ANNUAL REPORT 2010
MCAN MORTGAGE CORPORATION

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MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported another period of strong results in the fourth quarter of 2010, with reported net income of $6.1 million, unchanged from the prior year. Earnings per share for the quarter were $0.42 compared to $0.43 in the prior year.

Net income for the year ended December 31, 2010 was $25.4 million, up from $24.7 million in 2009, while earnings per share were $1.76 compared to $1.73 in 2009. Our return on equity for the year was 20%.

We have declared a first quarter dividend of $1.00 per share to be paid March 31, 2011 to shareholders of record as of March 2, 2011. This dividend comprises the regular quarterly dividend of $0.27 per share (increased from $0.26 per share) and an extra dividend of $0.73 per share in order to pay out substantially all of our 2010 taxable income.

During the year we grew our mortgage portfolio by $127 million, from $295 million as at December 31, 2009 to $422 million as at December 31, 2010.

As of December 31, 2010, total consolidated assets were $579 million, an increase of $72 million from December 31, 2009. The increase in assets includes the aforementioned increase of $127 million in mortgages and an increase of $7 million in marketable securities, partially offset by a decrease of $60 million in securitization investments.

The credit performance of the portfolio remains strong, with impaired mortgages as a percentage of total mortgages decreasing to 3.06% at December 31, 2010 from 5.81% at December 31, 2009, while total mortgage arrears decreased from $47 million to $31 million in the fourth quarter. Net write-offs of $6,000 for the fourth quarter of 2010 and $66,000 for the year ended December 31, 2010 have improved by 63% and 66%, respectively, from $16,000 and $194.000 recorded in the same periods of 2009. Capital ratios remained strong with a Tier 1 capital ratio of 22.10% at December 31, 2010 compared to 27.75% at December 31, 2009.

In 2010, we grew our investment portfolio by taking advantage of unutilized investment capacity. We plan to continue to grow our mortgage portfolio throughout 2011 by taking advantage of opportunities in the single family mortgage and residential construction loan markets, and through a measured increase in our commercial mortgage portfolio. To facilitate our growth plans, we plan to expand the Canadian markets in which we invest to further reduce existing geographic concentrations in our current portfolio in Alberta, Ontario and British Columbia.

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 financial statements and accompanying notes for the year ended December 31, 2010, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and have been presented in Canadian currency. This MD&A has been prepared as at March 4, 2011.

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 NOTE ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A may contain forward-looking information or statements, including statements regarding the business and anticipated financial performance of the Company. These forward-looking statements can generally be identified as such because of the context of the statements and often include words such as the Company "believes", "anticipates", "expects", "plans", "estimates" or words of a similar nature. These statements are based on current expectations, and are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, competition, technology changes, global market activity, interest rates, changes in government and economic policy and general economic conditions in geographic areas where the Company operates. Reference is made to the risk factors disclosed herein and in the Company's 2011 Annual Information Form, which are incorporated herein by reference. These and other factors should be considered carefully and undue reliance should not be placed on the Company's forward-looking statements. Subject to applicable securities law requirements, we do not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

DESCRIPTION OF THE 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 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.

Selected Financial Information

(dollars in thousands except for per share amounts)	2010	2009	2008	Change from 2009	%
Operating Results					
Net investment income	$ 31,696	$ 30,641	$ 36,082	$ 1,055	3.4%
Operating expenses	6,331	5,899	5,734	432	7.3%
Income before income taxes	25,365	24,742	30,348	623	2.5%
Provision for income taxes	-	-	-	-	-
Net income	$ 25,365	$ 24,742	$ 30,348	$ 623	2.5%
Mortgage portfolio yield	7.22%	7.48%	7.66%	(0.26%)	(3.5%)
Term deposit average interest rate	1.86%	3.12%	4.39%	(1.26%)	(40.4%)
Basic and diluted earnings per share	$ 1.76	$ 1.73	$ 2.14	$ 0.03	1.73%
Dividends per share	$ 1.19	$ 1.44	$ 0.96	$ (0.25)	(17.4%)
Return on average shareholders' equity	20.04%	20.69%	28.09%	(0.65%)	(3.1%)
Balance Sheet Highlights					
Assets	$ 578,702	$ 506,683	$ 570,154	$ 72,019	14.2%
Mortgages	422,393	295,415	393,010	126,978	43.0%
Liabilities	449,333	383,804	453,545	65,529	17.1%
Shareholders' equity	129,369	122,879	116,609	6,490	5.3%
Capital Ratios					
Tier 1 Capital Ratio	22.10%	27.75%	24.09%	(5.65%)	(20.4%)
Total Capital Ratio	22.06%	27.47%	23.69%	(5.41%)	(19.7%)
Credit Quality					
Impaired mortgage ratio	3.06%	5.81%	0.80%	(2.75%)	(47.3%)
Total mortgage arrears	$ 30,638	$ 30,515	$ 34,049	$ 423	1.4%
Share Information (end of period)					
Number of common shares outstanding at year-end	14,448	14,321	14,224	127	0.9%
Book value per common share	$ 8.95	$ 8.58	$ 8.20	$ 0.37	4.3%
Common share price - close	$ 13.86	$ 13.60	$ 9.10	$ 0.26	1.9%
Market capitalization	$ 200,249	$ 194,766	$ 129,438	$ 5,483	2.8%

HIGHLIGHTS

- Driven by growth in net investment income, MCAN reported net income of $25.4 million for 2010, a 3% increase from $24.7 million in the prior year. Current year results included improved spread income, lower provisions for credit losses and an increase in equity income from MCAP Commercial LP ("MCLP").
- Earnings per share increased to $1.76 from $1.73 in the prior year.
- MCAN's return on equity remained high at 20.0% in 2010, compared to 20.7% in 2009.
- MCAN declared a first quarter dividend of $1.00 per share to be paid on March 31, 2011. This dividend comprises the regular quarterly dividend of $0.27 per share (increased from $0.26 per share) and an extra dividend of $0.73 per share in order to pay out substantially all of our 2010 taxable income.
- Impaired mortgages as a percentage of total mortgages decreased to 3.06% at December 31, 2010 from 5.81% in the prior year.
- Total consolidated assets were $579 million at December 31, 2010, an increase of $72 million from the prior year. The change included an increase of $127 million in our mortgage portfolio, consisting of increases of $63 million in construction loans, $58 million in single family mortgages and $6 million in commercial loans.

OUTLOOK

In 2010, we grew our investment portfolio by taking advantage of unutilized investment capacity. We plan to continue to grow our mortgage portfolio throughout 2011 by taking advantage of opportunities in the single family mortgage and residential construction loan markets, and through a measured increase in our commercial mortgage portfolio. To facilitate our growth plans,

we plan to expand the Canadian markets in which we invest to further reduce existing geographic concentrations in our current portfolio in Alberta, Ontario and British Columbia.

The Canadian economy continued to demonstrate strength with GDP growth of 3.1% in 2010, while forecasted GDP growth for 2011 is 3.2%. The unemployment rate at the end of 2010 was approximately 8%, and is expected to improve to 7.8% by the end of 2011.

Canadian mortgage rates are expected to remain stable in 2011. Rates could increase if economic growth and inflation increase more significantly than anticipated. Interest rates have remained low and are expected to remain so, by historical standards. The recent level of the Canadian dollar also presents challenges as its strength and potential increases in domestic interest rates will further compromise the competitiveness of Canadian exports.

The market for new housing construction has to date shown evidence of slowing in 2011, in part due to government initiatives aimed at reducing the potential risks from an overheated housing market. Changes by the Canada Mortgage and Housing Corporation ("CMHC") to its mortgage programs reducing maximum amortization terms and permitted loan to value ratios on refinanced mortgages are intended to reduce leverage in the mortgage market, protecting home owners from future defaults. The impact to housing markets will be a measured reduction in home sale volumes as purchasers adjust to increased equity requirements and higher monthly mortgage payments.

New home sales increased in 2010 after experiencing strong growth in the first half of the year due in part to the effect of new CMHC equity requirements from February 2010 and strong sales in Ontario and British Columbia from the mid-year introduction of new HST rules on housing. Sales in the second half of the year moderated. Forecasts for 2011 indicate a slowing in the housing market throughout Canada. New home sales are expected to decline to 174,800 units in 2011, down from 186,200 units in 2010.

Existing home sales decreased by 3.9% in 2010 to 447,010. In 2011, sales are expected to decrease to the 400,000 to 440,000 level, down from the 2005-2009 average of 478,500.

Overall, the Canadian housing market is expected to remain in balance, with new home sales stabilizing to more normal levels against historical averages and existing home sales finding a more stable level, slowing the price increases seen over previous years.

RESULTS OF OPERATIONS

MCAN reported net income of $25.4 million for the year ended December 31, 2010, up from $24.7 million in the prior year. Earnings per share were $1.76 compared to $1.73 in the prior year, an increase of 2%.

Net Investment Income

(in thousands)	**2010**	**2009**	**2008**
Investment Income			
Mortgage interest	$ 25,828	$ 27,420	$ 33,429
Interest on loans and investments	2,507	3,878	5,617
Securitization income	3,949	7,558	7,761
Fees	5,561	8,024	5,051
Equity income from MCAP Commercial LP	3,743	1,456	3,025
Interest on cash and cash equivalents	230	234	1,109
Marketable securities	31	-	(97)
Gain on sale of mortgages	-	-	5,326
	41,849	**48,570**	**61,221**
Financial Expenses			
Term deposit interest and expenses	7,619	13,133	20,684
Mortgage expenses	2,921	2,761	3,524
Provision for (recovery of) credit losses	(387)	2,035	931
	10,153	**17,929**	**25,139**
Net Investment Income	**$ 31,696**	**$ 30,641**	**$ 36,082**

Net investment income was $31.7 million in 2010, an increase of $1.1 million from $30.6 million in 2009. The increase is primarily due to higher spread income, lower provisions for credit losses and an increase in equity income from MCLP in the current year, mostly offset by decreases in securitization income and fees.

Mortgage interest income decreased by $1.6 million from the prior year as a result of an $18 million decrease in the average mortgage portfolio (from $375 million in 2009 to $357 million in 2010) and a decrease in the average mortgage yield to 7.22% in 2010 from 7.48% in 2009. The decrease in the overall portfolio yield was largely driven by the decrease in discount income from MCAN's acquired mortgage portfolios, although their impact was partially offset by an increase of 0.20% in the yield on the regular mortgage portfolio.

The mortgages in the acquired portfolios have higher effective yields than those in our regular portfolio, as they have been acquired at a discount to their par values. The portion of the discount that we expect to recover is amortized into income over the remaining term of the respective mortgages. Upon the payout of a mortgage, the remaining unamortized discount is recognized as income.

Although we do not recognize interest income on impaired mortgages, we include interest owing but not accrued in the mortgage yield calculation to accurately represent the underlying portfolio. During the year, impaired mortgage interest income not recognized was $1.2 million. The mortgage yield would have decreased by 0.33% to 6.89% if this amount was excluded from the mortgage yield calculation.

During the year, we realized $3.7 million (2009 - $4.6 million) relating to the partial recovery of purchase price discounts on MCAN's acquired portfolios, included in mortgage interest income. We also received $2.3 million (2009 - $4.9 million) of fees from MCLP from a profit sharing arrangement relating to the discounted mortgage portfolios acquired by MCLP.

Interest on loans and investments decreased by $1.4 million from the prior year as a result of a significantly lower average portfolio balance in the current year.

We securitize insured mortgages through the Canada Mortgage Bonds ("CMB") program. Securitization income from the current and prior years is as follows:

(in thousands)	**2010**	**2009**
Gain on securitization	$ 75	$ 6,410
Residual securitization income - fair value changes	(1,714)	(2,350)
Residual securitization income - other components	5,588	4,733
Write-down of interest-only strips	-	(1,235)
	$ 3,949	**$ 7,558**

The up-front gain from securitization decreased significantly in the current year, as we only securitized $28 million of mortgages in 2010 compared to $836 million in 2009. In general, fair value changes in the interest rate swaps largely offset those in the interest-only strips, however significant fluctuations in the forward rate curve during both years had a negative impact to income. Other components of residual securitization income increased over the prior year due to an increase in refinancing and renewal gains.

During 2009, a net write-down of $1.2 million was recorded on the outstanding interest-only strips. To the time of the write-down, the prepayment level of CMB mortgages was significantly higher than anticipated and decreased expected future cash flows, as the assets in which principal collections are reinvested generally yield less than the securitized mortgages. As part of the write-down, we revised our assumptions regarding mortgage prepayment levels to reflect actual activity to date.

Fees decreased by $2.5 million over 2010, primarily due to the decrease noted above in fees received from MCLP related to profit sharing on its discounted mortgage portfolios. Fees also include commitment, extension, renewal and letter of credit fees earned on our mortgage portfolio.

Equity income of $3.7 million from our ownership in MCLP increased significantly from $1.5 million in the prior year due to gains on sale of certain financial and other assets.

Term deposit interest and expenses decreased by $5.5 million from 2009 as a result of a decrease in the average term deposit rate to 1.86% in 2010 from 3.12% in 2009 and a $28 million decrease in the average term deposit balance to $344 million in 2010 from $372 million in 2009. The decrease in the average term deposit rate from the prior year is a result of the funding rate on new term deposits being lower than that of the maturing term deposits despite recent increases in the prime rate.

Mortgage expenses, consisting primarily of mortgage servicing expenses, were $2.9 million in 2010 compared to $2.8 million in the prior year.

Credit Quality

Provisions for credit losses in the current and prior years were as follows:

(in thousands)	2010	2009
Mortgages - general provision (recovery)	$ 1,090	$ (497)
Mortgages - specific provision (recovery)	(1,536)	2,618
Loans and investments - general provision (recovery)	(141)	(186)
Other provisions	200	-
Securitization investments - write-down	-	100
	$ (387)	**$ 2,035**

General provision activity in the current and prior years is consistent with the respective changes in the balances of mortgages, loans and investments that attract an allowance for credit loss.

During the year, we recorded a $200,000 provision relating to our pro-rata share of expected losses pursuant to an indemnity on the underlying assets of a residential construction loan securitization program.

Specific provision activity for the current and prior years was as follows:

(in thousands)	2010	2009
Residential construction		
Full reversal of existing allowance	$ (2,000)	$ -
Net increase of existing allowances	273	2,727
Uninsured single family	191	(109)
	$ (1,536)	**$ 2,618**

During 2010, we reversed a previously recorded $2.0 million allowance on a residential construction loan upon its payout in full with no principal loss. Prior year activity included the initial recording of the aforementioned $2.0 million allowance, in addition to two other residential construction loan allowances totalling $727,000.

Mortgage write-offs were 1.8 basis points ($66,000) on average mortgage balances, compared to 5.2 basis points ($194,000) in the prior year.

Impaired mortgages as a percentage of total mortgages (net of specific allowances) are as follows:

(in thousands)	December 31 2010	December 31 2009
Residential construction	$ 9,892	$ 15,815
Uninsured single family	2,939	1,356
	$ 12,831	**$ 17,171**
	3.06%	**5.81%**

Impaired mortgages decreased significantly during 2010, mostly due to the payout of the residential construction loan noted above. We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts. Although impaired mortgages decreased over 2009, total mortgage arrears were unchanged at $31 million. While total mortgage arrears have remained stable, the composition has shifted towards single family mortgages, which generally require a shorter time frame to resolve than residential construction loans.

Operating Expenses

(in thousands)	2010	2009	2008
Salaries and benefits	$ 2,711	$ 2,587	$ 2,226
General and administrative	3,620	3,312	3,508
	$ 6,331	**$ 5,899**	**$ 5,734**

Operating expenses increased by $432,000 over the prior year, primarily due to higher professional fees.

Income Taxes

(in thousands)	2010	2009	2008
Provision (recovery) against income	$ -	$ -	$ -
Charge (recovery) to retained earnings	3,451	(679)	6,059
	$ 3,451	**$ (679)**	**$ 6,059**

We have taken the position that it is more likely than not that sufficient dividends will be paid to shareholders in future periods to recover current and future taxes. As a result of this, we charge (recover) our current and future tax liabilities directly to retained earnings. The provision for taxes recorded in the consolidated statements of income relates to taxes that cannot be recovered from the payment of future dividends.

During 2010, there was a significant tax charge to retained earnings, as a result of a substantial increase in the magnitude of the March 31, 2011 dividend compared to 2010. A future tax liability arose since this dividend had not yet been paid as of year-end, but was deductible from 2010 taxable income. As at December 31, 2010, this liability was significantly higher than the corresponding liability from the prior year due to the comparatively higher March 2011 dividend, which led to the significant tax charge during the year. The prior year recovery of taxes was also primarily due to the decrease in the corresponding March 31st dividend, partially offset by a future tax charge that arose from new CMB issuances in 2009.

Cash Flows

Operating activities provided cash flows of $30 million in 2010 and provided $23 million in 2009. The increase was a result of higher CMB-related net cash inflows in the current year.

Investing activities used cash flows of $75 million in 2010 and provided $94 million in 2009. The increase was due to significant net mortgage outflows in 2010 compared to significant inflows in 2009, partially offset by substantial net securitization investment inflows in 2010.

Financing activities provided cash flows of $45 million in 2010 and used $85 million in 2009. There was a net term deposit inflow in 2010 compared to a net outflow in 2009.

Summary of Three Year Results of Operations

In 2010, net income remained strong, increasing by $623,000 over 2009 although the composition was substantially different. Positive variances in 2010 included higher spread income, significantly lower provisions for credit losses (primarily due to the reversal of a significant specific mortgage allowance) and a significant increase in equity income from MCLP. Conversely, there were significant decreases in fees and securitization income, while operating expenses increased over 2009.

Net income in 2009 decreased by $5.6 million from 2008. Our profitability remained strong as a result of significant securitization income and income from the acquired portfolios. The one-time gains from sale of mortgage in 2008 and the higher provisions for losses in 2009 comprised the majority of the decrease.

SUMMARY OF FOURTH QUARTER RESULTS

The Company reported net income for the quarter ended December 31, 2010 of $6.1 million ($0.42 per share), compared to $6.1 million ($0.43 per share) a year earlier as follows:

(in thousands, except for per share amounts)

For the Quarters Ended December 31	2010	2009
Net investment income	$ 8,102	$ 8,056
Operating expenses	2,016	1,952
Income before income taxes	6,086	6,104
Provision for income taxes	-	-
Net income	$ 6,086	$ 6,104
Basic and diluted earnings per share	$ 0.42	$ 0.43
Dividends per share	$ 0.26	$ 0.26

Net Investment Income

(in thousands)

For the Quarters Ended December 31	2010	2009
Investment Income		
Mortgage interest	$ 7,521	$ 7,413
Interest on loans and investments	309	910
Securitization income	37	1,801
Fees	1,382	1,893
Equity income from MCAP Commercial LP	1,779	523
Interest on cash and cash equivalents	105	34
Marketable securities	31	-
	11,164	**12,574**
Financial Expenses		
Term deposit interest and expenses	2,134	2,525
Mortgage expenses	882	615
Provision for credit losses	46	1,378
	3,062	**4,518**
Net Investment Income	**$ 8,102**	**$ 8,056**

Net investment income was $8.1 million for the fourth quarter, unchanged from 2009.

Mortgage interest income increased by $108,000 as the impact of a $64 million increase in the average mortgage portfolio was mostly offset by a 1.56% decrease in the average mortgage yield from 8.65% to 7.09%. Equity income from MCLP increased significantly due to a gain on the sale of certain financial and other assets, while securitization income decreased significantly due to an increase in negative mark-to-market adjustments. Interest on loans and investments and fee income also decreased in the current year.

Term deposit interest and expenses decreased by $391,000 as a result of a 0.30% decrease in the average term deposit interest rate from 2.19% to 1.89%, partially offset by a $29 million increase in the average outstanding balance. Provisions for credit losses decreased substantially as there was minimal activity in the current year compared to a significant increase to an existing specific mortgage allowance in the prior year.

Operating Expenses

Operating expenses were $2.0 million for the fourth quarter, unchanged from last year.

(in thousands)

For the Quarters Ended December 31	2010	2009
Salaries and benefits	$ 1,038	$ 933
General and administrative	978	1,019
	$ 2,016	**$ 1,952**

SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except per share amounts)

	2010				2009			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Net investment income	$6,106	$7,114	$10,374	$8,102	$7,703	$6,875	$8,007	$8,056
Operating expenses	1,308	1,473	1,534	2,016	1,269	1,268	1,410	1,952
Income before income taxes	4,798	5,641	8,840	6,086	6,434	5,607	6,597	6,104
Provision for income taxes	-	-	-	-	-	-	-	-
Net income	$4,798	$5,641	$8,840	$6,086	$6,434	$5,607	$6,597	$6,104
Basic and diluted earnings per share	$0.33	$0.40	$0.61	$0.42	$0.45	$0.39	$0.46	$0.43
Dividends per share								
Regular	$0.26	$0.26	$0.26	$0.26	$0.25	$0.25	$0.25	$0.26
Extra	0.15	-	-	-	0.43	-	-	-
Total	$0.41	$0.26	$0.26	$0.26	$0.68	$0.25	$0.25	$0.26

No dividends paid during the past eight quarters have included a capital gains component.

Quarterly income has been relatively stable for the past eight quarters. Securitization income and income from the acquired portfolios was strong during 2009 and 2010. The increase in net income for the third quarter of 2010 over recent quarters was primarily due to the reversal of a significant specific mortgage provision upon payout.

FINANCIAL POSITION

Total assets were up $72 million from December 31, 2009. This change consisted of increases of $127 million in mortgages, $7 million in marketable securities and other investments, $2 million in derivative financial instruments and $2 million in our equity investment in MCLP, partially offset by decreases of $60 million in securitization investments and $7 million in loans receivable and other investments.

Assets

(in thousands)	2010		2009		2008	
Cash and cash equivalents	$ 89,373	15.4%	$ 89,843	17.7%	$ 58,071	10.2%
Marketable securities	6,608	1.1	-	-	-	-
Mortgages	422,393	73.0	295,415	58.3	393,010	68.9
Securitization investments	13,605	2.4	73,590	14.5	39,743	7.0
Loans receivable and other investments	10,079	1.7	16,885	3.3	35,624	6.2
Equity investment in MCLP	20,315	3.5	17,905	3.5	18,300	3.2
Derivative financial instruments	13,120	2.3	11,490	2.3	23,541	4.2
Other assets	3,209	0.6	1,555	0.4	1,865	0.3
	$ 578,702	**100.0%**	**$ 506,683**	**100.0%**	**$ 570,154**	**100.0%**

Cash and cash equivalents include cash balances with banks and overnight term deposits. These investments ensure adequate liquidity to meet maturing term deposit and new mortgage commitments. Our cash balances were extremely high by historical standards at the end of both years. In 2010, we increased our year-end cash balances in anticipation of upcoming significant mortgage fundings, while in the prior year we had significant mortgage sales near year end.

Marketable securities include corporate bonds, exchange traded funds and real estate investment trusts. We commenced the purchase of marketable securities in the second half of 2010.

The composition of our mortgage portfolio as at December 31, 2010 and 2009 was as follows:

	2010			2009		
(in thousands)	**Principal**	**Allowance**	**Net**	**Principal**	**Allowance**	**Net**
Single family uninsured	$ 180,424	$ 1,386	$ 179,038	$ 127,889	$ 874	$ 127,015
Single family insured	44,541	-	44,541	38,990	-	38,990
Construction	188,297	2,640	185,657	126,059	3,728	122,331
Commercial	13,349	192	13,157	7,207	128	7,079
	$ 426,611	**$ 4,218**	**$ 422,393**	**$ 300,145**	**$ 4,730**	**$ 295,415**

We invest in insured and uninsured single family mortgages in Canada. We believe that the Canadian residential property market continues to exhibit healthy fundamentals. We do not invest in the United States mortgage market. The uninsured mortgages 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 CMHC or Genworth Financial Mortgage Insurance Company Canada 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 conventional construction loans is 250% of regulatory capital. Non-residential construction loans may comprise up to one half of this limit. The maximum single conventional construction loan may not exceed the lesser of $13.5 million or 20% of regulatory capital as per our internal limits.

Mortgages increased by $127 million during 2010 (refer to Note 5 to the consolidated financial statements). The increase consisted of increases of $63 million in construction loans, $52 million in uninsured single family mortgages, $6 million in commercial loans and $6 million in insured single family mortgages. We continue to monitor market conditions closely and have continued to be selective in our mortgage approvals. Consequently, we have observed significant repayments on our uninsured single family mortgage portfolio. In addition, we have been applying minimum rates on renewed and newly funded construction loans where possible and aggressively managing the repayment of these loans, as they are mostly prime-based and have less attractive yields in the current interest rate environment.

Cyclically low interest rates have contributed to a stabilization of residential property values across Canada. As economic conditions have improved in Canada, we have observed a decline in arrears levels since 2008. Although still high by historical levels, our account management and that of our mortgage servicers continue to be proactive in managing arrears. We believe that these factors will mitigate loan losses. We continue to regard residential mortgages as a solid investment asset class.

As at December 31, 2010, we held discounted mortgages with a net discount of $14 million (2009 - $22 million). We retain 50% of any recoveries of that amount, and we pay the remaining 50% to MCLP. 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 2011 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered.

Securitization investments consist of investments in securitization programs, the interest-only strips from the CMB program and insured mortgage-backed securities (refer to Note 6 to the consolidated financial statements). Securitization investments decreased by $60 million in 2010 primarily due to decreases of $43 million in insured mortgage-backed securities, $9 million in investments in securitization programs and $7 million in CMB interest-only strips.

Loans receivable and other investments (refer to Note 7 to the consolidated financial statements) decreased by $7 million during the year, primarily due to the full payout of a significant loan.

Our largest single investment is our minority interest in MCLP. We intend to continue to participate in the mortgage origination and servicing business through our interest in MCLP. MCLP is an originator and servicer of mortgage loans for third party investors in Canada. We outsource our mortgage and loan origination and servicing to MCLP and other third party servicers.

Derivative financial instruments at December 31, 2010 consist 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.

Other assets include capital assets, prepaid expenses, accounts receivable and deferred costs.

Liabilities and shareholders' equity

				Change from	
(in thousands)	**2010**	**2009**	**2008**	**2009**	**2008**
Liabilities					
Term deposits	$ 421,061	$ 360,744	$ 426,663	$ 60,317	$ (5,602)
Securitization liabilities	7,000	5,048	7,095	1,952	(95)
Accounts payable and accrued charges	10,809	11,001	12,186	(192)	(1,377)
Future taxes payable	10,463	7,011	7,601	3,452	2,862
	449,333	**383,804**	**453,545**	**65,529**	**(4,212)**
Shareholders' equity					
Share capital	100,112	98,490	97,493	1,622	2,619
Contributed surplus	510	510	510	-	-
Retained earnings	26,956	22,165	17,313	4,791	9,643
Accumulated other comprehensive income	1,791	1,714	1,293	77	498
	129,369	**122,879**	**116,609**	**6,490**	**12,760**
	$ 578,702	**$ 506,683**	**$ 570,154**	**$ 72,019**	**$ 8,548**

Term deposit liabilities increased by $60 million during the year, comparable to the change in assets.

Securitization liabilities relate to CMB interest-only strips in liability positions, discussed below in the "CMB Program" disclosure.

Total shareholders' equity of $129 million increased by $6.5 million from December 31, 2009. The increase is primarily due to the significant excess of 2010 net income ($25.4 million) over dividends declared ($17.1 million). Since we are able to deduct dividends paid up to 90 days after year-end from taxable income, a year-end disconnect may occur between these two components of retained earnings. The balance of 2010 taxable income, which was high by historical standards, will not be paid out as dividends to shareholders until March 31, 2011. In addition, there are generally differences between income for accounting purposes and taxable income. We issued $833,000 of new common shares on a quarterly basis under the dividend reinvestment plan at the average closing price for the 20 days preceding such issues, and issued $789,000 of new common shares through the Executive Share Purchase Plan the ("Share Purchase Plan"). There was also a $3.5 million charge to retained earnings related to current and future income taxes and a $77,000 increase in accumulated other comprehensive income.

CMB PROGRAM

We participate in the CMB program, which involves the securitization of insured single family and multi family mortgages. We participate in the CMB program with MCLP and a private company. For accounting purposes, we recognize an up-front gain on securitization, and at that time we recognize an interest-only strip, which is a retained interest in the securitized mortgages. The interest-only strips consist of the discounted value of future mortgage interest, principal reinvestment interest receipts and penalty income less coupon interest payments. We also recognize liabilities for future mortgage servicing and other costs, which we subcontract to MCLP and the private company that participates in the CMB program. For tax purposes, we recognize CMB-related income on the cash basis, wherein the payment of upfront CMB expenses is a deduction from taxable income at the date of issuance, and the ongoing collection of net CMB cash flows is recognized in taxable income as received over the duration of the issuance. In the early years of a CMB issuance, taxable income is significantly lower than accounting income due to the absence of an upfront gain on securitization for tax purposes to offset upfront cash requirements. However, taxable income significantly exceeds accounting income in the later years of a CMB issuance, in line with the receipt of ongoing CMB cash flows such as mortgage interest and principal reinvestment interest.

In addition, we earn residual securitization income, which includes the net yield earned on the interest-only strips and the CMB liabilities, refinancing and renewal gains, interest rate swap receipts (payments) and fair value changes in the interest-only strips and interest rate swaps.

During the year, we securitized $28 million of mortgages through the CMB program compared to $836 million in the prior year. We recorded $499,000 of interest-only strips and $83,000 of liabilities on the respective closing dates.

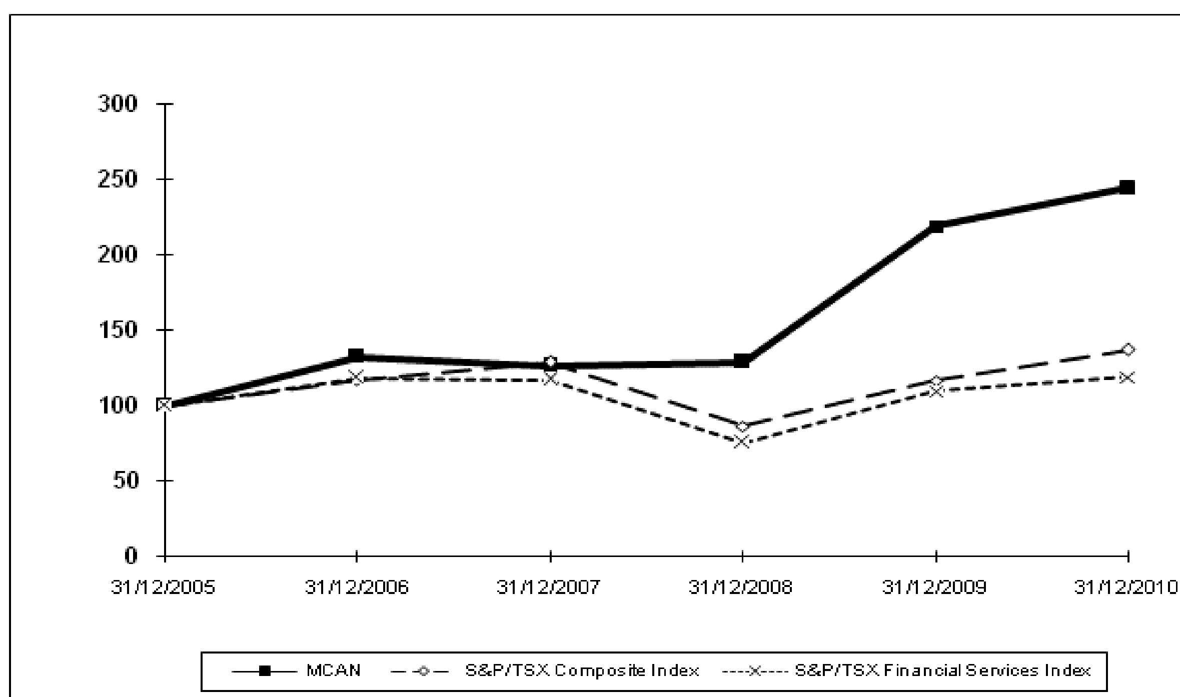
As part of the CMB program, we enter into "pay-floating, receive-fixed" interest rate swaps. The purpose of these swaps is to hedge interest rate risk on the interest-only strips. We receive interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only strips. Changes in the fair market value of the interest rate swaps generally offset the changes in the fair value of the interest-only strips.

In March 2010, OSFI released a final advisory with respect to the impact of International Financial Reporting Standards ("IFRS") rules regarding securitization on regulatory capital ratios, since IFRS rules regarding securitization 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. Although we are reviewing potential alternative structures and arrangements that may permit our continued participation in the CMB program, there can be no assurance that any such alternative structures or arrangements will be available on commercially reasonable terms, or can be implemented in a timely manner.

PERFORMANCE CHARTS

Shareholder Return

The following graph compares MCAN's cumulative total shareholder return (assuming an investment of $100 on December 31, 2005 on its common shares during the period from January 1, 2006 to December 31, 2010, with the S&P/TSX Composite Index (Total Return) and the S&P/TSX Financial Services Index (Total Return), assuming reinvestment of all dividends.



	Dec 31 2005	Dec 31 2006	Dec 31 2007	Dec 31 2008	Dec 31 2009	Dec 31 2010	Compound Annual Growth
MCAN	100	132	127	129	219	244	19.5%
TSX	100	117	129	86	117	137	6.5%
TSX Financial Services	100	118	117	75	110	119	3.5%

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

Ten Year Financial Summary

(in thousands, except per share amounts)

					As at December 31	
	Net Income	Earnings Per Share	Dividends Per Share	Total Assets	Shareholders' Equity	Market Capitalization
2010	$ 25,365	$ 1.76	$ 1.19	$ 578,702	$ 129,369	$ 200,249
2009	24,742	1.73	1.44	506,683	122,879	194,766
2008	30,348	2.14	0.96	570,154	116,609	129,438
2007	14,843	1.12	1.00	557,425	103,007	140,416
2006	15,211	1.23	1.18	498,107	84,611	141,052
2005	14,116	1.18	0.97	434,369	81,164	116,918
2004	11,601	1.12	1.11	454,365	74,965	103,374
2003	8,247	0.84	0.68	369,477	61,741	83,747
2002	5,430	0.58	0.68	327,059	58,383	80,293
2001	6,795	0.85	0.68	222,397	48,149	72,656

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of common shares with no par value. At December 31, 2010, there were 14,447,743 common shares outstanding. At March 4, 2011, there were 14,461,305 common shares outstanding. For additional information related to share capital, refer to Note 17 to the consolidated financial statements.

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. We pay out substantially all of our taxable income to shareholders, whereas other financial institutions generally pay out only a portion of their taxable income to their shareholders. These dividends are taxable in the shareholders' hands as interest. In addition, a MIC

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:

Fiscal Period	2010	2009	2008
First Quarter - Regular Dividend	$ 0.26	$ 0.25	$ 0.23
First Quarter - Extra Dividend	0.15	0.43	-
Second Quarter	0.26	0.25	0.23
Third Quarter	0.26	0.25	0.25
Fourth Quarter	0.26	0.26	0.25
	$ 1.19	**$ 1.44**	**$ 0.96**
Taxable Dividends	$ 1.19	$ 1.44	$ 0.85
Capital Gains Dividends	-	-	0.11
	$ 1.19	**$ 1.44**	**$ 0.96**

The Board of Directors declared a first quarter dividend of $1.00 per share to be paid March 31, 2011 to shareholders of record as of March 2, 2011. The dividend comprises the regular quarterly dividend of $0.27 per share (increased from $0.26 per share) and a $0.73 per share extra dividend.

The March 2011 extra dividend is required to pay out the balance of taxable income to shareholders. In 2010, taxable income was comparable to income for accounting purposes. In 2009, accounting income significantly exceeded taxable income as we recognized $6.4 million of upfront gains from securitization for accounting purposes. The associated taxable income is earned throughout the duration of the issuance.

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, 2010, outstanding commitments for future fundings of mortgages intended for our portfolio were $200 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.

(in thousands)	Less than one year	One to five years	Over five years	Total
Term deposits	$ 311,408	$ 109,653	$ -	$ 421,061
Operating lease	263	724	-	987
Mortgage fundings	179,710	19,968	-	199,678
CMB obligations	908	1,442	-	2,350
	$ 492,289	**$ 131,787**	**$ -**	**$ 624,076**

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

TRANSACTIONS WITH RELATED PARTIES

In 2010, we purchased certain corporate services from MCLP in the amount of $433,000, purchased certain mortgage origination and administration services from MCLP in the amount of $2.8 million and received fees of $3.7 million from MCLP. Corporate services include premises and systems. The fees received from MCLP include commitment, extension, renewal and letter of credit fees. We use MCLP's systems, including networks, subsystems, and general ledger. We also receive technology support from MCLP.

In 2010, we paid MCLP $4.2 million of fees relating to a profit sharing arrangement on a portfolio of discounted mortgages. We received $2.3 million from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

In 2010, we entered into an arrangement with MCLP to sublease space at 200 King Street West, Toronto, Ontario, expiring in 2014.

The Company has established 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. The aggregate number of common shares issued pursuant to the Share Purchase Plan may not exceed 480,000, provided that the number of common shares which may be issued pursuant to the Share Purchase Plan together with common shares which may be issued pursuant to any other MCAN share compensation agreements may not exceed 10% of the outstanding common shares, and the common shares which may be issued pursuant to the Share Purchase Plan to any one person may not exceed 5% of the outstanding common shares. At December 31, 2010, $1,699,000 of loans were outstanding. The maximum authorized loan balance is $1,720,000. The loans under the Share Purchase Plan bear interest at prime plus 1% and have a five-year term. MCAN, at its discretion, reimburses officers the interest amount in connection with loans provided pursuant to the Share Purchase Plan. Additional information related to the Share Purchase Plan is included in Note 17 to the consolidated financial statements and in our Management Information Circular dated March 25, 2011.

In 2010, we 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, 2010, no units had yet vested.

We recognize compensation expenses associated with the DSU Plan in line with the graded vesting schedule. The compensation expense recognized in 2010 related to the DSU Plan was $128,000, included in salaries and benefits. As at December 31, 2010, the accrued DSU Plan liability was $128,000, included in accounts payable and accrued liabilities.

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. 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. To December 31, 2010, our internal target minimum Tier 1 and Total capital ratios were both 15%. As at February 17, 2011, the Board of Directors increased both internal target minimums to 20%.

Our income tax assets and capital, regulatory assets and capital, and maximum assets and ratios over the past three years are as follows:

December 31 (dollar amounts in thousands)	**2010**	**2009**	**2008**
Tax Act Test			
Income Tax Assets	$ 555,360	$ 488,024	$ 551,589
Income Tax Capital	$ 126,374	$ 120,732	$ 115,998
Income Tax Assets to Capital ratio	4.39	4.04	4.76
Maximum Assets (non-consolidated)	$ 758,244	$ 724,392	$ 695,988
Maximum Assets to Capital ratio	6.00	6.00	6.00
Regulatory Test (OSFI)			
Regulatory Assets	$ 595,473	$ 508,351	$ 578,124
Regulatory Capital	$ 120,534	$ 110,231	$ 107,991
Regulatory Assets to Capital ratio	4.94	4.61	5.35
Total Regulatory Capital to Risk-Weighted Assets ratio	22.06%	27.47%	23.69%
Minimum Total Regulatory Capital to Risk-Weighted Assets ratio	10.00%	10.00%	10.00%
Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	22.10%	27.75%	24.09%
Minimum Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	7.00%	7.00%	7.00%

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 the Company 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 certain 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") proposed significant enhancements and capital reforms to the current framework. The revised framework, referred to as Basel III, will be effective January 1, 2013 and provides lengthy periods for transitioning numerous new requirements.

Significant Basel III reforms include the following:

- Introducing a new minimum common equity ratio (the "Common Equity Tier 1 ratio"). Financial institutions will be required to meet the new Common Equity Tier 1 ratio standard during a transition period beginning January 1, 2013 and ending on January 1, 2019. The minimum requirement, which includes a conservation buffer, increases during the transition period.

- Increasing the minimum Tier 1 capital and Total capital ratios. These increases will also be phased-in commencing January 1, 2013 with financial institutions expected to meet the new standards through a transition period ending on January 1, 2019.

- Introducing a new global leverage ratio to address balance sheet leverage. The BCBS will be monitoring and refining this new ratio between 2011 and 2017 before its final implementation in 2018.

We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets. Based on our current understanding of the revised capital requirements proposed by BCBS, we expect to satisfy the new requirements ahead of the implementation timelines that have been proposed by BCBS and confirmed by OSFI.

For additional information on our capital management, refer to Note 20 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, marketable securities, mortgages, securitization investments, loans receivable and other investments, 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

We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The Investment Committee of the Board ("ICB") is responsible for the review and approval of liquidity policies. The Asset and Liability Management Committee ("ALCO") is responsible for liquidity management. To December 31, 2010, we maintained a standard level of liquid investments and credit facilities of at least 20% of term deposits maturing within 100 days. As at February 17, 2011, this standard level was increased to 125%. 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 our 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 have an overdraft banking facility in place to fund asset growth or meet short-term funding 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. We believe that our liquidity position and our access to capital markets support our ability to meet current and future commitments. We are not aware of any contingencies or known events that are likely to materially affect our liquidity position.

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 ICB on a quarterly basis.

The composition of our liquidity ratios over the last three years is as follows:

As at December 31	**2010**	**2009**	**2008**
Tier 1 liquidity			
Cash and cash equivalents	$ 89,373	$ 89,843	$ 58,071
Less: cash pledged as collateral	(2,243)	(1,642)	-
Banking facility	27,505	30,000	30,000
	114,635	118,201	88,071
Tier 2 liquidity			
75% of eligible insured single family mortgages	6,476	6,665	9,864
Total liquidity	$ 121,111	$ 124,866	$ 97,935
100 day term deposit maturities	$ 67,002	$ 111,125	$ 131,696
Liquidity ratios			
Tier 1 liquidity to 100 day term deposit maturities	171%	106%	67%
Total liquidity to 100 day term deposit maturities	181%	112%	74%

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

A further analysis of our liquidity risks is found under "Risk Management" 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, market and liquidity risks as required under the CICA Handbook section 3862, *Financial Instruments - Disclosures,* which permits these specific disclosures to be included in the MD&A. Therefore, the shaded areas presented on pages 16 to 20 of this MD&A form an integral part of the audited consolidated financial statements for the year ended December 31, 2010.

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 or reputation. The risks identified by MCAN may not be the only risks faced by the Company. Other risks of which the Company is not aware 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.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and net equity. 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 18 to the consolidated financial statements.

Economic Conditions

The Canadian economy continued to demonstrate strength in 2010, as evidenced by growth in both gross domestic product and employment. Cyclically low interest rates contributed to the stabilization of the housing market. We expect the economy to remain stable in 2011, however housing sales are expected to decline in all key markets as a result of lower levels of inventory for new homes that require an extended timeline to move through the construction process. Resales are expected to decline slightly as a result of recent changes to CMHC mortgage insurance rules.

Higher interest rates or a decline in general economic conditions could cause default rates to increase as creditworthiness decreases for borrowers who are more highly leveraged or as unemployment increases. This decline could negatively affect our net income. In addition, a general decline in economic conditions could slow the pace of housing sales and adversely affect growth in the single family mortgage market, which could adversely affect our ability to grow our mortgage portfolio.

Regulatory Risk

Changes in laws and regulations, including interpretation or implementation, could 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 could result in sanctions and financial penalties which could adversely impact our earnings and damage our reputation.

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.

Monetary Policy

Our earnings are affected by the monetary policies of the Bank of Canada. Changes in the supply 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 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.

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 and servicing to MCLP and other third parties.

Reliance on Key Personnel

Our future performance is dependent on the abilities, experience and efforts of our management 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.

Competition Risk

Our operations and income are a function of the interest rate environment and the availability of mortgage products at reasonable yields. 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, there may be an adverse effect on our financial condition and results of operations.

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, could 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.

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 may rely on information furnished by them, including financial statements and other financial 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 financial information that do not comply with GAAP, 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.

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 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, could 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 could adversely affect our operations and financial conditions. Our failure to comply with applicable laws and regulations could 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 financial statements, including the adoption of IFRS for the fiscal year commencing January 1, 2011. 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.

For further details on our conversion to IFRS, refer to "Future Changes in Accounting Policy".

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 interest and principal 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.

RISK MANAGEMENT

We operate in changing regulatory and economic environments. As a result, our management and the Board of Directors are particularly diligent in their consideration of issues of risk. 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 is responsible for the quality of processes, policies, procedures and controls and for internal reporting on a day-to-day basis. The Board of Directors 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 of Directors.

As discussed above under "Risk Factors," we are exposed to various inherent risks, particularly interest rate risk and credit risk. We mitigate these risks through investment diversification, and by 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 ALCO and a formal quarterly review involving the ICB. Weekly monitoring also takes place through our Operating Committee and Capital Commitments Committee, both of which are comprised of Management.

Our exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of our investments. Our policies establish limits on concentration by asset class, risk rating, geographic region, dollar limit and borrower. We use these policies to assess credit risk and portfolio quality. All members of management are subject to limits on their ability to commit the Company to credit risk.

We identify potential risk in our mortgage portfolio by way of regular review of market metrics, which are a key component of quarterly market reports provided to the Board of Directors. We also undertake site visits of active mortgages. 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 assess a credit score and risk rating for all mortgages at the time of underwriting based on the quality of the borrower and the underlying real estate. Subsequent to the initial mortgage advance, the ongoing monitoring of a mortgage may lead to the downgrading of the status of a mortgage to monitored, in arrears, or impaired.

We have established a methodology for determining the adequacy of our general allowances. The adequacy of general allowances is assessed periodically, taking into consideration economic factors such as employment and housing market conditions.

We record a specific allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Specific allowances include all of the accumulated provisions for credit losses on a particular mortgage. At December 31, 2010, we had recorded $1.2 million (2009 - $2.8 million) of specific allowances on our mortgage portfolio (refer to Note 5 to the consolidated financial statements).

Our maximum credit exposure on our individual financial assets is equal to the par value of the respective assets.

Liquidity Risk

We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The ICB is responsible for the review and approval of liquidity policies. To December 31, 2010, we maintained a standard level of liquid investments and credit facilities in excess of 20% of term deposits maturing within 100 days. As at February 17, 2011, this standard level was increased to 125%. 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 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. Since our issued letters of credit at December 31, 2010 were $22 million, the available portion of the credit facility at this date dedicated to overdrafts was $28 million.

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.

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

Our liquidity position and access to funding support our ability to meet current and future commitments. Our liquid investments and credit facilities were 171% (2009 - 106%) of term deposits maturing within 100 days at December 31, 2010. For further details on our liquid assets and our ability to meet liability obligations, refer to Note 19 to the consolidated financial statements.

We have established and maintain liquidity policies 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.

	Within 3 Months	**3 Months To 1 Year**	**1 to 5 Years**	**Over 5 Years**	**2010 Total**	**2009 Total**
Sources of liquidity						
Cash and cash equivalents	$ 89,373	$ -	$ -	$ -	$ 89,373	$ 89,843
Marketable securities	-	-	-	6,608	6,608	-
Mortgages	97,033	160,687	142,807	21,866	422,393	295,415
Securitization investments	18	-	10,108	3,479	13,605	73,590
Loans receivable and other investments	89	2,138	1,441	6,411	10,079	16,885
	186,513	162,825	154,356	38,364	542,058	475,733
Uses of liquidity						
Term deposits	57,455	253,953	109,653	-	421,061	360,744
Securitization liabilities	-	-	7,000	-	7,000	5,048
Accounts payable and accrued charges	9,075	-	-	-	9,075	10,408
	66,530	253,953	116,653	-	437,136	376,200
Net liquidity surplus (deficit)	$ 119,983	$ (91,128)	$ 37,703	$ 38,364	$ 104,922	$ 99,533
Off-Balance Sheet						
Unfunded mortgage commitments	$ 19,968	$ 159,742	$ 19,968	$ -	$ 199,678	$ 96,173

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 invested 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, 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 ICB 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.

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

PEOPLE

As at December 31, 2010, we had fifteen employees, an increase of one from the prior year.

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 of Directors.

INTERNAL AUDIT

We outsource our Internal Audit function to Protiviti, an independent risk consulting firm. The Internal Audit function has unrestricted access to our operations, records, property and personnel, including senior management and the Chairman of the Audit Committee of the Board of Directors (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

The notes to our consolidated financial statements provide 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. 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 the Company. We believe that our estimates of the value of our assets and liabilities are appropriate.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions, and classified based on management's intention. Financial assets are classified as held for trading, held to maturity, available for sale or loans and receivables, and financial liabilities are classified as held for trading or other. Changes in the unrealized fair value of financial instruments classified as held for trading are recognized to income. Changes in the unrealized fair value of available for sale financial assets are recognized in accumulated other comprehensive income, except for those considered to be changes attributable to impairment which are charged to income. Upon disposal, the cumulative change in fair value is transferred to income. Other classifications are subsequently measured at amortized cost. From time to time, the Company may use derivative and non-derivative financial instruments to manage interest rate risk. Hedge accounting is optional, and where it can be applied, it requires the Company to document the hedging relationship and to test the effectiveness of the hedging item to offset changes in value of the underlying hedged item on an ongoing basis. At December 31, 2010, the Company did not have any hedge accounting relationships.

For further details on financial instruments, refer to Notes 2, 5, 6, 7, 10, 12, 13 and 21 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. Specific provisions include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The general provision represents losses that we believe have been incurred but not yet specifically identified. The general provision 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. Provisioning 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.

Although employment levels across Canada have improved, we continue to observe the effects of employment reductions from 2008 and 2009, which have resulted in higher arrears levels. However, abnormally low interest rates have contributed to a stabilization of residential property values across Canada. Economic growth and job creation were evident during the fourth quarter, and as this trend continues we expect lower mortgage arrears.

In addition to considering the current economic conditions, we assessed the probability of default, expected loss as a result of default and the loan exposure at the time of default when establishing our general allowance. Based on historical trends, our current mortgage portfolios are performing within an acceptable range that required no further adjustment to our allowance assumptions. Our overall arrears trends remained high during 2010, although losses to date have been insignificant. 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 our loans and 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 2, 5 and 7 to the consolidated financial statements.

Securitization

On the closing date of a CMB issuance, we recognize an interest-only strip, which is a retained interest in the securitized mortgages. We require the use of estimates to determine the fair value of the interest-only strips, which represent the present value of expected future cash flows. As a result of this, estimates and assumptions could have a material impact on net income. We review the estimates used to determine the fair value of the interest-only strips on an ongoing basis to ensure their appropriateness. For further information, please refer to Note 8 to the consolidated financial statements, which presents a sensitivity analysis of the current fair value of the interest-only strips to immediate 10% and 20% adverse changes in key assumptions.

Discount Income Recognition

The Company may acquire mortgage portfolios from third parties at fair market value. A mortgage discount will exist to the extent that the fair market value of a mortgage is less than its par value. The discount is allocated between a valuation reserve component and an accretion component. The valuation reserve component represents the risk of credit loss, 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

As a MIC, we can deduct dividends paid to our shareholders from our calculation of taxable income. We have taken the position that it is more likely than not that future dividends will be sufficient to recover current or future income tax liabilities, and as a result of this, we charge the related provision for future and current taxes directly to retained earnings. The provision for income taxes consists of various taxes that cannot be recovered from the payment of future dividends. For further details on our accounting policies and balances relating to income taxes, refer to Notes 2 and 16 to the consolidated financial statements. We will continue to proactively monitor on a quarterly basis that this is an appropriate position.

FUTURE CHANGES IN ACCOUNTING POLICY

International Financial Reporting Standards

The Accounting Standards Board ("AcSB") requires Canadian public companies to prepare their interim and annual financial statements in accordance with IFRS relating to fiscal years beginning on or after January 1, 2011.

For the fiscal year commencing January 1, 2011, we ceased the use of GAAP and adopted IFRS. Financial results for the quarter ended March 31, 2011 will be presented using IFRS.

We have recognized that the conversion to IFRS is complex and requires a significant amount of company resources. As a result of this, we engaged a major accounting firm to advise and assist us with identifying accounting treatment differences between GAAP and IFRS and to provide education and training. This engagement has continued to create efficiencies in MCAN's IFRS conversion process.

Our IFRS conversion plan consists of three key phases, as follows:

1. Scoping and diagnostic phase
2. Assessment of impact of IFRS differences
3. Implementation of conversion plan

The scoping and diagnostic phase, which involved a high-level impact assessment to identify key areas impacted by the conversion to IFRS, has been completed. We have completed our assessment of the impact of differences between GAAP and IFRS on our accounting policies, information systems and business activities. During 2011, we will complete our assessment of the impact of IFRS on our financial reporting and control environment. We have begun the implementation of our conversion plan, which remains on schedule.

We are monitoring the potential impact of changes to financial reporting processes, internal controls over financial reporting and disclosure controls and procedures. As the implications of the conversion are identified, continual requirements for infrastructure, expertise, training and education will be assessed. We will continue to assess the impact of adopting IFRS and will update our MD&A disclosures on a quarterly basis to report on the progress of our IFRS plan.

Most adjustments required as a result of the transition from GAAP to IFRS will be made retrospectively as of January 1, 2010 based on IFRS applicable at that time.

The analysis below should not be regarded as a complete list of estimated changes that will result from our transition to IFRS, and is intended to highlight those areas that we currently believe to be the most significant. Disclosures will be made in our MD&A for the quarter ending March 31, 2011 regarding any significant changes in the adjustments as a result of the completion of our transition to IFRS.

Our assessment of the differences between GAAP and IFRS identified several material differences, as follows:

- CMB Program: The most significant IFRS difference for MCAN is the accounting for the securitization of insured mortgages through our participation in the CMB program. Based on IFRS as of the date of transition, we will no longer account for these transactions as sales of mortgages and will reverse all previously recognized up-front gains on securitization through opening retained earnings. This reversal will be partially offset by mortgage interest income, principal reinvestment income and penalty income less coupon interest expense that would have been recognized from the dates of the respective CMB issuances to the date of transition. Our IFRS balance sheet will include mortgages securitized through the CMB program, assets in which principal repayments have been re-invested and a liability to the Canada Housing Trust ("CHT"). On a go-forward basis under IFRS, we will recognize mortgage interest income, principal reinvestment income, penalty income and coupon interest expense on the accrual basis, and we will include any future mortgages securitized through the CMB program on our balance sheet.

  Under GAAP, and from a general economic perspective, changes in the fair value of the interest rate swaps were generally offset by changes in the fair value of the interest-only strips. Since the interest-only strips were eliminated on the transition to IFRS, changes in the fair value of the interest rate swaps will no longer have a natural offset, which will lead to increased volatility to net income under IFRS.

  For regulatory purposes, we will be able to exclude mortgages securitized prior to June 30, 2010 from our regulatory assets to capital ratio.

  As at our transition date, retained earnings decreased by $1.6 million (including a deferred tax charge of $1.4 million) relating to the CMB program. In addition, we recognized $3.1 billion of new assets and $3.1 billion of new liabilities.

- Mortgage, Loan and Investment Credit Loss Allowances: While IFRS follows similar principles to GAAP in the calculation of the collective/general allowance for credit losses, IFRS also provides additional guidance on how the credit loss assessment model should be designed and documented, based on historical loss experience that is adjusted for observable market conditions. As at our transition date, our mortgage, loan and investment collective allowance decreased by $640,000, which increased opening retained earnings by $387,000, net of taxes.

- Income Taxes: Under GAAP, we were able to charge our current and future tax liabilities directly to retained earnings instead of recognizing the changes through net income. Based on IFRS as of the date of transition, we will no longer be able to charge current and future taxes directly to retained earnings, which will result in increased volatility to net income. In addition, MCAN's future tax position will change to the extent that the accounting values of balance sheet items that have differing values for accounting and tax purposes are impacted by IFRS.

- Equity investment in MCLP: To the extent that MCLP's opening retained earnings were impacted as at MCAN's transition date, we adjusted the value of our equity investment in MCLP based on our pro-rata share of the total opening retained earnings impact based on information provided by MCLP. As at our transition date, our equity investment in MCLP decreased by $6.4 million, which decreased opening retained earnings by $4.6 million, net of taxes.

The overall impact of the transition to IFRS as at January 1, 2010 was a decrease to retained earnings of $6.0 million and a decrease to accumulated other comprehensive income of $1.7 million. In addition, total assets increased by $3.1 billion, while total liabilities increased by $3.1 billion.

Our estimates of income, assets, liabilities and shareholders' equity under IFRS have not yet been audited and may be subject to further revision.

The following table outlines certain elements of our IFRS conversion plan and an assessment of our progress towards the plan as at December 31, 2010. Changes in regulations, economic conditions, business activities or other circumstances could impact the IFRS conversion plan and result in changes to the key activities and deadlines. Our IFRS conversion plan is currently on schedule.

Key Activity	Completion Date	Status
Accounting Policies		
• Identify differences in Canadian GAAP and IFRS accounting policies	Q2 2009	Differences identified and analyzed
• Select ongoing IFRS policies	Q4 2009	Policies selected
• Select IFRS 1 policies and exemptions	Q4 2009	Policies selected
• Quantify impact of transition to IFRS	Q1 2011	Substantially completed
Financial Reporting		
• 2011 IFRS financial statement and note disclosure format	Q1 2011	Analysis in progress, on schedule
• Identify additional financial statement disclosures	Q1 2011	Analysis in progress, on schedule
• Prepare 2010 interim and annual reconciliations from GAAP to IFRS	Q1 2011	Analysis in progress, on schedule
Control Environment		
• Assess Internal Controls over Financial Reporting ("ICFR") design and effectiveness implications for all accounting policy changes	Q1 2011	Analysis in progress, on schedule
• Implement changes to ICFR	Q1 2011	To be finalized upon completion of analysis
• Assess Disclosure Controls and Procedures ("DC&P") design and effectiveness implications for all accounting policy changes	Q1 2011	Analysis in progress, on schedule
• Implement changes to DC&P	Q1 2011	To be finalized upon completion of analysis
Information Systems		
• Creation of general ledger for both GAAP and IFRS	Q4 2009	Completed
• Program upgrades/modifications	Q4 2009	Completed
• One-off calculations (IFRS 1)	Q4 2009	Completed
• Gathering data for disclosures	Q4 2009	Completed
Business Policies		
• Assess impact on capital plan	Q2 2010	Completed
• Revise capital plan as needed	Q4 2010	Completed

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As of December 31, 2010, an evaluation was carried out of the effectiveness of disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that those disclosure controls and procedures were effective as at the end of the financial year ended December 31, 2010.

Also at December 31, 2010, an evaluation was carried out of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statements compliance with GAAP. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that those internal controls over financial reporting were effective as at the end of the financial year ended December 31, 2010.

These evaluations were conducted in accordance with the standards of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of *National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.* A Disclosure Committee, comprised of members of senior management, assists the Chief Executive Officer and Chief Financial Officer in their responsibilities.

There were no changes in our internal controls over financial reporting that occurred during the period beginning on January 1, 2010 and ending on December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

2010 CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements of MCAN Mortgage Corporation ("MCAN" or the "Company") are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements, the Management's Discussion and Analysis of Operations and all other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), including the accounting requirements of our regulator, the 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 17, 2011

Independent auditors' report

To the Shareholders of MCAN Mortgage Corporation

We have audited the accompanying consolidated balance sheets of MCAN Mortgage Corporation, as at December 31, 2010 and 2009 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

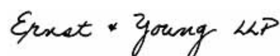
Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary 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 auditor considers 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 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, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
Toronto, Canada,
February 17, 2011

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

As at December 31	Note	2010	2009
Assets			
Investments			
Cash and cash equivalents	3	$ 89,373	$ 89,843
Marketable securities	4	6,608	-
Mortgages	5	422,393	295,415
Securitization investments	6	13,605	73,590
Loans receivable and other investments	7	10,079	16,885
Equity investment in MCAP Commercial LP	9	20,315	17,905
		562,373	**493,638**
Other			
Derivative financial instruments	10	13,120	11,490
Other assets	11	3,209	1,555
		$ 578,702	**$ 506,683**
Liabilities and Shareholders' Equity			
Liabilities			
Term deposits	12	$ 421,061	$ 360,744
Securitization liabilities	13	7,000	5,048
Accounts payable and accrued charges	14	10,809	11,001
Future taxes payable	16	10,463	7,011
		449,333	**383,804**
Shareholders' Equity			
Share capital	17	100,112	98,490
Contributed surplus	17	510	510
Retained earnings		26,956	22,165
Accumulated other comprehensive income	18	1,791	1,714
		129,369	**122,879**
		$ 578,702	**$ 506,683**

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
(dollars in thousands except for per share amounts)

Years Ended December 31	Note	2010	2009
Investment Income			
Mortgage interest		$ 25,828	$ 27,420
Interest on loans and investments		2,507	3,878
Securitization income	8	3,949	7,558
Fees		5,561	8,024
Equity income from MCAP Commercial LP	9	3,743	1,456
Interest on cash and cash equivalents		230	234
Marketable securities		31	-
		41,849	**48,570**
Financial Expenses			
Term deposit interest and expenses		7,619	13,133
Mortgage expenses		2,921	2,761
Provision for (recovery of) credit losses	5, 7	(387)	2,035
		10,153	**17,929**
Net Investment Income		**31,696**	**30,641**
Operating Expenses			
Salaries and benefits		2,711	2,587
General and administrative		3,620	3,312
		6,331	**5,899**
Income Before Income Taxes		**25,365**	**24,742**
Provision for income taxes	16	-	-
Net Income		**$ 25,365**	**$ 24,742**
Basic and diluted earnings per share		$ 1.76	$ 1.73
Dividends per share		$ 1.19	$ 1.44
Weighted average number of basic and diluted shares (000's)		14,389	14,294

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 CHANGES IN SHAREHOLDERS' EQUITY

(dollars in thousands)

Years Ended December 31	Note	2010	2009
Share capital			
Balance, beginning of year		$ 98,490	$ 97,493
Common shares issued	17	1,622	997
Balance, end of year		**100,112**	**98,490**
Contributed surplus			
Balance, beginning of year		510	510
Changes to contributed surplus		-	-
Balance, end of year		**510**	**510**
Retained earnings			
Balance, beginning of year		22,165	17,313
Net income		25,365	24,742
Income taxes recovered (charged) to retained earnings	16	(3,451)	679
Dividends declared		(17,123)	(20,569)
Balance, end of year		**26,956**	**22,165**
Accumulated other comprehensive income			
Balance, beginning of year		1,714	1,293
Other comprehensive income		77	421
Balance, end of year		**1,791**	**1,714**
Total shareholders' equity		**$ 129,369**	**$ 122,879**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

Years Ended December 31	2010	2009
Net income	$ 25,365	$ 24,742
Other comprehensive income, net of taxes		
Change in unrealized gain on available for sale mortgages	631	(410)
Change in unrealized gain on available for sale securitization investments	(544)	823
Change in unrealized gain on available for sale marketable securities	(32)	-
Other changes	22	8
Other comprehensive income	77	421
Comprehensive income	**$ 25,442**	**$ 25,163**

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

(dollars in thousands)

Years Ended December 31	**2010**	**2009**
Cash provided by (used for):		
Operating Activities		
Net income	$ 25,365	$ 24,742
Adjusted for non-cash items:		
Equity income	(3,764)	(1,497)
Provision for (recovery of) credit losses	(387)	2,035
Securitization income	8,644	(1,615)
Amortization of other assets	986	650
Amortization of mortgage discounts	168	145
Distributions from MCAP Commercial LP	1,333	1,851
Decrease (increase) in other receivables	(1,573)	308
Decrease in accounts payable and accrued charges	(633)	(3,176)
Cash flows from operating activities	**30,139**	**23,443**
Investing Activities		
Mortgage advances	(947,398)	(1,971,788)
Mortgage reductions	348,862	341,923
Proceeds on sale of mortgages	472,612	1,724,664
Decrease (increase) in securitization investments	51,214	(19,631)
Decrease in loans receivable and other investments	6,966	18,966
Additions to other assets	(1,067)	(481)
Marketable securities	(6,647)	-
Cash flows (for) from investing activities	**(75,458)**	**93,653**
Financing Activities		
Issue of term deposits	554,080	511,082
Repayment of term deposits	(493,763)	(577,001)
Issue of common shares	1,622	997
Dividends paid	(17,090)	(20,402)
Cash flows from (for) financing activities	**44,849**	**(85,324)**
Increase (decrease) in cash and cash equivalents	(470)	31,772
Cash and cash equivalents, beginning of year	89,843	58,071
Cash and cash equivalents, end of year	**$ 89,373**	**$ 89,843**

Supplementary Information

Interest paid during the year	**$ 7,078**	**$ 15,060**
Taxes paid during the year	**$ 186**	**$ 345**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1. Basis of Presentation

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

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's 22.5% partnership interest in MCAP Commercial LP ("MCLP") is accounted for using the equity method. MCAN holds a 25% voting interest in MCLP.

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

2. Summary of Significant Accounting Policies

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

Measurement Uncertainty and Use of Estimates

Management of the Company exercises its best judgment with regard to certain estimates and assumptions, which affect the reported amounts of revenue, expenses, assets and liabilities. Specific amounts subject to such judgment include provisions for credit losses, discount rates, fair value estimations, estimated residual values and prepayment rates. Actual results could differ from management's estimates.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions, and classified based on management's intention. Financial assets are classified or designated as held for trading, held to maturity, available for sale or loans and receivables, and financial liabilities are classified or designated as held for trading or other. Changes in the unrealized fair value of financial instruments classified or designated as held for trading are recognized to income. Changes in the unrealized fair value of available for sale financial assets are recognized in accumulated other comprehensive income, except for those considered to be changes attributable to impairment which are charged to income. Upon disposal, the cumulative change in the fair value of available for sale financial assets is transferred to income. Other classifications are subsequently measured at amortized cost. From time to time, the Company may use derivative and non-derivative financial instruments to manage interest rate risk. Hedge accounting is optional, and where it can be applied, it requires the Company to document the hedging relationship and to test the effectiveness of the hedging item to offset changes in value of the underlying hedged item on an ongoing basis. At December 31, 2010, the Company did not have any hedge accounting relationships.

Transaction costs for all financial asset classifications except for held for trading are capitalized.

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

Equity Accounting

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

Impaired Mortgages

Interest on mortgages is accrued as earned until such time that a mortgage is classified as impaired. At that time, a specific provision is made to reflect management's estimate of realizable amounts. Accordingly, the impaired mortgage is measured on the basis of expected future cash flows discounted at the mortgage's original effective interest rate.

When a mortgage becomes impaired the recognition of interest income in accordance with the terms of the original mortgage agreement will cease. Changes in the estimated realizable amount arising subsequent to initial recognition of impairment are reflected in the consolidated statements of income in the current period.

The entire change in the estimated realizable amount is reported as a charge or recovery to provision for credit losses.
Impaired mortgages include uninsured mortgages which are more than 90 days in arrears or are less than 90 days in arrears but for which management does not have reasonable assurance that the full amount of principal and interest will be collected

in a timely manner. An insured mortgage is considered impaired when the mortgage is 365 days past due, whether or not collection is in doubt.

Allowance for Credit Losses

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

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

Asset Sales

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

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

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

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

Revenue and Expense Recognition

(a) The Company is entitled to fees for mortgage commitments. These fees are deferred and amortized into income over the term of the mortgage.

(b) Origination costs paid on the Company's mortgage portfolio are deferred and amortized over the term of the mortgage.

(c) Commissions paid on the issue of term deposits are deferred and amortized over the term of the term deposit.

Discount Income Recognition

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

Income Taxes

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

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

Variable Interest Entities

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

Other Accounting Policies

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

3. Cash and Cash Equivalents

	2010	2009
Cash balances with banks	$ 9,130	$ 43,201
Overnight term deposits	78,000	45,000
Cash pledged as collateral - CMB program	2,243	1,642
	$ 89,373	**$ 89,843**

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

4. Marketable Securities

	2010	2009
Corporate bonds	$ 4,982	$ -
Exchange-traded funds and real estate investment trusts	1,665	-
Unrealized gains (losses)	(39)	-
Marketable securities at fair value	**$ 6,608**	**$ -**

Marketable securities are designated as available for sale. The marketable securities portfolio has no specific maturity date except for corporate bonds, which mature in over five years. Fair values are based on bid prices quoted in active markets.

5. Mortgages

		Allowance			2010
	Principal	**General**	**Specific**	**Total**	**Net**
Single family mortgages					
- Uninsured	$ 138,889	$ 861	$ 246	$ 1,107	$ 137,782
- Uninsured (completed inventory loans)	38,877	279	-	279	38,598
- Insured	44,227	-	-	-	44,227
Construction loans					
- Residential	175,918	1,538	1,000	2,538	173,380
- Non-residential	11,600	102	-	102	11,498
Commercial loans					
- Uninsured	12,768	192	-	192	12,576
- Insured	419	-	-	-	419
	422,698	2,972	1,246	4,218	418,480
Fair value adjustment	2,270	-	-	-	2,270
	424,968	2,972	1,246	4,218	420,750
Accrued interest	1,643	-	-	-	1,643
	$ 426,611	**$ 2,972**	**$ 1,246**	**$ 4,218**	**$ 422,393**

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

The Company invests in insured and uninsured single family mortgages in Canada. 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 Canada Mortgage and Housing Corporation or Genworth Financial Mortgage Insurance Company Canada Inc. 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.

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

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

Principal balances presented above are net of the unamortized discount on the Company's portfolio of single family mortgages purchased at a discount. As at December 31, 2010, the Company holds discounted mortgages with an aggregate discount of $14,357 (2009 - $22,036). Upon the payout of a mortgage, the remaining unamortized discount is recognized as income. The Company retains 50% of any recoveries of the discount and pays the remaining 50% to MCLP (refer to note 14 for profit sharing fees paid to/from MCLP). In addition, the Company amortizes the portion of the discount that it expects to recover into income over the remaining term of the mortgage on an effective interest rate method basis. The amount of the discount ultimately recovered is dependent on the value of the real estate securing the mortgage, as well as the financial capacity of the borrower. Additionally, these mortgages have maturity dates ranging from 2011 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered.

The composition of the discount is as follows:

	2010	2009
Fixed rate	$ 2,752	$ 4,859
Floating rate	11,605	17,177
	$ 14,357	**$ 22,036**

The geographical breakdown of mortgages by province is as follows:

	Single Family	Construction	Commercial	2010 Total	
Ontario	$ 102,678	$ 61,619	$ 2,656	$ 166,953	39.5%
Alberta	67,632	78,369	10,501	156,502	37.1
British Columbia	32,048	38,683	-	70,731	16.7
Other	21,220	6,987	-	28,207	6.7
	$ 223,578	**$ 185,658**	**$ 13,157**	**$ 422,393**	**100.0%**

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

As at December 31, 2010, the Company had $2,499 (2009 - $4,861) of its single family mortgage portfolio pledged as collateral related to the CMB program.

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio were $199,678 at December 31, 2010 (2009 - $96,173). The majority of these commitments relate to floating rate construction loans.

The details of the mortgage allowances for credit losses are as follows:

	General	Specific	2010 Total	General	Specific	2009 Total
Balance, beginning of year	$ 1,948	$ 2,782	$ 4,730	$ 2,639	$ 164	$ 2,803
Provisions (recoveries)	1,090	(1,536)	(446)	(497)	2,618	2,121
Write-offs	(66)	-	(66)	(194)	-	(194)
Balance, end of year	**$ 2,972**	**$ 1,246**	**$ 4,218**	**$ 1,948**	**$ 2,782**	**$ 4,730**

At December 31, 2010, the Company had $1,246 of specific provisions (2009 - $2,782), as follows: uninsured single family - $246 (2009 - $55), residential construction - $1,000 (2009 - $2,727).

Mortgages past due but not impaired are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2010 Total
Single family - uninsured	$ 6,233	$ 3,050	$ 1,499	$ -	$ 10,782
Single family - insured	909	-	-	59	968
Residential construction	-	3,743	1,941	-	5,684
Commercial - uninsured	673	-	-	-	673
	$ 7,815	**$ 6,793**	**$ 3,440**	**$ 59**	**$ 18,107**

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

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

	Single Family	Residential Construction	2010 Total	Single Family	Residential Construction	2009 Total
Ontario	$ 1,150	$ 1,339	$ 2,489	$ 266	$ 8,916	$ 9,182
Alberta	1,458	6,661	8,119	831	6,899	7,730
British Columbia	-	-	-	259	-	259
Other	331	1,892	2,223	-	-	-
	$ 2,939	**$ 9,892**	**$ 12,831**	**$ 1,356**	**$ 15,815**	**$ 17,171**

6. Securitization Investments

Investments in Securitization Programs

	2010	2009
Subordinated loan - residential mortgage securitization program	$ 2,946	$ 4,578
Asset-backed commercial paper	457	2,480
Deferred purchase price receivable - residential construction loan securitization program		
- senior position	-	3,908
- first loss position	-	1,671
	$ 3,403	**$ 12,637**

Securitization Investments - CMB Program

	Note	2010	2009
CMB - interest-only strips	8, 13	$ 10,065	$ 16,921
Other securitization assets		137	623
Insured mortgage-backed securities		-	43,409
		$ 10,202	**$ 60,953**
Total securitization investments		**$ 13,605**	**$ 73,590**

The subordinated loan - residential mortgage securitization program bears interest at 10% (2009 - 10%). The loan is rated BB high by Dominion Bond Rating Service ("DBRS"), classified as loans and receivables and has no specific maturity date. The subordinated loan is receivable from a VIE. The Company did not hold the majority of the variable interests in this VIE and therefore does not consolidate it. The repayment of this investment follows the cash flows in the securitization program.

During 2010, the Company sold its MAV II asset-backed commercial paper ("ABCP") investment, recognizing a gain of $82 (over carrying value). ABCP as at December 31, 2010 consists of a MAV III investment, which is classified as loans and receivables and matures in more than five years.

At December 31, 2009, the Company held investments in the senior position and first loss position of a residential construction loan securitization program. The senior position yield was prime plus 5% (7.25% at December 31, 2009), while the first loss position had no fixed yield. During 2010, both of these investments were repaid in full 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. As at December 31, 2010, the Company had accrued a $200 liability representing expected

losses associated with this indemnity. As at December 31, 2010, the outstanding balance of the remaining loans was $26,420.

At December 31, 2009, the Company held insured mortgage-backed securities with a weighted average yield of CDOR plus 1.14% (1.54%).

7. Loans Receivable and Other Investments

	Note	Principal	Allowance	2010 Net	2009 Net
Loans receivable - private companies		$ 1,455	$ 19	$ 1,436	$ 10,156
Loans receivable - employees	17	1,699	-	1,699	1,397
Investment - commercial real estate		3,973	-	3,973	99
Loan receivable - bridge lending fund		338	2	336	2,393
Other loans and investments		2,656	21	2,635	2,840
		$ 10,121	**$ 42**	**$ 10,079**	**$ 16,885**

Loans receivable have been made to two private companies. A loan made to one company bears interest at the greater of 7% and prime plus 4%, 7% at December 31, 2010 (2009 - 7%) and has an outstanding balance of $1,436 at December 31, 2010 (2009 - $1,670). One loan previously advanced to a private company paid out during 2010 and had an interest rate of the greater of 7¾% and prime plus 1⅜%, 7¾% at December 31, 2009. This loan had an outstanding balance of $8,486 at December 31, 2009. Both of these loans are payable on demand.

The Company holds an equity interest in a commercial real estate investment 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. This investment has been designated as available for sale and is carried at cost.

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

All loans receivable and other investments are classified as loans and receivables except for investment - commercial real estate, which is designated as available for sale, and a $766 (2009 - $796) equity-accounted investment included in other loans and investments which is not considered to be a financial asset.

8. Asset Sales

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

During 2010, the Company securitized $28,249 (2009 - $836,266) of mortgages as part of the CMB program as follows: single family - $28,249 (2009 - $786,375), multi family - $nil (2009 - $49,891). The Company recorded interest-only strips of $499 (2009 - $10,892) and servicing and other liabilities of $83 (2009 - $1,493) on the respective closing dates.

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

	2010	2009
Residual securitization income	$ 3,874	$ 2,383
Gain on securitization	75	6,410
Write-down of interest-only strips	-	(1,235)
	$ 3,949	**$ 7,558**

Residual securitization income includes the net yield earned on the interest-only strips and the CMB liabilities, refinancing and renewal gains, interest rate swap receipts (payments) and fair value changes in the interest-only strips (which are designated as held for trading using the fair value option) and the interest rate swaps. Fair value changes had a

negative impact on residual securitization income of $1,714 during the year (2009 - negative impact of $2,350). In general, fair value changes in the interest rate swaps largely offset those in the interest-only strips, however significant fluctuations in the forward rate curve had a negative impact to income in both years. Other components of residual securitization income were $5,588 in the current year compared to $4,733 in the prior year due to an increase in refinancing and renewal gains.

During 2009, a net write-down of $1,235 was recorded on the outstanding interest-only strips. To the time of the write-down, the prepayment level of CMB mortgages was significantly higher than anticipated and decreased expected future cash flows, as the assets in which principal collections are reinvested generally yield less than the securitized mortgages. At the time that the write-down was recorded, the calculation of the fair value of the interest-only strips was revised to include the discounted value of future penalty income as a result of a recent significant increase in mortgage liquidations. This revision had a positive impact to income of $1,023, which is included in the net interest-only strip write-down of $1,235.

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

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

	2010	2009
Proceeds from new securitizations	$ 28,403	$ 841,785
Net cash flows received (paid) on interest-only strips	$ (630)	$ 500
Net cash flows paid on CMB servicing and other liabilities	$ 897	$ 809

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

	2010	2009
Prepayment rate (%)	18.0%	17.7%
Discount rate (%)	7.4%	7.5%

	2010	2009
Net interest-only strip asset	$ 3,065	$ 11,873
Adverse impact of change in prepayment rate		
Prepayment rate	18.0%	17.7%
10% increase	$ 392	$ 721
20% increase	$ 762	$ 1,405
Adverse impact of change in discount rate		
Discount rate	7.4%	7.5%
10% increase	$ 38	$ 106
20% increase	$ 77	$ 211

In addition to the aforementioned sales, the Company may sell other residential mortgages, commercial loans and residential construction loans. During 2010, the Company sold $472,612 (2009 - $1,382,929) of these mortgages, recognizing no gain on sale in either year. Of these mortgage sales, $460,803 (2009 - $1,372,135) were made to MCLP. The Company has no retained interest in any of these sales from 2009 and 2010. Purchasers of these mortgages have no recourse to the Company.

9. Equity Investment in MCAP Commercial LP

	2010	2009
Balance, beginning of year	$ 17,905	$ 18,300
Equity income	3,743	1,456
Distributions received	(1,333)	(1,851)
Balance, end of year	**$ 20,315**	**$ 17,905**

During 2010, MCLP redeemed non-voting class B units such that MCAN's interest in MCLP increased from 22.3% to 22.5% (2009 - 22.0% to 22.3%).

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

10. Derivative Financial Instruments

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

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

	Less than one year	One to five years	Over five years	2010 Total	2009 Total
CMB interest rate swaps - fair value	$ -	$ 13,120	$ -	$ 13,120	$ 11,490
CMB interest rate swaps - outstanding notional	$ -	$279,138	$ -	$279,138	$260,095

11. Other Assets

	2010	2009
Capital assets	$ 241	$ 291
Deferred charges and prepaid expenses	1,123	995
Other assets - CMB program	1,308	72
Other receivables	537	197
	$ 3,209	**$ 1,555**

12. Term Deposits

	2010	2009
Term deposits	$ 418,151	$ 357,150
Accrued interest	2,910	3,594
	$ 421,061	**$ 360,744**
Fair value	**$ 423,996**	**$ 364,021**

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years (2009 - 30 days to five years) and bear interest at rates ranging from 0.10% to 4.60% (2009 - 0.10% to 5.10%). The Company's term deposits are eligible for Canada Deposit Insurance Corporation 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.

13. Securitization Liabilities

	2010	2009
CMB - interest-only strips	$ 7,000	$ 5,048

As at December 31, 2010, certain CMB interest-only strips were in a liability position. CMB interest-only strips in an asset position (note 6) totalled $10,065 at December 31, 2010 (2009 - $16,921). On a net basis, CMB interest-only strips were in an asset position of $3,065 at December 31, 2010 (2009 - net asset position of $11,873). All interest-only strips mature within one to five years.

The Company's interest rate risk that arises from the reinvestment of CMB principal collections in primarily floating rate assets is hedged by interest rate swaps (note 10), which were in an asset position of $13,120 at December 31, 2010 (2009 - asset position of $11,490).

14. Accounts Payable and Accrued Charges

	2010	2009
Accounts payable and accrued charges	$ 5,145	$ 5,670
Dividends payable	3,756	3,723
Deferred mortgage commitment fees	1,734	593
Related party payable - MCLP	174	1,015
	$ 10,809	**$ 11,001**

During 2010, the Company purchased certain corporate services from MCLP in the amount of $433 (2009 - $336), included in general and administrative expenses. During 2010, the Company also purchased certain mortgage origination and administration services from MCLP in the amount of $2,769 (2009 - $1,852). During 2010, the Company received $3,663 (2009 - $2,382) of mortgage fee income from MCLP.

During 2010, the Company paid fees in the amount of $4,230 (2009 - $5,593) to MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages. During 2010, the Company received $2,263 (2009 - $4,855) of fees from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

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

Accounts payable and accrued charges includes a $200 liability related to expected losses as part of the Company's indemnity agreement associated with the securitization program windup discussed in note 6.

15. 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 1.50%, 4.50% at December 31, 2010 (2009 - 3.75%). 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. The letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with developer loans. At December 31, 2010, there were letters of credit in the amount of $22,495 issued (2009 - $11,143) and additional letters of credit in the amount of $9,798 committed but not issued (2009 - $7,670).

16. Income Taxes

	2010	2009
Income before income taxes	$ 25,365	$ 24,742
Less: dividends	(17,123)	(20,569)
Income subject to tax	8,242	4,173
Statutory rate of tax	41%	42%
Tax provision before the following:	3,379	1,753
Statutory rate difference in subsidiaries	(93)	(533)
Rate change re:windup of subsidiary	1,041	-
Rate changes and other differences	(527)	(951)
Non-taxable portion of capital gains	(349)	(948)
Tax provision (recovery) per consolidated financial statements	**$ 3,451**	**$ (679)**
Presentation of tax provision (recovery) in consolidated financial statements		
Provision against income	$ -	$ -
Charge (recovery) to retained earnings	3,451	(679)
	$ 3,451	**$ (679)**

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

	2010	2009
Provision for credit losses	$ 1,242	$ 1,821
Equity investment in MCAP Commercial LP	(1,001)	(475)
Dividends deductible for tax purposes	(5,724)	(2,389)
CMB-related items	(4,855)	(6,333)
Capital assets	(44)	(72)
Financial assets	(380)	(444)
Loss carryforward benefit	299	881
	$ (10,463)	**$ (7,011)**

The Company has loss carryforward amounts of $930 (2009 - $2,809), the benefit of which has been recorded to future taxes, expiring as follows:

2028	$ 127
2029	$ 803

17. Share Capital and Contributed Surplus

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

Issued	Number of Shares	2010	Number of Shares	2009
Balance, January 1	14,320,980	$ 98,490	14,223,506	$ 97,493
Issued				
Dividend reinvestment plan	65,447	833	80,872	843
Executive Share Purchase Plan	61,316	789	16,602	154
Balance, December 31	**14,447,743**	**$ 100,112**	**14,320,980**	**$ 98,490**

During 2010, the Company issued 65,447 (2009 - 80,872) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 20 days preceding such issue.

The Company had no potentially dilutive instruments for the years ended December 31, 2010 and 2009.

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

Executive Share Purchase Plan

The Company has established an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board of Directors can approve loans to key personnel for the purpose of purchasing the Company's common shares. During 2010, 61,316 common shares were issued out of treasury under the Share Purchase Plan (2009 - 16,602). 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 $789 of loans under the Share Purchase Plan in 2010 (2009 - $154). At December 31, 2010, $1,699 of loans were outstanding (2009 - $1,397) (note 7). The loans under the Share Purchase Plan bear interest at prime plus 1%, 4% at December 31, 2010 (2009 - 3.25%) and have a five-year term. The shares are pledged as security for the loans and have a market value of $2,562 at December 31, 2010 (2009 - $2,313).

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, 2010, no units had yet vested.

The Company recognizes compensation expenses associated with the DSU Plan in line with the graded vesting schedule. The compensation expense recognized in 2010 related to the DSU Plan was $128, included in salaries and benefits. As at December 31, 2010, the accrued DSU Plan liability was $128, included in accounts payable and accrued liabilities.

18. Accumulated Other Comprehensive Income

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

	Note	2010	2009
Unrealized gain (loss) on available for sale marketable securities	4	$ (32)	$ -
Unrealized gain on available for sale mortgages	5	1,823	1,192
Unrealized gain on available for sale securitization investments	6	-	544
Other		-	(22)
		$ 1,791	**$ 1,714**

19. Interest Rate Sensitivity

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

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

The interest rate sensitivity analysis is based on the Company's consolidated balance sheet as at December 31, 2010 and does not incorporate mortgage and loan prepayments. The analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

Floating rate assets and liabilities are immediately sensitive to a change in interest rates while other assets are sensitive to changing interest rates periodically, either as they mature, as interest payments are collected or paid, or as contractual

repricing events occur. Non-interest rate sensitive assets and liabilities are not directly affected by changes in interest rates.

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

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

	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non-Interest Sensitive	2010 Total	2009 Total
ASSETS								
Investments								
Cash and cash equivalents	$ 89,373	$ -	$ -	$ -	$ -	$ -	$ 89,373	$ 89,843
Marketable securities	-	-	-	-	6,608	-	6,608	-
Mortgages	72,510	60,625	143,119	137,270	1,261	7,608	422,393	295,415
Securitization investments	457	18	-	8,474	2,944	1,712	13,605	73,590
Loans receivable and other investments	3,147	89	100	1,323	-	5,420	10,079	16,885
Equity investment in MCAP Commercial LP	-	-	-	-	-	20,315	20,315	17,905
	165,487	60,732	143,219	147,067	10,813	35,055	562,373	493,638
Derivative financial instruments	-	-	-	13,120	-	-	13,120	11,490
Other assets	-	-	-	-	-	3,209	3,209	1,555
Total Assets	$ 165,487	$ 60,732	$ 143,219	$ 160,187	$ 10,813	$ 38,264	$ 578,702	$ 506,683
Yield	1.55%	5.90%	6.14%	6.02%	12.50%			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Term deposits	$ -	$ 57,455	$ 253,953	$ 109,653	$ -	$ -	$ 421,061	$ 360,744
Securitization liabilities	-	-	-	7,000	-	-	7,000	5,048
Accounts payable and accrued charges	-	-	-	-	-	10,809	10,809	11,001
Future taxes payable	-	-	-	-	-	10,463	10,463	7,011
Shareholders' equity	-	-	-	-	-	129,369	129,369	122,879
Total Liabilities and Shareholders' Equity	$ -	$ 57,455	$ 253,953	$ 116,653	$ -	$ 150,641	$ 578,702	$ 506,683
Yield	-	1.50%	1.84%	2.73%	-			
GAP	**$ 165,487**	**$ 3,277**	**$ (110,734)**	**$ 43,534**	**$ 10,813**	**$ (112,377)**	**$ -**	**$ -**
YIELD SPREAD	**1.55%**	**4.40%**	**4.30%**	**3.29%**	**12.50%**			

Certain residential construction loans and single family uninsured completed inventory loans are subject to the greater of a minimum interest rate (ranging between 4.25% and 10%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate at December 31, 2010, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - $19,117, 3 months to 1 year - $76,004, and 1 to 5 years - $44,147.

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2010 would have a positive (adverse) effect of $1,072 (2009 - $2,144) to net income over the following twelve month period.

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2010 would have an adverse (positive) effect to accumulated other comprehensive income of $3,817 (2009 - $1,902).

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.

20. Capital Management

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

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

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

As at December 31	**2010**	**2009**
Tax Act Test		
Income tax assets	$ 555,360	$ 488,024
Income tax capital	$ 126,374	$ 120,732
Income tax assets to capital ratio	4.39	4.04
Income tax liabilities to capital ratio	3.39	3.04
Regulatory Tests (OSFI)		
Tier 1 capital		
Share capital	$ 100,112	$ 98,490
Contributed surplus	510	510
Retained earnings	26,956	22,165
Tier 1 capital deductions	(6,815)	(9,792)
	120,763	111,373
Tier 2 capital		
Tier 2 capital deductions	(229)	(1,142)
	(229)	(1,142)
Total capital	$ 120,534	$ 110,231
Total regulatory assets	$ 595,473	$ 508,351
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	22.10%	27.75%
Total capital to risk-weighted assets ratio	22.06%	27.47%
Assets to capital ratio	4.94	4.61

As at December 31, 2010, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

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

	2010		2009	
As at December 31	**Balance**	**Risk-Weighted**	**Balance**	**Risk-Weighted**
On-Balance Sheet Assets				
Cash and cash equivalents	$ 89,373	$ 18,140	$ 89,843	$ 18,260
Marketable securities	6,608	6,608	-	-
Mortgages	422,393	294,907	295,415	202,272
Securitization investments	13,605	13,926	73,590	29,759
Loans receivable and other investments	10,079	10,079	16,885	16,885
Equity investment in MCLP	20,315	20,315	17,905	17,905
Derivative financial instruments	13,120	-	11,490	-
Other assets	3,209	3,209	1,555	1,555
	$ 578,702	$ 367,184	$ 506,683	$ 286,636
Off-Balance Sheet Assets				
Letters of credit		11,247		5,572
Mortgage funding commitments		99,839		48,087
		111,086		53,659
Derivative Financial Instruments				
CMB interest rate swaps				
Outstanding notional	$ 279,138		$ 260,095	
Add-on factor	0.5%		0.5%	
Potential credit exposure	1,396		1,300	
Positive replacement cost	13,120		11,490	
Credit equivalent	14,516		12,790	
Risk weighting	20%		20%	
Risk-weighted equivalent		2,903		2,558
Charge for operational risk		65,238		58,475
Total Risk-Weighted Assets		$ 546,411		$ 401,328

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.

21. 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, marketable securities, mortgages, securitization investments, loans receivable and other investments, term deposits and derivative financial instruments.

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

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

The following table summarizes financial assets and liabilities reported at fair value as at December 31, 2010. 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).

	Level 1	Level 2	Level 3
Financial Assets			
Marketable securities	$ 1,652	$ 4,956	$ -
Mortgages	-	422,393	-
Securitization investments	-	-	10,065
Derivative financial instruments	-	13,120	-
	$ 1,652	$ 440,469	$ 10,065
Financial Liabilities			
Securitization liabilities	$ -	$ -	$ 7,000

The following table is a reconciliation of changes during 2010 in the fair value of Level 3 financial instruments:

	Opening Balance	Additions	Settlements	Changes in Fair Value	Closing Balance
Financial Assets					
Securitization investments	$ 18,943	$ 499	$ (4,569)	$ (4,808)	$ 10,065
Financial Liabilities					
Securitization liabilities	$ 5,048	$ -	$ (3,177)	$ 5,129	$ 7,000

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

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

The following table is a reconciliation of changes during 2009 in the fair value of Level 3 financial instruments:

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

Risk Management

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

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 the CICA Handbook section 3862, *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.

22. Lease Commitments

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

2011	$	263
2012		263
2013		263
2014		198
2015 and thereafter		-
	$	**987**

23. Guarantees

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

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

(a) guarantee of the performance of MFC and MCLP with respect to the warehousing of residential construction loans related to MCLP's residential construction loan securitization program; and

(b) guarantee of the premises lease with respect to the premises occupied by MFC, MCLP and the Company at 200 King Street West, Toronto with a current monthly rent of $116 and expiring in September 2014.

MCLP has issued Class B units to management of MCLP, which were financed by bank loans to management. Under certain circumstances, the Company may be required to contribute up to 25% of the fair value of the Class B units to MCLP in order to repurchase the Class B units or to repay the bank financing and subrogate the bank's position. At December 31, 2010, the outstanding bank loan balances were $6,315. As at December 31, 2010, the fair value of the Class B units exceeded the outstanding bank loan balances.

24. 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.

25. Future Changes in Accounting Policy

For the fiscal year commencing January 1, 2011, the Company will adopt International Financial Reporting Standards ("IFRS").

For additional information regarding the Company's transition to IFRS, please refer to pages 23 to 25 of the MD&A.

DIRECTORS

David G. Broadhurst
President, Poynton Investments Limited; Chairman 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 Investment Committee; Director since May 2010.

Susan Doré
Corporate Director; 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 Investment Committee; Chairman of Conduct Review, Corporate Governance and Human Resources Committee; Director since January 2001.

David A. MacIntosh
Corporate Director; Chairman of Investment Committee; Member of Audit Committee; Director since January 2000.

Derek A. Norton
President and CEO, MCAP Commercial LP; Director since July 2000.

Jean C. Pinard
Corporate Director; Member of Investment Committee; Director since November 2005.

Robert A. Stuebing
Corporate Director; Member of Audit Committee; Member of Investment Committee; Director since April 2004.

Ian Sutherland
Chairman, MCAN Mortgage Corporation; Director since January 1991.

William Jandrisits
President and Chief Executive Officer, MCAN Mortgage Corporation; Director since August 2010.

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

Derek Sutherland
Assistant Vice President, Investments

Dipti Patel
Investment Analyst

John Tyas
Controller

Ekaterina Gorzheltson
Assistant Controller

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

CORPORATE INFORMATION

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

Tel: (416) 598-2665
Fax: (416) 598-4142
Web: www.mcanmortgage.com

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

Corporate Information
This MCAN Mortgage Corporation 2010 Annual Report is available for viewing/printing on our web site 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 416-591-5214 or 1-800-387-4405, 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.

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
4:30 p.m., on May 11, 2011
St. Andrew's Club and Conference Centre
150 King Street West
Inverness Room
27th Floor
Toronto, Ontario