



MCAN MORTGAGE CORPORATION

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

SEPTEMBER 30, 2009

MCAN MORTGAGE CORPORATION

REPORT FOR THE THIRD QUARTER ENDED SEPTEMBER 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 September 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 November 3, 2009.

RESULTS OF OPERATIONS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported net income of \$6.6 million for the third quarter of 2009, down from \$10.4 million a year earlier. Earnings per share for the quarter were \$0.46 compared to \$0.73 last year. Net income for the nine months ended September 30, 2009 was \$18.6 million, down from \$20.4 million a year earlier, while earnings per share in the same period were \$1.30 compared to \$1.44 in 2008.

(in thousands, except for per share amounts)

	For the Quarters Ended September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008
Net investment income	\$ 8,007	\$ 12,485	\$ 22,585	\$ 24,611
Operating expenses	1,410	2,088	3,947	4,183
Income before income taxes	6,597	10,397	18,638	20,428
Provision for income taxes	-	-	-	-
Net income	\$ 6,597	\$ 10,397	\$ 18,638	\$ 20,428
Basic and diluted earnings per share	\$ 0.46	\$ 0.73	\$ 1.30	\$ 1.44
Dividends per share	\$ 0.25	\$ 0.25	\$ 1.18	\$ 0.71

Although general economic conditions remain weak, MCAN continued its strong 2009 performance in the third quarter. Despite historically low interest rates, the yield on our mortgage portfolio increased by 0.47% over the second quarter as a result of strong management of our asset mix and increased realization of discounts embedded in our mortgage portfolio. The decreases in the prime rate since 2008 also facilitated a 0.50% decrease in our average term deposit interest rate over the second quarter, which contributed to a significant increase in spreads over last quarter.

MCAN continued its participation in the Canada Mortgage Bonds ("CMB") program during the third quarter, which has led to significant incremental income in recent quarters.

The deterioration in the economy has also led to a significant increase in impaired mortgages and total mortgage arrears during 2009. Impaired mortgages increased from 3.47% at June 30th to 5.88% at September 30th, although total mortgage arrears decreased from \$43 million to \$35 million during the same period. While MCAN's arrears levels are much higher than last year, we have not experienced material losses for the year to date.

Although earnings per share have decreased from 2008, our results are strong by historical standards. However, 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 September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008
Investment Income				
Mortgage interest	\$ 6,726	\$ 9,742	\$ 20,007	\$ 24,786
Interest on loans and investments	736	1,339	2,968	4,484
Fees	1,219	1,598	6,131	3,268
Equity income from MCAP Commercial LP	707	1,229	933	2,237
Securitization income	2,272	1,688	5,757	4,996
Interest on cash and cash equivalents	33	255	200	926
Gain on sale of mortgages	-	3,475	-	3,475
Marketable securities	-	(104)	-	(97)
	11,693	19,222	35,996	44,075
Financial Expenses				
Term deposit interest and expenses	2,912	5,196	10,608	15,783
Mortgage expenses	600	805	2,146	2,647
Provision for losses	174	736	657	1,034
	3,686	6,737	13,411	19,464
Net Investment Income	\$ 8,007	\$ 12,485	\$ 22,585	\$ 24,611

Net investment income for the third quarter decreased by \$4.5 million over the prior year, primarily due to a one-time gain on the sale of mortgages in 2008, in addition to lower spread income in the current year. The decrease for the nine months ended September 30, 2009 was \$2.0 million, as we received income from the acquired portfolios for a full nine months in the current year compared to only three months in 2008.

During the quarter, we realized \$1.2 million (2008 - \$1.6 million) relating to the partial recovery of purchase price discounts on several portfolios of discounted mortgages that we acquired in 2008. We also received \$476,000 (2008 - \$875,000) of fees from MCAP Commercial LP ("MCLP") from a profit sharing arrangement relating to discounted mortgages acquired by MCLP. For the year to date, we have realized \$2.5 million (2008 - \$1.6 million) of discount income on our portfolios and received \$3.7 million (2008 - \$875,000) of fees from MCLP relating to its portfolios.

Mortgage interest income for the quarter decreased by \$3.0 million from the prior year as a result of a decrease in the average portfolio size from \$443 million in 2008 to \$383 million in 2009 and a decrease in the average mortgage yield from 8.62% in 2008 to 7.41% in 2009. The decrease in the yield for the quarter is partly due to a lower yield on the acquired portfolios in the current year as a result of the aforementioned decrease in discount income from lower payout volumes. In addition, the prime rate has decreased from 4.75% at September 30, 2008 to 2.25% at September 30, 2009. This decrease has had a negative impact on mortgage interest income, as 49% of our mortgages at quarter end were floating rate mortgages.

The decrease of \$4.8 million for the nine months ended September 30, 2009 is a result of a \$47 million decrease in the average portfolio and a decrease of 0.42% in the average yield. The impact of the decrease in the prime rate in 2009 has been partly offset by a higher current year yield on the acquired portfolios for the year to date.

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 accrue interest on impaired mortgages, we include interest owing but not accrued in the mortgage yield calculation to accurately represent the underlying portfolio. Actual interest losses are incorporated into the yield once realized. During the third quarter, interest owing but not accrued on impaired mortgages increased by \$423,000. The mortgage yield for the quarter would have decreased by 0.44% to 6.97% if interest owing but not accrued was not included in the yield calculation.

Interest on loans and investments decreased by \$603,000 for the quarter and \$1.5 million for the nine months ended September 30, 2009 as a result of the aforementioned decrease in the prime rate and a smaller average portfolio.

Fees decreased by \$379,000 for the quarter and increased by \$2.9 million for the nine months ended September 30, 2009. Fees received from MCLP related to the profit sharing noted above decreased in the third quarter, however they have increased significantly for the year to date as we did not begin to recover discounts until the third quarter of 2008. 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 \$707,000 during the quarter compared to \$1.2 million in the prior year. MCLP's gains from sales of single family mortgages and realization of discounts decreased in the current year.

MCAN securitizes insured mortgages through the CMB program. During the quarter, we recognized securitization income of \$2.3 million compared to \$1.7 million in the prior year. Current quarter income consists of an up-front gain from securitization of \$1.7 million (2008 - \$813,000) and residual securitization income of \$604,000 (2008 - \$1.1 million), while the third quarter of 2008 included a write-down on the interest-only strips of \$260,000. The increase in up-front gains from securitization is primarily due to an increase in our economic participation in the CMB program. Residual securitization income decreased as a result of negative fair value adjustments to CMB-related financial instruments of \$747,000 (2008 - positive impact of \$738,000). Forward interest rates have been volatile since early 2008, which can lead to unanticipated income variances in either direction. Other components of residual securitization income increased from \$397,000 to \$1.4 million due to an increase in refinancing and renewal gains and a larger CMB portfolio. Securitization income for the nine months ended September 30, 2009 increased over the prior year, as the impact of significantly higher up-front gains exceeded that of lower residual securitization income.

In the third quarter of 2008, we earned \$3.5 million from sales of mortgages.

Term deposit interest and expenses decreased by \$2.3 million during the quarter as a result of a decrease of \$93 million in the average outstanding balance and a decrease in the average term deposit interest rate from 4.29% in 2008 to 2.92% in 2009. The decrease of \$5.2 million for the nine months ended September 30, 2009 is due to a \$58 million decrease in the average outstanding balance and a decrease of 1.10% in the average term deposit rate. Although new term deposit funding rates are low by historical standards, the decrease in the term deposit yield has not decreased to the extent of the prime rate. However, the yield has continued to decrease over the last two quarters despite no changes in the prime rate, as the funding rate on new term deposits has been significantly lower than that of the majority of maturing term deposits.

Mortgage expenses decreased by \$205,000 for the quarter and \$501,000 for the nine months ended September 30, 2009, both consistent with the decrease in the average mortgage portfolio.

Provisions for losses for the third quarter of the current and prior year were as follows:

	<u>2009</u>	<u>2008</u>
Mortgages - general provision (recovery)	\$ (375,000)	\$ (106,000)
Mortgages - specific provision	573,000	25,000
Loans and investments - general provision (recovery)	(24,000)	17,000
Loans and investments - specific provision	-	800,000
	<u>\$ 174,000</u>	<u>\$ 736,000</u>

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.

Specific provision activity consists of an increase of \$646,000 relating to residential construction loans and a decrease of \$73,000 relating to uninsured single family mortgages. Construction loan specific provisions increased from \$600,000 to \$1,246,000 as we increased an existing provision by \$60,000 and recorded two new provisions. The construction loans consist of MCAN's 20% participation in a multi-phased land development loan that has experienced slow sales and cost increases, a land loan that has been delayed by municipal negotiations and a small land development loan that has experienced slow sales and cost increases. Given the timeline for repayment and market price point fluctuations, specific reserves have been established for anticipated losses.

The reduction in specific provisions on uninsured single family mortgages was primarily due to write-offs of \$58,000 through the realization of losses on mortgages that had specific allowances at the end of the second quarter. There were no write-offs on other mortgage classes during the quarter. Write-offs were \$1,000 in the prior year.

In the third quarter of 2008, we recorded an additional write-down of \$800,000 on commercial paper that we held at that time.

Impaired mortgages net of specific allowances are as follows:

(in thousands)	September 30 2009	June 30 2009	March 31 2009	September 30 2008
Residential construction	\$ 17,607	\$ 8,604	\$ 1,197	\$ -
Uninsured single family	3,537	5,584	4,984	4,344
	\$ 21,144	\$ 14,188	\$ 6,181	\$ 4,344
	5.88%	3.47%	1.42%	0.89%

The increase in impaired loans is mostly due to the impairment of the aforementioned residential construction loans on which we recorded new specific allowances during the quarter. We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts. Although impaired mortgages increased during the third quarter, total mortgage arrears decreased by \$8 million from \$43 million to \$35 million. The high arrears levels experienced in 2009 are primarily due to two significant residential construction loan arrears in Ontario and one in Alberta. 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.

Operating Expenses

(in thousands)	For the Quarters Ended September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008
Salaries and benefits	\$ 580	\$ 657	\$ 1,654	\$ 1,544
General and administrative	830	1,431	2,293	2,639
	\$ 1,410	\$ 2,088	\$ 3,947	\$ 4,183

Operating expenses have decreased over the prior year for the quarter and nine months ended September 30, 2009. In the third quarter of 2008, we incurred significant incentives payable with respect to the acquisition of mortgage portfolios.

Income Taxes

(in thousands)	For the Quarters Ended September 30		For the Nine Months Ended September 30	
	2009	2008	2009	2008
Provision against income	\$ -	\$ -	\$ -	\$ -
Charge (recovery) to retained earnings	384	2,797	(943)	4,722
	\$ 384	\$ 2,797	\$ (943)	\$ 4,722

We had an increase in current taxes payable (which are charged directly to retained earnings) during the third quarter of 2009 as a result of an excess of taxable income over dividends. The substantial charge to retained earnings for the quarter and nine months ended September 30, 2008 is a result of a much more significant excess.

The recovery of taxes for the nine months ended September 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 \$5.6 million in the quarter compared to \$3.3 million provided in the prior year. Operating activities provided \$9.4 million for the nine months ended September 30, 2009 compared to \$9.1 million provided in the prior year.

Investing activities provided cash flows of \$32 million in the quarter and used \$23 million in the prior year. Net loan and investment advances increased over the prior year, while there were significant net mortgage repayments in the current year compared to net advances in the prior year. Investing activities provided \$56 million for the nine months ended September 30, 2009 compared to \$51 million used in the prior year. The current year cash flow consists almost entirely of net mortgage repayments, while the prior year consisted almost entirely of net mortgage advances.

Financing activities used \$11 million of cash in the quarter and provided \$25 million in the prior year. Net term deposit repayments increased significantly in the current year. Financing activities used \$85 million for the nine months ended September 30, 2009 compared to \$8 million provided 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	Q3	Q1	Q2	Q3	Q4	Q4
Net investment income	\$7,703	\$6,875	\$8,007	\$6,064	\$6,062	\$12,485	\$11,471	\$4,259
Operating expenses	1,269	1,268	1,410	922	1,173	2,088	1,551	1,079
Income before income taxes	6,434	5,607	6,597	5,142	4,889	10,397	9,920	3,180
Provision for income taxes	-	-	-	-	-	-	-	-
Net income	\$6,434	\$5,607	\$6,597	\$5,142	\$4,889	\$10,397	\$9,920	\$3,180
Basic and diluted earnings per share	\$0.45	\$0.39	\$0.46	\$0.36	\$0.35	\$0.73	\$0.70	\$0.23
Dividends per share								
Regular	\$0.68	\$0.25	\$0.25	\$0.12	\$0.23	\$0.25	\$0.25	\$0.23
Capital gains	-	-	-	0.11	-	-	-	-
Total	\$0.68	\$0.25	\$0.25	\$0.23	\$0.23	\$0.25	\$0.25	\$0.23

Income in the fourth quarter of 2007 was lower than usual due to a significant equity loss from MCLP. 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 have remained strong for the 2009 year to date.

FINANCIAL POSITION

As of September 30, 2009, total consolidated assets were \$500 million, unchanged from June 30, 2009.

Assets

(in thousands)	September 30, 2009		June 30, 2009		December 31, 2008	
Cash and cash equivalents	\$ 41,269	8.3%	\$ 15,158	3.0%	\$ 58,071	10.2%
Mortgages	343,458	68.6	391,749	78.3	393,010	68.9
Loans and investments	83,727	16.7	60,957	12.2	75,367	13.2
Equity investment in MCLP	17,723	3.5	17,016	3.4	18,300	3.2
Other assets	14,068	2.9	15,565	3.1	25,406	4.5
	\$ 500,245	100.0%	\$ 500,445	100.0%	\$ 570,154	100.0%

Cash increased by \$26 million during the quarter as a result of significant mortgage sales near quarter end. In general, we maintain our cash balance in the \$20 to \$30 million range.

Mortgages decreased by \$48 million in the quarter, primarily due to decreases of \$21 million in commercial mortgages, \$20 million in uninsured single family mortgages and \$16 million in residential construction loans, partially offset by an increase of \$10 million in insured single family mortgages. As a result of reduced mortgage product availability due to adverse market

conditions, we 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.

As at September 30, 2009, we held discounted mortgages with an aggregate discount of \$28 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 continue to 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 remain high due to job losses. Property values have stabilized in several markets on rising sales volume. We have not experienced material loan losses resulting from these arrears.

Loans and investments increased by \$23 million, primarily due to a \$22 million increase in insured mortgage backed securities. The CMB 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 \$2.4 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 \$3.5 million upon the closing of this quarter's issuance. In addition, there was a \$1.2 million downward adjustment in the fair value of the interest-only strips.

Our equity investment in MCLP increased by \$707,000, consisting of net of equity income for the quarter.

Other assets at September 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)

	September 30 2009	June 30 2009	Increase (Decrease)	December 31 2008
Liabilities				
Term deposits	\$ 361,156	\$ 368,938	\$ (7,782)	\$ 426,663
Securitization liabilities	5,005	4,504	501	7,095
Accounts payable and accrued charges	7,718	5,144	2,574	12,186
Future taxes payable	5,385	4,714	671	7,601
	379,264	383,300	(4,036)	453,545
Shareholders' equity				
Share capital	98,490	98,333	157	97,493
Contributed surplus	510	510	-	510
Retained earnings	20,048	17,413	2,635	17,313
Accumulated other comprehensive income	1,933	889	1,044	1,293
	120,981	117,145	3,836	116,609
	\$ 500,245	\$ 500,445	\$ (200)	\$ 570,154

Term deposits decreased by \$8 million during the quarter. 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. 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 \$157,000, which was raised through the dividend reinvestment plan for the September 30, 2009 dividend.

Retained earnings increased by \$2.6 million during the quarter. The increase was a result of quarterly income of \$6.6 million, partly offset by the third quarter dividend of \$3.6 million and a charge to retained earnings of \$384,000 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 of available for sale fixed-rate mortgages as a result of a decrease in market mortgage rates and an increase in the fair market value of mortgage-backed securities.

CMB PROGRAM

We participate in the CMB program, which involves the securitization of insured single family and multi family mortgages. The current quarter securitization was the first in which we securitized insured multi family mortgages. We participate in the CMB program with MCAP Service Corporation ("MSC") and MCLP. 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. 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 MCLP, 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 \$191 million of mortgages through the CMB program, consisting of \$149 million of single family mortgages and \$42 million of multi family mortgages. We recorded \$3.5 million of interest-only strips and \$534,000 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.

Our participation in the CMB program may be reduced in the future, as discussed below in "Risk Management".

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.

In addition to the items listed below, for a discussion of the material risks that we are exposed to, please refer to the "Risk Factors" section of our 2009 Annual Information Form, which is incorporated herein by reference.

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 the Superintendent of Financial Institutions Canada ("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. 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. 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. We are required to adopt International Financial Reporting Standards ("IFRS") for the fiscal year commencing January 1, 2011. Among other things, the adoption of IFRS may impact our current accounting policies and critical accounting estimates, as well as the calculation of (and compliance with) our regulatory capital ratios, due to significant recognition and measurement differences between IFRS and current Canadian Generally Accepted Accounting Principles ("GAAP") which could in turn materially impact our financial condition and results of operations, as well as the scope of our operations and business lines. If the IFRS rules regarding securitization are implemented in the form currently proposed, MCAN's assets and liabilities that are subject to securitization will be considered on-balance sheet items. OSFI released a draft advisory in October 2009 with respect to the impact of the currently proposed IFRS rules regarding securitization on regulatory capital ratios. The draft advisory contemplates that the on-balance sheet assets and liabilities that are subject to securitization transactions undertaken after December 31, 2009 (including insured mortgages that are securitized through the CMB program) will be required to be included in the calculation of a regulated financial institution's regulatory capital ratios. Currently, we are not required to reflect securitized assets or liabilities on our balance sheet or include them in the calculation of our regulatory capital ratios. Pursuant to the measures contemplated by the draft advisory, if the IFRS rules regarding securitization are implemented in their proposed form, beginning with the fiscal year commencing on January 1, 2011, we will be required to include any assets and liabilities that were subject to securitization transactions undertaken as of January 1, 2010 in the calculation of our regulatory capital ratios. We are continuing to identify and assess the impact of the transition to IFRS on our consolidated financial statements and are working to develop a plan to minimize the effect of the transition on our business. However, if the IFRS rules regarding securitization are implemented in the proposed form and if the draft advisory is applied in the form proposed by OSFI, then MCAN's participation in securitization transactions, namely through our participation in the CMB program, may need to be significantly reduced 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.

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	\$ 340,930	\$ 20,226	\$ -	\$ 361,156
Operating lease	171	342	-	513
Mortgage fundings	74,805	8,312	-	83,117
CMB obligations	916	2,163	-	3,079
	\$ 416,822	\$ 31,043	\$ -	\$ 447,865

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 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 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 have completed the identification of differences between GAAP and IFRS in the areas identified by the scoping and diagnostic phase, and continue to analyze the impact of these differences. Once this task has been completed, 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 fourth quarter 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 September 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 	Q2 2009 Q4 2009 Q4 2009 Q1 2010	Differences identified and analyzed In progress, on schedule 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 	Q3 2010 Q3 2010 Quarterly during 2010	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 	Q3 2010 Q4 2010 Q3 2010 Q4 2010	Assessment to be completed Assessment to be completed Assessment to be completed Assessment to be completed

Key Activity	Planned Completion Date	Status
Information Systems		
<ul style="list-style-type: none"> • Maintenance of 2010 general ledger for both GAAP and IFRS 	Q4 2009	On schedule, project in progress with IT department
<ul style="list-style-type: none"> • Program upgrades/modifications 	Q4 2009	On schedule, project in progress with IT department
<ul style="list-style-type: none"> • One-off calculations (IFRS 1) 	Q4 2009	Analysis in progress, on schedule
<ul style="list-style-type: none"> • Gathering data for disclosures 	Q4 2009	Analysis in progress, on schedule
Business Policies		
<ul style="list-style-type: none"> • Assess impact on capital plan 	Q2 2010	Assessment to be completed
<ul style="list-style-type: none"> • Revise capital plan as needed 	Q3 2010	Assessment to be completed

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at September 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 September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

The 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 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. 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.

Arrears in our single family mortgage portfolio remain high due to job losses. Property values have stabilized in several markets on rising sales volume. We have not experienced material loan losses resulting from these arrears.

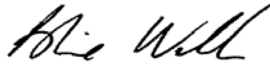
Arrears in our construction loan portfolio also remain high. The large size of these loans causes them to skew our arrears statistics. The nature of these loans also usually results in a more protracted resolution period.

While economic conditions remain weak, the Canadian economy appears to be stabilizing. This is evidenced by the fact that employment increased in both August and September. Should this job creation continue, then we would expect lower arrears in our mortgage portfolio.

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 fourth quarter dividend of \$0.26 per share (increased from \$0.25 per share) to be paid January 4, 2010 to shareholders of record as of December 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.