

Xceed Mortgage Reports Fiscal 2009 Year-End Financial Results

- Cash flow from operations increase 13% to \$12.2 million in 2009
- Xceed has achieved positive net income and cash flow from operations in five of its past six quarters
- Significantly increased originations of new mortgages in 2009; Xceed's origination of new mortgages was \$524.1 million, a 46.3% increase from the 2008 level
- Assets under administration at \$1.914 billion at year-end
- Mortgage default ratio remains stable at 3.5%, down slightly from 2008 level
- Conference call at 10:00 a.m. (EDT) today (Thursday)

Toronto, Ontario, January 14, 2010 – Xceed Mortgage Corporation [TSX: XMC], a Canadian provider of insured mortgages, today announced its financial results for the fiscal 2009 year and fourth quarter ended October 31, 2009. All references to quarters or years are for the fiscal periods and all currency amounts are in Canadian dollars unless otherwise noted.

“Xceed's 2009 year coincided with the worst of the economic recession,” said Ivan Wahl, Chairman and Chief Executive Officer. “Despite this, Xceed achieved an overall improvement in our financial performance for the year.

“Excluding the negative residual securitization income that we previously reported for the third quarter and valuation write-downs reported for the first and third quarters, Xceed generated modest income for 2009. Further, we achieved cash flow from operations of \$12.2 million, a 13% improvement from the 2008 amount of \$10.9 million. In the 2009 fourth quarter, Xceed recorded net income of \$0.8 million and cash flow from operations of \$2.6million. This means that Xceed has achieved positive net income and cash flow from operations in five of our past six quarters.

“As our fiscal year was drawing to a close, stock markets were reflecting optimism with respect to signs that an economic recovery was taking place in Canada, the United States, and internationally, and the Canadian housing market appeared to be strengthening. However, while there were improvements taking place in the broad financial sector, the performance and outlook for credit markets remained less stable and certain.

“This uncertainty continued to be true regarding the availability of credit at reasonable costs for new mortgages and mortgage refinancing, particularly for funding for non-conventional, uninsured mortgages,” Mr. Wahl continued. “It is still unknown when sufficient financing to fund uninsured mortgages will become available on an economic basis. In the meanwhile, we have the truly unfortunate situation that an increasing number of Canadians still are unable to renew their mortgages if their overall credit condition has not improved sufficiently for them to qualify for an insured mortgage. We were pleased that we were able to renew \$34.7 million of certain qualified uninsured mortgages during 2009, including \$11.7 million in the fourth quarter. However, this still fell short of the needs of many of those who had initially obtained their mortgages during better economic times.”

Financial Highlights

- Xceed recorded a net loss for 2009 of \$3.3 million compared with a net loss of \$12.0 million in 2008. The net loss for 2009 reflects the previously reported third-quarter pre-tax valuation write-down of \$6.5 million (\$4.4 million after tax) on the deferred purchase price related to the write-off of the company's retained interest in Xceed Mortgage Trust (XMT) and the increased credit-loss assumptions in the valuations, partially offset by a positive fair-value adjustment on the deferred purchase price for Okanagan Funding Trust (OFT) and the decrease in the discount rates in the valuations.

The company's mortgage securitization facility provided by the Canadian branch of an international bank through OFT was adjusted with less favorable pricing terms during the second quarter of 2009. The company took a \$4.5 million (\$3.0 million after-tax) write-down to its deferred net mortgage interest receivable for the 2009 first quarter. The facility has total outstanding mortgage principal of \$151.9 million as at October 31, 2009, of which \$23.9 million was funded by Xceed to provide credit enhancement for the senior notes.

The results for 2009 also reflect that, following the approval in January 2009 of the ABCP (asset-backed commercial paper) restructuring plan, Xceed received a one-time payment of \$4.8 million for the retroactive adjustment in funding costs. The company received \$1.4 million for interest earned on the illiquid ABCPs through its residual interest in a securitization vehicle that Xceed previously had written off in the 2008 second quarter. As the result of these, Xceed recorded \$4.2 million after-tax (\$6.2 million pre-tax) as income under securitization income for the 2009 first and second quarter. Xceed also recorded a fair-value increase of \$5.9 million after-tax (\$8.8 million pre-tax) to its deferred purchase price for the securitization vehicle that had been affected. There were two significant one-time charges in the 2009 first quarter that partially offset the ABCP-related gains. One charge was caused by the fact that on March 17, 2009 and April 17, 2009, Xceed, as financial services agent of XMT, announced that an amortization event had occurred first for the Series 2007-T2 and then for the Series 2006-T1 Notes as a result of XMT not being able to issue a new tranche of A-C Notes to retire the senior notes on the targeted principal distribution date and that an amortization period had commenced for each note series.

Since the commencement of the amortization period for XMT, the funding costs for the Trust had risen by more than 400 basis points. With XMT not being able to refinance the maturing fixed-rate notes with a new class of floating rate notes as the offsetting swaps matured, funding costs in the trust increased to where spreads were negative. The company, acting for XMT, was unable to finance renewals of many uninsured mortgages at their maturity as the result of the market conditions, including for customers with good payment records. The company took a \$2.0 million (\$1.4 million after-tax) write-down on its deferred purchase price for the 2009 first quarter and a further write down of \$2.7 million in the third quarter, which fully writes-off Xceed's retained interest. This valuation write-down minimizes the company's exposure to further market challenges.

At the 2009 year-end, XMT held \$11.7 million in cash collateral for hedge valuations, which does not provide credit support to the program. After the last note matures in XMT, Xceed expects to receive the cash in full after settling all its hedge obligations. As at October 31, 2009, XMT had total principal of \$262.6 million outstanding funded by the Series 2006-T1 and Series 2007-T2 Notes.

The 2008 results included second-quarter unusual items of \$10.2 million pre-tax (\$6.8 million after-tax) related to restructuring and a write-down of \$2.7 million pre-tax (\$1.8 million after-tax) on the deferred purchase price for XMT as a result of increased spreads for the new Class A-C-1 Notes issued during the period.

The amortization period for each series of XMT's notes will end when the principal amount outstanding for all notes in each series is repaid. As at the 2009 year-end, the Class A Senior Note for Series 2006-T1 was fully repaid, and \$147.3 million was outstanding for Series 2007-T2.

The difficult conditions in the credit and funding market also are reflected in the company's residual securitization income being negative and in valuation write-downs on the deferred purchase prices from its existing securitization programs. Residual securitization income was negative largely as the result of the fallout of the amortization events in XMT, resulting in negative spreads in the Trust, and increased losses inside the securitization vehicles from higher foreclosure activities during the late spring and into the summer, and higher property management fees as the result of there being longer periods from initiation to receiving foreclosure proceeds in some weaker real estate markets. Results for 2009 also were negatively impacted by the valuation write-down in the third quarter that the company took on its deferred purchase prices due to increases in credit loss assumptions used in the valuation models, and the write-off on the deferred purchase price for XMT from which the company no longer expects to reap any future economic benefits.

Fourth-quarter 2009 net income was \$0.8 million, compared with net income in the 2008 period of \$1.6 million. The decline is mainly attributable to sharply lower revenues, reflecting a reduced net gain on the sale of mortgages and sharply lower securitization income.

The basic and diluted loss per share for fiscal 2009 were (\$0.12) compared with (\$0.43) for the prior fiscal year. For the 2009 fourth quarter, basic and diluted earnings per share were \$0.03, which compared with \$0.06 for the corresponding period of 2008.

- Xceed significantly increased its originations of new mortgages in 2009 from the 2008 level. In 2009, Xceed's origination of new mortgages was \$524.1 million, a 46.3% increase from the \$358.3 million originated in the 2008. For the 2009 fourth quarter, Xceed's origination of new mortgages amounted to \$130.2 million, a 55.4% increase from \$83.8 million in the 2008 period. All new originations in the company's pipeline are insured mortgage products. All funding for new mortgage originations is provided by the company's warehouse credit facility.

The amount of new mortgages underwritten in 2009 was approximately equal to those sold by the company during the year. In 2009, Xceed sold mortgages to securitization and other vehicles valued at \$532.8 million. This compares with \$508.6 million sold in 2008. The fourth-quarter 2009 sale of mortgages amounted to \$185.2 million, compared with \$125.1 million in the 2008 period. Separating these amounts by insured and uninsured mortgages, Xceed sold \$495.7 million and \$174.0 million of insured mortgages in 2009 and in the fourth quarter, compared with \$392.5 million and \$66.3 million on a whole-loan basis during the comparable 2008 periods. The sales generated premium proceeds in 2009 of \$15.5 million for the year and \$4.2 million in the fourth quarter, compared with \$17.8 million and \$2.3 million in the comparable 2008 periods. The gain on sales in 2009 amounted to \$13.3 million for the year and \$3.9 million in the fourth quarter, compared with gains of \$11.4 million and \$3.6 million in the respective 2008 periods.

During 2009, Xceed securitized \$34.7 million, including \$11.7 million in the fourth quarter, of uninsured mortgages to off-balance sheet securitization entities, and recorded a deferred purchase price of \$1.9 million and \$0.5 million, respectively. This compares with \$113.7 million in 2008, including \$56.4 million in the fourth quarter, with deferred purchase prices of \$5.0 million and \$3.3 million, respectively. The company separately sold uninsured whole loans in 2009 of \$1.2 million (\$2.4 million in 2008) with net proceeds of \$1.2 million (\$2.4 million in 2008). Xceed also sold a mortgage pool comprising \$1.3 million of defaulted mortgages with net proceeds of \$1.0 million, and retained the right to excess recoveries from foreclosure sales.

Xceed incurred a loss in residual securitization income of \$2.9 million in 2009, including \$1.9 million in the fourth quarter. This compares with a gain for 2008 of \$0.8 million, including a fourth-quarter loss of \$0.2 million. Once this residual securitization income is added to the net gain on sale of mortgages, combined income from securitized assets was \$12.0 million and \$2.4 million for 2009 and in the fourth quarter, respectively, compared with \$14.8 million and \$5.1 million for the corresponding periods of 2008. Residual securitization income in 2009 included \$6.2 million related to the retroactive adjustment on funding costs and interest on the illiquid ABCP which the company received upon the closing of the third-party ABCP restructuring plan during the first quarter.

In 2009, the net gain on the sale of mortgages amounted to an average of 2.8%, including 2.3% in the fourth quarter. This compares with 2.8% for 2008, including 4.3% in the fourth quarter. Net gains as a percentage of sales reflect changes in average sales mix trends between insured and uninsured mortgage products. Insured mortgages normally have borrowers with better credit profiles and are arranged on fixed-rate terms, entailing lower-spread margins than previously enjoyed. Other factors affecting the gains as a percentage of sales relate to the overall mix of business securitized, including the length of the average mortgage duration, the average risk profile, and the costs of the respective credit enhancement or collateralization levels required, as well as market factors such as the discount rate used for valuation and pricing.

- Mortgages and other assets under administration were \$1.914 billion at the end of 2009, down 10.5% from \$2.139 billion a year earlier, and down 2.9% from \$1.972 billion at the end of the 2009 third quarter.
- Return on average shareholders' equity for 2009 was a negative 4.0% and a positive 0.9% for the fourth quarter, compared with a negative 14.0% and positive 7.8% for the respective corresponding 2008 periods.
- Xceed's primary source of revenue is from the sale of pools of mortgages to off-balance sheet entities. Total revenues, after giving effect to an increase in the net gain on mortgages sales, the loss from residual securitization income, interest earned, and higher costs of net originations, amounted to \$9.4 million in 2009, compared with \$22.3 million for 2008. In the fourth-quarter 2009, total revenues declined to \$2.1 million, compared with \$6.4 million in the prior-year period. Pending sales, the company earns interest income on mortgages that are on the company's balance sheet for the brief intervening period. Interest earned in 2009 was \$4.1 million, down from \$11.2 million in 2008; in the 2009 fourth quarter, interest earned was \$1.0 million, compared with \$2.0 million in the 2008 period. Net origination costs amounted to \$6.7 million in 2009, compared with \$3.8 million in 2008; in the 2009 fourth quarter, net origination costs were \$1.3 million, up from \$0.6 million a year earlier.
- Xceed's management believes that cash flow from operations, while a non-GAAP (generally accepted accounting principles) measure, is a useful indicator of the performance of its business. The company defines cash flow from operations as the cash generated by its operating activities, before taking into consideration the net change in other non-cash net asset balances which are related to operating activities. This can be calculated by removing the effects of amortization and other items not affecting operating cash from net income. However, this also can be calculated by subtracting expenses that are operating cash outflows from the revenues that generate operating cash inflows.

On that basis, cash flow from operations was \$12.2 million (\$0.44 per basic and diluted share) for 2009, and a positive \$2.6 million (\$0.09 per basic and diluted share) for the 2009 fourth quarter. This compares with \$10.9 million (\$0.39 per basic and diluted share) for 2008 (after removing one-time after-tax cash-based expense effects of \$1.5 million related to severance and \$0.4 million in refinancing costs for XMT) and \$2.4 million (\$0.09 per basic and diluted share) in the comparative 2008 periods. Cash securitization income was \$29.2 million and \$4.8 million in 2009 and the fourth quarter, respectively, compared with \$38.5 million and \$8.2 million in the in the comparative 2008 periods. Cash-based revenues in 2009 and in the fourth quarter were \$33.3 million and \$5.8 million, respectively, compared with \$49.7 million and \$10.1 million in the comparable periods a year earlier.

In 2009, Xceed employed an average of 46 full-time employees, which compares to an average of 83 people in 2008. For the fourth quarter, the average number of employees was 49 in 2009 and 43 in 2008. At the 2009 year-end, the company employed approximately 50 people. The productivity index (calculated by dividing compensation and other operating expenses and intangible asset amortization by securitization

income) was 78.4% for 2009 and 101.5% in 2008; for the fourth quarter, the productivity index was 92.7% in 2009, compared with 48.8% in the 2008 period. A lower productivity index generally is associated with a more-efficient cost structure.

The average mortgage default ratio (over 90 days in arrears) on the company's combined securitized and non-securitized portfolio continued to be stable and within the company's expectations at 3.46% for 2009 and 3.55% in 2008. For the fourth quarter, the average mortgage default ratio was 3.75% in 2009, compared with 3.75% in the 2008 period.

At the end of 2009, Xceed had cash and cash equivalents of \$5.7 million, which compared with \$6.5 million at the end of the third quarter and \$9.9 million at the 2008 year-end. Given Xceed's initiatives to control origination volumes and resize infrastructure, the company believes that cash flow from continuing operations and existing cash resources will be sufficient to meet its short-term and long-term requirements, allowing it to manage its ability to collect its residual interest from its securitized portfolios, valued at \$14.0 million at the end of 2009.

During the 2009 second quarter, Xceed announced its intention to make a normal course issuer bid (NCIB) to purchase up to 5% of its issued and outstanding common shares or 1,387,127 shares on or before March 22, 2010. Pursuant to the terms of the NCIB, the company purchased 4,000 and 243,600 shares during the fourth quarter and in 2009, respectively, at an average price of \$1.25 and \$1.12, respectively.

Xceed has filed its 2009 financial statements and management's discussion and analysis with SEDAR and they will be posted on the company's website.

Outlook

"Since the collapse in August 2007 of the ABCP market, which profoundly affected our business and the funding model for non-traditional mortgages in Canada, and despite the prolonged period of economic weakness and uncertainty in Canada and internationally, Xceed has made steady progress in refocusing, stabilizing, and establishing a growth platform for our business," said Mr. Wahl.

"We look forward to our 2010 fiscal year with a renewed sense of optimism. Our financial performance indicates that we are headed in the right direction with respect to growing our business and creating value for our investors. We believe that this will be spurred by the recovery of the Canadian economy, even though it appears that this likely will be a gradual process.

"In particular," he continued, "this should be an exciting year as we are expecting to receive approval from the Office of the Superintendent of Financial Institutions (OSFI) of our application to become a federally regulated deposit-taking institution. We believe that the application process is making progress, but the timing of any approval is entirely up to OSFI," he continued.

"As Xceed Bank or Banque Xceed, we will have a new and important avenue for accessing stable capital at a reasonable cost. This will significantly increase our

underwriting capacity. We believe that, operating within OSFI guidelines, the creation of Xceed Bank will enable us to assist more of our customers that have had good payment records and are seeking to renew their mortgages,” Mr. Wahl said.

“We also will continue to focus on originating mortgages that qualify for insurance and for sale under the Canada Mortgage Bond Program, and on the renewal of those uninsured mortgages that qualify within the QSPE-XCD, the securitization vehicle affected by the implementation of the restructuring plan implemented in January 2009 for third-party ABCP,” Mr. Wahl added.

**XCEED MORTGAGE CORPORATION
CONSOLIDATED BALANCE SHEETS**

(in thousands of dollars)

	October 31, 2009 \$	October 31, 2008 \$
ASSETS		
Cash and cash equivalents	5,731	9,942
Investment in notes <i>[notes 3d) and 7]</i>	33,230	27,423
Cash collateral and other deposits receivable from Trusts <i>[note 3d)]</i>	15,738	13,773
Deferred net mortgage interest receivable <i>[note 3c)]</i>	14,005	34,915
Mortgages <i>[note 4]</i>	39,485	63,210
Accounts receivable <i>[note 3d)]</i>	4,418	7,302
Derivative instruments <i>[notes 12 and 13]</i>	—	209
Mortgage commitments <i>[note 12]</i>	12	48
Intangible assets, net <i>[note 5]</i>	672	238
Fixed assets, net <i>[note 6]</i>	134	240
	113,425	157,300
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Credit facilities <i>[notes 7 and 12]</i>	24,016	57,382
Accounts payable and accrued liabilities <i>[note 3]</i>	4,886	8,146
Derivative instruments <i>[notes 12 and 13]</i>	91	108
Future and other income tax liabilities <i>[note 9]</i>	5,048	9,038
Total liabilities	34,041	74,674
Shareholders' equity		
Capital stock <i>[note 8]</i>	56,767	57,274
Contributed surplus <i>[notes 8 and 15]</i>	1,716	1,108
Retained earnings	20,901	24,244
Total shareholders' equity	79,384	82,626
	113,425	157,300

XCEED MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF LOSS AND RETAINED EARNINGS

(in thousands of dollars, except per share amounts)

Years ended	October 31, 2009 \$	October 31, 2008 \$
REVENUE		
Securitization income <i>[note 3a]</i>	11,978	14,836
Interest	4,092	11,226
	16,070	26,062
Less: Net origination costs	(6,657)	(3,760)
	9,413	22,302
EXPENSES		
Compensation and benefits	5,785	7,739
Interest <i>[note 7]</i>	2,556	7,694
Amortization of intangible assets	155	1,230
Other operating	3,451	6,095
	11,947	22,758
Realized and unrealized losses on financial instruments <i>[notes 3c), 4 and 12]</i>	(2,575)	(8,985)
Loss before unusual items and income taxes	(5,109)	(9,441)
Unusual items <i>[note 16]</i>	–	9,874
Recovery of income taxes <i>[note 9]</i>	(1,766)	(7,343)
Net loss for the year	(3,343)	(11,972)
Retained earnings, beginning of year	24,244	36,211
Shares purchased for cancellation	–	5
Retained earnings, end of year	20,901	24,244
Loss per share <i>[note 8]</i>		
Basic	(0.12)	(0.43)
Diluted	(0.12)	(0.43)

XCEED MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

Years ended	October 31, 2009 \$	October 31, 2008 \$
OPERATING ACTIVITIES		
Net loss for the year	(3,343)	(11,972)
Items not affecting operating cash:		
Non-cash net loss on sale of mortgages	114	399
Amortization of deferred net mortgage interest receivable	20,094	27,097
Amortization of servicing fee	(2,958)	(3,875)
Amortization of fixed assets	131	485
Amortization of intangible assets	155	1,230
Unrealized losses (gains) from financial instruments <i>[notes 3 and 12]</i>	3,059	(3,433)
Net future income taxes	(5,014)	(8,350)
Non-cash unusual items	–	7,473
	12,238	9,054
Other changes in net assets <i>[note 10]</i>	22,945	33,966
	35,183	43,020
INVESTING ACTIVITIES		
Sale of notes	1,043	13,403
Purchase of notes	(6,484)	(19,852)
Net increase in intangible assets	(589)	(538)
Purchase of fixed assets	(25)	(764)
	(6,055)	(7,751)
FINANCING ACTIVITIES		
Net decrease in credit facilities	(33,440)	(33,913)
Share buyback	(274)	5
Contributed surplus related to issuance of options		
	(33,339)	(34,252)
Net increase (decrease) in cash and cash equivalents	(4,211)	1,017
Cash and cash equivalents, beginning of year	9,942	8,925
	5,731	9,942
Supplemental cash flow information		
Interest paid	2,704	8,086
Income taxes paid	2,348	4,151

Conference Call and Webcast for Quarter and Special Meeting

Xceed will hold a conference call for analysts and investors at 10:00 a.m. (Eastern) today (January 14). Ivan Wahl, Chairman and Chief Executive Officer, and Karen L. Martin, President and Chief Financial Officer, will be available to answer questions during the call.

To participate in the call, please dial 647-427-7450 or 1-888-231-8191 at least five minutes prior to the start of the call.

A live audio webcast of the conference call will be available at www.newswire.ca and www.xceedmortgage.com.

An archived recording of the call will be available at 416-849-0833 or 1-800-642-1687 (Passcode 49327736) from two hours following the conclusion of the call on January 14 to 11:59 p.m. on January 21. An archived recording of the webcast also will be available at Xceed's website.

About Xceed

Xceed Mortgage Corporation, based in Toronto, is a Canadian provider of insured residential mortgages that it originates in Canada. The company has approximately \$1.9 billion of mortgages and other assets under administration. Xceed's shares are traded on the Toronto Stock Exchange (TSX: XMC). To find out more about Xceed Mortgage Corporation, visit our website at www.xceedmortgage.com.

Forward-Looking Statements

Forward-looking statements in this document are based on current expectations that are subject to significant risks and uncertainties. Actual results might differ materially due to various factors such as the competitive nature of the mortgage industry, the ability of Xceed to continue to execute its growth and development strategy, and the reliance of Xceed on key personnel. Xceed assumes no obligation to update these forward-looking statements, or to update the reasons why actual results could differ from those reflected in these. Additional information identifying risks and uncertainties is contained in Xceed's regulatory filings available on its website and at www.sedar.com.

For further information, please contact Investor and Media Relations:
Richard Wertheim – Wertheim + Company Inc. – 416.594.1600 (bus.) or 416-518-8479 (cell) – email: wertheim@wertheim.ca.