offset to the fair market value adjustment to derivative financial instruments.

Our existing financial liabilities from securitization mature as follows: 2013 - \$1.1 billion, 2014 - \$872 million, 2015 - \$45 million.

Net Interest Income

Presented in the following tables is an analysis of average rates and net interest income. Net interest income is the difference between interest earned on certain assets and investments and the interest paid on liabilities to fund those assets.

Table 5: Net Interest Income - For the Year Ended December 31, 2012

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate ³	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 67,779	\$ -	\$ 67,779	\$ 544	\$ -	\$ 544	0.80%	-
Short-term investments	-	582,187	582,187	-	1,547	1,547	-	0.89%
Marketable securities	24,523	-	24,523	2,061	-	2,061	4.56%	-
Mortgages - corporate	690,931	-	690,931	41,395	-	41,395	5.81%	-
Mortgages - securitized	-	1,195,262	1,195,262	-	14,372	14,372	-	4.00%
Financial investments	21,457	1,063,934	1,085,391	1,309	4,763	6,072	6.90%	1.77%
Other loans	3,496	-	3,496	113	-	113	3.20%	-
Total on interest earning assets	808,186	2,841,383	3,649,569	45,422	20,682	66,104	5.69%	2.59%
Other assets	26,658	10,605	37,263	-	-	-	-	-
Total assets	\$ 834,844	\$ 2,851,988	\$ 3,686,832	\$ 45,422	\$ 20,682	\$ 66,104	5.50%	2.55%
Liabilities and Shareholders' Equity								
Term deposits	\$ 660,180	\$ -	\$ 660,180	\$ 17,157	\$ -	\$ 17,799	2.44%	-
Financial liabilities from securitization	-	2,824,402	2,824,402	-	26,888	26,888	-	3.54%
Other liabilities	31,747	5,597	37,344	-	-	-	-	-
Shareholders' equity	-	-	164,906	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 691,927	\$ 2,829,999	\$ 3,686,832	\$ 17,157	\$ 26,888	\$ 44,687	2.44%	3.54%
Net Interest Income²				\$ 28,265	\$ (6,206)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							3.37%	

¹The average balance is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

²Net interest income is equal to net investment income less equity income from MCAP, other securitization income, fee income, mortgage expenses and provision for credit losses.

³The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items are excluded from the calculation of the average rate.

The income/expense associated with the securitized assets and liabilities in the tables above represents MCAN's 30% weighted average share of CMB program economics.

Although net interest income from securitization assets and liabilities shown above is presented as a negative amount, net interest income from securitization assets before negative fair market value adjustments remains positive due to the impact of the CMB interest rate swaps, which are "pay-floating, receive-fixed" swaps. Since interest rates have generally decreased since the original securitization dates, the positive interest rate swap income has offset lower than expected principal reinvestment income (since the majority of reinvested assets have a floating interest rate). Interest rate swap receipt income was \$7.4 million in 2012.

Table 6: Net Interest Income - For the Year Ended December 31, 2011

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate ³	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 72,892	\$ -	\$ 72,892	\$ 592	\$ -	\$ 592	0.81%	-
Short-term investments	-	277,661	277,661	-	814	814	-	1.00%
Marketable securities	22,146	-	22,146	1,281	-	1,281	5.78%	-
Mortgages - corporate	511,345	-	511,345	32,593	-	32,593	6.53%	-
Mortgages - securitized	-	1,713,674	1,713,674	-	20,718	20,718	-	4.23%
Financial investments	10,939	1,133,824	1,144,763	1,182	5,714	6,896	5.79%	2.01%
Other loans	2,975	-	2,975	160	-	160	5.38%	-
Total on interest earning assets	620,297	3,125,159	3,745,456	35,808	27,246	63,054	5.77%	3.13%
Other assets	36,999	4,456	41,455	-	-	-	-	-
Total assets	\$ 657,296	\$ 3,129,615	\$ 3,786,911	\$ 35,808	\$ 27,246	\$ 63,054	5.45%	3.12%
Liabilities and Shareholders' Equity								
Term deposits	\$ 507,225	\$ -	\$ 507,225	\$ 12,293	\$ -	\$ 12,293	2.36%	-
Financial liabilities from securitization	-	3,115,145	3,115,145	-	29,844	29,844	-	3.66%
Other liabilities	11,294	6,854	18,148	-	-	-	-	-
Shareholders' equity	-	-	146,393	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 518,519	\$ 3,121,999	\$ 3,786,911	\$ 12,293	\$ 29,844	\$ 42,137	2.36%	3.66%
Net Interest Income²				\$ 23,515	\$ (2,598)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							4.17%	

¹The average balance is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

²Net interest income is equal to net investment income less equity income from MCAP, other securitization income, fee income, mortgage expenses and provision for credit losses.

³The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items are excluded from the calculation of the average rate.

The income/expense associated with the securitized assets and liabilities in the tables above represents MCAN's 28% weighted average share of CMB program economics.

Although net interest income from securitization assets and liabilities shown above is presented as a negative amount, net interest income from securitization assets before negative fair market value adjustments remains positive due to the impact of the CMB interest rate swaps, which are "pay-floating, receive-fixed" swaps. Since interest rates have generally decreased since the original securitization dates, the positive interest rate swap income has offset lower than expected principal reinvestment income (since the majority of reinvested assets have a floating interest rate). Interest rate swap receipt income was \$8.6 million in 2011.

Table 7: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Years Ended December 31 (in thousands except %)	2012			2011		
	Average Assets ¹	Interest Income	Average Rate ²	Average Assets ¹	Interest Income	Average Rate ²
Single family	\$ 345,049	\$ 21,509	5.74%	\$ 256,803	\$ 16,616	6.52%
Construction and single family uninsured (completed inventory loans)	280,039	15,826	6.05%	228,826	14,602	6.66%
Commercial	65,843	4,060	5.96%	25,716	1,375	5.39%
Average mortgages - corporate portfolio	\$ 690,931	\$ 41,395	5.81%	\$ 511,345	\$ 32,593	6.53%

¹The average is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

²The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Assets", as non-recurring items are excluded from the calculation of the average rate.

Credit Quality

Table 8: Provisions for Credit Losses and Write-offs

(in thousands except basis points)		
For the Years Ended December 31	2012	2011
Individual provision (recovery)		
Single family uninsured	\$ 195	\$ (144)
Residential construction	300	-
Commercial uninsured	58	58
	\$ 553	\$ (86)
Collective provision		
Single family uninsured	\$ 185	\$ 719
Residential construction	583	142
Commercial	359	286
Corporate mortgages - total	1,127	1,147
Financial investments and other loans	(20)	(3)
Other provisions	900	-
	\$ 2,007	\$ 1,144
Total provision for credit losses	\$ 2,560	\$ 1,058
Corporate mortgage portfolio data:		
Provision for credit losses	\$ 1,680	\$ 1,061
Net write-offs	\$ 1,323	\$ 275
Net write-offs (basis points)	19.1	5.4

The allowance for credit losses reduces the carrying value of mortgage assets to provide for an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the mortgages and the overall economic environment. Individual allowances include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The collective allowance represents losses that we believe have been incurred but not yet specifically identified, and is calculated at each balance sheet date. Collective allowance rates depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect our future provisions for credit losses from those provisions determined in the current period, and there could be a need to increase or decrease the allowance for credit losses.

Collective provisions in both years are consistent with the growth in the respective corporate mortgage portfolio classes over those periods.

During 2012, we recorded a \$900,000 increase to a provision relating to our pro-rata share of estimated losses pursuant to an indemnity on the underlying assets of a residential construction loan securitization program. The provision, which was \$1.1 million as at December 31, 2012, relates to an impaired residential construction loan that we have indemnified. This amount represents our estimated loss at this date based on property values given current market conditions. There are no other impaired mortgages associated with the indemnification of this securitization program.

During the first quarter of 2012, MCAN and another participant lender foreclosed on one of MCAN's impaired residential construction loans with a carrying value of \$6.8 million (net of a \$1 million individual allowance). The realization of the previously recorded individual allowance was recognized as a mortgage write-off upon foreclosure. The current year also had a \$103,000 write-off related to a commercial loan, while the balance of write-offs in both years related to uninsured single family mortgages.

Corporate mortgage arrears were \$39 million as at December 31, 2012, up from \$29 million as at December 31, 2011. The increase from the prior year includes a \$13 million increase in single family mortgage arrears, partially offset by a \$5 million decrease in construction loan arrears. Securitized mortgage arrears of \$24 million decreased significantly from \$48 million as at December 31, 2011, partly due to a decrease in the total portfolio balance. There were no other assets in arrears at year end. We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts.

Net Impaired Mortgages and Allowances

Table 9: Net Impaired Mortgages and Allowances

(in thousands except %)		
As at December 31	2012	2011
Corporate portfolio		
Residential construction	\$ 1,760	\$ 9,945
Single family	6,856	3,759
Commercial	-	427
	8,616	14,131
Securitized portfolio		
Single family	-	86
Net impaired mortgages	\$ 8,616	\$ 14,217
Total mortgages	\$ 1,676,759	\$ 2,139,367
Net impaired as % of total mortgages (net of individual allowances)	0.51%	0.67%
Net impaired as % of corporate mortgages (net of individual allowances)	1.17%	2.24%
Collective allowance	\$ 3,723	\$ 2,919
Individual allowance	713	1,160
Total allowance	\$ 4,436	\$ 4,079

The decrease in impaired mortgages during 2012 related primarily to the foreclosure of the impaired construction loan noted above. This was partially offset by an increase in impaired corporate single family mortgages.

Operating Expenses

(in thousands)		
For the Years Ended December 31	2012	2011
Salaries and benefits	\$ 3,953	\$ 3,234
General and administrative	5,040	3,626
	\$ 8,993	\$ 6,860

Operating expenses increased by \$2.1 million from the prior year, primarily due to higher salaries and benefits from an increase in the number of employees and increased corporate expenses.

Income Taxes

(in thousands)		
For the Years Ended December 31	2012	2011
Current tax provision (recovery)	\$ (1,519)	\$ (2,072)
Deferred tax provision (recovery)	(3,736)	(183)
	\$ (5,255)	\$ (2,255)

The recovery of current taxes in both years was primarily due to the payment of the higher than usual dividends on March 31, 2011 and March 31, 2012 of \$14.5 million and \$10.1 million, respectively. These dividends were deductible from 2010 and 2011 taxable income due to MCAN's status as a mortgage investment corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act"), which allows us to deduct dividends paid within 90 days of year end from taxable income. However, these dividends were not deductible in the calculation of year-end current taxes payable for accounting purposes since they had not yet been paid as of that date. The payment of these dividends during the first quarters of 2011 and 2012 decreased current taxes payable significantly from the previous year end balances and, as a result of this decrease, created a recovery of current taxes.

The substantial recovery of deferred taxes in 2012 was primarily due to the significant negative fair market value adjustment to derivative financial instruments during the year.

MCAN's taxable income was \$21 million (\$1.17 per share) in 2012 and \$23 million (\$1.42 per share) in 2011. As a MIC, we typically pay out all of our taxable income to shareholders through dividends.

The key differences between taxable income and pre-tax net income include the non-deductibility of fair market value adjustments, collective provisions for credit losses and the amortization of upfront CMB costs for tax purposes, the treatment of capital gains income, and differences between equity income from MCAP for accounting and tax purposes.

The table below provides a reconciliation between net income for accounting purposes and taxable income. The adjustments below represent the difference between the individual components for accounting and tax purposes.

(in thousands)

For the Years Ended December 31	2012	2011
Net income for accounting purposes	\$ 21,493	\$ 27,103
Adjustments:		
Provision for (recovery of) income taxes	(5,255)	(2,255)
Equity income from MCAP	(6,739)	(3,734)
Provision for credit losses	1,627	866
Fair market value adjustment - derivative financial instruments	8,682	1,123
Capital gains	(1,085)	(1,438)
Amortization of upfront CMB costs	3,083	3,159
Securitization program cash outflows	(1,013)	(1,320)
Other items	(275)	(625)
Taxable income	\$ 20,518	\$ 22,879

Cash Flows

Operating activities used cash flows of \$444 million in 2012 and provided \$389 million in 2011. We had substantial cash outflows in the current year from the repayment of financial liabilities from securitization, partially offset by net mortgage and term deposit inflows. In the prior year, significant net term deposit and mortgage inflows contributed to the balance.

Investing activities provided cash flows of \$518 million in 2012 and used \$429 million in 2011. The current year net inflow was primarily due to the maturity of financial investments held as CMB reinvestment assets, while the prior year net outflow was a result of the acquisition of financial investments and short-term investments as CMB reinvestment assets.

Financing activities used cash flows of \$2 million in 2012 and provided \$5 million in 2011. Inflows from the issuance of common shares decreased in the current year, partially offset by a decrease in outflows from the payment of dividends.

Summary of Three Year Results of Operations

In 2010 financial performance was solid, with earnings per share of \$1.85. Discount income and income related to the CMB program remained strong, and we recognized income from the full reversal of a significant individual mortgage allowance without principal loss.

Earnings per share of \$1.68 in 2011 were down from 2010, although still solid by historical standards. We continued to earn income from the CMB program and discounted mortgages, although both were lower than 2010. Equity income from MCAP was significantly higher in 2011 than in recent years.

In 2012, earnings per share decreased to \$1.22, primarily due to significant negative fair market value adjustments. Income from the CMB program began to decline as a result of the maturity of certain CMB issuances. Income from corporate assets increased in line with the portfolio size, while equity income from MCAP remained strong.

FINANCIAL POSITION

Total assets were \$2.99 billion as at December 31, 2012, consisting of \$951 million of corporate assets and \$2.04 billion of securitization assets. Corporate assets increased by \$197 million during 2012, which included increases of \$99 million in mortgages, \$73 million in cash and cash equivalents and \$21 million in our equity investment in MCAP. The decrease in securitization assets was a result of the maturity of certain CMB issuances throughout 2012, as the remaining mortgages and reinvestment assets were used to repay CMB financial liabilities from securitization at the time of maturity.

Table 10: Assets

(in thousands)		
As at December 31	2012	2011
Corporate Assets		
Cash and cash equivalents	\$ 123,825	\$ 51,309
Marketable securities	20,390	30,149
Mortgages	739,812	640,351
Foreclosed real estate	4,355	-
Financial investments	18,067	12,536
Other loans	3,164	3,027
Equity investment in MCAP Commercial LP	36,386	15,480
Other assets	4,687	947
	950,686	753,799
Securitization Assets		
Short-term investments	378,443	345,487
Mortgages	936,947	1,499,016
Financial investments	714,631	1,279,479
Derivative financial instruments	4,666	13,348
Other assets	1,248	3,029
	2,035,935	3,140,359
	\$ 2,986,621	\$ 3,894,158

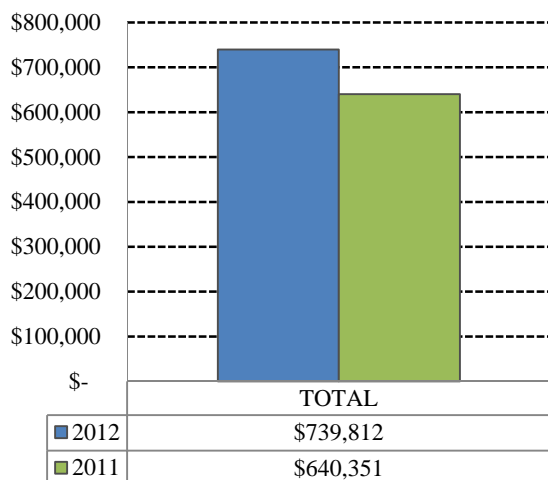
Corporate Assets

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, increased by \$73 million during the year. These investments provide liquidity to meet maturing term deposit and new mortgage commitments and met our liquidity requirements at December 31, 2012, as discussed in the "Liquidity" section.

Marketable securities, consisting of corporate bonds, real estate investment trusts and exchange-traded funds, decreased by \$10 million during 2012. Marketable securities provide MCAN with additional liquidity at yields in excess of cash and cash equivalents.

The corporate mortgage portfolio increased by \$99 million during the year, which included increases of \$91 million in construction loans and \$16 million in commercial loans and a decrease of \$6 million in uninsured single family mortgages.

Figure 3: Total Corporate Mortgage Portfolio (in thousands)



We invest in insured and uninsured single family mortgages in Canada. We believe that the Canadian residential property market continues to exhibit healthy fundamentals, but we expect to observe continued moderation in sales volumes in 2013. We do not invest in the United States mortgage market. The uninsured mortgages that we invest in may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, value is the appraised value of the property as determined by a qualified appraiser at the time of funding. Residential mortgages insured by Canada Mortgage and Housing Corporation ("CMHC") or Genworth Financial Mortgage Insurance Company Canada Inc. ("Genworth") may exceed this ratio.

Uninsured residential construction loans are made to homebuilders to finance residential construction projects. These loans generally have a floating rate of interest and terms of one to two years. Our limit on total conventional construction loans is 250% of regulatory capital. Non-residential construction loans may comprise up to one half of this limit. Per our internal limits, the maximum single conventional construction loan may not exceed the lesser of \$15 million or 20% of regulatory capital.

The composition of our corporate mortgage portfolio is as follows:

Figure 4: Corporate Mortgage Portfolio Composition by Product Type (in thousands)

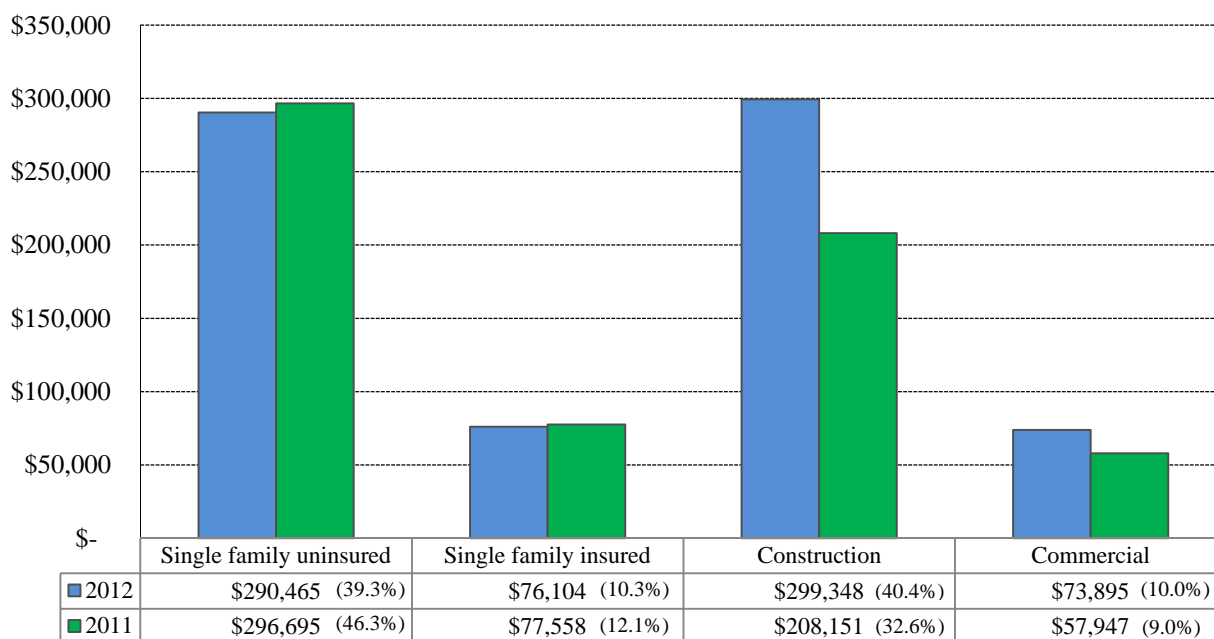


Figure 5: Corporate Mortgage Portfolio Geographic Distribution (2012)

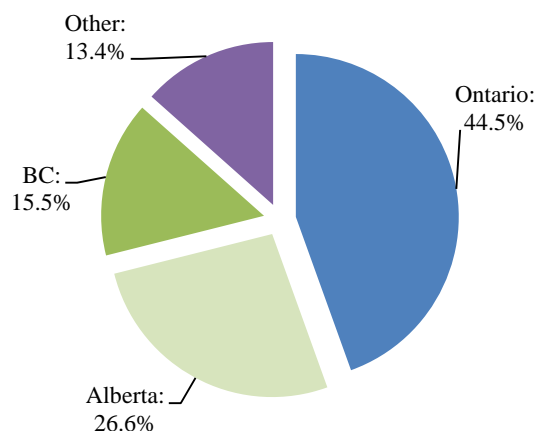
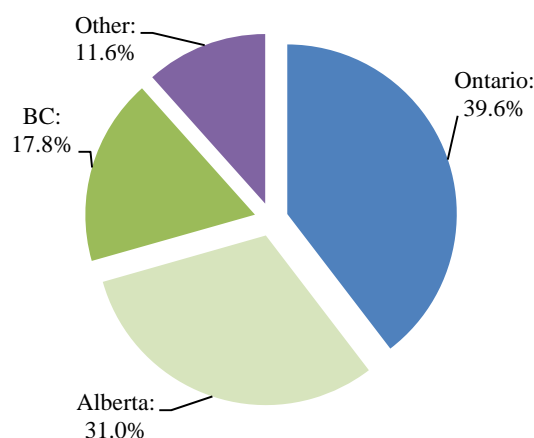


Figure 6: Corporate Mortgage Portfolio Geographic Distribution (2011)



As at December 31, 2012, we held discounted mortgages with a net discount of \$5.9 million (December 31, 2011 - \$9.1 million). We retain 50% of any recoveries of that amount, and we pay the remaining 50% to MCAP. 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 2013 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). The realization of the discount is based on management's expectations as to when cash will be received.

Table 11: Mortgage Originations

(in thousands except %)				
For the Periods Ended	Quarters Ended December 31		Years Ended December 31	
	2012	2011	2012	2011
Single family uninsured	\$ 32,679	\$ 70,729	\$ 141,457	\$ 249,641
Single family insured ¹	439	-	19,740	-
Residential construction (advances)	104,800	101,972	330,454	226,280
Commercial	13,068	19,133	38,957	42,523
	\$ 150,986	\$ 191,834	\$ 530,608	\$ 518,444

¹ Single family insured originations, to the extent reflected above, consist only of mortgages that we intend to hold for investment purposes.

Financial investments increased by \$6 million during 2012, primarily due to advances on a commercial real estate equity investment and the acquisition of a retained interest.

Our equity investment in MCAP, in which we hold a 23.4% equity interest, increased by \$21 million during 2012. During the second quarter of 2012, we provided \$14 million in additional capital to MCAP. MCAP is an originator and servicer of mortgage loans for third party investors in Canada. We outsource the majority of our mortgage and loan origination and servicing to MCAP, and the remainder to other third party servicers. As at December 31, 2012, MCAP had \$36 billion of assets under administration.

Securitization Assets

Short-term investments consist of treasury bills and commercial paper held as reinvestment assets for the CMB program, CMB cash held in trust and cash pledged as collateral. The \$33 million increase in short-term investments during 2012 related primarily to commercial paper held in trust as CMB reinvestment assets.

MCAN's securitized mortgage portfolio consists of insured mortgages securitized through the CMB program and other securitization programs. All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance. The \$562 million decrease in securitized mortgages is a result of the repayment of securitized mortgages (and subsequent reinvestment into short-term investments and financial investments) and the maturity of certain CMB issuances throughout 2012, as the remaining mortgages and reinvestment assets are used to repay CMB financial liabilities from securitization at the time of maturity.

The composition of our securitized mortgage portfolio is as follows:

Figure 7: Securitized Mortgage Portfolio Composition by Product Type (in thousands)

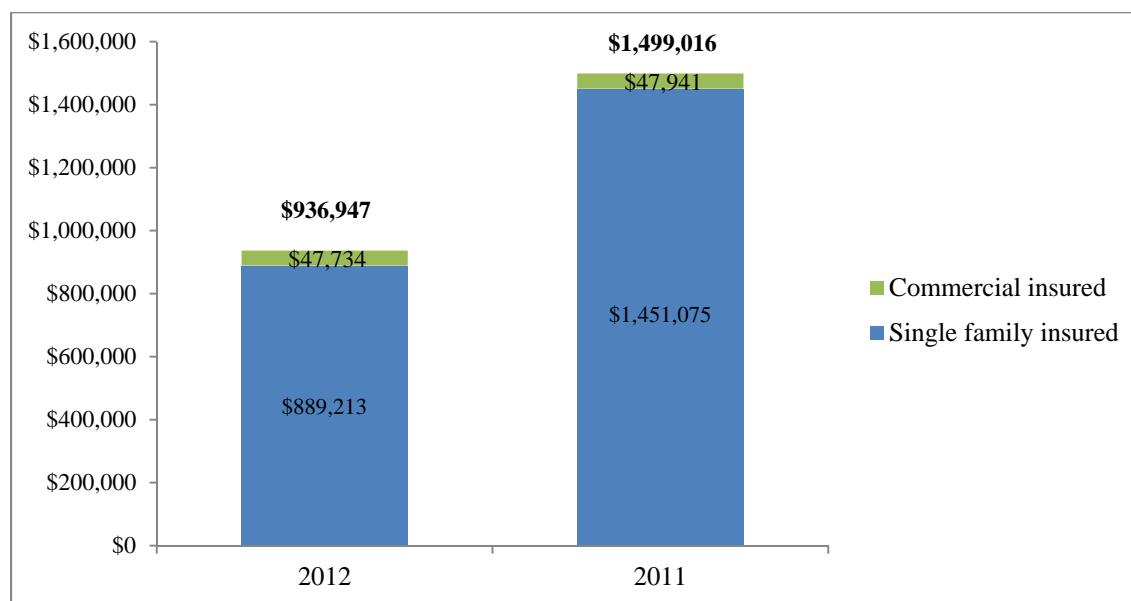


Figure 8: Securitized Mortgage Portfolio Geographic Distribution (2012)

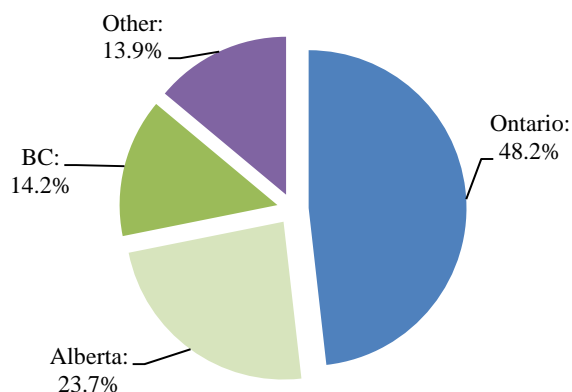
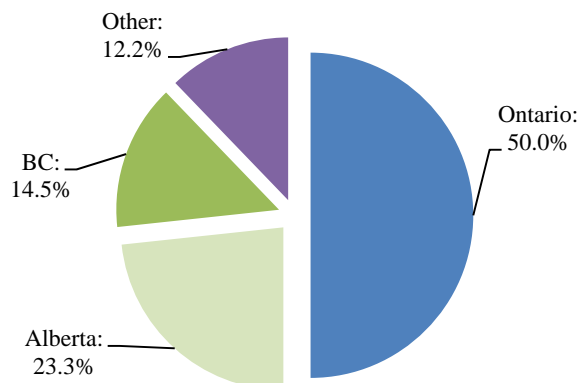


Figure 9: Securitized Mortgage Portfolio Geographic Distribution (2011)



Financial investments consist of insured MBS held as reinvestment assets for the CMB program and a receivable associated with MCAN's participation in the Insured Mortgage Purchase Program ("IMPP"). For further information on the IMPP, refer to the "Securitization Programs" discussion. Financial investments decreased by \$565 million during 2012, consisting of a decrease of \$558 million in insured MBS held as reinvestment assets and a \$7 million decrease in the IMPP receivable. The decrease in insured MBS held as reinvestment assets was primarily due to the maturity of certain CMB issuances throughout 2012, as the remaining mortgages and reinvestment assets were used to repay CMB financial liabilities from securitization at the time of maturity.

Derivative financial instruments at December 31, 2012 consisted of interest rate swaps relating to the CMB program. We have entered into "pay-floating, receive-fixed" swaps to hedge against interest rate risk on reinvested CMB principal collections. The decrease of \$8.7 million to derivative financial instruments during 2012 consisted of net interest rate swap receipts of \$7.4 million and an unrealized loss of \$1.3 million.

Table 12: Liabilities and Shareholders' Equity

(in thousands)		
As at December 31	2012	2011
Liabilities		
Corporate Liabilities		
Term deposits	\$ 777,077	\$ 601,577
Current tax liabilities	2,114	3,321
Deferred tax liabilities	1,842	5,436
Other liabilities	9,493	7,943
	790,526	618,277
Securitization Liabilities		
Financial liabilities from securitization	2,015,046	3,111,357
Other liabilities	3,268	6,059
	2,018,314	3,117,416
	2,808,840	3,735,693
Shareholders' Equity		
Share capital	155,005	132,817
Contributed surplus	510	510
Retained earnings	19,985	23,491
Available for sale reserve	2,281	1,647
	177,781	158,465
	\$ 2,986,621	\$ 3,894,158

Term deposit liabilities increased by \$176 million during the year. To fund our corporate operations, we issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We do not use capital markets (including asset-backed commercial paper) for liquidity.

The decrease in financial liabilities from securitization related primarily to the maturity of \$1.1 billion of CMB liabilities during 2012. In addition, there was a partial repayment of the liability associated with MCAN's participation in the IMPP (refer to "Securitization Programs" discussion) during the year. The liabilities associated with the CMB program pay out in full at the time that a specific issuance matures. Financial liabilities from securitization as at December 31, 2012 mature as follows: 2013 - \$1.1 billion, 2014 - \$872 million, 2015 - \$45 million.

Share capital increased by \$22 million during the year, which was primarily raised through the rights offering, in addition to the dividend reinvestment plan. The rights offering raised net proceeds of \$20 million, with 1.7 million new common shares issued. For further information on share capital, refer to Note 22 to the consolidated financial statements.

Retained earnings decreased by \$3.5 million, consisting of net income of \$22 million less dividends of \$25 million.

The available for sale reserve represents unrealized gains or losses (net of deferred taxes) on available for sale marketable securities and financial investments.

SUMMARY OF FOURTH QUARTER RESULTS

We reported net income for the quarter ended December 31, 2012 of \$7.3 million (\$0.40 per share), up from \$5.2 million (\$0.30 per share) in the prior year.

Table 13: Net Income for the Quarters Ended December 31

(in thousands)	2012	2011
Net Investment Income - Corporate Assets		
Mortgage interest	\$ 10,006	\$ 8,845
Equity income from MCAP Commercial LP	4,253	3,262
Fees	677	689
Marketable securities	392	399
Interest on financial investments and other loans	198	81
Interest on cash and cash equivalents	180	115
	15,706	13,391
Financial Expenses		
Term deposit interest and expenses	4,687	3,424
Mortgage expenses	948	822
Provision for credit losses	421	388
	6,056	4,634
	9,650	8,757
Net Investment Income - Securitization Assets		
Mortgage interest	3,099	4,685
Interest on financial investments	819	1,504
Interest on short-term investments	478	233
Other securitization income	2,455	2,593
	6,851	9,015
Interest on financial liabilities from securitization	5,923	7,448
Mortgage expenses	91	136
	6,014	7,584
Net investment income before fair market value adjustment	837	1,431
Fair market value adjustment - derivative financial instruments	(2,115)	(3,190)
	(1,278)	(1,759)
Net investment income	8,372	6,998
Operating expenses	2,470	1,769
Income before income taxes	5,902	5,229
Provision for (recovery of) income taxes	(1,440)	6
Net income	\$ 7,342	\$ 5,223
Basic and diluted earnings per share	\$ 0.40	\$ 0.30
Taxable income per share	\$ 0.06	\$ 0.51
Dividends per share	\$ 0.28	\$ 0.27

Net Investment Income - Corporate Assets

Mortgage interest income increased by \$1.2 million as a result of a \$147 million increase in the average mortgage portfolio from \$581 million to \$728 million, partially offset by a 0.71% decrease in the average mortgage yield from 6.21% in 2011 to 5.50% in 2012. Mortgage interest income includes \$19,000 (2011 - \$600,000) of discount income on MCAN's acquired mortgage portfolios, which contributed to the decrease in the mortgage yield over the prior year.

Equity income from our ownership interest in MCAP increased by \$1.0 million from 2011, primarily due to a significant volume of mortgage securitizations in the current year and increases to income resulting from mortgages measured at fair value. The prior year had significant gains from sales of mortgages.

Fees were comparable to the prior year. Fees consist of fee income from a profit sharing arrangement relating to mortgage portfolios acquired by MCAP of \$107,000 (2011 - \$85,000) and other mortgage fees of \$570,000 (2011 - \$602,000).

Marketable securities income was comparable to the prior year. The average balance decreased in the current year, however there was a recovery of \$159,000 in the current year on the sale of a security that had previously been written down.

Term deposit interest and expenses increased by \$1.3 million in 2012, primarily due to a \$184 million increase in the average outstanding balance from \$547 million in 2011 to \$731 million in 2012. The average term deposit interest rate increased from 2.42% in 2011 to 2.44% in 2012.

For details of the provision for credit losses, refer to Table 17.

Net Investment Income - Securitization Assets

Mortgage interest income decreased by \$1.6 million as a result of a \$573 million decrease in the average mortgage portfolio from 2011.

Interest on financial investments decreased by \$685,000 as a result of a decrease in the average portfolio from 2011.

Interest on short-term investments increased by \$245,000 in the current year as a result of an increase in the average portfolio from 2011.

Other securitization income decreased by \$138,000. Interest rate swap receipts decreased by \$371,000, while we earned \$261,000 from gains of sales of MBS in the prior year. In the current year, we earned \$615,000 of refinancing and renewal gains.

There was a negative fair market value adjustment to derivative financial instruments of \$2.1 million (2011 - negative \$3.2 million) for the quarter relating to the CMB interest rate swaps.

Net Interest Income

Presented in the following tables is an analysis of average rates and net interest income. Net interest income is the difference between interest earned on certain assets and investments and the interest paid on liabilities to fund those assets.

Table 14: Net Interest Income - For the Quarter Ended December 31, 2012

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate ³	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 89,379	\$ -	\$ 89,379	\$ 180	\$ -	\$ 180	0.80%	-
Short-term investments	-	757,653	757,653	-	819	819	-	1.49%
Marketable securities	19,740	-	19,740	392	-	392	4.69%	-
Mortgages - corporate	727,834	-	727,834	10,006	-	10,006	5.50%	-
Mortgages - securitized	-	986,676	986,676	-	3,099	3,099	-	3.72%
Financial investments	24,217	836,755	860,972	177	819	996	5.80%	1.67%
Other loans	3,397	-	3,397	21	-	21	2.45%	-
Total on interest earning assets	864,567	2,581,084	3,445,651	10,776	4,737	15,513	5.02%	2.70%
Other assets	55,441	7,293	62,734	-	-	-	-	-
Total assets	\$ 920,008	\$ 2,588,377	\$ 3,508,385	\$ 10,776	\$ 4,737	\$ 15,513	4.71%	2.67%
Liabilities and Shareholders' Equity								
Term deposits	\$ 731,117	\$ -	\$ 731,117	\$ 4,687	\$ -	\$ 4,887	2.44%	-
Financial liabilities from securitization	-	2,569,614	2,569,614	-	5,923	5,923	-	3.37%
Other liabilities	28,075	4,213	32,288	-	-	-	-	-
Shareholders' equity	-	-	175,366	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 759,192	\$ 2,573,827	\$ 3,508,385	\$ 4,687	\$ 5,923	\$ 10,810	2.44%	3.37%
Net Interest Income²				\$ 6,089	\$ (1,186)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							3.06%	

¹The average balance is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

²Net interest income is equal to net investment income less equity income from MCAP, other securitization income, fee income, mortgage expenses and provision for credit losses.

³The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items are excluded from the calculation of the average rate.

The income/expense associated with the securitized assets and liabilities in the tables above represents MCAN's 30% weighted average share of CMB program economics.

Although net interest income from securitization assets and liabilities shown above is presented as a negative amount, net interest income from securitization assets before negative fair market value adjustments remains positive due to the impact of the CMB interest rate swaps, which are "pay-floating, receive-fixed" swaps. Since interest rates have generally decreased since the original securitization dates, the positive interest rate swap income has offset lower than expected principal reinvestment income (since the majority of reinvested assets have a floating interest rate). Interest rate swap receipt income was \$1.9 million in the fourth quarter of 2012.

Table 15: Net Interest Income - For the Quarter Ended December 31, 2011

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate ³	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 57,647	\$ -	\$ 57,647	\$ 115	\$ -	\$ 115	0.79%	-
Short-term investments	-	334,760	334,760	-	233	233	-	0.94%
Marketable securities	29,567	-	29,567	399	-	399	5.35%	-
Mortgages - corporate	580,844	-	580,844	8,845	-	8,845	6.21%	-
Mortgages - securitized	-	1,559,890	1,559,890	-	4,685	4,685	-	4.17%
Financial investments	11,739	1,225,961	1,237,700	43	1,504	1,547	3.60%	1.91%
Other loans	2,838	-	2,838	38	-	38	5.31%	-
Total on interest earning assets	682,635	3,120,611	3,803,246	9,440	6,422	15,862	5.49%	2.93%
Other assets	30,480	3,357	33,837	-	-	-	-	-
Total assets	\$ 713,115	\$ 3,123,968	\$ 3,837,083	\$ 9,440	\$ 6,422	\$ 15,862	5.25%	2.92%
Liabilities and Shareholders' Equity								
Term deposits	\$ 546,863	\$ -	\$ 546,863	\$ 3,424	\$ -	\$ 3,424	2.42%	-
Financial liabilities from securitization	-	3,111,397	3,111,397	-	7,448	7,448	-	3.63%
Other liabilities	14,678	6,315	20,993	-	-	-	-	-
Shareholders' equity	-	-	157,830	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 561,541	\$ 3,117,712	\$ 3,837,083	\$ 3,424	\$ 7,448	\$ 10,872	2.42%	3.63%
Net Interest Income²				\$ 6,016	\$ (1,026)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits								3.79%

¹The average balance is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

²Net interest income is equal to net investment income less equity income from MCAP, other securitization income, fee income, mortgage expenses and provision for credit losses.

³The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items are excluded from the calculation of the average rate.

The income/expense associated with the securitized assets and liabilities in the tables above represents MCAN's 28% weighted average share of CMB program economics.

Although net interest income from securitization assets and liabilities shown above is presented as a negative amount, net interest income from securitization assets before negative fair market value adjustments remains positive due to the impact of the CMB interest rate swaps, which are "pay-floating, receive-fixed" swaps. Since interest rates have generally decreased since the original securitization dates, the positive interest rate swap income has offset lower than expected principal reinvestment income (since the majority of reinvested assets have a floating interest rate). Interest rate swap receipts were \$2.3 million in the fourth quarter of 2011.

Table 16: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended (in thousands except %)	December 31, 2012			December 31, 2011		
	Average Assets ¹	Interest Income	Average Rate ²	Average Assets ¹	Interest Income	Average Rate ²
Single family	\$ 351,602	\$ 4,573	5.02%	\$ 304,932	\$ 4,712	6.29%
Construction and single family uninsured (completed inventory loans)	311,188	4,449	6.00%	235,122	3,642	6.33%
Commercial	65,044	984	5.77%	40,790	491	4.88%
Average mortgages - corporate portfolio	\$ 727,834	\$ 10,006	5.50%	\$ 580,844	\$ 8,845	6.21%

¹The average is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

²The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Assets", as non-recurring items are excluded from the calculation of the average rate.

Table 17: Provisions for Credit Losses and Write-Offs

(in thousands except basis points)		
For the Quarters Ended December 31	2012	2011
Individual provision (recovery)		
Single family uninsured	\$ 145	\$ (138)
Residential construction	(150)	-
Commercial uninsured	116	58
	\$ 111	\$ (80)
Collective provision		
Single family uninsured	\$ 24	\$ 119
Residential construction	119	147
Commercial	171	197
Corporate mortgages - total	314	463
Financial investments and other loans	(4)	5
	\$ 310	\$ 468
Total provision for credit losses	\$ 421	\$ 388
Corporate mortgage portfolio data:		
Provision for credit losses	\$ 425	\$ 383
Net write-offs	\$ 83	\$ 2
Annualized net write-offs (basis points)	4.6	0.1

Operating Expenses

(in thousands)

For the Quarters Ended December 31	2012	2011
Salaries and benefits	\$ 1,011	\$ 882
General and administrative	1,459	887
	\$ 2,470	\$ 1,769

Operating expenses increased by \$701,000 as a result of higher salaries and benefits from an increase in the number of employees and increased corporate expenses.

Income Taxes

(in thousands)

For the Quarters Ended December 31	2012	2011
Current tax provision (recovery)	\$ (1,604)	\$ 1,612
Deferred tax provision (recovery)	164	(1,606)
	\$ (1,440)	\$ 6

The current tax (recovery) provision in the respective years was consistent with the (deficiency) excess of taxable income versus dividends paid. The provision for deferred taxes in the current year related to our equity investment in MCAP, while the recovery of deferred taxes in the prior year related to negative fair market adjustments to derivative financial instruments.

SELECTED QUARTERLY FINANCIAL DATA

Table 18: Selected Quarterly Financial Data

(in thousands, except per share amounts)

	Q1/12	Q2/12	Q3/12	Q4/12	Q1/11	Q2/11	Q3/11	Q4/11
Net investment income - corporate assets	\$ 5,616	\$ 9,997	\$ 5,872	\$ 9,650	\$ 5,308	\$ 6,165	\$ 5,420	\$ 8,757
Net investment income - securitization assets before fair market value adjustment	1,026	457	458	837	1,469	1,844	1,086	1,431
Fair market value adjustment	(3,238)	(1,460)	(1,869)	(2,115)	(3,238)	1,722	4,934	(3,190)
Net investment income - securitization assets	(2,212)	(1,003)	(1,411)	(1,278)	(1,769)	3,566	6,020	(1,759)
Net investment income	3,404	8,994	4,461	8,372	3,539	9,731	11,440	6,998
Operating expenses	2,141	2,351	2,031	2,470	1,672	1,793	1,626	1,769
Income before income taxes	1,263	6,643	2,430	5,902	1,867	7,938	9,814	5,229
Provision for (recovery of) income taxes	(3,104)	323	(1,034)	(1,440)	(5,222)	733	2,228	6
Net income	\$ 4,367	\$ 6,320	\$ 3,464	\$ 7,342	\$ 7,089	\$ 7,205	\$ 7,586	\$ 5,223
Basic and diluted earnings per share	\$ 0.26	\$ 0.37	\$ 0.19	\$ 0.40	\$ 0.49	\$ 0.44	\$ 0.45	\$ 0.30
Taxable income	\$ 6,116	\$ 8,150	\$ 4,809	\$ 1,443	\$ 4,389	\$ 5,532	\$ 4,495	\$ 8,463
Taxable income per share	\$ 0.36	\$ 0.48	\$ 0.27	\$ 0.06	\$ 0.30	\$ 0.34	\$ 0.27	\$ 0.51
Dividends per share								
Regular	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.28	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27
Extra	0.33	-	-	-	0.73	-	-	-
Total	\$ 0.60	\$ 0.27	\$ 0.27	\$ 0.28	\$ 1.00	\$ 0.27	\$ 0.27	\$ 0.27

Net investment income from our corporate portfolio has been stable and consistent for the past eight quarters. The fourth quarters of 2011 and 2012 and the second quarter of 2012 were higher than usual as a result of significant equity income from MCAP.

Net investment income before fair market value adjustments from our securitization portfolio declined during 2012 as a result of the maturity of CMB issuances during the year. The fair market value adjustment is driven by changes in the forward interest rate curve and accordingly may be volatile.

We generally recover current taxes in the first quarter based on the magnitude of the extra dividend. We generally incur deferred tax expense on a positive fair market value adjustment, and vice versa.

SECURITIZATION PROGRAMS

We participate in the National Housing Act ("NHA") MBS program, which involves the securitization of insured mortgages to create MBS. Pursuant to the NHA MBS program, investors of MBS receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. CMHC makes principal and interest payments in the event of any NHA MBS default by the issuer, thus fulfilling the timely payment obligation to investors. To date, we have sold MBS as part of the CMB program, the IMPP and a market MBS program, which are discussed below.

CMB Program

We participate in the CMB program, which involves the sale of MBS to the Canada Housing Trust ("CHT"). On the sale of MBS to CHT, we receive proceeds for the sale, incur a liability in the amount of such proceeds received and are obligated to pay interest on this liability, which does not amortize over the term of the issuance and is payable in full at maturity. The securitized mortgages and reinvestment assets are held as collateral against the CMB liabilities. During 2012, we repaid \$1.1 billion of CMB issuance liabilities at their scheduled maturities, which represented MCAN's first CMB liability repayments to date. As CMB issuance liabilities continue to mature, we expect net investment income from securitization assets prior to fair market value adjustments to decrease.

Over the term of a CMB issuance, we are entitled to interest income received from the securitized mortgages. As the securitized mortgages repay, we reinvest the collected principal in certain permitted investments and are also entitled to interest income from the reinvested assets. We also recognize servicing expenses on the mortgages and pay certain upfront costs.

We participate in the CMB program with MCAP. We participate in the economics of each CMB issuance in accordance with a pre-determined economic sharing percentage, which dictates the upfront and ongoing cash flow rights and obligations of the participants. MCAN's weighted average economic participation for outstanding CMB issuances as at December 31, 2012 was 30% (December 31, 2011 - 28%). MCAP has indemnified MCAN for the remaining 70% of CMB program obligations (December 31, 2011 - 72%).

The sales of MBS to CHT failed to meet derecognition criteria, since we did not transfer substantially all risks and rewards on sale. The primary risk retained was mortgage prepayment risk, while the primary reward retained was the excess of mortgage interest income and reinvestment asset interest over securitization liability interest. Interest rate risk is largely mitigated by the interest rate swaps discussed below, and credit risk is minimal as all mortgages securitized through the NHA MBS program are insured. We accounted for these transactions as collateralized borrowings and recorded cash received as a financial liability from securitization.

As a result of the failure to meet derecognition criteria on the sale of the securitized mortgages to CHT, we recognize 100% of the mortgages, reinvestment assets and securitization liabilities on the consolidated balance sheets until the maturity of a CMB issuance. We recognize our 30% share of mortgage interest income, principal reinvestment income, interest expense on the securitization liabilities and certain other program expenses on the accrual basis.

We enter into "pay floating, receive fixed" interest rate swaps as part of the CMB program. The purpose of the interest rate swaps is to hedge interest rate risk on both securitized mortgages and principal reinvestment assets that have a floating interest rate, as substantially all interest payments on the securitization liabilities are fixed rate.

The interest rate swaps are classified as held for trading, where changes in fair value are recorded through the consolidated statements of income. From an economic perspective, these fair value changes are generally offset by changes in future expected income from securitized mortgages and principal reinvestment assets that have a floating interest rate. From an accounting perspective, changes in future expected income from these floating rate assets are not reflected in the consolidated statements of income, which can cause volatility to the consolidated statements of income since there is no offset to fair value changes in the interest rate swaps.

In March 2010, OSFI released a final advisory with respect to the impact of IFRS rules regarding securitization on regulatory capital ratios, which require assets and liabilities that are subject to securitization to be reflected as on-balance sheet items. The advisory indicated that any on-balance sheet assets and liabilities recognized from securitization transactions (including insured mortgages that are securitized through the CMB program) were required to be included in the calculation of a regulated financial institution's regulatory capital ratios. Pursuant to these guidelines, we are required to include any assets and liabilities recognized from securitization transactions undertaken after June 30, 2010 in the calculation of our regulatory capital ratios under IFRS. Consequently, our future participation in securitization transactions, namely through our participation in the CMB program, was significantly reduced at this time from historical participation levels in order for us to comply with our regulatory capital ratios. In late 2011, we commenced a market MBS program (discussed below under "Other MBS Programs") to allow for our continued participation in securitization transactions. However, at this point, we have been unable to develop additional alternative structures and arrangements that may permit our continued participation in the CMB program.

Other MBS Programs

Insured Mortgage Purchase Program

We participated in the IMPP, which involved the sale of MBS to CMHC by MCAN. Although we have no continuing economic involvement in the IMPP, we earned an up-front fee for our participation. We participated in the IMPP on behalf of MCAP, who is entitled to 100% of the ongoing economics and cash flows of the IMPP.

We purchased certain mortgages from MCAP that were subsequently securitized into MBS as part of the IMPP. These mortgage sales from MCAP to MCAN failed to meet derecognition criteria, since MCAP retained substantially all risks and rewards as part of the aforementioned entitlement to all economics and cash flows. As a result of this, at the time of sale we recognized a corresponding financial investment (representing a receivable from MCAP) and financial liability from securitization (representing the securitization proceeds received from CMHC). We are the counterparty for the ongoing cash flows between MCAP and CMHC in its role as the IMPP counterparty.

Similar to the CMB program, we have no direct obligations relating to the renewals or refinances of the underlying IMPP mortgages. As the originator and servicer of these mortgages, MCAP has control over the direction of the renewed or refinanced mortgages. We do not have the right to create new MBS with these matured mortgages upon renewal, early renewal or refinance, however they may potentially be used to create new MBS as part of the market MBS program that we initiated in 2011 discussed below. Since the inception of the market MBS program, 0.2% (\$524,000) of mortgages in new MBS pool issuances through this program have been renewed or refinanced mortgages from the IMPP. We do not rely on renewed or refinanced mortgages from the IMPP to create new MBS pools that are sold through the market MBS program.

Market MBS Program

In 2011, we commenced the market MBS program, under which we sell MBS into the market and the net economics and cash flows from the underlying mortgages ("interest-only strips") to a third party. To date, all interest-only strip sales have been made to MCAP. We met derecognition criteria on the sale of the mortgages (i.e. upon creation of MBS and subsequent sales of MBS and interest-only strips to third parties) since we transferred substantially all risks and rewards on sale, and accordingly they were removed from the consolidated balance sheet at that time. The primary risk associated with the market MBS program is liquidity risk, specifically the obligation to fund 100% of any cash shortfall related to the Timely Payment Guarantee (discussed below) as part of the market MBS program. The primary reward associated with the market MBS program is the excess of mortgage interest income over MBS interest. The risks and rewards are both transferred to the purchaser of the interest-only strips pursuant to contractual agreements entered into with such purchaser.

In 2012, we recognized \$978,000 of income (2011 - \$261,000) related to the sale of MBS and the interest-only strips associated with the underlying mortgages. We have no continuing economic involvement with the MBS and the interest-only strips on the underlying mortgages. We only earn income from this program at the time of sale of the MBS and interest-only strips.

The market MBS program has provided MCAN with an opportunistic source of income. To December 31, 2012, we have not been required to include the securitized mortgages in the calculation of our regulatory assets, nor have we had to allocate any regulatory capital to this program. Our ability to continue to generate future income under this MBS program is dependent upon our ability to acquire insured mortgages from MCAP or other mortgage originators as well as our ability to sell the MBS and interest-only strips on a profitable basis.

Recently announced regulatory changes that impact the Canadian mortgage market and potential interpretations being sought under existing guidance in respect of the capital treatment of securitization of mortgages may impact the extent of MCAN's participation in the securitization of mortgages and its earnings from that business. We will continue to identify and assess alternatives and opportunities in this line of business in order to maximize returns for our shareholders.

Timely Payment Guarantee

Consistent with all issuers of MBS, we are required to remit a "timely payment" to MBS investors (representing scheduled principal and interest payments), even if these mortgage payments have not been collected from mortgagors. Similarly, at the maturity of the MBS pools that have been issued by MCAN, any outstanding principal must be paid to the MBS investors.

If mortgage payments have not been collected from mortgagors or mortgagors are unable to renew their mortgages at their scheduled maturity, we will be required to use our own financial resources to fund our pro-rata share of these obligations until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties.

CMB Program

As part of the CMB program, MCAP is responsible for its pro-rata share of the Timely Payment Guarantee obligations noted above based on its contracted economic participation. If MCAP is not able to provide funds to cover any cash shortfalls, we will be required to use our own financial resources to fund its pro-rata share of these obligations until mortgage arrears are collected or

proceeds are received from the mortgage insurers following the sale of the mortgaged properties. To date, we have not had to use our own financial resources to fund any CMB program cash shortfalls from MCAP.

Insured Mortgage Purchase Program

As part of the IMPP, MCAP is obligated to fund 100% of any cash shortfalls associated with the Timely Payment Guarantee as noted above. If MCAP is not able to provide funds to cover any cash shortfalls, we will be required to use our own financial resources to fund its 100% share of this obligation until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties. To date, we have not had to use our own financial resources to fund any IMPP cash shortfalls from MCAP.

Market MBS Program

As part of the market MBS program, the purchaser of the interest-only strip is obligated to fund 100% of any cash shortfalls associated with the Timely Payment Guarantee as noted above. If the interest-only strip purchaser is not able to provide funds to cover any cash shortfalls, we will be required to use our own financial resources to fund its 100% share of this obligation until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties. To date, we have not had to use our own financial resources to fund any market MBS program cash shortfalls from interest-only strip purchasers.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At December 31, 2012, there were 18,728,500 common shares outstanding. At March 26, 2013, there were 18,766,567 common shares outstanding. For additional information related to share capital, refer to Note 22 to the consolidated financial statements.

RIGHTS OFFERING

We successfully completed a rights offering that expired on August 22, 2012. The rights offering was fully subscribed and raised net proceeds of \$20 million, with 1,699,157 new common shares issued. This resulted in additional asset capacity of \$115 million based on our target assets to capital ratio of 5.75 as measured on a tax basis.

DIVIDEND POLICY AND RECORD

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. As a MIC under the Tax Act, we can deduct dividends paid to shareholders during the year and within 90 days thereafter from income for tax purposes. These dividends are taxable in the shareholders' hands as interest income. In addition, as a MIC, we can pay certain capital gains dividends which are taxed as capital gains in the shareholders' hands. We intend to continue to declare dividends on a quarterly basis.

Dividends per share over the past three years are as follows:

Table 19: Dividends

Fiscal Period	2012	2011	2010
First Quarter - Regular Dividend	\$ 0.27	\$ 0.27	\$ 0.26
First Quarter - Extra Dividend	0.33	0.73	0.15
Second Quarter	0.27	0.27	0.26
Third Quarter	0.27	0.27	0.26
Fourth Quarter	0.28	0.27	0.26
	\$ 1.42	\$ 1.81	\$ 1.19
Taxable Dividends	\$ 1.37	\$ 1.81	\$ 1.19
Capital Gains Dividends	0.05	-	-
	\$ 1.42	\$ 1.81	\$ 1.19

The Board of Directors of the Company (the "Board") declared a first quarter dividend of \$0.31 per share to be paid March 28, 2013 to shareholders of record as of March 15, 2013. The dividend comprises the regular quarterly dividend of \$0.28 per share and a \$0.03 per share extra dividend, and consists of a \$nil per share capital gains component and a \$0.31 per share taxable component.

OFF-BALANCE SHEET ARRANGEMENTS

We commit to fund mortgages to borrowers in advance of funding at agreed upon interest rates. Substantially all of these commitments relate to floating rate construction loans. At December 31, 2012, outstanding commitments for future fundings of mortgages intended for our corporate portfolio were \$248 million.

Off-balance sheet arrangements relating to the CMB program are discussed in the "CMB Program" section above.

CONTRACTUAL OBLIGATIONS

We have contractual obligations to make principal and interest payments on term deposits and an operating lease. In addition, we have outstanding commitments for future fundings of mortgages intended for our own portfolio, as discussed above.

As part of the CMB program, we are required to pay servicing expenses on the securitized mortgages and other ongoing costs.

We outsource our mortgage and loan origination and servicing to MCAP and other third party servicers. We continue to pay servicing expenses as long as the mortgages and loans remain on our balance sheet.

Table 20: Contractual Obligations

As at December 31, 2012	Less than one year	One to five years	Over five years	Total
Term deposits	\$ 467,957	\$ 309,120	\$ -	\$ 777,077
Operating lease	277	205	-	482
Mortgage fundings	198,336	49,251	-	247,587
CMB obligations	473	201	-	674
	\$ 667,043	\$ 358,777	\$ -	\$ 1,025,820

TRANSACTIONS WITH RELATED PARTIES

In 2012, we purchased certain corporate services from MCAP in the amount of \$566,000 (2011 - \$497,000). We also purchased certain mortgage origination and administration services from MCAP in the amount of \$2.8 million (2011 - \$2.9 million). During 2012, we received \$3.0 million of mortgage fees from MCAP (2011 - \$2.2 million). The fees received from MCAP include commitment, extension, renewal, and letter of credit fees. We use MCAP systems, including networks, subsystems and general ledger. We also receive technology support from MCAP.

In 2012, we paid fees in the amount of \$1.7 million to MCAP relating to a profit sharing arrangement on a portfolio of discounted mortgages (2011 - \$2.7 million). We received \$190,000 of fees from MCAP relating to a profit sharing arrangement on a portfolio of discounted mortgages (2011 - \$303,000).

In 2012, we earned \$978,000 from the sale of interest-only strips to MCAP (2011 - \$261,000), discussed above in "Securitization Programs."

We have established an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board can approve loans to key personnel for the purpose of purchasing MCAN's common shares. The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares. During 2012, MCAN advanced \$305,000 of new loans under the Share Purchase Plan (2011 - \$299,000). As at December 31, 2012, \$1.9 million of loans were outstanding (December 31, 2011 - \$1.8 million). The loans under the Share Purchase Plan bear interest at prime plus 1%, and have a five-year term.

In 2010, we established a Deferred Share Units Plan (the "DSU Plan") whereby the Board granted units under the DSU Plan to the President and Chief Executive Officer (for the purposes of this paragraph, the "Participant"). Each unit is equivalent in value to one common share of MCAN. Following the Participant's retirement/termination date, the Participant is entitled to receive cash for each unit. The individual unit value is based on the average market value of MCAN's common shares for the five days preceding the retirement/termination date. The Participant was granted 30,000 units under the DSU Plan during 2010. In addition, the Participant is entitled to receive dividend distributions in the form of additional units. The underlying units follow a graded vesting schedule over three years. All dividends paid prior to July 6, 2014 vest as at July 6, 2014. All dividends paid after July 6, 2014 vest immediately. As at December 31, 2012, 20,000 units had vested (December 31, 2011 - 10,000).

We recognize compensation expenses associated with the DSU Plan in line with the graded vesting schedule. The compensation expense recognized for the year ended December 31, 2012 related to the DSU Plan was \$137,000 (2011 - \$181,000). As at December 31, 2012, the accrued DSU Plan liability was \$446,000 (December 31, 2011 - \$309,000), included in accounts payable and accrued liabilities.

RECENT DEVELOPMENTS

On March 26, 2013, we announced the signing of a definitive agreement (the "Arrangement Agreement") to acquire all of the issued and outstanding shares of Xceed for \$1.75 per share, for a total consideration of approximately \$53.0 million. Xceed is a specialized, single family insured and uninsured residential mortgage lender, focused primarily on the insured area of the mortgage market and, in recent years, has been focused on winding down its legacy securitization portfolio. The transaction is expected to be funded with a combination of cash and common shares of MCAN, and will be effected pursuant to a plan of arrangement under Section 182 of the *Business Corporations Act* (Ontario).

Under the terms of the Arrangement Agreement, Xceed shareholders will, for each share held, receive at their election, subject to adjustment: (i) 0.118 Common Shares or (ii) \$1.75 in cash, or a combination thereof, subject to a maximum of approximately \$30.3 million in aggregate cash being paid. Assuming the maximum cash consideration is elected to be received by Xceed shareholders, upon completion of the transaction, existing Xceed shareholders will own approximately 7.54% of MCAN on a fully diluted basis.

The expected timing and completion of the proposed acquisition is subject to Xceed shareholder approval, court and regulatory approvals, and other closing conditions. Xceed shareholders are expected to vote on the transaction at the end of May 2013. If all necessary approvals are obtained, we expect to complete the proposed transaction on or about June 24, 2013. The terms and conditions of the Arrangement Agreement will be summarized in Xceed's management information circular and proxy circular delivered to Xceed shareholders. The Arrangement Agreement will be available under MCAN's profile on SEDAR at www.sedar.com.

Assuming all necessary approvals are obtained and the transaction is completed, the acquisition of Xceed is expected to provide multiple benefits to MCAN, including: (i) an established mortgage origination and underwriting platform from which to deliver incremental asset growth and potential for increased income; (ii) new equity on a cost effective basis which will provide MCAN with the capacity to achieve its growth objectives; (iii) opportunities for long-term and sustainable earnings derived from a combination of Xceed's CMHC origination and underwriting capabilities and MCAN's existing operations and superior access to capital; (iv) the ability to further lever MCAN's single family residential capabilities; (v) support for MCAN's existing growth plans through Xceed's origination and underwriting infrastructure and technology capabilities; (vi) enhanced portfolio management resulting from Xceed's database management and reporting capabilities; and (vii) CMHC approved lender status (subject to regulatory approval) which will provide MCAN with the opportunity to expand the scope of its operations.

CAPITAL MANAGEMENT

We derive our net investment income from the investment of our equity and the difference or spread between amounts earned on our assets and the cost of the term deposits that we issue to fund such assets.

As a MIC under the Tax Act, we are limited to a liabilities to capital ratio of 5:1 (or an assets to capital ratio of 6:1), based on our non-consolidated balance sheet measured at its tax value. Securitization assets and liabilities are both excluded from the calculation of the Tax Act ratio.

As a loan company under the *Trust and Loan Companies Act* (the "Trust Act"), OSFI regulates our consolidated regulatory assets to capital and has granted us a maximum consolidated regulatory assets to capital ratio. We borrow to the extent that we are satisfied that the borrowing and additional investments will increase our overall profitability.

OSFI has issued guidelines to federally regulated companies for capital adequacy, which include meeting a minimum regulatory capital to risk-weighted assets ratio of 10% for Total capital and 7% for Tier 1 capital. Our internal target minimum Tier 1 and Total capital ratios are both 20%.

Assets securitized through the CMB program prior to June 30, 2010 are excluded from the calculation of regulatory ratios.

Our Tax Act and regulatory ratios are as follows:

Table 21: Regulatory Capital

(amounts in thousands, except %)		
As at December 31	2012	2011
Tax Act Ratios		
Income tax assets	\$ 953,235	\$ 766,065
Income tax capital	168,477	156,116
Income tax assets to capital ratio	5.66	4.91
Income tax liabilities to capital ratio	4.66	3.91
Regulatory Ratios (OSFI)		
Tier 1 capital		
Share capital	\$ 155,005	\$ 132,817
Contributed surplus	510	510
Retained earnings	19,985	23,491
Tier 1 capital deductions	(229)	(229)
	<u>175,271</u>	<u>156,589</u>
Tier 2 capital		
Unrealized gain on available for sale marketable securities	1,032	560
Tier 2 capital deductions	(229)	(229)
	<u>803</u>	<u>331</u>
Total capital	<u>\$ 176,074</u>	<u>\$ 156,920</u>
Total regulatory assets	\$ 1,002,759	\$ 818,112
Total risk-weighted assets	\$ 806,140	\$ 704,954
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	21.74%	22.21%
Total capital to risk-weighted assets ratio	21.84%	22.26%
Assets to capital ratio	5.70	5.21

We are limited to the lowest maximum assets amount in the above two asset tests, and the maximum leverage permitted under the Tax Act is more constraining on MCAN than the regulatory assets to capital ratio mandated by OSFI. We manage our assets to a level of 5.75 times capital on a tax basis to provide a prudent cushion between the maximum and total actual assets.

We fund the majority of our investments through the issue of term deposits eligible for CDIC deposit insurance with varying maturities in all provinces of Canada. We do not use capital markets (including asset-backed commercial paper) for liquidity.

In order to promote a more resilient banking sector and strengthen global capital standards, the Basel Committee on Banking Supervision ("BCBS") has issued a revised capital framework referred to as Basel III. The Basel III rules will be phased in from 2013 to 2019. In December 2012, OSFI released its final Capital Adequacy Requirements ("CAR") guideline to reflect (and require Canadian financial institutions to adhere to) certain changes to the global capital rules represented by Basel III.

Of particular relevance to the Company, under the CAR guideline:

- OSFI requires all federally regulated financial institutions to meet the minimum Common Equity Tier 1 ("CET 1"), Total Tier 1 and Total Capital requirements set out therein. In 2013, those minimum capital ratios are 3.5% for CET 1, 4.5% for Total Tier 1 and 8% for Total Capital and by 2015 those minimum capital ratios increase to 4.5%, 6% and 8%, respectively (with the phase-in of certain regulatory adjustments and phase-out of non-qualifying capital instruments over a 10 year horizon). Those regulatory adjustments include the deduction of certain non-significant investments in the capital of banking, financial and insurance entities above a certain threshold. Those adjustments are expected to impact the Company's capital calculations and, in particular, the inclusion of its equity investment in MCAP in such calculations.
- Capital, for purposes of the assets-to-capital multiple, can be calculated on the transitional basis (phasing-in regulatory adjustments between 2013 and 2018 and phasing-out non-qualifying capital instruments over a 10 year horizon commencing in 2013). As at December 31, 2012, we did not have any non-qualifying capital instruments.
- Commencing in 2016, OSFI will also require all federally regulated financial institutions to maintain a capital conservation buffer. The buffer will be phased-in over time and reach its final level of 2.5% in 2019.

- In addition to the minimum capital requirements and capital conservation buffer to be maintained by all federally regulated institutions, OSFI expects all such institutions to attain target capital ratios equal to or greater than the 2019 minimum capital ratios and the 2019 capital conservation buffer well in advance of the phase-in period. Accordingly, OSFI expects all such institutions to achieve a CET 1 ratio of 7% by the first quarter of 2013, and a Total Tier 1 ratio of 8.5% and a Total Capital ratio of 10.5% by the first quarter of 2014 (in each case, calculated on an "all in" basis giving effect to all regulatory adjustments that will be required by 2019 and including the 2019 capital conservation buffer). Failure to achieve such targets will serve as triggers for supervisory intervention.

We expect to be able to meet OSFI's requirements and expectations under the CAR guideline without materially adversely affecting the Company's business plan.

We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets. In conjunction with the annual strategic planning and budgeting process, we complete an Internal Capital Adequacy Assessment Process ("ICAAP") in order to ensure that we have the capital adequacy to support our business plan and risk appetite. The ICAAP assesses the capital available to support the various inherent risks that we face including credit, liquidity, interest rate, market, geographic concentration and reputational risks. The Company's business plan is also stress tested under various adverse scenarios in order to determine the impact on our results from operations and financial condition. The ICAAP is reviewed by both management and the Board and is submitted to OSFI annually. In addition, we perform stress testing on our internal forecasts for capital adequacy on a quarterly basis and the results of such testing are reported to the Board. Based on our 2012 ICAAP and recent quarters' stress testing, we have determined that the Company remains adequately capitalized.

For additional information on our capital management, refer to Note 32 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our 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, short-term investments, marketable securities, mortgages, financial investments, other loans, financial liabilities from securitization, term deposits and derivative financial instruments, which are discussed throughout this MD&A.

The use of financial instruments exposes us to interest rate, credit, liquidity and market risk. A discussion of these risks and how these risks are managed is found under "Risk Management" below.

Information on the financial statement classification and amounts of income, expenses, gains and losses associated with the instruments are located in the "Results from Operations" and "Financial Position" sections of this MD&A. Information on the determination of the fair market value of financial instruments is located in the "Critical Accounting Policies and Estimates" section of this MD&A.

LIQUIDITY

Our liquidity management process includes a Liquidity Risk Management Framework that incorporates multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the Risk Committee of the Board ("RCB") on a quarterly basis. The table below shows the composition of our liquidity ratios over the last two years.

Table 22: Liquidity Ratios

(in thousands except %)		
As at December 31	2012	2011
Tier 1 liquidity		
Cash and cash equivalents	\$ 123,825	\$ 51,309
Tier 2 liquidity		
Marketable securities	20,390	30,149
Eligible mortgage-backed securities	7,137	-
	<u>27,527</u>	<u>30,149</u>
Tier 3 liquidity		
CMHC-insured single family mortgages less 25%	<u>19,458</u>	<u>19,001</u>
Total liquidity	<u>\$ 170,810</u>	<u>\$ 100,459</u>
100 day term deposit maturities	\$ 141,958	\$ 88,953
Tier 1 & 2 liquidity to 100 day term deposit maturities	107%	92%
Total liquidity to 100 day term deposit maturities	120%	113%

We have established and maintain liquidity policies which meet the standards set under the Trust Act and any regulations or guidelines issued by OSFI.

For further analysis of our liquidity risks and how we manage them, refer to the "Risk Factors" and "Risk Management" sections below.

RISK FACTORS

The shaded areas of this MD&A represent a discussion of risk factors and risk management policies and procedures relating to credit, liquidity, interest rate and market risks as required under IFRS 7, *Financial Instruments: Disclosures*. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of the consolidated financial statements.

We are exposed to a number of risks that can adversely affect our ability to achieve our business objectives or execute our business strategies, and which may result in a loss of earnings, capital and/or damage to our reputation. The risks that have been identified may not be the only risks faced by the Company. Other risks of which the Company is not aware of or which the Company currently deems to be immaterial may surface and have a material adverse impact on the Company's business, results from operations and financial condition.

The significant risks to which we are exposed are as follows:

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 our 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. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

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 we may eventually collect the amounts outstanding, which may result in a loss of earnings or capital, or have an otherwise adverse effect on our financial condition and results of operations.

Reputational Risk

Reputational risk is the exposure to negative consequences from the occurrence of other risks. The loss of reputation can greatly affect shareholder value. Reputation refers to the perception of the Company by various stakeholders, including investors, customers, employees, service providers and regulators. Perceptions may be impacted by various events including financial performance, specific adverse occurrences, unfavourable media coverage and changes or actions of the Company's leadership.

Reliance on Key Personnel

Our future performance is dependent on the abilities, experience and efforts of our management team and other key personnel. There is no assurance that we will be able to continue to attract and retain key personnel, although it remains a key objective of the Company. Should any key personnel be unwilling or unable to continue their employment with MCAN, there may be an adverse effect on our financial condition and results of operations.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on and off-balance sheet, have mismatched repricing dates. Changes in interest rates where we have mismatched repricing dates may have an adverse effect on our financial condition and results of operations. In addition, interest rate risk may arise when changes in the underlying interest rates on assets do not match changes in the interest rates on liabilities. This potential mismatch may have an adverse effect on our financial condition and results of operations.

Our exposure to interest rate risk is discussed further in Note 32 to the consolidated financial statements.

Economic Conditions

The Canadian economy experienced a slowdown in growth and employment levels in 2012, however it is expected to normalize in 2013. Low interest rates continue to support housing markets, however regulatory changes which occurred in the latter half of 2012 appear to have had a negative impact on housing markets. We expect to see a decline in housing activity (new home sales and re-sales) in the first half of 2013. Although fundamentals within the economy are expected to improve in the second half of 2013, we do not believe that the improvement will be sufficient to avoid an overall decline in housing activity in 2013.

Interest rates are expected to remain low throughout 2013, however a decline in general economic conditions may result in an increase in default rates within the mortgage market. This potential decline in credit quality of borrowers and our mortgage portfolio may negatively impact our net income.

Regulatory Risk

Changes in laws and regulations, including interpretation or implementation, may affect the Company by limiting the products or services that we can provide and increasing the ability of competitors to compete with our products and services. Also, any failure by the Company to comply with applicable laws and regulations may result in sanctions and financial penalties which may adversely impact our earnings and damage our reputation. Increasing regulations and expectations as a result of the recent financial crisis, both globally and domestically, have increased the cost and resources necessary to meet regulatory expectations for the Company.

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. For the Company, market risk factors include price risk on marketable securities, interest rates, real estate values, commodity prices and foreign exchange rates, among others. Any changes in these market risk factors may negatively affect the value of our financial assets, which may have an adverse effect on our financial condition and results of operations. We do not undertake trading activities as part of our regular operations, and therefore are not exposed to risks associated with activities such as market making, arbitrage or proprietary trading.

Operational and Infrastructure Risk

We are exposed to many types of operational risks that affect all companies. Such risks include the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. We are also exposed to the risk that computer or telecommunication systems could fail, despite efforts to maintain these systems in working order. Shortcomings or failures in internal processes, employees or systems, including any of our financial, accounting or other data processing systems, may lead to financial loss and damage to our reputation. In addition, despite our contingency plans in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our operations.

Outsourcing Risk

Outsourcing risk is the risk incurred when we contract out a business function to a service provider instead of performing the function ourselves, and the service provider performs at a lower standard than we would have under similar circumstances. We outsource all mortgage and loan origination, servicing and collections to MCAP and other third parties.

Competition Risk

Our operations and income are a function of the interest rate environment, the availability of mortgage products at reasonable yields and the availability of term deposits at reasonable cost. The availability of mortgage products for the Company and the yields thereon are dependent on market competition. In the event that we are unable to compete successfully against our current or future competitors or raise term deposits to fund our lending activities, there may be an adverse effect on our financial condition and results of operations.

Monetary Policy

Our earnings are affected by the monetary policies of the Bank of Canada. Changes in the supply and demand of money and the general level of interest rates could affect our earnings. Changes in the level of interest rates affect the interest spread between our mortgages, loans and investments, securitization investments and term deposits, and as a result may impact our net investment income. Changes to monetary policy and in financial markets in general are beyond our control and are difficult to predict or anticipate.

Environmental Risk

We recognize that environmental hazards are a potential liability. This risk exposure can result from non-compliance with environmental laws, either as principal or lender, which may negatively affect our financial condition and results of operations. We aim to mitigate this risk by complying with all environmental laws and by applying a rigorous environmental policy and procedures to our commercial and development lending activities.

Changes in Laws and Regulations

Changes to current laws, regulations, regulatory policies or guidelines (including changes in their interpretation, implementation or enforcement), the introduction of new laws, regulations, regulatory policies or guidelines or the exercise of discretionary oversight by regulatory or other competent authorities including OSFI, may adversely affect us, including by limiting the products or services that we provide, restricting the scope of our operations or business lines, increasing the ability of competitors to compete with our products and services or requiring us to cease carrying on business. In addition, delays in the receipt of any regulatory approvals and authorizations that may be necessary to the operation of our business may adversely affect our operations and financial condition. Our failure to comply with applicable laws and regulations may result in sanctions and financial penalties that could adversely impact our earnings and damage our reputation.

Changes in Accounting Standards and Accounting Policies

We may be subject to changes in the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes may materially impact how we record and report our financial condition and results of operations and, in certain circumstances, we may be required to retroactively apply a new or revised standard that results in our restating prior period financial statements. Please refer to the "Future Changes in Accounting Policy" section of this MD&A for further details.

Accuracy and Completeness of Information on Customers and Counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we rely on information furnished by them, including financial statements and other information. We may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information. Our financial condition and results of operations may be negatively affected to the extent that we rely on financial statements and other information that do not comply with IFRS, that are materially misleading or that do not fairly represent, in all material respects, the financial condition and results of operations of the customers and counterparties.

Leverage

Leverage increases our potential exposure to all risk factors described above.

No Assurance of Achieving Investment Objectives or Payment of Dividends

As a result of the risks discussed above, there is no assurance that the Company will be able to achieve its investment objectives or be able to pay dividends at targeted or historic levels. The funds available for the payment of dividends to our shareholders will vary according to, among other things, the principal and interest payments received in respect of the Company's investments.

There can be no assurance that the Company will generate any returns or be able to pay dividends to our shareholders in the future.

RISK MANAGEMENT

We operate in changing regulatory and economic environments. As a result, our management team and the Board are particularly diligent in their consideration of all identified risks. Our goal is not to eliminate risk, as this would result in significantly reduced earnings, but rather to be proactive in our assessment and management of risk, as a means to gain a strategic advantage and ultimately enhance shareholder value.

Our senior management team is responsible for the quality of processes, policies, procedures and controls and for internal reporting on a day-to-day basis. The Board is actively involved in the risk management process, providing oversight and guidance on an ongoing basis and at least quarterly. Internal Audit is involved in the risk management process to provide validation of its effectiveness, with reports provided to senior management and the Board.

As discussed above under "Risk Factors," we are exposed to various inherent risks, particularly credit risk, liquidity risk and interest rate risk. We mitigate these risks through prudent credit limits, established lending policies and procedures, effective monitoring and reporting, investment diversification and by the diligent management of assets and liabilities.

Credit Risk

Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving the Asset and Liability Committee ("ALCO") which is comprised of management and a formal quarterly review involving the RCB. A Dashboard Report, which identifies, assesses, ranks and provides trending analysis on all material risks to the Company, is provided to the RCB on a quarterly basis. Weekly monitoring also takes place through our Capital Commitments Committee, which is comprised of management.

Our exposure to credit risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of our investments. Credit limits, based on our risk appetite, which is approved by the Board at least annually, have been established for concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis to reflect changes in market conditions and our risk appetite. All members of management are subject to limits on their ability to commit the Company to credit risk.

We identify potential risks in our mortgage portfolio by way of regular review of market metrics, which are a key component of quarterly market reports provided to the RCB. We also undertake site visits of active mortgage properties. Existing risks in our 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 our exposure to credit risk. In the current economic environment, we have increased our monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears.

We assign 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. Risk ratings are reviewed annually for large exposures, and whenever there is an amendment or a material adverse change such as a default or impairment.

We have established a methodology for determining the adequacy of our collective allowances. The adequacy of collective allowances is assessed periodically, taking into consideration economic factors such as Gross Domestic Product, employment, housing market conditions as well as the current position in the economic cycle.

We record an individual allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Individual allowances include all of the accumulated provisions for credit losses on a particular mortgage. At December 31, 2012, we had recorded \$713,000 (December 31, 2011 - \$1.2 million) of individual allowances on our mortgage portfolio (refer to Note 9 to the consolidated financial statements).

Our maximum credit exposure on our individual financial assets is equal to the carrying value of the respective assets, except for our corporate mortgage portfolio, whose maximum credit exposure also includes outstanding commitments for future mortgage fundings.

Liquidity Risk

We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The RCB is responsible for the review and approval of liquidity policies. ALCO is responsible for liquidity management. We have an internal target of a standard level of liquid investments (cash and cash equivalents, marketable securities and 75% of CMHC-insured single family mortgages) of at least 100% 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 us with added flexibility to meet unexpected liquidity needs. We have access to capital through our ability to issue term deposits eligible for CDIC deposit

insurance. These term deposits also provide us with the ability to fund asset growth as needed. We also maintain an overdraft facility to fund asset growth or meet our short-term obligations as required. The overdraft facility is a component of a larger credit facility that also has a portion which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. The total facility is \$50 million, with sub-limits of \$30 million for overdrafts and \$30 million for letters of credit.

We believe that our liquidity position and our access to capital markets in the form of term deposits and the banking facility support our ability to meet current and future commitments as they come due.

Management has developed a Liquidity Risk Management Framework that is reviewed and approved annually by the Board. 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 RCB. Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis.

Our liquidity position and access to funding support our ability to meet current and expected future commitments. Our liquid investments were 120% of term deposits maturing within 100 days at December 31, 2012. For further details on our liquid assets and our ability to meet liability obligations, refer to Note 32 to the consolidated financial statements.

We have established and maintain liquidity policies and procedures which meet the standards set under the Trust Act and any regulations or guidelines issued by OSFI.

Our sources and uses of liquidity are outlined in the table below. We manage our net liquidity surplus/deficit by raising term deposits as mentioned above.

Table 23: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 5 Years	Over 5 Years	December 31 2012	December 31 2011
Sources of liquidity						
Cash and cash equivalents	\$ 123,825	\$ -	\$ -	\$ -	\$ 123,825	\$ 51,309
Marketable securities	-	-	7,092	13,298	20,390	30,149
Mortgages - corporate	119,985	307,611	302,307	9,909	739,812	640,351
Foreclosed real estate	-	-	-	4,355	4,355	-
Financial investments	565	2,480	779	14,243	18,067	12,536
Other loans	19	-	1,240	1,905	3,164	3,027
	244,394	310,091	311,418	43,710	909,613	737,372
Uses of liquidity						
Term deposits	230,981	236,976	309,120	-	777,077	601,577
Other liabilities	9,493	-	-	-	9,493	7,943
	240,474	236,976	309,120	-	786,570	609,520
Net liquidity surplus (deficit)	\$ 3,920	\$ 73,115	\$ 2,298	\$ 43,710	\$ 123,043	\$ 127,852
Off-Balance Sheet						
Unfunded mortgage commitments	\$ 124,459	\$ 73,877	\$ 49,251	\$ -	\$ 247,587	\$ 296,666

The above table excludes securitized assets and liabilities and pledged assets as they are restricted.

For a discussion regarding liquidity risk relating to the maturity of CMB program issuances and other MBS programs, refer to the "Timely Payment Guarantee" section of the "Securitization Programs" discussion.

Interest Rate Risk

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities, including both parallel and non-parallel changes in interest rates. By managing and matching the terms of corporate assets and term deposits so that they offset each other, we seek to reduce the risks associated with interest rate changes, and in conjunction with liquidity management policies and procedures, we also manage cash flow mismatches. ALCO reviews our 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 RCB each quarter. We do not currently use derivative financial instruments outside of the CMB program, however the potential use of such instruments for our on-balance sheet assets is analyzed and reported to ALCO on a monthly basis.

We manage interest rate risk associated with securitization assets and liabilities through the use of "pay-floating, receive-fixed" interest rate swaps. For further details, refer to the "CMB Program" section of this MD&A.

Ultimately, risk management is monitored and controlled at the highest level of the Company. ALCO reviews and manages these risks on a monthly basis. Our Board also reviews and approves all risk management policies and procedures at least annually. Management reports to the Board on the status of risk management at least quarterly.

Market Risk

Our marketable securities portfolio is susceptible to market price risk arising from uncertainties about future values of the securities. We manage the equity price risk through diversification and limits on both individual and total securities. Reports on the portfolio are submitted to the Company's senior management on a regular basis and to the Board on a quarterly basis.

General Litigation

In the ordinary course of business, MCAN and its service providers (including MCAP), their subsidiaries and related parties may from time to time be party to legal proceedings that may result in unplanned payments to third parties. To the best of our knowledge, MCAN management does not expect the outcome of any of these proceedings to have a material adverse effect on the consolidated financial position or results of operations of MCAN. Currently, MCAP is one of several parties to a claim in respect of a development project in Alberta. Although a summary judgment in MCAP's favour was rendered at trial, the Alberta Court of Appeal overturned the summary judgment in part and has directed that certain aspects of the claim be allowed to proceed to trial. MCAN management does not believe that the claim has any merit and believes the claim will ultimately be unsuccessful. In any event, management of MCAN believes that any monetary damages against MCAP would not have a material financial impact on MCAN.

PEOPLE

As at December 31, 2012, we had 23 employees.

REGULATORY COMPLIANCE

Our Chief Compliance Officer ensures that management understands the impact of all relevant legislation affecting the business, assesses compliance with current and pending legislation and works with management to address any gaps in policies and procedures. We use a Legislative Compliance Management System that ensures all managers assess their compliance with relevant legislation on a quarterly basis. Senior management liaises with regulators to keep them apprised of company progress and changes to our business. Our Chief Compliance Officer reports quarterly to the Conduct Review, Corporate Governance & Human Resources Committee of the Board.

INTERNAL AUDIT

The Internal Audit function, consisting of the Chief Audit Officer, has unrestricted access to our operations, records, property and personnel, including senior management and the Chairman of the Audit Committee of the Board (the "Audit Committee"). Internal Audit formulates an annual risk-based plan for approval by the Audit Committee and then undertakes internal audit reviews throughout the year with regular and direct reporting to both senior management and the Audit Committee.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Note 4 to the consolidated financial statements provides detailed information on our significant accounting policies, the method of applying those policies, and the material components of the amounts in the consolidated balance sheets and the statements of income, changes in shareholders' equity, comprehensive income and cash flows. The policies discussed below are considered particularly important, as they require management to make judgments involving estimations, which are discussed in Note 6 to the consolidated financial statements. We have control procedures to ensure that these policies are applied consistently and that the policies are independently reviewed on at least an annual basis. Changes to accounting policies are made only after an appropriate amount of research and discussion has occurred and independent advice is obtained. Estimates are considered carefully and reviewed at an appropriate level within MCAN. We believe that our estimates of the value of our assets and liabilities are appropriate. Actual results may differ from those estimates.

Financial Instruments

All financial instruments are initially recognized on the trade date, and are classified based on management's intentions. 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 at amortized cost. 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 the available for sale reserve, 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, we may use derivative and non-derivative financial instruments to

manage interest rate risk as discussed above in the "Securitization Programs" section. Hedge accounting is optional, and where it can be applied, it requires MCAN 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, 2012, we did not have any hedge accounting relationships.

All financial instruments that are carried on the consolidated balance sheets at fair value 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.

For further details on financial instruments, refer to Notes 4, 5, 7, 8, 9, 11, 12, 15, 18, 21 and 22 to the consolidated financial statements.

Allowance for Credit Losses

The allowance for credit losses reduces the carrying value of mortgage assets to provide for an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans and the overall economic environment. Individual allowances include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The collective allowance represents losses that we believe have been incurred but not yet specifically identified. The collective allowance is established by considering historical loss trends during economic cycles, the risk profile of our current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience. Allowance rates depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect our future provisions for credit losses from those provisions determined in the current year, and there could be a need to increase or decrease the allowance for credit losses.

We complete a review of all provisioning policies at least annually. We continue to monitor asset performance and current economic conditions, focusing on any regionally specific issues to assess the adequacy of the current provisioning policies. Provisioning rates are reviewed on a quarterly basis.

In addition to considering current economic conditions, we assessed the probability of default, expected loss as a result of default and the mortgage exposure at the time of default when establishing our collective allowance. We continue to review our underwriting and credit requirements on a regular basis, and we have taken measures as warranted by changes in the market and economic conditions.

We believe that we have established adequate provisioning rates given the current economic concerns. Our current provisioning rates consider the impact of a decline in real estate values and anticipated default/loss percentages that are sufficient to offset current and historical loss experiences.

On an ongoing basis, we reassess the fair value of other loans and financial investments, determined on the basis of expected discounted cash flows. When a decline in value is identified as a result of impairment that is other than temporary, an allowance is recorded through the income statement.

For further details on our accounting policies and balances of the allowances for credit losses, refer to Notes 4, 6, 10 and 12 to the consolidated financial statements.

Discount Income Recognition

We 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, 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

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the consolidated financial statement date. Deferred tax is provided on temporary differences at the consolidated financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

For further details on our accounting policies and balances relating to income taxes, refer to Notes 4 and 19 to the consolidated financial statements. We will continue to proactively monitor the appropriateness of our position on a quarterly basis.

FUTURE CHANGES IN ACCOUNTING POLICY

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

This standard will require entities to disclose gross amounts subject to right of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This standard is effective for periods beginning on or after January 1, 2013. Retrospective application will be required. The Company does not expect the adoption of this standard to have a material impact on its results as well as to the presentation of the Company's financial statements.

IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32).

These amendments clarify the offsetting criteria in IAS 32 to address inconsistencies in their application. These amendments clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendment also clarifies the application of the IAS 32 offsetting criteria to settlement systems. This amendment will be effective for annual periods beginning on or after January 1, 2014. The Company is in the process of assessing the impact of adopting this amendment.

IFRS 10, Consolidated Financial Statements

This standard is effective for annual periods beginning on or after January 1, 2013 and will replace portions of IAS 27, Consolidated and Separate Financial Statements and interpretation SIC-12, Consolidation - Special Purpose Entities. Under IFRS 10, consolidated financial statements include all controlled entities under a single control model that applies to all entities, including special purpose entities and structured entities. A group will still continue to consist of a parent and its subsidiaries; however IFRS 10 uses different terminology from IAS 27 in describing its control model. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Company does not anticipate any material changes to the financial position or operating results upon adoption of IFRS 10.

IFRS 12, Disclosure of Interests in Other Entities

This standard includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities. Many of the disclosure requirements were previously included in IAS 27, IAS 1 and IAS 28 while others are new. This standard is effective for annual periods beginning on or after January 1, 2013. The Company does not expect the adoption of this standard to result in material changes to the presentation of the Company's financial statements.

IFRS 13, Fair Value Measurement

This standard provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when fair value is required or permitted per IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles could have a significant effect on some entities adopting the standard. IFRS 13 is effective January 1, 2013 and will be adopted prospectively. The Company does not expect the adoption of this standard to have a material impact on its results.

IAS 1, Presentation of Financial Statements

This standard has a number of amendments regarding financial statement presentation and disclosure requirements. This standard is effective for annual periods beginning on or after July 1, 2012. The Company does not expect the adoption of this standard to result in material changes to the presentation of the Company's financial statements.

IAS 19, Revised Employee Benefits

This standard prescribes the accounting and disclosure requirements for employee benefits. This standard shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2, Share-based Payment, applies. This standard is effective for annual periods beginning on or after January 1, 2013. The Company does not expect the adoption of this standard to have a material impact on its results as well as to the presentation of the Company's financial statements.

IAS 28, Investments in Associates and Joint Ventures

This amendment prescribes the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee. This standard is effective for annual periods beginning on or after January 1, 2013. The Company does not expect the adoption of this standard to have a material impact on its results.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures (“DC&P”)

A disclosure committee, comprised of members of our senior management (the “Disclosure Committee”) is responsible for establishing and maintaining adequate disclosure controls and procedures. As of December 31, 2012, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Commission – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (“NI 52-109”). Our Chief Executive Officer and Chief Financial Officer supervised and participated in this evaluation. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting (“ICFR”)

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our ICFR based upon the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our ICFR were effective as of December 31, 2012.

Ernst & Young LLP, our Independent Registered Chartered Accountants, have audited our consolidated financial statements for the year ended December 31, 2012.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1 and ending on December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Inherent Limitations of Controls and Procedures

All internal control systems, no matter how well designed, have inherent limitations. As a result, even systems determined to be effective may not prevent or detect misstatements on a timely basis, as systems can provide only reasonable assurance that the objectives of the control system are met. In addition, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

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 International Financial Reporting Standards (“IFRS”), including the accounting requirements of our regulator, the Office of 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 Office of 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.



William Jandrisits
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

*Toronto, Canada,
February 28, 2013*

Independent auditors' report

To the Shareholders of MCAN Mortgage Corporation

We have audited the accompanying consolidated financial statements of MCAN Mortgage Corporation, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MCAN Mortgage Corporation as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst + Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 28, 2013

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

As at December 31	Note	2012	2011
Assets			
Corporate Assets			
Cash and cash equivalents	7	\$ 123,825	\$ 51,309
Marketable securities	8	20,390	30,149
Mortgages	9	739,812	640,351
Foreclosed real estate	10	4,355	-
Financial investments	11	18,067	12,536
Other loans	12	3,164	3,027
Equity investment in MCAP Commercial LP	13	36,386	15,480
Other assets	14	4,687	947
		950,686	753,799
Securitization Assets			
Short-term investments	15	378,443	345,487
Mortgages	16	936,947	1,499,016
Financial investments	11	714,631	1,279,479
Derivative financial instruments	17	4,666	13,348
Other assets	14	1,248	3,029
		2,035,935	3,140,359
		\$ 2,986,621	\$ 3,894,158
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	18	\$ 777,077	\$ 601,577
Current tax liabilities	19	2,114	3,321
Deferred tax liabilities	19	1,842	5,436
Other liabilities	20	9,493	7,943
		790,526	618,277
Securitization Liabilities			
Financial liabilities from securitization	21	2,015,046	3,111,357
Other liabilities	20	3,268	6,059
		2,018,314	3,117,416
		2,808,840	3,735,693
Shareholders' Equity			
Share capital	22	155,005	132,817
Contributed surplus	22	510	510
Retained earnings		19,985	23,491
Available for sale reserve	24	2,281	1,647
		177,781	158,465
		\$ 2,986,621	\$ 3,894,158

The accompanying notes and shaded areas of the "Risk Factors" and "Risk Management" sections of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

On behalf of the Board:



William Jandrisits
President and Chief Executive Officer



David G. Broadhurst
Director, Chairman of the Audit Committee

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

Years Ended December 31	Note	2012	2011
Net Investment Income - Corporate Assets			
Mortgage interest		\$ 41,395	\$ 32,593
Equity income from MCAP Commercial LP	13	6,906	5,007
Fees	25	2,236	1,593
Marketable securities		2,061	1,281
Interest on financial investments and other loans		1,422	1,342
Interest on cash and cash equivalents		544	592
		54,564	42,408
Term deposit interest and expenses		17,157	12,293
Mortgage expenses	26	3,712	3,407
Provision for credit losses	27	2,560	1,058
		23,429	16,758
		31,135	25,650
Net Investment Income - Securitization Assets			
Mortgage interest		14,372	20,718
Interest on financial investments		4,763	5,714
Interest on short-term investments		1,547	814
Other securitization income	28	9,407	9,001
		30,089	36,247
Interest on financial liabilities from securitization		26,888	29,844
Mortgage expenses	26	423	573
		27,311	30,417
Net investment income before fair market value adjustment		2,778	5,830
Fair market value adjustment - derivative financial instruments	17	(8,682)	228
		(5,904)	6,058
Net Investment Income		25,231	31,708
Operating Expenses			
Salaries and benefits		3,953	3,234
General and administrative		5,040	3,626
		8,993	6,860
Income Before Income Taxes		16,238	24,848
Provision for (recovery of) income taxes			
Current	19	(1,519)	(2,072)
Deferred	19	(3,736)	(183)
		(5,255)	(2,255)
Net Income		\$ 21,493	\$ 27,103
Basic and diluted earnings per share		\$ 1.22	\$ 1.68
Dividends per share		\$ 1.42	\$ 1.81
Weighted average number of basic and diluted shares (000's)		17,579	16,147

The accompanying notes and shaded areas of the "Risk Factors" and "Risk Management" sections of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

Years Ended December 31	2012	2011
Net income	\$ 21,493	\$ 27,103
Other comprehensive income		
Change in unrealized gain on available for sale marketable securities	1,527	736
Transfer of gains on sale of marketable securities to net income	(943)	-
Change in unrealized gain on available for sale financial investments	190	1,249
Less: deferred taxes	(140)	(306)
	634	1,679
Comprehensive income	\$ 22,127	\$ 28,782

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

Years Ended December 31	Note	2012	2011
Share capital			
Balance, beginning of year		\$ 132,817	\$ 100,112
Common shares issued	22	22,188	32,705
Balance, end of year		155,005	132,817
Contributed surplus			
Balance, beginning of year		510	510
Changes to contributed surplus		-	-
Balance, end of year		510	510
Retained earnings			
Balance, beginning of year		23,491	24,489
Net income		21,493	27,103
Dividends declared	23	(24,999)	(28,101)
Balance, end of year		19,985	23,491
Available for sale reserve			
Balance, beginning of year		1,647	(32)
Other comprehensive income		634	1,679
Balance, end of year		2,281	1,647
Total shareholders' equity		\$ 177,781	\$ 158,465

The accompanying notes and shaded areas of the "Risk Factors" and "Risk Management" sections of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

Years Ended December 31	2012	2011
Cash provided by (used for):		
Operating Activities		
Net income	\$ 21,493	\$ 27,103
Adjusted for non-cash items:		
Current taxes	(1,519)	(2,072)
Deferred taxes	(3,736)	(183)
Equity income	(6,906)	(5,007)
Provision for credit losses	2,560	1,058
Fair market value adjustment - derivative financial instruments	8,682	(228)
Amortization of securitized mortgage and liability transaction costs	3,083	3,610
Amortization of other assets	127	110
Amortization of mortgage discounts	(332)	(116)
Amortization of premium on marketable securities	154	-
Gain on sale of financial investment	-	(876)
Mortgage advances	(1,704,120)	(1,204,705)
Mortgage reductions	1,400,526	893,692
Proceeds on sale of mortgages	762,382	499,054
Issuance of term deposits	575,609	607,643
Repayment of term deposits	(400,109)	(427,127)
Repayment of financial liabilities from securitization	(1,096,911)	(8,886)
Decrease (increase) in other assets	(2,085)	2,552
Increase (decrease) in other liabilities	(2,520)	3,623
Cash flows (for) from operating activities	(443,622)	389,245
Investing Activities		
Decrease (increase) in marketable securities	10,190	(22,803)
Increase in short-term investments	(32,956)	(124,538)
Decrease (increase) in financial investments	559,509	(284,285)
Increase in foreclosed real estate	(4,355)	-
Increase in equity investment in MCAP Commercial LP	(14,000)	-
Decrease (increase) in other loans	(130)	305
Proceeds on sale of financial investment	-	1,619
Distributions from MCAP Commercial LP	-	1,057
Cash flows from (for) investing activities	518,258	(428,645)
Financing Activities		
Issue of common shares	22,188	32,705
Dividends paid	(24,308)	(27,305)
Cash flows (for) from financing activities	(2,120)	5,400
Increase (decrease) in cash and cash equivalents	72,516	(34,000)
Cash and cash equivalents, beginning of year	51,309	85,309
Cash and cash equivalents, end of year	\$ 123,825	\$ 51,309

Supplementary Information

	2012	2011
Interest received	\$ 62,755	\$ 57,309
Interest paid	39,915	36,342
Taxes paid	58	323

The accompanying notes and shaded areas of the "Risk Factors" and "Risk Management" sections of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

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1. Corporate Information

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”).

As a Loan Company under the Trust Act, the Company is subject to the guidelines and regulations set by the Office of the Superintendent of Financial Institutions Canada (“OSFI”).

The Company’s primary objective is to generate a reliable stream of income by investing its corporate funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of financial investments, loans and real estate investments. MCAN employs leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation (“CDIC”) deposit insurance up to a maximum of five times capital (on a non-consolidated tax basis) as limited by the provisions of the Tax Act applicable to a MIC. The term deposits are sourced through a network of independent financial agents. As a MIC, MCAN is entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of other dividends paid. Such dividends are received by shareholders as capital gains dividends and interest income, respectively.

MCAN also participates in the Canada Mortgage Bonds (“CMB”) program, and other securitizations of insured mortgages. For further details, refer to Note 6.

MCAN is incorporated in Canada. Its head office is located at 200 King Street West, Suite 400, Toronto, Ontario, Canada. MCAN is listed on the Toronto Stock Exchange under the symbol MKP.

The consolidated financial statements were approved in accordance with a resolution of the Board of Directors on February 28, 2013.

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on a historical cost basis, except for marketable securities, foreclosed real estate, certain financial investments designated as available for sale and derivative financial instruments, which have been measured at fair value. The consolidated financial statements are presented in Canadian dollars.

The disclosures that accompany the consolidated financial statements include the significant accounting policies applied (Note 4) and the significant judgments and estimates applicable to the preparation of the consolidated financial statements (Note 5).

The Company separates its assets into its corporate and securitization portfolios for reporting purposes. Corporate assets represent the Company’s core strategic investments, and are funded by term deposits and share capital. Securitization assets consist primarily of mortgages securitized through the CMB program and reinvestment assets purchased with mortgage principal repayments, and are funded by financial liabilities from securitization.

3. Basis of Consolidation

The consolidated financial statements include the balances of MCAN and its subsidiaries as at December 31, 2012.

All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

4. Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the Company in the preparation of its consolidated financial statements:

(1) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognized on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by market convention.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial instruments not subsequently recorded at fair value through the consolidated statements of income, directly attributable transaction costs.

(iii) Derivatives recorded at fair value through the consolidated statements of income

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in the consolidated statements of income.

The Company uses derivative financial instruments such as interest rate swaps to hedge its interest rate risk as part of its participation in the CMB program.

No derivative financial instruments have been designated for hedge accounting.

(iv) Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading are recorded at fair value. Changes in fair value are recognized in the consolidated statements of income. Interest income or expense is recorded in the consolidated statements of income on the accrual basis.

A financial asset or financial liability is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(v) Financial assets and financial liabilities designated at fair value through the consolidated statements of income

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through the consolidated statements of income upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that otherwise would be required by the contract.

4. Summary of Significant Accounting Policies (continued)

Financial assets and financial liabilities designated at fair value through the consolidated statements of income are recorded in the consolidated financial statements at fair value. Changes in fair value are recorded in the consolidated statements of income. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the effective interest rate method (“EIRM”), while dividend income is recorded in income when the right to the payment has been established.

(vi) *“Day 1” profit or loss*

When the transaction price is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognizes the difference between the transaction price and fair value (a “Day 1” profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable, or when the instrument is derecognized.

(vii) *Available for sale financial investments*

Available for sale investments include marketable securities and an equity investment in commercial real estate. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through the consolidated statements of income.

Certain marketable securities are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or in response to changes in the market conditions.

(viii) *Held to maturity financial investments*

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company has the intention and ability to hold to maturity. After initial measurement at fair value, held to maturity financial investments are subsequently measured at amortized cost using the EIRM, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIRM. The amortization is included in interest on financial investments and other loans in the consolidated statements of income. The losses arising from impairment of such investments are recognized in the consolidated statements of income.

The Company has not designated any financial assets as held to maturity.

(ix) *Loans and receivables*

Loans and receivables include mortgages, other loans, non-derivative financial assets and certain financial investments with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company upon initial recognition designates at fair value;
- Those that the Company, upon initial recognition, designates as available for sale; or
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIRM, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIRM. The amortization is included in mortgage interest income or interest on financial investments and other loans in the consolidated statements of income. The losses arising from impairment are recognized in the consolidated statements of income.

(x) *Financial liabilities*

After initial recognition, interest bearing financial liabilities are subsequently measured at amortized cost using the EIRM. Premiums and discounts on the liabilities are recognized in the consolidated statements of income when the liabilities are extinguished as well as through amortization using the EIRM.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (“EIR”). The EIR amortization is included in the related line in the consolidated statements of income.

4. Summary of Significant Accounting Policies (continued)

(xi) Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. These costs are defined as costs that would not have been incurred if the Company had not acquired, issued or disposed of the related financial instrument. Transaction costs are capitalized and amortized over the expected life of the instrument using the EIRM, except for transaction costs which are related to financial assets or financial liabilities classified as held for trading or designated at fair value, which are expensed.

(2) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either:
 - the Company has transferred substantially all the risks and rewards of the asset, or
 - the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

(3) Determination of fair value

The fair value for financial instruments traded in active markets is based on their quoted market price or other trading data, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices may exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Where available, their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company’s best estimate of the most appropriate model assumptions. The fair value of certain real estate assets is determined using independent appraisals. Models and valuations are adjusted to reflect counterparty credit and liquidity spread and limitations in the models.

(4) Non-current assets held for sale

Held-for-sale foreclosed assets in the settlement of an impaired mortgage are initially carried at fair market value less costs to sell. In subsequent measurements, the asset is carried at the lower of its carrying amount and fair market value less the estimated cost to sell at the date of foreclosure. Any difference between the carrying value of the asset before foreclosure and the initially estimated realizable amount of the asset is recorded in the provision for credit losses line of the consolidated statements of income.

4. Summary of Significant Accounting Policies (continued)

(5) Impairment of financial assets

The Company assesses at each consolidated financial statement date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of the related interest income component. Mortgages, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the provision for credit losses.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a mortgage has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of estimated future cash flows reflects the projected cash flows less costs to sell.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) *Available for sale financial investments*

For available for sale financial investments, the Company assesses at the consolidated financial statement date whether there is objective evidence that an investment or a group of investments is impaired.

4. Summary of Significant Accounting Policies (continued)

In the case of equity investments classified as available for sale, one of the indications of impairment would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of income - is removed from other comprehensive income and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded to the related interest income component. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

(6) Offsetting financial instruments

Financial assets and financial liabilities where MCAN is considered the principal to the underlying transactions are offset and the net amount reported in the consolidated financial statements if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(7) Taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the consolidated financial statement date.

Current tax relating to items recognized directly to shareholders' equity is recognized in equity and not in the consolidated statements of income. Management periodically evaluates positions taken in the Company's tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the consolidated financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- In respect of taxable temporary differences associated with investments in subsidiaries or associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be used, except in the following instances:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- In respect of deductible temporary differences associated with investments in subsidiaries or associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

4. Summary of Significant Accounting Policies (continued)

The carrying amount of deferred tax assets is reviewed at each consolidated financial statement date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated financial statement date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated financial statement date.

Deferred tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(8) Dividends on common shares

Dividends on common shares are deducted from shareholders' equity in the quarter that they are approved. Dividends that are approved after the consolidated financial statement date are disclosed as an event after the consolidated financial statement date.

(9) Investments in associates

The Company's investments in its associates are accounted for using the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in the associate is carried on the consolidated balance sheets at cost plus post acquisition changes in the Company's share of net assets of the associate.

The consolidated statements of income reflect the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statements of changes in shareholders' equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The most recent available financial statements of the associate are used by the investor in applying the equity method. When the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements.

Where necessary, adjustments are made to harmonize the accounting policies of the associate with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associate. The Company determines at each consolidated financial statement date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company then calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statements of income.

(10) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and that the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

Interest income or expense

For all financial investments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the EIRM, which reflects the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income or expense is included in the appropriate component of the consolidated statements of income.

4. Summary of Significant Accounting Policies (continued)

(11) Cash and short-term investments

Cash and short-term investments on the consolidated balance sheets comprise cash held at banks and short-term deposits with original maturity dates of less than 90 days.

(12) Share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date, further details of which are discussed in Note 29. The obligations are adjusted for fluctuations in the market price of the Company's common shares. Changes in the obligations are recorded as salaries and benefits in the consolidated statements of income with a corresponding change to other liabilities. The liability is re-measured at fair value at each consolidated financial statement date up to and including the settlement date.

5. Significant Accounting Judgments and Estimates

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.

Impairment losses on mortgages

The Company reviews its individually significant mortgage balances at each consolidated financial statement date to assess whether an impairment loss should be recorded in the consolidated statements of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Mortgages that have been assessed individually and found not to be impaired and all individually insignificant mortgages are then assessed collectively, in groups of mortgages with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the mortgage portfolio (such as credit quality, levels of arrears, credit utilization, loan to value ratios, etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices and the performance of different individual groups).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by relevant tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the responsible tax authority. As the Company assesses the probability for a litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

5. Significant Accounting Judgments and Estimates (continued)

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be used. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Further details on taxes are disclosed in Note 19.

6. Securitization Activities

The Company participates in the National Housing Act (“NHA”) mortgage-backed securities (“MBS”) program, which involves the securitization of insured mortgages to create MBS. Pursuant to the NHA MBS program, investors of MBS receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. Canada Mortgage and Housing Corporation (“CMHC”) makes principal and interest payments in the event of any NHA MBS default by the issuer, thus fulfilling the timely payment obligation to investors. To date, the Company has sold MBS as part of the CMB program, the Insured Mortgage Purchase Program (“IMPP”) and a market MBS program, which are discussed below.

CMB Program

MCAN participates in the CMB program, which involves the sale of MBS to the Canada Housing Trust (“CHT”). On the sale of MBS to CHT, MCAN receives proceeds for the sale, incurs a liability in the amount of such proceeds received and is obligated to pay interest on this liability, which does not amortize over the term of the issuance and is payable in full at maturity. The securitized mortgages and reinvestment assets are held as collateral against the CMB liabilities.

Over the term of a CMB issuance, MCAN is entitled to interest income received from the securitized mortgages. As the securitized mortgages repay, MCAN reinvests the collected principal in certain permitted investments and is also entitled to interest income from the reinvested assets. MCAN also recognizes servicing expenses on the mortgages and pays certain upfront costs.

MCAN participates in the CMB program with MCAP Commercial LP and its wholly owned subsidiaries including MCAP Service Corporation (collectively “MCAP”). MCAN participates in the economics of each CMB issuance in accordance with a pre-determined economic sharing percentage, which dictates the upfront and ongoing cash flow rights and obligations of the participants. MCAN’s weighted average economic participation for outstanding CMB issuances as at December 31, 2012 was 30% (December 31, 2011 - 28%). MCAP has indemnified MCAN for the remaining 70% of CMB program obligations (December 31, 2011 - 72%).

The sales to CHT failed to meet derecognition criteria since MCAN did not transfer substantially all risks and rewards on sale. The primary risk retained was mortgage prepayment risk, while the primary reward retained was the excess of mortgage interest income and reinvestment asset interest over securitization liability interest. Interest rate risk is largely mitigated by the interest rate swaps discussed below, and credit risk is minimal as all mortgages securitized through the NHA MBS program are insured. MCAN accounted for these transactions as collateralized borrowings and recorded cash received as a financial liability from securitization.

As a result of its failure to meet derecognition criteria on the sale of the securitized mortgages to CHT, MCAN recognizes 100% of the mortgages (Note 16), reinvestment assets (Notes 11 and 15) and securitization liabilities (Note 21) on the consolidated balance sheets until the maturity of the CMB issuance. MCAN recognizes its 30% share of mortgage interest income, principal reinvestment income, interest expense on the securitization liabilities and certain other program expenses on the accrual basis. MCAN has also capitalized certain costs associated with the securitized mortgages and securitization liabilities, both of which are amortized using the EIRM.

The Company enters into “pay floating, receive fixed” interest rate swaps as part of the CMB program (Note 17). The purpose of the interest rate swaps is to hedge interest rate risk on both securitized mortgages and principal reinvestment assets that have a floating interest rate, as substantially all interest payments on the securitization liabilities are fixed rate.

The interest rate swaps are classified as held for trading, where changes in fair value are recorded through the consolidated statements of income. From an economic perspective, these fair value changes are generally offset by changes in future expected income from securitized mortgages and principal reinvestment assets that have a floating interest rate. From an accounting perspective, changes in future expected income from these floating rate assets are not reflected in the consolidated statements of income, which can cause volatility to the consolidated statements of income since there is no offset to fair value changes in the interest rate swaps.

6. Securitization Activities (continued)

Other MBS Programs

Insured Mortgage Purchase Program

The Company participated in the IMPP, which involved the sale of MBS to CMHC by MCAN. Although MCAN has no continuing economic involvement in the IMPP, it earned an up-front fee for its participation. MCAN participated in the IMPP on behalf of MCAP, who is entitled to 100% of the ongoing economics and cash flows of the IMPP.

MCAN purchased certain mortgages from MCAP that were subsequently securitized into MBS as part of the IMPP. These mortgage sales from MCAP to MCAN failed to meet derecognition criteria, since MCAP retained substantially all risks and rewards as part of the aforementioned entitlement to all economics and cash flows. As a result of this, at the time of sale MCAN recognized a corresponding financial investment representing a receivable from MCAP (Note 11) and financial liability from securitization representing the securitization proceeds received from CMHC (Note 21). MCAN is the counterparty for the ongoing cash flows between MCAP and CMHC in its role as the IMPP counterparty.

Market MBS Program

In 2011, the Company commenced the market MBS program, under which it sells MBS into the market and the net economics and cash flows from the underlying mortgages (“interest-only strips”) to a third party. To date, all interest-only strip sales have been made to MCAP. MCAN met derecognition criteria on the sale of the mortgages (i.e. upon creation of MBS and subsequent sales of MBS and interest-only strips to third parties) since it transferred substantially all risks and rewards on sale, and accordingly they were removed from the consolidated balance sheet at that time. The primary risk associated with the market MBS program is liquidity risk, specifically the obligation to fund 100% of any cash shortfall related to the Timely Payment Guarantee (discussed below) as part of the market MBS program. The primary reward associated with the market MBS program is the excess of mortgage interest income over the MBS interest. The risks and rewards are both transferred to the purchaser of the interest-only strips pursuant to contractual agreements entered into with such purchaser.

In 2012, MCAN recognized \$978 of income (2011 - \$261) related to the sale of MBS and the interest-only strips associated with the underlying mortgages. The Company has no continuing economic involvement with the MBS and the interest-only strips on the underlying mortgages. The Company only earns income from this program at the time of sale of the MBS and interest-only strips.

Timely Payment Guarantee

Consistent with all issuers of MBS, the Company is required to remit a “timely payment” to MBS investors (representing scheduled principal and interest payments), even if these mortgage payments have not been collected from mortgagors. Similarly, at the maturity of the MBS pools that have been issued by MCAN, any outstanding principal must be paid to the MBS investors.

As part of the CMB program, MCAP is responsible for its pro-rata share of the timely payment guarantee obligations noted above based on its respective contracted economic participation. As part of the IMPP, MCAP is obligated to fund 100% of any cash shortfall. As part of the market MBS program, the purchaser of the interest-only strip is obligated to fund 100% of any cash shortfall.

During 2012, the Company adopted certain amendments to IFRS 7, *Financial Instruments: Disclosures*. The amendments require additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company’s consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognized assets. The adoption of IFRS 7 had no impact on the Company’s financial position or net income.

Transferred financial assets that are not derecognized in their entirety

CMB Program

As a result of the failure to meet derecognition criteria, the CMB mortgage sale transactions have resulted in MCAN recognizing the securitized mortgages, reinvestment assets and financial liabilities from securitization on its balance sheet. The remaining securitized mortgage balance as at December 31, 2012 was \$936,947 (December 31, 2011 - \$1,499,016) (Note 16). The reinvestment asset balance as at December 31, 2012 was \$878,588 (December 31, 2011 - \$1,402,050) (Notes 11 and 15). The financial liabilities from securitization balance as at December 31, 2012 was \$1,855,051 (December 31, 2011 - \$2,944,209) (Note 21).

6. Securitization Activities (continued)

Insured Mortgage Purchase Program

As a result of the failure to meet derecognition criteria, the IMPP mortgage sale transactions have resulted in MCAN recognizing a loan receivable from MCAP and a loan payable to the IMPP counterparty on its consolidated balance sheet. The balance of both loans as at December 31, 2012 was \$159,995 (December 31, 2011 - \$167,148) (Notes 11 and 21).

Transferred financial assets that are derecognized in their entirety but where the Company has a continuing involvement

Market MBS Program

The Company sold \$284,143 of MBS through the market MBS program during 2012 (2011 - \$26,132), and has sold \$310,275 since the inception of the program. MCAN recognized \$978 of income in 2012 (2011 - \$261), and has recognized \$1,239 of income since the inception of the program. MCAN met derecognition criteria on the sale of the mortgages (i.e. on creation and sale of MBS) and the interest-only strips as a result of the transfer of substantially all risks and rewards, and accordingly they were removed from the consolidated balance sheet at that time. MCAN's continuing involvement relates to the Timely Payment Guarantee obligation noted above. Similarly, at the maturity of the MBS pools that have been issued by MCAN, any outstanding principal must be paid to the MBS investors. The total outstanding MBS balance related to the market MBS program as at December 31, 2012 was \$295,948 (December 31, 2011 - \$26,054), which was not reflected as an asset or liability on MCAN's consolidated balance sheet at either date. The MBS mature as follows: 2016 - \$48,378, 2017 - \$247,570.

7. Cash and Cash Equivalents

As at December 31	2012	2011
Cash balances with banks	\$ 11,825	\$ 8,309
Bankers' acceptances and term deposits	112,000	43,000
	\$ 123,825	\$ 51,309

Cash and cash equivalents include balances with banks and short-term investments with original maturity dates of less than 90 days.

Refer to Note 31 for an analysis of the Company's available credit facilities.

8. Marketable Securities

As at December 31	2012	2011
Corporate bonds	\$ 8,491	\$ 15,819
Real estate investment trusts	7,825	11,283
Exchange-traded funds	4,074	3,047
	\$ 20,390	\$ 30,149

Marketable securities are designated as available for sale. Corporate bonds mature between 2015 and 2022, while real estate investment trusts and exchange-traded funds have no specific maturity date. Fair values are based on bid prices quoted in active markets, and changes in fair value are recognized in the consolidated statements of comprehensive income.

December 31, 2012 (Dollar amounts in thousands except for per share amounts)

9. Mortgages - Corporate

(a) Summary

As at December 31, 2012	Gross Principal	Allowance			Net Principal
		Collective	Individual	Total	
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 271,662	\$ 1,135	\$ 147	\$ 1,282	\$ 270,380
- Uninsured (completed inventory loans)	20,315	80	150	230	20,085
- Insured	76,104	-	-	-	76,104
Construction loans					
- Residential	274,977	1,748	300	2,048	272,929
- Non-residential	26,585	166	-	166	26,419
Commercial loans					
- Uninsured	74,605	594	116	710	73,895
- Insured	-	-	-	-	-
	\$ 744,248	\$ 3,723	\$ 713	\$ 4,436	\$ 739,812

As at December 31, 2011	Gross Principal	Allowance			Net Principal
		Collective	Individual	Total	
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 261,724	\$ 1,031	\$ 102	\$ 1,133	\$ 260,591
- Uninsured (completed inventory loans)	36,270	166	-	166	36,104
- Insured	77,558	-	-	-	77,558
Construction loans					
- Residential	191,628	1,219	1,000	2,219	189,409
- Non-residential	18,861	119	-	119	18,742
Commercial loans					
- Uninsured	54,645	384	58	442	54,203
- Insured	3,744	-	-	-	3,744
	\$ 644,430	\$ 2,919	\$ 1,160	\$ 4,079	\$ 640,351

Gross principal as presented in the tables above includes unamortized capitalized transaction costs.

MCAN's corporate mortgage portfolio includes insured and uninsured single family mortgages. The Company does not invest in the United States mortgage market. 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 CMHC or Genworth Financial Mortgage Insurance Company Canada Inc. ("Genworth") may exceed this ratio.

Uninsured completed inventory loans are credit facilities extended to provide interim mortgage financing on residential units (condominium or freehold), where all construction has been completed.

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

Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments.

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

The weighted average yield of the Company's corporate mortgage portfolio is as follows:

As at December 31	2012	2011
Single family	4.63%	5.48%
Construction	5.95%	6.49%
Commercial	6.94%	5.63%
Total	5.39%	5.82%

9. Mortgages - Corporate (continued)

Mortgages are classified as loans and receivables and are carried at amortized cost. The fair market value of the corporate mortgage portfolio as at December 31, 2012 was \$742,779 (December 31, 2011 - \$644,361). Fair market values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages. Outside of the change during the periods shown in the above tables, there were no significant fluctuations in mortgage balances within the periods. For information regarding the maturity dates of the Company's mortgages, refer to Note 32.

As at December 31, 2012, the Company held \$12,565 of second uninsured single family mortgages (December 31, 2011 - \$969).

As at December 31, 2012, the Company had \$11,981 (December 31, 2011 - \$nil) of insured single family mortgages pledged as collateral as part of the CMB program.

Outstanding commitments for future fundings of mortgages intended for the Company's corporate portfolio were \$247,587 at December 31, 2012 (December 31, 2011 - \$296,666). The majority of these commitments relate to floating rate construction loans.

(b) Discounted mortgages

Principal balances presented in section (a) are net of the unamortized discount on the Company's portfolio of single family mortgages purchased at a discount. As at December 31, 2012, the Company held discounted mortgages with an aggregate discount of \$5,874 (December 31, 2011 - \$9,141). Upon the payout of a mortgage, the remaining unamortized discount is recognized in mortgage interest income. The Company retains 50% of any recoveries of the discount and pays the remaining 50% to MCAP (refer to Note 29 for profit sharing fees paid to/from MCAP). 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 EIRM 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 2013 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). The recognition of discount income is based on management's expectations as to when cash will be received.

The composition of the discount is as follows:

As at December 31	2012	2011
Fixed rate	\$ 3,648	\$ 2,310
Floating rate	2,226	6,831
	\$ 5,874	\$ 9,141

(c) Geographic Analysis

As at December 31, 2012	Single Family	Construction	Commercial	Total	
Ontario	\$ 167,177	\$ 135,627	\$ 26,375	\$ 329,179	44.5%
Alberta	74,108	101,181	21,417	196,706	26.6
British Columbia	60,033	50,678	3,884	114,595	15.5
Other	65,251	11,862	22,219	99,332	13.4
	\$ 366,569	\$ 299,348	\$ 73,895	\$ 739,812	100.0%

As at December 31, 2011	Single Family	Construction	Commercial	Total	
Ontario	\$ 157,624	\$ 71,710	\$ 24,423	\$ 253,757	39.6%
Alberta	97,548	86,500	14,458	198,506	31.0
British Columbia	71,572	37,970	4,344	113,886	17.8
Other	47,509	11,971	14,722	74,202	11.6
	\$ 374,253	\$ 208,151	\$ 57,947	\$ 640,351	100.0%

December 31, 2012 (Dollar amounts in thousands except for per share amounts)

9. Mortgages - Corporate (continued)

(d) Mortgage Allowances

Details of the collective allowances for mortgage credit losses for the current and prior year are as follows:

	Collective		Individual		2012 Total	2011 Total		
Balance, beginning of year	\$	2,919	\$	1,160	\$	4,079	\$	3,293
Provisions (recoveries)		1,127		553		1,680		1,061
Write-offs		(323)		(1,000)		(1,323)		(275)
Balance, end of year	\$	3,723	\$	713	\$	4,436	\$	4,079

The Company's individual allowances for mortgage credit losses are as follows:

As at December 31	2012	2011
Uninsured single family	\$ 297	\$ 102
Residential construction	300	1,000
Commercial - uninsured	116	58
	\$ 713	\$ 1,160

(e) Arrears and Impaired Mortgages

Mortgages past due but not impaired are as follows:

As at December 31, 2012	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	\$ 14,064	\$ 8,378	\$ 646	\$ -	\$ 23,088
Single family - insured	330	385	58	627	1,400
Residential construction	-	2,743	-	-	2,743
Commercial	3,436	-	-	-	3,436
	\$ 17,830	\$ 11,506	\$ 704	\$ 627	\$ 30,667

As at December 31, 2011	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	\$ 7,839	\$ 4,822	\$ 433	\$ -	\$ 13,094
Single family - insured	422	367	-	626	1,415
Residential construction	-	-	-	-	-
	\$ 8,261	\$ 5,189	\$ 433	\$ 626	\$ 14,509

Impaired mortgages (net of individual allowances) are as follows:

As at December 31, 2012	Single Family	Residential Construction	Commercial	Total
Ontario	\$ 1,533	\$ -	\$ -	\$ 1,533
Alberta	1,528	1,760	-	3,288
British Columbia	1,736	-	-	1,736
Other	2,059	-	-	2,059
	\$ 6,856	\$ 1,760	\$ -	\$ 8,616

As at December 31, 2011	Single Family	Residential Construction	Commercial	Total
Ontario	\$ 2,055	\$ 1,237	\$ 427	\$ 3,719
Alberta	769	8,708	-	9,477
British Columbia	393	-	-	393
Other	542	-	-	542
	\$ 3,759	\$ 9,945	\$ 427	\$ 14,131

10. Foreclosed Real Estate

In 2012, the Company foreclosed an impaired residential construction loan which is now held as real estate within a wholly owned subsidiary and is carried at the lower of carrying amount and fair market value less the estimated cost to sell. The investment was recorded at its fair value less estimated cost to sell at the time of foreclosure, and no gain or loss was recognized at this time as the fair market value was equal to the carrying value of the impaired loan net of its individual allowance. During the year, the Company's share of the initial phase of this property was sold for \$2,400, while the subsequent phases are subject to an option to purchase by the same party under the same contract. No gain or loss was recognized on the sale of the initial phase.

11. Financial Investments

As at December 31	2012	2011
Corporate assets:		
Investment - commercial real estate	\$ 13,792	\$ 8,250
Retained interest	3,084	-
Other financial investments	734	1,294
Asset-backed commercial paper	457	457
Subordinated loan - residential mortgage securitization program	-	2,535
	\$ 18,067	\$ 12,536
Securitization assets:		
Insured mortgage-backed securities (in trust for CMB program)	\$ 554,636	\$ 1,112,331
Receivables - IMPP	159,995	167,148
	\$ 714,631	\$ 1,279,479

Corporate Assets

The Company holds an equity investment in a commercial real estate investment fund in which it has a fixed proportionate share. As acquisitions are made by the fund, the Company advances its proportionate share to finance the acquisitions. The investment is designated as available for sale, with changes in fair value recognized in the consolidated statements of comprehensive income.

The Company holds a retained interest in insured single family mortgages that yields up to 8.75% depending on mortgage prepayment levels. During 2012, its average yield was 8.75% (2011 - n/a). The retained interest is designated as fair value through profit and loss, with changes in fair market value recognized in the consolidated statements of income.

The Company held a subordinated loan - residential mortgage securitization program with an interest rate of 10% at December 31, 2011. The loan was rated BB high by Dominion Bond Rating Service ("DBRS"), was classified as loans and receivables and had no specific maturity date. The subordinated loan was receivable from a special purpose entity ("SPE"). The Company did not control the SPE and therefore did not consolidate it.

Securitization Assets

Insured MBS (held in trust for the CMB program) represent receivables from third party MBS issuers held as principal reinvestment assets as part of the Company's participation in the CMB program. The weighted average yield was 1.74% at December 31, 2012 (December 31, 2011 - 1.77%). The fair market value of MBS held in trust for the CMB program as at December 31, 2012 was \$556,620 (December 31, 2011 - \$1,121,238).

Receivables - IMPP represent the Company's loan receivable from MCAP associated with the Company's involvement in the IMPP (Note 6), although it has no economic interest and therefore recognizes no income.

All financial investments are classified as loans and receivables and carried at amortized cost except for the investment - commercial real estate and retained interest, whose classifications are discussed above. The carrying value of all financial investments approximates fair value, except the insured MBS noted above.

12. Other Loans

As at December 31	Note	2012	2011
Loans receivable - employees	29	\$ 1,924	\$ 1,831
Loans receivable - MCAP	29	1,240	-
Loans receivable - other		-	1,196
		\$ 3,164	\$ 3,027

The Company has loans receivable from MCAP bearing interest at 5% and maturing in 2015.

A loan receivable as at December 31, 2011 had an interest rate of the greater of 7% and prime plus 4% (7% at December 31, 2011) and was payable on demand.

All other loans are classified as loans and receivables.

13. Equity Investment in MCAP Commercial LP

The Company has a 23.4% equity interest in MCAP as at December 31, 2012 (December 31, 2011 - 22.7%), consisting of 25% of voting class A units, 0% of non-voting class B units and 25% of non-voting class C units.

During 2012, MCAN purchased \$14,000 of non-voting class C units in MCAP. MCAP used these funds, in addition to equity capital from one of its other partners, to acquire the remaining 80% in MCAP Service Corporation that was not previously owned by MCAP. During 2012, MCAP also acquired the residential mortgage operations and certain related assets of ResMor Trust Company.

Subsequent to MCAN's purchase of class C units in MCAP, MCAP issued new class B units such that MCAN's interest in MCAP decreased to 23.4%.

Since MCAP's fiscal year end is November 30th, MCAN records equity income from MCAP on a one-month lag. To the extent that MCAP has a material transaction during the one-month lag, MCAN is required to reflect the transaction in the month in which it occurred instead of the subsequent month.

MCAN holds a 25% voting interest in MCAP through its class A units. The remaining 75% of the class A and class C units are held by Cadcap Limited Partnership, a subsidiary of the Caisse de dépôt et placement du Québec.

Years Ended December 31	2012	2011
Balance, beginning of year	\$ 15,480	\$ 11,530
Additional equity investment	14,000	-
Equity income	6,906	5,007
Distributions received	-	(1,057)
Balance, end of year	\$ 36,386	\$ 15,480

As at December 31	2012	2011
Share of MCAP's balance sheet:		
Assets	\$ 1,215,427	\$ 109,533
Liabilities	1,175,194	90,063
Equity	40,233	19,470
Carrying amount - equity investment in MCAP	\$ 36,386	\$ 15,480

The variance between MCAN's share of MCAP's equity and MCAN's carrying amount of its equity investment in MCAP arose from a corporate reorganization that took place in 2004 in which MCAN reduced its partnership interest in MCAP from 50% to 25%.

Years Ended December 31	2012	2011
Share of MCAP revenue and net income:		
Revenue	\$ 33,392	\$ 12,010
Net income	\$ 6,906	\$ 5,007

14. Other Assets

Other corporate assets include receivables, capital assets and prepaid expenses. Other securitization assets, totalling \$1,248 at December 31, 2012 (December 31, 2011 - \$3,049), consist of miscellaneous assets relating to the Company's participation in the CMB program. Other assets are carried at cost.

As at December 31	2012	2011
Corporate assets:		
Receivables	\$ 952	\$ 287
Related party receivables - MCAP	2,757	-
Capital assets	565	379
Other	413	281
	\$ 4,687	\$ 947

15. Short-Term Investments

As at December 31	2012	2011
Commercial paper (in trust for CMB program)	\$ 319,590	\$ 289,719
Repo GOCs (in trust for CMB program)	4,362	-
CMB cash held in trust	54,491	52,964
Cash pledged as collateral - CMB program	-	2,804
	\$ 378,443	\$ 345,487

Short-term investments consist primarily of commercial paper and Government of Canada Bonds for which MCAN has a repurchase agreement with a financial institution ("Repo GOCs") held as reinvestment assets for the CMB program in addition to CMB cash held in trust and cash pledged as CMB program collateral. The weighted average yields of the CMB principal reinvestment assets listed above are as follows: commercial paper - 1.14% (December 31, 2011 - 1.10%) and Repo GOCs - 0.90% (December 31, 2011 - n/a). Short-term investments mature within 90 days.

CMB cash held in trust represents securitized mortgage principal collections from borrowers to be used to acquire principal reinvestment assets in the following month.

The carrying value of short-term investments approximates fair value.

16. Mortgages - Securitized

MCAN's securitized mortgage portfolio consists of insured mortgages securitized through the CMB program and other securitization programs. These mortgages are held as collateral against the CMB liability (Notes 6 and 21).

(a) Summary

As at December 31, 2012	Gross Principal	Allowance	Net Principal
Single family	\$ 889,213	\$ -	\$ 889,213
Commercial	47,734	-	47,734
	\$ 936,947	\$ -	\$ 936,947

As at December 31, 2011	Gross Principal	Allowance	Net Principal
Single family	\$ 1,451,075	\$ -	\$ 1,451,075
Commercial	47,941	-	47,941
	\$ 1,499,016	\$ -	\$ 1,499,016

Certain capitalized transaction costs are included in mortgages and are amortized using the EIRM. As at December 31, 2012, the unamortized capitalized cost balance was \$1,636 (December 31, 2011 - \$3,965). All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance. The fair market value of the securitized mortgage portfolio as at December 31, 2012 was \$1,057,508 (December 31, 2011 - \$1,672,958).

16. Mortgages - Securitized (continued)

The weighted average yield of the Company's securitized mortgage portfolio is as follows:

As at December 31	2012	2011
Single family	3.34%	4.00%
Commercial	3.26%	3.49%
Total	3.34%	3.99%

(b) Geographic Analysis

As at December 31	2012		2011	
Ontario	\$ 451,569	48.2%	\$ 749,176	50.0%
Alberta	221,606	23.7%	348,636	23.3
British Columbia	133,095	14.2%	218,030	14.5
Other	130,677	13.9%	183,174	12.2
	\$ 936,947	100.0%	\$ 1,499,016	100.0%

(c) Arrears and Impaired Mortgages

Mortgages past due but not impaired are as follows:

As at December 31, 2012	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family	\$ 16,665	\$ 3,682	\$ 1,538	\$ 2,321	\$ 24,206

As at December 31, 2011	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family	\$ 27,713	\$ 12,776	\$ 3,117	\$ 3,947	\$ 47,553

There were no impaired securitized mortgages as at December 31, 2012 (December 31, 2011 - \$86).

17. Derivative Financial Instruments

As part of its participation in 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 both securitized mortgages and principal reinvestment assets that have a floating interest rate. The interest rate swap notional is an accreting balance which approximates the sum of floating rate CMB mortgages and reinvestment assets. The interest rate swap counterparty is a Canadian chartered bank.

The interest rate swaps are carried at fair value, which is calculated by discounting future net cash flows based on forward interest rates. The fair values displayed below represent only MCAN's share of the fair value of the interest rate swaps.

The following tables outline the Company's pro-rata share of derivative financial instruments:

As at December 31, 2012	Less than one year	One to five years	Over five years	Total
CMB interest rate swaps - fair value	\$ 1,802	\$ 2,864	\$ -	\$ 4,666
CMB interest rate swaps - outstanding notional	\$ 94,983	\$ 102,690	\$ -	\$ 197,673

As at December 31, 2011	Less than one year	One to five years	Over five years	Total
CMB interest rate swaps - fair value	\$ 4,165	\$ 9,183	\$ -	\$ 13,348
CMB interest rate swaps - outstanding notional	\$ 113,413	\$ 159,490	\$ -	\$ 272,903

17. Derivative Financial Instruments (continued)

Derivative financial instrument activity was as follows:

Years Ended December 31	2012	2011
Balance, beginning of year	\$ 13,348	\$ 13,120
Net interest rate swap receipts	(7,408)	(8,587)
Unrealized derivative financial instrument gain (loss)	(1,274)	8,815
	<u>(8,682)</u>	<u>228</u>
Balance, end of year	\$ 4,666	\$ 13,348

18. Term Deposits

As at December 31	2012	2011
Term deposits	\$ 769,450	\$ 595,747
Accrued interest	7,627	5,830
	<u>\$ 777,077</u>	<u>\$ 601,577</u>
Fair value	\$ 786,837	\$ 610,944

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years. The weighted average term deposit rate as at December 31, 2012 was 2.45% (December 31, 2011 - 2.44%). The Company's term deposits are eligible for 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.

19. Income Taxes

The composition of the provision for (recovery of) income taxes is as follows:

Years Ended December 31	2012	2011
Income before income taxes	\$ 16,238	\$ 24,848
Less: dividends	(24,999)	(28,101)
Income subject to tax	(8,761)	(3,253)
Statutory rate of tax	39%	40%
Tax provision (recovery) before the following:	(3,417)	(1,301)
Statutory rate difference in subsidiaries	66	(225)
Rate changes and other differences	(495)	(6)
Non-taxable portion of capital gains	(428)	(569)
Temporary differences not previously recognized	(450)	-
Deferred tax included in equity of associate	(452)	-
Adjustments in respect of prior years	(79)	(154)
	<u>\$ (5,255)</u>	<u>\$ (2,255)</u>
Years Ended December 31	2012	2011
Current tax provision (recovery)	\$ (1,519)	\$ (2,072)
Deferred tax provision (recovery)	(3,736)	(183)
	<u>\$ (5,255)</u>	<u>\$ (2,255)</u>

December 31, 2012 (Dollar amounts in thousands except for per share amounts)

19. Income Taxes (continued)

The composition of the deferred tax liabilities is as follows:

As at December 31	2012	2011
Provision for credit losses	\$ (1,492)	\$ (1,198)
Securitization-related items	2,454	6,529
Equity investment in MCAP Commercial LP	931	(157)
Financial investments	191	162
Marketable securities	253	137
Loss carry forward benefit	(126)	-
Other	(369)	(37)
	\$ 1,842	\$ 5,436

Current Taxes Payable

As a MIC under the Tax Act, MCAN is able to deduct from income for tax purposes dividends paid within 90 days of year-end. However, for accounting purposes, dividends paid in the following quarter that have not been declared and accrued prior to quarter end are not deductible in the calculation of current taxes payable.

20. Other Liabilities

As at December 31	2012	2011
Corporate liabilities:		
Accounts payable and accrued charges	\$ 4,249	\$ 2,602
Related party payables - MCAP	-	789
Dividends payable	5,244	4,552
	\$ 9,493	\$ 7,943
Securitization liabilities:		
Accrued charges	\$ 17	\$ 28
Other CMB liabilities	3,251	6,031
	\$ 3,268	\$ 6,059

The Company held investments in the senior position and first loss position of a residential construction loan securitization program that were both repaid in full in 2010 as part of the windup of the securitization program. The investments were replaced by an indemnity agreement whereby the investors of the securitization program are responsible for any incurred losses in the underlying loans in accordance with their pro-rata share of the first loss investment at the time that the securitization program was wound up. Since the Company previously held 25% of the first loss position, it is responsible for 25% of any losses incurred on the remaining loans in the securitization program. The Company participates in the indemnity agreement with a related party. During 2012, the Company increased its accrued liability representing estimated losses associated with this indemnity from \$200 to \$1,100 as a result of a decrease in the fair market value of an impaired residential construction loan that the Company has indemnified. This amount represents the Company's estimated loss as at December 31, 2012 based on the underlying property value given market conditions at that date. There are no other impaired mortgages associated with the indemnification of this securitization program. As at December 31, 2012, the outstanding balance of the remaining loans was \$25,226 (December 31, 2011 - \$25,282).

Due to the short-term nature of other liabilities, their carrying value approximates fair value.

21. Financial Liabilities from Securitization

Financial liabilities from securitization include financial liabilities relating to the Company's participation in the CMB program and financial liabilities as a result of its involvement in the IMPP.

As at December 31	Note	2012	2011
Financial liabilities - CMB program	6	\$ 1,855,051	\$ 2,944,209
Financial liabilities - IMPP	6	159,995	167,148
		\$ 2,015,046	\$ 3,111,357

The financial liabilities - CMB program had a weighted average interest rate of 3.18% as at December 31, 2012 (December 31, 2011 - 3.66%).

As financial liabilities from securitization mature, the securitization liability and related assets (securitized mortgages and principal reinvestment assets) are removed from the consolidated balance sheets. Financial liabilities from securitization as at December 31, 2012 mature as follows:

	CMB	IMPP	Total
2013	\$ 965,885	\$ 132,433	\$ 1,098,318
2014	844,359	27,562	871,921
2015	44,807	-	44,807
	\$ 1,855,051	\$ 159,995	\$ 2,015,046

MCAN does not participate in the economics of the IMPP (Note 6) and therefore pays no interest on this liability, nor does it recognize interest income from the associated receivable (Note 11).

Certain capitalized transaction costs are included in financial liabilities from securitization and are amortized using the EIRM. As at December 31, 2012, the unamortized capitalized cost balance was \$500 (December 31, 2011 - \$1,099).

22. Share Capital and Contributed Surplus

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

Issued	Number of Shares	2012	Number of Shares	2011
Balance, January 1	16,861,575	\$ 132,817	14,447,743	\$ 100,112
Issued				
Share issuance	-	-	2,300,000	31,024
Rights offering	1,699,157	19,913	-	-
Dividend reinvestment plan	167,768	2,275	93,532	1,382
Executive Share Purchase Plan	-	-	20,300	299
Balance, December 31	18,728,500	\$ 155,005	16,861,575	\$ 132,817

During 2012, the Company successfully completed a fully subscribed rights offering of 1,699,157 common shares at a price of \$11.85 per share, for net proceeds of \$19,913 after deducting \$222 of issuance costs.

During 2011, the Company completed a public share offering of 2,300,000 common shares at a price of \$14.50 per share, for net proceeds of \$31,024 after deducting \$2,326 of issuance costs.

During 2012, the Company issued 167,768 (2011 - 93,532) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 5 days preceding such issue (2011 - 20 days). In November 2011, the Company amended its dividend reinvestment plan to change the basis of the weighted average trading price to the five days preceding such issue less a discount of 2%. The January 3, 2012 dividend was the first dividend for which the revised basis was applicable.

For details on the Executive Share Purchase Plan, refer to Note 29.

The Company had no potentially dilutive instruments as at December 31, 2012 or December 31, 2011.

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

23. Dividends

	2012	2011
Dividends on common shares declared in the prior year and paid in the current year (recognized as a liability at December 31, 2011 and 2010)		
Fourth quarter dividend, 2011: \$0.27 per share (2010: \$0.26 per share)	\$ 4,552	\$ 3,756
Dividends on common shares declared and paid during the year 2012: \$1.14 per share (2011: \$1.54 per share)	\$ 19,755	\$ 23,549
Dividends on common shares declared during the year (recognized as a liability at December 31, 2012 and 2011)		
Fourth quarter dividend, 2012: \$0.28 per share (2011: \$0.27 per share)	\$ 5,244	\$ 4,552
Dividends on common shares approved in first quarter (not recognized as a liability at December 31, 2012 or 2011)		
First quarter dividend, 2013: \$0.31 per share (2012: \$0.60 per share)	\$ 5,819	\$ 10,129

Dividends paid within 90 days after year end by a MIC are deductible for income tax purposes, however, where such dividends are not recognized as a liability at year-end the deduction is not taken into account in determining current taxes payable for accounting purposes. The payment of the approved 2013 first quarter dividend of \$5,819 noted above (2012 - \$10,129), which was not recognized as a liability as at December 31, 2012, is expected to reduce current taxes payable as at March 31, 2013 by \$2,297 (March 31, 2012 - \$4,017). Certain additional factors may impact current taxes payable between December 31, 2012 and March 31, 2013.

24. Available for Sale Reserve

The available for sale reserve consists of unrealized gains and losses (net of deferred taxes) on available for sale marketable securities.

As at December 31	2012	2011
Unrealized gain on available for sale marketable securities	\$ 1,284	\$ 697
Less: deferred taxes	(252)	(137)
	1,032	560
Unrealized gain on available for sale financial investments	1,440	1,249
Less: deferred taxes	(191)	(162)
	1,249	1,087
	\$ 2,281	\$ 1,647

25. Fees

Years Ended December 31	Note	2012	2011
Mortgagor fees		\$ 2,046	\$ 1,290
Fee income from profit sharing	29	190	303
		\$ 2,236	\$ 1,593

26. Mortgage Expenses

Corporate Assets

Years Ended December 31	2012	2011
Mortgage servicing expense	\$ 2,401	\$ 2,612
Other mortgage expenses	1,311	795
	\$ 3,712	\$ 3,407

Securitization Assets

Mortgage expenses associated with securitization assets consist primarily of mortgage servicing expenses.

27. Provision for Credit Losses

Years Ended December 31	2012	2011
Mortgages - collective provisions	\$ 1,127	\$ 1,147
Mortgages - individual recoveries	553	(86)
Financial investments and other loans - collective recoveries	(20)	(3)
Other provisions	900	-
	\$ 2,560	\$ 1,058

28. Other Securitization Income

Years Ended December 31	2012	2011
Net interest rate swap receipts	\$ 7,408	\$ 8,587
Refinancing and renewal gains	1,325	132
Income from sale of MBS	978	261
Other securitization-related items	(304)	21
	\$ 9,407	\$ 9,001

29. Related Party Disclosures

The consolidated financial statements include the financial statements of the Company and its equity accounted associates listed in the following table:

	% Equity Interest	
	December 31 2012	December 31 2011
Associate:		
MCAP Commercial LP	23.4%	22.7%

The Company holds a 23.4% equity interest in MCAP, a non-public entity. During 2012, MCAN purchased \$14,000 of non-voting class C units in MCAP. MCAP's principal activities include the origination and servicing of mortgages. The Company holds one of five seats on MCAP's Board of Directors.

During 2012, the Company purchased certain corporate services from MCAP in the amount of \$566 (2011 - \$497) and purchased certain mortgage origination and administration services from MCAP in the amount of \$2,766 (2011 - \$2,859). Also, the Company received \$3,038 (2011 - \$2,201) of mortgage fees from MCAP.

During 2012, the Company paid fees in the amount of \$1,675 (2011 - \$2,685) to MCAP relating to a profit sharing arrangement on a portfolio of discounted mortgages and received \$190 (2011 - \$303) of fees from MCAP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

29. Related Party Disclosures (continued)

As part of the aforementioned profit sharing arrangements related to discounted mortgages, MCAP pays MCAN 50% of any recoveries of discounts on mortgages held on MCAP's balance sheet. In addition, MCAN reimburses MCAP for 50% of any credit losses on discounted mortgages held on MCAP's balance sheet (where MCAN participates in a profit sharing arrangement), and vice versa.

During 2012, MCAN created certain MBS that were sold to a third party. MCAN subsequently entered into an economic arrangement with MCAP and sold the rights to all net economics associated with these MBS, consisting primarily of interest-only strips less upfront costs. MCAN earned \$978 from these sales (2011 - \$261), which are included in other securitization income. Derecognition was achieved on the sale of the mortgages.

During 2012, MCAN purchased a retained interest in insured single family mortgages from MCAP that yields up to 8.75% depending on mortgage prepayment levels. The balance as at December 31, 2012 was \$3,084 (December 31, 2011 - \$nil) (Note 11).

During 2012, MCAN advanced loans to MCAP bearing interest at 5%. At December 31, 2012, the outstanding loan balance was \$1,240 (December 31, 2011 - \$nil) (Note 12).

All related party transactions noted above were in the normal course of business. Compensation of Executives of the Company, which include the President and Chief Executive Officer, Vice President and Chief Financial Officer, Vice President, Investments, Vice President and Chief Risk Officer and Vice President, Operations, is as follows:

	2012	2011
Salaries and short term employee benefits	\$ 1,878	\$ 1,557
Other long term benefits	137	181
	\$ 2,015	\$ 1,738

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 common shares. During 2012, no common shares were issued out of treasury under the Share Purchase Plan (2011 - 20,300). The loans advanced in 2012 were provided to purchase shares issued through the rights offering. 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 common shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions, and 75% of capital gain distributions. Common 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 \$305 of new loans under the Share Purchase Plan during 2012 (2011 - \$299). As at December 31, 2012, \$1,924 of loans were outstanding (December 31, 2011 - \$1,831) (Note 12). The loans under the Share Purchase Plan bear interest at prime plus 1%, 4% at December 31, 2012 (December 31, 2011 - 4%) and have a five-year term. The shares are pledged as security for the loans and had a fair market value of \$3,159 as at December 31, 2012 (December 31, 2011 - \$2,749).

During 2012, MCAN recognized \$72 of interest income (2011 - \$70) on the Share Purchase Plan loans.

Deferred Share Units Plan

In 2010, the Company established a Deferred Share Units Plan (the "DSU Plan") whereby the Board of Directors granted units under the DSU Plan to the President and Chief Executive Officer (the "Participant"). Each unit is equivalent in value to one common share of the Company. Following his retirement/termination date, the Participant is entitled to receive cash for each unit. The individual unit value is based on the average market value of the Company's common shares for the five days preceding the retirement/termination date. The Participant was granted 30,000 units under the DSU Plan during 2010. In addition, the Participant is entitled to receive dividend distributions in the form of additional units. The underlying units follow a graded vesting schedule over three years. All dividends paid prior to July 6, 2014 vest as at July 6, 2014. All dividends paid after July 6, 2014 vest immediately. As at December 31, 2012, 20,000 units had vested (December 31, 2011 - 10,000). The remaining 10,000 units vest on July 6, 2013.

The Company recognizes compensation expenses associated with the DSU Plan in line with the graded vesting schedule. The compensation expense recognized related to the DSU Plan for the year ended was \$137 (2011 - \$181). As at December 31, 2012, the accrued DSU Plan liability was \$446 (December 31, 2011 - \$309).

30. Commitments and Contingencies

The Company has contractual obligations to make principal and interest payments on term deposits. The Company also has a monthly operating lease related to its premises, expiring in 2014 with monthly lease payments of \$20. In addition, the Company has outstanding commitments for future fundings of mortgages intended for its corporate portfolio.

As part of the CMB program, MCAN is required to pay servicing expenses on the securitized mortgages and other ongoing costs. These expenses are accounted for on the accrual basis.

As at December 31, 2012	Less than one year	One to five years	Over five years	Total
Term deposits	\$ 467,957	\$ 309,120	\$ -	\$ 777,077
Operating lease	277	205	-	482
Mortgage fundings	198,336	49,251	-	247,587
CMB obligations	473	201	-	674
	\$ 667,043	\$ 358,777	\$ -	\$ 1,025,820

MCAN incurred \$260 of operating lease expenses during the year (2011 - \$238), included in general and administrative expenses.

MCAN outsources its mortgage and loan origination and servicing. MCAN continues to pay servicing expenses as long as the mortgages and loans remain on its consolidated balance sheet.

The Company guarantees certain of the credit and operating activities of MCAP. CDP Capital - Real Estate Advisory Inc. ("CDP Capital - Real Estate Advisory") indemnifies the Company to the extent of 75% of the costs of any claim 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 MCAP.

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

- (a) guarantee of the performance of MCAP with respect to the warehousing of residential construction loans related to MCAP's residential construction loan securitization program; and
- (b) guarantee of the premises lease with respect to the premises occupied by MCAP and the Company at 200 King Street West, Toronto with a current monthly rent of \$116 and expiring in September 2014.

The Company is a party to an indemnity agreement relating to a residential construction loan securitization program, discussed in Note 20.

In the ordinary course of business, MCAN and its service providers (including MCAP), their subsidiaries and related parties may from time to time be party to legal proceedings which may result in unplanned payments to third parties. To the best of the Company's knowledge, MCAN management does not expect the outcome of any of these proceedings to have a material effect on the consolidated financial position or results of operations of MCAN.

Currently, MCAP is one of several parties to a claim in respect of a development project in Alberta. Although a summary judgment in MCAP's favour was rendered at trial, the Alberta Court of Appeal overturned the summary judgment in part and has directed that certain aspects of the claim be allowed to proceed to trial. MCAN management does not believe that the claim has any merit and believes the claim will ultimately be unsuccessful against MCAP at trial. In any event, management of MCAN believes that any monetary damages against MCAP would not have a material financial impact on MCAN.

31. 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%, 4% at December 31, 2012 (December 31, 2011 - prime plus 1%, 4%). The facility has a sub limit of \$30,000 for issued letters of credit and \$30,000 for overdrafts, and is due and payable upon demand.

As at December 31, 2012, the outstanding overdraft balance was \$nil (December 31, 2011 - \$nil).

31. Credit Facilities (continued)

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 residential construction loans. As at December 31, 2012, there were letters of credit in the amount of \$25,665 issued (December 31, 2011 - \$26,666) and additional letters of credit in the amount of \$16,082 committed but not issued (December 31, 2011 - \$12,597).

32. Interest Rate Sensitivity

Interest rate risk arises when principal and interest cash flows 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 consolidated balance sheets as at December 31, 2012 and December 31, 2011 and does not incorporate mortgage and loan prepayments. The Company currently cannot reasonably estimate the impact of prepayments on its interest rate sensitivity analysis. 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 corporate 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 Risk Committee of the Board each quarter. The Company does not currently use derivative financial instruments outside of the CMB program, however the potential use of such instruments is analyzed and reported to ALCO on a monthly basis.

The interest rate risk associated with securitization assets (including short-term investments, mortgages - securitized and financial investments) and liabilities (financial liabilities from securitization) from the CMB program is managed through the use of "pay-floating, receive-fixed" interest rate swaps (included in derivative financial instruments). For further details on how the Company manages interest rate risk associated with the CMB program, refer to Notes 6 and 17.

32. Interest Rate Sensitivity (continued)

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

As at December 31, 2012	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets							
Corporate	\$ 378,655	\$ 74,847	\$ 216,912	\$ 203,574	\$ 5,588	\$ 71,110	\$ 950,686
Securitization	410,198	539,952	460,824	463,718	-	161,243	2,035,935
	788,853	614,799	677,736	667,292	5,588	232,353	2,986,621
Liabilities							
Corporate	-	230,981	236,976	309,120	-	13,449	790,526
Securitization	80,519	-	965,884	808,648	-	163,263	2,018,314
	80,519	230,981	1,202,860	1,117,768	-	176,712	2,808,840
Shareholders' Equity	-	-	-	-	-	177,781	177,781
GAP	\$ 708,334	\$ 383,818	\$ (525,124)	\$ (450,476)	\$ 5,588	\$ (122,140)	-
YIELD SPREAD	1.01%	0.92%	1.90%	1.74%	5.61%		
As at December 31, 2011	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets							
Corporate	\$ 146,524	\$ 91,866	\$ 246,190	\$ 204,508	\$ 13,663	\$ 51,048	\$ 753,799
Securitization	748,409	375,588	615,452	1,226,768	-	174,142	3,140,359
	894,933	467,454	861,642	1,431,276	13,663	225,190	3,894,158
Liabilities							
Corporate	-	75,629	251,381	274,567	-	16,700	618,277
Securitization	80,505	-	1,087,983	1,775,721	-	173,207	3,117,416
	80,505	75,629	1,339,364	2,050,288	-	189,907	3,735,693
Shareholders' Equity	-	-	-	-	-	158,465	158,465
GAP	\$ 814,428	\$ 391,825	\$ (477,722)	\$ (619,012)	\$ 13,663	\$ (123,182)	-
YIELD SPREAD	0.62%	1.13%	1.55%	1.12%	6.63%		

Certain residential construction loans and single family uninsured completed inventory loans are subject to the greater of a minimum interest rate (ranging between 3% and 15%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate at December 31, 2012, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - \$65,024 (December 31, 2011 - \$32,651), 3 months to 1 year - \$57,580 (December 31, 2011 - \$57,783) and 1 to 5 years - \$28,330 (December 31, 2011 - \$35,406).

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2012 would have a positive (adverse) effect of \$2,608 (December 31, 2011 - \$1,539) to net income over the following twelve month period. An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2012 would have an adverse (positive) effect to the available for sale reserve of \$208 (December 31, 2011 - \$494).

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.

33. 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, public share offerings, 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 sheets measured at their tax values. 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 has adopted the Basel II capital management framework. 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.

Tier 1 capital includes share capital, 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. 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 20%. Both ratios were above this target as at December 31, 2012.

Securitization assets and liabilities are both excluded from the calculation of the Tax Act ratio. Assets securitized through the CMB program prior to June 30, 2010 are excluded from the calculation of regulatory ratios.

The Company's Tax Act and regulatory ratios are as follows:

As at December 31	2012	2011
Tax Act Ratios		
Income tax assets	\$ 953,235	\$ 766,065
Income tax capital	168,477	156,116
Income tax assets to capital ratio	5.66	4.91
Income tax liabilities to capital ratio	4.66	3.91
Regulatory Ratios (OSFI)		
Tier 1 capital		
Share capital	\$ 155,005	\$ 132,817
Contributed surplus	510	510
Retained earnings	19,985	23,491
Tier 1 capital deductions	(229)	(229)
	<u>175,271</u>	<u>156,589</u>
Tier 2 capital		
Unrealized gain on available for sale marketable securities	1,032	560
Tier 2 capital deductions	(229)	(229)
	<u>803</u>	<u>331</u>
Total capital	<u>\$ 176,074</u>	<u>\$ 156,920</u>
Total regulatory assets	\$ 1,002,759	\$ 818,112
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	21.74%	22.21%
Total capital to risk-weighted assets ratio	21.84%	22.26%
Assets to capital ratio	5.70	5.21

As at December 31, 2012 and December 31, 2011 the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

33. Capital Management (continued)

The Company's assets, analyzed on a risk-weighted basis, are as outlined in the table below. Assets securitized through the CMB program prior to June 30, 2010 are excluded from the calculation of risk-weighted assets.

As at December 31	2012	2011
On-Balance Sheet Assets		
Cash and cash equivalents	\$ 25,396	\$ 10,813
Short term investments	-	561
Marketable securities	20,390	30,149
Mortgages - corporate	494,935	402,632
Financial investments	21,966	18,414
Other loans	3,164	3,027
Equity investment in MCAP	36,386	15,480
Other assets	5,933	3,976
	<u>608,170</u>	<u>485,052</u>
Off-Balance Sheet Assets		
Letters of credit	12,832	13,333
Mortgage funding commitments	123,794	137,526
	<u>136,626</u>	<u>150,859</u>
Derivative Financial Instruments		
CMB interest rate swaps		
Outstanding notional	197,673	272,903
Add-on factor	0.5%	0.5%
Potential credit exposure	988	1,365
Positive replacement cost	4,666	13,348
Credit equivalent	5,654	14,713
Risk weighting	20%	20%
Risk-weighted equivalent	1,131	2,943
Charge for operational risk	60,213	66,100
Total Risk-Weighted Assets	\$ 806,140	\$ 704,954

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.

In order to promote a more resilient banking sector and strengthen global capital standards, the Basel Committee on Banking Supervision ("BCBS") proposed significant enhancements and capital reforms to the current framework. The revised framework, referred to as Basel III, will be effective January 1, 2013. Further details on Basel III are available in the Capital Management section of the Management's Discussion and Analysis ("MD&A").

34. 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, short-term investments, marketable securities, mortgages, financial investments, other loans, financial liabilities from securitization, term deposits and derivative financial instruments.

All financial instruments that are carried on the consolidated balance sheets at fair value (marketable securities, certain financial 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 following table summarizes financial assets reported at fair value. Financial assets and liabilities are classified into 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).

34. Financial Instruments (continued)

As at December 31, 2012	Level 1	Level 2	Level 3
Financial Assets			
Marketable securities	\$ 11,899	\$ 8,491	\$ -
Financial investments - commercial real estate	-	-	13,792
Financial investments - retained interest	-	-	3,084
Derivative financial instruments	-	4,666	-
	\$ 11,899	\$ 13,157	\$ 16,876
As at December 31, 2011	Level 1	Level 2	Level 3
Financial Assets			
Marketable securities	\$ 14,330	\$ 15,819	\$ -
Financial investments - commercial real estate	-	-	8,250
Derivative financial instruments	-	13,348	-
	\$ 14,330	\$ 29,167	\$ 8,250

The following table shows the continuity of Level 3 financial assets recorded at fair value:

Balance, December 31, 2011	\$ 8,250
Advances	12,711
Repayments	(4,275)
Changes in fair value, recognized in other comprehensive income	190
Balance, December 31, 2012	\$ 16,876

An increase of 0.25% to capitalization rates as at December 31, 2012 would result in a decrease to the fair value at Level 3 financial investments - commercial real estate by \$1,015 (December 31, 2011 - \$688). A decrease of 0.25% to capitalization rates as at December 31, 2012 would result in an increase to the fair value of Level 3 financial investments - commercial real estate by \$1,084 (December 31, 2011 - \$736).

An increase of 1% to market interest rates as at December 31, 2012 would result in a decrease to the fair value at Level 3 financial investments - retained interest by \$15 (December 31, 2011 - n/a). A decrease of 1% to capitalization rates as at December 31, 2012 would result in an increase to the fair value of Level 3 financial investments - retained interest by \$15 (December 31, 2011 - n/a).

There were no transfers between levels during the years ended December 31, 2012 or December 31, 2011. There were no financial liabilities reported at fair value as at December 31, 2012 or December 31, 2011.

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.

The nature of these risks and how they are managed is provided in the Risk Management and Risk Factors section of the Management's Discussion and Analysis of Operations ("MD&A"). Certain disclosures required under IFRS 7, *Financial Instruments: Disclosures*, related to the management of credit, interest rate, liquidity and market risks inherent with financial instruments are included in the MD&A. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of these consolidated financial statements.

35. Standards Issued But Not Effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

35. Standards Issued But Not Effective (continued)

IFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

This standard will require entities to disclose gross amounts subject to right of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This standard is effective for periods beginning on or after January 1, 2013. Retrospective application will be required. The Company does not expect the adoption of this standard to have a material impact on its results as well as to the presentation of the Company's financial statements

IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32).

These amendments clarify the offsetting criteria in IAS 32 to address inconsistencies in their application. These amendments clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendment also clarifies the application of the IAS 32 offsetting criteria to settlement systems. This amendment will be effective for annual periods beginning on or after January 1, 2014. The Company is in the process of assessing the impact of adopting this amendment.

IFRS 10, Consolidated Financial Statements

This standard is effective for annual periods beginning on or after January 1, 2013 and will replace portions of IAS 27, Consolidated and Separate Financial Statements and interpretation SIC-12, Consolidation - Special Purpose Entities. Under IFRS 10, consolidated financial statements include all controlled entities under a single control model that applies to all entities, including special purpose entities and structured entities. A group will still continue to consist of a parent and its subsidiaries; however IFRS 10 uses different terminology from IAS 27 in describing its control model. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Company does not anticipate any material changes to the financial position or operating results upon adoption of IFRS 10.

IFRS 12, Disclosure of Interests in Other Entities

This standard includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities. Many of the disclosure requirements were previously included in IAS 27, IAS 1 and IAS 28 while others are new. This standard is effective for annual periods beginning on or after January 1, 2013. The Company does not expect the adoption of this standard to result in material changes to the presentation of the Company's financial statements.

IFRS 13, Fair Value Measurement

This standard provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when fair value is required or permitted per IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles could have a significant effect on some entities adopting the standard. IFRS 13 is effective January 1, 2013 and will be adopted prospectively. The Company does not expect the adoption of this standard to have a material impact on its results.

IAS 1, Presentation of Financial Statements

This standard has a number of amendments regarding financial statement presentation and disclosure requirements. This standard is effective for annual periods beginning on or after July 1, 2012. The Company does not expect the adoption of this standard to result in material changes to the presentation of the Company's financial statements.

IAS 19, Revised Employee Benefits

This standard prescribes the accounting and disclosure requirements for employee benefits. This standard shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2, Share-based Payment, applies. This standard is effective for annual periods beginning on or after January 1, 2013. The Company does not expect the adoption of this standard to have a material impact on its results as well as to the presentation of the Company's financial statements.

IAS 28, Investments in Associates and Joint Ventures

This amendment prescribes the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee. This standard is effective for annual periods beginning on or after January 1, 2013. The Company does not expect the adoption of this standard to have a material impact on its results.

36. 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.

DIRECTORS

David G. Broadhurst

President, Poynton Investments Limited; Chair of the Audit Committee; Member of Conduct Review, Corporate Governance and Human Resources Committee; Director since May 1997.

Brydon Cruise

President and Managing Partner, Brookfield Financial; Member of Conduct Review, Corporate Governance and Human Resources Committee; Member of Risk Committee; Director since May 2010.

Susan Doré

Corporate Director; Chair of Information Technology Committee; Member of Audit Committee; Member of Conduct Review, Corporate Governance and Human Resources Committee; Director since May 2010.

Brian A. Johnson

Partner, Crown Capital Partners and Crown Realty Partners; Member of Risk Committee; Chair of Conduct Review, Corporate Governance and Human Resources Committee; Member of Information Technology Committee; Director since January 2001.

Derek A. Norton

President and CEO, MCAP Commercial LP; Member of Information Technology Committee; Director since July 2000.

Jean C. Pinard

Corporate Director; Member of Risk Committee; Director since November 2005.

Robert A. Stuebing

Corporate Director; Member of Audit Committee; Chair of Risk Committee; Director since April 2004.

Ian Sutherland

Chair, MCAN Mortgage Corporation; Director since January 1991.

William Jandrisits

President and Chief Executive Officer, MCAN Mortgage Corporation; Member of Information Technology Committee; Director since August 2010.

Karen Weaver

Executive Vice President & Chief Financial Officer First Capital Realty Inc.; Member of Audit Committee; Member of Information Technology Committee; Director since November 2011.

OFFICERS AND MANAGEMENT

William Jandrisits

President and Chief Executive Officer

Tammy Oldenburg

Vice President and Chief Financial Officer

Michael Misener

Vice President, Investments

Paco Lai

Senior Manager, Cash Operations

Sylvia Pinto

Corporate Secretary
Chief Compliance Officer

Sal Jadavji

Enterprise Risk Management Officer
Chief Anti-Money Laundering Officer
Privacy Officer
Business Continuity/Disaster Recovery Coordinator

Robert Horton

Chief Audit Officer

Derek Sutherland

Vice President and Chief Risk Officer

Carl Brown

Vice President, Operations

Hassan Shaikh

Assistant Vice President, Investments

Dipti Patel

Senior Manager, Investments

John Tyas

Controller

Eloise Goodwin

Manager of Finance

Murtuza Lakdawala

Assistant Controller

CORPORATE INFORMATION

Head Office

200 King Street West, Suite 400
Toronto, Ontario
M5H 3T4

Tel: (416) 572-4880
Fax: (416) 598-4142

Corporate Counsel

Goodmans LLP
Toronto, Ontario

Auditors

Ernst & Young LLP
Toronto, Ontario

Public Listing

Toronto Stock Exchange
Exchange symbol MKP

Bank

Bank of Montreal
First Canadian Place
Toronto, Ontario

Website

www.mcanmortgage.com

Corporate Information

This MCAN Mortgage Corporation 2012 Annual Report is available for viewing/printing on our website at www.mcanmortgage.com, or additionally on SEDAR at www.sedar.com. To request a printed copy, please contact Ms. Sylvia Pinto, Corporate Secretary, 200 King Street West, Suite 400, Toronto, Ontario M5H 3T4, by phone 416-572-4880 or 1-855-213-6226, or e-mail spinto@mcanmortgage.com.

Registrar and Transfer Agent

For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAN Mortgage Corporation's Transfer Agent and Registrar at 1-800-564-6253, or write to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1.

Dividend Reinvestment Plan

For information regarding MCAN's Dividend Reinvestment Plan, please visit the Company's website at www.mcanmortgage.com under Shareholders > Dividend Reinvestment Plan. An Enrolment Form may be obtained at any time upon written request addressed to the Plan Agent, Computershare. Registered Participants may also obtain Enrolment Forms online at www-us.compuershare.com/investor/.

General Information

For general enquiries about MCAN Mortgage Corporation, please write to Ms. Sylvia Pinto, Corporate Secretary or e-mail mcanexecutive@mcanmortgage.com.

Annual Meeting

Tuesday, May 14, 2013
4:30 p.m. (Eastern Daylight Savings Time)
St. Andrew's Club & Conference Centre
150 King Street West
27th Floor
Toronto, Ontario