



MCAN MORTGAGE CORPORATION

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

MARCH 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2011 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2010. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2010 remain substantially unchanged. Information has been presented as of May 10, 2011.

DESCRIPTION OF BUSINESS

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

The Company's primary objective is to generate a reliable stream of income by investing its corporate funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of financial investments, loans and real estate investments. MCAN employs leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance up to a maximum of five times capital (on a non-consolidated tax basis) as limited by provisions of the Tax Act applicable to a MIC. The term deposits are sourced through a network of independent financial agents. As a MIC, MCAN is entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of other dividends paid. Such dividends are received by the shareholders as capital gains dividends and interest income, respectively.

MCAN also participates in the Canada Mortgage Bonds ("CMB") program, and other securitizations of insured mortgages. For further details, please refer to the "CMB Program" section of the MD&A.

The Company separates its assets into its corporate and securitized portfolios for reporting purposes. Corporate assets represent the Company's core strategic investments, and are funded by term deposits and share capital. Securitized assets consist primarily of mortgages securitized through the CMB program and reinvestment assets purchased with mortgage principal repayments and are funded by financial liabilities from securitization.

IMPACT OF CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements for the quarter ended March 31, 2011 are the first that we have prepared in accordance with International Financial Reporting Standards ("IFRS"). For periods up to and including the year ended December 31, 2010, we prepared our consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP").

The most significant changes to our financial statements are as follows:

- We have recognized \$3.1 billion of new assets and \$3.1 billion of new liabilities, primarily due to the on-balance sheet treatment of mortgages securitized through the CMB program.
- We now recognize ongoing CMB program mortgage interest income, principal reinvestment income and securitization liability interest expense on the accrual basis. We reversed up-front gains from securitization previously recognized under CGAAP through opening retained earnings on transition to IFRS.
- Fair market value changes in the CMB interest rate swaps are no longer generally offset by fair market value changes in CMB interest-only strips, as the interest-only strips do not exist under IFRS due to the reversal of up-front gains from securitization previously recognized under CGAAP. The lack of an offset has led to increased volatility to net income under IFRS despite the fact that, from an economic perspective, interest rate risk remains largely mitigated through the interest rate swaps.
- We now recognize current and deferred taxes through the statement of income, which has led to increased volatility to net income. Under CGAAP, we charged current and deferred taxes directly to retained earnings.

For further details on the conversion to IFRS, refer to the "International Financial Reporting Standards" section of this MD&A.

SELECTED FINANCIAL INFORMATION

(dollars in thousands except for per share amounts)

For the Quarters Ended March 31	2011	2010
Operating Results		
Net investment income - corporate assets	\$ 5,308	\$ 5,037
Net investment income - securitized assets	(1,769)	(259)
Net investment income	3,539	4,778
Operating expenses	1,672	1,308
Income before income taxes	1,867	3,470
Provision for (recovery of) income taxes	(5,222)	(656)
Net income	\$ 7,089	\$ 4,126
Average mortgage portfolio yield - corporate	7.01%	7.62%
Term deposit average interest rate	2.19%	2.21%
Average mortgage portfolio yield - securitized	4.34%	4.00%
Financial liabilities from securitization - average interest rate	3.74%	3.71%
Basic and diluted earnings per share	\$ 0.49	\$ 0.29
Dividends per share	\$ 1.00	\$ 0.41
Return on average shareholders' equity	22.80%	14.20%

As at	March 31 2011	December 31 2010	January 1 2010
Balance Sheet Highlights			
Assets			
Corporate	\$ 595,773	\$ 538,032	\$ 465,250
Securitized	3,153,124	3,147,993	3,097,454
Total assets	3,748,897	3,686,025	3,562,704
Mortgages - corporate	495,662	420,322	294,769
Mortgages - securitized	1,820,902	1,910,995	2,342,164
Liabilities			
Corporate	511,852	441,345	373,957
Securitized	3,118,266	3,119,601	3,074,793
Total liabilities	3,630,118	3,560,946	3,448,750
Shareholders' equity	118,779	125,079	113,954
Capital Ratios			
Tier 1 Capital Ratio	21.80%	22.10%	27.75%
Total Capital Ratio	21.77%	22.06%	27.47%
Credit Quality			
Impaired mortgage ratio	0.63%	0.63%	0.68%
Total mortgage arrears	\$ 91,527	\$ 91,828	\$ 100,054
Share Information (end of period)			
Number of common shares outstanding (thousands)	14,511	14,448	14,321
Book value per common share	\$ 8.19	\$ 8.66	\$ 7.96
Common share price - close	\$ 15.20	\$ 13.86	\$ 13.60
Market capitalization	\$ 220,567	\$ 200,249	\$ 194,766

HIGHLIGHTS

- Net income for Q1 2011 was \$7.1 million (\$0.49 per share), up from \$4.1 million (\$0.29 per share) in the prior year. Current quarter pre-tax net income (excluding negative fair market value adjustments on derivative financial instruments) was \$5.1 million (\$0.35 per share), compared to \$4.9 million (\$0.34 per share) in the prior year. Current year results also include an income tax recovery of \$5.2 million, compared to \$656,000 in the prior year.
- Net investment income from corporate assets was \$5.3 million for Q1 2011, up from \$5.0 million in the prior year. Net investment income from securitized assets was a loss of \$1.8 million for Q1 2011, compared to a loss of \$259,000 in the prior year, primarily due to a negative fair market value adjustment to derivative financial instruments of \$3.2 million in Q1 2011 and \$1.5 million in Q1 2010.
- Estimated taxable income increased to \$4.3 million from \$4.1 million in the prior year, on a per share basis it increased to \$0.30 from \$0.29 in the prior year.
- MCAN declared a second quarter dividend of \$0.27 per share to be paid on June 30, 2011 to shareholders of record as of June 2, 2011.
- Total consolidated assets were \$3.7 billion at March 31, 2011, an increase of \$63 million from December 31, 2010. The change included an increase of \$75 million in our corporate mortgage portfolio, which included increases of \$68 million in uninsured single family mortgages and \$7 million in insured single family mortgages. The majority of the growth in uninsured single family mortgages relates to two portfolio acquisitions completed during the quarter.
- Impaired mortgages as a percentage of total mortgages were 0.63% at March 31, 2011, unchanged from December 31, 2010. Impaired corporate mortgages as a percentage of corporate mortgages decreased to 2.76% at March 31, 2011 from 3.06% at December 31, 2010.
- During the quarter, we were able to utilize the majority of our unused lending capacity consistent with our strategic plan. In order to facilitate future growth, we completed a public share offering of 2,300,000 common shares on April 18, 2011, at a price of \$14.50 per common share, for net proceeds of approximately \$31 million.
- Our strategic plan includes growth in our corporate mortgage portfolio throughout 2011, which we plan to achieve by taking advantage of opportunities in the single family mortgage and residential construction loan markets, and through a measured increase in our commercial mortgage portfolio. To facilitate our growth plans, we plan to expand the Canadian markets in which we invest to further reduce existing geographic concentrations in our current portfolio in Alberta, Ontario and British Columbia.

OUTLOOK

The Canadian economy continued to demonstrate strength with GDP growth of 2.9% in 2010, while forecasted GDP growth for 2011 and 2012 is 2.9% and 2.6% respectively. The unemployment rate at the end of 2010 was approximately 8%, and has improved to approximately 7.7% as of the end of first quarter of 2011.

Canadian mortgage rates are expected to remain stable in 2011. Rates could increase if economic growth and inflation increase more significantly than anticipated. Interest rates have remained low and are expected to remain so, by historical standards. The recent level of the Canadian dollar also presents challenges as its strength and potential increases in domestic interest rates will further compromise the competitiveness of Canadian exports.

After a strong 2010, housing starts in 2011 are expected to edge lower. The general consensus is that of a soft landing overall. Housing activity should decline slightly limiting price gains to the rate of core inflation. New home sales for 2011 are expected to be 174,800 down from 186,200 in 2010. The first quarter of 2011 saw a measured reduction in year over year housing activity however, as a whole the Canadian market continues to be balanced with a monthly supply of listings of just under six months.

The market for new housing construction has to date shown evidence of slowing in 2011, in part due to government initiatives aimed at reducing the potential risks from an overheated housing market. Changes by the Canada Mortgage and Housing Corporation ("CMHC") to its mortgage programs reducing maximum amortization terms and permitted loan to value ratios on all new and refinanced mortgages are intended to reduce leverage in the mortgage market, protecting home owners from future defaults. The impact to housing markets will be a measured reduction in home sale volumes as purchasers adjust to increased equity requirements and higher monthly mortgage payments.

Overall, the Canadian housing market is expected to remain in balance, with new home sales stabilizing to more normal levels against historical averages and existing home sales finding a more stable level, slowing the price increases seen over previous years.

RESULTS OF OPERATIONS

Net Investment Income

For the Quarters Ended March 31	2011	2010
Net Investment Income - Corporate Assets		
Mortgage interest	\$ 7,560	\$ 5,819
Interest on financial investments and other loans	145	877
Equity income from MCAP Commercial LP	807	259
Fees	205	637
Marketable securities	156	-
Interest on cash and cash equivalents	178	43
	9,051	7,635
Term deposit interest and expenses	2,560	1,933
Mortgage expenses	850	530
Provision for credit losses	333	135
	3,743	2,598
	5,308	5,037
Net Investment Income - Securitized Assets		
Mortgage interest	5,452	6,253
Interest on financial investments	1,293	355
Interest on short-term investments	190	64
Other securitization income	2,189	2,041
	9,124	8,713
Interest on financial liabilities from securitization	7,524	7,341
Mortgage expenses	131	169
	7,655	7,510
Net investment income before fair market value adjustment	1,469	1,203
Fair market value adjustment - derivative financial instruments	(3,238)	(1,462)
	(1,769)	(259)
Net Investment Income	3,539	4,778

Net investment income was \$3.5 million for the quarter, a decrease of \$1.3 million from \$4.8 million during the same quarter in the prior year. Net investment income consisted of \$5.3 million from corporate assets (\$5.0 million in 2010) and a loss of \$1.8 million from securitized assets (\$259,000 loss in 2010). The loss from securitized assets includes a \$3.2 million negative fair market value adjustment to derivative financial instruments (negative \$1.5 million in 2010).

Net Investment Income - Corporate Assets

Net investment income from corporate assets was \$5.3 million for the quarter, an increase of \$271,000 from \$5.0 million in the prior year.

Mortgage interest income increased by \$1.7 million from the prior year as a result of a \$144 million increase in the average mortgage portfolio, partially offset by a 0.61% decrease in the average mortgage yield from 7.62% in 2010 to 7.01% in 2011. Mortgage interest income includes \$519,000 (2010 - \$661,000) relating to the partial recovery of purchase price discounts on MCAN's acquired mortgage portfolios.

Interest on financial investments and other loans decreased from \$877,000 to \$145,000 as a result of a significantly lower average portfolio balance.

Equity income from our ownership interest in MCAP Commercial LP ("MCLP") was \$807,000 during the quarter compared to \$259,000 in the prior year.

Fees were \$205,000 in the quarter, down from \$637,000 in the prior year. Fees consist of fee income from a profit sharing arrangement relating to mortgage portfolios acquired by MCLP of \$5,000 (2010 - \$204,000) and other mortgage fees of \$200,000 (2010 - \$433,000).

Marketable securities income was \$156,000 compared to \$nil in the prior year, as we did not acquire any marketable securities until late 2010.

Interest on cash and cash equivalents increased by \$135,000 over the prior year due to higher average cash balances.

Term deposit interest and expenses increased by \$627,000 during the quarter, primarily due to a \$127 million increase in the average outstanding balance from \$335 million in 2010 to \$462 million in 2011. The average term deposit interest rate decreased to 2.19% in 2011 from 2.21% in 2010.

Mortgage expenses increased by \$320,000 in the quarter, consistent with the growth in the mortgage portfolio.

Details of the provision for credit losses are discussed under "Credit Quality" below.

Net Investment Income - Securitized Assets

Net investment income from securitized assets before unrealized losses was \$1.5 million compared to \$1.2 million in the prior year. Including negative fair market value adjustments on derivative financial instruments, there was a net investment loss of \$1.8 million on securitized assets compared to a loss of \$259,000 in the prior year.

Mortgage interest income decreased by \$801,000 from the prior year as a result of a \$419 million decrease in the average mortgage portfolio over 2010, partially offset by a 0.34% increase in the average mortgage yield. As the securitized mortgages repay, we reinvest the collected principal in certain permitted investments, which include financial investments and short-term investments.

Interest on financial investments increased by \$938,000 from the prior year due to a significant increase in the average portfolio from 2010.

Other securitization income was \$2.2 million in the quarter compared to \$2.0 million in the prior year, consisting primarily of interest rate swap receipts of \$2.1 million (2010 - \$1.9 million).

Interest on financial liabilities from securitization was \$7.5 million for the quarter, up from \$7.3 million in the prior year. The increase was primarily due to a \$44 million increase in the outstanding liability over the prior year. The average interest rate increased slightly from 3.71% to 3.74%.

The negative fair market value adjustment to derivative financial instruments of \$3.2 million (2010 - negative \$1.5 million) relates to the CMB interest rate swaps. These fair market value changes can be volatile as they are driven by changes in the forward interest rate curve. From an economic perspective, these fair value changes are generally offset by changes in future expected income from securitized mortgages and principal reinvestment assets that have a floating interest rate. We regularly monitor our interest rate swap hedge position to minimize our exposure to interest rate risk. From an accounting perspective, changes in future expected income from these floating rate assets are not reflected in the consolidated statement of income, which can cause significant volatility to net income since there is no offset to the fair value changes in the interest rate swaps.

Net Interest Income

Presented in the following tables is an analysis of average rates and net interest income. Net interest income is the difference between interest earned on mortgages and investments and the interest paid on liabilities to fund those assets.

For the Quarter Ended March 31, 2011

(in thousands except %)	Average Balance			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 91,870	\$ -	\$ 91,870	\$ 178	\$ -	\$ 178	0.79%	-
Short-term investments	-	236,848	236,848	-	190	190	-	1.16%
Marketable securities	10,847	-	10,847	156	-	156	5.83%	-
Mortgages - corporate	442,182	-	442,182	7,560	-	7,560	7.01%	-
Mortgages - securitized	-	1,863,941	1,863,941	-	5,452	5,452	-	4.34%
Financial investments	10,143	1,026,703	1,036,846	102	1,293	1,395	4.08%	2.19%
Other loans	3,205	-	3,205	43	-	43	5.44%	-
Total on interest earning assets	558,247	3,127,492	3,685,739	8,039	6,935	14,974	5.84%	3.40%
Other assets	8,977	28,032	37,009	-	-	-	-	-
Total assets	\$ 567,224	\$ 3,155,524	\$ 3,722,748	\$ 8,039	\$ 6,935	\$ 14,974	5.75%	3.28%
Liabilities and Shareholders' Equity								
Term deposits	\$ 461,889	\$ -	\$ 461,889	\$ 2,560	\$ -	\$ 2,560	2.19%	-
Financial liabilities from securitization	-	3,118,759	3,118,759	-	7,524	7,524	-	3.74%
Other liabilities	17,402	-	17,402	-	-	-	-	-
Shareholders' equity	-	-	124,698	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 479,291	\$ 3,118,759	\$ 3,722,748	\$ 2,560	\$ 7,524	\$ 10,084	2.19%	3.74%
Net Interest Income²				\$ 5,479	\$ (589)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							4.82%	

For the Quarter Ended March 31, 2010

(in thousands except %)	Average Balance			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 75,799	\$ -	\$ 75,799	\$ 43	\$ -	\$ 43	0.23%	-
Short-term investments	-	286,125	286,125	-	64	64	-	0.33%
Mortgages - corporate	298,058	-	298,058	5,819	-	5,819	7.62%	-
Mortgages - securitized	-	2,283,411	2,283,411	-	6,253	6,253	-	4.00%
Financial investments	27,073	495,448	522,521	793	355	1,148	10.65%	1.63%
Other loans	10,944	-	10,944	84	-	84	3.11%	-
Total on interest earning assets	411,874	3,064,984	3,476,858	6,739	6,672	13,411	6.64%	3.37%
Other assets	25,998	33,187	59,185	-	-	-	-	-
Total assets	\$ 437,872	\$ 3,098,171	\$ 3,536,043	\$ 6,739	\$ 6,672	\$ 13,411	6.24%	3.22%
Liabilities and Shareholders' Equity								
Term deposits	\$ 334,805	\$ -	\$ 334,805	\$ 1,933	\$ -	\$ 1,933	2.21%	-
Financial liabilities from securitization	-	3,074,689	3,074,689	-	7,341	7,341	-	3.71%
Other liabilities	9,841	-	9,841	-	-	-	-	-
Shareholders' equity	-	-	116,708	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 344,646	\$ 3,074,689	\$ 3,536,043	\$ 1,933	\$ 7,341	\$ 9,274	2.21%	3.71%
Net Interest Income²				\$ 4,806	\$ (669)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							5.41%	

¹The average balance is an average calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

²Net interest income is equal to net investment income less equity income from MCLP, other securitization income, fee income and provision for credit losses.

The income/expense associated with the securitized assets and liabilities in the tables above represents MCAN's 28% share of CMB program economics.

Although net interest income from securitized assets and liabilities shown above is presented as a negative amount, net interest income from securitization before negative fair market value adjustments remains positive due to the impact of the CMB interest rate swaps, which are "pay-floating, receive-fixed" swaps. Since interest rates have generally decreased since the original securitization dates, the positive interest rate swap income has offset lower than expected principal reinvestment income (since the majority of reinvested assets have a floating interest rate). Interest rate swap receipts were \$2.1 million in the current year compared to \$1.9 million in the prior year.

Interest Income and Average Rate by Mortgage Portfolio (Corporate)

(in thousands except %)	For the Quarter Ended March 31, 2011		
	Average Assets ¹	Interest Income	Average Rate
Single family uninsured	\$ 190,002	\$ 3,363	7.06%
Single family insured	10,150	117	4.69%
Construction	228,357	3,838	7.06%
Commercial	13,673	242	7.17%
Average mortgages - corporate portfolio	\$ 442,182	\$ 7,560	7.01%

(in thousands except %)	For the Quarter Ended March 31, 2010		
	Average Assets ¹	Interest Income	Average Rate
Single family uninsured	\$ 116,165	\$ 2,556	8.56%
Single family insured	16,859	185	4.45%
Construction	160,677	2,974	7.22%
Commercial	4,357	104	9.69%
Average mortgages - corporate portfolio	\$ 298,058	\$ 5,819	7.62%

¹The average is an average calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

Credit Quality

(in thousands except basis points)	March 31 2011	March 31 2010
Individual provision (recovery)		
Single family uninsured	\$ (25)	\$ 24
Residential construction	-	(67)
	<u>\$ (25)</u>	<u>\$ (43)</u>
Collective provision (recovery)		
Single family uninsured	\$ 360	\$ (18)
Residential construction	(18)	202
Commercial	18	6
Financial investments and other loans	(2)	(12)
	<u>\$ 358</u>	<u>\$ 178</u>
Total provision for credit losses	<u>\$ 333</u>	<u>\$ 135</u>
Total provision for credit losses - corporate mortgages	\$ 335	\$ 147
Net write offs - corporate mortgage portfolio	\$ 75	\$ 32
Annualized net write offs - corporate mortgage portfolio (basis points)	6.5	4.3

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. Individual allowances include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The

collective 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. 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.

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

Corporate mortgage arrears of \$27 million as at March 31, 2011 decreased from \$31 million at December 31, 2010 and \$31 million at January 1, 2010. Securitized mortgage arrears of \$65 million increased from \$61 million from December 31, 2010, but decreased from \$69 million at January 1, 2010. There were no other assets in arrears at quarter end. We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts.

Net Impaired Mortgages & Allowances

(in thousands except %)	March 31 2011	December 31 2010	January 1 2010
Residential construction	\$ 11,833	\$ 9,892	\$ 15,815
Uninsured single family	1,708	2,939	1,356
Securitized single family	1,114	1,742	706
Net impaired mortgages	\$ 14,655	\$ 14,573	\$ 17,877
Total mortgages	\$ 2,316,564	\$ 2,331,317	\$ 2,636,933
Net impaired as % of total mortgages (net of individual allowances)	0.63%	0.63%	0.68%
Net impaired as % of corporate mortgages (net of individual allowances)	2.76%	3.06%	5.81%
Collective allowance	\$ 2,332	\$ 2,047	\$ 1,361
Individual allowance	1,221	1,246	2,782
Total allowance	\$ 3,553	\$ 3,293	\$ 4,143

Operating Expenses

(in thousands)

For the Quarters Ended March 31	2011	2010
Salaries and benefits	\$ 772	\$ 599
General and administrative	900	709
	\$ 1,672	\$ 1,308

Income Taxes

(in thousands)

For the Quarters Ended March 31	2011	2010
Current tax provision (recovery)	\$ (4,095)	\$ (739)
Deferred tax provision (recovery)	(1,127)	83
	\$ (5,222)	\$ (656)

There was a significant recovery of current taxes in the first quarter of 2011, primarily due to the payment of the substantially higher than usual March 31, 2011 dividend of \$14.5 million. This dividend was deductible from 2010 taxable income due to MCAN's MIC tax status, which allows us to deduct dividends paid within 90 days of year end from taxable income. However, this dividend was not deductible in the calculation of December 31, 2010 current taxes payable for accounting purposes since it had not yet been paid as of that date, which created a substantial current tax liability due to its significant excess over our regular quarterly dividend. By paying this dividend during the first quarter, current taxes payable decreased significantly as at March 31, 2011, leading to the \$4.1 million recovery of current taxes.

The recovery of deferred taxes in the first quarter of 2011 was primarily due to the significant negative fair market value changes in the CMB interest rate swaps during the quarter.

Cash Flows

Operating activities provided cash flows of \$9 million in the quarter and provided \$1 million in the prior year. The change is due to increased cash flows from other liabilities and other assets.

Investing activities used cash flows of \$96 million in the quarter and used \$14 million in the prior year. In the current year, there was an increase in net outflows related to marketable securities and short-term investments as well as a reduction in mortgage inflows. This was partially offset by a reduction in net outflows related to financial investments.

Financing activities provided cash flows of \$57 million in the quarter and used \$59 million in the prior year. There was a net term deposit inflow in the current year compared to an outflow in the prior year.

SELECTED QUARTERLY FINANCIAL DATA

Selected 2011 and 2010 quarterly financial data has been presented using IFRS. Selected 2009 quarterly financial data has been presented using CGAAP.

(in thousands except per share amounts)	2011 (IFRS)		2010 (IFRS)		
	Q1	Q1	Q2	Q3	Q4
Net investment income - corporate assets	\$ 5,308	\$ 5,037	\$ 6,174	\$ 8,229	\$ 7,940
Net investment income - securitized assets before fair market value adjustment	1,469	1,203	3,685	1,846	2,321
Fair market value adjustment	(3,238)	(1,462)	4,702	4,297	(5,908)
Net investment income - securitized assets	(1,769)	(259)	8,387	6,143	(3,587)
Net investment income	3,539	4,778	14,561	14,372	4,353
Operating expenses	1,672	1,308	1,407	1,459	1,926
Income before income taxes	1,867	3,470	13,154	12,913	2,427
Provision for (recovery of) income taxes	(5,222)	(656)	3,294	2,199	469
Net income	\$ 7,089	\$ 4,126	\$ 9,860	\$ 10,714	\$ 1,958
Basic and diluted earnings per share	\$ 0.49	\$ 0.29	\$ 0.69	\$ 0.75	\$ 0.14
Dividends per share ¹					
Regular	\$ 0.27	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26
Extra	0.73	0.15	-	-	-
Total	\$ 1.00	\$ 0.41	\$ 0.26	\$ 0.26	\$ 0.26

(in thousands except per share amounts)	2009 (CGAAP)		
	Q2	Q3	Q4
Net investment income	\$ 6,875	\$ 8,007	\$ 8,056
Operating expenses	1,268	1,410	1,952
Income before income taxes	5,607	6,597	6,104
Provision for income taxes	-	-	-
Net income	\$ 5,607	\$ 6,597	\$ 6,104
Basic and diluted earnings per share	\$ 0.39	\$ 0.46	\$ 0.43
Dividends per share ¹			
Regular	\$ 0.25	\$ 0.25	\$ 0.26
Extra	-	-	-
Total	\$ 0.25	\$ 0.25	\$ 0.26

¹No dividends paid during the past eight quarters have included a capital gains component.

The Company's financial performance for the last eight quarters is summarized in the tables above. Figures prior to Q1 2010 are presented on a CGAAP basis. Differences between IFRS and CGAAP should be considered when making comparisons of the Company's financial performance.

Quarterly income has fluctuated significantly over the past five quarters, as follows:

- Q1 2011 - stable corporate net investment income, significant negative fair market value adjustment to derivative financial instruments, significant recovery of income taxes

- Q4 2010 - high corporate net investment income due to strong equity income from MCLP, significant negative fair market value adjustment to derivative financial instruments
- Q3 2010 - high corporate net investment income due to reversal of specific corporate mortgage provision upon payout, significant positive fair market value adjustment to derivative financial instruments, significant provision for income taxes
- Q2 2010 - stable corporate net investment income, significant positive fair market value adjustment to derivative financial instruments, significant provision for income taxes
- Q1 2010 - stable corporate net investment income, minimal net investment income from securitized assets

FINANCIAL POSITION

As at March 31, 2011, total consolidated assets were \$3.7 billion, an increase of \$63 million from December 31, 2010.

(in thousands except %)	March 31, 2011		December 31, 2010		January 1, 2010	
Cash and cash equivalents	\$ 56,376	1.5%	\$ 85,309	2.3%	\$ 88,201	2.5%
Short-term investments	254,461	6.8	220,949	6.0	290,228	8.1
Marketable securities	18,385	0.5	6,608	0.2	-	-
Mortgages						
Corporate	495,662	13.2	420,322	11.4	294,769	8.3
Securitized	1,820,902	48.6	1,910,995	51.8	2,342,164	65.7
Financial investments	1,072,670	28.6	1,007,216	27.3	469,630	13.2
Other loans	3,114	0.1	3,332	0.1	11,844	0.3
Equity investment in MCAP Commercial LP	11,280	0.3	11,530	0.3	9,562	0.3
Derivative financial instruments	9,882	0.3	13,120	0.4	11,490	0.3
Other assets	6,165	0.1	6,644	0.2	44,816	1.3
	\$ 3,748,897	100.0%	\$ 3,686,025	100.0%	\$ 3,562,704	100.0%

The breakdown of assets at March 31, 2011 and December 31, 2010 between corporate and securitized is as follows:

(in thousands)	March 31, 2011			December 31, 2010		
	Corporate	Securitized	Total	Corporate	Securitized	Total
Cash and cash equivalents	\$ 56,376	\$ -	\$ 56,376	\$ 85,309	\$ -	\$ 85,309
Short-term investments	-	254,461	254,461	-	220,949	220,949
Marketable securities	18,385	-	18,385	6,608	-	6,608
Mortgages						
Corporate	495,662	-	495,662	420,322	-	420,322
Securitized	-	1,820,902	1,820,902	-	1,910,995	1,910,995
Financial investments	9,986	1,062,684	1,072,670	10,248	996,968	1,007,216
Other loans	3,114	-	3,114	3,332	-	3,332
Equity investment in MCAP Commercial LP	11,280	-	11,280	11,530	-	11,530
Derivative financial instruments	-	9,882	9,882	-	13,120	13,120
Other assets	970	5,195	6,165	683	5,961	6,644
	\$ 595,773	\$ 3,153,124	\$ 3,748,897	\$ 538,032	\$ 3,147,993	\$3,686,025

Corporate assets increased by \$58 million from \$538 million at December to \$596 million at March 31, 2011. Securitized assets increased by \$5 million during the same period.

Cash decreased by \$29 million during the quarter. Our year-end cash balances were higher than usual in anticipation of the significant corporate mortgage portfolio fundings that occurred during the first quarter.

Short-term investments increased by \$34 million during the quarter. CMB reinvestment assets increased by \$24 million, while CMB funds held in trust increased by \$10 million.

The breakdown of mortgages by property type is as follows:

(in thousands except %)	March 31, 2011		December 31, 2010		January 1, 2010	
Corporate portfolio:						
Single family uninsured	\$ 246,324	10.6%	\$ 178,396	7.6%	\$ 127,080	4.8%
Single family insured	51,409	2.2	44,307	1.9	38,557	1.5
Construction	182,193	7.9	184,367	7.9	121,982	4.6
Commercial	15,736	0.7	13,252	0.6	7,150	0.3
	495,662	21.4	420,322	18.0	294,769	11.2
Securitized portfolio	1,820,902	78.6	1,910,995	82.0	2,342,164	88.8
	\$ 2,316,564	100.0%	\$ 2,331,317	100.0%	\$ 2,636,933	100.0%

The geographical breakdown of mortgages by province is as follows:

(in thousands except %)	March 31, 2011		December 31, 2010		January 1, 2010	
Ontario	\$ 1,118,223	48.3%	\$ 1,144,373	49.1%	\$ 1,359,628	51.6%
Alberta	573,305	24.7	578,201	24.8	593,277	22.5
British Columbia	349,473	15.1	349,498	15.0	399,852	15.2
Other	275,563	11.9	259,245	11.1	284,176	10.7
	\$ 2,316,564	100.0%	\$ 2,331,317	100.0%	\$ 2,636,933	100.0%

The corporate mortgage portfolio increased by \$75 million during the quarter, which included increases of \$68 million in uninsured single family mortgages and \$7 million in insured single family mortgages. Although market conditions are stable, we continue to focus new mortgage approvals in markets with strong real estate fundamentals.

As at March 31, 2011, we held discounted mortgages with a net discount of \$14 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 2011 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). The realization of the discount is dependent on if and when cash is received.

We invest in insured and uninsured single family mortgages in Canada. We do not invest in the United States mortgage market. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding.

The securitized mortgage portfolio decreased by \$90 million during the quarter, representing principal repayments from borrowers. These funds were invested into reinvestment assets as part of the CMB program.

Financial investments increased by \$65 million during the quarter, consisting almost entirely of new CMB reinvestment assets purchased with mortgage principal collections.

Derivative financial instruments consist of interest rate swaps relating to the CMB program. We have entered into "pay-floating, receive-fixed" swaps to hedge against interest rate risk on both securitized mortgages and principal reinvestment assets that have a floating interest rate. The fair market value of the swaps decreased by \$3 million during the quarter as a result of an increase in forward interest rates.

Liabilities and shareholders' equity

(in thousands)

	March 31 2011	December 31 2010	January 1 2010
Liabilities			
Term deposits	\$ 497,331	\$ 421,061	\$ 360,744
Financial liabilities from securitization	3,118,266	3,119,601	3,074,793
Deferred tax liabilities	4,218	5,311	3,455
Other liabilities	10,303	14,973	9,758
	3,630,118	3,560,946	3,448,750
Shareholders' equity			
Share capital	101,055	100,112	98,490
Contributed surplus	510	510	510
Retained earnings	17,117	24,489	14,954
Available for sale reserve	97	(32)	-
	118,779	125,079	113,954
	\$ 3,748,897	\$ 3,686,025	\$ 3,562,704

Term deposit liabilities increased by \$76 million during the quarter, comparable to the change in assets. To fund our corporate operations, we issue term deposits that are eligible for CDIC deposit insurance. We do not use capital markets (including asset-backed commercial paper) for liquidity.

The minimal change in financial liabilities from securitization relates to the paydown of the liability associated with MCAN's participation in the Insured Mortgage Purchase Program. The liabilities associated with the CMB program pay out in full at the time that a specific issuance matures.

Share capital increased by \$943,000, which was raised through the dividend reinvestment plan for the January 4, 2011 and March 31, 2011 dividends.

Retained earnings decreased by \$7.4 million during the quarter. The decrease consisted of quarterly income of \$7.1 million less the first quarter dividend of \$14.5 million.

The available for sale reserve represents unrealized gains or losses (net of deferred taxes) on available for sale marketable securities.

CMB PROGRAM

We participate in the CMB program, which involves the securitization of single family and multi family mortgages that are insured by CMHC or Genworth Financial Mortgage Insurance Company Canada Inc. Over the term of a CMB issuance, we are entitled to interest income received from the securitized mortgages. As the securitized mortgages repay, we reinvest the collected principal in certain permitted investments and we are also entitled to interest income from the reinvested assets. As part of the securitization, we also incur a liability in the amount of the securitized mortgages and are obligated to pay interest on this liability. This liability does not amortize over the term of the issuance and is payable in full at maturity. We also recognize servicing expenses on the mortgages and pay certain upfront costs. The securitized mortgages and reinvestment assets are held as collateral against the CMB liability.

We participate in the CMB program with MCLP and a private company. We participate in the economics of each CMB issuance in accordance with a pre-determined economic sharing percentage, which dictates the upfront and ongoing cash flow rights and obligations of the participants. MCAN's weighted average economic participation for outstanding CMB issuances as at March 31, 2011 was 28% (December 31, 2010 - 28%, January 1, 2010 - 28%). MCLP and the private company have indemnified MCAN for the remaining 72% of CMB program obligations.

The CMB securitization process includes the sale of the securitized mortgages to the Canada Housing Trust ("CHT"). Just prior to the sale to CHT, we purchase the securitized mortgages from a third party at fair value, including transaction costs. The sale to CHT fails to meet derecognition criteria since we do not transfer substantially all risks and rewards on sale. We account for these transactions as collateralized borrowings and record cash received as a financial liability from securitization.

As a result of the failure to meet derecognition criteria on the sale of the securitized mortgages to CHT, we recognize 100% of the mortgages, reinvestment assets and securitization liability on our balance sheet until the maturity of the CMB issuance. We

recognize our share of mortgage interest income, principal reinvestment income, interest expense on the securitization liability and certain other program expenses on the accrual basis. We have also capitalized certain costs associated with the securitized mortgages and CHT liability, both of which are amortized using the effective interest rate method.

We enter into "pay floating, receive fixed" interest rate swaps as part of the CMB program. The purpose of the interest rate swaps is to hedge interest rate risk on both securitized mortgages and principal reinvestment assets that have a floating interest rate, as substantially all interest payments on the securitization liabilities are fixed rate.

From an economic perspective, fair value changes in the interest rate swaps are generally offset by changes in future expected income from securitized mortgages and principal reinvestment assets that have a floating interest rate. From an accounting perspective, changes in future expected income from these floating rate assets are not reflected in the consolidated statement of income, which can cause significant volatility to the consolidated statement of income since there is no offset to fair value changes in the interest rate swaps.

In March 2010, the Office of the Superintendent of Financial Institutions ("OSFI") released a final advisory with respect to the impact of IFRS rules regarding securitization on regulatory capital ratios, since IFRS rules regarding securitization require assets and liabilities that are subject to securitization to be reflected as on-balance sheet items. The advisory indicated that any on-balance sheet assets and liabilities recognized from securitization transactions (including insured mortgages that are securitized through the CMB program) were required to be included in the calculation of a regulated financial institution's regulatory capital ratios. Pursuant to these guidelines, we are required to include any assets and liabilities recognized from securitization transactions undertaken after June 30, 2010 in the calculation of our regulatory capital ratios under IFRS. Consequently, our future participation in securitization transactions, namely through our participation in the CMB program, was significantly reduced at this time from historical participation levels 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.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of common shares with no par value. At March 31, 2011, there were 14,510,776 common shares outstanding. On April 18, 2011, we issued 2,300,000 common shares under a public share offering, pursuant to a short form prospectus dated April 8, 2011. At May 10, 2011, there were 16,810,776 common shares outstanding. Additional information related to share capital is included in Note 26 to the consolidated financial statements.

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. To December 31, 2010, our internal target minimum Tier 1 and Total capital ratios were both 15%. As at February 17, 2011, the Board of Directors increased both internal target minimums to 20%.

Our income tax assets and capital, regulatory assets and capital, and maximum assets and ratios are as follows:

(dollar amounts in thousands)	March 31 2011 (IFRS)	December 31 2010 (CGAAP)	January 1 2010 (CGAAP)
Tax Act Ratio			
Income Tax Assets	\$ 619,895	\$ 555,360	\$ 488,024
Income Tax Capital	\$ 118,192	\$ 126,374	\$ 120,732
Income Tax Assets to Capital ratio	5.24	4.39	4.04
Maximum Assets (non-consolidated)	\$ 709,152	\$ 758,244	\$ 724,392
Maximum Assets to Capital ratio	6.00	6.00	6.00
Regulatory Ratios (OSFI)			
Regulatory Assets	\$ 655,452	\$ 595,473	\$ 508,351
Regulatory Capital	\$ 118,321	\$ 120,534	\$ 110,231
Regulatory Assets to Capital ratio	5.54	4.94	4.61
Total Regulatory Capital to Risk-Weighted Assets ratio	21.77%	22.06%	27.47%
Minimum Total Regulatory Capital to Risk-Weighted Assets ratio	10.00%	10.00%	10.00%
Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	21.80%	22.10%	27.75%
Minimum Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	7.00%	7.00%	7.00%

Securitized assets and liabilities are both excluded from the calculation of the Tax Act ratio. Assets securitized through the CMB program prior to June 30, 2010 are excluded from the calculation of regulatory ratios.

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.

The Tax Act and regulatory ratios as at January 1, 2010 and December 31, 2010 are presented on a CGAAP basis as it was the accounting framework in place at both dates. Neither regulatory body requires restatements of their respective ratios on an IFRS basis.

In order to promote a more resilient banking sector and strengthen global capital standards, the Basel Committee on Banking Supervision ("BCBS") proposed significant enhancements and capital reforms to the current framework. The revised framework, referred to as Basel III, will be effective January 1, 2013 and provides lengthy periods for transitioning numerous new requirements.

Significant Basel III reforms include the following:

- Introducing a new minimum common equity ratio (the "Common Equity Tier 1 ratio"). Financial institutions will be required to meet the new Common Equity Tier 1 ratio standard during a transition period beginning January 1, 2013 and ending on January 1, 2019. The minimum requirement, which includes a conservation buffer, increases during the transition period.
- Increasing the minimum Tier 1 capital and Total capital ratios. These increases will also be phased in commencing January 1, 2013 with financial institutions expected to meet the new standards through a transition period ending on January 1, 2019.
- Introducing a new global leverage ratio to address balance sheet leverage. The BCBS will be monitoring and refining this new ratio between 2011 and 2017 before its final implementation in 2018.

We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets. Based on our current understanding of the revised capital requirements proposed by BCBS, we expect to satisfy the new requirements ahead of the implementation timelines that have been proposed by BCBS and confirmed by OSFI.

RISK FACTORS

The shaded areas of this MD&A represent a discussion of risk factors and risk management policies and procedures relating to credit, liquidity, interest rate and market risks as required under IFRS 7, *Financial Instruments: Disclosures*. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of the consolidated financial statements.

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 or 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.

Our exposure to interest rate risk is discussed further in Note 32 to the consolidated financial statements.

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. For the Company, market risk factors include price risk on marketable securities, 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.

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 Risk

Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving the Asset and Liability Committee ("ALCO") and a formal quarterly review involving the Investment Committee of the Board ("ICB"). Weekly monitoring also takes place through our Operating Committee and Capital Commitments Committee, both of which are comprised of Management.

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

We record an individual allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Individual allowances include all of the accumulated provisions for credit losses on a particular mortgage. At March 31, 2011, we had recorded \$1.2 million (December 31, 2010 - \$1.2 million, January 1, 2010 - \$2.8 million) of individual allowances on our mortgage portfolio (refer to Note 16 to the consolidated financial statements).

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

Liquidity Risk

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. We target a standard level of liquid investments and credit facilities of at least 125% 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 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 maintain an overdraft facility to fund asset growth or meet our short-term obligations as required. The overdraft facility is a component of a larger credit facility that also has a portion which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. The total facility is \$50 million, with sub-limits of \$30 million for overdrafts and \$30 million for letters of credit. Since our issued letters of credit at March 31, 2011 were \$21 million, the available portion of the credit facility at this date dedicated to overdrafts was \$29 million.

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.

Our liquidity position and access to funding support our ability to meet current and future commitments. Our liquid investments and credit facilities were 85% (December 31, 2010 - 171%, January 1, 2010 - 106%) of term deposits maturing within 100 days

at March 31, 2011. For further details on our liquid assets and our ability to meet liability obligations, refer to Note 32 to the consolidated financial statements.

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

Our sources and uses of liquidity are outlined in the table below. We manage our net liquidity surplus/deficit by raising term deposits as mentioned above.

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 5 Years	Over 5 Years	March 31 2011	December 31 2010	January 1 2010
Sources of liquidity							
Cash and cash equivalents	\$ 56,376	\$ -	\$ -	\$ -	\$ 56,376	\$ 85,309	\$ 88,201
Marketable securities	-	-	-	18,385	18,385	6,608	-
Mortgages - corporate	103,266	189,108	183,543	18,526	494,443	419,894	290,554
Financial investments	89	-	1,154	8,665	9,908	10,248	60,327
Other loans	16	1,350	90	1,658	3,114	3,332	11,844
	159,747	190,458	184,787	47,234	582,226	525,391	450,926
Uses of liquidity							
Term deposits	114,106	230,522	152,703	-	497,331	421,061	360,744
Other liabilities	10,303	-	-	-	10,303	14,973	9,758
	124,409	230,522	152,703	-	507,634	436,034	370,502
Net liquidity surplus (deficit)	\$ 35,338	\$ (40,064)	\$ 32,084	\$ 47,234	\$ 74,592	\$ 89,357	\$ 80,424
Off-Balance Sheet							
Unfunded mortgage commitments	\$ 15,913	\$ 127,300	\$ 15,913	\$ -	\$ 159,126	\$ 199,678	\$ 96,173

The above table excludes securitized assets and liabilities and pledged assets as they are restricted.

Interest Rate Risk

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 corporate 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 our interest rate exposure on a monthly basis using interest rate spread and gap analysis as well as interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the ICB each quarter. We do not currently use derivative financial instruments outside of the CMB program, however the potential use of such instruments for our on-balance sheet assets is analyzed and reported to ALCO on a monthly basis.

We manage interest rate risk associated with securitized assets and liabilities through the use of "pay-floating, receive-fixed" interest rate swaps. For further details, refer to the "CMB Program" section of this MD&A.

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.

Market Risk

Our exchange-traded fund and real estate investment trust portfolios (included in marketable securities) are susceptible to market price risk arising from uncertainties about future values of the securities. We manage the equity price risk through diversification and limits on individual and total securities. Reports on the portfolio are submitted to the Company's senior management on a regular basis.

Changes in Laws and Regulations

Changes to current laws, regulations, regulatory policies or guidelines (including changes in their interpretation, implementation or enforcement), the introduction of new laws, regulations, regulatory policies or guidelines or the exercise of discretionary oversight by regulatory or other competent authorities including OSFI, could adversely affect us, including by limiting the products or services that we provide, restricting the scope of our operations or business lines, increasing the ability of competitors to compete with our products and services or requiring us to cease carrying on business. Our failure to comply with applicable

laws and regulations could result in sanctions and financial penalties that could adversely impact our earnings and damage our reputation.

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

Changes in Accounting Standards and Accounting Policies

We may be subject to changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes may materially impact how we record and report our financial condition and results of operations and, in certain circumstances, we may be required to retroactively apply a new or revised standard that results in our restating prior period consolidated financial statements.

CONTRACTUAL OBLIGATIONS

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

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

(in thousands)	Less than one year	One to five years	Over five years	Total
Term deposits	\$ 344,628	\$ 152,703	\$ -	\$ 497,331
Operating lease	263	659	-	922
Mortgage fundings	143,213	15,913	-	159,126
CMB obligations	883	1,231	-	2,114
	\$ 488,987	\$ 170,506	\$ -	\$ 659,493

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements for the quarter ended March 31, 2011 are the first that we have prepared in accordance with IFRS. For periods up to and including the year ended December 31, 2010, we prepared our consolidated financial statements in accordance with CGAAP.

Accordingly, we prepared consolidated financial statements which comply with IFRS, as described in the accounting policies in Note 4 to the consolidated financial statements. In preparing these consolidated financial statements, we prepared an opening consolidated balance sheet as at January 1, 2010, which was our date of transition to IFRS. In addition, we restated our CGAAP consolidated balance sheets as at March 31, 2010 and December 31, 2010 and our previously published CGAAP statements of income and comprehensive income for the quarter ended March 31, 2010 and the year ended December 31, 2010.

Since IFRS is a new accounting framework for MCAN, it is not appropriate to compare our financial results under IFRS to those reported under CGAAP.

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. Under IFRS, we no longer account for these transactions as sales of mortgages and accordingly we have reversed all previously recognized up-front gains from securitization through opening retained earnings. This reversal was partially offset by mortgage interest income, principal reinvestment income and penalty income less liability interest expense that was recognized from the dates of the respective CMB issuances to the date of transition. Our IFRS balance sheet also includes mortgages securitized through the CMB program, assets in which principal repayments have been re-invested and a liability to the Canada Housing Trust ("CHT"). Under IFRS, we now recognize ongoing mortgage interest income, principal reinvestment income and liability interest expense on the accrual basis, and we will include any future mortgages securitized through the CMB program on our balance sheet.

Under CGAAP, and from a general economic perspective, changes in the fair value of the interest rate swaps (which are used to hedge interest rate risk on securitized mortgages and reinvestment assets that have a floating interest rate) were generally offset by changes in the fair value of the interest-only strips (which consisted of the discounted value of future mortgage interest,

principal reinvestment interest receipts and penalty income less liability interest payments). Since the interest-only strips were eliminated on the transition to IFRS, changes in the fair value of the interest rate swaps no longer have a natural offset, which has led to increased volatility to net income under IFRS.

For regulatory purposes, we exclude mortgages securitized prior to June 30, 2010 from our regulatory assets to capital ratio.

As at January 1, 2010, retained earnings decreased by \$433,000 (including a deferred tax charge of \$270,000) relating to the CMB program. In addition, we recognized \$3.1 billion of new assets and \$3.1 billion of new liabilities.

Other Adjustments

While IFRS follows similar principles to CGAAP in the calculation of the collective/general allowance for credit losses, IFRS also provides additional guidance on how the credit loss assessment model should be designed and documented, based on historical loss experience that is adjusted for observable market conditions. As at January 1, 2010, our mortgage, loan and investment collective allowance decreased by \$641,000, which increased opening retained earnings by \$387,000, net of taxes.

To the extent that MCLP's opening retained earnings were impacted as at MCAN's transition date, we adjusted the value of our equity investment in MCLP based on our pro-rata share of the total opening retained earnings impact based on information provided by MCLP. As at January 1, 2010, our equity investment in MCLP decreased by \$8.3 million, which decreased opening retained earnings by \$7.1 million, net of taxes.

Under CGAAP, we were able to charge our current and future tax liabilities directly to retained earnings instead of recognizing the changes through net income. Under IFRS, we are no longer able to charge current and deferred taxes directly to retained earnings, which has led to increased volatility to net income. In addition, MCAN's future tax position has changed to the extent that the accounting values of balance sheet items that have differing values for accounting and tax purposes were impacted by the transition to IFRS.

The overall impact of the transition to IFRS as at January 1, 2010 was a decrease to retained earnings of \$7.2 million and a decrease to accumulated other comprehensive income of \$1.7 million. In addition, total assets increased by \$3.1 billion, while total liabilities increased by \$3.1 billion.

Impact to Net Income and Earnings per Share

Net income for the quarter ended March 31, 2010 decreased from \$4.8 million under CGAAP to \$4.1 million under IFRS as a result of the conversion. The decrease was primarily due to a \$1.5 million negative fair market value adjustment to the CMB interest rate swaps, partially offset by a \$656,000 recovery of current and deferred income taxes.

Net income for the year ended December 31, 2010 increased from \$25.4 million under CGAAP to \$26.7 million under IFRS as a result of the conversion. The increase was primarily due to a significant increase in other securitization income (as a result of the absence of a negative CMB interest-only strip fair market value adjustment under IFRS), partially offset by a \$5.3 million provision for current and deferred income taxes.

For further information on our conversion to IFRS, including financial statement reconciliations throughout 2010, refer to Note 5 to the consolidated financial statements.

STANDARDS ISSUED BUT NOT EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's interim consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 7, Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

IFRS 9, Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

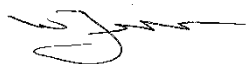
DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at March 31, 2011, 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 IFRS.

There were no changes in our internal controls over financial reporting that occurred during the interim period ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

DIVIDENDS

The Board of Directors declared a second quarter dividend of \$0.27 per share to be paid June 30, 2011 to shareholders of record as of June 2, 2011.



William Jandrisits
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

This report may contain forward-looking information or 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 forward-looking 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 2011 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 or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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