



**FIRST QUARTER REPORT 2011
MCAN MORTGAGE CORPORATION**

MCAN MORTGAGE CORPORATION

REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2011

MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation (“MCAN”, the “Company” or “we”) reported net income of \$7.1 million in the first quarter of 2011 compared to \$4.1 million in the prior year. Earnings per share were \$0.49 compared to \$0.29 in the prior year. The current quarter’s results include a significant income tax recovery and a non-cash negative fair market value adjustment.

Estimated taxable income increased to \$4.3 million from \$4.1 million in the prior year. On a per share basis, estimated taxable income increased to \$0.30 from \$0.29 in the prior year. We have declared a regular second quarter dividend of \$0.27, consistent with our regular quarterly dividend.

The financial results for the quarter ended March 31, 2011 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Prior periods have also been restated to reflect the adoption of IFRS with effect from January 1, 2010. The conversion to IFRS has caused a significant increase to the size of our balance sheet, as our total assets were \$3.7 billion as at March 31, 2011. The increase is almost entirely due to our participation in the Canada Mortgage Bonds (“CMB”) program, which involves the securitization of insured mortgages. Under IFRS, we account for these securitized mortgages on our balance sheet, in addition to reinvestment assets which we purchase with CMB mortgage principal payments and a corresponding financial liability from securitization.

Total consolidated assets increased by \$63 million from December 31, 2010, consisting of increases of \$58 million to our corporate assets and \$5 million to our securitized assets. The most significant change was an increase of \$75 million in our corporate mortgage portfolio, consisting of increases of \$68 million in uninsured single family mortgages and \$7 million in insured single family mortgages.

During the quarter, we were able to utilize the majority of our unused lending capacity consistent with our strategic plan. As a result, a public offering was initiated to raise additional capital to facilitate future growth. Subsequent to the end of the quarter we completed a public share offering of 2,300,000 common shares, receiving net proceeds of approximately \$31 million.

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 to its mortgage programs reducing maximum amortization terms and permitted loan to value ratios on 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 against historical averages and existing home sales finding a more stable level, slowing the price increases seen over previous years.

In 2011, we plan to increase our corporate mortgage portfolio 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.



William Jandrisits
President and Chief Executive Officer
May 10, 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 arrearages	\$ 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 \$262,000 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.

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	December 31	January 1
	2011	2010	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.

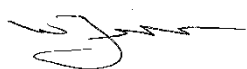
DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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.

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

For the Quarters Ended March 31	Note	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	19	807	259
Fees	8	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	9	850	530
Provision for credit losses	10	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	11	2,189	2,041
		9,124	8,713
Interest on financial liabilities from securitization		7,524	7,341
Mortgage expenses	9	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	20	(3,238)	(1,462)
		(1,769)	(259)
Net Investment Income		3,539	4,778
Operating Expenses			
Salaries and benefits		772	599
General and administrative		900	709
		1,672	1,308
Income Before Income Taxes		1,867	3,470
Provision for (recovery of) income taxes			
Current	24	(4,095)	(739)
Deferred	24	(1,127)	83
		(5,222)	(656)
Net Income		\$ 7,089	\$ 4,126
Basic and diluted earnings per share		\$ 0.49	\$ 0.29
Dividends per share	27	\$ 1.00	\$ 0.41
Weighted average number of basic and diluted shares (000's)		14,461	14,336

The accompanying notes and shaded areas of the "Risk Factors" and "Risk Management" sections of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (in thousands of Canadian dollars)

For the Quarters Ended March 31	2011	2010
Net income	\$ 7,089	\$ 4,126
Other comprehensive income		
Change in unrealized gain on available for sale marketable securities	160	-
Less: deferred taxes	(31)	-
	129	-
Comprehensive income	\$ 7,218	\$ 4,126

CONSOLIDATED BALANCE SHEETS
(Unaudited) (in thousands of Canadian dollars)

As at	Note	March 31 2011	December 31 2010	January 1 2010
Assets	12			
Cash and cash equivalents	13	\$ 56,376	\$ 85,309	\$ 88,201
Short-term investments	14	254,461	220,949	290,228
Marketable securities	15	18,385	6,608	-
Mortgages				
Corporate	16	495,662	420,322	294,769
Securitized	16	1,820,902	1,910,995	2,342,164
Financial investments	17	1,072,670	1,007,216	469,630
Other loans	18	3,114	3,332	11,844
Equity investment in MCAP Commercial LP	19	11,280	11,530	9,562
Derivative financial instruments	20	9,882	13,120	11,490
Other assets	21	6,165	6,644	44,816
		\$ 3,748,897	\$ 3,686,025	\$ 3,562,704
Liabilities and Shareholders' Equity				
Liabilities				
Term deposits	22	\$ 497,331	\$ 421,061	\$ 360,744
Financial liabilities from securitization	23	3,118,266	3,119,601	3,074,793
Deferred tax liabilities	24	4,218	5,311	3,455
Other liabilities	25	10,303	14,973	9,758
		3,630,118	3,560,946	3,448,750
Shareholders' Equity				
Share capital	26	101,055	100,112	98,490
Contributed surplus	26	510	510	510
Retained earnings		17,117	24,489	14,954
Available for sale reserve	28	97	(32)	-
		118,779	125,079	113,954
		\$ 3,748,897	\$ 3,686,025	\$ 3,562,704

The accompanying notes and shaded areas of the "Risk Factors" and "Risk Management" sections of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

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

For the Quarters Ended March 31	Note	2011	2010
Share capital			
Balance, beginning of period		\$ 100,112	\$ 98,490
Common shares issued	26	943	552
Balance, end of period		101,055	99,042
Contributed surplus			
Balance, beginning of period		510	510
Changes to contributed surplus		-	-
Balance, end of period		510	510
Retained earnings			
Balance, beginning of period		24,489	14,954
Net income		7,089	4,126
Dividends declared	27	(14,461)	(5,880)
Balance, end of period		17,117	13,200
Available for sale reserve			
Balance, beginning of period		(32)	-
Other comprehensive income		129	-
Balance, end of period		97	-
Total shareholders' equity		\$ 118,779	\$ 112,752

The accompanying notes and shaded areas of the "Risk Factors" and "Risk Management" sections of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (in thousands of Canadian dollars)

For the Quarters Ended March 31	2011	2010
Cash provided by (used for):		
Operating Activities		
Net income	\$ 7,089	\$ 4,126
Adjusted for non-cash items:		
Current taxes	(4,095)	(739)
Deferred taxes	(1,127)	83
Equity income	(807)	(259)
Provision for credit losses	333	135
Unrealized loss on derivative financial instruments	3,238	1,462
Amortization of securitized mortgage and liability transaction costs	942	1,046
Amortization of other assets	35	172
Amortization of mortgage discounts (premiums)	(38)	52
Decrease (increase) in other assets	437	(3,050)
Increase (decrease) in other liabilities	3,194	(2,365)
Cash flows from operating activities	9,201	663
Investing Activities		
Increase in marketable securities	(11,617)	-
Decrease (increase) in short-term investments	(33,512)	18,771
Mortgage advances	(250,397)	(165,698)
Mortgage reductions	166,243	163,214
Proceeds on sale of mortgages	97,829	71,403
Increase in financial investments	(65,454)	(102,681)
Decrease in other loans	218	882
Distributions from MCAP Commercial LP	1,057	-
Cash flows for investing activities	(95,633)	(14,109)
Financing Activities		
Issue of term deposits	163,033	57,012
Repayment of term deposits	(86,763)	(106,224)
Decrease in financial liabilities from securitization	(1,496)	(408)
Issue of common shares	943	552
Dividends paid	(18,218)	(9,603)
Cash flows from (for) financing activities	57,499	(58,671)
Decrease in cash and cash equivalents	(28,933)	(72,117)
Cash and cash equivalents, beginning of period	85,309	88,201
Cash and cash equivalents, end of period	\$ 56,376	\$ 16,084

Supplementary Information

	2011	2010
Interest received	\$ 13,892	\$ 13,058
Interest paid	7,862	8,947
Taxes paid	21	108

The accompanying notes and shaded areas of the "Risk Factors" and "Risk Management" sections of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

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1. Corporate Information

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

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 the 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, refer to Note 7.

MCAN is incorporated in Canada. Its head office is located at 200 King Street West, Suite 400, Toronto, Ontario, Canada. MCAN is listed on the Toronto Stock Exchange.

The consolidated financial statements were approved in accordance with a resolution of the Board of Directors on May 30, 2011.

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

For all periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (“CGAAP”). These consolidated financial statements, for the period ended March 31, 2011, are the first that the Company has prepared in accordance with IFRS. Refer to Note 5 for information on how the Company adopted IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except for marketable securities, certain financial investments and derivative financial instruments, which have been measured at fair value. The consolidated financial statements are presented in Canadian dollars.

The disclosures that accompany the consolidated financial statements include the significant accounting policies applied (Note 4) and the significant judgments and estimates applicable to the preparation of the consolidated financial statements (Note 6), and the other disclosure requirements of IFRS 1, *First-Time Adoption of International Financial Reporting Standards* relevant to the consolidated financial statements (Note 5).

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. For further details, refer to Note 12.

3. Basis of Consolidation

The consolidated financial statements include the accounts of MCAN and its subsidiaries as at March 31, 2011. Refer to Note 29 for a full analysis of the Company’s corporate structure.

All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

4. Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the Company in the preparation of its consolidated financial statements:

(1) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognized on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by market convention.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial instruments not subsequently recorded at fair value through income, directly attributable transaction costs.

(iii) Derivatives recorded at fair value through the consolidated statement of income

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in the consolidated statement of income.

The Company uses derivative financial instruments such as interest rate swaps to hedge its interest rate risk as part of its participation in the CMB program.

No derivative financial instruments have been designated for hedge accounting.

(iv) Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading are recorded at fair value. Changes in fair value are recognized in income. Interest income or expense is recorded in income on the accrual basis.

A financial asset or financial liability is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(v) Financial assets and financial liabilities designated at fair value through the consolidated statement of income

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through the consolidated statement of income upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that otherwise would be required by the contract.

4. Summary of Significant Accounting Policies (continued)

Financial assets and financial liabilities designated at fair value through the consolidated statement of income are recorded in the consolidated financial statements at fair value. Changes in fair value are recorded in the consolidated statement of income. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the effective interest rate method (“EIRM”), while dividend income is recorded in income when the right to the payment has been established.

(vi) *“Day 1” profit or loss*

When the transaction price is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognizes the difference between the transaction price and fair value (a “Day 1” profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the instrument is derecognized.

(vii) *Available for sale financial investments*

Available for sale investments include equity and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through the consolidated statement of income.

Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

(viii) *Held to maturity financial investments*

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company has the intention and ability to hold to maturity. After initial measurement at fair value, held to maturity financial investments are subsequently measured at amortized cost using the EIRM, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIRM. The amortization is included in interest on financial investments and other loans in the consolidated statement of income. The losses arising from impairment of such investments are recognized in the consolidated statement of income.

The Company has not designated any financial assets as held to maturity.

(ix) *Loans and receivables*

Loans and receivables include mortgages, other loans, non-derivative financial assets and certain financial investments with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company upon initial recognition designates at fair value;
- Those that the Company, upon initial recognition, designates as available for sale; or
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIRM, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIRM. The amortization is included in mortgage interest income or interest on financial investments and other loans in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income.

(x) *Financial liabilities*

After initial recognition, interest bearing financial liabilities are subsequently measured at amortized cost using the EIRM. Premiums and discounts on the liabilities are recognized in the consolidated statement of income when the liabilities are extinguished as well as through amortization using the EIRM.

4. Summary of Significant Accounting Policies (continued)

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate ("EIR"). The EIR amortization is included in the related line in the consolidated statement of income.

(xi) *Transaction costs*

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. These costs are defined as costs that would not have been incurred if the Company had not acquired, issued or disposed of the related financial instrument. Transaction costs are capitalized and amortized over the expected life of the instrument using the EIRM, except for transaction costs which are related to financial assets or financial liabilities classified as held for trading or designated at fair value, which are expensed.

(2) Derecognition of financial assets and financial liabilities

(i) *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
 - the Company has transferred substantially all the risks and rewards of the asset, or
 - the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

(ii) *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

(3) Determination of fair value

The fair value for financial instruments traded in active markets is based on their quoted market price or other trading data, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices may exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. Models are adjusted to reflect counterparty credit and liquidity spread and limitations in the models.

4. Summary of Significant Accounting Policies (continued)

(4) Impairment of financial assets

The Company assesses at each consolidated financial statement date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of the related interest income component. Mortgages, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to credit loss expense.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a mortgage has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of estimated future cash flows reflects the projected cash flows less costs to sell.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) *Available for sale financial investments*

For available for sale financial investments, the Company assesses at the consolidated financial statement date whether there is objective evidence that an investment or a group of investments is impaired.

4. Summary of Significant Accounting Policies (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income - is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded to the related interest income component. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

(iii) *Renegotiated mortgages*

Where possible, the Company seeks to restructure mortgages rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new mortgage conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the mortgage is no longer considered past due. Management continuously reviews renegotiated mortgages to ensure that all criteria are met and that future payments are likely to occur. The mortgages continue to be subject to an individual or collective impairment assessment, calculated using the mortgage's original EIR.

(5) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated financial statements if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(6) Taxes

(i) *Current tax*

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the consolidated financial statement date.

Current tax relating to items recognized directly to shareholders' equity is recognized in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the Company's tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

(ii) *Deferred tax*

Deferred tax is provided on temporary differences at the consolidated financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

4. Summary of Significant Accounting Policies (continued)

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be used, except in the following instances:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each consolidated financial statement date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated financial statement date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated financial statement date.

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(7) Dividends on common shares

Dividends on common shares are deducted from equity in the quarter that they are approved. Dividends that are approved after the consolidated financial statement date are disclosed as an event after the consolidated financial statement date.

(8) Investment in associates

The Company's investment in its associates are accounted for using the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in the associate is carried on the consolidated balance sheet at cost plus post acquisition changes in the Company's share of net assets of the associate.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in shareholders' equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

Where necessary, adjustments are made to harmonize the accounting policies of the associate with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associate. The Company determines at each consolidated financial statement date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company then calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of income.

4. Summary of Significant Accounting Policies (continued)

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

(9) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and that the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

Interest income or expense

For all financial investments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the EIRM, which reflects the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income or expense is included in the appropriate component of the consolidated statement of income.

(10) Cash and short-term investments

Cash and short-term investments on the consolidated balance sheet comprise cash held at banks and short-term deposits with original maturity dates of less than 90 days.

(11) Share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date, further details of which are discussed in Note 29. The obligations are adjusted for fluctuations in the market price of the Company's common shares. Changes in the obligations are recorded as salaries and benefits in the consolidated statement of income with a corresponding change to other liabilities. The liability is re-measured at fair value at each consolidated financial statement date up to and including the settlement date.

5. First-Time Adoption of IFRS

These consolidated financial statements, for the quarter ended March 31, 2011, are the first that the Company has prepared in accordance with IFRS. For periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with CGAAP.

Accordingly, the Company has prepared consolidated financial statements which comply with IFRS applicable for periods ending on or after December 31, 2011 as described in the accounting policies. In preparing these consolidated financial statements, the Company's opening consolidated balance sheet was prepared as at January 1, 2010, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its CGAAP consolidated balance sheets as at January 1, 2010, March 31, 2010 and December 31, 2010 and its previously published CGAAP statements of income and comprehensive income for the quarter ended March 31, 2010 and the year ended December 31, 2010.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRS.

The Company has applied the following exemptions:

- Derecognition of financial assets and financial liabilities - The Company is required to apply the derecognition requirements in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), prospectively for transactions occurring after January 1, 2004. Accordingly, the Company applied IAS 39 to all securitization transactions entered into by the Company on or after January 1, 2004.

5. First-Time Adoption of IFRS (continued)

- Designation of previously recognized financial instruments - A first time adopter of IFRS may designate financial assets and liabilities at the date of transition to IFRS. On transition, the Company designated its mortgages and certain financial investments as loans and receivables, its investment - commercial real estate (Note 17) as available for sale and its marketable securities as available for sale.
- Estimates - Hindsight cannot be used to create or revise estimates and accordingly, the estimates previously made by the Company under CGAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policies.
- Business combinations - The Company has elected not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations that took place before the date of transition.

**RECONCILIATION OF CONSOLIDATED BALANCE SHEET
AS AT JANUARY 1, 2010**

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
Assets					
Cash and cash equivalents	k	\$ 89,843	\$ (1,642)	\$ 88,201	Cash and cash equivalents
	b,k	-	290,228	290,228	Short-term investments
Mortgages	a,c,k	295,415	(646)	294,769	Mortgages
	b	-	2,342,164	2,342,164	Corporate
Securitization investments	b,d,k	73,590	396,040	469,630	Securitized
Loans receivable and other investments	a,b,d,k	16,885	(5,041)	11,844	Financial investments
Equity investment in MCAP	e	17,905	(8,343)	9,562	Other loans
Commercial LP	e	11,490	-	11,490	Equity investment in MCAP
Derivative financial instruments	b,k	1,555	43,261	44,816	Commercial LP
Other assets	b,k	-	-	-	Derivative financial instruments
		-	-	-	Other assets
		\$ 506,683	\$ 3,056,021	\$ 3,562,704	
Liabilities and Shareholders' Equity					
Liabilities					
Term deposits		\$ 360,744	\$ -	\$ 360,744	Term deposits
	b	-	3,074,793	3,074,793	Financial liabilities from securitization
Future taxes payable	g	7,011	(3,556)	3,455	Deferred tax liabilities
Securitization liabilities	b	5,048	(5,048)	-	
Accounts payable and accrued charges	b,h,k	11,001	(1,243)	9,758	Other liabilities
		383,804	3,064,946	3,448,750	
Shareholders' Equity					
Share capital	m	98,490	-	98,490	Share capital
Contributed surplus	m	510	-	510	Contributed surplus
Retained earnings	i,m	22,165	(7,211)	14,954	Retained earnings
Accumulated other comprehensive income	j,m	1,714	(1,714)	-	Available for sale reserve
		122,879	(8,925)	113,954	
		\$ 506,683	\$ 3,056,021	\$ 3,562,704	

5. First-Time Adoption of IFRS (continued)

RECONCILIATION OF CONSOLIDATED STATEMENT OF INCOME FOR THE QUARTER ENDED MARCH 31, 2010					
CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
Net Investment Income					
Net Investment Income					Corporate Assets
Mortgage interest	k	\$ 5,614	\$ 205	\$ 5,819	Mortgage interest
Interest on loans and investments		877	-	877	Interest on financial investments and other loans
Equity income from MCAP					Equity income from MCAP
Commercial LP	e	396	(137)	259	Commercial LP
Fees	k	890	(253)	637	Fees
Interest on cash and cash equivalents		43	-	43	Interest on cash and cash equivalents
Other securitization income	b	1,043	(1,043)	-	
		8,863	(1,228)	7,635	
Term deposit interest and expenses		1,933	-	1,933	Term deposit interest and expenses
Mortgage expenses	k	578	(48)	530	Mortgage expenses
Provision for credit losses	a	246	(111)	135	Provision for credit losses
		2,757	(159)	2,598	
		6,106	(1,069)	5,037	
					Securitized Assets
	b		6,253	6,253	Mortgage interest
	b		355	355	Interest on financial investments
	b		64	64	Interest on short-term investments
	b		2,041	2,041	Other securitization income
			8,713	8,713	
	b		7,341	7,341	Interest on financial liabilities from securitization
	b		169	169	Mortgage expenses
			7,510	7,510	
	b		1,203	1,203	Net investment income before fair market value adjustment
	b		(1,462)	(1,462)	Fair market value adjustment - derivative financial instruments
			(259)	(259)	
Net Investment Income		6,106	(1,328)	4,778	Net Investment Income
Operating Expenses					
Salaries and benefits		599	-	599	Salaries and benefits
General and administrative		709	-	709	General and administrative
		1,308	-	1,308	
Income Before Income Taxes		4,798	(1,328)	3,470	Income Before Income Taxes
	h	-	(739)	(739)	Provision for (recovery of) income taxes
	g	-	83	83	Current
		-	(656)	(656)	Deferred
Net Income		\$ 4,798	\$ (672)	\$ 4,126	Net Income
Basic and diluted earnings per share		\$ 0.33	\$ (0.04)	\$ 0.29	Basic and diluted earnings per share
Dividends per share		\$ 0.41	\$ -	\$ 0.41	Dividends per share
Weighted average number of basic and diluted shares (000's)		14,336	-	14,336	Weighted average number of basic and diluted shares (000's)

5. First-Time Adoption of IFRS (continued)

**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE QUARTER ENDED MARCH 31, 2010**

	Note	CGAAP	Adjustments	IFRS
Net income		\$ 4,798	\$ (672)	\$ 4,126
Other comprehensive income, net of deferred taxes				
Change in unrealized gain on available for sale mortgages	c	321	(321)	-
Change in unrealized gain on available for sale financial investments	d	(56)	56	-
Other changes		22	(22)	-
		287	(287)	-
Comprehensive income		\$ 5,085	\$ (959)	\$ 4,126

**RECONCILIATION OF CONSOLIDATED BALANCE SHEET
 AS AT MARCH 31, 2010**

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
Assets					
Cash and cash equivalents	k	\$ 17,620	\$ (1,536)	\$ 16,084	Cash and cash equivalents
	b,k	-	271,457	271,457	Short-term investments
Mortgages	a,c,k	327,536	(1,166)	326,370	Mortgages
	b	-	2,240,559	2,240,559	Corporate
Securitization investments	b,d,k	60,280	512,037	572,317	Securitized
Loans receivable and other investments	a,b,d,k	15,535	(4,569)	10,966	Financial investments
Equity investment in MCAP Commercial LP	e	18,301	(8,480)	9,821	Other loans
Derivative financial instruments		10,029	-	10,029	Equity investment in MCAP
Other assets	b,k	1,528	46,164	47,692	Commercial LP
		\$ 450,829	\$ 3,054,466	\$ 3,505,295	Derivative financial instruments
					Other assets
Liabilities and Shareholders' Equity					
Liabilities					
Term deposits	b	\$ 311,531	\$ -	\$ 311,531	Term deposits
Future taxes payable	g	6,662	(3,146)	3,516	Financial liabilities from securitization
Securitization liabilities	b	4,562	(4,562)	-	Deferred tax liabilities
Accounts payable and accrued charges	b,h,k	5,229	(2,275)	2,954	Other liabilities
		327,984	3,064,559	3,392,543	
Shareholders' Equity					
Share capital	m	99,042	-	99,042	Share capital
Contributed surplus	m	510	-	510	Contributed surplus
Retained earnings	i,m	21,292	(8,092)	13,200	Retained earnings
Accumulated other comprehensive income	j,m	2,001	(2,001)	-	Available for sale reserve
		122,845	(10,093)	112,752	
		\$ 450,829	\$ 3,054,466	\$ 3,505,295	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / FIRST QUARTER REPORT 2011
 MCAN MORTGAGE CORPORATION
 March 31, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

5. First-Time Adoption of IFRS (continued)

**RECONCILIATION OF CONSOLIDATED STATEMENT OF INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2010**

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
Net Investment Income					
Net Investment Income					Corporate Assets
Mortgage interest	k	\$ 25,828	\$ 1,383	\$ 27,211	Mortgage interest
Interest on loans and investments		2,507	-	2,507	Interest on financial investments and other loans
Equity income from MCAP					Equity income from MCAP
Commercial LP	e	3,743	(441)	3,302	Commercial LP
Fees	k	5,561	(1,704)	3,857	Fees
Marketable securities		31	-	31	Marketable securities
Interest on cash and cash equivalents		230	-	230	Interest on cash and cash equivalents
Other securitization income	b	3,949	(3,949)	-	
		41,849	(4,711)	37,138	
Term deposit interest and expenses		7,619	-	7,619	Term deposit interest and expenses
Mortgage expenses	k	2,921	(90)	2,831	Mortgage expenses
Provision for (recovery of) credit losses	a	(387)	(305)	(692)	Provision for (recovery of) credit losses
		10,153	(395)	9,758	
		31,696	(4,316)	27,380	
					Securitized Assets
	b		25,467	25,467	Mortgage interest
	b		3,203	3,203	Interest on financial investments
	b		334	334	Interest on short-term investments
	b		10,239	10,239	Other securitization income
			39,243	39,243	
	b		29,473	29,473	Interest on financial liabilities from securitization
	b		715	715	Mortgage expenses
			30,188	30,188	
	b		9,055	9,055	Net investment income before fair market value adjustment
	b		1,629	1,629	Fair market value adjustment - derivative financial instruments
			10,684	10,684	
Net Investment Income		31,696	6,368	38,064	Net Investment Income
Operating Expenses					Operating Expenses
Salaries and benefits		2,711	-	2,711	Salaries and benefits
General and administrative		3,620	(231)	3,389	General and administrative
		6,331	(231)	6,100	
Income Before Income Taxes		25,365	6,599	31,964	Income Before Income Taxes
	h	-	3,442	3,442	Provision for income taxes
	g	-	1,864	1,864	Current
		-	5,306	5,306	Deferred
Net Income		\$ 25,365	\$ 1,293	\$ 26,658	Net Income
Basic and diluted earnings per share		\$ 1.76	\$ 0.09	\$ 1.85	Basic and diluted earnings per share
Dividends per share		\$ 1.19	\$ -	\$ 1.19	Dividends per share
Weighted average number of basic and diluted shares (000's)		14,389	-	14,389	Weighted average number of basic and diluted shares (000's)

5. First-Time Adoption of IFRS (continued)

**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2010**

	Note	CGAAP	Adjustments	IFRS
Net income		\$ 25,365	\$ 1,293	\$ 26,658
Other comprehensive income, net of deferred taxes				
Change in unrealized gain on available for sale marketable securities		(32)	-	(32)
Change in unrealized gain on available for sale mortgages	c	631	(631)	-
Change in unrealized gain on available for sale financial investments	d	(544)	544	-
Other changes		22	(22)	-
		77	(109)	(32)
Comprehensive income		\$ 25,442	\$ 1,184	\$ 26,626

**RECONCILIATION OF CONSOLIDATED BALANCE SHEET
 AS AT DECEMBER 31, 2010**

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
Assets					
Cash and cash equivalents	k	\$ 89,373	\$ (4,064)	\$ 85,309	Cash and cash equivalents
	b,k	-	220,949	220,949	Short-term investments
Marketable securities		6,608	-	6,608	Marketable securities
					Mortgages
Mortgages	a,c,k	422,393	(2,071)	420,322	Corporate
	b	-	1,910,995	1,910,995	Securitized
Securitization investments	b,d,k	13,605	993,611	1,007,216	Financial investments
Loans receivable and other investments	a,b,d,k	10,079	(6,747)	3,332	Other loans
Equity investment in MCAP Commercial LP	e	20,315	(8,785)	11,530	Equity investment in MCAP Commercial LP
Derivative financial instruments		13,120	-	13,120	Derivative financial instruments
Other assets	b,k	3,209	3,435	6,644	Other assets
		\$ 578,702	\$ 3,107,323	\$ 3,686,025	
Liabilities and Shareholders' Equity					
Liabilities					
Term deposits		\$ 421,061	\$ -	\$ 421,061	Term deposits
	b	-	3,119,601	3,119,601	Financial liabilities from securitization
Future taxes payable	g	10,463	(5,152)	5,311	Deferred tax liabilities
Securitization liabilities	b	7,000	(7,000)	-	
Accounts payable and accrued charges	b,h,k	10,809	4,164	14,973	Other liabilities
		449,333	3,111,613	3,560,946	
Shareholders' Equity					
Share capital	m	100,112	-	100,112	Share capital
Contributed surplus	m	510	-	510	Contributed surplus
Retained earnings	i,m	26,956	(2,467)	24,489	Retained earnings
Accumulated other comprehensive income	j,m	1,791	(1,823)	(32)	Available for sale reserve
		129,369	(4,290)	125,079	
		\$ 578,702	\$ 3,107,323	\$ 3,686,025	

5. First-Time Adoption of IFRS (continued)

Notes to remeasurements

(a) Mortgage, loan and investment allowances

Specific and general allowances for mortgages, loans and investments were previously recognized under CGAAP. The impairment approach under IFRS places incremental reliance on objective evidence of incurred losses. In accordance with the impairment calculation methodology as set out in IAS 39, the conversion to IFRS led to decreases in the Company's mortgage, loan and investment allowances as follows:

	December 31 2010	March 31 2010	January 1 2010
Decrease to gross allowances	\$ 945	\$ 750	\$ 641
Less: deferred tax recovery	375	296	254
Net increase to retained earnings	\$ 570	\$ 454	\$ 387

The adjustment to mortgage loan and investment allowances led to a \$111 decrease in provisions for credit losses for the quarter ended March 31, 2010 and a \$305 decrease for the year ended December 31, 2010.

(b) Securitization activities

Under CGAAP, as part of the securitization of mortgages through the CMB program, the Company recognized interest-only strips and certain CMB-related securitization liabilities on its consolidated balance sheet. Under IFRS, these balance sheet items do not exist, as all up-front gains on securitization were reversed on transition. The Company recognizes the securitized mortgages and certain transaction costs, principal reinvestment assets and financial liabilities from securitization on its consolidated balance sheet as a result of MCAN's failure to meet derecognition criteria as part of the mortgage sales associated with the CMB program. In addition, the Company recognizes income and expenses associated with these financial instruments on an accrual basis under IFRS.

As part of the conversion to IFRS, the Company recorded increases (decreases) to retained earnings related to securitization activities as follows:

	December 31 2010	March 31 2010	January 1 2010
Gross increase (decrease) to retained earnings	\$ 6,549	\$ (1,485)	\$ (163)
Less: deferred tax provision (recovery)	(2,104)	103	(270)
Net increase (decrease) to retained earnings	\$ 4,445	\$ (1,382)	\$ (433)

As part of the conversion to IFRS, the Company also recognized balance sheet items as follows (which include mortgages that did not meet derecognition criteria and CMB principal reinvestment assets):

	December 31 2010	March 31 2010	January 1 2010
Short-term investments	\$ 216,885	\$ 269,921	\$ 288,586
Mortgages - securitized	1,910,995	2,240,559	2,342,164
Financial investments	823,625	346,998	231,127
Other assets	2,799	47,137	44,290
Financial liabilities from securitization	2,946,258	2,896,755	2,896,617

Financial liabilities from securitization include certain transaction costs.

On January 1, 2010, the Company also reversed \$12,626 of existing financial investments (March 31, 2010 - \$12,192, December 31, 2010 - \$3,124) and \$2,913 of existing other liabilities (March 31, 2010 - \$2,847, December 31, 2010 - \$1,627).

5. First-Time Adoption of IFRS (continued)

The reversal of interest-only strips on January 1, 2010 included the reversal of \$5,048 of interest-only strips in a liability position (March 31, 2010 - \$4,562, December 31, 2010 - \$7,000), classified as securitization liabilities under CGAAP.

The Company has also securitized mortgages through the Insured Mortgage Purchase Program (“IMPP”). On January 1, 2010, the Company recognized \$178,176 of financial investments (March 31, 2010 - \$177,787, December 31, 2010 - \$173,343) and \$178,176 of financial liabilities from securitization (March 31, 2010 - \$177,787, December 31, 2010 - \$173,343) on its consolidated balance sheet as a result of its participation in the IMPP. The inclusion of these items on MCAN’s balance sheet is a result of MCAN’s failure to meet derecognition criteria as part of the mortgage sales associated with the IMPP (Note 7).

Under CGAAP, the Company recognized other securitization income, which consisted primarily of fair market value changes in the interest rate swaps and interest-only strips, net interest rate swap receipts and refinancing and renewal gains. Under IFRS, the Company recognizes interest on its on-balance sheet assets and liabilities, including mortgages, short-term investments, financial investments and financial liabilities from securitization. Other securitization income under IFRS consists of net interest rate swap receipts and refinancing and renewal gains.

(c) Mortgages

Under CGAAP, the Company carried all investment mortgages as available for sale. As part of the conversion to IFRS, the Company classified its corporate mortgage portfolio as loans and receivables and reversed gross unrealized gains in the available for sale reserve as follows:

	December 31 2010	March 31 2010	January 1 2010
Reversal of gross unrealized gain in available for sale reserve	\$ 2,270	\$ 1,891	\$ 1,490
Less: deferred tax impact	447	379	298
Net decrease to available for sale reserve	\$ 1,823	\$ 1,512	\$ 1,192

(d) Financial investments

Under CGAAP, the Company carried mortgage-backed securities (“MBS”) (included in financial investments) as available for sale. As part of the conversion to IFRS, the Company classified these assets as loans and receivables and reversed gross unrealized gains in the available for sale reserve as follows:

	December 31 2010	March 31 2010	January 1 2010
Reversal of gross unrealized gain in available for sale reserve	\$ -	\$ 614	\$ 662
Less: deferred tax impact	-	125	140
Net decrease to available for sale reserve	\$ -	\$ 489	\$ 522

The Company reclassified \$5,070 of other loans to financial investments on January 1, 2010 (March 31, 2010 - \$4,598, December 31, 2010 - \$6,757), which had no impact to retained earnings.

The Company’s investment - commercial real estate (Note 17) was classified as available for sale as part of the conversion to IFRS. At January 1, 2010, both its amortized cost and fair market value were \$100.

(e) Equity investment in MCLP

As part of the conversion to IFRS, the Company recorded decreases to its equity investment in MCLP as follows:

	December 31 2010	March 31 2010	January 1 2010
Decrease to equity investment in MCLP	\$ 8,785	\$ 8,480	\$ 8,343
Less: deferred tax impact	1,460	1,316	1,252
Net decrease to retained earnings	\$ 7,325	\$ 7,164	\$ 7,091

5. First-Time Adoption of IFRS (continued)

The Company recorded its pro-rata share of MCLP's IFRS adjustments to retained earnings.

The adjustment to the equity investment in MCLP led to a \$137 decrease in equity income from MCLP for the quarter ended March 31, 2010 and a \$441 decrease for the year ended December 31, 2010.

(f) Following quarter dividend

MCAN is a MIC under the Tax Act. As such, the Company is able to deduct from income for tax purposes dividends paid within 90 days of year-end. Under CGAAP, the dividend to be paid in the following quarter was deductible in the calculation of the current tax liability. For IFRS purposes, dividends paid in the following quarter that have not been declared and accrued prior to quarter-end are not deductible in the calculation of the current tax liability. As a result of this difference, there was an increase to current taxes payable and an associated decrease to retained earnings of \$2,441 as at January 1, 2010 (March 31, 2010 - \$1,519, December 31, 2010 - \$5,881).

Under CGAAP, the Company also recorded a corresponding deferred tax liability in regards to the following quarter dividends. The reversal of this liability as part of the conversion to IFRS resulted in a positive impact to retained earnings of \$2,390 (March 31, 2010 - \$1,519, December 31, 2010 - \$5,724).

(g) Deferred taxes

As part of the conversion to IFRS, the Company recorded decreases (increases) to deferred taxes payable as follows:

	Note	December 31 2010	March 31 2010	January 1 2010
Mortgage, loan and investment allowances	a	\$ (375)	\$ (296)	\$ (254)
Securitization activities	b	(2,104)	103	(270)
Equity investment in MCLP	e	1,460	1,316	1,252
Following quarter dividend	f	5,724	1,519	2,390
Impact on retained earnings		4,705	2,642	3,118
Impact on available for sale reserve	c, d	447	504	438
Total deferred tax impact		\$ 5,152	\$ 3,146	\$ 3,556

Under IFRS, MCAN recognized a deferred tax provision of \$83 for the quarter ended March 31, 2010 and a deferred tax provision of \$1,864 for the year ended December 31, 2010.

(h) Current tax liabilities

As part of the conversion to IFRS, the following increases were made to current tax liabilities relating to the following quarter dividend (as noted in (f) above):

	Note	December 31 2010	March 31 2010	January 1 2010
Following quarter dividend	f	\$ 5,881	\$ 1,519	\$ 2,441
Total current tax impact		\$ 5,881	\$ 1,519	\$ 2,441

Under IFRS, MCAN recognized a current tax recovery of \$739 for the quarter ended March 31, 2010 and a current tax provision of \$3,442 for the year ended December 31, 2010.

5. First-Time Adoption of IFRS (continued)

(i) Shareholders' equity reconciliation - retained earnings

As part of the conversion to IFRS, the Company recorded increases (decreases) to retained earnings as follows:

	Note	December 31 2010	March 31 2010	January 1 2010
Impact due to revision of mortgage, loan and investment allowances	a	\$ 570	\$ 454	\$ 387
Impact on securitization activities	b	4,445	(1,382)	(433)
Impact on equity investment in MCLP	e	(7,325)	(7,164)	(7,091)
Following quarter dividend - deferred tax impact	f	5,724	1,519	2,390
Following quarter dividend - current tax impact	h	(5,881)	(1,519)	(2,441)
Other items		-	-	(23)
Net decrease to retained earnings		\$ (2,467)	\$ (8,092)	\$ (7,211)

(j) Shareholders' equity reconciliation - available for sale reserve

The transition from CGAAP to IFRS had the following impact on the available for sale reserve:

	Note	December 31 2010	March 31 2010	January 1 2010
Mortgages	c	\$ (1,823)	\$ (1,513)	\$ (1,192)
Financial investments	d	-	(488)	(522)
Net impact on available for sale reserve		\$ (1,823)	\$ (2,001)	\$ (1,714)

(k) Other reclassifications

In adopting IFRS, the Company made additional reclassifications to the consolidated balance sheet as follows:

CGAAP Line Item	IFRS Line Item	December 31 2010	March 31 2010	January 1 2010
Cash	Short-term investments	\$ 4,064	\$ 1,536	\$ 1,642
Loans receivable	Financial investments	243	36	22
Other assets	Mortgages	1,008	872	851
Accounts payable and accrued charges	Mortgages	1,734	846	593
Other assets	Other liabilities	1,644	(101)	(194)

In adopting IFRS, the Company made additional reclassifications to the consolidated statement of income as follows:

CGAAP Line Item	IFRS Line Item	Quarter Ended March 31, 2010	Year Ended December 31, 2010
Fees	Mortgage interest income	\$ 253	\$ 1,704
Mortgage expenses	Mortgage interest income	48	90
General and administrative	Mortgage interest income	-	231

(l) Statement of cash flows

The transition to IFRS did not have a significant impact on net cash flows from operating, investing or financing activities. Within investing activities, there were significant changes to mortgage reductions and short-term investment and financial investment activity due to securitized mortgage repayments and their subsequent reinvestment, however net cash flows from investing activities did not change significantly.

5. First-Time Adoption of IFRS (continued)

(m) Statement of changes in shareholders' equity

Changes to retained earnings and the available for sale reserve that arose from the conversion to IFRS are discussed above in notes (i) and (j), respectively. There was no impact to share capital or contributed surplus.

6. Significant Accounting Judgments and Estimates

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.

Impairment losses on mortgages

The Company reviews its individually significant mortgage balances at each consolidated financial statement date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Mortgages that have been assessed individually and found not to be impaired and all individually insignificant mortgages are then assessed collectively, in groups of mortgages with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the mortgage portfolio (such as credit quality, levels of arrears, credit utilization, loan to value ratios, etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices and the performance of different individual groups).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by relevant tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the responsible tax authority. As the Company assesses the probability for a litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be used. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

6. Significant Accounting Judgments and Estimates (continued)

Further details on taxes are disclosed in Note 24.

7. Securitization Activities

MCAN participates in the CMB program, which involves the securitization of single family and multi family mortgages that are insured by Canada Mortgage and Housing Corporation (“CMHC”) or Genworth Financial Mortgage Insurance Company Canada Inc. (“Genworth”). Over the term of a CMB issuance, MCAN is entitled to interest income received from the securitized mortgages. As the securitized mortgages repay, MCAN reinvests the collected principal in certain permitted investments and is also entitled to interest income from the reinvested assets. As part of the securitization, MCAN also incurs a liability in the amount of the securitized mortgages and is 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. MCAN also recognizes servicing expenses on the mortgages and pays certain upfront costs. The securitized mortgages and reinvestment assets are held as collateral against the CMB liability.

MCAN participates in the CMB program with MCLP and a private company. MCAN participates 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, MCAN purchases the securitized mortgages from MCLP or a third party at fair value, including transaction costs. The sale to CHT fails to meet derecognition criteria since MCAN does not transfer substantially all risks and rewards on sale. MCAN accounts for these transactions as collateralized borrowings and records cash received as a financial liability from securitization.

As a result of its failure to meet derecognition criteria on the sale of the securitized mortgages to CHT, MCAN recognizes 100% of the mortgages (Note 16), reinvestment assets (Notes 14 and 17) and securitization liability (Note 23) on the consolidated balance sheet until the maturity of the CMB issuance. MCAN recognizes its 28% share of mortgage interest income, principal reinvestment income, interest expense on the securitization liability and certain other program expenses on the accrual basis. MCAN has also capitalized certain costs associated with the securitized mortgages and securitization liability, both of which are amortized using the EIRM.

The Company enters into “pay floating, receive fixed” interest rate swaps as part of the CMB program (Note 20). 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.

The interest rate swaps are classified as held for trading, where changes in fair value are recorded through the consolidated statement of income. 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. 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.

The Company also participated in the IMPP, which involves the securitization of insured single family mortgages. Although MCAN has no economic interest in the IMPP, it earned an up-front fee for its involvement. MCAN participated in the IMPP on behalf of a third party, who is entitled to 100% of the economics of the IMPP. Since MCAN failed to meet derecognition criteria on the mortgage sales associated with the IMPP, it recognized a corresponding financial investment (Note 17) and financial liability from securitization (Note 23), which represent the receivable from the third party and the liability to the IMPP counterparty, respectively. MCAN is the counterparty for the ongoing cash flows between the third party and the IMPP counterparty.

8. Fees

For the Quarters Ended March 31	Note	2011	2010
Fee income from profit sharing	29	\$ 5	\$ 204
Mortgagor fees		200	433
		\$ 205	\$ 637

9. Mortgage Expenses

Corporate Portfolio

For the Quarters Ended March 31	2011	2010
Mortgage servicing expense	\$ 650	\$ 522
Other mortgage expenses	200	8
	\$ 850	\$ 530

Securitized Portfolio

Mortgage expenses associated with the securitized portfolio consist of mortgage servicing expenses.

10. Provision for Credit Losses

For the Quarters Ended March 31	2011	2010
Mortgages - collective provisions	\$ 360	\$ 190
Mortgages - individual provisions (recoveries)	(25)	(43)
Financial investments and other loans - collective provisions (recoveries)	(2)	(12)
	\$ 333	\$ 135

11. Other Securitization Income

For the Quarters Ended March 31	2011	2010
Net interest rate swap receipts	\$ 2,133	\$ 1,904
Refinancing and renewal gains	56	137
	\$ 2,189	\$ 2,041

12. Asset Summary

As at March 31, 2011	Corporate	Securitized	Total
Cash and cash equivalents	\$ 56,376	\$ -	\$ 56,376
Short-term investments	-	254,461	254,461
Marketable securities	18,385	-	18,385
Mortgages			
Corporate	495,662	-	495,662
Securitized	-	1,820,902	1,820,902
Financial investments	9,986	1,062,684	1,072,670
Other loans	3,114	-	3,114
Equity investment in MCAP Commercial LP	11,280	-	11,280
Derivative financial instruments	-	9,882	9,882
Other assets	970	5,195	6,165
	\$ 595,773	\$ 3,153,124	\$ 3,748,897

12. Asset Summary (continued)

As at December 31, 2010	Corporate	Securitized	Total
Cash and cash equivalents	\$ 85,309	\$ -	\$ 85,309
Short-term investments	-	220,949	220,949
Marketable securities	6,608	-	6,608
Mortgages			
Corporate	420,322	-	420,322
Securitized	-	1,910,995	1,910,995
Financial investments	10,248	996,968	1,007,216
Other loans	3,332	-	3,332
Equity investment in MCAP Commercial LP	11,530	-	11,530
Derivative financial instruments	-	13,120	13,120
Other assets	683	5,961	6,644
	\$ 538,032	\$ 3,147,993	\$ 3,686,025

As at January 1, 2010	Corporate	Securitized	Total
Cash and cash equivalents	\$ 88,201	\$ -	\$ 88,201
Short-term investments	-	290,228	290,228
Mortgages			
Corporate	294,769	-	294,769
Securitized	-	2,342,164	2,342,164
Financial investments	60,327	409,303	469,630
Other loans	11,844	-	11,844
Equity investment in MCAP Commercial LP	9,562	-	9,562
Derivative financial instruments	-	11,490	11,490
Other assets	547	44,269	44,816
	\$ 465,250	\$ 3,097,454	\$ 3,562,704

The Company's securitized asset portfolio includes securitized mortgages, principal reinvestment assets, derivative financial instruments and other assets related to the CMB program.

13. Cash and Cash Equivalents

	March 31 2011	December 31 2010	January 1 2010
Cash balances with banks	\$ 6,876	\$ 7,309	\$ 43,201
Bankers' acceptances and term deposits	49,500	78,000	45,000
	\$ 56,376	\$ 85,309	\$ 88,201

Cash and cash equivalents include balances with banks and short-term investments with original maturity dates of less than 90 days.

14. Short-Term Investments

	March 31 2011	December 31 2010	January 1 2010
Treasury bills (in trust for CMB program)	\$ 168,611	\$ 144,960	\$ 258,656
Commercial paper (in trust for CMB program)	28,692	28,687	29,930
CMB cash held in trust	54,634	45,059	-
Cash pledged as collateral - CMB program	2,524	2,243	1,642
	\$ 254,461	\$ 220,949	\$ 290,228

Short-term investments consist primarily of treasury bills and commercial paper held as reinvestment assets for the CMB program in addition to cash pledged as CMB program collateral. The weighted average yields of the CMB principal reinvestment assets listed above are as follows: treasury bills - 0.91% (December 31, 2010 - 0.86%, January 1, 2010 -

14. Short-Term Investments (continued)

0.15%), commercial paper - 1.32% (December 31, 2010 - 1.22%, January 1, 2010 - 0.61%). Short-term investments mature within 90 days.

CMB cash held in trust represents securitized mortgage principal collections from borrowers to be used to acquire principal reinvestment assets in the following month.

The carrying value of short-term investments approximates fair value.

15. Marketable Securities

	March 31 2011	December 31 2010	January 1 2010
Corporate bonds	\$ 7,126	\$ 4,956	\$ -
Exchange-traded funds and real estate investment trusts	11,259	1,652	-
	\$ 18,385	\$ 6,608	\$ -

Marketable securities are designated as available for sale. The marketable securities portfolio has no specific maturity date except for corporate bonds, which mature in over five years. Fair values are based on bid prices quoted in active markets.

16. Mortgages

As at March 31, 2011	Gross Principal	Collective	Allowance Individual	Total	Net Principal
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 210,876	\$ 873	\$ 221	\$ 1,094	\$ 209,782
- Uninsured (completed inventory loans)	36,710	168	-	168	36,542
- Insured	51,409	-	-	-	51,409
Construction loans					
- Residential	171,598	1,096	1,000	2,096	169,502
- Non-residential	12,782	91	-	91	12,691
Commercial loans					
- Uninsured	15,437	104	-	104	15,333
- Insured	403	-	-	-	403
	499,215	2,332	1,221	3,553	495,662
Securitized portfolio	1,820,902	-	-	-	1,820,902
Total mortgages	\$ 2,320,117	\$ 2,332	\$ 1,221	\$ 3,553	\$2,316,564

16. Mortgages (continued)

As at December 31, 2010	Gross Principal	Allowance			Net Principal
		Collective	Individual	Total	
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 140,356	\$ 573	\$ 246	\$ 819	\$ 139,537
- Uninsured (completed inventory loans)	39,039	180	-	180	38,859
- Insured	44,307	-	-	-	44,307
Construction loans					
- Residential	174,915	1,122	1,000	2,122	172,793
- Non-residential	11,648	74	-	74	11,574
Commercial loans					
- Uninsured	12,931	98	-	98	12,833
- Insured	419	-	-	-	419
	\$ 423,615	\$ 2,047	\$ 1,246	\$ 3,293	\$ 420,322
Securitized portfolio	1,910,995	-	-	-	1,910,995
Total mortgages	\$ 2,334,610	\$ 2,047	\$ 1,246	\$ 3,293	\$ 2,331,317
As at January 1, 2010					
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 97,302	\$ 419	\$ 55	\$ 474	\$ 96,828
- Uninsured (completed inventory loans)	30,380	128	-	128	30,252
- Insured	38,557	-	-	-	38,557
Construction loans					
- Residential	125,443	758	2,727	3,485	121,958
- Non-residential	24	-	-	-	24
Commercial loans					
- Uninsured	6,727	56	-	56	6,671
- Insured	479	-	-	-	479
	\$ 298,912	\$ 1,361	\$ 2,782	\$ 4,143	\$ 294,769
Securitized portfolio	2,342,164	-	-	-	2,342,164
Total mortgages	\$ 2,641,076	\$ 1,361	\$ 2,782	\$ 4,143	\$ 2,636,933

Gross principal as presented in the tables above includes unamortized capitalized transaction costs.

MCAN's mortgage portfolio consists of its corporate and securitized portfolios.

MCAN's corporate portfolio includes insured and uninsured single family mortgages. The Company does not invest in the United States mortgage market. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. Residential mortgages insured by CMHC or Genworth may exceed this ratio.

Uninsured completed inventory loans are credit facilities extended to provide interim mortgage financing on residential units (condominium or freehold), where all construction has been completed.

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

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

MCAN's securitized mortgage portfolio consists of mortgages securitized through the CMB program. These mortgages are held as collateral against the CMB liability (Notes 7 and 23). Certain capitalized transaction costs are included in

16. Mortgages (continued)

mortgages and are amortized using the EIRM. As at March 31, 2011, the unamortized capitalized cost balance was \$4,114 (December 31, 2010 - \$4,721, January 1, 2010 - \$3,123). All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance.

Mortgages are classified as loans and receivables and are carried at amortized cost. The fair market value of the total mortgage portfolio (calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages) as at March 31, 2011 was \$2,536,861 (December 31, 2010 - \$2,623,922, January 1, 2010 - \$2,829,151). Outside of the change during the periods shown in the above tables, there were no significant fluctuations in mortgage balances within the periods. For information regarding the maturity of the Company's mortgages, refer to Note 32.

The weighted average yield of the Company's mortgage portfolio is as follows:

	March 31 2011	December 31 2010	January 1 2010
Corporate	6.07%	6.02%	6.13%
Securitized	4.02%	4.03%	3.91%
Overall	5.01%	4.89%	4.59%

Principal balances presented above are net of the unamortized discount on the Company's portfolio of single family mortgages purchased at a discount. As at March 31, 2011, the Company holds discounted mortgages with an aggregate discount of \$14,204 (December 31, 2010 - \$14,357, January 1, 2010 - \$22,036). Upon the payout of a mortgage, the remaining unamortized discount is recognized as income. The Company retains 50% of any recoveries of the discount and pays the remaining 50% to MCLP (refer to Note 29 for profit sharing fees paid to/from MCLP). In addition, the Company amortizes the portion of the discount that it expects to recover into income over the remaining term of the mortgage on an EIRM basis. The amount of the discount ultimately recovered is dependent on the value of the real estate securing the mortgage, as well as the financial capacity of the borrower. Additionally, these mortgages have maturity dates ranging from 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.

The composition of the discount is as follows:

	March 31 2011	December 31 2010	January 1 2010
Fixed rate	\$ 4,204	\$ 2,752	\$ 4,859
Floating rate	10,000	11,605	17,177
	\$ 14,204	\$ 14,357	\$ 22,036

The geographical breakdown of mortgages by province is as follows:

As at March 31, 2011	Corporate			Securitized	Total	
	Single Family	Construction	Commercial			
Ontario	\$ 127,298	\$ 57,549	\$ 2,681	\$ 930,695	\$ 1,118,223	48.3%
Alberta	78,331	76,763	8,556	409,655	573,305	24.7
British Columbia	49,166	39,425	1,981	258,901	349,473	15.1
Other	42,938	8,456	2,518	221,651	275,563	11.9
	\$ 297,733	\$ 182,193	\$ 15,736	\$ 1,820,902	\$ 2,316,564	100.0%

As at December 31, 2010	Corporate			Securitized	Total	
	Single Family	Construction	Commercial			
Ontario	\$ 102,164	\$ 61,167	\$ 2,674	\$ 978,368	\$ 1,144,373	49.1%
Alberta	67,433	77,831	10,578	422,359	578,201	24.8
British Columbia	31,987	38,390	-	279,121	349,498	15.0
Other	21,119	6,979	-	231,147	259,245	11.1
	\$ 222,703	\$ 184,367	\$ 13,252	\$ 1,910,995	\$ 2,331,317	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / FIRST QUARTER REPORT 2011

MCAN MORTGAGE CORPORATION

March 31, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

16. Mortgages (continued)

As at January 1, 2010	Corporate				Securitized	Total	
	Single Family	Construction	Commercial				
Ontario	\$ 81,931	\$ 52,287	\$ 4,287	\$ 1,221,123	\$ 1,359,628	51.6%	
Alberta	52,846	47,545	2,863	490,023	593,277	22.5	
British Columbia	15,821	15,782	-	368,249	399,852	15.2	
Other	15,039	6,368	-	262,769	284,176	10.7	
	\$ 165,637	\$ 121,982	\$ 7,150	\$ 2,342,164	\$ 2,636,933	100.0%	

As at March 31, 2011, the Company had \$1,219 (December 31, 2010 - \$2,499, January 1, 2010 - \$4,861) of insured single family mortgages from its corporate portfolio pledged as collateral related to the CMB program.

Outstanding commitments for future fundings of mortgages intended for the Company's corporate portfolio were \$159,126 at March 31, 2011 (December 31, 2010 - \$199,678, January 1, 2010 - \$96,173). The majority of these commitments relate to floating rate construction loans.

Details of the collective allowances for mortgage credit losses for the first quarter of the current and prior years are as follows:

	2011		2010		2010	
	Collective	Individual	Total	Collective	Individual	Total
Balance, beginning of quarter	\$ 2,047	\$ 1,246	\$ 3,293	\$ 1,361	\$ 2,782	\$ 4,143
Provisions (recoveries)	360	(25)	335	190	(43)	147
Write-offs	(75)	-	(75)	(32)	-	(32)
Balance, end of quarter	\$ 2,332	\$ 1,221	\$ 3,553	\$ 1,519	\$ 2,739	\$ 4,258

The Company's individual allowances for mortgage credit losses are as follows:

	March 31 2011	December 31 2010	January 1 2010
Uninsured single family	\$ 221	\$ 246	\$ 55
Residential construction	1,000	1,000	2,727
	\$ 1,221	\$ 1,246	\$ 2,782

Mortgages past due but not impaired are as follows:

As at March 31, 2011	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Corporate portfolio:					
Single family - uninsured	\$ 9,138	\$ 2,001	\$ 613	\$ -	\$ 11,752
Single family - insured	767	-	-	59	826
Residential construction	-	-	119	-	119
	9,905	2,001	732	59	12,697
Securitized portfolio	33,659	9,553	3,882	17,081	64,175
	\$ 43,564	\$ 11,554	\$ 4,614	\$ 17,140	\$ 76,872

16. Mortgages (continued)

As at December 31, 2010	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Corporate portfolio:					
Single family - uninsured	\$ 6,233	\$ 3,050	\$ 1,499	\$ -	\$ 10,782
Single family - insured	909	-	-	59	968
Residential construction	-	3,743	1,941	-	5,684
Commercial - uninsured	673	-	-	-	673
	7,815	6,793	3,440	59	18,107
Securitized portfolio	24,387	13,492	4,357	16,912	59,148
	\$ 32,202	\$ 20,285	\$ 7,797	\$ 16,971	\$ 77,255

As at January 1, 2010	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Corporate portfolio:					
Single family - uninsured	\$ 5,232	\$ 2,561	\$ 1,560	\$ -	\$ 9,353
Single family - insured	278	113	-	251	642
Residential construction	1,627	406	1,316	-	3,349
	7,137	3,080	2,876	251	13,344
Securitized portfolio	34,331	10,841	5,481	18,180	68,833
	\$ 41,468	\$ 13,921	\$ 8,357	\$ 18,431	\$ 82,177

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

As at March 31, 2011	Single Family	Residential Construction	Securitized	Total
Ontario	\$ 266	\$ 1,339	\$ 184	\$ 1,789
Alberta	1,269	6,661	500	8,430
British Columbia	-	-	181	181
Other	173	3,833	249	4,255
	\$ 1,708	\$ 11,833	\$ 1,114	\$ 14,655

As at December 31, 2010	Single Family	Residential Construction	Securitized	Total
Ontario	\$ 1,150	\$ 1,339	\$ -	\$ 2,489
Alberta	1,458	6,661	614	8,733
British Columbia	-	-	883	883
Other	331	1,892	245	2,468
	\$ 2,939	\$ 9,892	\$ 1,742	\$ 14,573

As at January 1, 2010	Single Family	Residential Construction	Securitized	Total
Ontario	\$ 266	\$ 8,916	\$ 425	\$ 9,607
Alberta	831	6,899	-	7,730
British Columbia	259	-	194	453
Other	-	-	87	87
	\$ 1,356	\$ 15,815	\$ 706	\$ 17,877

17. Financial Investments

	March 31 2011	December 31 2010	January 1 2010
Insured mortgage-backed securities (in trust for CMB program)	\$ 890,551	\$ 823,625	\$ 231,127
Receivables - IMPP	172,133	173,343	178,176
Investment - commercial real estate	3,973	3,973	100
Subordinated loan - residential mortgage securitization program	2,847	2,946	4,578
Other financial investments	2,709	2,872	4,866
Asset-backed commercial paper	457	457	2,480
Deferred purchase price receivable - residential construction loan securitization program			
- senior position	-	-	3,908
- first loss position	-	-	1,671
Insured mortgage-backed securities	-	-	42,724
	\$ 1,072,670	\$ 1,007,216	\$ 469,630

Insured mortgage-backed securities ("MBS") (in trust for CMB program) represent receivables from third party MBS issuers held as principal reinvestment assets as part of the Company's participation in the CMB program. The weighted average yield was 2.08% at March 31, 2011 (December 31, 2010 - 2.08%, January 1, 2010 - 2.16%). The fair market value of MBS held in trust for the CMB program as at March 31, 2011 was \$900,059 (December 31, 2010 - \$834,839), January 1, 2010 - \$236,368).

Receivables - IMPP represent the Company's involvement in the IMPP (Note 7), although it has no economic interest and therefore recognizes no income. This receivable is considered to be collateral against the IMPP liability (Note 23).

The Company holds an equity interest in a commercial real estate investment fund in which it has a fixed proportionate share. As acquisitions are made by the fund, the Company advances its proportionate share to finance the acquisitions.

The subordinated loan - residential mortgage securitization program bears interest at 10% (December 31, 2010 - 10%, January 1, 2010 - 10%). The loan is rated BB high by Dominion Bond Rating Service ("DBRS"), classified as loans and receivables and has no specific maturity date. The subordinated loan is receivable from a special purpose entity ("SPE"). The Company does not control the SPE and therefore does not consolidate it. The repayment of this investment follows the cash flows in the securitization program.

At January 1, 2010 the Company held investments in the senior position and first loss position of a residential construction loan securitization program. The senior position yield was prime plus 5% (7.25% at January 1, 2010), while the first loss position had no fixed yield. During 2010, both of these investments were repaid in full as part of the windup of the securitization program. The investments were replaced by an indemnity agreement whereby the investors of the securitization program are responsible for any incurred losses in the underlying loans in accordance with their pro-rata share of the first loss investment at the time that the securitization program was wound up. Since the Company previously held 25% of the first loss position, it is responsible for 25% of any losses incurred on the remaining loans in the securitization program. The Company participates in the indemnity agreement with a related party. As at March 31, 2011, the Company had accrued a \$200 liability representing expected losses associated with this indemnity. As at March 31, 2011, the outstanding balance of the remaining loans was \$31,897.

At January 1, 2010, the Company held insured MBS (not related to the CMB program) with a weighted average yield of CDOR plus 1.14% (1.54%) and a fair market value of \$43,409.

All financial investments are classified as loans and receivables and carried at amortized cost except for the investment - commercial real estate, which is classified as available for sale and a \$771 (December 31, 2010 - \$766, January 1, 2010 - \$796) equity investment included in other financial investments which is not considered to be a financial asset. The carrying value of all financial investments approximates fair value, except MBS noted above.

18. Other Loans

	Note	March 31 2011	December 31 2010	January 1 2010
Loans receivable - private companies		\$ 1,350	\$ 1,446	\$ 10,185
Loans receivable - employees	29	1,675	1,699	1,397
Other		89	187	262
		\$ 3,114	\$ 3,332	\$ 11,844

Loans receivable have been made to two private companies. A loan made to one company bears interest at the greater of 7% and prime plus 4%, 7% at March 31, 2011 (December 31, 2010 - 7%, January 1, 2010 - 7%) and has an outstanding balance of \$1,350 at March 31, 2011 (December 31, 2010 - \$1,446, January 1, 2010 - \$1,682). One loan previously advanced to a private company paid out during 2010 and had an interest rate of the greater of 7¾% and prime plus 1¾%, 7¾% at January 1, 2010. This loan had an outstanding balance of \$8,503 at January 1, 2010. Both of these loans are payable on demand.

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

All other loans are classified as loans and receivables.

19. Equity Investment in MCAP Commercial LP

For the Quarters Ended March 31	2011	2010
Balance, beginning of quarter	\$ 11,530	\$ 9,562
Equity income	807	259
Distributions received	(1,057)	-
Balance, end of quarter	\$ 11,280	\$ 9,821

	March 31 2011	December 31 2010	January 1 2010
Share of MCLP's balance sheet:			
Assets	\$ 126,839	\$ 135,396	\$ 170,747
Liabilities	111,094	119,380	156,621
Equity	15,745	16,016	14,126
Carrying amount - equity investment in MCLP	\$ 11,280	\$ 11,530	\$ 9,562

The variance between MCAN's share of MCLP's equity and MCAN's carrying amount of its equity investment in MCLP arose from a corporate reorganization that took place in 2004 in which MCAN reduced its partnership interest in MCLP from 50% to 25%.

For the Quarters Ended March 31	2011	2010
Share of MCLP revenue and net income:		
Revenue	\$ 2,420	\$ 2,316
Net income	807	259

The Company has a 22.7% equity interest in MCLP, consisting of 25% of voting class A units and 0% of non-voting class B units. During the first quarter of 2011, MCLP redeemed non-voting class B units such that MCAN's interest in MCLP increased from 22.5% to 22.7% (2010 - 22.3%). Since MCLP's fiscal year end is November 30th, MCAN records equity income from MCLP on a one-month lag. For the purposes of MCAN's financial reporting, MCLP's financial information as presented above reflects an IFRS transition date of December 1, 2009.

19. Equity Investment in MCAP Commercial LP (continued)

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

20. Derivative Financial Instruments

As part of its participation in the CMB program, the Company enters into “pay-floating, receive-fixed” interest rate swaps. The purpose of these swaps is to hedge interest rate risk on both securitized mortgages and principal reinvestment assets that have a floating interest rate. The interest rate swap notional is an accreting balance which approximates the sum of floating rate CMB mortgages and reinvestment assets. The interest rate swap counterparty is a Canadian chartered bank.

The interest rate swaps are carried at fair value, which is calculated by discounting future net cash flows based on forward interest rates. The fair values displayed below represents only MCAN’s share of the interest rate swap fair value.

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

	March 31 2011	December 31 2010	January 1 2010
CMB interest rate swaps - fair value	\$ 9,882	\$ 13,120	\$ 11,490
CMB interest rate swaps - outstanding notional	\$ 273,639	\$ 279,138	\$ 260,095

During the first quarter of 2011, there was a negative fair market value adjustment to derivative financial instruments of \$3,238 (first quarter of 2010 - negative adjustment of \$1,462).

All CMB interest rate swaps mature in one to five years.

21. Other Assets

Other assets include receivables, capital assets, prepaid expenses and receivables relating to the Company’s participation in the CMB program. Other assets are carried at cost.

	March 31 2011	December 31 2010	January 1 2010
Mortgage principal receivable - CMB program	\$ -	\$ -	\$ 34,394
Other CMB program assets	5,195	5,959	9,874
Capital assets	306	241	291
Other	664	444	257
	\$ 6,165	\$ 6,644	\$ 44,816

The significant receivable balance as at January 1, 2010 relates to CMB principal collections receivable. At that time, MCAN received principal collections from its third party servicer on a monthly basis. In mid-2010, MCAN began to receive principal collections on a daily basis, thus eliminating significant end of period receivable balances.

22. Term Deposits

	March 31 2011	December 31 2010	January 1 2010
Term deposits	\$ 492,882	\$ 418,151	\$ 357,150
Accrued interest	4,449	2,910	3,594
	\$ 497,331	\$ 421,061	\$ 360,744
Fair value	\$ 500,198	\$ 423,996	\$ 364,021

22. Term Deposits (continued)

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years (December 31, 2010 - 30 days to five years, January 1, 2010 - 30 days to five years). The weighted average term deposit rate as at March 31, 2011 was 2.23% (December 31, 2010 - 2.18%, January 1, 2010 - 2.24%). The Company's term deposits are eligible for CDIC deposit insurance.

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

23. Financial Liabilities From Securitization

Financial liabilities from securitization include financial liabilities relating to the Company's participation in the CMB program and financial liabilities as a result of its involvement in the IMPP.

	Note	March 31 2011	December 31 2010	January 1 2010
Financial liabilities - CMB program	7	\$ 2,946,133	\$ 2,946,258	\$ 2,896,617
Financial liabilities - IMPP	7	172,133	173,343	178,176
		\$ 3,118,266	\$ 3,119,601	\$ 3,074,793

The financial liabilities - CMB program have a weighted average interest rate of 3.67% as at March 31, 2011 (December 31, 2010 - 3.67%, January 1, 2010 - 3.64%).

MCAN does not participate in the economics of the IMPP (Note 7) and therefore pays no interest on this liability, nor does it recognize interest income from the associated loan receivable (Note 17).

Certain capitalized transaction costs are included in financial liabilities from securitization and are amortized using the EIRM. As at March 31, 2011, the unamortized capitalized cost balance was \$1,581 (December 31, 2010 - \$1,742, January 1, 2010 - \$2,327).

24. Income Taxes

The composition of the provision for (recovery of) taxes is as follows:

For the Quarters Ended March 31	2011	2010
Income before income taxes	\$ 1,867	\$ 3,470
Less: dividends paid during the quarter	(14,461)	(5,880)
Income subject to tax	(12,594)	(2,410)
Statutory rate of tax	40%	41%
Tax provision (recovery) before the following:	(5,038)	(988)
Statutory rate difference in subsidiaries	25	(17)
Rate changes and other differences	(106)	483
Non-taxable portion of capital gains	(103)	(134)
	\$ (5,222)	\$ (656)
	2011	2010
Current tax provision (recovery)	\$ (4,095)	\$ (739)
Deferred tax provision (recovery)	(1,127)	83
	\$ (5,222)	\$ (656)

24. Income Taxes (continued)

The composition of the deferred tax liabilities (assets) is as follows:

	March 31 2011	December 31 2010	January 1 2010
Provision for credit losses	\$ (979)	\$ (869)	\$ (1,567)
Equity investment in MCAP Commercial LP	(220)	(457)	(777)
CMB-related items	5,559	6,959	6,602
Loss carryforward benefit	(107)	(299)	(881)
Other	(35)	(23)	78
	\$ 4,218	\$ 5,311	\$ 3,455

The Company has loss carryforward amounts of \$380 (December 31, 2010 - \$930, January 1, 2010 - \$2,809), the benefit of which has been recorded to deferred taxes, expiring in 2029.

25. Other Liabilities

	March 31 2011	December 31 2010	January 1 2010
Accounts payable and accrued charges	\$ 8,025	\$ 5,162	\$ 2,579
Current taxes payable	1,785	5,881	2,441
Dividends payable	-	3,756	3,723
Related party payable - MCLP	493	174	1,015
	\$ 10,303	\$ 14,973	\$ 9,758

Accounts payable and accrued charges as at March 31, 2011 includes a \$200 liability related to expected losses as part of the Company's indemnity agreement associated with the securitization program windup discussed in Note 17.

Due to the short-term nature of other liabilities, their carrying value approximates fair value.

26. Share Capital and Contributed Surplus

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

Issued	Number of Shares	
Balance, January 1, 2010	14,320,980	\$ 98,490
Issued		
Dividend reinvestment plan	36,739	463
Executive Share Purchase Plan	6,435	89
Balance, March 31, 2010	14,364,154	99,042
Issued		
Dividend reinvestment plan	28,708	370
Executive Share Purchase Plan	54,881	700
Balance, December 31, 2010	14,447,743	100,112
Issued		
Dividend reinvestment plan	63,033	943
Balance, March 31, 2011	14,510,776	\$ 101,055

During the first quarter of 2011, the Company issued 63,033 (2010 - 36,739) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 20 days preceding such issue.

The Company had no potentially dilutive instruments for the periods ended March 31, 2011 and December 31, 2010.

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

27. Dividends

	March 31 2011	March 31 2010
Dividends on common shares paid during the period		
Fourth quarter dividend, 2010: \$0.26 per share (2009: \$0.26 per share)	\$ 3,757	\$ 3,723
Dividends on common shares declared and paid during the period		
First quarter dividend, 2011: \$1.00 per share (2010: \$0.41 per share)	\$ 14,461	\$ 5,880
Dividends on common shares approved in second quarter (not recognized as a liability at March 31, 2011 or 2010)		
Second quarter dividend, 2011: \$0.27 per share (2010: \$0.26 per share)	\$ 4,539	\$ 3,724

28. Available for Sale Reserve

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

	March 31 2011	December 31 2010	January 1 2010
Unrealized gain (loss) on available for sale marketable securities	\$ 121	\$ (39)	\$ -
Less: deferred taxes	(24)	7	-
	\$ 97	\$ (32)	\$ -

29. Related Party Disclosures

The consolidated financial statements include the financial statements of the Company and the subsidiaries and associates listed in the following table:

	% Equity Interest		
	March 31 2011	December 31 2010	January 1 2010
Subsidiaries:			
6212484 Canada Inc.	100%	100%	100%
6943993 Canada Inc.	-	-	100%
7235003 Canada Inc.	100%	100%	100%
Associate:			
MCAP Commercial LP	22.7%	22.5%	22.3%

The Company holds a 22.7% equity interest in MCLP, a non-public entity. MCLP's principal activities include the origination and servicing of mortgages. The Company holds one of five seats on MCLP's Board of Directors.

The Company wound up 6943993 Canada Inc. during 2010.

During 2011, the Company purchased certain corporate services from MCLP in the amount of \$112 (2010 - \$116). During 2011, the Company also purchased certain mortgage origination and administration services from MCLP in the amount of \$571 (2010 - \$508). During 2011, the Company received \$888 (2010 - \$217) of mortgage fees from MCLP.

During 2011, the Company paid fees in the amount of \$684 (2010 - \$624) to MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages. During 2011, the Company received \$5 (2010 - \$204) of fees from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

All related party transactions noted above were in the normal course of business.

29. Related Party Disclosures (continued)

As part of the aforementioned profit sharing arrangements, MCLP pays MCAN 50% of any recoveries of discounts on mortgages held on MCLP's balance sheet. In addition, MCAN reimburses MCLP for 50% of any credit losses on discounted mortgages held on MCLP's balance sheet (where MCAN participates in a profit sharing arrangement), and vice versa.

Compensation of Executives of the Company, which include the President and Chief Executive Officer, Vice President and Chief Financial Officer and Vice President, Investments, is as follows:

For the Quarters Ended March 31	2011	2010
Short term employee benefits	\$ 324	\$ 286
Other long term benefits	85	-
	\$ 409	\$ 286

Executive Share Purchase Plan

The Company has established an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board of Directors can approve loans to key personnel for the purpose of purchasing the Company's common shares. During 2011, no common shares were issued out of treasury under the Share Purchase Plan (2010 - 61,316). The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares.

Dividend distributions on the common shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions, and 75% of capital gain distributions. Common shares are issued out of treasury for the Share Purchase Plan at the weighted average trading price for the 20 days preceding such issue.

MCAN advanced no new loans under the Share Purchase Plan in 2011 (2010 - \$789). At March 31, 2011, \$1,675 of loans were outstanding (December 31, 2010 - \$1,699, January 1, 2010 - \$1,397) (Note 18). The loans under the Share Purchase Plan bear interest at prime plus 1%, 4% at March 31, 2011 (December 31, 2010 - 4%, January 1, 2010 - 3.25%) and have a five-year term. The shares are pledged as security for the loans and had a fair market value of \$2,809 as at March 31, 2011 (December 31, 2010 - \$2,562, January 1, 2010 - \$2,313).

During the quarter, MCAN recognized \$16 of interest income (2010 - \$10) on the Share Purchase Plan loans.

Deferred Share Units Plan

In 2010 the Company established a Deferred Share Units Plan (the "DSU Plan") whereby the Board of Directors granted units under the DSU Plan to the President and Chief Executive Officer (the "Participant"). Each unit is equivalent in value to one common share of the Company. Following his retirement/termination date, the Participant is entitled to receive cash for each unit. The individual unit value is based on the average market value of the Company's common shares for the five days preceding the retirement/termination date. The Participant was granted 30,000 units under the DSU Plan during 2010. In addition, the Participant is entitled to receive dividend distributions in the form of additional units. The underlying units follow a graded vesting schedule over three years. All dividends paid prior to July 6, 2014 vest as at July 6, 2014. All dividends paid after July 6, 2014 vest immediately. As at March 31, 2011, no units had yet vested.

The Company recognizes compensation expenses associated with the DSU Plan in line with the graded vesting schedule. The compensation expense recognized for the quarter ended March 31, 2011 related to the DSU Plan was \$85 (2010 - \$nil). As at March 31, 2011, the accrued DSU Plan liability was \$213 (December 31, 2010 - \$128, January 1, 2010 - \$nil).

30. Commitments and Contingencies

The Company has contractual obligations to make principal and interest payments on term deposits and an operating lease. In addition, MCAN has outstanding commitments for future fundings of mortgages intended for its corporate portfolio.

30. Commitments and Contingencies (continued)

As part of the CMB program, MCAN is required to pay servicing expenses on the securitized mortgages and other ongoing costs. These expenses are accounted for on the accrual basis.

	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

MCAN outsources its mortgage and loan origination and servicing. MCAN continues to pay servicing expenses as long as the mortgages and loans remain on its consolidated balance sheet.

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

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

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

MCLP has issued Class B units to management of MCLP, which were financed by bank loans to management. Under certain circumstances, the Company may be required to contribute up to 25% of the fair value of the Class B units to MCLP in order to repurchase the Class B units or to repay the bank financing and subrogate the bank’s position. At March 31, 2011, the outstanding bank loan balance was \$5,916 (December 31, 2010 - \$6,315, January 1, 2010 - \$7,222). As at March 31, 2011, December 31, 2010 and January 1, 2010, the fair value of the Class B units exceeded the outstanding bank loan balance.

The Company is a party to an indemnity agreement relating to a residential construction loan securitization program, discussed in Note 17.

31. Credit Facilities

The Company has a line of credit from a Canadian chartered bank that is a \$50,000 facility bearing interest at prime plus 1%, 4% at March 31, 2011 (December 31, 2010 - prime plus 1.5%, 4.50%, January 1, 2010 - prime plus 1.5%, 3.75%). The facility has a sub limit of \$30,000 for issued letters of credit and \$30,000 for overdrafts, and is due and payable upon demand. The letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank’s option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with developer loans. At March 31, 2011, there were letters of credit in the amount of \$20,715 issued (December 31, 2010 - \$22,495, January 1, 2010 - \$11,143) and additional letters of credit in the amount of \$28,441 committed but not issued (December 31, 2010 - \$9,798, January 1, 2010 - \$7,670).

32. Interest Rate Sensitivity

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

32. Interest Rate Sensitivity (continued)

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

The interest rate sensitivity analysis is based on the Company's consolidated balance sheets as at March 31, 2011, December 31, 2010 and January 1, 2010 and does not incorporate mortgage and loan prepayments. The Company currently cannot reasonably estimate the impact of prepayments on its interest rate sensitivity analysis. The analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

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

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

The interest rate risk associated with the securitized assets (including short-term investments, mortgages - securitized and financial investments) and liabilities (financial liabilities from securitization) from the CMB program is managed through the use of "pay-floating, receive-fixed" interest rate swaps (included in derivative financial instruments). For further details on how the Company manages interest rate risk associated with the CMB program, refer to Notes 7 and 20.

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

As at March 31, 2011	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets							
Corporate	\$ 131,903	\$ 82,279	\$ 166,194	\$ 168,782	\$ 23,082	\$ 23,533	\$ 595,773
Securitized	415,600	232,736	143,248	2,178,913	-	182,627	3,153,124
	<u>547,503</u>	<u>315,015</u>	<u>309,442</u>	<u>2,347,695</u>	<u>23,082</u>	<u>206,160</u>	<u>3,748,897</u>
Liabilities							
Corporate	\$ -	\$ 114,106	\$ 230,522	\$ 152,703	\$ -	\$ 14,521	\$ 511,852
Securitized	-	-	-	2,946,133	-	172,133	3,118,266
	<u>-</u>	<u>114,106</u>	<u>230,522</u>	<u>3,098,836</u>	<u>-</u>	<u>186,654</u>	<u>3,630,118</u>
Shareholders' Equity	-	-	-	-	-	118,779	118,779
TOTAL GAP	\$ 547,503	\$ 200,909	\$ 78,920	\$ (751,141)	\$ 23,082	\$ (99,273)	-
YIELD SPREAD	1.91%	0.26%	2.51%	0.21%	6.61%		

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 March 31, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

32. Interest Rate Sensitivity (continued)

As at December 31, 2010	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Total Assets							
Corporate	\$ 161,397	\$ 60,726	\$ 143,306	\$ 138,515	\$ 10,797	\$ 23,291	\$ 538,032
Securitized	421,690	250,542	79,544	2,210,322	-	185,895	3,147,993
	<u>583,087</u>	<u>311,268</u>	<u>222,850</u>	<u>2,348,837</u>	<u>10,797</u>	<u>209,186</u>	<u>3,686,025</u>
Liabilities							
Corporate	\$ -	\$ 57,454	\$ 253,954	\$ 109,653	\$ -	\$ 20,284	\$ 441,345
Securitized	-	-	-	2,946,258	-	173,343	3,119,601
	<u>-</u>	<u>57,454</u>	<u>253,954</u>	<u>3,055,911</u>	<u>-</u>	<u>193,627</u>	<u>3,560,946</u>
Shareholders' Equity						125,079	125,079
GAP	\$ 583,087	\$ 253,814	\$ (31,104)	\$ (707,074)	\$ 10,797	\$ (109,520)	-
YIELD SPREAD	1.86%	0.90%	3.42%	0.40%	12.48%		

As at January 1, 2010	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Total Assets							
Corporate	\$ 316,692	\$ 22,754	\$ 54,814	\$ 30,027	\$ 11,875	\$ 29,088	\$ 465,250
Securitized	173,808	293,444	21,010	2,377,710	-	231,482	3,097,454
	<u>490,500</u>	<u>316,198</u>	<u>75,824</u>	<u>2,407,737</u>	<u>11,875</u>	<u>260,570</u>	<u>3,562,704</u>
Liabilities							
Corporate	\$ -	\$ 93,724	\$ 245,829	\$ 21,191	\$ -	\$ 13,213	\$ 373,957
Securitized	-	-	-	2,896,617	-	178,176	3,074,793
	<u>-</u>	<u>93,724</u>	<u>245,829</u>	<u>2,917,808</u>	<u>-</u>	<u>191,389</u>	<u>3,448,750</u>
Shareholders' Equity						113,954	113,954
GAP	\$ 490,500	\$ 222,474	\$ (170,005)	\$ (510,071)	\$ 11,875	\$ (44,773)	-
YIELD SPREAD	2.84%	(1.39)%	4.99%	0.22%	5.35%		

Certain residential construction loans and single family uninsured completed inventory loans are subject to the greater of a minimum interest rate (ranging between 4.35% and 10%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate at March 31, 2011, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - \$23,766, 3 months to 1 year - \$75,531, and 1 to 5 years - \$41,271.

An immediate and sustained 1% increase (decrease) to market interest rates at March 31, 2011 would have a positive (adverse) effect of \$616 (2010 - \$641) to net income over the following twelve month period.

An immediate and sustained 1% increase (decrease) to market interest rates at March 31, 2011 would have an adverse (positive) effect to the available for sale reserve of \$271 (December 31, 2010 - \$211, January 1, 2010 - \$nil).

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

33. Capital Management

The Company's primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk weighted returns for shareholders. Through its risk management and corporate

33. Capital Management (continued)

governance framework, the Company assesses current and projected economic, housing market, interest rate and credit conditions to determine appropriate levels of capital. The Company typically pays out all of its taxable income by way of dividends. Capital growth is achieved through retained earnings, public share offerings, rights offerings and the dividend reinvestment plan. The Company's capital management is driven by the guidelines set out by the Tax Act and OSFI. As a MIC under the Tax Act, the Company is limited to a liabilities to capital ratio of 5:1 (or an assets to capital ratio of 6:1), based on the non-consolidated balance sheet measured at its tax value. As a loan company under the Trust Act, the Company has been granted a maximum consolidated regulatory assets to capital ratio by OSFI. The Company manages its assets to a level of 5.75 times capital on a non-consolidated tax basis to provide a prudent cushion between its limit and total actual assets. The Company manages its capital to comply with the requirements of the MIC test and OSFI regulations at all times.

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

Tier 1 capital includes share capital, contributed surplus, retained earnings and certain components of accumulated other comprehensive income. Tier 1 and Tier 2 capital are both reduced by 50% of unrated securitization exposures, while Tier 1 capital was reduced by a portion of gains on securitization under CGAAP. OSFI's target minimum Tier 1 and Total capital ratios for the Company are 7% and 10%, respectively. The Company's target minimum Tier 1 and Total capital ratios are both 20%.

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.

As at	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
Income tax liabilities to capital ratio	4.24	3.39	3.04
Regulatory Ratios (OSFI)			
Tier 1 capital			
Share capital	\$ 101,055	\$ 100,112	\$ 98,490
Contributed surplus	510	510	510
Retained earnings	17,117	26,956	22,165
Tier 1 capital deductions	(229)	(6,815)	(9,792)
	118,453	120,763	111,373
Tier 2 capital			
Unrealized gain on available for sale marketable securities	97	-	-
Tier 2 capital deductions	(229)	(229)	(1,142)
	(132)	(229)	(1,142)
Total capital	\$ 118,321	\$ 120,534	\$ 110,231
Total regulatory assets	\$ 655,452	\$ 595,473	\$ 508,351
Capital ratios			
Tier 1 capital to risk-weighted assets ratio	21.80%	22.10%	27.75%
Total capital to risk-weighted assets ratio	21.77%	22.06%	27.47%
Assets to capital ratio	5.54	4.94	4.61

As at March 31, 2011, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

34. Financial Instruments

The Company's assets, analyzed on a risk-weighted basis, are as outlined in the table below. Assets securitized through the CMB program prior to June 30, 2010 are excluded from the calculation of risk-weighted assets.

As at	March 31 2011 (IFRS)	December 31 2010 (CGAAP)	January 1 2010 (CGAAP)
On-Balance Sheet Assets			
Cash and cash equivalents	\$ 11,797	\$ 18,140	\$ 18,260
Marketable securities	18,385	6,608	-
Mortgages - corporate	316,166	294,907	202,272
Financial investments	16,646	13,926	29,759
Other loans	3,114	10,079	16,885
Equity investment in MCLP	11,280	20,315	17,905
Other assets	6,165	3,209	1,555
	383,553	367,184	286,636
Off-Balance Sheet Assets			
Letters of credit	10,357	11,247	5,572
Mortgage funding commitments	79,563	99,839	48,087
	89,920	111,086	53,659
Derivative Financial Instruments			
CMB interest rate swaps			
Outstanding notional	273,639	279,138	260,095
Add-on factor	0.5%	0.5%	0.5%
Potential credit exposure	1,368	1,396	1,300
Positive replacement cost	9,882	13,120	11,490
Credit equivalent	11,250	14,516	12,790
Risk weighting	20%	20%	20%
Risk-weighted equivalent	2,250	2,903	2,558
Charge for operational risk	67,725	65,238	58,475
Total Risk-Weighted Assets	\$ 543,448	\$ 546,411	\$ 401,328

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

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.

34. Financial Instruments (continued)

- 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.

The majority of the Company's consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, short-term investments, marketable securities, mortgages, financial investments, other loans, financial liabilities from securitization, term deposits and derivative financial instruments.

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

The following table summarizes financial assets reported at fair value as at March 31, 2011. Financial assets and liabilities are classified into three levels, as follows: quoted prices in an active market (Level 1), fair value based on observable inputs other than quoted prices (Level 2) and fair value based on inputs that are not based on observable data (Level 3).

	Level 1	Level 2	Level 3
Financial Assets			
Marketable securities	\$ 11,259	\$ 7,126	\$ -
Derivative financial instruments	-	9,882	-
	\$ 11,259	\$ 17,008	\$ -

The following table summarizes financial assets reported at fair value as at December 31, 2010.

	Level 1	Level 2	Level 3
Financial Assets			
Marketable securities	\$ 1,652	\$ 4,956	\$ -
Derivative financial instruments	-	13,120	-
	\$ 1,652	\$ 18,076	\$ -

The following table summarizes financial assets reported at fair value as at January 1, 2010.

	Level 1	Level 2	Level 3
Financial Assets			
Derivative financial instruments	\$ -	\$ 11,490	\$ -
	\$ -	\$ 11,490	\$ -

There were no transfers between levels during the quarters ended March 31, 2011 and March 31, 2010 or the year ended December 31, 2010. There were no financial liabilities reported at fair value as at March 31, 2011, December 31, 2010 or January 1, 2010.

Risk Management

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

The nature of these risks and how they are managed is provided in the Risk Management and Risk Factors section of the Management's Discussion and Analysis of Operations ("MD&A"). Certain disclosures required under IFRS 7, *Financial Instruments: Disclosures*, related to the management of credit, interest rate, liquidity and market risks inherent with financial instruments are included in the MD&A. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of these consolidated financial statements.

35. 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.

36. Subsequent Event

On April 18, 2011, the Company completed a public share offering of 2,300,000 common shares at a price of \$14.50 per common share, for net proceeds of approximately \$31 million, issued pursuant to a short form prospectus dated April 8, 2011.