



MCAN MORTGAGE CORPORATION

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

JUNE 30, 2009

MCAN MORTGAGE CORPORATION

REPORT FOR THE SECOND QUARTER ENDED JUNE 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

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

RESULTS OF OPERATIONS

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

(in thousands, except for per share amounts)

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

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

Net Investment Income

(in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating Expenses

(in thousands)

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

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

Income Taxes

(in thousands)

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

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

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

Cash Flows

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

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

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

SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except for per share amounts)

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

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

FINANCIAL POSITION

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

Assets

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

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

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

As at June 30, 2009, we held discounted mortgages with an aggregate discount of \$31 million. We retain 50% of any recoveries of that amount, and we pay the remaining 50% to MCLP. The amount of the discount ultimately recovered is dependent on the value of the real estate securing the mortgage, as well as the financial capacity of the borrower. Additionally, these mortgages have maturity dates ranging from two years for the fixed rate mortgages to 23 years for the floating rate mortgages. As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered. However, we do expect that material amounts will be realized over the next few years.

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

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

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

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

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

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

Liabilities and shareholders' equity

(in thousands)

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

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

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

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

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

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

CMB PROGRAM

We participate in the CMB program, which involves the securitization of insured single family mortgages. We participate in the CMB program with MCAP Service Corporation ("MSC"). For accounting purposes, we recognize an up-front gain on securitization, and at that time we recognize an interest-only strip, which is a retained interest in the securitized mortgages. The interest-only strips consist of the discounted value of future mortgage interest, principal reinvestment interest receipts and penalty income less coupon interest payments. At quarter end, we revised our calculation of the fair value of the interest-only strips to include the discounted value of future penalty income. The revision was a result of a significant increase in mortgage liquidation rates in recent months, which has led to an increase in penalty payments. This revision had a positive impact to income of \$1.0 million, which is included in the net interest-only strip write-down of \$1.2 million. The interest-only strips are generally in asset positions, however they can potentially go into liability positions upon a significant decrease in forward interest rates after issuance, which occurred with certain interest-only strips in 2008. In addition, we recognize liabilities for future mortgage servicing, which we subcontract to MSC, and other costs. For tax purposes, we recognize CMB-related income on the cash basis, wherein the payment of upfront CMB expenses is a deduction from taxable income at the date of issuance, and the ongoing collection of net CMB cash flows, representing the interest-only strips, is recognized in taxable income as received over the duration of the issuance.

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

During the quarter, we securitized \$222 million of mortgages through the CMB program. We recorded \$2.3 million of interest-only strips and \$384,000 of liabilities on the respective closing dates.

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

CONTRACTUAL OBLIGATIONS

We have contractual obligations to make principal and interest payments on term deposits and an operating lease. In addition, we have outstanding commitments for future fundings of mortgages intended for our own portfolio, almost all of which relate to floating rate construction loans.

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

(in thousands)	Less than one year	One to five years	Over five years	Total
Term deposits	\$ 358,252	\$ 10,686	\$ -	\$ 368,938
Operating lease	171	384	-	555
Mortgage fundings	59,711	6,635	-	66,346
CMB obligations	836	1,981	-	2,817
	\$ 418,970	\$ 19,686	\$ -	\$ 438,656

FUTURE CHANGES IN ACCOUNTING POLICY

International Financial Reporting Standards

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

For the fiscal year commencing January 1, 2011, we will cease to use Canadian Generally Accepted Accounting Principles ("GAAP") and will adopt IFRS. Financial results for the quarter ended March 31, 2011 will be presented using IFRS.

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

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

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

The scoping and diagnostic phase, which involved a high-level impact assessment to identify key areas impacted by the conversion to IFRS, has been completed. We are now in the process of assessing the impact of IFRS differences. During this phase, we are identifying differences between GAAP and IFRS in the areas identified by the scoping and diagnostic phase, and performing an analysis to assess the potential impact of these differences. Based on identified differences, we will establish changes to our accounting policies, financial reporting, control environment, information systems and business activities. Following the completion of the assessment of the impact of IFRS differences, we will begin the implementation of our conversion plan in the second half of 2009 and into 2010.

We are monitoring the potential impact of changes to financial reporting processes, internal controls over financial reporting and disclosure controls and procedures. We have not yet quantified the effects of the potential significant differences between GAAP and IFRS nor their materiality. As the implications of the conversion are identified, continual requirements for infrastructure, expertise, training and education will be assessed. We will continue to assess the impact of adopting IFRS and will update our MD&A disclosures on a quarterly basis to report on the progress of our IFRS plan.

The following table outlines certain elements of our IFRS conversion plan and an assessment of our progress towards the plan as at June 30, 2009. Changes in regulations, economic conditions, business activities or other circumstances could impact the IFRS conversion plan and result in changes to the key activities and deadlines. Our IFRS conversion plan is currently on schedule.

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

OUTLOOK

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

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

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


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

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

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

DIVIDENDS

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



Blaine Welch
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

This report may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the Company. These forward looking statements can generally be identified as such because of the context of the statements and often include words such as the Company "believes", "anticipates", "expects", "plans", "estimates" or words of a similar nature. These statements are based on current expectations, and are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, competition, technology change, global market activity, interest rates, changes in government and economic policy and general economic conditions in geographic areas where the Company operates. Reference is made to the risk factors disclosed in the Company's 2009 Annual Information Form, which are incorporated herein by reference. These and other factors should be considered carefully and undue reliance should not be placed on the Company's forward-looking statements. Subject to applicable securities law requirements, we do not undertake to update any forward-looking statements.

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

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

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