



MCAN MORTGAGE CORPORATION

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OPERATIONS**

DECEMBER 31, 2010

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	<u>6,331</u>	<u>5,899</u>	<u>5,734</u>	<u>432</u>	<u>7.3%</u>
Income before income taxes	25,365	24,742	30,348	623	2.5%
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 25,365</u>	<u>\$ 24,742</u>	<u>\$ 30,348</u>	<u>\$ 623</u>	<u>2.5%</u>
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:

(in thousands)	2010			2009		
	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

(in thousands)	2010	2009	2008	Change from	
				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.

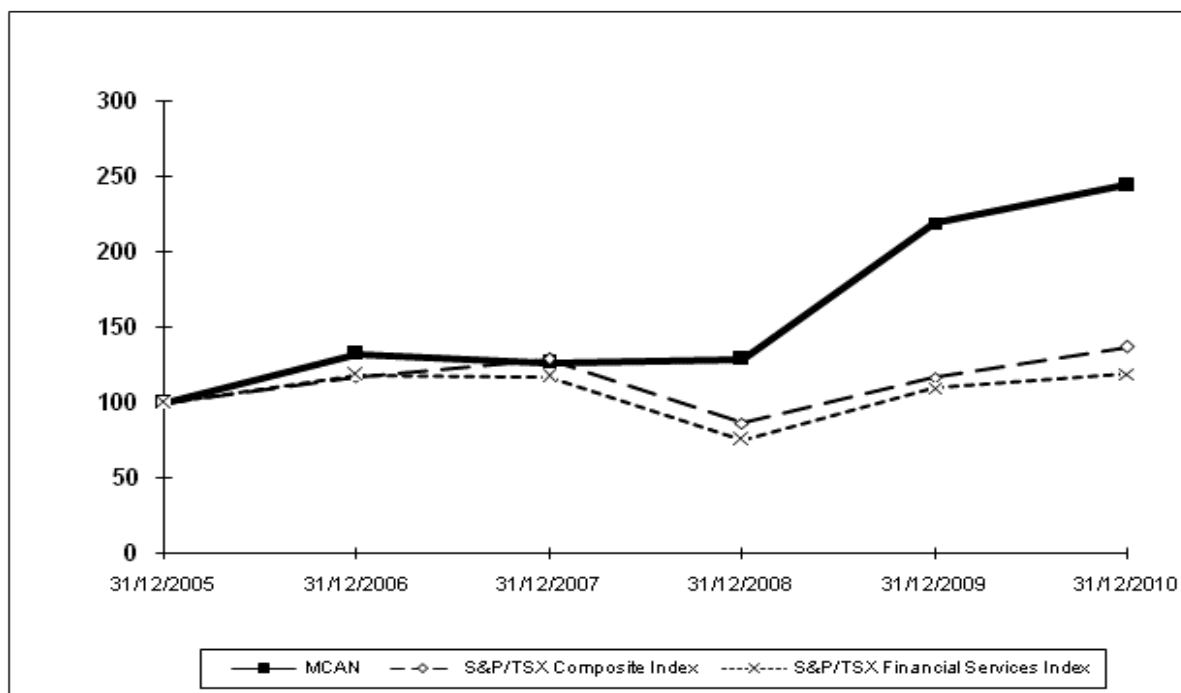
As part of the CMB program, we enter into "pay-floating, receive-fixed" interest rate swaps. The purpose of these swaps is to hedge interest rate risk on the interest-only strips. We receive interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only 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
	<u>114,635</u>	<u>118,201</u>	<u>88,071</u>
Tier 2 liquidity			
75% of eligible insured single family mortgages	<u>6,476</u>	<u>6,665</u>	<u>9,864</u>
Total liquidity	<u>\$ 121,111</u>	<u>\$ 124,866</u>	<u>\$ 97,935</u>
100 day term deposit maturities	<u>\$ 67,002</u>	<u>\$ 111,125</u>	<u>\$ 131,696</u>
Liquidity ratios			
Tier 1 liquidity to 100 day term deposit maturities	171%	106%	67%
Total liquidity to 100 day term deposit maturities	<u>181%</u>	<u>112%</u>	<u>74%</u>

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 <ul style="list-style-type: none"> Identify differences in Canadian GAAP and IFRS accounting policies Select ongoing IFRS policies Select IFRS 1 policies and exemptions Quantify impact of transition to IFRS 	Q2 2009 Q4 2009 Q4 2009 Q1 2011	Differences identified and analyzed Policies selected Policies selected Substantially completed
Financial Reporting <ul style="list-style-type: none"> 2011 IFRS financial statement and note disclosure format Identify additional financial statement disclosures Prepare 2010 interim and annual reconciliations from GAAP to IFRS 	Q1 2011 Q1 2011 Q1 2011	Analysis in progress, on schedule Analysis in progress, on schedule Analysis in progress, on schedule
Control Environment <ul style="list-style-type: none"> Assess Internal Controls over Financial Reporting ("ICFR") design and effectiveness implications for all accounting policy changes Implement changes to ICFR Assess Disclosure Controls and Procedures ("DC&P") design and effectiveness implications for all accounting policy changes Implement changes to DC&P 	Q1 2011 Q1 2011 Q1 2011 Q1 2011	Analysis in progress, on schedule To be finalized upon completion of analysis Analysis in progress, on schedule To be finalized upon completion of analysis
Information Systems <ul style="list-style-type: none"> Creation of general ledger for both GAAP and IFRS Program upgrades/modifications One-off calculations (IFRS 1) Gathering data for disclosures 	Q4 2009 Q4 2009 Q4 2009 Q4 2009	Completed Completed Completed Completed
Business Policies <ul style="list-style-type: none"> Assess impact on capital plan Revise capital plan as needed 	Q2 2010 Q4 2010	Completed 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.