



**FIRST QUARTER REPORT 2010
MCAN MORTGAGE CORPORATION**

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REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2010 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2009. 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 2009 remain substantially unchanged. Information has been presented as of May 11, 2010.

DESCRIPTION OF THE BUSINESS

MCAN Mortgage Corporation ("MCAN") is a public company listed on the Toronto Stock Exchange under the symbol MKP and is a reporting issuer in all provinces and territories in Canada.

Our objective is to generate a reliable stream of income by investing our funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of loans and investments, real estate and securitization investments. We employ leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance up to a maximum of five times capital (on a non-consolidated basis) as permitted by the *Income Tax Act* (Canada) (the "Tax Act"). Our term deposits are sourced through a network of independent financial agents. In addition, our regulator, the Office of the Superintendent of Financial Institutions ("OSFI") has provided us with a consolidated regulatory assets to capital limit. As a Mortgage Investment Corporation under the Tax Act ("MIC"), we are entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of other dividends paid by the Company. Such dividends are received by our shareholders as capital gains dividends and interest income, respectively.

RESULTS OF OPERATIONS

MCAN reported net income of \$4.8 million for the first quarter of 2010, down from \$6.4 million in the prior year. Earnings per share were \$0.33 compared to \$0.45 in the prior year.

(in thousands, except for per share amounts)

For the Quarters Ended	March 31 2010	December 31 2009	March 31 2009
Net investment income	\$ 6,106	\$ 8,056	\$ 7,703
Operating expenses	1,308	1,952	1,269
Income before income taxes	4,798	6,104	6,434
Provision for income taxes	-	-	-
Net income	\$ 4,798	\$ 6,104	\$ 6,434
Basic and diluted earnings per share	\$ 0.33	\$ 0.43	\$ 0.45
Dividends per share	\$ 0.41	\$ 0.26	\$ 0.68

MCAN's first quarter earnings per share of \$0.33 decreased by \$0.10 from the fourth quarter of 2009, mostly due to a substantial decrease in discount income realized on acquired mortgage portfolios as discounts realized in the fourth quarter were unusually high. The fourth quarter also had a significant individual mortgage provision that partially offset the aforementioned discount income.

The overall yield on our mortgage portfolio decreased by 1.10% from the fourth quarter of 2009, primarily due to the aforementioned strong performance in the acquired portfolios in the fourth quarter, although the yield on our regular portfolio increased by 0.44% during the first quarter. Continuing decreases in new term deposit funding costs led to a 0.23% decrease in the average term deposit interest rate compared to the fourth quarter of 2009.

MCAN did not participate in the Canada Mortgage Bonds ("CMB") program during the first quarter, although we continue to earn significant residual securitization income from the CMB program.

Consistent with an improving economy, impaired mortgages and total mortgage arrears decreased during the quarter. Impaired mortgages as a percentage of total mortgages decreased from 5.81% at December 31, 2009 to 4.79% at March 31, 2010 and total mortgage arrears decreased from \$31 million to \$24 million during the same period. While MCAN's arrears levels remain high by historical standards, we have not realized material losses since the onset of the recent recession.

Net Investment Income

(in thousands)

For the Quarters Ended March 31	2010	2009
Investment Income		
Mortgage interest	\$ 5,614	\$ 6,716
Interest on loans and investments	877	1,243
Securitization income	1,043	2,274
Fees	890	2,339
Equity income from MCAP Commercial LP	396	149
Interest on cash and cash equivalents	43	93
	8,863	12,814
Financial Expenses		
Term deposit interest and expenses	1,933	4,047
Mortgage expenses	578	764
Provision for losses	246	300
	2,757	5,111
Net Investment Income	\$ 6,106	\$ 7,703

Net investment income was \$6.1 million for the quarter, a decrease of \$1.6 million from \$7.7 million in the prior year. The decrease is primarily due to lower mortgage interest income and fee income and the absence of an upfront CMB program securitization gain in the current year, partially offset by lower term deposit interest and expenses.

During the quarter, we realized \$661,000 (2009 - \$662,000) relating to the partial recovery of purchase price discounts on MCAN's acquired portfolios, included in mortgage interest income. We also received \$217,000 (2009 - \$1.6 million) of fees from MCAP Commercial LP ("MCLP") from a profit sharing arrangement relating to the aforementioned mortgage portfolios acquired by MCLP. The volume of discount recoveries from the portfolios of both companies can be volatile and difficult to predict.

Mortgage interest income decreased by \$1.1 million from the prior year, primarily due to a \$102 million decrease in the average mortgage portfolio from \$390 million in 2009 to \$288 million in 2010. This decrease was partly offset by a 0.56% increase in the average mortgage yield from 6.99% in 2009 to 7.55% in 2010. The yields on both the acquired and regular portfolios increased from the prior year.

The mortgages in the acquired portfolios have higher effective yields than those in our regular portfolio, as they were 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 quarter, interest owing but not accrued on impaired mortgages increased by \$183,000. The mortgage yield would have decreased by 0.26% to 7.29% if interest owing but not accrued was excluded from the yield calculation.

Interest on loans and investments decreased by \$366,000 from the prior year, primarily due to a lower average portfolio balance in the current year and one-time interest received in the prior year. In the current year, we recognized an \$82,000 gain (over carrying value) on the sale of our MAV II investment.

MCAN securitizes insured mortgages through the CMB program. During the quarter, we recognized securitization income of \$1.0 million compared to \$2.3 million in the prior year. Current quarter income includes residual securitization income of \$1.0 million (2009 - \$391,000). We did not participate in any new mortgage securitizations during the quarter, while there was a gain from securitization of \$1.9 million in the prior year. Residual securitization income increased over the prior year despite negative fair value adjustments to CMB-related financial instruments of \$140,000 (2009 - negative impact of \$77,000). Other components of residual securitization income increased from \$468,000 to \$1.2 million as a result of an increase in refinancing and renewal gains and a larger CMB portfolio.

Fees decreased by \$1.4 million over the prior year, primarily due to the decrease noted above in fees received from MCLP related to acquired portfolio profit sharing. 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 \$396,000 during the quarter compared to \$149,000 in the prior year. MCLP had improved results in its leasing and single family mortgage businesses during the quarter, partially offset by lower origination volumes.

Term deposit interest and expenses decreased by \$2.1 million during the quarter as a result of a decrease in the average term deposit rate from 3.85% in 2009 to 1.96% in 2010 and a \$58 million decrease in the average outstanding balance from \$393 million in 2009 to \$335 million in 2010. The average term deposit rate has continued to decrease over the last twelve months, as the funding rate on new term deposits has been significantly lower than that of the majority of maturing term deposits despite minimal changes in the prime rate.

Mortgage expenses decreased by \$186,000 from the prior year, consistent with the decrease in the average mortgage portfolio.

Credit Quality

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

(in thousands)	2010	2009
Mortgages - general provision	\$ 300	\$ 404
Mortgages - specific provision (recovery)	(43)	(20)
Loans and investments - general provision (recovery)	(11)	(84)
	\$ 246	\$ 300

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 for the quarter consists of an increase of \$24,000 relating to uninsured single family mortgages and the reversal of an existing \$67,000 provision on a residential construction loan upon its write-off. Construction loan specific provisions of \$2.7 million at March 31, 2010 consist of MCAN's 20% participation in a multi-phased land development loan that has experienced slow sales and cost increases and a land loan that has been delayed by municipal negotiations. Given the timeline for repayment and market price point fluctuations, specific provisions have been established for anticipated losses.

Write-offs were 9.5 basis points (\$67,000) on average mortgage balances, compared to 9.6 basis points (\$92,000) in the prior year. The aforementioned reversal of the residential construction loan specific provision comprised the write-offs recognized during the quarter. Write-offs were partially offset by a \$35,000 recovery of an uninsured single family mortgage that had been previously written off.

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

(in thousands)	March 31 2010	December 31 2009	March 31 2009
Residential construction	\$ 14,130	\$ 15,815	\$ 1,197
Uninsured single family	1,483	1,356	4,984
	\$ 15,613	\$ 17,171	\$ 6,181
	4.79%	5.81%	1.42%

The decrease in impaired loans during the quarter is mostly due to the resolution of a significant residential construction loan. We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts.

Total mortgage arrears decreased from \$31 million to \$24 million during the quarter. The high arrears levels experienced in recent quarters are primarily due to two significant residential construction loan arrears, one in each of Ontario and Alberta. Our current arrears levels are a reflection of the general deterioration in the Canadian economy during 2009. There were no other assets in arrears at quarter end.

Operating Expenses

(in thousands)

For the Quarters Ended March 31	2010	2009
Salaries and benefits	\$ 599	\$ 525
General and administrative	709	744
	\$ 1,308	\$ 1,269

Operating expenses were comparable to the prior year.

Income Taxes

(in thousands)

For the Quarters Ended March 31	2010	2009
Provision against income	\$ -	\$ -
Charge (recovery) to retained earnings	(209)	(1,753)
	\$ (209)	\$ (1,753)

Future taxes payable, which are charged directly to retained earnings, decreased slightly during the first quarter of 2010 compared to a significant decrease in the prior year. Both decreases are primarily due to the payment of the respective March 31st dividends, although the 2010 dividend was significantly lower than 2009. 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 significant future tax liabilities at December 31, 2009 and 2008 as the March 31, 2010 and 2009 dividends, which related to the 2009 and 2008 tax years, respectively, had not yet been paid. The reversal of these liabilities through the payment of the dividends led to a recovery of future taxes in the first quarter of both years, although the prior year recovery was much higher than the current year due to the magnitude of the related dividend.

Cash Flows

Operating activities provided cash flows of \$4.1 million in the quarter and used \$756,000 in the prior year. In the prior year, we had a significant negative adjustment regarding upfront cash requirements on new CMB issuances.

Investing activities used cash flows of \$18 million in the quarter and provided \$758,000 in the prior year. The variance is due to an increase in net mortgage advances in the current year.

Financing activities used cash flows of \$58 million in the quarter and used \$27 million in the prior year. The net term deposit outflow increased significantly compared to the prior year.

SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except per share amounts)

	2010		2009			2008		
	Q1	Q1	Q2	Q3	Q4	Q2	Q3	Q4
Net investment income	\$6,106	\$7,703	\$6,875	\$8,007	\$8,056	\$6,062	\$12,485	\$11,471
Operating expenses	1,308	1,269	1,268	1,410	1,952	1,173	2,088	1,551
Income before income taxes	4,798	6,434	5,607	6,597	6,104	4,889	10,397	9,920
Provision for income taxes	-	-	-	-	-	-	-	-
Net income	<u>\$4,798</u>	<u>\$6,434</u>	<u>\$5,607</u>	<u>\$6,597</u>	<u>\$6,104</u>	<u>\$4,889</u>	<u>\$10,397</u>	<u>\$9,920</u>
Basic and diluted earnings per share	\$0.33	\$0.45	\$0.39	\$0.46	\$0.43	\$0.35	\$0.73	\$0.70
Dividends per share								
Regular	\$0.41	\$0.68	\$0.25	\$0.25	\$0.26	\$0.23	\$0.25	\$0.25
Capital gains	-	-	-	-	-	-	-	-
Total	<u>\$0.41</u>	<u>\$0.68</u>	<u>\$0.25</u>	<u>\$0.25</u>	<u>\$0.26</u>	<u>\$0.23</u>	<u>\$0.25</u>	<u>\$0.25</u>

After a stable first half of the year, the second half of 2008 had a significant increase in net income due to substantial income from the sale of mortgages and income earned from the acquired portfolios. Securitization income and income from the acquired portfolios remained strong during 2009. The absence of the upfront gain from a new CMB issuance in the first quarter of 2010 led to a decrease in net income.

FINANCIAL POSITION

As at March 31, 2010, total consolidated assets were \$451 million, a decrease of \$56 million from December 31, 2010.

Assets

(in thousands)	March 31, 2010		December 31, 2009		March 31, 2009	
Cash and cash equivalents	\$ 17,620	3.9%	\$ 89,843	17.7%	\$ 31,014	5.7%
Mortgages	327,536	72.7	295,415	58.3	407,706	74.9
Securitization investments	60,280	13.4	73,590	14.5	35,874	6.6
Loans receivable and other investments	15,535	3.4	16,885	3.3	24,796	4.5
Equity investment in MCLP	18,301	4.1	17,905	3.5	17,736	3.3
Derivative financial instruments	10,029	2.2	11,490	2.3	24,357	4.5
Other assets	1,528	0.3	1,555	0.4	2,758	0.5
	\$ 450,829	100.0%	\$ 506,683	100.0%	\$ 544,241	100.0%

Cash decreased by \$72 million during the quarter. The December 31, 2009 balance was unusually high, however during the quarter, our cash balance returned to near our normal range of \$20 to \$30 million through new mortgage fundings and the net repayment of term deposits.

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

(in thousands)	March 31, 2010			December 31, 2009		
	Principal	Allowance	Net	Principal	Allowance	Net
Single family uninsured	\$ 135,199	\$ 936	\$ 134,263	\$ 127,889	\$ 874	\$ 127,015
Single family insured	39,111	-	39,111	38,990	-	38,990
Construction	150,509	3,874	146,635	126,059	3,728	122,331
Commercial	7,672	145	7,527	7,207	128	7,079
	\$ 332,491	\$ 4,955	\$ 327,536	\$ 300,145	\$ 4,730	\$ 295,415

Mortgages increased by \$32 million during the quarter. Mortgage activity included increases of \$24 million in construction loans and \$7 million of uninsured single family mortgages. Although market conditions are improving, we continue to focus new mortgage approvals on borrowers with strong real estate fundamentals. In addition, we have been applying minimum rates on renewed and newly funded construction loans where possible.

As at March 31, 2010, we held discounted mortgages with a net discount of \$21 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 2010 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered.

We invest in insured and uninsured single family mortgages in Canada. We believe that the Canadian residential property market continues to exhibit healthy fundamentals. We do not invest in the United States mortgage market. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding.

Securitization investments decreased by \$13 million during the quarter due to decreases of \$10 million in insured mortgage-backed securities and \$2 million in asset-backed commercial paper. There was a minimal change in the CMB interest-only strips balance during the quarter.

Loans receivable and other investments decreased by \$1 million during the quarter as a result of the partial repayment of certain existing loans.

Our equity investment in MCLP increased by \$396,000, consisting of net equity income for the quarter.

Derivative financial instruments consist of interest rate swaps relating to the CMB program. We have entered into "pay-floating, receive-fixed" swaps to hedge against interest rate risk on reinvested CMB principal collections. The fair market value of the swaps decreased during the quarter as a result of an increase in forward interest rates.

Liabilities and shareholders' equity

(in thousands)

	March 31 2010	December 31 2009	Increase (Decrease)
Liabilities			
Term deposits	\$ 311,531	\$ 360,744	\$ (49,213)
Securitization liabilities	4,562	5,048	(486)
Accounts payable and accrued charges	5,229	11,001	(5,772)
Future taxes payable	6,662	7,011	(349)
	327,984	383,804	(55,820)
Shareholders' equity			
Share capital	99,042	98,490	552
Contributed surplus	510	510	-
Retained earnings	21,292	22,165	(873)
Accumulated other comprehensive income	2,001	1,714	287
	122,845	122,879	(34)
	\$ 450,829	\$ 506,683	\$ (55,854)

Term deposit liabilities decreased by \$49 million during the quarter, consistent with the change in assets. To fund our investment operations, we issue term deposits that are eligible for CDIC deposit insurance. 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. Changes in the fair value of the interest-only strips are generally offset by changes in the fair value of CMB interest rate swaps.

Share capital increased by \$552,000, which was raised through the dividend reinvestment plan for the January 4, 2010 and March 31, 2010 dividends and the issuance of new shares as part of the Executive Share Purchase Plan.

Retained earnings decreased by \$873,000 during the quarter. The decrease was a result of the first quarter dividend of \$5.9 million, partly offset by quarterly income of \$4.8 million and a recovery to retained earnings of \$209,000 relating to current and future income taxes.

Accumulated other comprehensive income represents the changes in unrealized gains or losses (net of taxes) on available for sale financial assets. 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 an overall decrease in market mortgage rates during the quarter, partly offset by a decrease 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. We participate in the CMB program with MCLP and a private company. For accounting purposes, we recognize an upfront 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. In addition, we recognize liabilities for future mortgage servicing and other costs, which we subcontract to MCLP and the private company that participates in the CMB program. For tax purposes, we recognize CMB-related income on the cash basis, wherein the payment of upfront CMB expenses is a deduction from taxable income at the date of issuance, and the ongoing collection of net CMB cash flows is recognized in taxable income as received over the duration of the issuance. In the early years of a CMB issuance, taxable income is significantly lower than accounting income due to the absence of an upfront gain on securitization for tax purposes to offset upfront cash requirements. However, taxable income significantly exceeds accounting income in the later years of a CMB issuance, in line with the receipt of ongoing CMB cash flows such as mortgage interest and principal reinvestment interest.

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

During the quarter, we did not participate any new mortgage securitizations through the CMB program.

As part of our participation in 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.

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

Interest Rate Risk

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.

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

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage and lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. 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, we continue to monitor 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 ALCO and a formal quarterly review involving the ICB. Furthermore, our exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of our investments. Our policies establish limits on concentration by asset class, geographic region, dollar amount and borrower.

We identify potential risk in our mortgage portfolio by way of regular review of market metrics, which are a key component of semi-annual market reports provided to the Board of Directors. We also undertake site visits of active mortgages. Existing risks in our mortgage portfolio are identified by arrears reporting, portfolio diversification analysis, annual reviews of large loans and risk rating trends of the entire mortgage portfolio. The aforementioned reporting and analysis provides adequate monitoring of and control over our exposure to credit risk.

We assess a credit score and risk rating for all mortgages at the time of underwriting based on the quality of the borrower and the underlying real estate. Subsequent to the initial mortgage advance, the ongoing monitoring of a mortgage may lead to the downgrading of the status of a mortgage to monitored, in arrears, or impaired.

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

We record a specific allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Specific allowances include all of the accumulated provisions for losses on a particular mortgage. At March 31, 2010, we have recorded \$2.7 million of specific allowances on our mortgage portfolio (see note 2 to the consolidated financial statements).

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

Liquidity Risk

Liquidity risk is the risk that cash inflows, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on and off-balance sheet) as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that we may eventually collect the amounts outstanding. We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The ICB is responsible for the review and approval of liquidity policies. In general, we maintain a standard level of liquid investments and credit facilities of at least 20% of term deposits maturing within 100 days. In addition, all single family mortgages are readily marketable within a time frame of one to three months, providing the Company with added flexibility to meet its liquidity needs. We have access to funding through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide the Company with the ability to fund asset growth as needed and to manage its net liquidity/surplus deficit. There is also a \$30 million overdraft facility in place to fund asset growth or meet short-term obligations as required.

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

Our liquidity position and access to funding support our ability to meet current and future commitments. Our liquid investments and credit facilities were 45% of term deposits maturing within 100 days at March 31, 2010. For further details on our liquid assets and our ability to meet liability obligations, refer to notes 9 and 10 to the consolidated financial statements.

Market Risk

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

Changes in Laws and Regulations

Changes to current laws, regulations, regulatory policies or guidelines (including changes in their interpretation, implementation or enforcement), the introduction of new laws, regulations, regulatory policies or guidelines or the exercise of discretionary oversight by regulatory or other competent authorities including OSFI, could adversely affect us, including by limiting the products or services that we provide, restricting the scope of our operations or business lines, increasing the ability of competitors to compete with our products and services or requiring us to cease carrying on business. 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 final advisory in March 2010 with respect to the impact of the currently proposed IFRS rules regarding securitization on regulatory capital ratios. The advisory indicates that the on-balance sheet assets and liabilities that are subject to securitization transactions undertaken after March 31, 2010 (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 indicated by the 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 after March 31, 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 their current form, 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 as a result of the OSFI advisory. 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	\$ 288,020	\$ 23,511	\$ -	\$ 311,531
Operating lease	171	256	-	427
Mortgage fundings	128,636	14,293	-	142,929
CMB obligations	959	2,038	-	2,997
	\$ 417,786	\$ 40,098	\$ -	\$ 457,884

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

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. This engagement has created efficiencies in MCAN's IFRS conversion process, which we expect to continue throughout the duration of the conversion.

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

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

The scoping and diagnostic phase, which involved a high-level impact assessment to identify key areas impacted by the conversion to IFRS, has been completed. We have completed our assessment of the impact of differences between GAAP and IFRS on our accounting policies and information systems. During 2010, we will complete our assessment of the impact of IFRS on our financial reporting, control environment and business activities. We are currently in the implementation of our conversion plan, which remains on schedule. We are currently unable to quantify the impact of the transition to IFRS on each financial statement line item.

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

Most adjustments required as a result of the transition from GAAP to IFRS will be made retrospectively as of January 1, 2010 based on IFRS applicable at that time. Our preliminary elections under IFRS 1 are not expected to have a material financial impact.

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

- **CMB Program:** The most significant IFRS difference for MCAN is the accounting for the securitization of insured mortgages through our participation in the CMB program. Based on IFRS as of the date of transition, we will no longer account for these transactions as sales of mortgages and will reverse all previously recognized upfront gains on securitization

through opening retained earnings. This reversal will be partially offset by mortgage interest income, principal reinvestment income and penalty income less coupon interest expense that would have been recognized from the dates of the respective CMB issuances to the date of transition. Our IFRS balance sheet will include mortgages securitized through the CMB program, assets in which principal repayments have been re-invested and a corresponding CMB liability. On a go-forward basis under IFRS, we will recognize mortgage interest income, principal reinvestment income, penalty income and coupon interest expense on the accrual basis, and we will include any future mortgages securitized through the CMB program on our balance sheet. In regards to our participation in the CMB program, we have not yet quantified the impact of the conversion to IFRS on opening retained earnings.

- **Mortgage Loss Provisions:** Under GAAP, general provisions for mortgage losses are based on expected losses, whereas IFRS collective mortgage provisions are based on an incurred loss model. Although we have not yet quantified the impact of the conversion to IFRS on opening retained earnings in regards to mortgage loss provisions, we expect our general/collective provision to decrease as a result of the conversion to IFRS.
- **Income Taxes:** Under GAAP, we are able to charge our current and future tax liabilities directly to retained earnings instead of recognizing the changes through net income. Based on IFRS as of the date of transition, we will no longer be able to charge current and future taxes directly to retained earnings, which will likely result in increased volatility to net income. In addition, MCAN's future tax position will change to the extent that the accounting values of balance sheet items that have differing values for accounting and tax purposes are impacted by IFRS.
- **Equity investment in MCLP:** To the extent that MCLP's opening retained earnings changes as a result of its conversion to IFRS, MCAN will adjust its investment in MCLP based on its pro-rata share of MCLP's opening retained earnings adjustment, which is not currently quantifiable.

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

Key Activity	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 Q2 2010	Differences identified and analyzed Policies selected Policies selected 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 Throughout 2010	Analysis in progress, on schedule Analysis in progress, on schedule In progress
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
Information Systems <ul style="list-style-type: none"> • Creation of general ledger for both GAAP and IFRS • Program upgrades/modifications • One-off calculations (IFRS 1) • Gathering data for disclosures 	Q4 2009 Q4 2009 Q4 2009 Q4 2009	Completed Completed Completed Completed
Business Policies <ul style="list-style-type: none"> • Assess impact on capital plan • Revise capital plan as needed 	Q2 2010 Q3 2010	Assessment to be completed Assessment to be completed

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at March 31, 2010, the Interim 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 March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

OUTLOOK

We continue to carry significant unutilized investment capacity, consistent with 2009. Our mortgage portfolio increased during the current quarter and we plan to continue to grow the mortgage portfolio throughout 2010 to employ some of this investment capacity. During the fourth quarter of 2009, we recommenced the funding of new uninsured single family mortgages. The market for new housing construction has improved, and we have experienced growth in both fundings and commitments for our residential construction loan portfolio.

Our average term deposit interest rate has continued to decrease as maturing deposits are replaced by new deposits at significantly lower rates. This decrease should contribute to improved spread income in 2010, compared to 2009. The level of the lower average deposit interest rates throughout 2010 will be dependent on the timing and magnitude of increases to the prime rate expected later in 2010.

Arrears in our single family mortgage portfolio remain high compared to historical levels due to continued high unemployment levels. However, we have experienced a reduction in arrears levels since the fourth quarter of 2009. Property values have stabilized in most markets in which we invest 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.

Economic growth and job creation was evident during the last quarter of 2009 and has continued through the first quarter of 2010. As this trend continues, we expect an increase in our mortgage portfolio and lower mortgage arrears.

Last quarter we advised that we are in discussions with staff of OSFI in connection with a review being undertaken by OSFI. The review has focused on MCAN's relationship with both MCLP and MCAP Service Corporation ("MSC"), and whether either or both of those entities should be designated as related parties of MCAN in accordance with the Trust and Loan Companies Act. MCAN is co-operating with OSFI staff in connection with this review and is awaiting a response from OSFI on this issue.

MCLP and MSC are not currently related parties of MCAN, and MCAN has made oral and written submissions to OSFI as to why such entities should not be designated as related parties pursuant to the Superintendent's discretion under the Trust Act. At this stage, it is unclear what the results of the review will be. However, MCAN notes that if OSFI, in its discretion, decides to designate MCLP and/or MSC as related parties, any resulting restructuring that may be necessary could have at least a temporary negative impact on MCAN's operations and results.

DIVIDENDS

The Board of Directors declared a second quarter dividend of \$0.26 per share to be paid June 30, 2010 to shareholders of record as of June 15, 2010.



Ian Sutherland
Interim 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 2010 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
(dollars in thousands)

As at	Note	March 31 2010	December 31 2009	March 31 2009
Assets				
Investments				
Cash and cash equivalents		\$ 17,620	\$ 89,843	\$ 31,014
Mortgages	2	327,536	295,415	407,706
Securitization investments	4	60,280	73,590	35,874
Loans receivable and other investments		15,535	16,885	24,796
Equity investment in MCAP Commercial LP		18,301	17,905	17,736
		439,272	493,638	517,126
Other				
Derivative financial instruments	5	10,029	11,490	24,357
Other assets		1,528	1,555	2,758
		\$ 450,829	\$ 506,683	\$ 544,241
Liabilities and Shareholders' Equity				
Liabilities				
Term deposits		\$ 311,531	\$ 360,744	\$ 412,164
Securitization liabilities	6	4,562	5,048	8,112
Accounts payable and accrued charges		5,229	11,001	4,377
Future taxes payable		6,662	7,011	5,280
		327,984	383,804	429,933
Shareholders' Equity				
Share capital	7	99,042	98,490	98,184
Contributed surplus		510	510	510
Retained earnings		21,292	22,165	15,805
Accumulated other comprehensive income (loss)		2,001	1,714	(191)
		122,845	122,879	114,308
		\$ 450,829	\$ 506,683	\$ 544,241

See accompanying notes

On behalf of the Board:



Ian Sutherland
Interim Chief Executive Officer



David G. Broadhurst
Director, Chairman of the Audit Committee

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

For the Quarters Ended March 31	Note	2010	2009
Investment Income			
Mortgage interest		\$ 5,614	\$ 6,716
Interest on loans and investments		877	1,243
Securitization income	3	1,043	2,274
Fees		890	2,339
Equity income from MCAP Commercial LP		396	149
Interest on cash and cash equivalents		43	93
		8,863	12,814
Financial Expenses			
Term deposit interest and expenses		1,933	4,047
Mortgage expenses		578	764
Provision for losses		246	300
		2,757	5,111
Net Investment Income		6,106	7,703
Operating Expenses			
Salaries and benefits		599	525
General and administrative		709	744
		1,308	1,269
Income Before Income Taxes		4,798	6,434
Provision for income taxes		-	-
Net Income		\$ 4,798	\$ 6,434
Basic and diluted earnings per share			
		\$ 0.33	\$ 0.45
Dividends per share			
		\$ 0.41	\$ 0.68
Weighted average number of basic and diluted shares (000's)			
		14,336	14,247

See accompanying notes

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

For the Quarters Ended March 31	2010	2009
Share capital		
Balance, beginning of period	\$ 98,490	\$ 97,493
Common shares issued	552	691
Balance, end of period	99,042	98,184
Contributed surplus		
Balance, beginning of period	510	510
Changes to contributed surplus	-	-
Balance, end of period	510	510
Retained earnings		
Balance, beginning of period	22,165	17,313
Net income	4,798	6,434
Income taxes recovered to retained earnings	209	1,753
Dividends declared	(5,880)	(9,695)
Balance, end of period	21,292	15,805
Accumulated other comprehensive income (loss)		
Balance, beginning of period	1,714	1,293
Other comprehensive income (loss)	287	(1,484)
Balance, end of period	2,001	(191)
Total shareholders' equity	\$ 122,845	\$ 114,308

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

For the Quarters Ended March 31	2010	2009
Net income	\$ 4,798	\$ 6,434
Other comprehensive income (loss), net of taxes		
Change in unrealized gain on available for sale mortgages	321	(1,503)
Change in unrealized gain on available for sale securitization investments	(57)	17
Other changes	23	2
	287	(1,484)
Comprehensive income	\$ 5,085	\$ 4,950

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
 (dollars in thousands)

For the Quarters Ended March 31	2010	2009
Cash provided by (used for):		
Operating Activities		
Net income	\$ 4,798	\$ 6,434
Adjusted for non-cash items:		
Equity income	(396)	(156)
Provision for losses	246	300
Securitization income	1,388	(3,292)
Amortization of other assets	172	260
Amortization of mortgage discounts	52	51
Increase in other receivables	(231)	(368)
Decrease in accounts payable and accrued charges	(1,905)	(4,698)
Distributions from MCAP Commercial LP	-	713
Cash flows from (for) operating activities	4,124	(756)
Investing Activities		
Mortgage advances	(165,865)	(712,077)
Mortgage reductions	62,433	61,514
Proceeds on sale of mortgages	71,403	633,537
Decrease in loans and investments	14,053	18,243
Additions to other assets	(108)	(459)
Cash flows (for) from investing activities	(18,084)	758
Financing Activities		
Issue of term deposits	57,012	117,818
Repayment of term deposits	(106,224)	(132,317)
Issue of common shares	552	691
Dividends paid	(9,603)	(13,251)
Cash flows for financing activities	(58,263)	(27,059)
Decrease in cash and cash equivalents	(72,223)	(27,057)
Cash and cash equivalents, beginning of period	89,843	58,071
Cash and cash equivalents, end of period	\$ 17,620	\$ 31,014

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1. Basis of Presentation

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

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company’s 22.3% 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, 2009. 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, 2009 and the accompanying notes included on pages 24 to 47 of the Company’s 2009 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 March 31	Principal	Allowance			2010 Net
		General	Specific	Total	
Single family mortgages					
- Uninsured	\$ 95,602	\$ 610	\$ 79	\$ 689	\$ 94,913
- Uninsured (completed inventory loans)	37,717	247	-	247	37,470
- Insured	38,416	-	-	-	38,416
Construction loans					
- Residential	149,601	1,213	2,660	3,873	145,728
- Non-residential	166	1	-	1	165
Commercial loans					
- Uninsured	7,155	145	-	145	7,010
- Insured	464	-	-	-	464
	329,121	2,216	2,739	4,955	324,166
Fair value adjustment	1,891	-	-	-	1,891
	331,012	2,216	2,739	4,955	326,057
Accrued interest	1,479	-	-	-	1,479
	\$ 332,491	\$ 2,216	\$ 2,739	\$ 4,955	\$ 327,536

As at March 31	Principal	Allowance			2009 Net
		General	Specific	Total	
Single family mortgages					
- Uninsured	\$ 151,705	\$ 836	\$ 144	\$ 980	\$ 150,725
- Uninsured (completed inventory loans)	40,970	411	-	411	40,559
- Insured	30,006	-	-	-	30,006
Construction loans					
- Residential	171,272	1,535	-	1,535	169,737
- Non-residential	7,864	70	-	70	7,794
Commercial loans					
- Uninsured	6,265	99	-	99	6,166
- Insured	522	-	-	-	522
	408,604	2,951	144	3,095	405,509
Fair value adjustment	124	-	-	-	124
	408,728	2,951	144	3,095	405,633
Accrued interest	2,073	-	-	-	2,073
	\$ 410,801	\$ 2,951	\$ 144	\$ 3,095	\$ 407,706

The Company invests in insured and uninsured single family mortgages in Canada. The Company does not invest in the United States mortgage market. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. Residential mortgages insured by Canada Mortgage and Housing Corporation or Genworth Financial Mortgage Insurance Company Canada 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.

Outside of the change during the quarter shown in the above tables, there were no significant fluctuations in mortgage balances within 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 March 31, 2010, the Company holds discounted mortgages with an aggregate discount of \$20,792 (2009 - \$32,005). 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 on an effective interest rate method basis. The amount of the discount ultimately recovered is dependent on the value of the real estate securing the mortgage, as well as the financial capacity of the borrower. Additionally, these mortgages have maturity dates ranging from 2010 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered.

The composition of the discount at March 31, 2010 is as follows:

	2010	2009
Fixed rate	\$ 4,351	\$ 10,500
Floating rate	16,404	21,641
Gross discount	20,755	32,141
Accumulated discount amortization	(37)	136
Net discount	\$ 20,792	\$ 32,005

An allowance for mortgage credit 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 mortgage loss provisions are adequate to absorb all expected credit related losses in the Company's mortgage portfolio, given existing conditions.

The geographical breakdown of mortgages by province is as follows:

	Single Family	Construction	Commercial	2010 Total	
Ontario	\$ 79,956	\$ 53,317	\$ 4,691	\$ 137,964	42.1%
Alberta	58,292	73,844	2,836	134,972	41.2
British Columbia	15,341	12,383	-	27,724	8.5
Other	19,785	7,091	-	26,876	8.2
	\$ 173,374	\$ 146,635	\$ 7,527	\$ 327,536	100.0%

	Single Family	Construction	Commercial	2009 Total	
Ontario	\$ 97,657	\$ 59,570	\$ 4,819	\$ 162,046	39.8%
Alberta	73,009	75,936	-	148,945	36.5
British Columbia	27,384	39,755	525	67,664	16.6
Other	24,412	3,056	1,583	29,051	7.1
	\$ 222,462	\$ 178,317	\$ 6,927	\$ 407,706	100.0%

As at March 31, 2010, the Company had \$4,884 (2009 - \$11,739) of its single family mortgage portfolio pledged as collateral related to the CMB program.

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are \$142,929 at March 31, 2010 (2009 - \$87,956). Substantially all of these commitments relate to floating rate construction loans, the majority of which have minimum interest rates.

The details of the mortgage allowances are as follows:

	2010		2009	
	General	Specific	General	Specific
Balance, beginning of period	\$ 1,948	\$ 2,782	\$ 2,639	\$ 164
Provisions (recoveries)	300	(43)	404	(20)
Write-offs (net)	(32)	-	(92)	-
Balance, end of period	\$ 2,216	\$ 2,739	\$ 2,951	\$ 144

At March 31, 2010, the Company had \$2,739 of specific provisions (2009 - \$144), as follows: uninsured single family - \$79 (2009 - \$144), residential construction - \$2,660 (2009 - \$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	2010 Total
Single family - uninsured	\$ 4,333	\$ 2,535	\$ 490	\$ -	\$ 7,358
Single family - insured	686	240	3	191	1,120
Residential construction	-	93	-	-	93
	\$ 5,019	\$ 2,868	\$ 493	\$ 191	\$ 8,571

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2009 Total
Single family - uninsured	\$ 9,670	\$ 5,420	\$ 1,917	\$ -	\$ 17,007
Single family - insured	593	86	288	-	967
Residential construction	3,184	327	7,466	-	10,977
	\$ 13,447	\$ 5,833	\$ 9,671	\$ -	\$ 28,951

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

	Single Family	Residential Construction	2010 Total	Single Family	Residential Construction	2009 Total
Ontario	\$ 721	\$ 6,558	\$ 7,279	\$ 1,962	\$ 1,197	\$ 3,159
Alberta	762	5,945	6,707	2,155	-	2,155
British Columbia	-	-	-	542	-	542
Other	-	1,627	1,627	325	-	325
	\$ 1,483	\$ 14,130	\$ 15,613	\$ 4,984	\$ 1,197	\$ 6,181

3. Securitization Income

For the Quarters Ended March 31	2010	2009
Gain on securitization	\$ -	\$ 1,883
Residual securitization income	1,043	391
	\$ 1,043	\$ 2,274

The Company securitizes insured mortgages through the Canada Mortgage Bonds (“CMB”) program, in which it participates with MCLP and a private company. During the quarter, the Company did not participate in any new mortgage securitizations as part of the CMB program.

Upon sale, the Company recognizes an interest-only strip, which is a retained interest in the securitized mortgages. The interest-only strips consist of the discounted value of future mortgage interest income, principal reinvestment interest receipts and penalty income less coupon interest payments. The Company subcontracts CMB servicing obligations to MCLP and the private company that participates in the CMB program.

In the prior year, the Company securitized \$364,260 of insured single family mortgages, recognizing an interest-only strip of \$3,978 and establishing a liability for future mortgage servicing and other costs totalling \$414.

The net outstanding interest-only strip position at March 31, 2010 was an asset of \$12,181 (2009 - liability of \$1,888), while total outstanding CMB liabilities were \$3,009 (2009 - \$2,405).

Residual securitization income includes the net yield earned on the interest-only strips and the CMB liabilities, refinancing and renewal gains, interest rate swap receipts (payments) and fair value changes in the interest-only strips (which are designated as held for trading using the fair value option) and the interest rate swaps. Fair value changes had a negative impact on residual securitization income of \$140 during the quarter (2009 - negative impact of \$77). 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 have had a negative impact to income. Other components of residual securitization income were \$1,183 in the quarter compared to \$468 in the prior year.

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

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

	2010	2009
Proceeds from new securitizations	\$ -	\$ 367,026
Net cash flows received (paid) on interest-only strips	\$ (131)	\$ 512
Net cash flows paid on CMB servicing and other liabilities	\$ 243	\$ 159

4. Securitization Investments**Investments in Securitization Programs**

As at March 31	2010	2009
Subordinated loan - residential mortgage securitization program	\$ 3,945	\$ 7,704
Asset-backed commercial paper	458	2,580
Deferred purchase price receivable - residential construction loan securitization program		
- senior position	3,975	5,337
- first loss position	1,671	2,365
	\$ 10,049	\$ 17,986

During the quarter, the Company sold its MAV II asset-backed commercial paper investment, recognizing a gain of \$82,000 (over carrying value).

Other Securitization Investments

As at March 31	2010	2009
CMB - interest-only strips	\$ 16,743	\$ 6,224
Insured mortgage-backed securities	33,410	11,241
Other securitization assets	78	423
	\$ 50,231	\$ 17,888
Total securitization investments	\$ 60,280	\$ 35,874

5. Derivative Financial Instruments

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

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

	Less than one year	One to five years	Over five years	2010 Total	2009 Total
CMB interest rate swaps - fair value	\$ -	\$ 10,029	\$ -	\$ 10,029	\$ 24,357
CMB interest rate swaps - outstanding notional	\$ -	\$ 288,597	\$ -	\$ 288,597	\$ 152,894

At March 31, 2010, the interest rate swaps were in an asset position of \$10,029 (2009 - asset position of \$24,357). Changes in the fair value of the swaps are included in residual securitization income.

6. Securitization Liabilities

	2010	2009
CMB - interest-only strips	\$ 4,562	\$ 8,112

As at March 31, 2010, certain CMB interest-only strips were in a liability position. CMB interest-only strips in an asset position (note 4) totalled \$16,743 at March 31, 2010 (2009 - \$6,224). On a net basis, CMB interest-only strips were in an asset position of \$12,181 at March 31, 2010 (2009 - net liability position of \$1,888).

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 \$10,029 at March 31, 2010 (2009 - asset position of \$24,357).

7. Share Capital

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

Issued	Number of Shares	2010	Number of Shares	2009
Balance, January 1	14,320,980	\$ 98,490	14,223,506	\$ 97,493
Issued				
Dividend reinvestment plan	36,739	463	55,324	537
Executive Share Purchase Plan	6,435	89	16,602	154
Balance, March 31	14,364,154	\$ 99,042	14,295,432	\$ 98,184

As at May 11, 2010, the Company had 14,364,154 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.

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. Through its risk management and corporate governance framework, the Company assesses current and projected economic, housing market, interest rate and credit conditions to determine appropriate levels of capital. The Company typically pays out all of its taxable income by way of dividends. Capital growth is achieved through retained earnings, rights offerings, the dividend reinvestment plan and the Executive Share Purchase Plan.

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

The Company uses the Basel II capital management framework and has implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach for the calculation of operational risk.

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

As at March 31	2010	2009
Tax Act Test		
Income tax assets	\$ 431,663	\$ 527,636
Income tax capital	\$ 118,434	\$ 113,352
Income tax assets to capital ratio	3.64	4.65
Income tax liabilities to capital ratio	2.64	3.65
Regulatory Tests (OSFI)		
Tier 1 capital		
Share capital	\$ 99,042	\$ 98,184
Contributed surplus	510	510
Retained earnings	21,292	15,805
Tier 1 capital deductions	(9,181)	(6,857)
	111,663	107,642
Tier 2 capital		
Tier 2 capital deductions	(1,064)	(1,493)
	(1,064)	(1,493)
Total capital	\$ 110,599	\$ 106,149
Total regulatory assets	\$ 459,328	\$ 550,977
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	25.30%	22.57%
Total capital to risk-weighted assets ratio	25.06%	22.26%
Assets to capital multiple	4.15	5.19

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

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

As at March 31	2010		2009	
	Balance	Risk-Weighted	Balance	Risk-Weighted
On-Balance Sheet Assets				
Cash and cash equivalents	\$ 17,620	\$ 4,437	\$ 31,014	\$ 6,832
Mortgages	327,536	233,660	407,706	282,993
Securitization investments	60,280	26,487	35,874	34,565
Loans receivable and other investments	15,535	15,535	24,796	24,796
Equity investment in MCLP	18,301	18,301	17,736	17,736
Derivative financial instruments	10,029	-	24,357	-
Other assets	1,528	1,528	2,758	2,758
	<u>\$ 450,829</u>	<u>\$ 299,948</u>	<u>\$ 544,241</u>	<u>\$ 369,680</u>
Off-Balance Sheet Assets				
Letters of credit		7,089		5,972
Mortgage funding commitments		71,465		43,978
		<u>78,554</u>		<u>49,950</u>
Derivative Financial Instruments				
CMB interest rate swaps				
Outstanding notional	\$ 288,597		\$ 152,894	
Add-on factor	<u>0.5%</u>		<u>0.5%</u>	
Potential credit exposure	1,443		764	
Positive replacement cost	<u>10,029</u>		<u>24,357</u>	
Credit equivalent	11,472		25,121	
Risk weighting	<u>20%</u>		<u>20%</u>	
Risk-weighted equivalent		<u>2,294</u>		<u>5,024</u>
Charge for operational risk		<u>60,475</u>		<u>52,188</u>
Total Risk-Weighted Assets		<u>\$ 441,271</u>		<u>\$ 476,842</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, mortgages, securitization investments, loans receivable and other investments, term deposits and derivative financial instruments.

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

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

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

	Level 1	Level 2	Level 3
Financial Assets			
Mortgages	\$ -	\$ 327,536	\$ -
Securitization investments	-	33,410	16,743
Derivative financial instruments	-	10,029	-
	<u>\$ -</u>	<u>\$ 370,975</u>	<u>\$ 16,743</u>
Financial Liabilities			
Securitization liabilities	\$ -	\$ -	\$ 4,562

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

	Opening Balance	Additions	Settlements	Changes in Fair Value	Closing Balance
Financial Assets					
Securitization investments	\$ 18,943	\$ -	\$ (2,595)	\$ 395	\$ 16,743
Financial Liabilities					
Securitization liabilities	\$ 5,048	\$ -	\$ (704)	\$ 218	\$ 4,562

The Company's sources and uses of liquidity are outlined in the table below.

	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	2010 Total	2009 Total
Sources of liquidity						
Cash and cash equivalents	\$ 17,620	\$ -	\$ -	\$ -	\$ 17,620	\$ 31,014
Mortgages	146,782	81,270	61,600	37,884	327,536	407,706
Securitization investments	265	-	55,558	4,457	60,280	35,874
Loans receivable and other investments	104	11,228	2,464	1,739	15,535	24,796
	164,771	92,498	119,622	44,080	420,971	499,390
Uses of liquidity						
Term deposits	92,379	195,641	23,511	-	311,531	412,164
Securitization liabilities	-	-	4,562	-	4,562	8,112
Accounts payable and accrued charges	4,383	-	-	-	4,383	3,606
	96,762	195,641	28,073	-	320,476	423,882
Unfunded mortgage commitments	14,293	114,343	14,293	-	142,929	87,956
	111,055	309,984	42,366	-	463,405	511,838
Net liquidity surplus (deficit)	\$ 53,716	\$ (217,486)	\$ 77,256	\$ 44,080	\$ (42,434)	\$ (12,448)

10. Interest Rate Sensitivity

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

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

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

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

	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non- Interest Sensitive	2010 Total	2009 Total
ASSETS								
Investments								
Cash and cash equivalents	\$ 17,620	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,620	\$ 31,014
Mortgages	60,748	110,982	78,530	60,622	622	16,032	327,536	407,706
Securitization investments	36,978	265	-	16,743	3,922	2,372	60,280	35,874
Loans receivable and other investments	10,826	104	100	2,364	-	2,141	15,535	24,796
Equity investment in MCAP Commercial LP	-	-	-	-	-	18,301	18,301	17,736
	126,172	111,351	78,630	79,729	4,544	38,846	439,272	517,126
Derivative financial instruments	-	-	-	10,029	-	-	10,029	24,357
Other assets	-	-	-	-	-	1,528	1,528	2,758
Total Assets	\$ 126,172	\$ 111,351	\$ 78,630	\$ 89,758	\$ 4,544	\$ 40,374	\$ 450,829	\$ 544,241
Yield	3.33%	6.51%	7.21%	6.22%	10.06%			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Term deposits	\$ -	\$ 92,379	\$ 195,641	\$ 23,511	\$ -	\$ -	\$ 311,531	\$ 412,164
Securitization liabilities	-	-	-	4,562	-	-	4,562	8,112
Accounts payable and accrued charges	-	-	-	-	-	5,229	5,229	4,377
Future taxes payable	-	-	-	-	-	6,662	6,662	5,280
Shareholders' equity	-	-	-	-	-	122,845	122,845	114,308
Total Liabilities and Shareholders' Equity	\$ -	\$ 92,379	\$ 195,641	\$ 28,073	\$ -	\$ 134,736	\$ 450,829	\$ 544,241
Yield	-	1.87%	1.74%	2.75%	-			
GAP	\$ 126,172	\$ 18,972	\$ (117,011)	\$ 61,685	\$ 4,544	\$ (94,362)	\$ -	\$ -
YIELD SPREAD	3.33%	4.64%	5.47%	3.47%	10.06%			

Certain of the Company's residential construction loans and single family uninsured completed inventory loans are subject to the greater of a minimum interest rate (averaging between 5% and 11.25%) or a prime-based interest rate. To the extent that the minimum rate exceeds the prime-based rate at March 31, 2010, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - \$50,626, 3 months to 1 year - \$44,113, 1 to 5 years - \$28,666.

An immediate and sustained 1% increase (decrease) to market interest rates at March 31, 2010 would have a positive (adverse) effect of \$641 (2009 - \$947) to net income over the following twelve month period.

An immediate and sustained 1% increase (decrease) to market interest rates at March 31, 2010 would have an adverse effect to accumulated other comprehensive income of \$2,507 (2009 - \$2,130).

When calculating the effect of an immediate and sustained 1% change in market interest rates on net investment income, the Company determines which assets and liabilities reprice over the following twelve months and applies a 1% change to their respective yields at the time of repricing to determine the change in net investment income for the duration of the twelve month period.

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 \$116 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 March 31, 2010, the outstanding bank loan balances were \$7,072. As at March 31, 2010, the fair value of the Class B units exceeded the outstanding bank loan balances.

12. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year. There was no impact to the financial position or net income as a result of these reclassifications.

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 has completed its assessment of the impact of IFRS differences on its accounting policies and information systems. During 2010, the Company will complete its assessment of the impact of IFRS on its financial reporting, control environment and business policies. The Company has begun the implementation of its conversion plan, which remains on schedule. The impact of the transition to IFRS on the Company's consolidated financial statements is not yet determinable.

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