



MCAN MORTGAGE CORPORATION

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

JUNE 30, 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 June 30, 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 August 8, 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.

HIGHLIGHTS

- Net income for the second quarter remained strong at \$7.2 million (\$0.44 per share), although down from \$9.9 million (\$0.69 per share) in the prior year. Prior year income was exceptionally high, as it included a significantly higher positive fair market value adjustment and certain one-time items related to our securitized portfolio, partially offset by a higher provision for income taxes.
- Estimated taxable income for the quarter was \$5.5 million, comparable to \$5.7 million in the prior year, while on a per share basis it decreased to \$0.34 from \$0.39 in the prior year.
- We completed a public share issuance during the quarter, issuing 2,300,000 new common shares for net proceeds of \$31 million.
- We had \$185 million of unused asset capacity as at June 30, 2011, \$178 million of which was created through the share issuance.
- We declared a third quarter dividend of \$0.27 per share to be paid on September 30, 2011 to shareholders of record as of September 2, 2011.
- Total consolidated assets were \$3.8 billion at June 30, 2011, an increase of \$48 million from March 31, 2011. The change included an increase of \$25 million in our corporate mortgage portfolio (consisting primarily of an increase of \$25 million in construction loans) in addition to increases of \$9 million in marketable securities and \$8 million in cash.
- Impaired mortgages as a percentage of total mortgages remained low at 0.67% as at June 30, 2011, compared to 0.63% as at March 31, 2011. Impaired corporate mortgages as a percentage of the corporate portfolio decreased to 2.46% at June 30, 2011 from 2.76% at March 31, 2011.

SELECTED FINANCIAL INFORMATION

(dollars in thousands except for per share amounts)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	2010	2011	2010
Operating Results				
Net investment income - corporate assets	\$ 6,165	\$ 6,174	\$ 11,473	\$ 11,211
Net investment income - securitized assets before fair market value adjustment	1,844	3,685	3,313	4,888
Fair market value adjustment	1,722	4,702	(1,516)	3,240
Net investment income - securitized assets	3,566	8,387	1,797	8,128
Net investment income	9,731	14,561	13,270	19,339
Operating expenses	1,793	1,407	3,465	2,715
Income before income taxes	7,938	13,154	9,805	16,624
Provision for (recovery of) income taxes	733	3,294	(4,489)	2,638
Net income	\$ 7,205	\$ 9,860	\$ 14,294	\$ 13,986
Average mortgage portfolio yield - corporate	6.54%	8.00%	6.75%	7.83%
Term deposit average interest rate	2.36%	2.00%	2.28%	2.11%
Average mortgage portfolio yield - securitized	4.17%	4.79%	4.25%	4.39%
Financial liabilities from securitization - average interest rate	3.60%	3.68%	3.67%	3.69%
Basic and diluted earnings per share	\$ 0.44	\$ 0.69	\$ 0.93	\$ 0.98
Estimated taxable income per share	\$ 0.34	\$ 0.39	\$ 0.64	\$ 0.68
Dividends per share	\$ 0.27	\$ 0.26	\$ 1.27	\$ 0.67
Return on average shareholders' equity	19.93%	34.14%	20.91%	24.04%

(dollars in thousands except for per share amounts)

	June 30 2011	March 31 2011	December 31 2010	June 30 2010
Balance Sheet Highlights				
Assets				
Corporate	\$ 639,525	\$ 595,773	\$ 538,032	\$ 441,525
Securitized	3,156,923	3,153,124	3,147,993	3,139,389
Total assets	3,796,448	3,748,897	3,686,025	3,580,914
Mortgages - corporate	521,024	495,662	420,322	392,486
Mortgages - securitized	1,733,134	1,820,902	1,910,995	2,125,000
Liabilities				
Corporate	522,594	511,852	441,345	351,208
Securitized	3,120,897	3,118,266	3,119,601	3,110,645
Total liabilities	3,643,491	3,630,118	3,560,946	3,461,853
Shareholders' equity	\$ 152,957	\$ 118,779	\$ 125,079	\$ 119,061
Capital Ratios				
Tax Assets to Capital Ratio	4.51	5.24	4.39	3.96
Tier 1 Capital Ratio	26.82%	21.80%	22.10%	24.01%
Total Capital Ratio	26.80%	21.77%	22.06%	23.96%
Credit Quality				
Impaired mortgage ratio	0.67%	0.63%	0.63%	0.76%
Total mortgage arrears	\$ 86,615	\$ 91,527	\$ 91,828	\$ 101,705
Share Information (end of period)				
Number of common shares outstanding (thousands)	16,846	14,511	14,448	14,379
Book value per common share	\$ 9.08	\$ 8.19	\$ 8.66	\$ 8.28
Common share price - close	\$ 14.64	\$ 15.20	\$ 13.86	\$ 12.90
Market capitalization	\$ 246,625	\$ 220,567	\$ 200,249	\$ 185,489

SHARE ISSUANCE

On April 18, 2011, we completed a public share offering of 2,300,000 common shares at a price of \$14.50 per share, for net proceeds of approximately \$31 million after deducting \$2.3 million of issuance costs.

The purpose of the share issuance was to create additional asset capacity to grow our corporate asset portfolio. Based on our target assets to capital ratio (governed by our MIC tax status), the share issuance created an additional \$178 million of asset capacity. As at June 30, 2011, we had total remaining asset capacity of \$185 million, such that we have now used up almost all of our asset capacity from prior to the share issuance.

The share issuance represented MCAN's first public capital issuance since 1991. In recent years, we have raised capital through rights offerings to existing shareholders and the quarterly dividend reinvestment plan. As a MIC that typically pays out all of its taxable income through dividends, MCAN's capital growth is achieved through new share capital as opposed to the reinvestment of earnings.

IMPACT OF CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements for the quarter ended June 30, 2011 are the second quarter 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. As the securitization issuances mature, the securitization liability and related assets (securitized mortgages and principal reinvestment assets) will be removed from the balance sheet. Since we are not currently participating in new CMB issuances, we expect that the Company's securitization assets and liabilities will decrease significantly over the next three years. The securitization liabilities mature as follows: 2012 - \$1.1 billion, 2013 - \$1.1 billion, 2014 - \$882 million, 2015 - \$47 million.
- 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.

OUTLOOK

The Canadian economy has continued to expand, although domestic demand has been somewhat slower than initially anticipated by economists. The economy is projected to expand with GDP growth of 2.8% and 2.6% for 2011 and 2012 respectively. The Canadian economy saw slower growth in the second quarter of 2011 due to the impact of higher energy costs.

Canadian mortgage rates are expected to remain stable for the balance of 2011. The Canadian housing market is in transition to a more moderate and sustainable pace of activity. Interest rates have remained low and are expected to remain so, by historical standards.

House prices in Canada have continued to stabilize to date in 2011, with most regions showing steady appreciation. Recent strong gains in Vancouver and Toronto have distorted the national average, however we expect these markets to return to more sustainable levels such that house price appreciation will be in line with inflation. The Canadian housing market continues to be balanced, with the monthly supply of listings in line with demand. This stability has allowed MCAN to continue to grow moderately by focusing on our core housing markets for uninsured single family and residential construction mortgages.

The public share offering completed in April provided approximately \$31 million of additional share capital resulting in approximately \$178 million of new asset capacity. With this new capacity we plan to focus on core lending growth in our

corporate mortgage portfolio, which will help to facilitate our growth plans in Canadian residential markets. We plan to expand our lending in the Canadian markets in which we invest, and establish new business in Manitoba, Quebec and the Atlantic provinces. We will continue to explore options for potential future participation in the CMB program and insured mortgage-backed securities markets. We plan to maintain our financial strength while growing our corporate asset portfolio. Growth will be moderate and measured so as to ensure that we are not adversely impacted by changing conditions in housing markets.

RESULTS OF OPERATIONS

Net Investment Income

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	2010	2011	2010
Net Investment Income - Corporate Assets				
Mortgage interest	\$ 7,983	\$ 6,723	\$ 15,543	\$ 12,542
Interest on financial investments and other loans	1,014	925	1,159	1,802
Equity income from MCAP Commercial LP	578	231	1,385	490
Fees	366	991	571	1,628
Marketable securities	299	-	455	-
Interest on cash and cash equivalents	158	30	336	73
	10,398	8,900	19,449	16,535
Term deposit interest and expenses	3,059	1,718	5,619	3,651
Mortgage expenses	917	724	1,767	1,254
Provision for credit losses	257	284	590	419
	4,233	2,726	7,976	5,324
	6,165	6,174	11,473	11,211
Net Investment Income - Securitized Assets				
Mortgage interest	5,549	7,193	11,001	13,446
Interest on financial investments	1,447	512	2,740	867
Interest on short-term investments	184	64	374	128
Other securitization income	2,235	3,341	4,424	5,382
	9,415	11,110	18,539	19,823
Interest on financial liabilities from securitization	7,416	7,233	14,940	14,574
Mortgage expenses	155	192	286	361
	7,571	7,425	15,226	14,935
Net investment income before fair market value adjustment	1,844	3,685	3,313	4,888
Fair market value adjustment - derivative financial instruments	1,722	4,702	(1,516)	3,240
	3,566	8,387	1,797	8,128
Net Investment Income	\$ 9,731	\$ 14,561	\$ 13,270	\$ 19,339

Net investment income was \$9.7 million for the quarter, a decrease of \$4.9 million from \$14.6 million during the same quarter in the prior year. The decrease is primarily due to a significantly higher positive fair market value adjustment and certain one-time items recognized in the prior year. Net investment income consisted of \$6.2 million from corporate assets (\$6.2 million in 2010) and \$3.6 million from securitized assets (\$8.4 million in 2010). Income from securitized assets includes a \$1.7 million positive fair market value adjustment to derivative financial instruments (positive \$4.7 million in 2010).

Net investment income for the six months ended June 30, 2011 was \$13 million, down from \$19 million in the prior year.

Net Investment Income - Corporate Assets

Net investment income from corporate assets was \$6.2 million for the quarter, unchanged from the prior year.

Mortgage interest income increased by \$1.3 million from the prior year as a result of a \$152 million increase in the average mortgage portfolio from \$351 million to \$503 million, partially offset by a 1.46% decrease in the average mortgage yield from 8.00% in 2010 to 6.54% in 2011. Mortgage interest income includes \$516,000 (2010 - \$1.2 million) of discount income realized

on MCAN's acquired mortgage portfolios, which caused the majority of the decrease in the mortgage yield over the prior year. The increase of \$3.0 million for the year to date was a result of a \$148 million increase in the average portfolio from \$325 million to \$473 million, partly offset by a 1.08% decrease in the average yield from 7.83% to 6.75%.

Interest on financial investments and other loans increased from \$925,000 to \$1.0 million, primarily due to an \$876,000 gain on the sale of a financial investment. The increase was largely offset by a significantly lower average portfolio balance in the current year, which also led to the year to date decrease from 2010.

Equity income from our ownership interest in MCAP Commercial LP ("MCLP") was \$578,000 during the quarter compared to \$231,000 in the prior year.

Fees consist of fee income from a profit sharing arrangement relating to mortgage portfolios acquired by MCLP of \$130,000 (2010 - \$635,000) and other mortgage fees of \$236,000 (2010 - \$356,000).

Marketable securities income was \$299,000 for the quarter and \$455,000 for the year to date 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 significantly over the prior year due to higher average cash balances and a higher average yield.

Term deposit interest and expenses increased by \$1.3 million during the quarter, primarily due to a \$185 million increase in the average outstanding balance from \$324 million in 2010 to \$509 million in 2011 and an increase in the average term deposit interest rate to 2.36% in 2011 from 2.00% in 2010. The increase of \$2.0 million for the year to date was due to a \$156 million increase in the average outstanding balance from \$330 million to \$486 million and a 0.17% increase in the average yield from 2.11% to 2.28%.

Mortgage expenses increased over the prior year as a result of a significantly larger average portfolio, although the average mortgage servicing rate decreased over 2010.

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 fair market value adjustments was \$1.8 million compared to \$3.7 million in the prior year. Including fair market value adjustments on derivative financial instruments, net investment income on securitized assets was \$3.6 million compared to \$8.4 million in the prior year.

Mortgage interest income decreased by \$1.6 million from the prior year as a result of a \$379 million decrease in the average mortgage portfolio over 2010 and a 0.62% decrease in the average mortgage yield. The decrease of \$2.4 million for the year to date was a result of a \$391 million decrease in the average balance and a 0.14% decrease in the average yield. The average yield was exceptionally high in the prior year due to significantly higher than usual penalty income. As the securitized mortgages repay, we reinvest the collected principal in certain permitted investments, which include financial investments and short-term investments. Since we do not currently plan to participate in new CMB program issuances in the near future, we expect securitized mortgage interest income to continue to decrease as the mortgages repay, while reinvestment income should increase as our reinvested asset balances grow.

Interest on financial investments increased by \$935,000 for the quarter and \$1.9 million for the year to date due to a significant increase in the average portfolio from 2010.

Other securitization income was \$2.2 million in the quarter compared to \$3.3 million in the prior year, consisting primarily of interest rate swap receipts of \$2.2 million (2010 - \$3.0 million). Year to date income also relates primarily to interest rate swap receipts. Interest rate swap receipts from the second quarter of the prior year include significant receipts from partial unwinds of interest rate swaps, which are recognized directly into income.

Interest on financial liabilities from securitization was \$7.4 million for the quarter, up from \$7.2 million in the prior year. The increase was primarily due to a \$19 million increase in the average outstanding liability over the prior year, partially offset by a decrease in the average interest rate from 3.68% to 3.60%. For the year to date, the impact of a higher outstanding average liability in the current year also exceeded that of a lower average rate.

The positive fair market value adjustment to derivative financial instruments of \$1.7 million (2010 - \$4.7 million) for the quarter and negative \$1.5 million (2010 - positive \$3.2 million) over the six months ended June 30, 2011 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

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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 June 30, 2011

(in thousands except %)	Average Balance			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 74,139	\$ -	\$ 74,139	\$ 158	\$ -	\$ 158	0.85%	-
Short-term investments	-	244,265	244,265	-	184	184	-	1.04%
Marketable securities	22,231	-	22,231	299	-	299	5.39%	-
Mortgages - corporate	502,924	-	502,924	7,983	-	7,983	6.54%	-
Mortgages - securitized	-	1,767,675	1,767,675	-	5,549	5,549	-	4.17%
Financial investments	10,672	1,119,252	1,129,924	972	1,447	2,419	3.59%	2.10%
Other loans	3,051	-	3,051	42	-	42	5.52%	-
Total on interest earning assets	613,017	3,131,192	3,744,209	9,454	7,180	16,634	6.19%	3.34%
Other assets	40,468	940	41,408	-	-	-	-	-
Total assets	\$ 653,485	\$ 3,132,132	\$ 3,785,617	\$ 9,454	\$ 7,180	\$ 16,634	5.80%	3.34%
Liabilities and Shareholders' Equity								
Term deposits	\$ 509,296	\$ -	\$ 509,296	\$ 3,059	\$ -	\$ 3,059	2.36%	-
Financial liabilities from securitization	-	3,116,700	3,116,700	-	7,416	7,416	-	3.60%
Other liabilities	15,021	-	15,021	-	-	-	-	-
Shareholders' equity	-	-	144,600	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 524,317	\$ 3,116,700	\$ 3,785,617	\$ 3,059	\$ 7,416	\$ 10,475	2.36%	3.60%
Net Interest Income²				\$ 6,395	\$ (236)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							4.18%	

For the Quarter Ended June 30, 2010

(in thousands except %)	Average Balance			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 37,104	\$ -	\$ 37,104	\$ 30	\$ -	\$ 30	0.32%	-
Short-term investments	-	271,995	271,995	-	64	64	-	0.33%
Marketable securities	-	-	-	-	-	-	-	-
Mortgages - corporate	350,892	-	350,892	6,723	-	6,723	8.00%	-
Mortgages - securitized	-	2,146,927	2,146,927	-	7,193	7,193	-	4.79%
Financial investments	24,981	618,027	643,008	756	512	1,268	10.82%	1.62%
Other loans	11,007	-	11,007	169	-	169	6.16%	-
Total on interest earning assets	423,984	3,036,949	3,460,933	7,678	7,769	15,447	7.26%	3.79%
Other assets	43,462	32,035	75,497	-	-	-	-	-
Total assets	\$ 467,446	\$ 3,068,984	\$ 3,536,430	\$ 7,678	\$ 7,769	\$ 15,447	6.59%	3.65%
Liabilities and Shareholders' Equity								
Term deposits	\$ 324,489	\$ -	\$ 324,489	\$ 1,718	\$ -	\$ 1,718	2.00%	-
Financial liabilities from securitization	-	3,087,810	3,087,810	-	7,233	7,233	-	3.68%
Other liabilities	8,604	-	8,604	-	-	-	-	-
Shareholders' equity	-	-	115,527	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 333,093	\$ 3,087,810	\$ 3,536,430	\$ 1,718	\$ 7,233	\$ 8,951	2.00%	3.68%
Net Interest Income²				\$ 5,960	\$ 536			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							6.00%	

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.

For the Six Months Ended June 30, 2011

(in thousands except %)	Average Balance			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 82,617	\$ -	\$ 82,617	\$ 336	\$ -	\$ 336	0.82%	-
Short-term investments	-	238,570	238,570	-	374	374	-	1.09%
Marketable securities	16,275	-	16,275	455	-	455	5.64%	-
Mortgages - corporate	473,036	-	473,036	15,543	-	15,543	6.75%	-
Mortgages - securitized	-	1,816,062	1,816,062	-	11,001	11,001	-	4.25%
Financial investments	10,468	1,074,447	1,084,915	1,074	2,740	3,814	3.81%	2.10%
Other loans	3,129	-	3,129	85	-	85	5.48%	-
Total on interest earning assets	585,525	3,129,079	3,714,604	17,493	14,115	31,608	6.02%	3.35%
Other assets	37,765	5,182	42,947	-	-	-	-	-
Total assets	\$ 623,290	\$ 3,134,261	\$ 3,757,551	\$ 17,493	\$ 14,115	\$ 31,608	5.66%	3.33%
Liabilities and Shareholders' Equity								
Term deposits	\$ 485,723	\$ -	\$ 485,723	\$ 5,619	\$ -	\$ 5,619	2.28%	-
Financial liabilities from securitization	-	3,117,653	3,117,653	-	14,940	14,940	-	3.67%
Other liabilities	17,259	-	17,259	-	-	-	-	-
Shareholders' equity	-	-	136,916	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 502,982	\$ 3,117,653	\$ 3,757,551	\$ 5,619	\$ 14,940	\$ 20,559	2.28%	3.67%
Net Interest Income²				\$ 11,874	\$ (825)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							4.47%	

For the Six Months Ended June 30, 2010

(in thousands except %)	Average Balance			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 53,931	\$ -	\$ 53,931	\$ 73	\$ -	\$ 73	0.27%	-
Short-term investments	-	280,146	280,146	-	128	128	-	0.32%
Marketable securities	-	-	-	-	-	-	-	-
Mortgages - corporate	324,621	-	324,621	12,542	-	12,542	7.83%	-
Mortgages - securitized	-	2,207,271	2,207,271	-	13,446	13,446	-	4.39%
Financial investments	40,115	543,425	583,540	1,433	867	2,300	6.79%	1.66%
Other loans	11,194	-	11,194	369	-	369	6.65%	-
Total on interest earning assets	429,861	3,030,842	3,460,703	14,417	14,441	28,858	6.76%	3.55%
Other assets	42,684	35,115	77,799	-	-	-	-	-
Total assets	\$ 472,545	\$ 3,065,957	\$ 3,538,502	\$ 14,417	\$ 14,441	\$ 28,858	6.15%	3.41%
Liabilities and Shareholders' Equity								
Term deposits	\$ 329,683	\$ -	\$ 329,683	\$ 3,651	\$ -	\$ 3,651	2.11%	-
Financial liabilities from securitization	-	3,082,207	3,082,207	-	14,574	14,574	-	3.69%
Other liabilities	10,013	-	10,013	-	-	-	-	-
Shareholders' equity	-	-	116,599	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 339,696	\$ 3,082,207	\$ 3,538,502	\$ 3,651	\$ 14,574	\$ 18,225	2.11%	3.69%
Net Interest Income²				\$ 10,766	\$ (133)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							5.72%	

¹The average balance is 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 for certain periods, 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 \$2.2 million in the current quarter (2010 - \$3.0 million) and \$4.3 million for the year to date (2010 - \$4.9 million).

Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended (in thousands except %)	June 30, 2011			June 30, 2010		
	Average Assets ¹	Interest Income	Average Rate	Average Assets ¹	Interest Income	Average Rate
Single family	\$ 259,168	\$ 4,128	6.39%	\$ 146,749	\$ 3,438	9.41%
Construction and single family uninsured (completed inventory loans)	223,141	3,562	6.79%	199,825	3,189	6.95%
Commercial	20,615	293	5.71%	4,318	96	9.05%
Average mortgages - corporate portfolio	\$ 502,924	\$ 7,983	6.54%	\$ 350,892	\$ 6,723	8.00%

For the Six Months Ended (in thousands except %)	June 30, 2011			June 30, 2010		
	Average Assets ¹	Interest Income	Average Rate	Average Assets ¹	Interest Income	Average Rate
Single family	\$ 230,138	\$ 7,608	6.62%	\$ 139,924	\$ 6,093	8.76%
Construction and single family uninsured (completed inventory loans)	225,735	7,400	6.93%	180,359	6,220	7.07%
Commercial	17,163	535	6.29%	4,338	229	9.37%
Average mortgages - corporate portfolio	\$ 473,036	\$ 15,543	6.75%	\$ 324,621	\$ 12,542	7.83%

¹The average is 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)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	2010	2011	2010
Individual provision (recovery)				
Single family uninsured	\$ (76)	\$ 62	\$ (101)	\$ 19
Residential construction	-	-	-	-
	<u>\$ (76)</u>	<u>\$ 62</u>	<u>\$ (101)</u>	<u>\$ 19</u>
Collective provision (recovery)				
Single family uninsured	\$ 147	\$ 43	\$ 507	\$ 25
Residential construction	145	99	127	301
Commercial	44	1	62	7
Mortgages - total	336	143	696	333
Financial investments and other loans	(3)	(21)	(5)	(33)
Other provisions	-	100	-	100
	<u>\$ 333</u>	<u>\$ 222</u>	<u>\$ 691</u>	<u>\$ 400</u>
Total provision for credit losses	<u>\$ 257</u>	<u>\$ 284</u>	<u>\$ 590</u>	<u>\$ 419</u>
Total provision for credit losses - corporate mortgages	\$ 260	\$ 205	\$ 595	\$ 352
Net write offs - corporate mortgage portfolio	\$ 138	\$ -	\$ 214	\$ 32
Annualized net write offs - corporate mortgage portfolio (basis points)	11.1	-	9.0	3.9

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.

The significant collective provision activity in the current and prior years is consistent with the growth in our corporate mortgage portfolio over those periods.

During the quarter, MCAN and another participant lender received approval from the Court of Queen's Bench Alberta for a foreclosure order on one of its impaired residential construction mortgages with a carrying value of \$6.7 million (net of a \$1 million individual allowance). The final ownership structure of this mortgage has not yet been finalized, but MCAN's proportionate interest in the property is expected to be held as an investment within a special purpose entity. The proposed ownership structure is currently being reviewed by our external auditors and legal counsel. Since the process has not yet been finalized, the mortgage is still considered to be impaired as at June 30, 2011.

Corporate mortgage arrears of \$26 million as at June 30, 2011 decreased from \$27 million at March 31, 2011 and \$36 million at June 30, 2010. Securitized mortgage arrears of \$61 million decreased from \$65 million at March 31, 2011 and \$66 million at June 30, 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 %)	June 30 2011	March 31 2011	June 30 2010
Residential construction	\$ 10,060	\$ 11,833	\$ 13,678
Uninsured single family	2,618	1,708	1,834
Securitized single family	2,406	1,114	3,638
Net impaired mortgages	\$ 15,084	\$ 14,655	\$ 19,150
Total mortgages	\$ 2,254,158	\$ 2,316,564	\$ 2,517,486
Net impaired as % of total mortgages (net of individual allowances)	0.67%	0.63%	0.76%
Net impaired as % of corporate mortgages (net of individual allowances)	2.46%	2.76%	4.04%
Collective allowance	\$ 2,530	\$ 2,332	\$ 1,662
Individual allowance	1,145	1,221	2,801
Total allowance	\$ 3,675	\$ 3,553	\$ 4,463

Operating Expenses

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	2010	2011	2010
Salaries and benefits	\$ 787	\$ 488	\$ 1,559	\$ 1,087
General and administrative	1,006	919	1,906	1,628
	\$ 1,793	\$ 1,407	\$ 3,465	\$ 2,715

The increase in salaries and benefits is primarily due to the absence of a permanent Chief Executive Officer in the prior year, in addition to a net increase of two new employees in the current year. In addition, we recognized \$58,000 of compensation expense associated with the Deferred Share Units Plan (see Note 29 to the consolidated financial statements) in the current quarter, compared to \$nil in the prior year.

Income Taxes

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	2010	2011	2010
Current tax provision (recovery)	\$ 345	\$ 821	\$ (3,750)	\$ 82
Deferred tax provision (recovery)	388	2,473	(739)	2,556
	\$ 733	\$ 3,294	\$ (4,489)	\$ 2,638

The significant recovery of current taxes for the six months ended June 30, 2011 was 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. As a result of the payment of this dividend during the first quarter, current taxes payable decreased significantly from December 31, 2010, leading to the \$3.8 million year to date recovery of current taxes.

The significant deferred tax charge for the quarter and six months ended June 30, 2010 was primarily due to the significant positive fair market value adjustment to the CMB interest rate swaps during the second quarter of 2010.

MCAN's estimated taxable income was \$5.5 million (\$0.34 per share) for the quarter and \$9.9 million (\$0.64 per share) for the six months ended June 30, 2011, compared to \$5.7 million (\$0.39 per share) and \$9.8 million (\$0.68 per share), respectively, in the prior year. Please note that actual taxable income may differ materially from estimated taxable income. As a MIC, we typically pay out all of our taxable income to shareholders through dividends.

The key differences between estimated taxable income and pre-tax net income include the non-deductibility of fair market value adjustments, collective provisions for credit losses and the amortization of upfront CMB costs for tax purposes, the treatment of capital gains income, and differences between equity income from MCLP for accounting and tax purposes.

Cash Flows

Operating activities provided \$178 million in the current year and provided \$183 million in the prior year. Net mortgage inflows were significantly higher in the prior year, while net term deposit inflows were positive in 2011 compared to a net outflow in 2010. We had \$38 million of inflows from new financial liabilities from securitization in the prior year compared to \$nil in the current year. In addition, there was a significant cash inflow from a decrease in other assets in the prior year.

Investing activities used \$209 million in the current year and used \$237 million in the prior year. The net increase in financial investments was significantly higher in the prior year, although there was an increase in short-term investments in the current year compared to a decrease in the prior year. In addition, we had outflows related to the purchase of marketable securities in the current year compared to \$nil in the prior year.

Financing activities provided \$10 million in the current year and used \$13 million in the prior year. While dividend outflows were higher in the current year, there was a significant cash inflow in 2011 as a result of the share issuance.

SELECTED QUARTERLY FINANCIAL DATA

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

(dollars in thousands except for per share amounts)

	2011 (IFRS)		2010 (IFRS)	
	Q2	Q1	Q4	Q3
Net investment income - corporate assets	\$ 6,165	\$ 5,308	\$ 7,940	\$ 8,229
Net investment income - securitized assets before fair market value adjustment	1,844	1,469	2,321	1,846
Fair market value adjustment	1,722	(3,238)	(5,908)	4,297
Net investment income - securitized assets	3,566	(1,769)	(3,587)	6,143
Net investment income	9,731	3,539	4,353	14,372
Operating expenses	1,793	1,672	1,926	1,459
Income before income taxes	7,938	1,867	2,427	12,913
Provision for (recovery of) income taxes	733	(5,222)	469	2,199
Net income	\$ 7,205	\$ 7,089	\$ 1,958	\$ 10,714
Basic and diluted earnings per share	\$ 0.44	\$ 0.49	\$ 0.13	\$ 0.74
Dividends per share ¹				
Regular	\$ 0.27	\$ 0.27	\$ 0.26	\$ 0.26
Extra	-	0.73	-	-
Total	\$ 0.27	\$ 1.00	\$ 0.26	\$ 0.26

(dollars in thousands except for per share amounts)

	2010 (IFRS)		2009 (CGAAP)	
	Q2	Q1	Q4	Q3
Net investment income - corporate assets	\$ 6,174	\$ 5,037		
Net investment income - securitized assets before fair market value adjustment	3,685	1,203		
Fair market value adjustment	4,702	(1,462)		
Net investment income - securitized assets	8,387	(259)		
Net investment income	14,561	4,778	\$ 8,056	\$ 8,007
Operating expenses	1,407	1,308	1,952	1,410
Income before income taxes	13,154	3,470	6,104	6,597
Provision for (recovery of) income taxes	3,294	(656)	-	-
Net income	\$ 9,860	\$ 4,126	\$ 6,104	\$ 6,597
Basic and diluted earnings per share	\$ 0.69	\$ 0.29	\$ 0.43	\$ 0.46
Dividends per share ¹				
Regular	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.25
Extra	-	0.15	-	-
Total	\$ 0.26	\$ 0.41	\$ 0.26	\$ 0.25

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

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

Net investment income from our corporate portfolio has been stable and consistent for the past six quarters. The third and fourth quarters of 2010 were higher than usual due to the reversal of a specific corporate mortgage provision upon payout and strong equity income from MCLP, respectively.

Net investment income before fair market value adjustments from our securitized portfolio has also been stable, with significant one-time income recognized in the second quarter of 2010. The fair market value adjustment is driven by changes in the forward interest rate curve and is difficult to predict.

We generally recover current taxes in the first quarter based on the magnitude of the extra dividend. We generally incur deferred tax expense on a positive fair market value adjustment, and vice versa.

FINANCIAL POSITION

As at June 30, 2011, total consolidated assets were \$3.8 billion, an increase of \$48 million from March 31, 2011.

(in thousands except %)	June 30, 2011		March 31, 2011		June 30, 2010	
Cash and cash equivalents	\$ 64,690	1.7%	\$ 56,376	1.5%	\$ 21,727	0.6%
Short-term investments	266,157	7.0	254,461	6.8	263,721	7.4
Marketable securities	27,672	0.7	18,385	0.5	-	-
Mortgages						
Corporate	521,024	13.7	495,662	13.2	392,486	11.0
Securitized	1,733,134	45.7	1,820,902	48.6	2,125,000	59.3
Financial investments	1,151,928	30.3	1,072,670	28.6	736,248	20.6
Other loans	2,918	0.1	3,114	0.1	9,112	0.2
Equity investment in MCAP Commercial LP	11,858	0.3	11,280	0.3	9,401	0.3
Derivative financial instruments	11,604	0.3	9,882	0.3	14,730	0.4
Other assets	5,463	0.2	6,165	0.1	8,489	0.2
	\$ 3,796,448	100.0%	\$ 3,748,897	100.0%	\$ 3,580,914	100.0%

Corporate assets increased by \$44 million from \$596 million at March 31, 2011 to \$640 million at June 30, 2011. Securitized assets increased by \$4 million during the same period.

Cash increased by \$8 million during the quarter. Our current cash balances meet our liquidity requirements, discussed in "Risk Management".

Short-term investments increased by \$12 million during the quarter. CMB reinvestment assets increased by \$15 million, while CMB funds held in trust decreased by \$3 million.

Marketable securities, consisting of corporate bonds, exchange traded funds and real estate investment trusts, increased by \$9 million during the quarter. Marketable securities provide the Company with additional liquidity at yields in excess of cash and cash equivalents.

The breakdown of mortgages by property type is as follows:

(in thousands except %)	June 30, 2011		March 31, 2011		June 30, 2010	
Corporate portfolio:						
Single family uninsured	\$ 244,122	10.8%	\$ 246,324	10.6%	\$ 144,838	5.8%
Single family insured	46,738	2.1	51,409	2.2	74,157	2.9
Construction	207,117	9.2	182,193	7.9	165,603	6.6
Commercial	23,047	1.0	15,736	0.7	7,888	0.3
	<u>521,024</u>	<u>23.1</u>	<u>495,662</u>	<u>21.4</u>	<u>392,486</u>	<u>15.6</u>
Securitized portfolio	<u>1,733,134</u>	<u>76.9</u>	<u>1,820,902</u>	<u>78.6</u>	<u>2,125,000</u>	<u>84.4</u>
	\$ 2,254,158	100.0%	\$ 2,316,564	100.0%	\$ 2,517,486	100.0%

The geographical breakdown of mortgages by province is as follows:

(in thousands except %)	June 30, 2011		March 31, 2011		June 30, 2010	
Corporate:						
Ontario	\$ 203,142	39.0%	\$ 187,528	37.8%	\$ 180,354	46.0%
Alberta	157,032	30.1	163,650	33.0	139,988	35.7
British Columbia	95,653	18.4	90,572	18.3	48,227	12.2
Other	65,197	12.5	53,912	10.9	23,917	6.1
	<u>\$ 521,024</u>	<u>100.0%</u>	<u>\$ 495,662</u>	<u>100.0%</u>	<u>\$ 392,486</u>	<u>100.0%</u>

(in thousands except %)	June 30, 2011		March 31, 2011		June 30, 2010	
Securitized:						
Ontario	\$ 877,858	50.6%	\$ 930,695	51.1%	\$ 1,093,453	51.5%
Alberta	396,444	22.9	409,655	22.5	456,310	21.5
British Columbia	251,413	14.5	258,901	14.2	324,642	15.2
Other	207,419	12.0	221,651	12.2	250,595	11.8
	<u>\$ 1,733,134</u>	<u>100.0%</u>	<u>\$ 1,820,902</u>	<u>100.0%</u>	<u>\$ 2,125,000</u>	<u>100.0%</u>

The corporate mortgage portfolio increased by \$25 million during the quarter, which included increases of \$25 million in construction loans and \$7 million in commercial loans, partially offset by a decrease of \$7 million in single family mortgages. Although market conditions are stable, we continue to monitor increases in house prices closely and we continue to focus on new mortgage approvals in markets with strong real estate fundamentals.

As at June 30, 2011, we held discounted mortgages with a net discount of \$11 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.

Mortgage originations in the corporate portfolio for the current and prior years were as follows:

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	2010	2011	2010
Single family uninsured	\$ 32,180	\$ 38,343	\$ 133,773	\$ 65,900
Single family insured	-	6,412	-	9,338
Residential construction (advances)	55,769	63,054	77,900	135,156
Commercial	9,860	2,143	11,950	2,338
	\$ 97,809	\$ 109,952	\$ 223,623	\$ 212,732

Included in single family uninsured mortgage originations above are \$7.4 million of portfolio acquisitions for the quarter (2010 - \$nil) and \$75 million for the six months ended June 30, 2011 (2010 - \$nil).

Loan fundings on residential construction projects in the first half of 2010 were significantly higher than usual as a result of an opportunity to refinance mature construction loans from a securitization entity that was no longer actively lending. Originations for 2011 were slightly slower than expected as a result of longer timelines for municipal approvals which have had delayed fundings.

The securitized mortgage portfolio decreased by \$88 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 \$79 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 increased by \$1.7 million during the quarter as a result of a decrease in forward interest rates.

The breakdown of assets at June 30, 2011 and June 30, 2010 between the corporate and securitized portfolios is as follows:

(in thousands)	June 30, 2011			June 30, 2010		
	Corporate	Securitized	Total	Corporate	Securitized	Total
Cash and cash equivalents	\$ 64,690	\$ -	\$ 64,690	\$ 21,727	\$ -	\$ 21,727
Short-term investments	-	266,157	266,157	-	263,721	263,721
Marketable securities	27,672	-	27,672	-	-	-
Mortgages						
Corporate	521,024	-	521,024	392,486	-	392,486
Securitized	-	1,733,134	1,733,134	-	2,125,000	2,125,000
Financial investments	10,322	1,141,606	1,151,928	8,166	728,082	736,248
Other loans	2,918	-	2,918	9,111	-	9,112
Equity investment in						
MCAP Commercial LP	11,858	-	11,858	9,401	-	9,401
Derivative financial						
instruments	-	11,604	11,604	-	14,730	14,730
Other assets	1,041	4,422	5,463	633	7,856	8,489
	\$ 639,525	\$ 3,156,923	\$ 3,796,448	\$ 441,525	\$ 3,139,389	\$ 3,580,914

Liabilities and shareholders' equity

(in thousands)	June 30 2011	March 31 2011	June 30 2010
Liabilities			
Term deposits	\$ 513,771	\$ 497,331	\$ 337,985
Financial liabilities from securitization	3,115,064	3,118,266	3,110,645
Deferred tax liabilities	4,598	4,218	6,011
Other liabilities	10,058	10,303	7,212
	3,643,491	3,630,118	3,461,853
Shareholders' equity			
Share capital	132,591	101,055	99,226
Contributed surplus	510	510	510
Retained earnings	19,783	17,117	19,325
Available for sale reserve	73	97	-
	152,957	118,779	119,061
	\$ 3,796,448	\$ 3,748,897	\$ 3,580,914

Term deposit liabilities increased by \$16 million during the quarter. 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 small decrease 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 \$32 million, which was primarily raised through the public share issuance, in addition to the dividend reinvestment plan for the June 30, 2011 dividend and new common shares issued through the Executive Share Purchase Plan.

Retained earnings increased by \$2.7 million during the quarter. The increase consisted of quarterly income of \$7.2 million less the second quarter dividend of \$4.5 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 June 30, 2011 was 28% (December 31, 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 June 30, 2011 there were 16,845,866 common shares outstanding. At August 8, 2011, there were 16,845,866 common shares outstanding. Additional information related to share capital is included in Note 26 to the consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements for the quarter ended June 30, 2011 have been prepared in accordance with IFRS, as described in the accounting policies in Note 4 to the consolidated financial statements. For periods up to and including the year ended December 31, 2010, we prepared our consolidated financial statements in accordance with CGAAP.

We have restated our CGAAP consolidated balance sheet as at June 30, 2010 and our previously published CGAAP statements of income and comprehensive income for the quarter and six months ended June 30, 2010.

Since MCAN adopted the IFRS accounting framework in 2011, 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 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.

As the securitization issuances mature, the securitization liability and related assets (securitized mortgages and principal reinvestment assets) are removed from the balance sheet. Financial liabilities from securitization mature as follows: 2012 - \$1.1 billion, 2013 - \$1.1 billion, 2014 - \$882 million, 2015 - \$47 million.

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 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 June 30, 2010, IFRS retained earnings increased by \$4.1 million (net of a deferred tax charge of \$1.6 million) from CGAAP in regards to CMB program adjustments. In addition, June 30, 2010 IFRS balances include \$3.1 billion of new assets and \$3.1 billion of new liabilities from IFRS adjustments related to the CMB program.

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. Our IFRS mortgage, loan and investment collective allowance as at June 30, 2010 decreased by \$791,000 from CGAAP, which led to an increase to IFRS retained earnings of \$473,000, net of deferred taxes.

To the extent that MCLP's IFRS retained earnings were impacted as at June 30, 2010, we adjusted the IFRS value of our equity investment in MCLP based on our pro-rata share of the total retained earnings impact at that date based on information provided by MCLP. As at June 30, 2010, our equity investment in MCLP under IFRS decreased by \$8.1 million from CGAAP, which decreased IFRS retained earnings by \$6.8 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 not 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 decrease to IFRS retained earnings as at June 30, 2010 from CGAAP was \$2.3 million, and the overall decrease to accumulated other comprehensive income from CGAAP to IFRS was \$1.5 million. In addition, total IFRS assets increased by \$3.1 billion from CGAAP, while total liabilities increased by \$3.1 billion.

Impact to Net Income and Earnings per Share

Net income for the quarter ended June 30, 2010 increased from \$5.6 million under CGAAP to \$9.9 million under IFRS. The increase was primarily due to a \$4.7 million positive fair market value adjustment to the CMB interest rate swaps and certain one-time items not recognized under CGAAP, partially offset by a \$3.3 million provision for current and deferred income taxes.

Net income for the six months ended June 30, 2010 increased from \$10.4 million under CGAAP to \$14.0 million under IFRS, primarily due to the same reasons noted above for the second quarter.

For further information on our conversion to IFRS, including comparative financial statement reconciliations from 2010, refer to Note 5 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. Our internal target minimum Tier 1 and Total capital ratios are both 20%.

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

(dollars in thousands)	June 30 2011 (IFRS)	December 31 2010 (CGAAP)	June 30 2010 (CGAAP)
Tax Act Ratio			
Income Tax Assets	\$ 669,528	\$ 555,360	\$ 456,527
Income Tax Capital	\$ 148,560	\$ 126,374	\$ 115,331
Income Tax Assets to Capital ratio	4.51	4.39	3.96
Maximum Assets (non-consolidated)	\$ 891,360	\$ 758,244	\$ 691,986
Maximum Assets to Capital ratio	6.00	6.00	6.00
Regulatory Ratios (OSFI)			
Regulatory Assets	\$ 698,771	\$ 595,473	\$ 495,306
Regulatory Capital	\$ 152,499	\$ 120,534	\$ 113,206
Regulatory Assets to Capital ratio	4.58	4.94	4.38
Total Regulatory Capital to Risk-Weighted Assets ratio	26.80%	22.06%	23.96%
Minimum Total Regulatory Capital to Risk-Weighted Assets ratio	10.00%	10.00%	10.00%
Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	26.82%	22.10%	24.01%
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 June 30, 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 June 30, 2011, we had recorded \$1.1 million (December 31, 2010 - \$1.2 million, June 30, 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 have an internal target of a standard level of liquid investments (cash and cash equivalents, marketable securities and 75% of insured single family mortgages) 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 June 30, 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 were 125% of term deposits maturing within 100 days at June 30, 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	June 30 2011	December 31 2010	June 30 2010
Sources of liquidity							
Cash and cash equivalents	\$ 64,690	\$ -	\$ -	\$ -	\$ 64,690	\$ 85,309	\$ 21,727
Marketable securities	-	-	-	27,672	27,672	6,608	-
Mortgages - corporate	119,584	183,434	200,877	17,129	521,024	419,894	392,486
Financial investments	104	-	495	9,723	10,322	10,248	8,166
Other loans	17	942	93	1,866	2,918	3,332	9,112
	184,395	184,376	201,465	56,390	626,625	525,391	431,491
Uses of liquidity							
Term deposits	83,068	215,431	215,272	-	513,771	421,061	337,985
Other liabilities	4,225	-	-	-	4,225	14,973	7,212
	87,293	215,431	215,272	-	517,996	436,034	345,197
Net liquidity surplus (deficit)	\$ 97,102	\$ (31,055)	\$ (13,807)	\$ 56,390	\$ 108,629	\$ 89,357	\$ 86,294
Off-Balance Sheet							
Unfunded mortgage commitments	\$ 13,651	\$ 109,211	\$ 13,651	\$ -	\$ 136,513	\$ 199,678	\$ 164,175

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 marketable securities portfolio is 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 BCBS 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 outstanding term deposits and operating lease payments. 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	\$ 298,499	\$ 215,272	\$ -	\$ 513,771
Operating lease	277	622	-	899
Mortgage fundings	13,651	109,211	13,651	136,513
CMB obligations	857	1,027	-	1,884
	\$ 313,284	\$ 326,132	\$ 13,651	\$ 653,067

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

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 Company has not fully assessed the impact of adopting IFRS 7.

IFRS 9, *Financial Instruments: Classification and Measurement*

This standard as issued reflects the first phase of the International Accounting Standards Board's ("IASB") 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 has not fully assessed the impact of adopting IFRS 9.

IFRS 10, *Consolidated Financial Statements*

This standard is effective for annual periods beginning on or after January 1, 2013 and will replace portions of IAS 27, *Consolidated and Separate Financial Statements* and interpretation SIC-12, *Consolidation - Special Purpose Entities*. Under IFRS 10, consolidated financial statements include all controlled entities under a single control model that applies to all entities, including special purpose entities and structured entities. A group will still continue to consist of a parent and its subsidiaries; however IFRS 10 uses different terminology from IAS 27 in describing its control model. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Early adoption of this standard is permitted. The Company has not fully assessed the impact of adopting IFRS 10.

IFRS 11, Joint Arrangements

This standard replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 uses some of the terms that were used by IAS 31, but with different meanings. Whereas IAS 31 identified three forms of joint ventures (i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities), IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Because IFRS 11 uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognizes its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, IAS 31 focused on the legal form of the entity, whereas IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement.

IFRS 11 is effective for annual periods commencing on or after January 1, 2013. The Company has not fully assessed the impact of adopting IFRS 11.

IFRS 12, Disclosure of Interests in Other Entities

This standard includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities. Many of the disclosure requirements were previously included in IAS 27, IAS 1 and IAS 28 while others are new. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not fully assessed the impact of adopting IFRS 12.

IFRS 13, Fair Value Measurement

This standard provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when fair value is required or permitted per IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles could have a significant effect on some entities adopting the standard. IFRS 13 is effective January 1, 2013 and will be adopted prospectively. The Company has not fully assessed the impact of adopting IFRS 13.

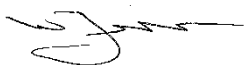
DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at June 30, 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 June 30, 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 third quarter dividend of \$0.27 per share to be paid September 30, 2011 to shareholders of record as of September 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 accompanying consolidated interim financial statements of MCAN have not been reviewed by an auditor.

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