



**SECOND QUARTER REPORT 2009
MCAN MORTGAGE CORPORATION**

MCAN MORTGAGE CORPORATION

REPORT FOR THE SECOND QUARTER ENDED JUNE 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended June 30, 2009 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2008. These items and additional continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2008 remain substantially unchanged. Information has been presented as of August 5, 2009.

RESULTS OF OPERATIONS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported net income of \$5.6 million for the second quarter of 2009, up from \$4.9 million a year earlier. Earnings per share for the quarter were \$0.39 compared to \$0.35 last year. Net income for the six months ended June 30, 2009 was \$12.0 million, up from \$10.0 million a year earlier, while earnings per share in the same period were \$0.84 compared to \$0.71 in 2008.

(in thousands, except for per share amounts)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008
Net investment income	\$ 6,875	\$ 6,062	\$ 14,578	\$ 12,126
Operating expenses	1,268	1,173	2,537	2,095
Income before income taxes	5,607	4,889	12,041	10,031
Provision for income taxes	-	-	-	-
Net income	\$ 5,607	\$ 4,889	\$ 12,041	\$ 10,031
Basic and diluted earnings per share	\$ 0.39	\$ 0.35	\$ 0.84	\$ 0.71
Dividends per share	\$ 0.25	\$ 0.23	\$ 0.93	\$ 0.46

Economic conditions are largely unchanged since our previous quarterly report. The current turmoil in the general economy, and specifically in the financial and real estate markets, has impacted MCAN both positively and negatively. In our core spread business, decreases in the prime rate that have not been matched by corresponding decreases in the cost of our term deposits have compressed the spread on our mortgage portfolio, of which 48% is floating rate (prime-based). However, the changing interest rate environment has had a positive impact on our participation in the Canada Mortgage Bonds ("CMB") program. Also, the market turmoil has created opportunities for us, in conjunction with MCAP Commercial LP ("MCLP"), to acquire portfolios from other lenders at favourable pricing, and the aggressive management of these portfolios has led to significant incremental income in the past twelve months. Although earnings per share have been strong in recent quarters, it must be cautioned that the primary contributing activities are significantly more volatile than our core activities.

Net Investment Income

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008
Investment Income				
Mortgage interest	\$ 6,565	\$ 7,496	\$ 13,281	\$ 15,044
Interest on loans and investments	989	1,235	2,232	3,145
Fees	2,573	871	4,912	1,670
Equity income from MCAP Commercial LP	77	707	226	1,008
Securitization income	1,211	1,309	3,485	3,308
Interest on cash and cash equivalents	73	270	165	671
Gain on sale of mortgages	1	4	2	-
Marketable securities	-	3	-	7
	11,489	11,895	24,303	24,853
Financial Expenses				
Term deposit interest and expenses	3,649	5,229	7,696	10,587
Mortgage expenses	782	903	1,546	1,842
Provision for (recovery of) losses	183	(299)	483	298
	4,614	5,833	9,725	12,727
Net Investment Income	\$ 6,875	\$ 6,062	\$ 14,578	\$ 12,126

Net investment income for the second quarter increased by \$813,000 over the prior year and increased by \$2.5 million for the six months ended June 30, 2009.

During the quarter, we realized \$629,000 relating to the partial recovery of purchase price discounts on several portfolios of discounted mortgages that we acquired in the second half of 2008. We also received \$1.6 million of fees from MCLP from a profit sharing arrangement relating to discounted mortgages acquired by MCLP. For the year to date, we have realized \$1.3 million of discount income on our portfolios and received \$3.2 million of fees from MCLP relating to its portfolios.

Mortgage interest income for the quarter decreased by \$931,000 from the prior year, primarily due to a decrease in the average portfolio size from \$425 million in 2008 to \$381 million in 2009. This decrease was partly offset by an increase in the average mortgage yield from 6.81% in 2008 to 6.94% in 2009. The decrease of \$1.8 million for the six months ended June 30, 2009 is a result of a \$40 million decrease in the average portfolio, as the average yield remained unchanged at 6.97%.

The prime rate was 2.25% as at June 30, 2009 compared to 4.75% as at June 30, 2008. Although this decrease has had a negative impact on mortgage interest income as 48% of our mortgages at quarter end were floating rate mortgages, it has been offset by the higher effective yields on the mortgages in the acquired portfolios.

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.

Interest on loans and investments decreased by \$246,000 for the quarter and \$913,000 for the six months ended June 30, 2009 as a result of the aforementioned decrease in the prime rate and a smaller average portfolio. In addition, we received a significant one-time interest payment in the first quarter of 2008 upon the payout of a securitization investment.

Fees increased by \$1.7 million for the quarter and \$3.2 million for the six months ended June 30, 2009, primarily due to fees received from MCLP related to the profit sharing noted above. Fees also include construction commitment fees, which are amortized into income over the term of the related loans.

Equity income from our ownership interest in MCLP was \$77,000 during the quarter compared to \$707,000 in the prior year. The results were lower in the current year as they included losses in construction and commercial operations and mark to market adjustments, which were partially offset by strong single family and leasing results.

MCAN securitizes insured residential mortgages through the CMB program. During the quarter, we recognized securitization income of \$1.2 million compared to \$1.3 million in the prior year. Current quarter income consists of the net of an up-front gain from securitization of \$2.4 million (2008 - \$1.2 million), residual securitization income of \$57,000 (2008 - \$128,000) and a write-down on the interest-only strips of \$1.2 million (2008 - \$nil). Up-front gains from securitization increased over 2008 as a result of significantly wider interest rate spreads between mortgages and government bonds in the current year. Residual

securitization income decreased from the prior year, as fair value adjustments to CMB-related financial instruments had a negative impact to income of \$2.5 million (2008 - negative impact of \$247,000). Forward interest rates have been volatile since early 2008, which can lead to unanticipated income variances in either direction. The negative impact of fair value adjustments in the current year has been partly offset by a significant increase in interest rate swap receipts and penalty income. Securitization income for the six months ended June 30, 2009 increased slightly over the prior year. The impact of significantly higher up-front gains exceeded that of lower residual securitization income and the write-down.

At quarter end, we recorded a net write-down of \$1.2 million on our outstanding interest-only strips. On an overall basis, our CMB issuances have had significantly higher than anticipated principal repayment levels as a result of higher mortgage refinancing and payout volumes in the current environment of low mortgage interest rates. This has decreased expected future cash flows as the assets in which we reinvest principal collections generally yield less than the securitized mortgages.

Term deposit interest and expenses decreased by \$1.6 million during the quarter as a result of a decrease of \$39 million in the average outstanding balance and a decrease in the average term deposit interest rate from 4.55% in 2008 to 3.42% in 2009. The decrease of \$2.9 million for the six months ended June 30, 2009 is due to a \$41 million decrease in the average outstanding balance and a decrease of 0.99% in the average term deposit rate. The decreases in the interest rate on new term deposits have not kept pace with the declines in the prime rate.

Mortgage expenses decreased by \$121,000 for the quarter and \$296,000 for the six months ended June 30, 2009, both consistent with the decrease in the average mortgage portfolio.

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

	2009	2008
Mortgages - general provision (recovery)	\$ (402,000)	\$ (269,000)
Mortgages - specific provision (recovery)	604,000	(24,000)
Loans and investments - general provision (recovery)	(19,000)	(6,000)
	\$ 183,000	\$ (299,000)

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

During the quarter, we recorded a \$600,000 specific provision on an impaired residential construction loan. Our net exposure of \$6.9 million represents MCAN's 20% participation in the loan (the remaining 80% is held by another financial institution). This construction loan is a multi-phased land development loan that has experienced slow sales and cost increases. Given the timeline for repayment and market price point fluctuations, a specific reserve was established for anticipated losses.

Impaired loans net of specific allowances were 3.47% (\$14 million) at June 30, 2009, compared to 1.42% (\$6.2 million) at March 31, 2009 and 0.93% (\$4.2 million) at June 30, 2008. The increase is mostly due to the impairment of the aforementioned residential construction loan on which we recorded a specific reserve during the quarter. The current year quarter end balance is comprised as follows: uninsured single family (\$5.6 million), residential construction (\$8.6 million). We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts. Total mortgages past due but not impaired decreased from \$29 million at March 31, 2009 to \$28 million at June 30, 2009, however total arrears increased by \$8 million during the second quarter from \$35 million to \$43 million. The increase in total arrears is primarily due to additional residential construction loan arrears in Ontario. Our current arrears levels are a reflection of the general deterioration in the Canadian economy over the past year. There were no other assets in arrears at quarter end.

Write-offs were \$28,000 for the quarter compared to \$50,000 in the prior year. All current year write-offs relate to uninsured single family mortgages.

Operating Expenses

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008
Salaries and benefits	\$ 549	\$ 453	\$ 1,074	\$ 887
General and administrative	719	720	1,463	1,208
	\$ 1,268	\$ 1,173	\$ 2,537	\$ 2,095

Operating expenses have increased over the prior year, mainly due to higher salaries and benefits as a result of an increase in the number of employees. Year to date general and administrative expenses have increased due to higher professional fees in 2009.

Income Taxes

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008
Provision against income	\$ -	\$ -	\$ -	\$ -
Charge (recovery) to retained earnings	426	241	(1,327)	1,925
	\$ 426	\$ 241	\$ (1,327)	\$ 1,925

We had an increase in current taxes payable (which are charged directly to retained earnings) during the second quarter of 2009 as a result of an excess of taxable income over dividends.

The recovery of taxes for the six months ended June 30, 2009 is primarily due to the payment of the March 31, 2009 dividend, which was significantly higher than usual. We pay no income tax on taxable income if it is paid out as dividends to our shareholders within 90 days of year end, and we generally make such distributions. As a result of this, we had a significant future tax liability at December 31, 2008 as the March 31, 2009 dividend, which related to the 2008 tax year, had not yet been paid. The reversal of this liability through the payment of the dividend led to a significant recovery of future taxes in the first quarter.

Cash Flows

Operating activities provided cash flows of \$5.8 million in the quarter compared to \$4.3 million provided in the prior year. Operating activities provided \$5.6 million for the six months ended June 30, 2009 compared to \$5.9 million provided in the prior year.

Investing activities provided cash flows of \$25 million in the quarter and provided \$9.3 million in the prior year. Net mortgage repayments increased slightly over the prior year, while there were net loan and investment repayments in the current year compared to net advances in the prior year. Investing activities provided \$25 million for the six months ended June 30, 2009 compared to \$28 million used in the prior year. The current year cash flow consists almost entirely of net loan and investment repayments, while the prior year consisted almost entirely of net mortgage advances.

Financing activities used \$47 million of cash in the quarter and used \$8.4 million in the prior year. Net term deposit repayments increased significantly in the current year. Financing activities used \$74 million for the six months ended June 30, 2009 compared to \$17 million used in the prior year. Net term deposit redemptions and dividends paid increased significantly in the current year.

SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except for per share amounts)

	2009		2008				2007	
	Q1	Q2	Q1	Q2	Q3	Q4	Q3	Q4
Net investment income	\$7,703	\$6,875	\$6,064	\$6,062	\$12,485	\$11,471	\$4,083	\$4,259
Operating expenses	1,269	1,268	922	1,173	2,088	1,551	1,000	1,079
Income before income taxes	6,434	5,607	5,142	4,889	10,397	9,920	3,083	3,180
Provision for income taxes	-	-	-	-	-	-	-	-
Net income	\$6,434	\$5,607	\$5,142	\$4,889	\$10,397	\$9,920	\$3,083	\$3,180
Basic and diluted earnings per share	\$0.45	\$0.39	\$0.36	\$0.35	\$0.73	\$0.70	\$0.21	\$0.23
Dividends per share								
Regular	\$0.68	\$0.25	\$0.12	\$0.23	\$0.25	\$0.25	\$0.23	\$0.23
Capital gains	-	-	0.11	-	-	-	-	-
Total	\$0.68	\$0.25	\$0.23	\$0.23	\$0.25	\$0.25	\$0.23	\$0.23

Income in the second half of 2007 was lower than usual due to the write-down of securitization investments, the loss from the CMB program and a significant equity loss from MCLP due to write-downs taken on its securitization programs. The first half of 2008 saw an improvement in income as a result of higher securitization income. The second half of 2008 had a substantial increase in net income due to significant income from the sale of mortgages and income earned as a result of the portfolio acquisitions noted above. Securitization income and income from the acquired portfolios remained strong in the first half of 2009.

FINANCIAL POSITION

As of June 30, 2009, total consolidated assets were \$500 million, a decrease of \$44 million from March 31, 2009.

Assets

(in thousands)	June 30, 2009		March 31, 2009		December 31, 2008	
Cash and cash equivalents	\$ 15,158	3.0%	\$ 31,014	5.7%	\$ 58,071	10.2%
Mortgages	391,749	78.3	407,706	74.9	393,010	68.9
Loans and investments	60,957	12.2	60,670	11.1	75,367	13.2
Equity investment in MCLP	17,016	3.4	17,736	3.3	18,300	3.2
Other assets	15,565	3.1	27,115	5.0	25,406	4.5
	\$ 500,445	100.0%	\$ 544,241	100.0%	\$ 570,154	100.0%

Cash decreased by \$16 million during the quarter as a result of a significant mortgage portfolio funding at quarter end. In general, we maintain our cash balance in the \$20 to \$30 million range.

Mortgages decreased by \$16 million in the quarter, primarily due to decreases of \$30 million in residential construction loans, \$27 million in uninsured single family mortgages and \$7 million in non-residential construction loans, partially offset by increases of \$23 million in commercial mortgages and \$25 million in insured single family mortgages. As a result of reduced mortgage product availability due to adverse market conditions, we have become more selective in our mortgage approvals. In addition, we have been aggressively managing the repayment of residential construction loans, as they are mostly prime-based and have less attractive yields in the current interest rate environment.

As at June 30, 2009, we held discounted mortgages with an aggregate discount of \$31 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 two years for the fixed rate mortgages to 23 years for the floating rate mortgages. As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered. However, we do expect that material amounts will be realized over the next few years.

We do not invest in the United States mortgage market. We invest in insured and uninsured single family mortgages in Canada, which we believe are lower risk than United States sub-prime mortgages. The uninsured mortgages may not exceed 80% of the value of the real estate securing such loans ("LTV") at the time of funding.

Arrears in our single family mortgage portfolio are continuing to rise due to job losses. Property values have declined over the past year but appear to be stabilizing in several markets on rising sales volume. We have not experienced material loan losses resulting from these arrears.

Loans and investments increased by \$287,000, as an increase in CMB interest-only strips slightly exceeded the net repayments of other loans and investments. The interest-only strips, which are retained interests in the securitized mortgages consisting of the discounted value of future mortgage interest income, principal reinvestment interest receipts and penalty income less coupon interest payments, increased by \$6.6 million during the quarter. The interest-only strips increase (decrease) in value as cash is paid (received). During the quarter, we recognized a new interest-only strip of \$2.3 million upon the closing of this quarter's issuance. In addition, there was a \$5.0 million upward adjustment in the fair value of the interest-only strips and a \$1.2 million write-down.

The restructuring of Third Party Structured Asset-Backed Commercial Paper ("ABCP") by the Pan-Canadian Investors Committee (the "Montreal Accord") was finalized on January 21, 2009. Prior to the finalization of the restructuring for the Montreal Accord, we held securitization investments subject to the Montreal Accord as follows: ABCP of \$2.1 million (net of a \$2.0 million write-down), commercial securitization program investment of \$458,000. The restructuring converted the existing ABCP into Master Asset Vehicle II ("MAV II") investments as follows: class A-1 notes rated A by DBRS (66.7%), class A-2 notes rated A by DBRS (25.7%) and unrated B (4.6%) and C (3.0%) notes. The commercial securitization program investment was converted to Master Asset Vehicle III ("MAV III") unrated class 20 A-1 notes. After performing a valuation of the new notes, we recorded a \$2.0 million write-down on the MAV II investments.

Our equity investment in MCLP decreased by \$720,000, consisting of the net of equity income for the quarter of \$77,000 and distributions received of \$797,000.

Other assets at June 30, 2009 consist almost entirely of interest rate swaps relating to the CMB program. We have entered into "pay-floating, receive-fixed" swaps to hedge against interest rate risk on reinvested CMB principal collections. The fair market value of the swaps increased significantly during 2008 and early 2009 as a result of a substantial decrease in forward interest rates. Other assets also include capital assets, prepaid expenses, accounts receivable and deferred costs.

Liabilities and shareholders' equity

(in thousands)

	June 30 2009	March 31 2009	Increase (Decrease)	December 31 2008
Liabilities				
Term deposits	\$ 368,938	\$ 412,164	\$ (43,226)	\$ 426,663
Securitization liabilities	4,504	8,112	(3,608)	7,095
Accounts payable and accrued charges	5,144	4,377	767	12,186
Future taxes payable	4,714	5,280	(566)	7,601
	383,300	429,933	(46,633)	453,545
Shareholders' equity				
Share capital	98,333	98,184	149	97,493
Contributed surplus	510	510	-	510
Retained earnings	17,413	15,805	1,608	17,313
Accumulated other comprehensive income (loss)	889	(191)	1,080	1,293
	117,145	114,308	2,837	116,609
	\$ 500,445	\$ 544,241	\$ (43,796)	\$ 570,154

Term deposits decreased by \$43 million during the quarter, consistent with the decrease in assets. To fund our investment operations, we issue term deposits that are insured pursuant to the standard terms of coverage set out by the Canada Deposit Insurance Corporation. We do not use capital markets (including asset-backed commercial paper) for liquidity.

Securitization liabilities relate to CMB interest-only strips in liability positions. The interest-only strips generally only go into liability positions after a significant decrease in forward rates after issuance, which was the case with certain interest-only strips in late 2008 and early 2009. There was an increase in forward rates during the second quarter, which led to an increase in the fair value of the interest-only strips on an overall basis. Changes in the fair value of the interest-only strips are generally offset by changes in the fair value of CMB interest rate swaps (included in other assets).

Share capital increased by \$149,000, which was raised through the dividend reinvestment plan for the June 30, 2009 dividend.

Retained earnings increased by \$1.6 million during the quarter. The increase was a result of quarterly income of \$5.6 million, partly offset by the second quarter dividend of \$3.6 million and a charge to retained earnings of \$426,000 relating to current and future income taxes.

Accumulated other comprehensive income (loss) represents the changes in unrealized gains or losses (net of taxes) on available for sale financial assets and cash flow hedges. The change in the quarter is primarily due to an increase in the fair market value adjustment of available for sale fixed-rate mortgages. The increase was a result of a decrease in market mortgage rates and a change in our asset mix.

CMB PROGRAM

We participate in the CMB program, which involves the securitization of insured single family mortgages. We participate in the CMB program with MCAP Service Corporation ("MSC"). 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. At quarter end, we revised our calculation of the fair value of the interest-only strips to include the discounted value of future penalty income. The revision was a result of a significant increase in mortgage liquidation rates in recent months, which has led to an increase in penalty payments. This revision had a positive impact to income of \$1.0 million, which is included in the net interest-only strip write-down of \$1.2 million. The interest-only strips are generally in asset positions, however they can potentially go into liability positions upon a significant decrease in forward interest rates after issuance, which occurred with certain interest-only strips in 2008. In addition, we recognize liabilities for future mortgage servicing, which we subcontract to MSC, and other costs. 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, representing the interest-only strips, is recognized in taxable income as received over the duration of the issuance.

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 quarter, we securitized \$222 million of mortgages through the CMB program. We recorded \$2.3 million of interest-only strips and \$384,000 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 swap assets generally offset the changes in the fair value of the interest-only strips.

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, almost all of which relate to floating rate construction loans.

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	\$ 358,252	\$ 10,686	\$ -	\$ 368,938
Operating lease	171	384	-	555
Mortgage fundings	59,711	6,635	-	66,346
CMB obligations	836	1,981	-	2,817
	\$ 418,970	\$ 19,686	\$ -	\$ 438,656

FUTURE CHANGES IN ACCOUNTING POLICY

International Financial Reporting Standards

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

For the fiscal year commencing January 1, 2011, we will cease to use Canadian Generally Accepted Accounting Principles ("GAAP") and will adopt 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. We anticipate that this engagement will 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 are now in the process of assessing the impact of IFRS differences. During this phase, we are identifying differences between GAAP and IFRS in the areas identified by the scoping and diagnostic phase, and performing an analysis to assess the potential impact of these differences. Based on identified differences, we will establish changes to our accounting policies, financial reporting, control environment, information systems and business activities. Following the completion of the assessment of the impact of IFRS differences, we will begin the implementation of our conversion plan in the second half of 2009 and into 2010.

We are monitoring the potential impact of changes to financial reporting processes, internal controls over financial reporting and disclosure controls and procedures. We have not yet quantified the effects of the potential significant differences between GAAP and IFRS nor their materiality. 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.

The following table outlines certain elements of our IFRS conversion plan and an assessment of our progress towards the plan as at June 30, 2009. 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	Planned 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 	<ul style="list-style-type: none"> Q2 2009 Q4 2009 Q4 2009 Q1 2010 	<ul style="list-style-type: none"> Differences identified and analyzed Analysis in progress, on schedule Analysis in progress, on schedule Currently unable to quantify
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 	<ul style="list-style-type: none"> Q3 2010 Q3 2010 Quarterly during 2010 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Q3 2010 Q4 2010 Q3 2010 Q4 2010 	<ul style="list-style-type: none"> Assessment to be completed Assessment to be completed Assessment to be completed Assessment to be completed
Information Systems <ul style="list-style-type: none"> • Maintenance of 2010 general ledger for both GAAP and IFRS • Program upgrades/modifications • One-off calculations (IFRS 1) • Gathering data for disclosures 	<ul style="list-style-type: none"> Q4 2009 Q4 2009 Q4 2009 Q4 2009 	<ul style="list-style-type: none"> On schedule, project in progress with IT department On schedule, project in progress with IT department Analysis in progress, on schedule Analysis in progress, on schedule
Business Policies <ul style="list-style-type: none"> • Assess impact on capital plan • Revise capital plan as needed 	<ul style="list-style-type: none"> Q2 2010 Q3 2010 	<ul style="list-style-type: none"> Assessment to be completed Assessment to be completed

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at June 30, 2009, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of MCAN, along with the assistance of the Company's disclosure committee comprised of members of senior management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to MCAN is made known to the CEO and CFO, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

There were no changes in our internal controls over financial reporting that occurred during the interim period ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

The continuing disruption in the financial markets has afforded us with opportunities to acquire mortgages on a profitable basis. While these transactions are opportunistic and cannot be planned, we expect that the disruption in the financial markets will not materially improve for several months, and as such, future acquisition opportunities may present themselves. We plan to retain investment capacity so that we can take advantage of these opportunities.

The decreases in the prime rate from 2008 and early 2009 will continue to have an adverse effect on net investment income over the next few quarters. New term deposit funding rates have not decreased to this extent, which will continue to compress spread income in the near term. With the exception of the floating rate mortgages purchased as part of the portfolio acquisitions, we have increased our fixed rate mortgage portfolio and decreased our floating rate mortgage portfolio in order to minimize this compression. For new and existing floating rate mortgages, we are establishing minimum rates whenever possible, to protect our spread income. Higher profitability from the CMB program and the acquired portfolios has more than offset the reduction in spread income.

Arrears in our single family mortgage portfolio are continuing to rise due to job losses. Property values have declined over the past year but appear to be stabilizing in several markets on rising sales volume. We have not experienced material loan losses resulting from these arrears.


Arrears in our construction loan portfolio have also risen. The large size of these loans causes them to skew our arrears statistics. The nature of these loans also usually results in a more protracted resolution period.

Economic conditions remain weak, with most economists forecasting that conditions will improve sometime during the second half of this year.

Management does not believe that the continuing disruption in the financial markets has materially affected the capital or liquidity of the Company.

DIVIDENDS

The Board of Directors declared a third quarter dividend of \$0.25 per share to be paid September 30, 2009 to shareholders of record as of September 15, 2009.



Blaine Welch
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

This report may contain forward-looking 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 change, 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 in the Company's 2009 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 any forward-looking statements.

Notice required under National Instrument 51-102, "Continuous Disclosure Obligations," Part 4.3 (3)(a).

The accompanying consolidated interim financial statements of MCAN have not been reviewed by an auditor.

The Company is in compliance with the interim Management's Discussion and Analysis of Operations requirements set out by National Instrument 51-102.

CONSOLIDATED BALANCE SHEETS
(Unaudited) (dollars in thousands)

As at	Note	June 30 2009	December 31 2008	June 30 2008
Assets				
Investments				
Cash and cash equivalents		\$ 15,158	\$ 58,071	\$ 14,993
Mortgages	2	391,749	393,010	438,656
Loans and investments	4	60,957	75,367	75,543
Equity investment in MCAP Commercial LP		17,016	18,300	18,103
Marketable securities		-	-	109
		484,880	544,748	547,404
Other assets	7	15,565	25,406	4,608
		\$ 500,445	\$ 570,154	\$ 552,012
Liabilities and Shareholders' Equity				
Liabilities				
Term deposits		\$ 368,938	\$ 426,663	\$ 437,255
Securitization liabilities	5	4,504	7,095	-
Accounts payable and accrued charges		5,144	12,186	5,357
Future taxes payable		4,714	7,601	3,358
		383,300	453,545	445,970
Shareholders' Equity				
Share capital	6	98,333	97,493	97,337
Contributed surplus		510	510	510
Retained earnings		17,413	17,313	8,238
Accumulated other comprehensive income (loss)		889	1,293	(43)
		117,145	116,609	106,042
		\$ 500,445	\$ 570,154	\$ 552,012

See accompanying notes

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

For the Quarters Ended June 30	Note	2009	2008
Investment Income			
Mortgage interest		\$ 6,565	\$ 7,496
Interest on loans and investments		989	1,235
Fees		2,573	871
Equity income from MCAP Commercial LP		77	707
Securitization income	3	1,211	1,309
Interest on cash and cash equivalents		73	270
Gain on sale of mortgages		1	4
Marketable securities		-	3
		11,489	11,895
Financial Expenses			
Term deposit interest and expenses		3,649	5,229
Mortgage expenses		782	903
Provision for (recovery of) losses		183	(299)
		4,614	5,833
Net Investment Income		6,875	6,062
Operating Expenses			
Salaries and benefits		549	453
General and administrative		719	720
		1,268	1,173
Income Before Income Taxes		5,607	4,889
Provision for income taxes		-	-
Net Income		\$ 5,607	\$ 4,889
Basic and diluted earnings per share		\$ 0.39	\$ 0.35
Dividends per share		\$ 0.25	\$ 0.23
Weighted average number of basic and diluted shares (000's)		14,296	14,189

See accompanying notes

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

For the Six Months Ended June 30	Note	2009	2008
Investment Income			
Mortgage interest		\$ 13,281	\$ 15,044
Interest on loans and investments		2,232	3,145
Fees		4,912	1,670
Equity income from MCAP Commercial LP		226	1,008
Securitization income	3	3,485	3,308
Interest on cash and cash equivalents		165	671
Gain on sale of mortgages		2	-
Marketable securities		-	7
		24,303	24,853
Financial Expenses			
Term deposit interest and expenses		7,696	10,587
Mortgage expenses		1,546	1,842
Provision for losses		483	298
		9,725	12,727
Net Investment Income		14,578	12,126
Operating Expenses			
Salaries and benefits		1,074	887
General and administrative		1,463	1,208
		2,537	2,095
Income Before Income Taxes		12,041	10,031
Provision for income taxes		-	-
Net Income		\$ 12,041	\$ 10,031
Basic and diluted earnings per share		\$ 0.84	\$ 0.71
Dividends per share		\$ 0.93	\$ 0.46
Weighted average number of basic and diluted shares (000's)		14,272	14,169

See accompanying notes

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

For the Quarters Ended June 30	2009	2008
Share capital		
Balance, beginning of period	\$ 98,184	\$ 97,190
Common shares issued	149	147
Balance, end of period	98,333	97,337
Contributed surplus		
Balance, beginning of period	510	510
Changes to contributed surplus	-	-
Balance, end of period	510	510
Retained earnings		
Balance, beginning of period	15,805	6,853
Net income	5,607	4,889
Income taxes charged to retained earnings	(426)	(241)
Dividends declared	(3,573)	(3,263)
Balance, end of period	17,413	8,238
Accumulated other comprehensive income (loss)		
Balance, beginning of period	(191)	(1,665)
Other comprehensive income	1,080	1,622
Balance, end of period	889	(43)
Total shareholders' equity	\$ 117,145	\$ 106,042

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (dollars in thousands)

For the Quarters Ended June 30	2009	2008
Net income	\$ 5,607	\$ 4,889
Other comprehensive income, net of income taxes		
Change in unrealized gain on available for sale mortgages	757	1,189
Change in unrealized gain on available for sale loans and investments	321	445
Change in cash flow hedges	2	2
Change in unrealized gain on available for sale marketable securities	-	(14)
Other comprehensive income	1,080	1,622
Comprehensive income	\$ 6,687	\$ 6,511

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

For the Six Months Ended June 30	2009	2008
Share capital		
Balance, beginning of period	\$ 97,493	\$ 96,370
Common shares issued	840	967
Balance, end of period	98,333	97,337
Contributed surplus		
Balance, beginning of period	510	510
Changes to contributed surplus	-	-
Balance, end of period	510	510
Retained earnings		
Balance, beginning of period	17,313	6,654
Net income	12,041	10,031
Income taxes recovered (charged) to retained earnings	1,327	(1,925)
Dividends declared	(13,268)	(6,522)
Balance, end of period	17,413	8,238
Accumulated other comprehensive income (loss)		
Balance, beginning of period	1,293	(527)
Other comprehensive income	(404)	484
Balance, end of period	889	(43)
Total shareholders' equity	\$ 117,145	\$ 106,042

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (dollars in thousands)

For the Six Months Ended June 30	2009	2008
Net income	\$ 12,041	\$ 10,031
Other comprehensive income (loss), net of income taxes		
Change in unrealized gain on available for sale mortgages	(746)	1,498
Change in unrealized gain on available for sale loans and investments	338	(980)
Change in cash flow hedges	4	4
Change in unrealized gain on available for sale marketable securities	-	(38)
Other comprehensive income (loss)	(404)	484
Comprehensive income	\$ 11,637	\$ 10,515

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (dollars in thousands)

For the Quarters Ended June 30	2009	2008
Cash Provided by (used for):		
Operating Activities		
Net income	\$ 5,607	\$ 4,889
Adjusted for non-cash items:		
Equity income	(87)	(699)
Provision for (recovery of) losses	183	(299)
Securitization income	1,905	(1,099)
Amortization of other assets	113	252
Amortization of mortgage discounts	(631)	(22)
Gain on sale of mortgages	(1)	(4)
Distributions from MCAP Commercial LP	797	-
Decrease (increase) in accounts receivable	(396)	1,107
Increase (decrease) in accounts payable and accrued charges	(1,717)	155
Cash flows from operating activities	5,773	4,280
Investing Activities		
Mortgage advances	(572,281)	(426,241)
Mortgage reductions	88,315	120,471
Proceeds on sale of mortgages	502,069	320,303
Decrease (increase) in loans and investments	7,023	(5,050)
Additions to other assets	(105)	(144)
Cash flows from investing activities	25,021	9,339
Financing Activities		
Issue of term deposits	113,383	154,631
Repayment of term deposits	(156,609)	(159,958)
Issue of common shares	149	147
Dividends paid	(3,573)	(3,263)
Cash flows for financing activities	(46,650)	(8,443)
Increase (decrease) in cash and cash equivalents	(15,856)	5,176
Cash and cash equivalents, beginning of period	31,014	9,817
Cash and cash equivalents, end of period	\$ 15,158	\$ 14,993

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (dollars in thousands)

For the Six Months Ended June 30	2009	2008
Cash Provided by (used for):		
Operating Activities		
Net income	\$ 12,041	\$ 10,031
Adjusted for non-cash items:		
Equity income	(243)	(996)
Provision for losses	483	298
Securitization income	598	(2,975)
Amortization of other assets	373	453
Amortization of mortgage discounts	(1,300)	(22)
Gain on sale of mortgages	(2)	-
Distributions from MCAP Commercial LP	1,510	-
Decrease (increase) in accounts receivable	(763)	419
Decrease in accounts payable and accrued charges	(7,133)	(1,333)
Cash flows from operating activities	5,564	5,875
Investing Activities		
Mortgage advances	(1,282,919)	(987,779)
Mortgage reductions	149,829	183,848
Proceeds on sale of mortgages	1,133,620	776,530
Decrease in loans and investments	25,266	30
Additions to other assets	(564)	(405)
Cash flows from (for) investing activities	25,232	(27,776)
Financing Activities		
Issue of term deposits	231,201	279,683
Repayment of term deposits	(288,926)	(287,796)
Issue of common shares	840	967
Dividends paid	(16,824)	(9,764)
Cash flows for financing activities	(73,709)	(16,910)
Decrease in cash and cash equivalents	(42,913)	(38,811)
Cash and cash equivalents, beginning of period	58,071	53,804
Cash and cash equivalents, end of period	\$ 15,158	\$ 14,993

1. Basis of Presentation

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

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company’s 22.3% partnership interest in MCAP Commercial LP (“MCLP”) is accounted for using the equity method. MCAN holds a 25% voting interest in MCLP.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and follow the same accounting policies and methods of application as the Company’s consolidated financial statements for the year ended December 31, 2008. Under GAAP, additional disclosures are required in the annual financial statements and accordingly, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008 and the accompanying notes included on pages 19 to 41 of the Company’s 2008 Annual Report. The interim consolidated financial statements include all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the periods presented.

2. Mortgages

As at June 30	Principal	Allowance	2009 Net
Single family mortgages			
- Uninsured	\$ 134,267	\$ 871	\$ 133,396
- Uninsured (completed inventory loans)	30,618	347	30,271
- Insured	54,737	-	54,737
Construction loans			
- Residential	141,539	1,865	139,674
- Non-residential	503	4	499
Commercial	30,300	182	30,118
	<u>391,964</u>	<u>3,269</u>	<u>388,695</u>
Fair value adjustment	1,081	-	1,081
	<u>393,045</u>	<u>3,269</u>	<u>389,776</u>
Accrued interest	1,973	-	1,973
	<u>\$ 395,018</u>	<u>\$ 3,269</u>	<u>\$ 391,749</u>

As at June 30	Principal	Allowance	2008 Net
Single family mortgages			
- Uninsured	\$ 180,411	\$ 1,101	\$ 179,310
- Uninsured (completed inventory loans)	33,187	281	32,906
- Insured	26,891	-	26,891
Construction loans			
- Residential	165,539	1,448	164,091
- Non-residential	7,217	63	7,154
Commercial	25,141	215	24,926
	<u>438,386</u>	<u>3,108</u>	<u>435,278</u>
Fair value adjustment	1,319	-	1,319
	<u>439,705</u>	<u>3,108</u>	<u>436,597</u>
Accrued interest	2,059	-	2,059
	<u>\$ 441,764</u>	<u>\$ 3,108</u>	<u>\$ 438,656</u>

MCAN does not invest in the United States mortgage market. The Company invests in insured and uninsured single family mortgages in Canada, which are lower risk than United States sub-prime mortgages. The uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. Residential mortgages insured by Canada Mortgage and Housing Corporation or Genworth Financial Mortgage Insurance Company Canada may exceed this ratio.

Uninsured completed inventory loans are credit facilities extended to provide interim mortgage financing on fully completed residential units (condominium or freehold).

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

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

There were no significant fluctuations in mortgage balances during the quarter.

Principal balances presented above are net of the unamortized discount on the Company's portfolio of single family mortgages purchased at a discount. As at June 30, 2009, the Company holds discounted mortgages with an aggregate discount of \$30,762 (2008 - \$4,849). Upon the payout of a mortgage, the remaining unamortized discount is recognized as income. The Company retains 50% of any recoveries of the discount and pays the remaining 50% to MCLP. In addition, the Company amortizes the portion of the discount that it expects to recover into income over the remaining term of the mortgage. 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 two years for the fixed rate mortgages to 23 years for the floating rate mortgages. As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered. However, the Company expects that material amounts will be realized over the next few years.

The composition of the discount at June 30, 2009 is as follows:

	Gross Discount	Amortized Discount	Net Discount
Fixed rate	\$ 9,719	\$ 103	\$ 9,616
Floating rate	21,197	51	21,146
	\$ 30,916	\$ 154	\$ 30,762

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

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

In management's judgment, no abnormal credit risk exists and the levels of loan loss provisions are adequate to absorb all expected credit related losses in the Company's portfolio, given existing conditions.

The geographical breakdown of mortgages by province is as follows:

	Single Family	Construction	Commercial	2009 Total	
Ontario	\$ 98,048	\$ 54,045	\$ 24,760	\$ 176,853	45.1%
Alberta	67,670	54,750	2,426	124,846	31.9
British Columbia	29,349	28,071	509	57,929	14.8
Other	25,383	4,114	2,624	32,121	8.2
	\$ 220,450	\$ 140,980	\$ 30,319	\$ 391,749	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / SECOND QUARTER REPORT 2009
MCAN MORTGAGE CORPORATION
JUNE 30, 2009 (Dollar amounts in thousands except for per share amounts)

	Single Family	Construction	Commercial	2008 Total	
Ontario	\$ 128,635	\$ 59,734	\$ 8,338	\$ 196,707	44.8%
Alberta	66,424	77,210	-	143,634	32.7
British Columbia	30,539	34,786	1,567	66,892	15.3
Other	15,825	371	15,227	31,423	7.2
	\$ 241,423	\$ 172,101	\$ 25,132	\$ 438,656	100.0%

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are \$66,346 at June 30, 2009 (2008 - \$125,572). Substantially all of these commitments relate to floating rate construction loans.

The details of the mortgage allowances are as follows:

	General	Specific	2009 Total	General	Specific	2008 Total
Balance, beginning of quarter	\$ 2,951	\$ 144	\$ 3,095	\$ 3,380	\$ 71	\$ 3,451
Provisions (recoveries)	(402)	604	202	(269)	(24)	(293)
Write-offs	(28)	-	(28)	(50)	-	(50)
Balance, end of quarter	\$ 2,521	\$ 748	\$ 3,269	\$ 3,061	\$ 47	\$ 3,108

At June 30, 2009, the Company had \$748 of specific provisions (2008 - \$47), as follows: uninsured single family - \$148 (2008 - \$47), residential construction - \$600 (2008 - \$nil).

Mortgages past due but not impaired are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2009 Total
Single family - uninsured	\$ 4,721	\$ 4,575	\$ 2,931	\$ -	\$ 12,227
Single family - insured	477	610	-	-	1,087
Residential construction	-	12,115	2,934	-	15,049
	\$ 5,198	\$ 17,300	\$ 5,865	\$ -	\$ 28,363

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2008 Total
Single family - uninsured	\$ 9,104	\$ 5,214	\$ 2,389	\$ -	\$ 16,707
Single family - insured	1,164	136	66	75	1,441
Residential construction	-	242	-	-	242
	\$ 10,268	\$ 5,592	\$ 2,455	\$ 75	\$ 18,390

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

	Single Family	Residential Construction	2009 Total	Single Family	Residential Construction	2008 Total
Ontario	\$ 2,325	\$ 1,738	\$ 4,063	\$ 2,733	\$ -	\$ 2,733
Alberta	712	6,866	7,578	1,241	-	1,241
British Columbia	1,924	-	1,924	249	-	249
Other	623	-	623	-	-	-
	\$ 5,584	\$ 8,604	\$ 14,188	\$ 4,223	\$ -	\$ 4,223

3. Securitization Income

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008
Gain on securitization	\$ 2,389	\$ 1,181	\$ 4,272	\$ 2,345
Write-down of interest-only strips	(1,235)	-	(1,235)	-
Residual securitization income	57	128	448	963
	\$ 1,211	\$ 1,309	\$ 3,485	\$ 3,308

During the quarter, the Company securitized \$222,037 (2008 - \$235,593) of insured single family mortgages through the Canada Mortgage Bonds ("CMB") program. The Company participated in the securitization with MCAP Service Corporation ("MSC"). For the six months ended June 30, 2009, the Company has securitized \$586,297 (2008 - \$559,207) of mortgages.

Upon sale, the Company recognized an interest-only strip of \$2,332 (2008 - \$1,988), which is a retained interest in the securitized mortgages, included in securitization investments (note 4). The Company's interest-only strips consist of the discounted value of future mortgage interest income, principal reinvestment interest receipts and penalty income less coupon interest payments. In addition, the Company established a liability for future mortgage servicing and other costs totalling \$384 (2008 - \$288) that is included in accounts payable and accrued charges. The Company subcontracts CMB servicing obligations to MSC. The net outstanding interest-only strip position at June 30, 2009 was an asset of \$12,851 (2008 - asset of \$11,624), while total outstanding CMB liabilities were \$2,617 (2008 - \$1,853).

Residual securitization income includes the net yield earned on the interest-only strips and the CMB liabilities, refinancing and renewal gains, interest rate swap receipts (payments) and fair value changes in the interest rate swaps and interest-only strips. Fair value changes had a negative impact of \$2,541 to income during the quarter (2008 - negative impact of \$247). 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 to date in 2009 have had an unexpected negative impact to income. Other components of residual securitization income were \$2,598 in the quarter compared to \$375 in the prior year. In 2009, there was a significant increase in interest rate swap receipts and penalty income.

At quarter end, a net write-down of \$1,235 was recorded on the outstanding interest-only strips. On an overall basis, the CMB issuances have had significantly higher than anticipated principal repayment levels, which has decreased expected future cash flows as the assets in which principal collections are reinvested generally yield less than the securitized mortgages. In addition, the calculation of the fair value of the interest-only strips was revised to include the discounted value of future penalty income as a result of a recent significant increase in mortgage liquidations. This revision had a positive impact to income of \$1,023, which is included in the net interest-only strip write-down of \$1,235.

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

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2009	2008	2009	2008
Proceeds from new securitizations	\$ 222,918	\$ 237,634	\$ 589,944	\$ 564,051
Net cash flows received (paid) on interest-only strips	\$ 242	\$ (2,407)	\$ 754	\$ 956
Net cash flows paid on CMB servicing and other liabilities	\$ 203	\$ 148	\$ 362	\$ 199

4. Loans and Investments

		2009	2008
Securitization investments	(a)	\$ 37,667	\$ 38,720
Loans receivable and other investments	(b)	23,290	36,823
		\$ 60,957	\$ 75,543

(a) **Securitization Investments**

Investments in Securitization Programs

As at June 30	Principal	Allowance	2009 Net	2008 Net
Subordinated loan - residential mortgage securitization program	\$ 7,344	\$ -	\$ 7,344	\$ 8,880
Asset-backed commercial paper	4,122	2,000	2,122	2,922
Deferred purchase price receivable - residential construction mortgage loan securitization program				
- senior position	3,771	-	3,771	7,369
- first loss position	1,671	-	1,671	3,263
Bonds - commercial securitization program	458	-	458	458
	\$ 17,366	\$ 2,000	\$ 15,366	\$ 22,892

The restructuring of Third Party Structured Asset-Backed Commercial Paper ("ABCP") by the Pan-Canadian Investors Committee (the "Montreal Accord") was finalized on January 21, 2009. Prior to the finalization of the restructuring for the Montreal Accord, the Company held securitization investments subject to the Montreal Accord as follows: ABCP of \$2,122 (net of a \$2,000 write-down), commercial securitization program investment of \$458. The restructuring converted the existing ABCP into Master Asset Vehicle II ("MAV II") investments as follows: class A-1 notes rated A by DBRS (66.7%), class A-2 notes rated A by DBRS (25.7%) and unrated B (4.6%) and C (3.0%) notes. The commercial securitization program investment was converted to Master Asset Vehicle III ("MAV III") unrated class 20 A-1 notes. After performing a valuation of the new notes, the Company recorded a \$2,000 write-down on the MAV II investments.

Other Securitization Investments

As at June 30	2009	2008
CMB - interest-only strips	\$ 12,851	\$ 11,624
Insured mortgage-backed securities	9,177	2,999
Other securitization assets	273	1,205
	\$ 22,301	\$ 15,828
Total securitization investments	\$ 37,667	\$ 38,720

(b) **Loans Receivable and Other Investments**

Loans receivable and other investments consist of loans to private entities and employees. Loans receivable and other investments are presented net of an allowance of \$266 (2008 - \$280).

5. **Securitization Liabilities**

	2009	2008
CMB - interest only strips	\$ 4,504	\$ -

As at June 30, 2009, certain CMB interest-only strips were in a liability position, primarily due to a significant decrease in forward interest rates during 2008 and early 2009. CMB interest-only strips in an asset position at June 30, 2009 totalled \$12,851 (note 4). On a net basis, CMB interest-only strips were in an asset position of \$8,347 at June 30, 2009 (2008 - net asset position of \$11,624). The aforementioned decrease in forward interest rates significantly reduced the fair market value of all outstanding interest-only strips, as future estimated reinvestment income decreased significantly in line with the drop in forward interest rates. However, there was an increase in forward interest rates during the second quarter, which led to an increase in the fair value on the interest-only strips on an overall basis.

The Company's interest rate risk that arises from the reinvestment of CMB principal collections in primarily floating rate assets is hedged by interest rate swaps, which were in an asset position of \$12,759 at June 30, 2009 (2008 - asset position of \$2,151).

Certain interest-only strips were designated as available for sale financial assets at the time of their respective issuances, wherein all changes in the unrealized fair value of the interest-only strips were recognized through accumulated other comprehensive income. As at December 31, 2008, all of these interest-only strips were in liability positions. Since

financial liabilities can only be designated as held for trading or other, the designation of interest-only strips previously designated as available for sale financial assets was revised to held for trading financial liabilities. All fair value changes previously recognized through accumulated other comprehensive income were reversed at December 31, 2008, and since that time have been recognized through income.

6. Share Capital

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

Issued	Number of Shares	2009	Number of Shares	2008
Balance, January 1	14,223,506	\$ 97,493	14,097,994	\$ 96,370
Issued				
Dividend reinvestment plan	68,241	686	69,665	631
Executive Share Purchase Plan	16,602	154	38,941	336
Balance, June 30	14,308,349	\$ 98,333	14,206,600	\$ 97,337

As at August 5, 2009, the Company had 14,308,349 common shares outstanding. Shares are issued out of treasury for the dividend reinvestment plan and the Executive Share Purchase Plan at the average closing price for the 20 days preceding such issues.

7. Derivative Financial Instruments

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

The following chart outlines the Company’s derivative financial instruments by term to maturity:

	Less than one year	One to five years	Over five years	2009 Total	2008 Total
CMB interest rate swaps - fair value	\$ -	\$ 12,759	\$ -	\$ 12,759	\$ 2,151
CMB interest rate swaps - outstanding notional	\$ -	\$ 200,669	\$ -	\$ 200,669	\$ 57,814

The interest rate swaps are included in other assets if positive, and accounts payable and accrued liabilities if negative. At June 30, 2009, the interest rate swaps were in an asset position of \$12,759 (2008 - asset position of \$2,151). Changes in the fair value of the swaps are included in residual securitization income.

8. Capital Management

The Company's primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk weighted returns for shareholders. The Company typically pays out all of its taxable income by way of dividends, so capital growth is achieved through rights offerings and the dividend reinvestment plan.

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

The Company adopted the Basel II capital management framework effective January 1, 2008. The Company has implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach for the calculation of operational risk.

Tier 1 capital includes common shares, contributed surplus, retained earnings and certain components of accumulated other comprehensive income. Tier 1 and Tier 2 capital are both reduced by 50% of unrated securitization exposures and Tier 1

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capital is reduced by a portion of gains on securitization. OSFI's target minimum Tier 1 and Total capital ratios for the Company are 7% and 10% respectively. The Company's target minimum Tier 1 and Total capital ratios are both 15%.

As at June 30	2009	2008
Tax Act Test		
Income tax assets	\$ 486,673	\$ 542,478
Income tax capital	\$ 115,225	\$ 102,531
Income tax assets to capital ratio	4.22	5.29
Regulatory Tests (OSFI)		
Tier 1 capital		
Share capital	\$ 98,333	\$ 97,337
Contributed surplus	510	510
Retained earnings	17,413	8,238
Unrealized loss on available for sale marketable securities	-	(72)
Tier 1 capital deductions	(8,593)	(5,123)
	<u>107,663</u>	<u>100,890</u>
Tier 2 capital		
Tier 2 capital deductions	(1,146)	(1,964)
	<u>(1,146)</u>	<u>(1,964)</u>
Total capital	<u>\$ 106,517</u>	<u>\$ 98,926</u>
Total regulatory assets	\$ 505,797	\$ 561,217
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	24.65%	19.37%
Total capital to risk-weighted assets ratio	24.39%	19.00%
Assets to capital multiple	4.75	5.67

As of June 30, 2009, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

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

As at June 30	2009		2008	
	Balance	Risk-Weighted	Balance	Risk-Weighted
On-Balance Sheet Assets				
Cash and cash equivalents	\$ 15,158	\$ 3,539	\$ 14,993	\$ 3,799
Mortgages	391,749	257,157	438,656	296,474
Loans and investments	60,957	59,425	75,543	86,300
Equity investment in MCLP	17,016	17,016	18,103	18,103
Other assets	15,565	2,807	4,608	2,458
Marketable securities	-	-	109	109
	<u>\$ 500,445</u>	<u>\$ 339,944</u>	<u>\$ 552,012</u>	<u>\$ 407,243</u>
Off-Balance Sheet Assets				
Letters of credit		6,277		6,145
Mortgage funding commitments		33,173		62,786
		<u>39,450</u>		<u>68,931</u>
Derivative Financial Instruments				
Interest rate swaps		2,776		488
		<u>2,776</u>		<u>488</u>
Charge for operational risk		54,613		44,063
		<u>54,613</u>		<u>44,063</u>
Total Risk-Weighted Assets		<u>\$ 436,783</u>		<u>\$ 520,725</u>

9. Financial Instruments

The majority of the Company's consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, marketable securities, mortgages, loans and investments, term deposits and derivative financial instruments.

Of the financial instruments carried on the consolidated balance sheet at fair value, only marketable securities are valued using published market prices quoted in active markets. All other financial instruments carried at fair value (mortgages, certain loans and investments and derivative financial instruments) are estimated using valuation techniques based on observable market data such as market interest rates currently charged for similar financial investments to expected maturity dates.

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

The Company held certain investments at June 30, 2009 that were restructured under the Montreal Accord, and as such there was no active market for these instruments at that time. The Company calculated the fair value of these investments by discounting the expected future cash flows using an average interest rate of 2.75% (the prevailing interest rate at that time on the restructured notes) with the assumption that no interest would be received for the first five years and incorporating a principal loss assumption of 7.6% related to the amount of unrated notes received as part of the restructuring. These cash flows were discounted at 10%, which is the yield that the Company would expect to receive on similar investments. The Company performed a sensitivity analysis on this calculation by adjusting the duration of the period for which the investments were held to create a scenario in which the investment was sold after three years and a 50% principal loss was sustained. Based on the valuations from this sensitivity analysis, the Company recorded a \$2,000 write-down on the new commercial paper received upon the finalization of the Montreal Accord.

Risk Management

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

Interest Rate Risk

The Company's exposure to interest rate risk is discussed in note 10.

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 the Company's 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. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. In the current economic environment, the Company has increased its monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears. All members of management are subject to limits on their ability to commit the Company to credit risk. Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving senior management and a formal quarterly review involving the Investment Committee of the Board ("ICB"). Furthermore, the Company's exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of its investments. The Company's policies establish limits on concentration by asset class, geographic region, dollar amount and borrower.

The Company has established a methodology for determining the adequacy of its general allowances. At June 30, 2009, the general allowance was \$2,521, equating to 0.64% of mortgage assets. Actual loss experience over the past 10 years has been 0.02% per annum. The adequacy of general allowances is assessed periodically, taking into consideration such factors as economic and housing market conditions.

The Company's maximum credit exposure on its individual financial assets is equal to the par value of the respective assets.

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 the Company may eventually collect the amounts outstanding. The Company closely monitors its liquidity position to ensure that it has sufficient cash to meet liability obligations as they become due. The ICB is responsible for the review and approval of liquidity policies. In general, the Company maintains a standard level of liquid investments and credit facilities in excess of 20% of term deposits maturing within 100 days. In addition, single family mortgages are generally saleable within a time frame of one to three months, providing the Company with added flexibility to meet its liquidity needs. The Company has access to funding through its ability to issue term deposits insured pursuant to the standard terms of coverage set out by the Canada Deposit Insurance Corporation. These term deposits also provide the Company with the ability to fund asset growth as needed. There is also a \$30,000 banking facility in place to fund asset growth or meet short-term obligations as required. The Company's liquidity position and access to funding support its ability to meet current and future commitments. The Company's liquid investments and credit facilities were 28% of term deposits maturing within 100 days at June 30, 2009. For further details on the Company's liquid assets and ability to meet liability obligations, refer to note 10.

The Company's sources and uses of liquidity are outlined in the table below. The Company manages its 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	2009 Total	2008 Total
Sources of liquidity						
Cash and cash equivalents	\$ 15,158	\$ -	\$ -	\$ -	\$ 15,158	\$ 14,993
Mortgages	164,151	144,644	46,181	36,773	391,749	438,656
Loans and investments	9,488	15,724	23,580	12,165	60,957	75,543
Marketable securities	-	-	-	-	-	109
	<u>188,797</u>	<u>160,368</u>	<u>69,761</u>	<u>48,938</u>	<u>467,864</u>	<u>529,301</u>
Uses of liquidity						
Term deposits	148,752	209,500	10,686	-	368,938	437,255
Securitization liabilities	-	-	4,504	-	4,504	-
Accounts payable and accrued charges	4,626	-	-	-	4,626	4,002
	<u>153,378</u>	<u>209,500</u>	<u>15,190</u>	<u>-</u>	<u>378,068</u>	<u>441,257</u>
Unfunded mortgage commitments	6,635	53,076	6,635	-	66,346	125,572
	<u>160,013</u>	<u>262,576</u>	<u>21,825</u>	<u>-</u>	<u>444,414</u>	<u>566,829</u>
Net liquidity surplus (deficit)	\$ 28,784	\$ (102,208)	\$ 47,936	\$ 48,938	\$ 23,450	\$ (37,528)

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. For the Company, market risk factors include interest rates, real estate values and commodity prices, among others.

10. Interest Rate Sensitivity

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

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

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The interest rate sensitivity analysis is based on the Company's balance sheet as at June 30, 2009 and does not incorporate mortgage and loan prepayments. The analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

Floating rate assets and liabilities are immediately sensitive to a change in interest rates while other assets are sensitive to changing interest rates periodically, either as they mature, as interest payments are collected or paid, or as contractual repricing events occur. Non-interest rate sensitive assets and liabilities are not directly affected by changes in interest rates.

The Company manages interest rate risk by matching the terms of invested assets and term deposits. To the extent that the two components offset each other, the risks associated with interest rate changes are reduced.

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

	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non- Interest Sensitive	2009 Total	2008 Total
ASSETS								
Investments								
Cash and cash equivalents	\$ 15,158	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,158	\$ 14,993
Mortgages	187,888	81,535	64,594	43,419	578	13,735	391,749	438,656
Loans and investments	27,824	312	100	18,149	11,427	3,145	60,957	75,543
Equity investment in MCAP Commercial LP	-	-	-	-	-	17,016	17,016	18,103
Marketable securities	-	-	-	-	-	-	-	109
	230,870	81,847	64,694	61,568	12,005	33,896	484,880	547,404
Other assets	-	-	-	-	-	15,565	15,565	4,608
Total Assets	\$ 230,870	\$ 81,847	\$ 64,694	\$ 61,568	\$ 12,005	\$ 49,461	\$ 500,445	\$ 552,012
Yield	6.49%	5.47%	7.71%	7.66%	6.36%	-		
LIABILITIES AND SHAREHOLDERS' EQUITY								
Term deposits	\$ -	\$ 148,752	\$ 209,500	\$ 10,686	\$ -	\$ -	\$ 368,938	\$ 437,255
Securitization liabilities	-	-	-	4,504	-	-	4,504	-
Accounts payable and accrued charges	-	-	-	-	-	5,144	5,144	5,357
Future taxes payable	-	-	-	-	-	4,714	4,714	3,358
Shareholders' equity	-	-	-	-	-	117,145	117,145	106,042
Total Liabilities and Shareholders' Equity	\$ -	\$ 148,752	\$ 209,500	\$ 15,190	\$ -	\$ 127,003	\$ 500,445	\$ 552,012
Yield	-	3.91%	2.80%	4.47%	-	-		
GAP	\$ 230,870	\$ (66,905)	\$ (144,806)	\$ 46,378	\$ 12,005	\$ (77,542)	\$ -	\$ -
YIELD SPREAD	6.49%	1.56%	4.91%	3.19%	6.36%	-		

An immediate and sustained 1% increase (decrease) to market interest rates at June 30, 2009 would have a positive (adverse) effect of \$501 (2008 - \$647) to net investment income over the following twelve month period.

An immediate 1% increase (decrease) to market interest rates at June 30, 2009 would have an adverse (positive) effect to accumulated other comprehensive income of \$3,027 (2008 - \$1,023).

11. Guarantees

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

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

- (a) guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to MCLP's residential construction loan securitization program;

- (b) guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to the warehousing of residential construction loans intended for MCLP's residential construction loan securitization program; and
- (c) guarantee of the premises lease with respect to the premises occupied by MFC, MCLP and the Company at 200 King Street West, Toronto with a current monthly rent of \$108 increasing to \$116 in 2010 and expiring in September 2014.

Management does not expect any losses as a result of these guarantees.

MCLP has issued Class B units to management of MCLP, which were financed by bank loans to management. Under certain circumstances, the Company may be required to contribute up to 25% of the fair value of the Class B units to MCLP in order to repurchase the Class B units or to repay the bank financing and subrogate the bank's position. At June 30, 2009, the outstanding bank loan balances were \$7,490.

12. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

13. Future Changes in Accounting Policy

For the fiscal year commencing January 1, 2011, the Company will cease to use GAAP and will adopt International Financial Reporting Standards ("IFRS"). The Company is currently in the process of assessing the impact of IFRS differences on the Company's accounting policies, financial reporting, control environment, information systems and business policies. The impact of the transition to IFRS on the Company's consolidated financial statements is not yet determinable.