



**SECOND QUARTER REPORT 2010
MCAN MORTGAGE CORPORATION**

MCAN MORTGAGE CORPORATION

REPORT FOR THE SECOND QUARTER ENDED JUNE 30, 2010

MESSAGE TO SHAREHOLDERS

I am pleased to introduce myself as the new President and Chief Executive Officer of MCAN Mortgage Corporation. I hope to meet many of you over the coming year, and share the plans that we have for the company. This is an exciting time to be a lender in the real estate market. Market turbulence continues to provide challenges, but with that comes opportunity, as many international firms exit our market to focus on their balance sheet problems.

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") continued to perform well and show stable results in the quarter. The Company reported net income of \$5.6 million for the second quarter of 2010, unchanged from the prior year. Earnings per share were \$0.40 compared to \$0.39 in the prior year. The current year results included improved spread income and discount income from our acquired mortgage portfolios, however this was largely offset by lower fee income.

We paid a \$0.26 per share dividend in the second quarter, consistent with our regular quarterly dividend. Over the past twelve months, the cumulative MCAN shareholder return as measured on the Toronto Stock Exchange (assuming reinvestment of all dividends) has been 24%.

Total consolidated assets as at June 30, 2010 were \$483 million, a decrease of \$18 million from the same quarter in 2009. The change included decreases of \$21 million in securitization investments and \$10 million in loans receivable and other investments, partially offset by increases of \$8 million in cash, \$2 million in mortgages and \$2 million in derivative financial instruments. We continue to have unused capacity for future business.

Mortgages increased by \$67 million during the quarter. Mortgage activity included increases of \$35 million in insured single family mortgages, \$20 million in construction loans and \$11 million in uninsured single family mortgages. Although market conditions are improving, we continue to focus new mortgage approvals in markets with strong real estate fundamentals. In addition, we have been applying minimum rates on renewed and newly funded construction loans where possible.

Mortgage arrears of \$36 million as at June 30, 2010 decreased from \$43 million in the prior year, although there was an increase in the impaired mortgages (over 90 days in arrears) as a percentage of total mortgages to 4.04% from 3.47% during the same period. Our arrears level is a reflection of high unemployment levels from 2009. Arrears and impaired mortgages have been skewed by some large construction loans that have faced slow sales and construction delays. We will be focused on managing down these arrears during the balance of 2010 and we will continue to be vigilant over portfolio quality.

MCAN continues to see attractive business opportunities in the current market and will strive to prudently build its portfolio of investments to generate a reliable stream of income for our investors.



William Jandrisits
President and Chief Executive Officer
August 12, 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 June 30, 2010 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2009. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including 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 August 12, 2010.

DESCRIPTION OF BUSINESS

MCAN is a public company listed on the Toronto Stock Exchange ("TSX") under the symbol MKP and is a reporting issuer in all provinces and territories in Canada. MCAN also qualifies as a mortgage investment corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act").

The Company's objective is to generate a reliable stream of income by investing its 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. MCAN employs 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 tax basis) as limited by provisions of the Tax Act applicable to a MIC. The term deposits are sourced through a network of independent financial agents. As a MIC, MCAN is entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of other dividends paid. Such dividends are received by the shareholders as capital gains dividends and interest income, respectively.

(dollars in thousands except for per share amounts)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2010	2009	2010	2009
Operating Results				
Net investment income	\$ 7,114	\$ 6,875	\$ 13,220	\$ 14,578
Operating expenses	<u>1,473</u>	<u>1,268</u>	<u>2,781</u>	<u>2,537</u>
Income before income taxes	5,641	5,607	10,439	12,041
Provision for income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 5,641</u>	<u>\$ 5,607</u>	<u>\$ 10,439</u>	<u>\$ 12,041</u>
Mortgage portfolio yield	7.62%	6.94%	7.58%	6.97%
Term deposit average interest rate	1.76%	3.42%	1.86%	3.63%
Basic and diluted earnings per share	\$ 0.40	\$ 0.39	\$ 0.73	\$ 0.84
Dividends per share	\$ 0.26	\$ 0.25	\$ 0.67	\$ 0.93
Return on average shareholders' equity	18.2%	19.2%	16.8%	20.6%
Balance Sheet Highlights				
Assets			\$ 482,673	\$ 500,445
Mortgages			394,070	391,749
Liabilities			359,881	383,300
Shareholders' equity			122,792	117,145
Capital Ratios				
Tier 1 Capital Ratio			24.01%	24.65%
Total Capital Ratio			23.96%	24.39%
Credit Quality				
Impaired mortgage ratio			4.04%	3.47%
Total mortgage arrears			\$ 36,046	\$ 42,551
Share Information (end of period)				
Number of common shares outstanding			14,379	14,308
Book value per common share			\$ 8.54	\$ 8.19
Common share price			\$ 12.90	\$ 11.40
Market capitalization			\$ 185,489	\$ 163,111

HIGHLIGHTS

- MCAN reported net income of \$5.6 million for the second quarter of 2010, unchanged from the prior year. Earnings per share were \$0.40 compared to \$0.39 in the prior year. Current year results included improved spread income and discount income from our acquired mortgage portfolios, however this was largely offset by lower fee income.
- Total consolidated assets as at June 30, 2010 were \$483 million, a decrease of \$18 million from the prior year. The change included decreases of \$21 million in securitization investments and \$10 million in loans receivable and other investments, partially offset by increases of \$8 million in cash, \$2 million in mortgages and \$2 million in derivative financial instruments.
- The change in our mortgage portfolio included increases of \$26 million in residential construction loans and \$19 million in insured single family mortgages, and decreases of \$22 million in commercial loans and \$21 million in uninsured single family mortgages.
- The yield on our mortgage portfolio increased to 7.62% during the second quarter of 2010 from 6.94% in 2009. The average term deposit interest rate decreased to 1.76% from 3.42% in the second quarter of 2009.
- During the quarter, we realized \$1.2 million of purchase price discounts on our acquired mortgage portfolios, up from \$629,000 in the prior year. We also received \$614,000 of fees from MCAP Commercial LP ("MCLP") from a profit sharing arrangement relating to MCLP's acquired mortgage portfolios, down from \$1.6 million in the prior year.
- We had a \$75,000 upfront gain from the securitization of insured single family mortgages through the Canada Mortgage Bonds ("CMB") program during the quarter, and continued to earn significant residual securitization income from the CMB program.
- Total mortgage arrears decreased to \$36 million at June 30, 2010 from \$43 million in the prior year, although impaired mortgages as a percentage of total mortgages increased to 4.04% from 3.47% during the same period.
- William Jandrisits was appointed as MCAN's new President and Chief Executive Officer effective August 4, 2010.

OUTLOOK

During 2010 we have continued to carry significant unutilized investment capacity, a continuation from 2009. Although our mortgage portfolios have increased during 2010, they have not met our growth targets due to increased competition in our core markets. However, we plan to continue to grow the mortgage portfolio throughout the balance of the year to employ some of this investment capacity. The market for new housing construction has improved, and we have experienced growth in fundings and commitments for both our residential construction loan and our uninsured single family portfolios.

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 continue to contribute to improved spread income in 2010, compared to 2009. The lower level of the average deposit interest rates achieved throughout 2010 will be dependent on the timing and magnitude of increases to the prime rate throughout the balance of 2010 as increases in the current market rate structure will diminish the benefit on replacing maturing deposits.

Arrears in our single family mortgage portfolio remain high compared to historical levels due to the continuing impact of higher unemployment levels from 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 half of 2010. As this trend continues, we expect an increase in our mortgage portfolio and lower mortgage arrears.

In previous quarters we advised that we were in discussions with staff of the Office of the Superintendent of Financial Institutions ("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*.

Based on submissions made by MCAN we have been advised that OSFI does not consider either MCLP or MSC to be a related party to MCAN in the current circumstances.

RESULTS OF OPERATIONS

Net Investment Income

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2010	2009	2010	2009
Investment Income				
Mortgage interest	\$ 6,424	\$ 6,565	\$ 12,038	\$ 13,281
Interest on loans and investments	925	989	1,802	2,232
Securitization income	1,269	1,211	2,312	3,485
Fees	1,374	2,573	2,264	4,912
Equity income (loss) from MCAP Commercial LP	(125)	77	271	226
Interest on cash and cash equivalents	30	74	73	167
	9,897	11,489	18,760	24,303
Financial Expenses				
Term deposit interest and expenses	1,733	3,649	3,666	7,696
Mortgage expenses	742	782	1,320	1,546
Provision for losses	308	183	554	483
	2,783	4,614	5,540	9,725
Net Investment Income	\$ 7,114	\$ 6,875	\$ 13,220	\$ 14,578

Net investment income was \$7.1 million for the quarter, an increase of \$239,000 from \$6.9 million in the prior year. The increase is primarily due to lower term deposit interest and expenses in the current year, partially offset by a decrease in fee income in the current year. For the six months ended June 30, 2010, net investment income decreased by \$1.4 million primarily as a result of lower securitization income and fee income which was partially mitigated by improved spread income.

During the quarter, we realized \$1.2 million (2009 - \$629,000) relating to the partial recovery of purchase price discounts on MCAN's acquired portfolios, included in mortgage interest income. We also received \$614,000 (2009 - \$1.6 million) of fees from MCLP from a profit sharing arrangement relating to the aforementioned mortgage portfolios acquired by MCLP. For the year to date, we have realized \$1.9 million (2009 - \$1.3 million) of discount income on our portfolios and received \$830,000 (2009 - \$3.2 million) of fees from MCLP relating to its portfolios. The volume of discount recoveries from the portfolios of both companies can be volatile and difficult to predict.

Mortgage interest income decreased by \$141,000 from the prior year, primarily due to a \$30 million decrease in the average mortgage portfolio from \$381 million in 2009 to \$351 million in 2010. This decrease was partly offset by a 0.68% increase in the average mortgage yield from 6.94% in 2009 to 7.62% in 2010. The increase in the overall portfolio yield was largely driven by the aforementioned increase in discount income from MCAN's acquired mortgage portfolio. The decrease of \$1.2 million for the year to date is a result of a \$64 million decrease in the average portfolio, partially offset by a 0.61% increase in the average yield.

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 \$297,000. The mortgage yield would be lower by 0.34% to 7.28% if interest owing but not accrued was excluded from the yield calculation.

Interest on loans and investments decreased by \$64,000 from the prior year. The decrease was primarily due to a higher average portfolio balance in the prior year, partially offset by a one-time interest payout received in the current year. The decrease for the year to date is also due to the aforementioned decrease in the average portfolio size, partially offset by an \$82,000 gain (over carrying value) on the sale of our MAV II investment.

MCAN securitizes insured mortgages through the CMB program. Securitization income from the current and prior years is as follows:

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2010	2009	2010	2009
Gain on securitization	\$ 75	\$ 2,389	\$ 75	\$ 4,272
Residual securitization income - fair value changes	(767)	(1,318)	(907)	(1,395)
Residual securitization income - other components	1,961	1,375	3,144	1,843
Write-down of interest-only strips	-	(1,235)	-	(1,235)
	\$ 1,269	\$ 1,211	\$ 2,312	\$ 3,485

Our upfront gain from securitization decreased significantly over the prior year as there was a substantial decrease in the volume of mortgages securitized in the current year. Although fair value changes to CMB interest-only strips and interest rate swaps were negative on a net basis in both the current and prior years, these respective changes generally offset each other. Other components of residual securitization income increased over the prior year as a result of an increase in refinancing and renewal gains and a larger CMB portfolio. The second quarter of 2009 included a write-down of interest-only strips as a result of higher than anticipated mortgage principal repayment levels.

Fees decreased by \$1.2 million for the quarter and \$2.6 million for the year to date, 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.

We had an equity loss from our ownership interest in MCLP of \$125,000 during the quarter compared to equity income of \$77,000 in the prior year.

Term deposit interest and expenses decreased by \$1.9 million during the quarter as a result of a decrease in the average term deposit rate from 3.42% in 2009 to 1.76% in 2010 and a \$67 million decrease in the average outstanding balance from \$391 million in 2009 to \$324 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 increases in the prime rate. The \$4.0 million decrease for the year to date is a result of a \$60 million decrease in the average outstanding balance and a 1.77% decrease in the average interest rate.

The decreases in mortgage expenses for the quarter and year to date are consistent with the respective decreases in the average mortgage portfolios over the prior year.

Credit Quality

Provisions for losses for the second quarter of the current and prior years is as follows:

(in thousands)	2010	2009
Mortgages - general provision (recovery)	\$ 195	\$ (402)
Mortgages - specific provision	62	604
Loans and investments - general provision (recovery)	(49)	(19)
Other provisions	100	-
	\$ 308	\$ 183

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.

General provision activity in the current and prior years is consistent with the respective changes in the balances of mortgages that attract a reserve.

Specific provision activity for the quarter consists of an increase of \$62,000 relating to uninsured single family mortgages. During the second quarter, we maintained the existing specific provisions on our residential construction loan portfolio of \$2.7

million. These specific provisions 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. Subsequent to the end of the quarter, an agreement of purchase and sale was entered into related to the property underlying the aforementioned land loan. We expect the sale of the property to close on or about August 18th. As at June 30th, we had recorded a \$2 million specific provision on this loan. If the sale closes as set out in the agreement of purchase and sale, we will not experience any loss of principal and will reverse the existing specific provision of \$2 million. Prior year specific provision activity consisted of one impaired residential construction loan.

During the quarter, we recorded a \$100,000 provision relating to our pro-rata share of expected losses pursuant to an indemnity on the underlying assets of a residential construction loan securitization program.

There were no mortgage write-offs during the quarter, compared to 2.9 basis points (\$28,000) in the prior year. For the six months ended June 30, 2010, write-offs were 4.2 basis points (\$67,000) compared to 6.3 basis points (\$120,000) in the prior year.

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

(in thousands)	June 30 2010	March 31 2010	June 30 2009
Residential construction	\$ 13,678	\$ 14,130	\$ 8,604
Uninsured single family	1,834	1,483	5,584
	\$ 15,512	\$ 15,613	\$ 14,188
	4.04%	4.79%	3.47%

Although our impaired mortgages as a percentage of total mortgages decreased from March 31st, there was minimal change in the amount. The decrease in the impaired mortgage percentage was largely due to an increase in our overall mortgage portfolio.

Total mortgage arrears of \$36 million as at June 30, 2010 decreased from \$43 million at June 30, 2009, although they were up from \$24 million at March 31, 2010. The increase is a result of three significant residential construction loans going into arrears during the quarter. Two loans are included in the 31 to 60 days arrears classification and one is included in the 61 to 90 days arrears classification. Our arrears level is a reflection of the high unemployment levels from 2009. There were no other assets in arrears at quarter end. We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts.

Operating Expenses

(in thousands)	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2010	2009	2010	2009
Salaries and benefits	\$ 488	\$ 549	\$ 1,087	\$ 1,074
General and administrative	985	719	1,694	1,463
	\$ 1,473	\$ 1,268	\$ 2,781	\$ 2,537

The increase in operating expenses over the prior year is primarily due to higher professional fees in the current year.

Income Taxes

(in thousands)	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2010	2009	2010	2009
Provision against income	\$ -	\$ -	\$ -	\$ -
Charge (recovery) to retained earnings	1,612	426	1,403	(1,327)
	\$ 1,612	\$ 426	\$ 1,403	\$ (1,327)

There was a significant charge to retained earnings during the second quarter relating to current and future taxes, primarily due to the excess of taxable income over dividends declared. The substantial recovery for the six months ended June 30, 2009 is a result of the payment of the March 31, 2009 dividend, which was significantly higher than usual.

Cash Flows

Operating activities provided cash flows of \$9.2 million in the quarter and provided \$7.3 million in the prior year. Operating activities provided cash flows of \$13 million for the six months ended June 30, 2010 compared to \$6.5 million provided in the prior year. Both increases are due to increased cash flows from securitization activities and lower net payable outflows.

Investing activities used cash flows of \$26 million in the quarter and provided \$24 million in the prior year. In the current year, we had significant net mortgage outflows, partially offset by a net repayment of loans and investments. In the prior year, we had net mortgage and loan and investment inflows. For the six months ended June 30, 2010, operating activities used \$44 million compared to \$24 million provided in the prior year. In the current year, significant net mortgage outflows also exceeded net loan and investment inflows, whereas the prior year inflow consisted almost entirely of net loan and investment repayments.

Financing activities provided cash flows of \$23 million in the quarter and used \$47 million in the prior year. There was a net term deposit inflow in the current year compared to a significant outflow in the prior year. For the six months ended June 30, 2010, financing activities used \$36 million compared to \$74 million used in the prior year. The net outflow of term deposits decreased significantly in the current year.

SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except per share amounts)

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net investment income	\$7,114	\$6,106	\$8,056	\$8,007	\$6,875	\$7,703	\$11,471	\$12,485
Operating expenses	1,473	1,308	1,952	1,410	1,268	1,269	1,551	2,088
Income before income taxes	5,641	4,798	6,104	6,597	5,607	6,434	9,920	10,397
Provision for income taxes	-	-	-	-	-	-	-	-
Net income	\$5,641	\$4,798	\$6,104	\$6,597	\$5,607	\$6,434	\$9,920	\$10,397
Basic and diluted earnings per share	\$0.40	\$0.33	\$0.43	\$0.46	\$0.39	\$0.45	\$0.70	\$0.73
Dividends per share								
Regular	\$0.26	\$0.26	\$0.26	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25
Extra	-	0.15	-	-	-	0.43	-	-
Total	\$0.26	\$0.41	\$0.26	\$0.25	\$0.25	\$0.68	\$0.25	\$0.25

No dividends paid during the past eight quarters have included a capital gains component.

After substantial income from the sale of mortgages and income earned from the acquired portfolios in the second half of 2008, quarterly income has been relatively stable. Securitization income and income from the acquired portfolios remained strong during 2009 and to date in 2010.

FINANCIAL POSITION

As at June 30, 2010, total consolidated assets were \$483 million, an increase of \$32 million from March 31, 2010.

Assets

(in thousands)	June 30, 2010		March 31, 2010		December 31, 2009	
Cash and cash equivalents	\$ 23,405	4.9%	\$ 17,620	3.9%	\$ 89,843	17.7%
Mortgages	394,070	81.6	327,536	72.7	295,415	58.3
Securitization investments	16,578	3.4	60,280	13.4	73,590	14.5
Loans receivable and other investments	13,332	2.8	15,535	3.4	16,885	3.3
Equity investment in MCLP	17,525	3.6	18,301	4.1	17,905	3.5
Derivative financial instruments	14,730	3.1	10,029	2.2	11,490	2.3
Other assets	3,033	0.6	1,528	0.3	1,555	0.4
	\$ 482,673	100.0%	\$ 450,829	100.0%	\$ 506,683	100.0%

Cash increased by \$6 million during the quarter as our cash balance returned to our normal range of \$20 to \$30 million.

The composition of our mortgage portfolio at June 30, 2010 and March 31, 2010 is as follows:

(in thousands)	June 30, 2010			March 31, 2010		
	Principal	Allowance	Net	Principal	Allowance	Net
Single family uninsured	\$ 146,284	\$ 1,006	\$ 145,278	\$ 135,199	\$ 936	\$ 134,263
Single family insured	74,319	-	74,319	39,111	-	39,111
Construction	170,725	4,053	166,672	150,509	3,874	146,635
Commercial	7,954	153	7,801	7,672	145	7,527
	\$ 399,282	\$ 5,212	\$ 394,070	\$ 332,491	\$ 4,955	\$ 327,536

Mortgages increased by \$67 million during the quarter. Mortgage activity included increases of \$35 million in insured single family mortgages, \$20 million in construction loans and \$11 million in uninsured single family mortgages. Although market conditions are improving, we continue to focus new mortgage approvals in markets with strong real estate fundamentals. In addition, we have been applying minimum rates on renewed and newly funded construction loans where possible.

As at June 30, 2010, we held discounted mortgages with a net discount of \$18 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 \$44 million during the quarter, primarily due to decreases of \$33 million in insured mortgage-backed securities, \$6 million in investments in securitization programs (as a result of the wind-up of the related securitization program) and \$4 million in the CMB interest-only strips.

Loans receivable and other investments decreased by \$2 million during the quarter as a result of the partial repayment of certain existing loans receivable.

Our equity investment in MCLP decreased by \$776,000, consisting of an equity loss for the quarter of \$125,000 and a distribution received of \$651,000.

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 increased by \$5 million during the quarter as a result of a decrease in forward interest rates.

Liabilities and shareholders' equity

(in thousands)	June 30 2010	March 31 2010	Increase (Decrease)	December 31 2009
Liabilities				
Term deposits	\$ 337,985	\$ 311,531	\$ 26,454	\$ 360,744
Securitization liabilities	7,428	4,562	2,866	5,048
Accounts payable and accrued charges	7,126	5,229	1,897	11,001
Future taxes payable	7,342	6,662	680	7,011
	359,881	327,984	31,897	383,804
Shareholders' equity				
Share capital	99,226	99,042	184	98,490
Contributed surplus	510	510	-	510
Retained earnings	21,587	21,292	295	22,165
Accumulated other comprehensive income	1,469	2,001	(532)	1,714
	122,792	122,845	(53)	122,879
	\$ 482,673	\$ 450,829	\$ 31,844	\$ 506,683

Term deposit liabilities increased by \$26 million during the quarter, comparable to 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 \$184,000, which was raised through the dividend reinvestment plan for the June 30, 2010 dividend.

Retained earnings increased by \$295,000 during the quarter. The increase was a result of quarterly income of \$5.6 million, partly offset by the second quarter dividend of \$3.7 million and a charge to retained earnings of \$1.6 million 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 a decrease in the fair market value of available for sale fixed-rate mortgages as a result of a change in our portfolio mix and 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 securitized \$28 million of mortgages through the CMB program and recorded a \$75,000 upfront gain. We recorded a \$499,000 interest-only strip and \$83,000 of liabilities on the CMB closing date.

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".

ORGANIZATIONAL CHANGES

William Jandrisits was appointed as President and Chief Executive Officer and a Director of the Company effective August 4, 2010.

Mr. Jandrisits previously served as Director of Investor Relations & Strategic Initiatives - Canada and Director of Finance for Starwood Capital Group. Prior to 2006, Mr. Jandrisits spent 13 years with the RBC Financial Group and headed RBC Banking's North American Real Estate group. He has an MBA from the University of Western Ontario, Ivey School of Business.

In order to accommodate the appointment of Mr. Jandrisits to the Board, Raymond Doré resigned as a Director of the Corporation after 13 years as a Director, including serving as Chairman of the Board from July 2000 to May 2006. The Board would like to thank Mr. Doré for his long service and valuable contribution to the Company. His involvement with MCAN will continue in his capacity as a significant shareholder of the Company.

Effective August 4, 2010, Ian Sutherland resigned as Interim Chief Executive Officer and was re-appointed Chairman of the Board of Directors. David Broadhurst resigned as Interim Chairman of the Board of Directors.

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. As at June 30, 2010, we have recorded \$2.8 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 38% of term deposits maturing within 100 days at June 30, 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.

We have reviewed draft guidance by the Bank for International Settlements regarding capital and liquidity to ensure that our policies conform to the guidance once it is enacted.

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 their current form, 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 current 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, almost all of which relate to residential 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	\$ 309,572	\$ 28,413	\$ -	\$ 337,985
Operating lease	171	213	-	384
Mortgage fundings	147,757	16,418	-	164,175
CMB obligations	956	1,884	-	2,840
	\$ 458,456	\$ 46,928	\$ -	\$ 505,384

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 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 policies. We are currently in the implementation of our conversion plan, which remains on schedule. We are currently in the process of quantifying the impact of the transition to IFRS on each financial statement line item, but have not yet completed this task.

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, *First-Time Adoption of International Financial Reporting Standards*, 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 at 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 financial liability from securitization. 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, we recognized specific and general provisions for mortgage losses. The impairment approach under IFRS differs from GAAP, as the impairment approach under IFRS places incremental reliance on objective evidence of incurred losses. 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 June 30, 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 	<ul style="list-style-type: none"> Q2 2009 Q4 2009 Q4 2009 Q3 2010 	<ul style="list-style-type: none"> Differences identified and analyzed Policies selected Policies selected In progress
Financial Reporting <ul style="list-style-type: none"> • 2011 IFRS financial statement and note disclosure format • Identify additional financial statement disclosures • Prepare 2010 interim and annual reconciliations from GAAP to IFRS 	<ul style="list-style-type: none"> Q3 2010 Q3 2010 Throughout 2010 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Q3 2010 Q4 2010 Q3 2010 Q4 2010 	<ul style="list-style-type: none"> Assessment to be completed Assessment to be completed Assessment to be completed Assessment to be completed
Information Systems <ul style="list-style-type: none"> • Creation of general ledger for both GAAP and IFRS • Program upgrades/modifications • One-off calculations (IFRS 1) • Gathering data for disclosures 	<ul style="list-style-type: none"> Q4 2009 Q4 2009 Q4 2009 Q4 2009 	<ul style="list-style-type: none"> Completed Completed Completed Completed
Business Policies <ul style="list-style-type: none"> • Assess impact on capital plan • Revise capital plan as needed 	<ul style="list-style-type: none"> Q2 2010 Q3 2010 	<ul style="list-style-type: none"> Completed In progress, on schedule

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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, (i) 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 that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the specified time periods, and (ii) have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

There were no changes in our internal controls over financial reporting that occurred during the interim period ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

DIVIDENDS

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



William Jandrisits
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 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	June 30 2010	December 31 2009	June 30 2009
Assets				
Investments				
Cash and cash equivalents		\$ 23,405	\$ 89,843	\$ 15,158
Mortgages	2	394,070	295,415	391,749
Securitization investments	4	16,578	73,590	37,667
Loans receivable and other investments		13,332	16,885	23,290
Equity investment in MCAP Commercial LP		17,525	17,905	17,016
		464,910	493,638	484,880
Other				
Derivative financial instruments	5	14,730	11,490	12,759
Other assets		3,033	1,555	2,806
		\$ 482,673	\$ 506,683	\$ 500,445
Liabilities and Shareholders' Equity				
Liabilities				
Term deposits		\$ 337,985	\$ 360,744	\$ 368,938
Securitization liabilities	6	7,428	5,048	4,504
Accounts payable and accrued charges		7,126	11,001	5,144
Future taxes payable		7,342	7,011	4,714
		359,881	383,804	383,300
Shareholders' Equity				
Share capital	7	99,226	98,490	98,333
Contributed surplus		510	510	510
Retained earnings		21,587	22,165	17,413
Accumulated other comprehensive income		1,469	1,714	889
		122,792	122,879	117,145
		\$ 482,673	\$ 506,683	\$ 500,445

See accompanying notes

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

For the Quarters Ended June 30	Note	2010	2009
Investment Income			
Mortgage interest		\$ 6,424	\$ 6,565
Interest on loans and investments		925	989
Securitization income	3	1,269	1,211
Fees		1,374	2,573
Equity income (loss) from MCAP Commercial LP		(125)	77
Interest on cash and cash equivalents		30	74
		9,897	11,489
Financial Expenses			
Term deposit interest and expenses		1,733	3,649
Mortgage expenses		742	782
Provision for losses		308	183
		2,783	4,614
Net Investment Income		7,114	6,875
Operating Expenses			
Salaries and benefits		488	549
General and administrative		985	719
		1,473	1,268
Income Before Income Taxes		5,641	5,607
Provision for income taxes		-	-
Net Income		\$ 5,641	\$ 5,607
Basic and diluted earnings per share			
		\$ 0.40	\$ 0.39
Dividends per share			
		\$ 0.26	\$ 0.25
Weighted average number of basic and diluted shares (000's)			
		14,364	14,296

See accompanying notes

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

For the Six Months Ended June 30	Note	2010	2009
Investment Income			
Mortgage interest		\$ 12,038	\$ 13,281
Interest on loans and investments		1,802	2,232
Securitization income	3	2,312	3,485
Fees		2,264	4,912
Equity income from MCAP Commercial LP		271	226
Interest on cash and cash equivalents		73	167
		18,760	24,303
Financial Expenses			
Term deposit interest and expenses		3,666	7,696
Mortgage expenses		1,320	1,546
Provision for losses		554	483
		5,540	9,725
Net Investment Income		13,220	14,578
Operating Expenses			
Salaries and benefits		1,087	1,074
General and administrative		1,694	1,463
		2,781	2,537
Income Before Income Taxes		10,439	12,041
Provision for income taxes		-	-
Net Income		\$ 10,439	\$ 12,041
Basic and diluted earnings per share		\$ 0.73	\$ 0.84
Dividends per share		\$ 0.67	\$ 0.93
Weighted average number of basic and diluted shares (000's)		14,350	14,272

See accompanying notes

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

For the Quarters Ended June 30	2010	2009
Share capital		
Balance, beginning of period	\$ 99,042	\$ 98,184
Common shares issued	184	149
Balance, end of period	99,226	98,333
Contributed surplus		
Balance, beginning of period	510	510
Changes to contributed surplus	-	-
Balance, end of period	510	510
Retained earnings		
Balance, beginning of period	21,292	15,805
Net income	5,641	5,607
Income taxes charged to retained earnings	(1,612)	(426)
Dividends declared	(3,734)	(3,573)
Balance, end of period	21,587	17,413
Accumulated other comprehensive income (loss)		
Balance, beginning of period	2,001	(191)
Other comprehensive income (loss)	(532)	1,080
Balance, end of period	1,469	889
Total shareholders' equity	\$ 122,792	\$ 117,145

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

For the Quarters Ended June 30	2010	2009
Net income	\$ 5,641	\$ 5,607
Other comprehensive income (loss), net of taxes		
Change in unrealized gain on available for sale mortgages	(43)	757
Change in unrealized gain on available for sale securitization investments	(489)	321
Other changes	-	2
	(532)	1,080
Comprehensive income	\$ 5,109	\$ 6,687

See accompanying notes

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

For the Six Months Ended June 30	2010	2009
Share capital		
Balance, beginning of period	\$ 98,490	\$ 97,493
Common shares issued	736	840
Balance, end of period	99,226	98,333
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	10,439	12,041
Income taxes (charged) recovered to retained earnings	(1,403)	1,327
Dividends declared	(9,614)	(13,268)
Balance, end of period	21,587	17,413
Accumulated other comprehensive income		
Balance, beginning of period	1,714	1,293
Other comprehensive income (loss)	(245)	(404)
Balance, end of period	1,469	889
Total shareholders' equity	\$ 122,792	\$ 117,145

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

For the Six Months Ended June 30	2010	2009
Net income	\$ 10,439	\$ 12,041
Other comprehensive income (loss), net of taxes		
Change in unrealized gain on available for sale mortgages	278	(746)
Change in unrealized gain on available for sale securitization investments	(546)	338
Other changes	23	4
	(245)	(404)
Comprehensive income	\$ 10,194	\$ 11,637

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

For the Quarters Ended June 30	2010	2009
Cash provided by (used for):		
Operating Activities		
Net income	\$ 5,641	\$ 5,607
Adjusted for non-cash items:		
Equity income	116	(87)
Provision for losses	308	183
Securitization income	2,773	2,055
Amortization of other assets	244	235
Amortization of mortgage discounts	(20)	(18)
Increase in other receivables	(1,419)	(398)
Increase (decrease) in accounts payable and accrued charges	942	(1,101)
Distributions from MCAP Commercial LP	651	797
Cash flows from operating activities	9,236	7,273
Investing Activities		
Mortgage advances	(305,300)	(573,518)
Mortgage reductions	98,392	88,325
Proceeds on sale of mortgages	140,087	501,919
Decrease in loans and investments	40,800	7,023
Additions to other assets	(333)	(228)
Cash flows (for) from investing activities	(26,354)	23,521
Financing Activities		
Issue of term deposits	147,242	113,383
Repayment of term deposits	(120,789)	(156,609)
Issue of common shares	184	149
Dividends paid	(3,734)	(3,573)
Cash flows from (for) financing activities	22,903	(46,650)
Increase (decrease) in cash and cash equivalents	5,785	(15,856)
Cash and cash equivalents, beginning of period	17,620	31,014
Cash and cash equivalents, end of period	\$ 23,405	\$ 15,158

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

For the Six Months Ended June 30	2010	2009
Cash provided by (used for):		
Operating Activities		
Net income	\$ 10,439	\$ 12,041
Adjusted for non-cash items:		
Equity income	(280)	(243)
Provision for losses	554	483
Securitization income	4,161	(1,237)
Amortization of other assets	416	495
Amortization of mortgage discounts	32	33
Increase in other receivables	(1,650)	(766)
Decrease in accounts payable and accrued charges	(963)	(5,799)
Distributions from MCAP Commercial LP	651	1,510
Cash flows from operating activities	13,360	6,517
Investing Activities		
Mortgage advances	(471,165)	(1,285,595)
Mortgage reductions	160,825	149,839
Proceeds on sale of mortgages	211,490	1,135,456
Decrease in loans and investments	54,853	25,266
Additions to other assets	(441)	(687)
Cash flows (for) from investing activities	(44,438)	24,279
Financing Activities		
Issue of term deposits	204,254	231,201
Repayment of term deposits	(227,013)	(288,926)
Issue of common shares	736	840
Dividends paid	(13,337)	(16,824)
Cash flows for financing activities	(35,360)	(73,709)
Decrease in cash and cash equivalents	(66,438)	(42,913)
Cash and cash equivalents, beginning of period	89,843	58,071
Cash and cash equivalents, end of period	\$ 23,405	\$ 15,158

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 June 30	Principal	Allowance			2010 Net
		General	Specific	Total	
Single family mortgages					
- Uninsured	\$ 104,080	\$ 611	\$ 141	\$ 752	\$ 103,328
- Uninsured (completed inventory loans)	39,948	254	-	254	39,694
- Insured	74,034	-	-	-	74,034
Construction loans					
- Residential	169,503	1,389	2,660	4,049	165,454
- Non-residential	445	4	-	4	441
Commercial loans					
- Uninsured	7,450	153	-	153	7,297
- Insured	449	-	-	-	449
	395,909	2,411	2,801	5,212	390,697
Fair value adjustment	1,838	-	-	-	1,838
	397,747	2,411	2,801	5,212	392,535
Accrued interest	1,535	-	-	-	1,535
	\$ 399,282	\$ 2,411	\$ 2,801	\$ 5,212	\$ 394,070

As at June 30	Principal	Allowance			2009 Net
		General	Specific	Total	
Single family mortgages					
- Uninsured	\$ 134,267	\$ 723	\$ 148	\$ 871	\$ 133,396
- Uninsured (completed inventory loans)	30,618	347	-	347	30,271
- Insured	54,737	-	-	-	54,737
Construction loans					
- Residential	141,539	1,265	600	1,865	139,674
- Non-residential	503	4	-	4	499
Commercial loans					
- Uninsured	10,304	182	-	182	10,122
- Insured	19,996	-	-	-	19,996
	391,964	2,521	748	3,269	388,695
Fair value adjustment	1,081	-	-	-	1,081
	393,045	2,521	748	3,269	389,776
Accrued interest	1,973	-	-	-	1,973
	\$ 395,018	\$ 2,521	\$ 748	\$ 3,269	\$ 391,749

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 June 30, 2010, the Company holds discounted mortgages with an aggregate discount of \$18,199 (2009 - \$30,762). 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 June 30, 2010 is as follows:

	2010	2009
Fixed rate	\$ 3,596	\$ 9,719
Floating rate	14,586	21,197
Gross discount	18,182	30,916
Accumulated discount amortization	(17)	154
Net discount	\$ 18,199	\$ 30,762

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	\$ 106,946	\$ 71,433	\$ 2,785	\$ 181,164	46.0%
Alberta	58,435	77,122	5,016	140,573	35.6
British Columbia	30,228	18,166	-	48,394	12.3
Other	23,939	-	-	23,939	6.1
	\$ 219,548	\$ 166,721	\$ 7,801	\$ 394,070	100.0%

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

As at June 30, 2010, the Company had \$4,152 (2009 - \$7,143) 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 \$164,175 at June 30, 2010 (2009 - \$66,346). 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	\$ 2,216	\$ 2,739	\$ 2,951	\$ 144
Provisions (recoveries)	195	62	(402)	604
Write-offs (net)	-	-	(28)	-
Balance, end of period	\$ 2,411	\$ 2,801	\$ 2,521	\$ 748

At June 30, 2010, the Company had \$2,801 of specific provisions (2009 - \$748), as follows: residential construction - \$2,660 (2009 - \$600), uninsured single family - \$141 (2009 - \$148).

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	\$ 4,341	\$ 2,766	\$ 1,130	\$ -	\$ 8,237
Single family - insured	850	72	231	-	1,153
Residential construction	-	9,777	1,366	-	11,143
	\$ 5,191	\$ 12,615	\$ 2,727	\$ -	\$ 20,533

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

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

	Single Family	Residential Construction	2010 Total	Single Family	Residential Construction	2009 Total
Ontario	\$ 959	\$ 5,123	\$ 6,082	\$ 2,325	\$ 1,738	\$ 4,063
Alberta	772	6,928	7,700	712	6,866	7,578
British Columbia	-	-	-	1,924	-	1,924
Other	103	1,627	1,730	623	-	623
	\$ 1,834	\$ 13,678	\$ 15,512	\$ 5,584	\$ 8,604	\$ 14,188

3. Securitization Income

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2010	2009	2010	2009
Gain on securitization	\$ 75	\$ 2,389	\$ 75	\$ 4,272
Residual securitization income	1,194	57	2,237	448
Write-down of interest-only strips	-	(1,235)	-	(1,235)
	\$ 1,269	\$ 1,211	\$ 2,312	\$ 3,485

During the quarter, the Company securitized \$28,249 (2009 - \$222,037) of insured single family mortgages through the Canada Mortgage Bonds ("CMB") program. The Company participated in the securitization with MCLP, and has participated in previous securitizations with MCLP and a private company. For the six months ended June 30, 2010, the Company has securitized \$28,249 (2009 - \$586,297) of mortgages.

Upon sale, the Company recognized an interest-only strip of \$499 (2009 - \$2,332), which is a retained interest in the securitized mortgages, included in securitization investments (note 4). 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. In addition, the Company established a liability for future mortgage servicing and other costs totalling \$83 (2009 - \$384) that is included in accounts payable and accrued liabilities. The Company subcontracts CMB servicing obligations to MCLP and a private company. The net outstanding interest-only strip position at June 30, 2010 was an asset of \$12,623 (2009 - asset of \$12,851), while total outstanding CMB liabilities were \$2,880 (2009 - \$2,617).

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 \$767 during the quarter (2009 - negative impact of \$1,318). 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 during the quarter were \$1,961 (2009 - \$1,375).

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.

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2010	2009	2010	2009
Proceeds from new securitizations	\$ 28,403	\$ 222,918	\$ 28,403	\$ 589,944
Net cash flows received (paid) on interest-only strips	\$ (221)	\$ 242	\$ (352)	\$ 754
Net cash flows paid on CMB servicing and other liabilities	\$ 276	\$ 203	\$ 519	\$ 362

4. Securitization Investments

Investments in Securitization Programs

As at June 30	2010	2009
Subordinated loan - residential mortgage securitization program	\$ 3,370	\$ 7,344
Asset-backed commercial paper	458	2,580
Deferred purchase price receivable - residential construction loan securitization program		
- senior position	-	3,771
- first loss position	-	1,671
	\$ 3,828	\$ 15,366

On June 30, 2010, both of the investments in the residential construction loan securitization program were repaid in full. The investments were replaced by an indemnity agreement whereby the investors of the securitization program will be responsible for any incurred losses in the underlying loans, in accordance with their deferred purchase price receivable investments at the time that the securitization program was repaid.

Other Securitization Investments

As at June 30	2010	2009
CMB - interest-only strips	\$ 12,623	\$ 12,851
Other securitization assets	127	273
Insured mortgage-backed securities	-	9,177
	\$ 12,750	\$ 22,301
Total securitization investments	\$ 16,578	\$ 37,667

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	\$ -	\$ 14,730	\$ -	\$ 14,730	\$ 12,759
CMB interest rate swaps - outstanding notional	\$ -	\$ 282,829	\$ -	\$ 282,829	\$ 223,995

At June 30, 2010, the interest rate swaps were in an asset position of \$14,730 (2009 - asset position of \$12,759). Changes in the fair value of the swaps are included in residual securitization income.

6. Securitization Liabilities

	2010	2009
CMB - interest-only strips	\$ 7,428	\$ 4,504

As at June 30, 2010, certain CMB interest-only strips were in a liability position. CMB interest-only strips in an asset position (note 4) totalled \$12,623 at June 30, 2010 (2009 - \$12,851). On a net basis, CMB interest-only strips were in an asset position of \$5,195 at June 30, 2010 (2009 - net asset position of \$8,347).

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	51,086	647	68,241	686
Executive Share Purchase Plan	6,435	89	16,602	154
Balance, June 30	14,378,501	\$ 99,226	14,308,349	\$ 98,333

As at August 12, 2010, the Company had 14,378,501 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 June 30	2010	2009
Tax Act Test		
Income tax assets	\$ 456,527	\$ 486,673
Income tax capital	\$ 115,331	\$ 115,225
Income tax assets to capital ratio	3.96	4.22
Income tax liabilities to capital ratio	2.96	3.22
Regulatory Tests (OSFI)		
Tier 1 capital		
Share capital	\$ 99,226	\$ 98,333
Contributed surplus	510	510
Retained earnings	21,587	17,413
Tier 1 capital deductions	(7,888)	(8,593)
	<u>113,435</u>	<u>107,663</u>
Tier 2 capital		
Tier 2 capital deductions	(229)	(1,146)
	<u>(229)</u>	<u>(1,146)</u>
Total capital	<u>\$ 113,206</u>	<u>\$ 106,517</u>
Total regulatory assets	\$ 495,306	\$ 505,797
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	24.01%	24.65%
Total capital to risk-weighted assets ratio	23.96%	24.39%
Assets to capital multiple	4.38	4.75

As at June 30, 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 June 30	2010		2009	
	Balance	Risk-Weighted	Balance	Risk-Weighted
On-Balance Sheet Assets				
Cash and cash equivalents	\$ 23,405	\$ 4,999	\$ 15,158	\$ 3,539
Mortgages	394,070	260,478	391,749	257,157
Securitization investments	16,578	16,879	37,667	36,136
Loans receivable and other investments	13,332	13,332	23,290	23,290
Equity investment in MCLP	17,525	17,525	17,016	17,016
Derivative financial instruments	14,730	-	12,759	-
Other assets	3,033	3,033	2,806	2,806
	<u>\$ 482,673</u>	<u>\$ 316,246</u>	<u>\$ 500,445</u>	<u>\$ 339,944</u>
Off-Balance Sheet Assets				
Letters of credit		9,586		6,277
Mortgage funding commitments		82,087		33,173
		<u>91,673</u>		<u>39,450</u>
Derivative Financial Instruments				
CMB interest rate swaps				
Outstanding notional	\$ 282,829		\$ 223,995	
Add-on factor	<u>0.5%</u>		<u>0.5%</u>	
Potential credit exposure	1,414		1,120	
Positive replacement cost	<u>14,730</u>		<u>12,759</u>	
Credit equivalent	16,144		13,879	
Risk weighting	<u>20%</u>		<u>20%</u>	
Risk-weighted equivalent		<u>3,229</u>		<u>2,776</u>
Charge for operational risk		<u>61,300</u>		<u>54,613</u>
Total Risk-Weighted Assets		<u>\$ 472,448</u>		<u>\$ 436,783</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 June 30, 2010. Financial assets and liabilities are classified into three levels, as follows: quoted prices in an active market (Level 1), fair value based on observable inputs other than quoted prices (Level 2) and fair value based on inputs that are not based on observable data (Level 3).

	Level 1	Level 2	Level 3
Financial Assets			
Mortgages	\$ -	\$ 394,070	\$ -
Securitization investments	-	-	12,623
Derivative financial instruments	-	14,730	-
	<u>\$ -</u>	<u>\$ 408,800</u>	<u>\$ 12,623</u>
Financial Liabilities			
Securitization liabilities	\$ -	\$ -	\$ 7,428

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	\$ 16,743	\$ 499	\$ (641)	\$ (3,978)	\$ 12,623
Financial Liabilities					
Securitization liabilities	\$ 4,562	\$ -	\$ (862)	\$ 3,728	\$ 7,428

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	\$ 23,405	\$ -	\$ -	\$ -	\$ 23,405	\$ 15,158
Mortgages	154,581	118,789	88,128	32,572	394,070	391,749
Securitization investments	18	-	12,672	3,888	16,578	37,667
Loans receivable and other investments	108	8,640	2,835	1,749	13,332	23,290
	178,112	127,429	103,635	38,209	447,385	467,864
Uses of liquidity						
Term deposits	133,274	176,298	28,413	-	337,985	368,938
Securitization liabilities	-	-	7,428	-	7,428	4,504
Accounts payable and accrued charges	5,655	-	-	-	5,655	4,626
	138,929	176,298	35,841	-	351,068	378,068
Unfunded mortgage commitments	16,418	131,339	16,418	-	164,175	66,346
	155,347	307,637	52,259	-	515,243	444,414
Net liquidity surplus (deficit)	\$ 22,765	\$ (180,208)	\$ 51,376	\$ 38,209	\$ (67,858)	\$ 23,450

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 June 30, 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	\$ 23,405	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,405	\$ 15,158
Mortgages	69,618	93,162	118,234	87,271	1,307	24,478	394,070	391,749
Securitization investments	457	18	-	12,623	3,352	128	16,578	37,667
Loans receivable and other investments	8,958	108	100	2,685	-	1,481	13,332	23,290
Equity investment in MCAP Commercial LP	-	-	-	-	-	17,525	17,525	17,016
	102,438	93,288	118,334	102,579	4,659	43,612	464,910	484,880
Derivative financial instruments	-	-	-	14,730	-	-	14,730	12,759
Other assets	-	-	-	-	-	3,033	3,033	2,806
Total Assets	\$ 102,438	\$ 93,288	\$ 118,334	\$ 117,309	\$ 4,659	\$ 46,645	\$ 482,673	\$ 500,445
Yield	3.17%	6.67%	6.68%	5.99%	9.88%			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Term deposits	\$ -	\$ 133,274	\$ 176,298	\$ 28,413	\$ -	\$ -	\$ 337,985	\$ 368,938
Securitization liabilities	-	-	-	7,428	-	-	7,428	4,504
Accounts payable and accrued charges	-	-	-	-	-	7,126	7,126	5,144
Future taxes payable	-	-	-	-	-	7,342	7,342	4,714
Shareholders' equity	-	-	-	-	-	122,792	122,792	117,145
Total Liabilities and Shareholders' Equity	\$ -	\$ 133,274	\$ 176,298	\$ 35,841	\$ -	\$ 137,260	\$ 482,673	\$ 500,445
Yield	-	1.65%	1.78%	3.77%	-			
GAP	\$ 102,438	\$ (39,986)	\$ (57,964)	\$ 81,468	\$ 4,659	\$ (90,615)	\$ -	\$ -
YIELD SPREAD	3.17%	5.02%	4.90%	2.22%	9.88%			

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 4.25% and 10%) or a prime-based interest rate. To the extent that the minimum rate exceeds the prime-based rate at June 30, 2010, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - \$39,643, 3 months to 1 year - \$68,661, 1 to 5 years - \$38,544.

An immediate and sustained 1% increase (decrease) to market interest rates at June 30, 2010 would have a positive (adverse) effect of \$292 (2009 - \$501) to net income over the following twelve month period.

An immediate and sustained 1% increase (decrease) to market interest rates at June 30, 2010 would have an adverse effect to accumulated other comprehensive income of \$3,369 (2009 - \$3,027).

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 as follows:

- (a) guarantee of the performance of MFC and MCLP with respect to the warehousing of residential construction loans related to MCLP's residential construction loan securitization program; and

- (b) guarantee of the premises lease with respect to the premises occupied by MFC, MCLP and the Company at 200 King Street West, Toronto with a current monthly rent of \$116 and expiring in September 2014.

MCLP has issued Class B units to management of MCLP, which were financed by bank loans to management. Under certain circumstances, the Company may be required to contribute up to 25% of the fair value of the Class B units to MCLP in order to repurchase the Class B units or to repay the bank financing and subrogate the bank's position. At June 30, 2010, the outstanding bank loan balances were \$6,955. As at June 30, 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.

14. Subsequent Event

Subsequent to the end of the quarter, an agreement of purchase and sale was entered into related to the property underlying a residential construction loan on which a \$2 million specific provision has been provided. The sale of the property is expected to close on or about August 18th. If the sale closes as set out in the agreement of purchase and sale, no loss of principal will occur and the existing specific provision of \$2 million will be reversed.