



ANNUAL REPORT 2009
MCAN MORTGAGE CORPORATION

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MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation (“MCAN”, the “Company” or “we”) reported positive results for 2009 in spite of the recession in the Canadian economy. Earnings and return on shareholders’ equity remained at healthy levels.

HIGHLIGHTS OF 2009

- Earnings per share were \$1.73, down from \$2.14 in 2008.
- Return on shareholders’ equity was 20.7% as compared with 28.1% in 2008.
- The regular quarterly dividend was increased to \$0.26 in the fourth quarter of 2009. An extra dividend of \$0.43 was paid in March 2009, while an extra dividend of \$0.15 has been declared for March 2010.
- Although provisions for losses increased to \$2.0 million from \$931,000 million in 2008, actual write-offs were only \$194,000.
- Our assets continue to be high quality, liquid and well diversified. MCAN’s Tier 1 capital to risk-weighted assets ratio improved from 24.1% in 2008 to 27.8% in 2009.
- Shareholder total return for 2009 (including share price appreciation and reinvestment of dividends) was 70.3%, while the five year compounded annual return was 21.4%.

OUTLOOK FOR 2010

The Canadian economy turned positive in the fourth quarter of 2009 and we expect further improvement in 2010. The resale housing market has been remarkably resilient, due in large part to abnormally low interest rates. Higher unemployment rates have caused higher arrears levels, which we expect to continue into 2010. The stability in the resale housing market has resulted in minimal losses on these mortgages. We plan to prudently increase our mortgage portfolio in the year, which we expect will lead to an increase in mortgage interest. Average term deposit rates are expected to continue to decline in the first half of the year. We expect that the resulting improvements in net investment income will be offset by lower realizations of discounts from our acquired mortgage portfolios and lower gains from Canada Mortgage Bonds (“CMB”) securitizations. General mortgage provisions are expected to increase in line with increases in the portfolio, but we may see some reduction in specific mortgage provisions as we anticipate success in mortgage work-outs.

COMPANY MISSION STATEMENT

To achieve superior and sustainable returns for our shareholders by employing expert balance sheet management and by leveraging our investment expertise and relationships.

OPERATING PHILOSOPHIES

- Preservation of capital
- Undoubted compliance
- Prudent and innovative lending
- Depositor service excellence
- Quick response capital
- Open and forthright communication with all stakeholders
- Cost efficiency

PERFORMANCE AGAINST 2009 GOALS

1. *To optimally invest the balance sheet to earn acceptable and sustainable risk weighted returns.*

At the start of 2009, we had available investment capacity that we expected to deploy, in part, by acquiring pools of mortgages. The resale housing market recovered strongly throughout the year and as a result, the opportunities to acquire pools of mortgages at favourable prices were not available. Also, we were aggressive in the management of our construction loan portfolio, which resulted in significant repayments. In retrospect, we were too cautious in 2009 and missed some opportunities for positive returns on mortgages and marketable securities. As a result, we finished the year with higher available investment capacity. Plans are in place to deploy this investment capacity throughout 2010.

2. *To ensure adequate funding is and remains available through a variety of cost effective sources.*

MCAN has built an effective term deposit team and system over the past four years, resulting in improved operational efficiencies and quality customer service to our deposit holders and deposit brokers.

3. *To operate at a standard of compliance and disclosure that reinforces the trust and confidence of all stakeholders.*

We strive to provide clear and straightforward communications to our regulators and investors. On an ongoing basis, we ensure that we are in compliance with all relevant current and pending legislation set out by our regulators. During 2009, we focused on continuing compliance with the regulations of Basel II as well as the transitioning toward the implementation of International Financial Reporting Standards (“IFRS”) in 2011.

4. To participate in the success of MCLP through direct support for specific asset strategies and programs.

We continue to be closely aligned to MCAP Commercial LP (“MCLP”) through our equity ownership in the partnership. In addition, we outsource our mortgage and loan origination and servicing to MCLP and other third party servicers.

We participated with MCLP in the acquisition of mortgage portfolios in 2008. Through the investment and asset management expertise of MCAN and MCLP management, both companies have realized significant incremental income in the past two years.

MCAN realized \$1.5 million in equity income on its 22.3% ownership of MCLP, down from \$3.0 million in 2008. MCLP’s earnings decreased as a result of lower loan origination volumes and prior year one-time gains.

CANADA MORTGAGE BONDS PROGRAM

Securitization income from our participation in the CMB Program remained high at \$7.6 million in 2009. Future participation in this program may be restricted or prevented due to the regulatory treatment of assets that will be consolidated onto the balance sheet with the implementation of IFRS.

MANAGEMENT CHANGES

Blaine Welch resigned as President and CEO as of February 26, 2010. Mr. Welch had been an officer of the Company and its predecessor entities since 1986. He was appointed Vice President and Chief Risk Officer in 1992 and held that position until April 2004 when he was appointed President and CEO. The Board of Directors would like to thank Blaine for his 23 years of service and his stewardship as President and CEO over the past 6 years.

On February 26, 2010, I was appointed as interim CEO and David Broadhurst was appointed as Chairman of the Board of Directors on an interim basis. A search committee of the Board of Directors has been formed to help the Board select a new leader to take MCAN through its next stage of development.



Ian Sutherland
Interim Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended December 31, 2009, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and have been presented in Canadian currency. This MD&A has been prepared as at February 25, 2010.

Additional information regarding MCAN Mortgage Corporation (the "Company", "MCAN" or "we"), including copies of our continuous disclosure materials such as the Annual Information Form, is available on our website at www.mcanmortgage.com or through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

A NOTE ABOUT FORWARD LOOKING STATEMENTS

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 changes, global market activity, interest rates, changes in government and economic policy and general economic conditions in geographic areas where the Company operates. Reference is made to the risk factors disclosed herein and in the Company's 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.

DESCRIPTION OF THE BUSINESS

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

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

RESULTS OF OPERATIONS

MCAN reported net income of \$24.7 million for the year ended December 31, 2009, down from \$30.3 million in the prior year. Earnings per share were \$1.73 compared to \$2.14 in the prior year, a decrease of 19%.

Selected Financial Information

(dollars in thousands except for per share amounts)	2009	2008	2007	Change from 2008	%
Net investment income	\$ 30,641	\$ 36,082	\$ 18,926	\$ (5,441)	(15.1%)
Operating expenses	<u>5,899</u>	<u>5,734</u>	<u>4,109</u>	<u>165</u>	<u>2.9%</u>
Income before income taxes	24,742	30,348	14,817	(5,606)	(18.5%)
Provision for (recovery of) income taxes	<u>-</u>	<u>-</u>	<u>(26)</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 24,742</u>	<u>\$ 30,348</u>	<u>\$ 14,843</u>	<u>\$ (5,606)</u>	<u>(18.5%)</u>
Basic and diluted earnings per share	\$ 1.73	\$ 2.14	\$ 1.12	\$ (0.41)	(19.2%)
Dividends per share	\$ 1.44	\$ 0.96	\$ 1.00	\$ 0.48	50.0%
Assets	\$ 506,683	\$ 570,154	\$ 557,425	\$ (63,471)	(11.1%)
Liabilities	383,804	453,545	454,418	(69,741)	(15.4%)
Shareholders' equity	122,879	116,609	103,007	6,270	5.4%
Number of common shares outstanding at year-end	14,321	14,224	14,098	97	0.7%
Book value per common share	\$ 8.58	\$ 8.20	\$ 7.31	\$ 0.38	4.6%
Common share price - close	\$ 13.60	\$ 9.10	\$ 9.96	\$ 4.50	49.5%
Market capitalization	\$ 194,766	\$ 129,438	\$ 140,416	\$ 65,328	50.5%

Net Investment Income

(in thousands)	2009	2008	2007
Investment Income			
Mortgage interest	\$ 27,420	\$ 33,429	\$ 28,669
Interest on loans and investments	3,878	5,617	5,728
Securitization income	7,558	7,761	1,190
Fees	8,024	5,051	3,384
Equity income from MCAP Commercial LP	1,456	3,025	890
Interest on cash and cash equivalents	234	1,109	1,299
Gain on sale of mortgages	-	5,326	22
Marketable securities	-	(97)	956
	48,570	61,221	42,138
Financial Expenses			
Term deposit interest and expenses	13,133	20,684	18,996
Mortgage expenses	2,761	3,524	3,699
Provision for losses	2,035	931	517
	17,929	25,139	23,212
Net Investment Income	\$ 30,641	\$ 36,082	\$ 18,926

Net investment income was \$30.6 million in 2009, a decrease of \$5.5 million from \$36.1 million in 2008. The decrease is primarily due to one-time gains on sales of mortgages from the prior year, increased provisions for losses in the current year and a decrease in equity income from MCAP Commercial LP ("MCLP"), partly offset by higher income in the current year from discounted portfolios of mortgages acquired by both MCAN and MCLP.

During the year, we realized \$4.6 million (2008 - \$2.9 million) relating to the partial recovery of purchase price discounts on MCAN's acquired portfolios, included in mortgage interest income. We also received \$4.9 million (2008 - \$2.1 million) of fees from MCLP from a profit sharing arrangement relating to the aforementioned mortgage portfolios acquired by MCLP.

Mortgage interest income decreased by \$6.0 million from the prior year, primarily due to a \$56 million decrease in the average mortgage portfolio (from \$431 million in 2008 to \$375 million in 2009). The average mortgage yield decreased to 7.48% in 2009 from 7.66% in 2008, as the average prime rate decreased from 4.80% in 2008 to 2.42% in 2009. This decrease has negatively impacted mortgage interest income, as approximately 57% of our mortgages at year end were floating rate, compared to 56% at December 31, 2008. However, the impact of the decrease in the prime rate on the average mortgage yield was largely offset by the aforementioned significant increase in discount income realized on our portfolio of discounted mortgages.

The mortgages in the acquired portfolios have higher effective yields than those in our regular portfolio, as they have been acquired at a discount to their par values. The portion of the discount that we expect to recover is amortized into income over the remaining term of the respective mortgages. Upon the payout of a mortgage, the remaining unamortized discount is recognized as income.

Although we do not accrue interest on impaired mortgages, we include interest owing but not accrued in the mortgage yield calculation to accurately represent the underlying portfolio. Actual interest losses are incorporated into the yield once realized. During the year, interest owing but not accrued on impaired mortgages increased by \$772,000. The mortgage yield would have decreased by 0.20% to 7.28% if interest owing but not accrued was excluded from the yield calculation.

Interest on loans and investments decreased by \$1.7 million from the prior year, primarily due to the aforementioned decrease in the prime rate.

MCAN securitizes insured mortgages through the Canada Mortgage Bonds ("CMB") program. In the current year, we recognized securitization income of \$7.6 million compared to \$7.8 million in the prior year. Current year income consists of an up-front gain from securitization of \$6.4 million (2008 - \$3.3 million), residual securitization income of \$2.4 million (2008 - \$4.7 million) and a write-down on the interest-only strips of \$1.2 million (2008 - \$232,000). The increase in up-front gains from securitization is primarily due to an increase in our economic participation in the CMB program. Residual securitization income decreased as a result of negative fair value adjustments to CMB-related financial instruments of \$2.3 million (2008 - positive impact of \$3.4 million). In general, fair value changes in the interest rate swaps largely offset those in the interest-only strips, however significant fluctuations in the forward rate curve during 2009 had a negative impact to income. Other components of residual securitization income increased from \$1.3 million to \$4.7 million due to an increase in refinancing and renewal gains and a larger CMB portfolio.

During the year, a net write-down of \$1.2 million was recorded on the outstanding interest-only strips. To the time of the write-down, the prepayment level of CMB mortgages was significantly higher than anticipated and decreased expected future cash flows, as the assets in which principal collections are reinvested generally yield less than the securitized mortgages.

Fees increased by \$3.0 million over 2009, primarily due to the increase in fees received from MCLP in regards to the profit sharing arrangement noted above. Fees also include commitment, extension, renewal and letter of credit fees earned on our mortgage portfolio.

Equity income of \$1.5 million from our ownership in MCLP decreased significantly from \$3.0 million in the prior year due to decreases in MCLP's loan origination volumes and one-time gains from sales of mortgages from the acquired portfolios realized in 2008.

Interest on cash and cash equivalents decreased by \$875,000 over the prior year due to a lower average prime rate in 2009.

In 2008, we earned \$5.3 million from sales of mortgages, primarily from the acquired portfolios.

Term deposit interest and expenses decreased by \$7.6 million from 2008. The decrease was due to a \$66 million decrease in the average term deposit balance to \$372 million in 2009 from \$438 million in 2008 and a decrease in the average term deposit rate to 3.12% in 2009 from 4.39% in 2008.

Mortgage expenses, consisting primarily of mortgage servicing expenses, were \$2.8 million compared to \$3.5 million in the prior year, consistent with the decrease in the average mortgage portfolio.

Credit Quality

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

(in thousands)	2009	2008
Mortgages - general provision (recovery)	\$ (497)	\$ (478)
Mortgages - specific provision	2,618	97
Loans and investments - general provision (recovery)	(186)	106
Securitization investments - write-down	100	2,000
Securitization investments - recovery of write-down	-	(794)
	\$ 2,035	\$ 931

Specific provision activity consists of new provisions of \$2.7 million on three residential construction loans and a decrease of \$109,000 relating to uninsured single family mortgages. The construction loans consist of MCAN's 20% participation in a multi-phased land development loan that has experienced slow sales and cost increases, a land loan that has been delayed by municipal negotiations and a small land development loan that has experienced slow sales and cost increases. Given the timeline for repayment and market price point fluctuations, specific provisions have been established for anticipated losses.

Write-offs were 5.2 basis points (\$194,000) on average mortgage balances, compared to 2.3 basis points (\$100,000) in the prior year. The majority of the aforementioned reduction in specific provisions on uninsured single family was due to write-offs recognized during the year.

During 2008, we recorded a \$2.0 million write-down on an investment that was subject to the restructuring of Third Party Structured Asset-Backed Commercial Paper ("ABCP") by the Pan-Canadian Investors Committee (the "Montreal Accord"). The restructuring, which was finalized in early 2009, converted the existing investment into a Master Asset Vehicle II ("MAV II") investment. Following the restructuring, we maintained the \$2.0 million write-down on the MAV II investment, however it was increased to \$2.1 million at year-end based on its fair market value at that time.

Impaired mortgages net of specific allowances are as follows:

(in thousands)	December 31 2009	December 31 2008
Residential construction	\$ 15,815	\$ -
Uninsured single family	1,356	3,438
	\$ 17,171	\$ 3,438
	5.81%	0.80%

Impaired loans increased significantly during 2009, mostly due to the impairment of the aforementioned residential construction loans on which we recorded new specific allowances during the year. We continue to proactively monitor loan arrears and take

prudent steps to collect overdue accounts. Although impaired mortgages increased during the year, total mortgage arrears decreased from \$34 million to \$31 million.

Operating Expenses

(in thousands)	2009	2008	2007
Salaries and benefits	\$ 2,587	\$ 2,226	\$ 1,878
General and administrative	3,312	3,508	2,231
	\$ 5,899	\$ 5,734	\$ 4,109

Operating expenses increased by \$165,000 over the prior year. Salaries and benefits increased as a result of an increase in the number of employees, while general and administrative expenses decreased due to one-time expenses relating to the acquired portfolios in 2008.

Income Taxes

(in thousands)	2009	2008	2007
Provision (recovery) against income	\$ -	\$ -	\$ (26)
Charge (recovery) to retained earnings	(679)	6,059	873
	\$ (679)	\$ 6,059	\$ 847

We have taken the position that it is more likely than not that sufficient dividends will be paid to shareholders in future periods to recover current and future taxes. As a result of this, we charge (recover) our current and future tax liabilities directly to retained earnings. The provision for taxes recorded in the consolidated statements of income relates to taxes that cannot be recovered from the payment of future dividends.

During 2009, there was a small recovery of taxes to retained earnings, primarily due to a decrease in the magnitude of the March 31, 2010 dividend compared to 2009. A future tax liability arises due to the fact that this dividend had not yet been paid as of year-end but is deductible from 2009 taxable income. As at December 31, 2009, this liability was significantly lower than the corresponding liability from the prior year due to the lower March 2010 dividend, which led to the recovery of taxes during the year. The current year recovery of taxes was partly offset by the future tax charge to retained earnings that arose from new CMB issuances in 2009, as we recognize up-front gains from securitization for accounting purposes but recognize taxable income as cash is received over the duration of the issuance.

Cash Flows

Operating activities provided cash flows of \$23 million in 2009 and provided \$16 million in 2008. Although net income was lower in the current year, the impact of the non-cash component of income was significantly higher in 2008 than in 2009.

Investing activities provided cash flows of \$94 million in 2009 and provided \$19 million in 2008. The variance is a result of a significant increase in net mortgage inflows in 2009.

Financing activities used cash flows of \$85 million in 2009 and used \$31 million in 2008. The net term deposit outflow increased significantly in 2009, while dividends paid also increased.

Summary of Three Year Results of Operations

Net income in 2009 decreased by \$5.6 million from 2008. Our profitability remained strong as a result of significant securitization income and income from the acquired portfolios. The one-time gains from sale of mortgages in 2008 and the higher provisions for losses in 2009 comprised the majority of the decrease.

The increase in net income in 2008 over 2007 of \$16.0 million was due to significant mortgage interest income, fee income and gains from sales relating to the acquired portfolios. In addition, we had significantly higher securitization income from our participation in the CMB program and an increase in equity income from MCLP.

SUMMARY OF FOURTH QUARTER RESULTS

The Company reported net income for the quarter ended December 31, 2009 of \$6.1 million (\$0.43 per share), down from \$9.9 million (\$0.70 per share) a year earlier as follows:

(in thousands, except for per share amounts)

For the Quarters Ended December 31	2009	2008
Net investment income	\$ 8,056	\$ 11,471
Operating expenses	1,952	1,551
Income before income taxes	6,104	9,920
Provision for income taxes	-	-
Net income	\$ 6,104	\$ 9,920
Basic and diluted earnings per share	\$ 0.43	\$ 0.70
Dividends per share	\$ 0.26	\$ 0.25

Net Investment Income

(in thousands)

For the Quarters Ended December 31	2009	2008
Investment Income		
Mortgage interest	\$ 7,413	\$ 8,643
Interest on loans and investments	910	1,133
Securitization income	1,801	2,765
Fees	1,893	1,783
Equity income from MCAP Commercial LP	523	788
Interest on cash and cash equivalents	34	183
Gain on sale of mortgages	-	1,851
	12,574	17,146
Financial Expenses		
Term deposit interest and expenses	2,525	4,901
Mortgage expenses	615	877
Provision for (recovery of) losses	1,378	(103)
	4,518	5,675
Net Investment Income	\$ 8,056	\$ 11,471

Net investment income decreased by \$3.4 million over the prior year. The decrease is primarily due to a one-time gain on the sale of mortgages in the prior year (\$1.9 million), increased provisions for losses (\$1.5 million) and decreases in mortgage interest income (\$1.2 million) and securitization income (\$964,000), partly offset by a decrease in term deposit interest and expenses (\$2.4 million).

Mortgage interest income decreased by \$1.2 million due to an \$81 million decrease in the average mortgage portfolio, partially offset by a 0.63% increase in the average mortgage yield through the realization of increased discount income. Interest on loans and investments, fee income and equity income from MCLP were comparable to the prior year. Securitization income decreased as a result of current year negative mark-to-market adjustments.

Term deposit interest and expenses decreased by \$2.4 million as a result of a 1.87% decrease in the average interest rate and a \$87 million decrease in the average outstanding balance. Mortgage expenses decreased by \$262,000 on a smaller average portfolio. Provisions for losses of \$1.4 million consisted primarily of the increase of an existing specific mortgage provision by \$1.5 million, compared to recoveries of \$103,000 in 2008.

Operating Expenses

Operating expenses were \$2.0 million for the quarter, up from \$1.6 million last year.

(in thousands)

For the Quarters Ended December 31	2009		2008	
Salaries and benefits	\$	933	\$	682
General and administrative		1,019		869
	\$	1,952	\$	1,551

SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except per share amounts)

	2009				2008			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net investment income	\$7,703	\$6,875	\$8,007	\$8,056	\$6,064	\$6,062	\$12,485	\$11,471
Operating expenses	1,269	1,268	1,410	1,952	922	1,173	2,088	1,551
Income before income taxes	6,434	5,607	6,597	6,104	5,142	4,889	10,397	9,920
Provision for income taxes	-	-	-	-	-	-	-	-
Net income	\$6,434	\$5,607	\$6,597	\$6,104	\$5,142	\$4,889	\$10,397	\$9,920
Basic and diluted earnings per share	\$0.45	\$0.39	\$0.46	\$0.43	\$0.36	\$0.35	\$0.73	\$0.70
Dividends per share								
Regular	\$0.68	\$0.25	\$0.25	\$0.26	\$0.12	\$0.23	\$0.25	\$0.25
Capital gains	-	-	-	-	0.11	-	-	-
Total	\$0.68	\$0.25	\$0.25	\$0.26	\$0.23	\$0.23	\$0.25	\$0.25

After a stable first half of the year, the second half of 2008 had a significant increase in net income due to substantial income from the sale of mortgages and income earned from the acquired portfolios. Securitization income and income from the acquired portfolios remained strong during 2009.

FINANCIAL POSITION

Total assets were down \$63 million from December 31, 2008. This change consisted of decreases of \$98 million in mortgages, \$19 million in loans receivable and other investments and \$12 million in derivative financial instruments, partially offset by increases of \$32 million in cash and \$34 million in securitization investments.

Assets

(in thousands)	2009		2008		2007	
Cash and cash equivalents	\$ 89,843	17.7%	\$ 58,071	10.2%	\$ 53,804	9.7%
Mortgages	295,415	58.3	393,010	68.9	412,685	74.0
Securitization investments	73,590	14.5	39,743	7.0	36,381	6.5
Loans receivable and other investments	16,885	3.3	35,624	6.2	34,905	6.3
Equity investment in MCLP	17,905	3.5	18,300	3.2	17,095	3.1
Derivative financial instruments	11,490	2.3	23,541	4.2	526	0.1
Other assets	1,555	0.4	1,865	0.3	1,873	0.3
Marketable securities	-	-	-	-	156	-
	\$ 506,683	100.0%	\$ 570,154	100.0%	\$ 557,425	100.0%

Cash equivalents include term deposits and bankers' acceptances. These investments ensure adequate liquidity to meet maturing term deposit and new mortgage commitments. In general, we manage our cash and cash equivalents in the \$20 to \$30 million range, however the year-end balance was extremely high as we received proceeds from significant mortgage sales near the end of 2009.

The composition of our mortgage portfolio at December 31, 2009 and 2008 is as follows:

	2009			2008		
	Principal	Allowance	Net	Principal	Allowance	Net
Single family uninsured	\$ 127,889	\$ 874	\$ 127,015	\$ 189,867	\$ 1,370	\$ 188,497
Single family insured	38,990	-	38,990	28,034	-	28,034
Construction	126,059	3,728	122,331	153,772	1,333	152,439
Commercial	7,207	128	7,079	24,140	100	24,040
	\$ 300,145	\$ 4,730	\$ 295,415	\$ 395,813	\$ 2,803	\$ 393,010

We invest in insured and uninsured single family mortgages in Canada. We believe that the Canadian residential property market continues to exhibit healthy fundamentals. We do not invest in the United States mortgage market. The uninsured mortgages we invest in may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, value is the appraised value of the property as determined by a qualified appraiser at the time of funding. Residential mortgages insured by Canada Mortgage and Housing Corporation or Genworth Financial Mortgage Insurance Company Canada may exceed this ratio.

Uninsured residential construction loans are made to homebuilders to finance residential construction projects. These loans generally have a floating rate of interest and terms of one to two years. Our limit on conventional construction loans is 250% of regulatory capital. Non-residential construction loans may comprise up to one half of this limit. The maximum single conventional construction loan may not exceed the lesser of \$13.5 million or 20% of regulatory capital as per our internal limits.

Mortgages decreased by \$98 million during 2009 (see Note 4 to the consolidated financial statements). The decrease consisted of decreases of \$30 million in construction loans, \$17 million in commercial loans and \$61 million of uninsured single family mortgages, partially offset by an increase of \$11 million in insured single family mortgages. Due to adverse market conditions, we have continued to be selective in our mortgage approvals. Consequently, we have observed significant repayments on our uninsured single family mortgage portfolio. In addition, we have been applying minimum rates on renewed and newly funded construction loans where possible and aggressively managing the repayment of these loans, as they are mostly prime-based and have less attractive yields in the current interest rate environment.

Abnormally low interest rates have contributed to a stabilization of residential property values across Canada. However, weak employment levels have resulted in higher arrears levels. Our account management and that of our mortgage servicers is proactive in managing arrears. We believe that these factors will mitigate loan losses. We continue to regard residential mortgages as a solid investment asset class.

As at December 31, 2009, we held discounted mortgages with a net discount of \$22 million (2008 - \$33 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.

Securitization investments consist of investments in securitization programs, the interest-only strips from the CMB program and insured mortgage-backed securities (see Note 5 to the consolidated financial statements). Securitization investments increased by \$34 million in 2009 primarily due to increases of \$28 million in insured mortgage backed securities and \$14 million in CMB interest-only strips, partly offset by a decrease of \$8 million in investments in securitization programs.

Loans receivable and other investments (see Note 6 to the consolidated financial statements) decreased by \$19 million during the year as a result of the full payout of two existing balances and the partial repayment of two additional loans.

Our largest single investment is our minority interest in MCLP. We intend to continue to participate in the mortgage origination and servicing business through our interest in MCLP. MCLP is an originator and servicer of mortgage loans for third party investors in Canada. We outsource our mortgage and loan origination and servicing to MCLP and other third party servicers.

Derivative financial instruments at December 31, 2009 consist of interest rate swaps relating to the CMB program. We have entered into "pay-floating, receive-fixed" swaps to hedge against interest rate risk on reinvested CMB principal collections. The fair market value of the swaps decreased significantly during 2009 as a result of a substantial increase in forward interest rates.

Other assets include capital assets, prepaid expenses, accounts receivable and deferred costs.

Liabilities and shareholders' equity

(in thousands)	2009	2008	2007	Change from	
				2008	2007
Liabilities					
Term deposits	\$ 360,744	\$ 426,663	\$ 445,368	\$ (65,919)	\$ (84,624)
Securitization liabilities	5,048	7,095	-	(2,047)	5,048
Accounts payable and accrued charges	11,001	12,186	8,089	(1,185)	2,912
Future taxes payable	7,011	7,601	961	(590)	6,050
	383,804	453,545	454,418	(69,741)	(70,614)
Shareholders' equity					
Share capital	98,490	97,493	96,370	997	2,120
Contributed surplus	510	510	510	-	-
Retained earnings	22,165	17,313	6,654	4,852	15,511
Accumulated other comprehensive income (loss)	1,714	1,293	(527)	421	2,241
	122,879	116,609	103,007	6,270	19,872
	\$ 506,683	\$ 570,154	\$ 557,425	\$ (63,471)	\$ (50,742)

Term deposit liabilities decreased by \$66 million during the year, consistent with the change in assets.

Securitization liabilities relate to CMB interest-only strips in liability positions, discussed below in the "CMB Program" disclosure.

Total shareholders' equity of \$123 million increased by \$6 million from December 31, 2008. The increase is primarily due to the significant excess of 2009 net income (\$24.7 million) over dividends declared (\$20.6 million). Since we are able to deduct dividends paid up to 90 days after year-end from taxable income, there is sometimes a year-end disconnect between these two components of retained earnings. In addition, there are generally differences between income for accounting purposes and taxable income. We issued \$843,000 of new shares on a quarterly basis under the dividend reinvestment plan at the average closing price for the 20 days preceding such issues. There was also a \$679,000 recovery to retained earnings related to current and future income taxes and a \$421,000 increase in accumulated other comprehensive income.

CMB PROGRAM

We participate in the CMB program, which involves the securitization of insured single family and multi family mortgages. The current year was the first in which we securitized insured multi family mortgages. We participate in the CMB program with MCLP and a private company. For accounting purposes, we recognize an up-front gain on securitization, and at that time we recognize an interest-only strip, which is a retained interest in the securitized mortgages. The interest-only strips consist of the discounted value of future mortgage interest, principal reinvestment interest receipts and penalty income less coupon interest payments. The interest-only strips are generally in asset positions, however they can potentially go into liability positions upon a significant decrease in forward interest rates after issuance, which occurred with certain interest-only strips in 2008. In addition, we recognize liabilities for future mortgage servicing and other costs, which we subcontract to MCLP and the private company that participates in the CMB program. For tax purposes, we recognize CMB-related income on the cash basis, wherein the payment of upfront CMB expenses is a deduction from taxable income at the date of issuance, and the ongoing collection of net CMB cash flows is recognized in taxable income as received over the duration of the issuance. In the early years of a CMB issuance, taxable income is significantly lower than accounting income due to the absence of an upfront gain on securitization for tax purposes to offset upfront cash requirements. However, taxable income significantly exceeds accounting income in the later years of a CMB issuance, in line with the receipt of ongoing CMB cash flows such as mortgage interest and principal reinvestment interest.

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

During the year, we securitized \$836 million of mortgages through the CMB program. We recorded \$10.9 million of interest-only strips and \$1.5 million of liabilities on the respective closing dates.

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

During the year, we recorded a net write-down of \$1.2 million on the outstanding interest-only strips. To the time of the write-down, the prepayment level of CMB mortgages was significantly higher than anticipated and decreased expected future cash flows, as the assets in which principal collections are reinvested generally yield less than the securitized mortgages. At the time

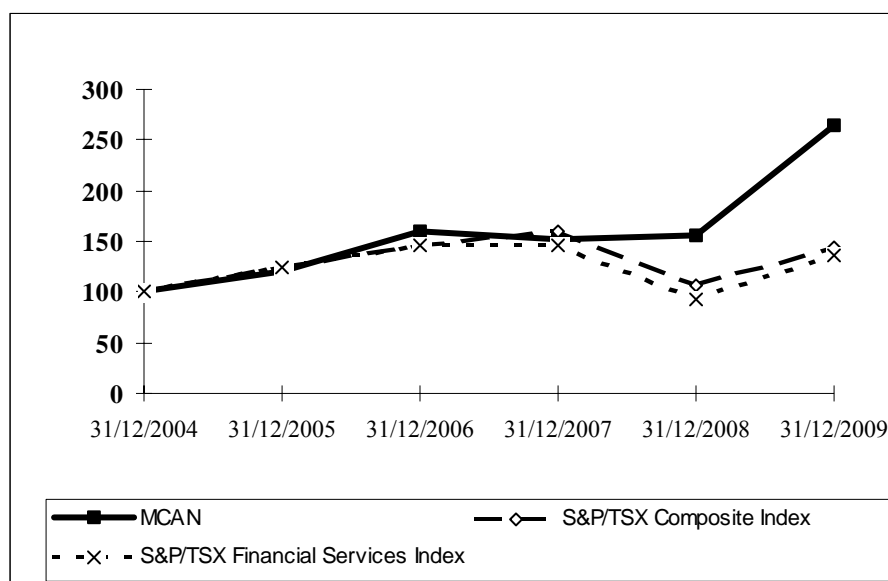
that the write-down was recorded, we revised the calculation of the fair value of the interest-only strips to include the discounted value of future penalty income as a result of a recent significant increase in mortgage liquidations. This revision had a positive impact to income of \$1.0 million, which is included in the net interest-only strip write-down of \$1.2 million.

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

PERFORMANCE CHARTS

Shareholder Return

The following graph compares MCAN's cumulative total shareholder return (assuming an investment of \$100 on December 31, 2004) on its common shares during the period from January 1, 2005 to December 31, 2009, with the S&P/TSX Composite Index (Total Return) and the S&P/TSX Financial Services Index (Total Return), assuming reinvestment of all dividends.



	Dec 31 2004	Dec 31 2005	Dec 31 2006	Dec 31 2007	Dec 31 2008	Dec 31 2009	Compound Annual Growth
MCAN	100	121	160	153	155	264	21.4%
TSX	100	124	146	160	107	145	7.7%
TSX Financial Services	100	124	147	145	93	136	6.3%

Note: Dividends declared on MCAN's common shares are assumed to be reinvested at the closing price on the payment date.

Ten Year Financial Summary

(in thousands, except per share amounts)

	Net Income	Earnings Per Share	Dividends Per Share	Total Assets	As at December 31 Shareholders' Equity	Market Capitalization
2009	\$ 24,742	\$ 1.73	\$ 1.44	\$ 506,683	\$ 122,879	\$ 194,766
2008	30,348	2.14	0.96	570,154	116,609	129,438
2007	14,843	1.12	1.00	557,425	103,007	140,416
2006	15,211	1.23	1.18	498,107	84,611	141,052
2005	14,116	1.18	0.97	434,369	81,164	116,918
2004	11,601	1.12	1.11	454,365	74,965	103,374
2003	8,247	0.84	0.68	369,477	61,741	83,747
2002	5,430	0.58	0.68	327,059	58,383	80,293
2001	6,795	0.85	0.68	222,397	48,149	72,656
2000	6,210	0.80	0.68	243,567	42,945	54,103

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of common shares with no par value. At December 31, 2009, there were 14,320,980 common shares outstanding. At February 25, 2010 there were 14,334,082 common shares outstanding. Additional information related to the share capital is included in Note 16 to the consolidated financial statements.

DIVIDEND POLICY AND RECORD

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. As a MIC under the Tax Act, we can deduct dividends paid to shareholders during the year and within 90 days thereafter from income for tax purposes. We pay out substantially all of our taxable income to shareholders, whereas other financial institutions generally pay out only a portion of their taxable income to their shareholders. These dividends are taxable in the shareholders' hands as interest. In addition, a MIC can pay certain capital gains dividends which are taxed as capital gains in the shareholders' hands. We intend to continue to declare dividends on a quarterly basis.

Dividends per share over the past three years are as follows:

Fiscal Period	2009	2008	2007
First Quarter - Regular Dividend	\$ 0.25	\$ 0.23	\$ 0.23
First Quarter - Extra Dividend	0.43	-	0.08
Second Quarter	0.25	0.23	0.23
Third Quarter	0.25	0.25	0.23
Fourth Quarter	0.26	0.25	0.23
	\$ 1.44	\$ 0.96	\$ 1.00
Taxable Dividends	\$ 1.44	\$ 0.85	\$ 0.88
Capital Gains Dividends	-	0.11	0.12
	\$ 1.44	\$ 0.96	\$ 1.00

The Board of Directors declared a first quarter dividend of \$0.41 per share to be paid March 31, 2010 to shareholders of record as of March 15, 2010. The dividend comprises the regular quarterly dividend of \$0.26 and a \$0.15 extra dividend.

The March 2010 extra dividend is required to pay out the balance of taxable income to shareholders, despite the fact that taxable income is significantly lower than income for accounting purposes, primarily due to our participation in the CMB program. The March 2009 dividend had a similar relationship between income for accounting and tax purposes. There was no extra dividend distributed to shareholders in March 2008, although we maintained the regular quarterly dividend at that time.

OFF BALANCE SHEET ARRANGEMENTS

We commit to fund mortgages to borrowers in advance of funding at agreed upon interest rates. Substantially all of these commitments relate to floating rate construction loans. At December 31, 2009, outstanding commitments for future fundings of mortgages intended for our portfolio were \$96 million.

Off balance sheet arrangements relating to the CMB program are discussed in the "CMB Program" section above.

CONTRACTUAL OBLIGATIONS

We have contractual obligations to make principal and interest payments on term deposits and an operating lease. In addition, we have outstanding commitments for future fundings of mortgages intended for our own portfolio, as discussed above.

As part of the CMB program, we are required to pay servicing expenses on the securitized mortgages and other ongoing costs.

(in thousands)	Less than one year	One to five years	Over five years	Total
Term deposits	\$ 339,553	\$ 21,191	\$ -	\$ 360,744
Operating lease	171	299	-	470
Mortgage fundings	86,556	9,617	-	96,173
CMB obligations	984	2,268	-	3,252
	\$ 427,264	\$ 33,375	\$ -	\$ 460,639

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

TRANSACTIONS WITH RELATED PARTIES

In 2009, we purchased mortgage origination and administration services and certain corporate services at a cost of \$2.2 million from MCLP while we received fees of \$2.4 million from MCLP. Corporate services include premises and systems. The fees received from MCLP include commitment, extension, renewal and letter of credit fees. We use MCLP's systems, including networks, subsystems, and general ledger. We also receive technology support from MCLP.

In 2009, we paid MCLP \$5.6 million of fees relating to a profit sharing arrangement on a portfolio of discounted mortgages. We received \$4.9 million from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

In 2004, we entered into an arrangement with MCLP to sublease space at 200 King Street West, Toronto, Ontario, expiring in 2012.

The Company has established an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board of Directors can approve loans to key personnel for the purpose of purchasing the Company's shares. The aggregate number of common shares issued pursuant to the Share Purchase Plan may not exceed 480,000, provided that the number of common shares which may be issued pursuant to the Share Purchase Plan together with common shares which may be issued pursuant to any other MCAN share compensation agreements may not exceed 10% of the outstanding common shares, and the common shares which may be issued pursuant to the Share Purchase Plan to any one person may not exceed 5% of the outstanding common shares. At December 31, 2009, \$1.4 million of loans were outstanding. Subsequent to year-end, the approved amount of loans was increased from \$1,620,000 to \$1,720,000, however no new loans were advanced under the Share Purchase Plan. The loans under the Share Purchase Plan bear interest at prime plus 1% and have a five-year term. MCAN, at its discretion, reimburses officers the interest amount in connection with loans provided pursuant to the Share Purchase Plan. Additional information related to the Share Purchase Plan is included in Note 16 to the consolidated financial statements and in our Management Information Circular dated March 12, 2010.

CAPITAL MANAGEMENT

We derive our net investment income from the investment of our equity and the difference or spread between amounts earned on our assets and the cost of the term deposits that we issue to fund such assets. As a MIC under the Tax Act, we are limited to a liabilities to capital ratio of 5:1 (or an assets to capital ratio of 6:1), based on our non-consolidated balance sheet measured at its tax value. As a loan company under the *Trust and Loan Companies Act* (the "Trust Act"), OSFI regulates our consolidated regulatory assets to capital and has granted us a maximum consolidated regulatory assets to capital ratio. We borrow to the extent that we are satisfied that the borrowing and additional investments will increase our overall profitability.

OSFI has issued guidelines to federally regulated companies for capital adequacy, which include meeting a minimum regulatory capital to risk-weighted assets ratio of 10% for total capital and 7% for Tier 1 capital. Our target minimum Tier 1 and Total capital ratios are both 15%.

Our income tax assets and capital, regulatory assets and capital, and maximum assets and ratios over the past three years are as follows:

December 31 (dollar amounts in thousands)	2009	2008	2007
Tax Act Test			
Income Tax Assets	\$ 488,024	\$ 551,589	\$ 552,531
Income Tax Capital	\$ 120,732	\$ 115,998	\$ 100,780
Income Tax Assets to Capital ratio	4.04	4.76	5.48
Maximum Assets (non-consolidated)	\$ 724,392	\$ 695,988	\$ 604,680
Maximum Assets to Capital ratio	6.00	6.00	6.00
Regulatory Test (OSFI)			
Regulatory Assets	\$ 508,351	\$ 578,124	\$ 569,269
Regulatory Capital	\$ 110,231	\$ 107,991	\$ 100,554
Regulatory Assets to Capital ratio	4.61	5.35	5.66
Total Regulatory Capital to Risk-Weighted Assets ratio	27.47%	23.69%	21.53%
Minimum Total Regulatory Capital to Risk-Weighted Assets ratio	10.00%	10.00%	10.00%
Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	27.75%	24.09%	22.16%
Minimum Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	7.00%	7.00%	7.00%

We are limited to the lowest maximum assets amount in the above two asset tests, and the maximum leverage permitted under the Tax Act is more constraining on the Company than the regulatory assets to capital ratio mandated by OSFI. We manage our assets to a level of 5.75 times capital on a tax basis to provide a prudent cushion between the maximum and total actual assets.

We fund the majority of our investments through the issue of term deposits eligible for CDIC deposit insurance with varying maturities in certain provinces of Canada. We do not use capital markets (including asset-backed commercial paper) for liquidity.

For additional information on our capital management, refer to Note 19 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, mortgages, securitization investments, loans receivable and other investments, term deposits and derivative financial instruments, which are discussed throughout this MD&A.

The use of financial instruments exposes us to interest rate, credit, liquidity and market risk. A discussion of these risks and how these risks are managed is found under "Risk Management", below.

Information on the financial statement classification and amounts of income, expenses, gains and losses associated with the instruments are located in the Results from Operations and Financial Position sections of the MD&A. Information on the determination of the fair market value of financial instruments is located in the Critical Accounting Policies and Estimates section of the MD&A.

LIQUIDITY

We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The Investment Committee of the Board ("ICB") is responsible for the review and approval of liquidity policies. The Asset and Liability Management Committee ("ALCO") is responsible for liquidity management. 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 us with added flexibility to meet our liquidity needs. We have access to capital through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide us with the ability to fund asset growth as needed. We also have a \$30 million banking facility in place to fund asset growth or meet short-term funding obligations as required. We believe that our liquidity position and our access to capital markets support our ability to meet current and future commitments. We are not aware of any contingencies or known events that are likely to materially affect our liquidity position.

During 2008, our liquidity management was enhanced with the formalization of a Liquidity Risk Management Framework that included the introduction of multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the ICB on a quarterly basis.

The composition of our liquidity ratios over the last three years is as follows:

As at December 31	2009	2008	2007
Tier 1 liquidity			
Cash and cash equivalents	\$ 89,843	\$ 58,071	\$ 53,804
Less: cash pledged as collateral	(1,642)	-	-
Banking facility	30,000	30,000	30,000
	<u>118,201</u>	<u>88,071</u>	<u>83,804</u>
Tier 2 liquidity			
75% of eligible insured single family mortgages	<u>6,665</u>	<u>9,864</u>	<u>11,001</u>
Total liquidity	<u>\$ 124,866</u>	<u>\$ 97,935</u>	<u>\$ 94,805</u>
100 day term deposit maturities	<u>\$ 111,125</u>	<u>\$ 131,696</u>	<u>\$ 101,634</u>
Liquidity ratios			
Tier 1 liquidity to 100 day term deposit maturities	106%	67%	82%
Total liquidity to 100 day term deposit maturities	<u>112%</u>	<u>74%</u>	<u>93%</u>

We have established and maintain liquidity policies which meet the standards set under the Trust Act and any regulations or guidelines issued by OSFI.

A further analysis of our liquidity risks is found under "Risk Management" below.

RISK FACTORS

We are exposed to a number of risks that can adversely affect our ability to achieve our business objectives or execute our business strategies, and which may result in a loss of earnings, capital or reputation. The risks identified by MCAN may not be

the only risks faced by the Company. Other risks of which the Company is not aware of which the Company currently deems to be immaterial may surface and have a material adverse impact on the Company's business, results from operations and financial condition.

The significant risks to which we are exposed are as follows:

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage and lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

Liquidity Risk

Liquidity risk is the risk that cash inflows, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on and off-balance sheet) as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that we may eventually collect the amounts outstanding, which may result in a loss of earnings or capital, or have an otherwise adverse effect on our financial condition and results of operations.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and net equity. Interest rate risk arises when our assets and liabilities, both on and off-balance sheet, have mismatched repricing dates. Changes in interest rates where we have mismatched repricing dates may have an adverse effect on our financial condition and results of operations. In addition, interest rate risk may arise when changes in the underlying interest rates on assets do not match changes in the interest rates on liabilities. This potential mismatch may have an adverse effect on our financial condition and results of operations.

Economic Conditions

While the economy was in recession during 2009, economic conditions generally improved toward the end of the year, as evidenced by growth in both gross domestic product and employment. Abnormally low interest rates contributed to the stabilization of the housing market.

Higher interest rates or a decline in general economic conditions could cause default rates to increase as creditworthiness decreases for borrowers who are more highly leveraged or as unemployment increases. This decline could negatively affect our net income. In addition, a general decline in economic conditions could slow the pace of housing sales and adversely affect growth in the single family mortgage market, which could adversely affect our ability to grow our mortgage portfolio.

Monetary Policy

Our earnings are affected by the monetary policies of the Bank of Canada. Changes in the supply of money and the general level of interest rates could affect our earnings. Changes in the level of interest rates affect the interest spread between our mortgages, loans and investments, securitization investments and term deposits, and as a result impact our net investment income. Changes to monetary policy and in financial markets in general are beyond our control and are difficult to predict or anticipate.

Outsourcing Risk

Outsourcing risk is the risk incurred when we contract out a business function to a service provider instead of performing the function ourselves, and the service provider performs at a lower standard than we would have under similar circumstances. We outsource all mortgage and loan origination and servicing to MCLP and other third parties.

Reliance on Key Personnel

Our future performance is dependent on the abilities, experience and efforts of our management and other key personnel. There is no assurance that we will be able to continue to attract and retain key personnel, although it remains a key objective of the Company. Should any key personnel be unwilling or unable to continue their employment with MCAN, there may be an adverse effect on our financial condition and results of operations.

Competition Risk

Our operations and income are a function of the interest rate environment and the availability of mortgage products at reasonable yields. The availability of mortgage products for the Company and the yields thereon are dependent on market competition. In

the event that we are unable to compete successfully against our current or future competitors, there may be an adverse effect on our financial condition and results of operations.

Regulatory Risk

Changes in laws and regulations, including interpretation or implementation, could affect the Company by limiting the products or services that we can provide and increasing the ability of competitors to compete with our products and services. Also, any failure by the Company to comply with applicable laws and regulations could result in sanctions and financial penalties which could adversely impact our earnings and damage our reputation.

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. For the Company, market risk factors include interest rates, real estate values, commodity prices and foreign exchange rates, among others. Any changes in these market risk factors may negatively affect the value of our financial assets, which may have an adverse effect on our financial condition and results of operations. We do not undertake trading activities as part of our regular operations, and therefore are not exposed to risks associated with activities such as market making, arbitrage or proprietary trading.

Operational and Infrastructure Risk

We are exposed to many types of operational risks that affect all companies. Such risks include the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. We are also exposed to the risk that computer or telecommunication systems could fail, despite efforts to maintain these systems in working order. Shortcomings or failures in internal processes, employees or systems, including any of our financial, accounting or other data processing systems, could lead to financial loss and damage to our reputation. In addition, despite our contingency plans in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our operations.

Accuracy and Completeness of Information on Customers and Counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished by them, including financial statements and other financial information. We may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information. Our financial condition and results of operations may be negatively affected to the extent that we rely on financial statements and financial information that do not comply with GAAP, that are materially misleading or that do not fairly represent, in all material respects, the financial condition and results of operations of the customers and counterparties.

Environmental Risk

We recognize that environmental hazards are a potential liability. This risk exposure can result from non-compliance with environmental laws either as principal or lender, which may negatively affect our financial condition and results of operations. We aim to mitigate this risk by complying with all environmental laws and by applying a rigorous environmental policy to our commercial and development lending activities.

Changes in Laws and Regulations

Changes to current laws, regulations, regulatory policies or guidelines (including changes in their interpretation, implementation or enforcement), the introduction of new laws, regulations, regulatory policies or guidelines or the exercise of discretionary oversight by regulatory or other competent authorities including OSFI, could adversely affect us, including by limiting the products or services that we provide, restricting the scope of our operations or business lines, increasing the ability of competitors to compete with our products and services or requiring us to cease carrying on business. In addition, delays in the receipt of any regulatory approvals and authorizations that may be necessary to the operation of our business could adversely affect our operations and financial conditions. Our failure to comply with applicable laws and regulations could result in sanctions and financial penalties that could adversely impact our earnings and damage our reputation.

Changes in Accounting Standards and Accounting Policies

We may be subject to changes in the financial accounting and reporting standards that govern the preparation of our financial statements. 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 GAAP which could in turn materially impact our financial condition and results of operations, as well as the scope of our operations and business lines. If the IFRS rules regarding securitization are implemented in the form currently proposed, MCAN's assets and liabilities that are subject to securitization will be considered on-balance sheet items. OSFI released a draft advisory in October 2009 with respect to the impact of the currently proposed IFRS rules regarding securitization on regulatory capital ratios. The draft advisory contemplates that the on-

balance sheet assets and liabilities that are subject to securitization transactions undertaken after December 31, 2009 (including insured mortgages that are securitized through the CMB program) will be required to be included in the calculation of a regulated financial institution's regulatory capital ratios. Currently, we are not required to reflect securitized assets or liabilities on our balance sheet or include them in the calculation of our regulatory capital ratios. Pursuant to the measures contemplated by the draft advisory, if the IFRS rules regarding securitization are implemented in their proposed form, beginning with the fiscal year commencing on January 1, 2011, we will be required to include any assets and liabilities that were subject to securitization transactions undertaken as of January 1, 2010 in the calculation of our regulatory capital ratios. We are continuing to identify and assess the impact of the transition to IFRS on our consolidated financial statements and are working to develop a plan to minimize the effect of the transition on our business. However, if the IFRS rules regarding securitization are implemented in the proposed form and if the draft advisory is applied in the form proposed by OSFI, then MCAN's participation in securitization transactions, namely through our participation in the CMB program, may need to be significantly reduced in order for us to comply with our regulatory capital ratios. Although we are reviewing potential alternative structures and arrangements that may permit our continued participation in the CMB program, there can be no assurance that any such alternative structures or arrangements will be available on commercially reasonable terms, or can be implemented in a timely manner.

Leverage

Leverage increases our potential exposure to all risk factors described above.

RISK MANAGEMENT

We operate in changing regulatory and economic environments. As a result, our management and the Board of Directors are particularly diligent in their consideration of issues of risk. Our goal is not to eliminate risk, as this would result in significantly reduced earnings, but rather to be proactive in our assessment and management of risk, as a means to gain a strategic advantage and ultimately enhance shareholder value.

Our senior management is responsible for the quality of processes, policies, procedures and controls and for internal reporting on a day-to-day basis. The Board of Directors is actively involved in the risk management process, providing oversight and guidance on an ongoing basis and at least quarterly. Internal audit is involved in the risk management process to provide validation of its effectiveness, with reports provided to senior management and the Board of Directors.

As discussed above under "Risk Factors," we are exposed to various inherent risks, particularly interest rate risk and credit risk. We mitigate these risks through investment diversification, and by diligent management of assets and liabilities.

Credit and commitment exposure is closely monitored through a reporting process that includes a formal quarterly review involving senior management and the ICB.

Our exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of our investments. Our policies establish limits on concentration by asset class, risk rating, geographic region, dollar limit and borrower. We use these policies to assess credit risk and portfolio quality. All members of management are subject to limits on their ability to commit the Company to credit risk.

We identify potential risk in our mortgage portfolio by way of regular review of market metrics, which are a key component of 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. In the current economic environment, we have increased our monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears.

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

We 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 liquid investments and credit facilities in excess of 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, thus providing us with added flexibility to meet liquidity needs. We have access to capital through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide us with the ability to fund asset growth as needed. We also have a \$30 million banking facility in place to fund asset growth or meet short-term obligations as required. We believe that our liquidity position and our access to capital markets in the form of term deposits and the banking facility support our ability to meet current and future commitments.

Management has developed a Liquidity Risk Management Framework that is reviewed and approved annually by the Board of Directors. This framework details the daily, monthly and quarterly analysis that is performed by management. Management monitors changes in cash and cash requirements on a daily basis and formally reports to ALCO on a monthly basis. Management

also completes monthly and quarterly stress testing which is reviewed by ALCO and the ICB. Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis.

We have established and maintain liquidity policies which meet the standards set under the Trust Act and any regulations or guidelines issued by OSFI.

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities, including both parallel and non-parallel changes in interest rates. By managing and matching the terms of invested assets and term deposits so that they offset each other, we seek to reduce the risks associated with interest rate changes, and in conjunction with liquidity management policies, we also manage cash flow mismatches. ALCO reviews the Company's interest rate exposure on a monthly basis using interest rate spread and gap analysis as well as interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the ICB each quarter. The Company does not currently use derivative financial instruments outside of the CMB program, however the potential use of such instruments for the Company's on-balance sheet assets is analyzed and reported to ALCO on a monthly basis.

All material outsourcing arrangements are required to comply with OSFI guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. Our Enterprise Risk Management Officer and senior management regularly review outsourcing arrangements to provide reasonable assurances that the outsourcing arrangements are in compliance with this guideline. These reviews account for the materiality of the outsourcing arrangement and the status of the risk management program associated with the outsourced arrangement.

Ultimately, risk management is controlled at the highest level of the Company. ALCO reviews and manages these risks on a monthly basis. Our Board of Directors reviews and approves all risk management policies and procedures. Management reports to the Board of Directors on the status of risk management at least quarterly.

PEOPLE

As at December 31, 2009, we had fourteen employees, an increase of two from the prior year.

REGULATORY COMPLIANCE

Our Chief Compliance Officer ensures that management understands the impact of all relevant legislation affecting the business, assesses compliance with current and pending legislation and works with management to address any gaps in policies and procedures. We use a Legislative Compliance Management System that ensures all managers assess their compliance with relevant legislation on a quarterly basis. Senior management liaises with regulators to keep them apprised of Company progress and changes to our business. Our Chief Compliance Officer reports quarterly to the Conduct Review, Corporate Governance & Human Resources Committee of the Board of Directors.

INTERNAL AUDIT

We outsource our Internal Audit function to Protiviti, an independent risk consulting firm. The Internal Audit function has unrestricted access to our operations, records, property and personnel, including senior management and the Chairman of the Audit Committee of the Board of Directors (the "Audit Committee"). Internal Audit formulates an annual risk-based plan for approval by the Audit Committee and then undertakes internal audit reviews throughout the year with regular reporting to senior management and quarterly reporting to the Audit Committee.

OUTLOOK

We continue to carry significant unutilized investment capacity. During the fourth quarter, we recommenced the funding of new uninsured single family mortgages to employ some of this investment capacity. The market for new housing construction has started to improve, so we will also be cautiously growing our residential construction loan portfolio.

While interest rates are expected to remain low for the next few quarters, our average term deposit interest rate has continued to decrease as maturing deposits are replaced by new deposits at significantly lower rates. This decrease should contribute to improved spread income in 2010, compared to 2009.

Arrears in our single family mortgage portfolio remain high due to continued high unemployment levels. 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. As this trend continues, we expect an increase in our mortgage portfolio and lower mortgage arrears.

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The notes to our consolidated financial statements provide detailed information on our significant accounting policies, the method of applying those policies, and the material components of the amounts in the consolidated balance sheets and the statements of income, changes in shareholders' equity, comprehensive income and cash flows. The policies discussed below are considered particularly important, as they require management to make judgments involving estimations. We have control procedures to ensure that these policies are applied consistently and that the policies are independently reviewed on at least an annual basis. Changes to accounting policies are made only after an appropriate amount of research and discussion has occurred and independent advice is obtained. Estimates are considered carefully and reviewed at an appropriate level within the Company. We believe that our estimates of the value of our assets and liabilities are appropriate.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions, and classified based on management's intention. Financial assets are classified as held for trading, held to maturity, available for sale or loans and receivables, and financial liabilities are classified as held for trading or other. Changes in the unrealized fair value of financial instruments classified as held for trading are recognized to income. Changes in the unrealized fair value of available for sale financial assets are recognized in accumulated other comprehensive income, except for those considered to be changes attributable to impairment which are charged to income. Upon disposal, the cumulative change in fair value is transferred to income. Other classifications are subsequently measured at amortized cost. From time to time, the Company may use derivative and non-derivative financial instruments to manage interest rate risk. Hedge accounting is optional, and where it can be applied, it requires the Company to document the hedging relationship and to test the effectiveness of the hedging item to offset changes in value of the underlying hedged item on an ongoing basis. At December 31, 2009, the Company did not have any hedge accounting relationships.

For further details on financial instruments, please refer to Notes 2, 4, 5, 6, 9, 11, 12 and 20 to the consolidated financial statements.

Allowance for Credit Losses

The allowance for credit losses reduces the carrying value of mortgage assets to provide for an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans and the overall economic environment. Specific provisions include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The general provision represents losses that we believe have been incurred but not yet specifically identified. The general provision is established by considering historical loss trends during economic cycles, the risk profile of our current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience. Provisioning rates depend on asset class, as different classes have varying underlying risks. Based on our best judgment, we believe that the general provision 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 year, and there could be a need to increase or decrease the allowance for credit losses.

We complete a review of all provisioning policies at least annually. We continue to monitor asset performance and current economic conditions, focusing on any regionally specific issues to assess the adequacy of the current provisioning policies. Provisioning rates are reviewed on a quarterly basis.

Weak employment levels across Canada are continuing to be reflected in higher arrears levels. However, abnormally low interest rates have contributed to a stabilization of residential property values across Canada. Economic growth and job creation were evident during the fourth quarter, and as this trend continues we expect lower mortgage arrears.

In addition to considering the current economic conditions, we assessed the probability of default, expected loss as a result of default and the loan exposure at the time of default when establishing our general allowance. Based on historical trends, our current mortgage portfolios are performing within an acceptable range that required no further adjustment to our allowance assumptions. Our overall arrears trends remained high during 2009, although losses to date have been insignificant. We continue to review our underwriting and credit requirements on a regular basis, and we have taken measures as warranted by changes in the market and economic conditions.

We believe that we have established adequate provisioning rates given the current economic concerns. Our current provisioning rates consider the impact of a decline in real estate values and anticipated default/loss percentages that are sufficient to offset current and historical loss experiences.

On an ongoing basis, we compare the carrying value of our loans and investments to their fair value, determined on the basis of expected discounted cash flows. When a decline in value is identified as a result of impairment that is other than temporary, the affected carrying amount is written down to its fair value.

Additional details of our accounting policies and balances of the allowances for credit losses can be found in Notes 2, 4 and 6 to the consolidated financial statements.

Securitization

On the closing date of a CMB issuance, we recognize an interest-only strip, which is a retained interest in the securitized mortgages. We require the use of estimates to determine the fair value of the interest-only strips, which represent the present value of expected future cash flows. As a result of this, estimates and assumptions could have a material impact on net income. We review the estimates used to determine the fair value of the interest-only strips on an ongoing basis to ensure their appropriateness. For further information, please refer to Note 7 to the consolidated financial statements, which presents a sensitivity analysis of the current fair value of the interest-only strips to immediate 10% and 20% adverse changes in key assumptions.

Discount Income Recognition

The Company may acquire mortgage portfolios from third parties at fair market value. A mortgage discount will exist to the extent that the fair market value of a mortgage is less than its par value. The discount is allocated between a valuation reserve component and an accretion component. The valuation reserve component represents the risk of credit loss in addition to the general mortgage allowance, while the accretion component represents the part of the discount to be recognized to income over time, thereby adjusting the yield on the mortgage from its face rate to an effective yield. The accretion component is amortized to income over the term of the related mortgage through the application of the effective interest rate method. The valuation reserve component is only recognized into income upon payout, less any realized credit loss.

Income Taxes

As a MIC, we can deduct dividends paid to our shareholders from our calculation of taxable income. We have taken the position that it is more likely than not that future dividends will be sufficient to recover current or future income tax liabilities, and as a result of this, we charge the related provision for future and current taxes directly to retained earnings. The provision for income taxes consists of various taxes that cannot be recovered from the payment of future dividends. Details of our accounting policies and balances relating to income taxes can be found in Notes 2 and 15 to the consolidated financial statements. We will continue to proactively monitor on a quarterly basis that this is an appropriate position.

CHANGES IN ACCOUNTING POLICY

On January 1, 2008, we adopted the new accounting standard of the Canadian Institute of Chartered Accountants ("CICA"), *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital.

On January 1, 2008, we adopted the new standards of the CICA, *Financial Instruments - Disclosures* and *Financial Instruments - Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

On January 1, 2009, the Company adopted amendments to the standard of the CICA, Section 3862, *Financial Instruments - Disclosures*. These amendments require additional disclosures of fair value measurements of financial instruments and liquidity risk. The additional disclosures include the classification of fair value measurements into one of 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).

On January 1, 2009, the Company adopted EIC 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The guideline clarifies how the Company's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. The new guidelines did not have a material effect on the financial position or income of the Company.

On January 1, 2009, the Company adopted amendments to the standard of the CICA, Section 3855, *Financial Instruments - Recognition and Measurement*. Accordingly, held to maturity debt instruments with fixed or determinable payments that are not quoted in an active market were reclassified from held to maturity to loans and receivables.

FUTURE CHANGES IN ACCOUNTING POLICY

International Financial Reporting Standards

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

For the fiscal year commencing January 1, 2011, we will cease to use GAAP and will adopt IFRS. Financial results for the quarter ended March 31, 2011 will be presented using IFRS.

We have recognized that the conversion to IFRS is complex and requires a significant amount of company resources. As a result of this, we engaged a major accounting firm to advise and assist us with identifying accounting treatment differences between GAAP and IFRS and to provide education and training. We anticipate that this engagement will create efficiencies in MCAN's IFRS conversion process.

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

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

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

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

Most adjustments required as a result of the transition from GAAP to IFRS will be made retrospectively as of January 1, 2010 based on IFRS applicable at that time.

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

- **CMB Program:** The most significant IFRS difference for MCAN is the accounting for the securitization of insured mortgages through our participation in the CMB program. Based on IFRS as of the date of transition, we will no longer account for these transactions as sales of mortgages and will reverse all previously recognized up-front gains on securitization through opening retained earnings. This reversal will be partially offset by mortgage interest income, principal reinvestment income and penalty income less coupon interest expense that would have been recognized from the dates of the respective CMB issuances to the date of transition. Our IFRS balance sheet will include mortgages securitized through the CMB program, assets in which principal repayments have been re-invested and a liability to CMB bondholders. On a go-forward basis under IFRS, we will recognize mortgage interest income, principal reinvestment income, penalty income and coupon interest expense on the accrual basis, and we will include any future mortgages securitized through the CMB program on our balance sheet. In regards to our participation in the CMB program, we have not yet quantified the impact of the conversion to IFRS on opening retained earnings.
- **Mortgage Loss Provisions:** Under GAAP, general provisions for mortgage losses are based on expected losses, whereas IFRS collective mortgage provisions are based on an incurred loss model. Although we have not yet quantified the impact of the conversion to IFRS on opening retained earnings in regards to mortgage loss provisions, we expect our general/collective provision to decrease as a result of the conversion to IFRS.
- **Income Taxes:** Under GAAP, we are able to charge our current and future tax liabilities directly to retained earnings instead of recognizing the changes through net income. Based on IFRS as of the date of transition, we will no longer be able to charge current and future taxes directly to retained earnings, which will likely result in increased volatility to net income. In addition, MCAN's future tax position will change to the extent that the accounting values of balance sheet items that have differing values for accounting and tax purposes are impacted by IFRS.
- **Equity investment in MCLP:** To the extent that MCLP's opening retained earnings changes as a result of its conversion to IFRS, MCAN will adjust its investment in MCLP based on its pro-rata share of MCLP's opening retained earnings adjustment, which is not currently quantifiable.

The following table outlines certain elements of our IFRS conversion plan and an assessment of our progress towards the plan as at December 31, 2009. Changes in regulations, economic conditions, business activities or other circumstances could impact the IFRS conversion plan and result in changes to the key activities and deadlines. Our IFRS conversion plan is currently on schedule.

Key Activity	Planned Completion Date	Status
Accounting Policies <ul style="list-style-type: none"> Identify differences in Canadian GAAP and IFRS accounting policies Select ongoing IFRS policies Select IFRS 1 policies and exemptions Quantify impact of transition to IFRS 	Q2 2009 Q4 2009 Q4 2009 Q1 2010	Differences identified and analyzed Policies selected Policies selected Currently unable to quantify
Financial Reporting <ul style="list-style-type: none"> 2011 IFRS financial statement and note disclosure format Identify additional financial statement disclosures Prepare 2010 interim and annual reconciliations from GAAP to IFRS 	Q3 2010 Q3 2010 Quarterly during 2010	Analysis in progress, on schedule Analysis in progress, on schedule Analysis in progress, on schedule
Control Environment <ul style="list-style-type: none"> Assess Internal Controls over Financial Reporting ("ICFR") design and effectiveness implications for all accounting policy changes Implement changes to ICFR Assess Disclosure Controls and Procedures ("DC&P") design and effectiveness implications for all accounting policy changes Implement changes to DC&P 	Q3 2010 Q4 2010 Q3 2010 Q4 2010	Assessment to be completed Assessment to be completed Assessment to be completed Assessment to be completed
Information Systems <ul style="list-style-type: none"> Creation of general ledger for both GAAP and IFRS Program upgrades/modifications One-off calculations (IFRS 1) Gathering data for disclosures 	Q4 2009 Q4 2009 Q4 2009 Q4 2009	Completed Completed Completed Completed
Business Policies <ul style="list-style-type: none"> Assess impact on capital plan Revise capital plan as needed 	Q2 2010 Q3 2010	Assessment to be completed Assessment to be completed

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As of December 31, 2009, an evaluation was carried out of the effectiveness of disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that those disclosure controls and procedures were effective as at the end of the financial year ended December 31, 2009.

Also at December 31, 2009, an evaluation was carried out of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statements compliance with GAAP. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that those internal controls over financial reporting were effective as at the end of the financial year ended December 31, 2009.

These evaluations were conducted in accordance with the standards of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of *National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings*. A Disclosure Committee, comprised of members of senior management, assists the Chief Executive Officer and Chief Financial Officer in their responsibilities.

There were no changes in our internal controls over financial reporting that occurred during the period beginning on January 1, 2009 and ending on December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

2009 CONSOLIDATED FINANCIAL STATEMENTS**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

The accompanying consolidated financial statements of MCAN Mortgage Corporation ("MCAN" or the "Company") are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements, the Management's Discussion and Analysis of Operations and all other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), including the accounting requirements of our regulator, the Superintendent of Financial Institutions Canada.

The Company's accounting system and related internal controls are designed, and supporting procedures maintained to provide reasonable assurance that the Company's financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition.

The Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of MCAN as deemed necessary to be satisfied that the provisions of the Trust and Loan Companies Act are being duly observed for the benefit of depositors and that the Company is in sound financial condition.

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors. The Chief Financial Officer reviews internal controls, control systems and compliance matters and reports thereon to the Audit Committee.

The Audit Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.



Blaine Welch
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

*Toronto, Canada,
February 5, 2010*

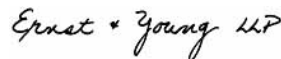
AUDITORS' REPORT

To the Shareholders of MCAN Mortgage Corporation

We have audited the consolidated balance sheets of MCAN Mortgage Corporation as at December 31, 2009 and 2008 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants
Licensed Public Accountants**

*Toronto, Canada,
February 5, 2010*

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

As at December 31	Note	2009	2008
Assets			
Investments			
Cash and cash equivalents	3	\$ 89,843	\$ 58,071
Mortgages	4	295,415	393,010
Securitization investments	5	73,590	39,743
Loans receivable and other investments	6	16,885	35,624
Equity investment in MCAP Commercial LP	8	17,905	18,300
		493,638	544,748
Other			
Derivative financial instruments	9	11,490	23,541
Other assets	10	1,555	1,865
		\$ 506,683	\$ 570,154
Liabilities and Shareholders' Equity			
Liabilities			
Term deposits	11	\$ 360,744	\$ 426,663
Securitization liabilities	12	5,048	7,095
Accounts payable and accrued charges	13	11,001	12,186
Future taxes payable	15	7,011	7,601
		383,804	453,545
Shareholders' Equity			
Share capital	16	98,490	97,493
Contributed surplus	16	510	510
Retained earnings		22,165	17,313
Accumulated other comprehensive income	17	1,714	1,293
		122,879	116,609
		\$ 506,683	\$ 570,154

See accompanying notes

On behalf of the Board:



Blaine Welch
President and Chief Executive Officer



David G. Broadhurst
Director, Chairman of the Audit Committee

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

Years Ended December 31	Note	2009	2008
Investment Income			
Mortgage interest		\$ 27,420	\$ 33,429
Interest on loans and investments		3,878	5,617
Securitization income	7	7,558	7,761
Fees		8,024	5,051
Equity income from MCAP Commercial LP	8	1,456	3,025
Interest on cash and cash equivalents		234	1,109
Gain on sale of mortgages	7	-	5,326
Marketable securities		-	(97)
		48,570	61,221
Financial Expenses			
Term deposit interest and expenses		13,133	20,684
Mortgage expenses		2,761	3,524
Provision for losses	4, 6	2,035	931
		17,929	25,139
Net Investment Income		30,641	36,082
Operating Expenses			
Salaries and benefits		2,587	2,226
General and administrative		3,312	3,508
		5,899	5,734
Income Before Income Taxes		24,742	30,348
Provision for income taxes	15	-	-
Net Income		\$ 24,742	\$ 30,348
Basic and diluted earnings per share		\$ 1.73	\$ 2.14
Dividends per share		\$ 1.44	\$ 0.96
Weighted average number of basic and diluted shares (000's)		14,294	14,192

See accompanying notes

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

Years Ended December 31	Note	2009	2008
Share capital			
Balance, beginning of year		\$ 97,493	\$ 96,370
Common shares issued		997	1,123
Balance, end of year		98,490	97,493
Contributed surplus			
Balance, beginning of year		510	510
Changes to contributed surplus		-	-
Balance, end of year		510	510
Retained earnings			
Balance, beginning of year		17,313	6,654
Net income		24,742	30,348
Income taxes recovered (charged) to retained earnings	15	679	(6,059)
Dividends declared		(20,569)	(13,630)
Balance, end of year		22,165	17,313
Accumulated other comprehensive income (loss)			
Balance, beginning of year		1,293	(527)
Other comprehensive income		421	1,820
Balance, end of year		1,714	1,293
Total shareholders' equity		\$ 122,879	\$ 116,609

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

Years Ended December 31	2009	2008
Net income	\$ 24,742	\$ 30,348
Other comprehensive income, net of taxes		
Change in unrealized gain on available for sale mortgages	(410)	2,429
Change in unrealized gain on available for sale securitization investments	823	(278)
Other changes	8	8
Change in unrealized gain on available for sale marketable securities	-	(74)
Transfer of losses on sale of marketable securities to net income	-	108
Transfer of gains on sale of mortgages to net income	-	(373)
Other comprehensive income	421	1,820
Comprehensive income	\$ 25,163	\$ 32,168

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

Years Ended December 31	Note	2009	2008
Cash provided by (used for):			
Operating Activities			
Net income		\$ 24,742	\$ 30,348
Adjusted for non-cash items:			
Equity income		(1,497)	(3,028)
Provision for losses		2,035	901
Securitization income		(1,615)	(12,162)
Amortization of other assets		650	823
Amortization of mortgage discounts		145	(160)
Gain on sale of mortgages	7	-	(5,326)
Distributions from MCAP Commercial LP	8	1,851	1,820
Decrease in other receivables		308	281
Increase (decrease) in accounts payable and accrued charges		(3,176)	2,626
Cash flows from operating activities		23,443	16,123
Investing Activities			
Mortgage advances		(1,971,788)	(2,837,013)
Mortgage reductions		341,923	361,473
Proceeds on sale of mortgages		1,724,664	2,503,677
Increase in loans and investments		(665)	(8,202)
Additions to other assets		(481)	(1,122)
Marketable securities		-	229
Cash flows from investing activities		93,653	19,042
Financing Activities			
Issue of term deposits		511,082	606,298
Repayment of term deposits		(577,001)	(625,003)
Issue of common shares		997	1,123
Dividends paid		(20,402)	(13,316)
Cash flows for financing activities		(85,324)	(30,898)
Increase in cash and cash equivalents		31,772	4,267
Cash and cash equivalents, beginning of year		58,071	53,804
Cash and cash equivalents, end of year		\$ 89,843	\$ 58,071
Supplementary Information			
Interest paid during the year		\$ 15,060	\$ 20,196
Taxes paid during the year		\$ 345	\$ 505

See accompanying notes

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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.

The purchase method has been used to account for all acquisitions. Intercompany balances and transactions of fully consolidated subsidiaries are eliminated. All related party transactions took place under normal trade terms and have been recorded at the exchange amounts.

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements and accounting principles followed by the Company including the accounting requirements of the Superintendent of Financial Institutions Canada (“OSFI”) conform with Canadian generally accepted accounting principles (“GAAP”). Significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Measurement Uncertainty and Use of Estimates

Management of the Company exercises its best judgment with regard to certain estimates and assumptions, which affect the reported amounts of revenue, expenses, assets and liabilities. Actual results could differ from management’s estimates.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions, and classified based on management’s intention. Financial assets are classified as held for trading, held to maturity, available for sale or loans and receivables, and financial liabilities are classified as held for trading or other. Changes in the unrealized fair value of financial instruments classified as held for trading are recognized to income. Changes in the unrealized fair value of available for sale financial assets are recognized in accumulated other comprehensive income, except for those considered to be changes attributable to impairment which are charged to income. Upon disposal, the cumulative change in fair value is transferred to income. Other classifications are subsequently measured at amortized cost. From time to time, the Company may use derivative and non-derivative financial instruments to manage interest rate risk. Hedge accounting is optional, and where it can be applied, it requires the Company to document the hedging relationship and to test the effectiveness of the hedging item to offset changes in value of the underlying hedged item on an ongoing basis. At December 31, 2009, the Company did not have any hedge accounting relationships.

Transaction costs for all financial asset classifications except for held for trading are capitalized and are included in other assets.

The classification of each financial instrument is discussed in the respective note disclosure.

Equity Accounting

Equity investments over which the Company can exercise significant influence but does not exercise control are recorded using the equity method of accounting. The Company records equity income equal to its proportionate share of the equity investment’s net income.

Impaired Mortgages

Interest on mortgages is accrued as earned until such time that a mortgage is classified as impaired. At that time, a specific provision is made to reflect management’s estimate of realizable amounts. Impaired mortgages are restored to an accrual basis when principal and interest payments in arrears become current and there is reasonable assurance as to ultimate collectibility.

Impaired mortgages include uninsured mortgages which are more than 90 days in arrears or are less than 90 days in arrears but for which management does not have reasonable assurance that the full amount of principal and interest will be collected in a timely manner. An insured mortgage is considered impaired when the mortgage is 365 days past due, whether or not collection is in doubt.

Allowance for Credit Losses

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.

Asset Sales

The Company accounts for the sale of assets when control over the assets is transferred to a third party. At this point, the assets are removed from the balance sheet.

The Company participates in the Canada Mortgage Bonds ("CMB") program, which involves the securitization of insured single family and multi family mortgages. On the sale date, the Company sells mortgages to the Canada Housing Trust and recognizes an interest-only strip, which is a retained interest in the securitized mortgages. The Company also recognizes a liability for future mortgage servicing and other costs. At this time, the Company recognizes an upfront gain on securitization. The gain on securitization depends on the previous carrying values of the mortgages involved in the transfer, allocated between the mortgages sold and the interest-only strip based on their relative fair values at the date of transfer.

In other mortgage sales, the Company records a gain or loss at the time of sale of the mortgages that is equal to the fair value of the proceeds received less the carrying value of the mortgages. The Company receives full cash consideration at the time of sale.

The Company may retain servicing obligations on asset sales and subcontracts such servicing obligations to MCLP or other private companies. In these cases, the Company includes the servicing obligations in its gain on sale calculation.

Revenue and Expense Recognition

- (a) The Company is entitled to fees for mortgage commitments. These fees are deferred and amortized into income over the term of the mortgage.
- (b) Origination costs paid on the Company's mortgage portfolio are deferred and amortized over the term of the mortgage.
- (c) Commissions paid on the issue of term deposits are deferred and amortized over the term of the term deposit.

Discount Income Recognition

The Company may acquire mortgage portfolios from third parties at fair market value. A mortgage discount will exist to the extent that the fair market value of a mortgage is less than its par value. The discount is allocated between a valuation reserve component and an accretion component. The valuation reserve component represents the risk of credit loss in addition to the general mortgage allowance, while the accretion component represents the part of the discount to be recognized to income over time, thereby adjusting the yield on the mortgage from its face rate to an effective yield. The accretion component is amortized to income over the term of the related mortgage through the application of the effective interest rate method. The valuation reserve component is only recognized into income upon payout, less any realized credit loss.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company is a MIC under the Tax Act. As such, it is permitted to deduct from income for tax purposes dividends paid to shareholders during the year and within 90 days thereafter. The Company intends to continue conducting its affairs in such a manner as to continue qualifying as a MIC. When it is considered more likely than not that future dividends will be sufficient to recover current or future income tax liabilities, the Company charges the related provision for (recovery of) income taxes directly to retained earnings rather than to income.

Variable Interest Entities

CICA Accounting Guideline 15 (“AcG 15”) defines the consolidation rules for variable interest entities (“VIEs”). A VIE is an entity where the equity is considered insufficient to finance the entity’s activities or the equity holders do not have a controlling financial interest. These rules require the holder of the majority of variable interests of a VIE to consolidate the entity. Variable interests are defined as the exposure to both expected losses and expected gains. These rules do not apply to VIEs considered to be Qualifying Special Purpose Entities. The Company did not hold a majority of the variable interests in any VIE at the time of, or since, adoption of *AcG 15*.

Changes in Accounting Policy

On January 1, 2008, the Company adopted the standard of the Canadian Institute of Chartered Accountants (“CICA”), Section 1535, *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity’s objectives, policies and processes for managing capital.

On January 1, 2008, the Company adopted the standards of the CICA, Section 3862, *Financial Instruments - Disclosures* and Section 3863, *Financial Instruments - Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

On January 1, 2009, the Company adopted amendments to the standard of the CICA, Section 3862, *Financial Instruments - Disclosures*. These amendments require additional disclosures of fair value measurements of financial instruments and liquidity risk. The additional disclosures include the classification of fair value measurements into one of 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).

On January 1, 2009, the Company adopted EIC 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The guideline clarifies how the Company’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. The new guidelines did not have a material effect on the financial position or income of the Company.

On January 1, 2009, the Company adopted amendments to the standard of the CICA, Section 3855, *Financial Instruments - Recognition and Measurement*. Accordingly, held to maturity debt instruments with fixed or determinable payments that are not quoted in an active market were reclassified from held to maturity to loans and receivables.

Other Accounting Policies

Other specific accounting policies are disclosed in the notes to the consolidated financial statements, where applicable.

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.

3. Cash and Cash Equivalents

	2009	2008
Cash balances with banks	\$ 43,201	\$ 28,099
Bankers’ acceptances and term deposits	45,000	29,972
Cash pledged as collateral - CMB program	1,642	-
	\$ 89,843	\$ 58,071

Cash and cash equivalents include balances with banks and short-term investments with maturity dates of less than 90 days from the date of acquisition. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

4. Mortgages

	Principal	Allowance			2009 Net
		General	Specific	Total	
Single family mortgages					
- Uninsured	\$ 96,050	\$ 621	\$ 55	\$ 676	\$ 95,374
- Uninsured (completed inventory loans)	30,227	198	-	198	30,029
- Insured	38,465	-	-	-	38,465
Construction loans					
- Residential	125,403	1,001	2,727	3,728	121,675
- Non-residential	23	-	-	-	23
Commercial loans					
- Uninsured	6,699	128	-	128	6,571
- Insured	479	-	-	-	479
	297,346	1,948	2,782	4,730	292,616
Fair value adjustment	1,490	-	-	-	1,490
	298,836	1,948	2,782	4,730	294,106
Accrued interest	1,309	-	-	-	1,309
	\$ 300,145	\$ 1,948	\$ 2,782	\$ 4,730	\$ 295,415

	Principal	Allowance			2008 Net
		General	Specific	Total	
Single family mortgages					
- Uninsured	\$ 154,602	\$ 837	\$ 164	\$ 1,001	\$ 153,601
- Uninsured (completed inventory loans)	32,477	369	-	369	32,108
- Insured	27,694	-	-	-	27,694
Construction loans					
- Residential	144,893	1,263	-	1,263	143,630
- Non-residential	8,085	70	-	70	8,015
Commercial loans					
- Uninsured	6,433	100	-	100	6,333
- Insured	17,478	-	-	-	17,478
	391,662	2,639	164	2,803	388,859
Fair value adjustment	2,023	-	-	-	2,023
	393,685	2,639	164	2,803	390,882
Accrued interest	2,128	-	-	-	2,128
	\$ 395,813	\$ 2,639	\$ 164	\$ 2,803	\$ 393,010

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

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

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

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

Mortgages are designated as available for sale. Outside of the change during the year shown in the above tables, there were no significant fluctuations in mortgage balances within the year.

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 December 31, 2009, the Company holds discounted mortgages with an aggregate discount of \$22,036 (2008 - \$33,290). 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 (refer to note 13 for profit sharing fees paid to/from 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

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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 is as follows:

	2009	2008
Fixed rate	\$ 4,824	\$ 10,812
Floating rate	17,227	22,638
Gross discount	22,051	33,450
Accumulated discount amortization	15	160
Net discount	\$ 22,036	\$ 33,290

The geographical breakdown of mortgages by province is as follows:

	Single Family	Construction	Commercial	2009 Total	
Ontario	\$ 82,195	\$ 52,435	\$ 4,247	\$ 138,877	47.0%
Alberta	52,849	47,682	2,832	103,363	35.0
British Columbia	15,853	15,826	-	31,679	10.7
Other	15,109	6,387	-	21,496	7.3
	\$ 166,006	\$ 122,330	\$ 7,079	\$ 295,415	100.0%

	Single Family	Construction	Commercial	2008 Total	
Ontario	\$ 99,325	\$ 51,688	\$ 4,791	\$ 155,804	39.6%
Alberta	62,815	64,983	-	127,798	32.5
British Columbia	26,187	33,870	17,657	77,714	19.8
Other	28,204	1,898	1,592	31,694	8.1
	\$ 216,531	\$ 152,439	\$ 24,040	\$ 393,010	100.0%

As at December 31, 2009, the Company had \$4,861 (2008 - \$11,798) 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 \$96,173 at December 31, 2009 (2008 - \$64,656). Substantially all of these commitments relate to floating rate construction loans.

The details of the mortgage allowances are as follows:

	General	Specific	2009 Total	General	Specific	2008 Total
Balance, beginning of year	\$ 2,639	\$ 164	\$ 2,803	\$ 3,217	\$ 67	\$ 3,284
Provisions (recoveries)	(497)	2,618	2,121	(478)	97	(381)
Write-offs	(194)	-	(194)	(100)	-	(100)
Balance, end of year	\$ 1,948	\$ 2,782	\$ 4,730	\$ 2,639	\$ 164	\$ 2,803

At December 31, 2009, the Company had \$2,782 of specific provisions (2008 - \$164), as follows: uninsured single family - \$55 (2008 - \$164), residential construction - \$2,727 (2008 - \$nil).

Mortgages past due but not impaired are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2009 Total
Single family - uninsured	\$ 5,232	\$ 2,561	\$ 1,560	\$ -	\$ 9,353
Single family - insured	278	113	-	251	642
Residential construction	1,627	406	1,316	-	3,349
	\$ 7,137	\$ 3,080	\$ 2,876	\$ 251	\$ 13,344

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2008 Total
Single family - uninsured	\$ 11,732	\$ 5,414	\$ 4,747	\$ -	\$ 21,893
Single family - insured	880	423	108	-	1,411
Residential construction	7,108	-	199	-	7,307
	\$ 19,720	\$ 5,837	\$ 5,054	\$ -	\$ 30,611

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

	Single Family	Residential Construction	2009 Total	Single Family	Residential Construction	2008 Total
Ontario	\$ 266	\$ 8,916	\$ 9,182	\$ 1,609	\$ -	\$ 1,609
Alberta	831	6,899	7,730	1,436	-	1,436
British Columbia	259	-	259	393	-	393
	\$ 1,356	\$ 15,815	\$ 17,171	\$ 3,438	\$ -	\$ 3,438

5. Securitization Investments

Investments in Securitization Programs

	2009	2008
Subordinated loan - residential mortgage securitization program	\$ 4,578	\$ 8,035
Asset-backed commercial paper	2,480	2,122
Deferred purchase price receivable - residential construction loan securitization program		
- senior position	3,908	6,819
- first loss position	1,671	3,020
Bonds - commercial securitization program	-	458
	\$ 12,637	\$ 20,454

Other Securitization Investments

	Note	2009	2008
CMB - interest-only strips	7, 12	\$ 16,921	\$ 3,215
Insured mortgage-backed securities		43,409	15,051
Other securitization assets		623	1,023
		\$ 60,953	\$ 19,289
Total securitization investments		\$ 73,590	\$ 39,743

The subordinated loan - residential mortgage securitization program bears interest at 10% (2008 - 10%). The loan is rated BB high by Dominion Bond Rating Service ("DBRS"), classified as loans and receivables as of January 1, 2009 (previously held to maturity - note 2) and has no specific maturity date.

The restructuring of Third Party Structured Asset-Backed Commercial Paper ("ABCP") by the Pan-Canadian Investors Committee (the "Montreal Accord") was finalized on January 21, 2009. The restructuring converted the ABCP held at that time into Master Asset Vehicle II ("MAV II") investments as follows: class A-1 notes rated A by DBRS (66.7%), class A-2 notes rated A by DBRS (25.7%) and unrated B (4.6%) and C (3.0%) notes, and converted the existing commercial securitization program investment to Master Asset Vehicle III ("MAV III") class 20 A-1 notes. After performing a valuation of the new ABCP, the Company recorded a \$2,000 write-down on the MAV II investment, which was increased to \$2,100 at year-end based on its fair market value at that time. The MAV II investment (fair market value of \$2,022) is designated as held for trading using the fair value option, while the MAV III investment (net book value of \$458) is classified as loans and receivables as of January 1, 2009 (previously held to maturity - note 2). Both investments mature in more than five years.

MCAN purchased an interest in the deferred purchase price receivable - residential construction loan securitization program ("DPPR") from a VIE. The DPPR represents funds receivable from the VIE in connection with the sale of mortgages by Warehouse Trust to the VIE. The DPPR constitutes 10% of the total funding for the program. MCAN has purchased the senior 3% on which it earns an interest return of prime plus 5%, 7.25% at December 31, 2009 (2008 - 8.5%) in priority to the more junior interests in the DPPR. The senior position is rated BBB low by DBRS. MCAN also

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purchased a 25% interest in the most junior 4% (the “first loss position”) for which it receives 25% of the residual cash flow from the program. The receivables are classified as loans and receivables as of January 1, 2009 (previously held to maturity - note 2) and have no specific maturity date.

The residential construction loan securitization program began its wind-down phase during 2009. As a result of the wind-down, interest on both DPPR positions has not been paid on a monthly basis; however MCAN has continued to accrue interest on the senior position as there are adequate funds in the program’s cash collateral account to pay the interest. MCAN does not accrue interest on the first loss position.

The Company holds insured mortgage-backed securities with a weighted average yield of CDOR plus 1.14%, 1.54% at December 31, 2009 (2008 - CDOR minus 0.11%, 1.51%). The securities are designated as available for sale and mature within one to five years.

The subordinated loans and DPPR under the securitization programs discussed above are receivable from VIEs. The Company did not hold the majority of the variable interests in any of its VIE investments and therefore does not consolidate them. The repayment of these investments follows the cash flows in the respective securitization programs.

6. Loans Receivable and Other Investments

	Note	Principal	Allowance	2009 Net	2008 Net
Loans receivable - private companies		\$ 10,281	\$ 125	\$ 10,156	\$ 14,303
Loan receivable - bridge lending fund		2,424	31	2,393	5,243
Loans receivable - employees	16	1,397	-	1,397	1,373
Investment in mortgage trusts		1,808	26	1,782	2,516
Other loans and investments		1,158	1	1,157	1,292
Loan receivable from Warehouse Trust		-	-	-	7,872
Other equity investment		-	-	-	3,025
		\$ 17,068	\$ 183	\$ 16,885	\$ 35,624

Loans receivable have been made to two private companies. Three loans made to one company bear interest at the greater of 7% and prime plus 4%, 7% at December 31, 2009 (2008 - 7.5%) and have an aggregate outstanding balance of \$1,670 at December 31, 2009 (2008 - \$3,584). One loan has been advanced to a private company bearing interest at the greater of 7¼% and prime plus 1¾%, 7¾% at December 31, 2009 (2008 - 6¼%). This loan has an outstanding balance of \$8,486 at December 31, 2009 (2008 - \$10,719). All of these loans are payable on demand.

The Company participates in a bridge lending fund in which it has a fixed proportionate share. As funds are advanced to borrowers of the lending fund, the Company advances its proportionate share to the fund to finance the loans. There is no fixed interest rate on the loan, but the Company is entitled to its pro-rata share of interest and fees collected from borrowers. During 2009, the Company earned \$580 on this loan (2008 - \$412).

Both the loan receivable from Warehouse Trust, which is a residential construction mortgage loan accumulation entity beneficially owned by MCLP, and an equity investment in a private entity paid out in full during 2009.

All loans receivable and other investments are classified as loans and receivables except for a \$796 (2008 - \$848) item included in other loans and investments that is not a financial asset.

7. Asset Sales

The Company securitizes insured mortgages through the CMB program, in which it participates with MCLP and a private company. The current year was the first in which the Company securitized insured multi family mortgages. Upon sale, the Company recognizes an interest-only strip, which is a retained interest in the securitized mortgages. The interest-only strips consist of the discounted value of future mortgage interest, principal reinvestment receipts and penalty income less fixed coupon interest payments. The interest-only strips are generally in asset positions, however they can potentially go into liability positions upon a significant decrease in forward interest rates after issuance. In addition, the Company recognizes liabilities for future mortgage servicing and other costs, which are included in accounts payable and accrued charges. The Company subcontracts mortgage servicing obligations to MCLP and the private company that participates in the CMB program.

During 2009, the Company securitized \$836,266 (2008 - \$954,863) of mortgages as part of the CMB program as follows: single family - \$786,375 (2008 - \$954,863), multi family - \$49,891 (2008 - \$nil). The Company recorded interest-only strips of \$10,892 (2008 - \$10,585) and servicing and other liabilities of \$1,493 (2008 - \$1,219) on the respective closing dates.

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MCAN MORTGAGE CORPORATION

December 31, 2009 (Dollar amounts in thousands except for per share amounts)

The following table sets out certain amounts recognized in the Company's consolidated statements of income related to the CMB program.

	2009	2008
Gain on securitization	\$ 6,410	\$ 3,256
Write-down of interest-only strips	(1,235)	(232)
Residual securitization income	2,383	4,737
	\$ 7,558	\$ 7,761

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 \$2,350 during the year (2008 - positive impact of \$3,403). In general, fair value changes in the interest rate swaps largely offset those in the interest-only strips, however significant fluctuations in the forward rate curve during 2009 had a negative impact to income. Other components of residual securitization income were \$4,733 in the current year compared to \$1,334 in the prior year. In 2009, there was a significant increase in refinancing and renewal gains and a larger CMB portfolio.

During the year, a net write-down of \$1,235 was recorded on the outstanding interest-only strips. To the time of the write-down, the prepayment level of CMB mortgages was significantly higher than anticipated and decreased expected future cash flows, as the assets in which principal collections are reinvested generally yield less than the securitized mortgages. At the time that the write-down was recorded, the calculation of the fair value of the interest-only strips was revised to include the discounted value of future penalty income as a result of a recent significant increase in mortgage liquidations. This revision had a positive impact to income of \$1,023, which is included in the net interest-only strip write-down of \$1,235.

The 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.

	2009	2008
Proceeds from new securitizations	\$ 841,785	\$ 962,232
Net cash flows received on interest-only strips	\$ 500	\$ 1,842
Net cash flows paid on CMB servicing and other liabilities	\$ 809	\$ 479

The following table outlines the key assumptions used to measure the fair value of the interest-only strips and the sensitivity to immediate changes of 10% and 20% in these assumptions. The sensitivities are hypothetical and should be used with caution. Interest rates and credit losses have minimal impact and are not included below.

	2009	2008
Prepayment rate (%)	17.7%	14.4%
Discount rate (%)	5.3%	5.9%

	2009	2008
Net interest-only strip asset (liability)	\$ 11,873	\$ (3,880)
Adverse impact of change in prepayment rate		
Prepayment rate	17.7%	14.4%
10% increase	\$ 721	\$ 880
20% increase	\$ 1,405	\$ 1,742
Adverse (positive) impact of change in discount rate		
Discount rate	5.3%	5.9%
10% increase	\$ 106	\$ (231)
20% increase	\$ 211	\$ (455)

In addition to the aforementioned sales, the Company may sell other residential mortgages, commercial loans and residential construction loans. During 2009, the Company sold \$1,382,929 (2008 - \$1,543,489) of these mortgages, recognizing a gain on sale of \$nil (2008 - \$5,326). Of these mortgage sales, \$1,372,135 (2008 - \$1,276,266) were made to MCLP. The Company has a retained interest in 0% (2008 - 0%) of these sales. Purchasers of these mortgages have no recourse to the Company.

8. Equity Investment in MCAP Commercial LP

	2009	2008
Balance, beginning of year	\$ 18,300	\$ 17,095
Equity income	1,456	3,025
Distributions received	(1,851)	(1,820)
Balance, end of year	\$ 17,905	\$ 18,300

During 2009, MCLP redeemed non-voting class B units such that MCAN's interest in MCLP increased from 22.0% to 22.3%.

MCAN holds a 25% voting interest in MCLP. The remaining 75% is held by Cadcap Limited Partnership, a subsidiary of the Caisse de dépôt et placement du Québec.

9. 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	2009 Total	2008 Total
CMB interest rate swaps - fair value	\$ -	\$ 11,490	\$ -	\$ 11,490	\$ 23,541
CMB interest rate swaps - outstanding notional	\$ -	\$ 260,095	\$ -	\$ 260,095	\$ 105,281

10. Other Assets

	2009	2008
Capital assets	\$ 291	\$ 356
Deferred charges and prepaid expenses	995	1,099
Other receivables	269	410
	\$ 1,555	\$ 1,865

11. Term Deposits

	2009	2008
Term deposits	\$ 357,150	\$ 419,669
Accrued interest	3,594	6,994
	\$ 360,744	\$ 426,663
Fair value	\$ 364,021	\$ 432,494

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years (2008 - 30 days to five years) and bear interest at rates ranging from 0.10% to 5.10% (2008 - 1.60% to 5.25%). The Company's term deposits are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance.

Term deposits are classified as other financial liabilities and are recorded at amortized cost. The estimated fair value of term deposits as presented above is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

12. Securitization Liabilities

	2009	2008
CMB - interest-only strips	\$ 5,048	\$ 7,095

As at December 31, 2009, certain CMB interest-only strips were in a liability position. CMB interest-only strips in an asset position (note 5) totalled \$16,921 at December 31, 2009 (2008 - \$3,215). On a net basis, CMB interest-only strips were in an asset position of \$11,873 at December 31, 2009 (2008 - net liability position of \$3,880). All interest-only strips mature within one to five years.

The Company's interest rate risk that arises from the reinvestment of CMB principal collections in primarily floating rate assets is hedged by interest rate swaps, which were in an asset position of \$11,490 at December 31, 2009 (2008 - asset position of \$23,541).

13. Accounts Payable and Accrued Charges

	2009	2008
Accounts payable and accrued charges	\$ 5,670	\$ 5,936
Dividends payable	3,723	3,556
Deferred mortgage commitment fees	593	977
Related party payable - MCLP	1,015	1,717
	\$ 11,001	\$ 12,186

During 2009, the Company purchased certain corporate services and mortgage origination and administration services from MCLP in the amount of \$2,188 (2008 - \$3,705). During 2009, the Company received \$2,382 (2008 - \$2,874) of mortgage fee income from MCLP.

During 2009, the Company paid fees in the amount of \$5,593 (2008 - \$2,941) to MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages. During 2009, the Company received \$4,855 (2008 - \$2,133) of fees from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

As part of the aforementioned profit sharing arrangements, MCLP pays MCAN 50% of any recoveries of discounts on mortgages held on MCLP's balance sheet, which is reflected in fee income. In addition, MCAN reimburses MCLP for 50% of any credit losses on discounted mortgages held on MCLP's balance sheet, and vice versa. Management does not expect any significant losses as a result of the profit sharing agreement.

During 2009, the Company received \$nil (2008 - \$552) of interest from Warehouse Trust.

14. Credit Facilities

The Company has a line of credit from a Canadian chartered bank that is a \$50,000 facility bearing interest at prime plus 1.5%, 3.75% at December 31, 2009 (2008 - prime plus 0.5%, 4.0%). The facility has a sub limit of \$30,000 for letters of credit and \$30,000 for overdrafts, and is due and payable upon demand. The letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with developer loans. At December 31, 2009, there were letters of credit in the amount of \$11,143 issued (2008 - \$12,910) and additional letters of credit in the amount of \$7,670 committed but not issued (2008 - \$5,734).

15. Income Taxes

	2009	2008
Income before income taxes	\$ 24,742	\$ 30,348
Less: dividends	(20,569)	(13,630)
Income subject to tax	4,173	16,718
Statutory rate of tax	42%	42%
Tax provision before the following:	1,753	7,022
Statutory rate difference in subsidiaries	(533)	(371)
Rate changes and other differences	(951)	(63)
Non-taxable portion of capital gains	(948)	(675)
CMB-related items	-	146
Tax provision (recovery) per consolidated financial statements	\$ (679)	\$ 6,059
Presentation of tax provision (recovery) in consolidated financial statements		
Provision against income	\$ -	\$ -
Charge (recovery) to retained earnings	(679)	6,059
	\$ (679)	\$ 6,059

The details of the future tax assets (liabilities) are as follows:

	2009	2008
Provision for loan losses	\$ 1,821	\$ 2,065
Equity investment in MCAP Commercial LP	(475)	246
Dividends deductible for tax purposes	(2,389)	(4,035)
CMB-related items	(6,333)	(6,457)
Capital assets	(72)	(110)
Financial assets	(444)	(416)
Loss carryforward benefit	881	1,106
	\$ (7,011)	\$ (7,601)

The Company has loss carryforward amounts of \$2,809 (2008 - \$3,548), the benefit of which has been recorded to future taxes, expiring as follows:

2028	\$ 1,293
2029	\$ 1,516

16. Share Capital and Contributed Surplus

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

Issued	Number of Shares	2009	Number of Shares	2008
Balance, January 1	14,223,506	\$ 97,493	14,097,994	\$ 96,370
Issued				
Dividend reinvestment plan	80,872	843	86,571	787
Executive Share Purchase Plan	16,602	154	38,941	336
Balance, December 31	14,320,980	\$ 98,490	14,223,506	\$ 97,493

During 2009, the Company issued 80,872 (2008 - 86,571) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 20 days preceding such issue.

The Company had no potentially dilutive instruments for the years ended December 31, 2009 and 2008.

Contributed surplus of \$510 represents the discount on the repurchase of warrants in 2004.

Executive Share Purchase Plan

The Company has established an Executive Share Purchase Plan (the “Share Purchase Plan”) whereby the Board of Directors can approve loans to key personnel for the purpose of purchasing the Company’s shares. During 2009, 16,602 shares were issued out of treasury under the Share Purchase Plan (2008 - 38,941). The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares. Dividend distributions on the shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions, and 75% of capital gain distributions. Shares are issued out of treasury for the Share Purchase Plan at the weighted average trading price for the 20 days preceding such issue.

MCAN advanced \$154 of loans under the Share Purchase Plan in 2009 (2008 - \$336). At December 31, 2009, \$1,397 of loans were outstanding (2008 - \$1,373) (note 6). The loans under the Share Purchase Plan bear interest at prime plus 1%, 3.25% at December 31, 2009 (2008 - 4.5%), and have a five-year term. The shares are pledged as security for the loans and have a market value of \$2,313 at December 31, 2009 (2008 - \$1,500).

17. Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes unrealized gains and losses (net of taxes) on available for sale mortgages and securitization investments.

	Note	2009	2008
Unrealized gain on available for sale mortgages	4	\$ 1,192	\$ 1,602
Unrealized gain (loss) on available for sale securitization investments	5	544	(279)
Other		(22)	(30)
		\$ 1,714	\$ 1,293

18. Interest Rate Sensitivity

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

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

The interest rate sensitivity analysis is based on the Company’s balance sheet as at December 31, 2009 and does not incorporate mortgage and loan prepayments. The analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

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

The Company manages interest rate risk by matching the terms of invested assets and term deposits. To the extent that the two components offset each other, the risks associated with interest rate changes are reduced. The Asset and Liability Management Committee (“ALCO”) reviews the Company’s 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. The Company does not currently use derivative financial instruments outside of the CMB program, however the potential use of such instruments for the Company’s on-balance sheet assets is analyzed and reported to ALCO on a monthly basis.

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

	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non- Interest Sensitive	2009 Total	2008 Total
ASSETS								
Investments								
Cash and cash equivalents	\$ 89,843	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,843	\$ 58,071
Mortgages	170,824	22,408	54,714	27,569	3,201	16,699	295,415	393,010
Securitization investments	46,911	203	-	16,921	8,674	881	73,590	39,743
Loans receivable and other investments	11,605	243	-	2,458	-	2,579	16,885	35,624
Equity investment in MCAP Commercial LP	-	-	-	-	-	17,905	17,905	18,300
	319,183	22,854	54,714	46,948	11,875	38,064	493,638	544,748
Derivative financial instruments	-	-	-	11,490	-	-	11,490	23,541
Other assets	-	-	-	-	-	1,555	1,555	1,865
Total Assets	\$ 319,183	\$ 22,854	\$ 54,714	\$ 58,438	\$ 11,875	\$ 39,619	\$ 506,683	\$ 570,154
Yield	3.42%	7.30%	7.64%	6.18%	5.40%			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Term deposits	\$ -	\$ 93,724	\$ 245,829	\$ 21,191	\$ -	\$ -	\$ 360,744	\$ 426,663
Securitization liabilities	-	-	-	5,048	-	-	5,048	7,095
Accounts payable and accrued charges	-	-	-	-	-	11,001	11,001	12,186
Future taxes payable	-	-	-	-	-	7,011	7,011	7,601
Shareholders' equity	-	-	-	-	-	122,879	122,879	116,609
Total Liabilities and Shareholders' Equity	\$ -	\$ 93,724	\$ 245,829	\$ 26,239	\$ -	\$ 140,891	\$ 506,683	\$ 570,154
Yield	-	2.13%	1.87%	2.83%	-			
GAP	\$ 319,183	\$ (70,870)	\$ (191,115)	\$ 32,199	\$ 11,875	\$ (101,272)	\$ -	\$ -
YIELD SPREAD	3.42%	5.17%	5.77%	3.35%	5.40%			

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2009 would have a positive (adverse) effect of \$2,144 (2008 - \$1,181) to net income over the following twelve month period.

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2009 would have an adverse effect to accumulated other comprehensive income of \$1,902 (2008 - \$2,269).

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.

19. 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 and the dividend reinvestment plan.

The Company's capital management is driven by the guidelines set out by the Tax Act and 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 adopted the Basel II capital management framework effective January 1, 2008. The Company has implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach for the calculation of operational risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / 2009 CONSOLIDATED FINANCIAL STATEMENTS

MCAN MORTGAGE CORPORATION

December 31, 2009 (Dollar amounts in thousands except for per share amounts)

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 December 31	2009	2008
Tax Act Test		
Income tax assets	\$ 488,024	\$ 551,589
Income tax capital	\$ 120,732	\$ 115,998
Income tax assets to capital ratio	4.04	4.76
Income tax liabilities to capital ratio	3.04	3.76
Regulatory Tests (OSFI)		
Tier 1 capital		
Share capital	\$ 98,490	\$ 97,493
Contributed surplus	510	510
Retained earnings	22,165	17,313
Tier 1 capital deductions	(9,792)	(5,511)
	<u>111,373</u>	<u>109,805</u>
Tier 2 capital		
Tier 2 capital deductions	(1,142)	(1,814)
	<u>(1,142)</u>	<u>(1,814)</u>
Total capital	<u>\$ 110,231</u>	<u>\$ 107,991</u>
Total regulatory assets	\$ 508,351	\$ 578,124
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	27.75%	24.09%
Total capital to risk-weighted assets ratio	27.47%	23.69%
Assets to capital multiple	4.61	5.35

As at December 31, 2009, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

December 31, 2009 (Dollar amounts in thousands except for per share amounts)

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

As at December 31	2009		2008	
	Balance	Risk-Weighted	Balance	Risk-Weighted
On-Balance Sheet Assets				
Cash and cash equivalents	\$ 89,843	\$ 18,260	\$ 58,071	\$ 12,092
Mortgages	295,415	202,272	393,010	265,668
Securitization investments	73,590	29,759	39,743	36,469
Loans receivable and other investments	16,885	16,885	35,624	35,624
Equity investment in MCLP	17,905	17,905	18,300	18,300
Derivative financial instruments	11,490	-	23,541	-
Other assets	1,555	1,555	1,865	1,865
	<u>\$ 506,683</u>	<u>\$ 286,636</u>	<u>\$ 570,154</u>	<u>\$ 370,018</u>
Off-Balance Sheet Assets				
Letters of credit		5,572		6,455
Mortgage funding commitments		48,087		32,328
		<u>53,659</u>		<u>38,783</u>
Derivative Financial Instruments				
CMB interest rate swaps				
Outstanding notional	\$ 260,095		\$ 105,281	
Add-on factor	0.5%		0.5%	
Potential credit exposure	<u>1,300</u>		<u>526</u>	
Positive replacement cost	11,490		23,541	
Credit equivalent	<u>12,790</u>		<u>24,067</u>	
Risk weighting	20%		20%	
Risk-weighted equivalent		<u>2,558</u>		<u>4,813</u>
Charge for operational risk		<u>58,475</u>		<u>42,175</u>
Total Risk-Weighted Assets		<u>\$ 401,328</u>		<u>\$ 455,789</u>

The risk-weighting of all on-balance sheet assets (except derivative financial instruments) and all off-balance sheet assets is based on a prescribed percentage of the underlying asset position, in addition to adjustments for other items such as impaired mortgages and unrated securitization investments. The derivative financial instrument credit equivalent consists of the fair market value of the derivative and an amount representing the potential future credit exposure. Risk-weighted assets also include an operational risk charge, which is based on certain components of the Company's net investment income over the past three years.

20. 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 Company holds MAV II notes (note 5) that were restructured under the Montreal Accord. At the time of restructuring, there was no active market for these instruments. The Company's initial calculation of the fair value of these investments discounted the expected future cash flows with the assumption that no interest would be received for the first five years, and incorporated a principal loss assumption. Based on this analysis, the Company recorded a \$2,000 write-down in the first quarter of 2009. Based on trading data from late 2009, the Company increased the write-down to \$2,100 at year-end.

The following table summarizes financial assets and liabilities reported at fair value as at December 31, 2009.

	Level 1	Level 2	Level 3
Financial Assets			
Mortgages	\$ -	\$ 295,415	\$ -
Securitization investments	-	43,409	18,943
Derivative financial instruments	-	11,490	-
	\$ -	\$ 350,314	\$ 18,943
Financial Liabilities			
Securitization liabilities	\$ -	\$ -	\$ 5,048

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	\$ 5,337	\$ 10,892	\$ (1,625)	\$ 4,339	\$ 18,943
Financial Liabilities					
Securitization liabilities	\$ 7,095	\$ -	\$ (1,125)	\$ (922)	\$ 5,048

Risk Management

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

Interest Rate Risk

The Company's exposure to interest rate risk is discussed in note 18.

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from the Company's mortgage and lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. In the current economic environment, the Company has increased its monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears. All members of management are subject to limits on their ability to commit the Company to credit risk. Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving ALCO and a formal quarterly review involving the ICB. Furthermore, the Company's exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of its investments. The Company's policies establish limits on concentration by asset class, geographic region, dollar amount and borrower.

The Company identifies potential risk in its 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. The Company also undertakes site visits of active mortgages. Existing risks in the Company's 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 the Company's exposure to credit risk.

MCAN assesses 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.

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

December 31, 2009 (Dollar amounts in thousands except for per share amounts)

The Company records a specific allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Specific allowances include all of the accumulated provisions for losses on a particular mortgage. At December 31, 2009, the Company has recorded \$2,782 of specific allowances on its mortgage portfolio (note 4).

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

Liquidity Risk

Liquidity risk is the risk that cash inflows, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on and off-balance sheet) as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that the Company may eventually collect the amounts outstanding. The Company closely monitors its liquidity position to ensure that it has sufficient cash to meet liability obligations as they become due. The ICB is responsible for the review and approval of liquidity policies. In general, the Company maintains a standard level of liquid investments and credit facilities 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. The Company has access to funding through its 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. There is also a \$30,000 overdraft facility in place to fund asset growth or meet short-term obligations as required (note 14).

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.

The Company's liquidity position and access to funding support its ability to meet current and future commitments. The Company's liquid investments and credit facilities were 106% of term deposits maturing within 100 days at December 31, 2009. For further details on the Company's liquid assets and its ability to meet liability obligations, refer to note 18.

The Company's sources and uses of liquidity are outlined in the table below. The Company manages its net liquidity surplus/deficit by raising term deposits as mentioned above.

	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	2009 Total	2008 Total
Sources of liquidity						
Cash and cash equivalents	\$ 89,843	\$ -	\$ -	\$ -	\$ 89,843	\$ 58,071
Mortgages	84,629	130,980	35,913	43,893	295,415	393,010
Securitization investments	203	-	65,732	7,655	73,590	39,743
Loans receivable and other investments	243	11,984	2,558	2,100	16,885	35,624
	<u>174,918</u>	<u>142,964</u>	<u>104,203</u>	<u>53,648</u>	<u>475,733</u>	<u>526,448</u>
Uses of liquidity						
Term deposits	93,724	245,829	21,191	-	360,744	426,663
Securitization liabilities	-	-	5,048	-	5,048	7,095
Accounts payable and accrued charges	10,408	-	-	-	10,408	11,209
	<u>104,132</u>	<u>245,829</u>	<u>26,239</u>	<u>-</u>	<u>376,200</u>	<u>444,967</u>
Unfunded mortgage commitments	9,617	76,939	9,617	-	96,173	64,656
	<u>113,749</u>	<u>322,768</u>	<u>35,856</u>	<u>-</u>	<u>472,373</u>	<u>509,623</u>
Net liquidity surplus (deficit)	\$ 61,169	\$ (179,804)	\$ 68,347	\$ 53,648	\$ 3,360	\$ 16,825

Market Risk

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

21. Lease Commitments

The future minimum annual lease commitments for premises are as follows:

2010	\$	171
2011		171
2012		128
2013 and thereafter		-
	\$	470

22. Guarantees

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

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

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

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

MCLP has issued Class B units to management of MCLP, which were financed by bank loans to management. Under certain circumstances as a partner in MCLP, 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 December 31, 2009, the outstanding bank loan balances were \$7,222.

23. 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.

DIRECTORS**David G. Broadhurst**

President, Poynton Investments Limited; Interim Chairman of the Board since February 26, 2010; Chairman of the Audit Committee; Chairman of the Shareholder Strategic & Risk Management Committee; Member of Conduct Review, Corporate Governance and Human Resources Committee; Director since May 1997.

Raymond Doré

Corporate Director; Chairman of Conduct Review, Corporate Governance and Human Resources Committee; Director since May 1997.

Brian A. Johnson

Partner, Crown Capital Partners and Crown Realty Partners; Member of Investment Committee; Member of Audit Committee; Director since January 2001.

David A. MacIntosh

Corporate Director; Chairman of Investment Committee; Member of Audit Committee; Director since January 2000

Derek A. Norton

President and CEO, MCAP Commercial LP; Member of the Shareholder Strategic & Risk Management Committee; Director since July 2000.

Jean C. Pinard

Consultant, Pinco Inc.; Member of Investment Committee; Member of Conduct Review, Corporate Governance and Human Resources Committee; Director since November 2005.

Robert A. Stuebing

Corporate Director; Member of Investment Committee; Director since April 2004.

Ian Sutherland

Interim CEO, MCAN Mortgage Corporation, since February 26, 2010; Member of the Shareholder Strategic & Risk Management Committee; Director since January 1991.

Blaine Welch

Former President and CEO, MCAN Mortgage Corporation; Director from April 2004 to February 26, 2010.

OFFICERS AND MANAGEMENT**Ian Sutherland**

Interim CEO

Blaine Welch

Former President and CEO

Tammy Oldenburg

Vice President and CFO

Michael Misener

Vice President, Investments

Paco Lai

Senior Manager, Cash Operations
Chief Compliance Officer

Sylvia Pinto

Corporate Secretary

Derek Sutherland

Assistant Vice President, Investments

John Tyas

Controller

Dipti Patel

Assistant Controller

Sal Jadavji

Enterprise Risk Management Officer
Chief Anti-Money Laundering Officer
Privacy Officer
Business Continuity/Disaster Recovery Coordinator

CORPORATE INFORMATION

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Web: www.mcanmortgage.com

Corporate Counsel

Goodmans LLP
Toronto, Ontario

Auditors

Ernst & Young LLP
Toronto, Ontario

Public Listing

Toronto Stock Exchange
Exchange symbol MKP

Bank

Bank of Montreal
First Canadian Place
Toronto, Ontario

Corporate Information

This MCAN Mortgage Corporation 2009 Annual Report is available for viewing/printing on our web site at www.mcanmortgage.com, or additionally on SEDAR at www.sedar.com. To request a printed copy, please contact Ms. Sylvia Pinto, Corporate Secretary, 200 King Street West, Suite 400, Toronto, Ontario M5H 3T4, by phone 416-591-5214 or 1-800-387-4405, or e-mail spinto@mcanmortgage.com.

Registrar and Transfer Agent

For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAN Mortgage Corporation's Transfer Agent and Registrar at 1-800-564-6253, or write to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1.

General Information

For general enquiries about MCAN Mortgage Corporation, please write to Ms. Sylvia Pinto, Corporate Secretary or e-mail mcanexecutive@mcanmortgage.com.

Annual Meeting

4:30 p.m., on May 11, 2010
St. Andrew's Club and Conference Centre
150 King Street West
Inverness Room
27th Floor
Toronto, Ontario