



**CONSOLIDATED FINANCIAL STATEMENTS 2010
MCAN MORTGAGE CORPORATION**

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

Ernst + Young LLP

**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.

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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.

December 31, 2010 (Dollar amounts in thousands except for per share amounts)

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.

December 31, 2010 (Dollar amounts in thousands except for per share amounts)

5. Mortgages

	Principal	Allowance			2010 Net
		General	Specific	Total	
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

	Principal	Allowance			2009 Net
		General	Specific	Total	
Single family mortgages					
- Uninsured	\$ 96,050	\$ 621	\$ 55	\$ 676	\$ 95,374
- Uninsured (completed inventory loans)	30,227	198	-	198	30,029
- Insured	38,465	-	-	-	38,465
Construction loans					
- Residential	125,403	1,001	2,727	3,728	121,675
- Non-residential	23	-	-	-	23
Commercial loans					
- Uninsured	6,699	128	-	128	6,571
- Insured	479	-	-	-	479
	297,346	1,948	2,782	4,730	292,616
Fair value adjustment	1,490	-	-	-	1,490
	298,836	1,948	2,782	4,730	294,106
Accrued interest	1,309	-	-	-	1,309
	\$ 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 1¾%, 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

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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)
	<u>120,763</u>	<u>111,373</u>
Tier 2 capital		
Tier 2 capital deductions	(229)	(1,142)
	<u>(229)</u>	<u>(1,142)</u>
Total capital	<u>\$ 120,534</u>	<u>\$ 110,231</u>
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:

As at December 31	2010		2009	
	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
	<u>\$ 578,702</u>	<u>\$ 367,184</u>	<u>\$ 506,683</u>	<u>\$ 286,636</u>
Off-Balance Sheet Assets				
Letters of credit		11,247		5,572
Mortgage funding commitments		99,839		48,087
		<u>111,086</u>		<u>53,659</u>
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		<u>\$ 546,411</u>		<u>\$ 401,328</u>

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

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.

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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	-
	<u>\$ 1,652</u>	<u>\$ 440,469</u>	<u>\$ 10,065</u>
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	-
	<u>\$ -</u>	<u>\$ 350,314</u>	<u>\$ 18,943</u>
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 22 to 24 of the MD&A.