SECOND QUARTER REPORT 2011
MCAN MORTGAGE CORPORATION

MCAN MORTGAGE CORPORATION
REPORT FOR THE SECOND QUARTER ENDED JUNE 30, 2011

MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported net income of $7.2 million in the second quarter of 2011, compared to $9.9 million in the prior year. Earnings per share for the quarter were $0.44 compared to $0.69 in the prior year. The prior year's restated quarterly results under IFRS include significant one-time items and an exceptionally high non-cash fair market value adjustment on derivative financial instruments.

Estimated taxable income was $5.5 million for the quarter, comparable to $5.7 million in the prior year. On a per share basis, estimated taxable income was $0.34 compared to $0.39 in the prior year. We have declared a third quarter dividend of $0.27, consistent with our regular quarterly dividend.

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. The purpose of the share issuance was to create additional asset capacity to grow our corporate asset portfolio. The fact that we have not yet fully deployed this new capital has caused dilution to our second quarter earnings per share.

Net investment income from our corporate asset portfolio for the quarter was $6.2 million, unchanged from last year. Mortgage interest income increased by $1.3 million from the prior year, mostly due to a $152 million increase in the average mortgage portfolio from $351 million to $503 million. Although our corporate mortgage portfolio has grown significantly since last year, our cost of funds has also increased, as lower yielding deposits have matured and have been replaced by new deposits at higher rates. In addition, discount income from our acquired portfolios has steadily declined as the discounted mortgages continue to pay out.

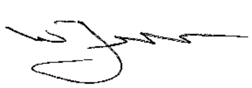
Our securitized asset portfolio produced net investment income of $3.6 million, down from $8.4 million in the prior year. Current year income remained steady, as the prior year included a significant positive fair market value adjustment and other one-time income items.

Our mortgage portfolio quality has continued to be stable, with corporate mortgage arrears of $26 million at June 30, 2011, down from $27 million at March 31, 2011. Securitized mortgage arrears of $61 million decreased from $65 million at March 31, 2011.

Housing starts in 2011 have decreased by 5.7% through May 2011, while house prices have increased by 1.9% year over year. New home sales for 2011 are expected to be 179,500, down from 186,200 in 2010. 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 homeowners 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.

We continue to see good opportunities to facilitate our growth plans in the Canadian residential markets. To facilitate our growth, we have expanded the Canadian markets in which we invest with new business in Quebec and Nova Scotia. This will further reduce existing geographic concentrations in our current portfolio in Alberta, Ontario and British Columbia.

MCAN is pleased to announce the appointment of Paul Bowers as Vice President and Chief Risk Officer, effective May 2, 2011. Mr. Bowers has assumed a new role created to oversee risk management. Mr. Bowers has previously worked for the Office of the Superintendent of Financial Institutions ("OSFI") and with TD Bank Financial Group, where he held various credit and risk management positions. We are thrilled that Paul has joined our team and look forward to his contribution of over thirty years of industry and risk management experience to the continued development and success of the Company.



William Jandrisits
President and Chief Executive Officer
August 8, 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 2011	For the Quarters Ended June 30 2010	For the Six Months Ended June 30 2011	For the Six Months Ended June 30 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 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

	Average Balance			Income/Expense			Average Rate	
(in thousands except %)	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 Income[2]				$ 6,395	$ (236)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							4.18%	

For the Quarter Ended June 30, 2010

	Average Balance			Income/Expense			Average Rate	
(in thousands except %)	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 Income[2]				$ 5,960	$ 536			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							6.00%	

[1]The 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.
[2]Net 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

	Average Balance			Income/Expense			Average Rate	
(in thousands except %)	**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 Income[2]				$ 11,874	$ (825)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							4.47%	

For the Six Months Ended June 30, 2010

	Average Balance			Income/Expense			Average Rate	
(in thousands except %)	**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 Income[2]				$ 10,766	$ (133)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							5.72%	

[1]The 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.
[2]Net 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	**June 30, 2011**			**June 30, 2010**		
(in thousands except %)	**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	**June 30, 2011**			**June 30, 2010**		
(in thousands except %)	**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%**

[1]The 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 2011	**2010**	**For the Six Months Ended June 30 2011**	**2010**
Individual provision (recovery)				
Single family uninsured	$ (76)	$ 62	$ (101)	$ 19
Residential construction	-	-	-	-
	$ (76)	$ 62	$ (101)	$ 19
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
	$ 333	$ 222	$ 691	$ 400
Total provision for credit losses	$ 257	$ 284	$ 590	$ 419
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

[1]No 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
	521,024	23.1	495,662	21.4	392,486	15.6
Securitized portfolio	1,733,134	76.9	1,820,902	78.6	2,125,000	84.4
	$ 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
	$ 521,024	**100.0%**	**$ 495,662**	**100.0%**	**$ 392,486**	**100.0%**

(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
	$ 1,733,134	**100.0%**	**$ 1,820,902**	**100.0%**	**$ 2,125,000**	**100.0%**

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:

	June 30, 2011			June 30, 2010		
(in thousands)	**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 indeminified 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.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited) (in thousands of Canadian dollars except for per share amounts)

For the Quarters Ended June 30	Note	2011	2010
Net Investment Income - Corporate Assets			
Mortgage interest		$ 7,983	$ 6,723
Interest on financial investments and other loans		1,014	925
Equity income from MCAP Commercial LP	19	578	231
Fees	8	366	991
Marketable securities		299	-
Interest on cash and cash equivalents		158	30
		10,398	8,900
Term deposit interest and expenses		3,059	1,718
Mortgage expenses	9	917	724
Provision for credit losses	10	257	284
		4,233	2,726
		6,165	**6,174**
Net Investment Income - Securitized Assets			
Mortgage interest		5,549	7,193
Interest on financial investments		1,447	512
Interest on short-term investments		184	64
Other securitization income	11	2,235	3,341
		9,415	11,110
Interest on financial liabilities from securitization		7,416	7,233
Mortgage expenses	9	155	192
		7,571	7,425
Net investment income before fair market value adjustment		1,844	3,685
Fair market value adjustment - derivative financial instruments		1,722	4,702
		3,566	**8,387**
Net Investment Income		**9,731**	**14,561**
Operating Expenses			
Salaries and benefits		787	488
General and administrative		1,006	919
		1,793	**1,407**
Income Before Income Taxes		**7,938**	**13,154**
Provision for income taxes			
Current	24	345	821
Deferred	24	388	2,473
		733	3,294
Net Income		**$ 7,205**	**$ 9,860**
Basic and diluted earnings per share		$ 0.44	$ 0.69
Dividends per share		$ 0.27	$ 0.26
Weighted average number of basic and diluted shares (000's)		16,387	14,364

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

For the Six Months Ended June 30	**Note**	**2011**	**2010**
Net Investment Income - Corporate Assets			
Mortgage interest		$ 15,543	$ 12,542
Interest on financial investments and other loans		1,159	1,802
Equity income from MCAP Commercial LP	19	1,385	490
Fees	8	571	1,628
Marketable securities		455	-
Interest on cash and cash equivalents		336	73
		19,449	16,535
Term deposit interest and expenses		5,619	3,651
Mortgage expenses	9	1,767	1,254
Provision for credit losses	10	590	419
		7,976	5,324
		11,473	**11,211**
Net Investment Income - Securitized Assets			
Mortgage interest		11,001	13,446
Interest on financial investments		2,740	867
Interest on short-term investments		374	128
Other securitization income	11	4,424	5,382
		18,539	19,823
Interest on financial liabilities from securitization		14,940	14,574
Mortgage expenses	9	286	361
		15,226	14,935
Net investment income before fair market value adjustment		3,313	4,888
Fair market value adjustment - derivative financial instruments		(1,516)	3,240
		1,797	**8,128**
Net Investment Income		**13,270**	**19,339**
Operating Expenses			
Salaries and benefits		1,559	1,087
General and administrative		1,906	1,628
		3,465	**2,715**
Income Before Income Taxes		**9,805**	**16,624**
Provision for (recovery of) income taxes			
Current	24	(3,750)	82
Deferred	24	(739)	2,556
		(4,489)	2,638
Net Income		**$ 14,294**	**13,986**
Basic and diluted earnings per share		$ 0.93	$ 0.98
Dividends per share		$ 1.27	$ 0.67
Weighted average number of basic and diluted shares (000’s)		15,429	14,350

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)

Period Ended June 30	Quarters Ended 2011	Quarters Ended 2010	Six Months Ended 2011	Six Months Ended 2010
Net income	$ 7,205	$ 9,860	$ 14,294	$ 13,986
Other comprehensive income				
Change in unrealized gain on available for sale marketable securities	(29)	-	131	-
Less: deferred taxes	5	-	(26)	-
	(24)	-	105	-
Comprehensive income	**$ 7,181**	**$ 9,860**	**$ 14,399**	**$ 13,986**

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

As at	Note	June 30 2011	December 31 2010
Assets	12		
Cash and cash equivalents	13	$ 64,690	$ 85,309
Short-term investments	14	266,157	220,949
Marketable securities	15	27,672	6,608
Mortgages			
Corporate	16	521,024	420,322
Securitized	16	1,733,134	1,910,995
Financial investments	17	1,151,928	1,007,216
Other loans	18	2,918	3,332
Equity investment in MCAP Commercial LP	19	11,858	11,530
Derivative financial instruments	20	11,604	13,120
Other assets	21	5,463	6,644
		$ 3,796,448	**$ 3,686,025**
Liabilities and Shareholders' Equity			
Liabilities			
Term deposits	22	$ 513,771	$ 421,061
Financial liabilities from securitization	23	3,115,064	3,119,601
Deferred tax liabilities	24	4,598	5,311
Other liabilities	25	10,058	14,973
		3,643,491	**3,560,946**
Shareholders' Equity			
Share capital	26	132,591	100,112
Contributed surplus	26	510	510
Retained earnings		19,783	24,489
Available for sale reserve	28	73	(32)
		152,957	**125,079**
		$ 3,796,448	**$ 3,686,025**

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 Six Months Ended June 30	Note	2011	2010
Share capital			
Balance, beginning of period		$ 100,112	$ 98,490
Common shares issued	26	32,479	736
Balance, end of period		**132,591**	**99,226**
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		14,294	13,986
Dividends declared	27	(19,000)	(9,614)
Balance, end of period		**19,783**	**19,326**
Available for sale reserve			
Balance, beginning of period		(32)	-
Other comprehensive income		105	-
Balance, end of period		**73**	**-**
Total shareholders' equity		**$ 152,957**	**$ 119,062**

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 Six Months Ended June 30	2011	2010
Cash provided by (used for):		
Operating Activities		
Net income	$ 14,294	$ 13,986
Adjusted for non-cash items:		
Current taxes	(3,750)	82
Deferred taxes	(739)	2,556
Equity income	(1,385)	(499)
Provision for credit losses	590	419
Unrealized loss (gain) on derivative financial instruments	1,516	(3,240)
Gain on sale of financial investment	(876)	-
Amortization of securitized mortgage and liability transaction costs	1,861	2,255
Amortization of other assets	58	278
Amortization of mortgage discounts (premiums)	(16)	32
Mortgage advances	(464,940)	(471,009)
Mortgage reductions	351,447	376,847
Proceeds on sale of mortgages	188,535	211,490
Issue of term deposits	315,772	204,254
Repayment of term deposits	(223,062)	(227,013)
Repayment of financial liabilities from securitization	(4,858)	(2,805)
Issue of financial liabilities from securitization	-	38,141
Decrease in other assets	1,122	36,047
Increase in other liabilities	2,590	995
Cash flows from operating activities	**178,159**	**182,816**
Investing Activities		
Increase in marketable securities	(20,933)	-
Decrease (increase) in short-term investments	(45,208)	26,507
Increase in financial investments	(145,452)	(266,599)
Proceeds on sale of financial investment	1,619	-
Decrease in other loans	417	2,752
Distributions from MCAP Commercial LP	1,057	651
Cash flows for investing activities	**(208,500)**	**(236,689)**
Financing Activities		
Issue of common shares	32,479	736
Dividends paid	(22,757)	(13,337)
Cash flows from (for) financing activities	**9,722**	**(12,601)**
Decrease in cash and cash equivalents	(20,619)	(66,774)
Cash and cash equivalents, beginning of period	85,309	88,201
Cash and cash equivalents, end of period	**$ 64,690**	**$ 21,727**

Supplementary Information

For the Six Months Ended June 30	2011	2010
Interest received	$ 28,616	$ 28,361
Interest paid	17,078	17,127
Taxes paid	251	168

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.

NOTES TO THE 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 August 9, 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") that the Company expects to adopt in its consolidated financial statements as at and for the year ended December 31, 2011.

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").

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 June 30, 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 significant accounting policies applied by the Company in the preparation of its consolidated financial statements are disclosed in Note 4 to the Company's interim consolidated financial statements as at and for the three months ended March 31, 2011.

5. Transition to IFRS

These consolidated financial statements for the quarter ended June 30, 2011 have been 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. The Company has restated its CGAAP consolidated balance sheet as at June 30, 2010 and its previously published CGAAP statements of income and comprehensive income for the quarter and the six months ended June 30, 2010.

The Company's restated consolidated balance sheets as at January 1, 2010 and December 31, 2010 and its restated statements of income and comprehensive income for the year ended December 31, 2010 are disclosed in Note 5 to the Company's interim consolidated financial statements as at and for the three months ended March 31, 2011.

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.

- 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.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

5. Transition to IFRS (continued)

RECONCILIATION OF CONSOLIDATED STATEMENT OF INCOME
FOR THE QUARTER ENDED JUNE 30, 2010

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
					Net Investment Income
Net Investment Income					**Corporate Assets**
Mortgage interest	k	$ 6,424	$ 299	$ 6,723	Mortgage interest
Interest on loans and investments		925	-	925	Interest on financial investments and other loans
Equity income from MCAP Commercial LP	e	(125)	356	231	Equity income from MCAP Commercial LP
Fees	k	1,374	(383)	991	Fees
Interest on cash and cash equivalents		30	-	30	Interest on cash and cash equivalents
Securitization income	b	1,269	(1,269)	-	
		9,897	(997)	8,900	
Term deposit interest and expenses		1,733	(15)	1,718	Term deposit interest and expenses
Mortgage expenses	k	742	(18)	724	Mortgage expenses
Provision for credit losses	a	308	(24)	284	Provision for credit losses
		2,783	(57)	2,726	
		7,114	**(940)**	**6,174**	
					Securitized Assets
	b		7,193	7,193	Mortgage interest
	b		512	512	Interest on financial investments
	b		64	64	Interest on short-term investments
	b		3,341	3,341	Other securitization income
			11,110	11,110	
	b		7,233	7,233	Interest on financial liabilities from securitization
	b		192	192	Mortgage expenses
			7,425	7,425	
	b		3,685	3,685	Net investment income before fair market value adjustment
	b		4,702	4,702	Fair market value adjustment - derivative financial instruments
			8,387	**8,387**	
Net Investment Income		**7,114**	**7,447**	**14,561**	**Net Investment Income**
Operating Expenses					**Operating Expenses**
Salaries and benefits		488	-	488	Salaries and benefits
General and administrative		985	(66)	919	General and administrative
		1,473	**(66)**	**1,407**	
Income Before Income Taxes		**5,641**	**7,513**	**13,154**	**Income Before Income Taxes**
					Provision for income taxes
	h	-	821	821	Current
	g	-	2,473	2,473	Deferred
		-	3,294	3,294	
Net Income		**$ 5,641**	**$ 4,219**	**$ 9,860**	**Net Income**
Basic and diluted earnings per share		$ 0.40	$ 0.29	$ 0.69	Basic and diluted earnings per share
Dividends per share		$ 0.26	$ -	$ 0.26	Dividends per share
Weighted average number of basic and diluted shares (000's)		14,364	-	14,364	Weighted average number of basic and diluted shares (000's)

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

5. Transition to IFRS (continued)

RECONCILIATION OF CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2010

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
					Net Investment Income
Net Investment Income					**Corporate Assets**
Mortgage interest	k	$ 12,038	$ 504	$ 12,542	Mortgage interest
Interest on loans and investments		1,802	-	1,802	Interest on financial investments and other loans
Equity income from MCAP Commercial LP	e	271	219	490	Equity income from MCAP Commercial LP
Fees	k	2,264	(636)	1,628	Fees
Interest on cash and cash equivalents		73	-	73	Interest on cash and cash equivalents
Securitization income	b	2,312	(2,312)	-	
		18,760	(2,225)	16,535	
Term deposit interest and expenses		3,666	(15)	3,651	Term deposit interest and expenses
Mortgage expenses	k	1,320	(66)	1,254	Mortgage expenses
Provision for credit losses	a	554	(135)	419	Provision for credit losses
		5,540	(216)	5,324	
		13,220	**(2,009)**	**11,211**	
					Securitized Assets
	b		13,446	13,446	Mortgage interest
	b		867	867	Interest on financial investments
	b		128	128	Interest on short-term investments
	b		5,382	5,382	Other securitization income
			19,823	19,823	
	b		14,574	14,574	Interest on financial liabilities from securitization
	b		361	361	Mortgage expenses
			14,935	14,935	
	b		4,888	4,888	Net investment income before fair market value adjustment
	b		3,240	3,240	Fair market value adjustment - derivative financial instruments
			8,128	**8,128**	
Net Investment Income		**13,220**	**6,119**	**19,339**	**Net Investment Income**
Operating Expenses					**Operating Expenses**
Salaries and benefits		1,087	-	1,087	Salaries and benefits
General and administrative		1,694	(66)	1,628	General and administrative
		2,781	**(66)**	**2,715**	
Income Before Income Taxes		**10,439**	**6,185**	**16,624**	**Income Before Income Taxes**
					Provision for income taxes
	h		82	82	Current
	g		2,556	2,556	Deferred
			2,638	2,638	
Net Income		**$ 10,439**	**$ 3,547**	**$ 13,986**	**Net Income**
Basic and diluted earnings per share		$ 0.73	$ 0.25	$ 0.98	Basic and diluted earnings per share
Dividends per share		$ 0.67	$ -	$ 0.67	Dividends per share
Weighted average number of basic and diluted shares (000's)		14,350	-	14,350	Weighted average number of basic and diluted shares (000's)

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

5. Transition to IFRS (continued)

**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED JUNE 30, 2010**

	Note	CGAAP	Adjustments	IFRS
Net income		$ 5,641	$ 4,219	$ 9,860
Other comprehensive income, net of deferred taxes				
Change in unrealized gain on available for sale mortgages	c	(43)	43	-
Change in unrealized gain on available for sale financial investments	d	(489)	489	-
		(532)	532	-
Comprehensive income		**$ 5,109**	**$ 4,751**	**$ 9,860**

**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2010**

	Note	CGAAP	Adjustments	IFRS
Net income		$ 10,439	$ 3,547	$ 13,986
Other comprehensive income, net of deferred taxes				
Change in unrealized gain on available for sale mortgages	c	278	(278)	-
Change in unrealized gain on available for sale financial investments	d	(546)	546	-
Other changes		23	(23)	-
		(245)	245	-
Comprehensive income		**$ 10,194**	**$ 3,792**	**$ 13,986**

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

5. Transition to IFRS (continued)

RECONCILIATION OF CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2010

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
Assets					**Assets**
Cash and cash equivalents	k	$ 23,405	$ (1,678)	$ 21,727	Cash and cash equivalents
	b,k	-	263,721	263,721	Short-term investments
					Mortgages
Mortgages	a,c,k	394,070	(1,584)	392,486	Corporate
	b	-	2,125,000	2,125,000	Securitized
Securitization investments	b,d,k	16,578	719,670	736,248	Financial investments
Loans receivable and other investments	a,b,d,k	13,332	(4,220)	9,112	Other loans
Equity investment in MCAP Commercial LP	e	17,525	(8,124)	9,401	Equity investment in MCAP Commercial LP
Derivative financial instruments		14,730	-	14,730	Derivative financial instruments
Other assets	b,k	3,033	5,456	8,489	Other assets
		$ 482,673	**$ 3,098,241**	**$ 3,580,914**	
Liabilities and Shareholders' Equity					**Liabilities and Shareholders' Equity**
Liabilities					**Liabilities**
Term deposits		$ 337,985	$ -	$ 337,985	Term deposits
	b	-	3,110,645	3,110,645	Financial liabilities from securitization
Future taxes payable	g	7,342	(1,331)	6,011	Deferred tax liabilities
Securitization liabilities	b	7,428	(7,428)	-	
Accounts payable and accrued charges	b,h,k	7,126	86	7,212	Other liabilities
		359,881	**3,101,972**	**3,461,853**	
Shareholders' Equity					**Shareholders' Equity**
Share capital	m	99,226	-	99,226	Share capital
Contributed surplus	m	510	-	510	Contributed surplus
Retained earnings	i,m	21,587	(2,262)	19,325	Retained earnings
Accumulated other comprehensive income	j,m	1,469	(1,469)	-	Available for sale reserve
		122,792	**(3,731)**	**119,061**	
		$ 482,673	**$ 3,098,241**	**$ 3,580,914**	

5. Transition to IFRS (continued)

Notes to remeasurements

Remeasurements as at January 1, 2010 and December 31, 2010 are disclosed in Note 5 to the Company's interim consolidated financial statements as at and for the three months ended March 31, 2011.

(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 a $791 decrease in the Company's mortgage, loan and investment allowances and a $473 increase to retained earnings net of $318 of deferred taxes as at June 30, 2010.

The adjustment to mortgage loan and investment allowances led to a $24 decrease in provisions for credit losses for the quarter ended June 30, 2010 and a $135 decrease for the six months ended June 30, 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.

The conversion to IFRS led to an increase to retained earnings related to securitization activities of $4,061 net of deferred taxes of $1,567 as at June 30, 2010.

Under IFRS, the Company now reports balance sheet items as at June 30, 2010 as follows (which include mortgages that did not meet derecognition criteria and CMB principal reinvestment assets): short-term investments - $262,043, mortgages-securitized - $2,125,000, financial investments - $552,342, other assets - $6,393, financial liabilities from securitization - $2,934,905. Financial liabilities from securitization include certain transaction costs.

As at June 30, 2010, the Company reversed $5,245 of financial investments that had been recognized under CGAAP. Under CGAAP, the Company had $7,428 of interest-only strips in a liability position classified as securitization liabilities as at June 30, 2010, which were reversed as part of the conversion to IFRS.

The Company has also securitized mortgages through the Insured Mortgage Purchase Program ("IMPP"). As at June 30, 2010, the Company recognized $175,740 of financial investments and $175,740 of financial liabilities from securitization 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 primarily of net interest rate swap receipts and refinancing and renewal gains.

(c) Mortgages

Under CGAAP, the Company carried all corporate 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 of $1,837 as at June 30, 2010, leading to a $1,469 decrease to the available for sale reserve net of deferred taxes of $368.

(d) Financial investments

The Company reclassified $4,243 of other loans to financial investments as at June 30, 2010, which had no impact to retained earnings.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

5. Transition to IFRS (continued)

The Company's investment - commercial real estate (Note 17) was classified as available for sale as part of the conversion to IFRS. At June 30, 2010, both its amortized cost and fair market value were $100.

(e) Equity investment in MCLP

The conversion to IFRS led to a decrease to the Company's equity investment in MCLP as at June 30, 2010 of $8,124, causing a $6,796 decrease to retained earnings net of deferred taxes of $1,328. The Company has recorded its pro-rata share of MCLP's IFRS adjustments to retained earnings.

The adjustment to the equity investment in MCLP led to a $356 increase in equity income from MCLP for the quarter ended June 30, 2010 and a $219 increase for the six months ended June 30, 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 $1,520 as at June 30, 2010.

Under CGAAP, the Company also recorded a corresponding deferred tax liability in regards to the following quarter dividend. The reversal of this liability as part of the conversion to IFRS resulted in an increase to retained earnings of $1,520 as at June 30, 2010.

(g) Deferred taxes

As part of the conversion to IFRS, the Company recorded decreases (increases) to deferred taxes payable as at June 30, 2010 as follows:

	Note		
Mortgage, loan and investment allowances	a	$	(318)
Securitization activities	b		(1,567)
Equity investment in MCLP	e		1,328
Following quarter dividend	f		1,520
Impact on retained earnings			963
Impact on available for sale reserve	c,d		368
Total deferred tax impact		**$**	**1,331**

Under IFRS, MCAN recognized a deferred tax provision of $2,473 for the quarter ended June 30, 2010 and a deferred tax provision of $2,556 for the six months ended June 30, 2010.

(h) Current tax liabilities

As part of the conversion to IFRS, current tax liabilities were increased by $1,520 as at June 30, 2010 relating to the following quarter dividend (as noted in (f) above).

Under IFRS, MCAN recognized a current tax provision of $821 for the quarter ended June 30, 2010 and a current tax provision of $82 for the six months ended June 30, 2010.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

5. Transition to IFRS (continued)

(i) Shareholders' equity reconciliation - retained earnings

As part of the conversion to IFRS, the Company recorded increases (decreases) to retained earnings as at June 30, 2010 as follows:

	Note		
Impact due to revision of mortgage, loan and investment allowances	a	$	473
Impact on securitization activities	b		4,061
Impact on equity investment in MCLP	e		(6,796)
Following quarter dividend - deferred tax impact	f		1,520
Following quarter dividend - current tax impact	h		(1,520)
Net decrease to retained earnings		**$**	**(2,262)**

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

The transition from CGAAP to IFRS led to a $1,469 decrease to the available for sale reserve as at June 30, 2010, consisting entirely of the reversal of the fair market value adjustment to mortgages, net of deferred taxes.

(k) Other reclassifications

In adopting IFRS, the Company made additional reclassifications to the consolidated balance sheet as at June 30, 2010 as follows:

CGAAP Line Item	IFRS Line Item		
Cash	Short-term investments	$	1,678
Loans receivable	Financial investments		3,186
Other assets	Mortgages		975
Accounts payable and accrued charges	Mortgages		1,472
Other assets	Other liabilities		38

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

CGAAP Line Item	IFRS Line Item		Quarter Ended June 30, 2010		Six Months Ended June 30, 2010
Fees	Mortgage interest income	$	383	$	636
Mortgage expenses	Mortgage interest income		18		66
General and administrative	Mortgage interest income		66		66

(l) Statement of cash flows

Within operating and investing activities, the transition to IFRS has led to significant changes to mortgage reductions and short-term investment and financial investment activity, respectively, due to securitized mortgage repayments and their subsequent reinvestment. Net cash flows from financing activities has not changed significantly.

(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.

6. Significant Accounting Judgments and Estimates (continued)

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.

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.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

7. Securitization Activities (continued)

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 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, 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 effective interest rate method ("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 June 30		For the Six Months Ended June 30	
	Note	**2011**	**2010**	**2011**	**2010**
Fee income from profit sharing	29	$ 130	$ 635	$ 135	$ 839
Mortgagor fees		236	356	436	789
		$ 366	**$ 991**	**$ 571**	**$ 1,628**

9. Mortgage Expenses

Corporate Portfolio

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Mortgage servicing expense	$ 668	$ 640	$ 1,318	$ 1,162
Other mortgage expenses	249	84	449	92
	$ 917	**$ 724**	**$ 1,767**	**$ 1,254**

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

9. Mortgage Expenses (continued)

Securitized Portfolio

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

10. Provision for Credit Losses

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Mortgages - collective provisions	$ 336	$ 143	$ 696	$ 333
Mortgages - individual provisions (recoveries)	(76)	62	(101)	19
Financial investments and other loans - collective provisions (recoveries)	(3)	(21)	(5)	(33)
Other provisions	-	100	-	100
	$ 257	**$ 284**	**$ 590**	**$ 419**

11. Other Securitization Income

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Net interest rate swap receipts	$ 2,212	$ 2,989	$ 4,345	$ 4,893
Refinancing and renewal gains	23	246	79	294
Other	-	106	-	195
	$ 2,235	**$ 3,341**	**$ 4,424**	**$ 5,382**

12. Asset Summary

As at June 30, 2011	**Corporate**	**Securitized**	**Total**
Cash and cash equivalents	$ 64,690	$ -	$ 64,690
Short-term investments	-	266,157	266,157
Marketable securities	27,672	-	27,672
Mortgages			
Corporate	521,024	-	521,024
Securitized	-	1,733,134	1,733,134
Financial investments	10,322	1,141,606	1,151,928
Other loans	2,918	-	2,918
Equity investment in MCAP Commercial LP	11,858	-	11,858
Derivative financial instruments	-	11,604	11,604
Other assets	1,041	4,422	5,463
	$ 639,525	**$ 3,156,923**	**$ 3,796,448**

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

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**

13. Cash and Cash Equivalents

	June 30 2011	December 31 2010
Cash balances with banks	$ 6,190	$ 7,309
Bankers' acceptances and term deposits	58,500	78,000
	$ 64,690	**$ 85,309**

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

14. Short-Term Investments

	June 30 2011	December 31 2010
Treasury bills (in trust for CMB program)	$ 183,774	$ 144,960
Commercial paper (in trust for CMB program)	28,714	28,687
CMB cash held in trust	51,145	45,059
Cash pledged as collateral - CMB program	2,524	2,243
	$ 266,157	**$ 220,949**

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 - 0.86% (December 31, 2010 - 0.86%), commercial paper - 1.32% (December 31, 2010 - 1.22%). 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

	June 30 2011	December 31 2010
Corporate bonds	$ 14,934	$ 4,956
Exchange-traded funds and real estate investment trusts	12,738	1,652
	$ 27,672	**$ 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.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

16. Mortgages

	Gross	Allowance			Net
As at June 30, 2011	**Principal**	**Collective**	**Individual**	**Total**	**Principal**
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 213,399	$ 899	$ 145	$ 1,044	$ 212,355
- Uninsured (completed inventory loans)	31,915	148	-	148	31,767
- Insured	46,738	-	-	-	46,738
Construction loans					
- Residential	191,894	1,221	1,000	2,221	189,673
- Non-residential	17,555	111	-	111	17,444
Commercial loans					
- Uninsured	22,811	151	-	151	22,660
- Insured	387	-	-	-	387
	524,699	2,530	1,145	3,675	521,024
Securitized portfolio	1,733,134	-	-	-	1,733,134
Total mortgages	**$ 2,257,833**	**$ 2,530**	**$ 1,145**	**$ 3,675**	**$ 2,254,158**

	Gross	Allowance			Net
As at December 31, 2010	**Principal**	**Collective**	**Individual**	**Total**	**Principal**
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**

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 mortgages and are amortized using the EIRM. As at June 30, 2011, the unamortized capitalized cost balance was $5,194 (December 31, 2010 - $4,721). All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

16. Mortgages (continued)

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 June 30, 2011 was $2,486,145 (December 31, 2010 - $2,623,922). 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:

	June 30 2011	December 31 2010
Corporate	6.08%	6.02%
Securitized	4.02%	4.03%
Overall	5.07%	4.89%

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 June 30, 2011, the Company held discounted mortgages with an aggregate discount of $11,221 (December 31, 2010 - $14,357). 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:

	June 30 2011	December 31 2010
Fixed rate	$ 2,036	$ 2,752
Floating rate	9,185	11,605
	$ 11,221	**$ 14,357**

The geographical breakdown of mortgages by province is as follows:

	Corporate					
As at June 30, 2011	**Single Family**	**Construction**	**Commercial**	**Securitized**	**Total**	
Ontario	$ 128,451	$ 72,524	$ 2,167	$ 877,858	$ 1,081,000	48.0%
Alberta	67,560	79,054	10,418	396,444	553,476	24.6
British Columbia	51,221	44,432	-	251,413	347,066	15.4
Other	43,628	11,107	10,462	207,419	272,616	12.0
	$ 290,860	**$ 207,117**	**$ 23,047**	**$ 1,733,134**	**$ 2,254,158**	**100.0%**

	Corporate					
As at December 31, 2010	**Single Family**	**Construction**	**Commercial**	**Securitized**	**Total**	
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%**

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

16. Mortgages (continued)

As at June 30, 2011, the Company had $1,193 (December 31, 2010 - $2,499) 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 $136,513 at June 30, 2011 (December 31, 2010 - $199,678). The majority of these commitments relate to floating rate construction loans.

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

	Collective	Individual	2011 Total	Collective	Individual	2010 Total
Balance, beginning of quarter	$ 2,332	$ 1,221	$ 3,553	$ 1,519	$ 2,739	$ 4,258
Provisions (recoveries)	336	(76)	260	143	62	205
Write-offs	(138)	-	(138)	-	-	-
Balance, end of quarter	**$ 2,530**	**$ 1,145**	**$ 3,675**	**$ 1,662**	**$ 2,801**	**$ 4,463**

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

	June 30 2011	December 31 2010
Uninsured single family	$ 145	$ 246
Residential construction	1,000	1,000
	$ 1,145	**$ 1,246**

Mortgages past due but not impaired are as follows:

As at June 30, 2011	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Corporate portfolio:					
Single family - uninsured	$ 9,186	$ 2,179	$ 989	$ -	$ 12,354
Single family - insured	426	-	-	-	426
Residential construction	-	-	-	-	-
Commercial - uninsured	-	-	382	-	382
	9,612	2,179	1,371	-	13,162
Securitized portfolio	29,981	8,558	4,228	15,602	58,369
	$ 39,593	**$ 10,737**	**$ 5,599**	**$ 15,602**	**$ 71,531**

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**

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

As at June 30, 2011	Single Family	Residential Construction	Securitized	Total
Ontario	$ 1,118	$ 1,458	$ 199	$ 2,775
Alberta	422	8,602	947	9,971
British Columbia	859	-	1,260	2,119
Other	219	-	-	219
	$ 2,618	**$ 10,060**	**$ 2,406**	**$ 15,084**

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

16. Mortgages (continued)

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**

17. Financial Investments

	June 30 2011	December 31 2010
Insured mortgage-backed securities (in trust for CMB program)	$ 971,142	$ 823,625
Receivables - IMPP	170,464	173,343
Investment - commercial real estate	5,241	3,973
Subordinated loan - residential mortgage securitization program	2,765	2,946
Other financial investments	1,859	2,872
Asset-backed commercial paper	457	457
	$ 1,151,928	**$ 1,007,216**

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 1.83% at June 30, 2011 (December 31, 2010 - 2.08%). The fair market value of MBS held in trust for the CMB program as at June 30, 2011 was $980,718 (December 31, 2010 - $834,839).

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%). 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.

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 an equity investment included in other financial investments as at December 31, 2010 of $766 which was 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	June 30 2011	December 31 2010
Loans receivable - employees	29	$ 1,882	$ 1,699
Loans receivable - private company		943	1,446
Other		93	187
		$ 2,918	**$ 3,332**

A loan receivable has been made to a private company, bearing interest at the greater of 7% and prime plus 4%, 7% at June 30, 2011 (December 31, 2010 - 7%). This loan is payable on demand.

All other loans are classified as loans and receivables.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

19. Equity Investment in MCAP Commercial LP

	For the Quarters Ended June 30 2011	2010	For the Six Months Ended June 30 2011	2010
Balance, beginning of quarter	$ 11,280	$ 9,821	$ 11,530	$ 9,562
Equity income	578	231	1,385	490
Distributions received	-	(651)	(1,057)	(651)
Balance, end of quarter	**$ 11,858**	**$ 9,401**	**$ 11,858**	**$ 9,401**

	June 30 2011	December 31 2010
Share of MCLP's balance sheet:		
Assets	$ 124,726	$ 135,396
Liabilities	108,390	119,380
Equity	16,336	16,016
Carrying amount - equity investment in MCLP	**$ 11,858**	**$ 11,530**

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 June 30 2011	2010	For the Six Months Ended June 30 2011	2010
Share of MCLP revenue and net income:				
Revenue	$ 2,608	$ 2,721	$ 4,868	$ 5,037
Net income	$ 578	$ 231	$ 1,385	$ 490

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. 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.

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 represent 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:

	Less than one year	One to five years	Over five years	June 30 2011
CMB interest rate swaps - fair value	$ 5,680	$ 5,924	$ -	$ 11,604
CMB interest rate swaps - outstanding notional	$ 102,415	$ 159,532	$ -	$ 261,947

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

20. Derivative Financial Instruments (continued)

	Less than one year	One to five years	Over five years	December 31 2010
CMB interest rate swaps - fair value	$ -	$ 13,120	$ -	$ 13,120
CMB interest rate swaps - outstanding notional	$ -	$ 279,138	$ -	$ 279,138

21. Other Assets

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

	June 30 2011	December 31 2010
Miscellaneous CMB program assets	$ 4,422	$ 5,959
Capital assets	366	241
Other	675	444
	$ 5,463	**$ 6,644**

22. Term Deposits

	June 30 2011	December 31 2010
Term deposits	$ 508,662	$ 418,151
Accrued interest	5,109	2,910
	$ 513,771	$ 421,061
Fair value	**$ 520,232**	**$ 423,996**

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). The weighted average term deposit rate as at June 30, 2011 was 2.43% (December 31, 2010 - 2.18%). 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	June 30 2011	December 31 2010
Financial liabilities - CMB program	7	$ 2,944,600	$ 2,946,258
Financial liabilities - IMPP	7	170,464	173,343
		$ 3,115,064	**$ 3,119,601**

The financial liabilities - CMB program had a weighted average interest rate of 3.64% as at June 30, 2011 (December 31, 2010 - 3.67%).

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

23. Financial Liabilities From Securitization (continued)

As the CMB issuances mature, the securitization liability and related assets (securitized mortgages and principal reinvestment assets) are removed from the balance sheet. The CMB securitization liabilities as at June 30, 2011 mature as follows:

	CMB	IMPP	Total
2012	$ 1,088,252	$ -	$ 1,088,252
2013	965,219	132,433	1,097,652
2014	843,678	38,031	881,709
2015	47,451	-	47,451
	$ 2,944,600	**$ 170,464**	**$ 3,115,064**

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 June 30, 2011, the unamortized capitalized cost balance was $1,421 (December 31, 2010 - $1,742).

24. Income Taxes

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

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Income before income taxes	$ 7,938	$ 13,154	$ 9,805	$ 16,624
Less: dividends paid during the period	(4,539)	(3,734)	(19,000)	(9,614)
Income subject to tax	3,399	9,420	(9,195)	7,010
Statutory rate of tax	40%	41%	40%	41%
Tax provision (recovery) before the following:	1,360	3,862	(3,678)	2,874
Statutory rate difference in subsidiaries	(108)	(137)	(83)	(154)
Rate changes and other differences	(244)	(182)	(350)	301
Non-taxable portion of capital gains	(275)	(249)	(378)	(383)
	$ 733	**$ 3,294**	**$ (4,489)**	**$ 2,638**

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

	June 30 2011	December 31 2010
Provision for credit losses	$ (1,053)	$ (869)
Equity investment in MCAP Commercial LP	(207)	(457)
CMB-related items	5,952	6,959
Loss carryforward benefit	(35)	(299)
Other	(59)	(23)
	$ 4,598	**$ 5,311**

The Company has loss carryforward amounts of $125 (December 31, 2010 - $930), the benefit of which has been recorded to deferred taxes, expiring in 2029.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

25. Other Liabilities

	June 30 2011	December 31 2010
Accounts payable and accrued charges	$ 7,933	$ 5,162
Current taxes payable	1,768	5,881
Dividends payable	-	3,756
Related party payable - MCLP	357	174
	$ 10,058	**$ 14,973**

During 2010, the Company held investments in the senior position and first loss position of a residential construction loan securitization program (included in financial investments). Both of these investments were repaid in full as part of the windup of the securitization program later in the year. 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 June 30, 2011, the Company had accrued a $200 liability representing expected losses associated with this indemnity (December 31, 2010 - $200). As at June 30, 2011, the outstanding balance of the remaining loans was $27,564 (December 31, 2010 - $26,420).

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, 2011	14,447,743	$ 100,112
Issued		
Share issuance	2,300,000	31,024
Dividend reinvestment plan	77,823	1,156
Executive Share Purchase Plan	20,300	299
Balance, June 30, 2011	**16,845,866**	**$ 132,591**

On April 18, 2011, the Company completed a public share offering of 2,300,000 common shares at a price of $14.50 per share, for net proceeds of $31,024 after deducting $2,326 of issuance costs.

During the second quarter of 2011, the Company issued 14,790 (2010 - 14,347) 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 June 30, 2011 and December 31, 2010.

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

27. Dividends

	June 30 2011	June 30 2010
Dividends on common shares declared and paid during the period		
Second quarter dividend, 2011: $0.27 per share (2010: $0.26 per share)	$ 4,539	$ 3,734
Dividends on common shares approved in third quarter (not recognized as a liability at June 30, 2011 or 2010)		
Third quarter dividend, 2011: $0.27 per share (2010: $0.26 per share)	$ 4,548	$ 3,753

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

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.

	June 30 2011	December 31 2010
Unrealized gain (loss) on available for sale marketable securities	$ 90	$ (39)
Less: deferred taxes	(17)	7
	$ 73	**$ (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 June 30 2011	% Equity Interest December 31 2010
Subsidiaries:		
6212484 Canada Inc.	100%	100%
7235003 Canada Inc.	100%	100%
Associate:		
MCAP Commercial LP	22.7%	22.5%

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.

During the quarter, the Company purchased certain corporate services from MCLP in the amount of $74 (2010 - $112). During the quarter, the Company also purchased certain mortgage origination and administration services from MCLP in the amount of $380 (2010 - $680). During the quarter, the Company received $445 (2010 - $1,187) of mortgage fees from MCLP.

During the quarter, the Company paid fees in the amount of $845 (2010 - $1,445) to MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages. During the quarter, the Company received $130 (2010 - $635) 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.

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, Vice President, Investments and Vice President and Chief Risk Officer, is as follows:

	For the Quarters Ended June 30 2011	For the Quarters Ended June 30 2010	For the Six Months Ended June 30 2011	For the Six Months Ended June 30 2010
Short term employee benefits	$ 356	$ 156	$ 680	$ 442
Other long term benefits	58	-	143	-
	$ 414	**$ 156**	**$ 823**	**$ 442**

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 the second quarter of 2011, 20,300 common shares were issued out of treasury under the Share Purchase Plan (2010 - 6,435). The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

29. Related Party Disclosures (continued)

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 $299 of new loans under the Share Purchase Plan during the second quarter of 2011 (2010 - $nil). At June 30, 2011, $1,882 of loans were outstanding (December 31, 2010 - $1,699) (Note 18). The loans under the Share Purchase Plan bear interest at prime plus 1%, 4% at June 30, 2011 (December 31, 2010 - 4%) and have a five-year term. The shares are pledged as security for the loans and had a fair market value of $3,003 as at June 30, 2011 (December 31, 2010 - $2,562).

During the quarter, MCAN recognized $17 of interest income (2010 - $9) 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 June 30, 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 June 30, 2011 related to the DSU Plan was $58 (2010 - $nil). As at June 30, 2011, the accrued DSU Plan liability was $271 (December 31, 2010 - $128).

30. Commitments and Contingencies

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

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	$ 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**

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 are 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.

30. Commitments and Contingencies (continued)

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 June 30, 2011, the outstanding bank loan balance was $5,916 (December 31, 2010 - $6,315). As at June 30, 2011 and December 31, 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 25.

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 June 30, 2011 (December 31, 2010 - prime plus 1.5%, 4.50%). 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 June 30, 2011, there were letters of credit in the amount of $21,477 issued (December 31, 2010 - $22,495) and additional letters of credit in the amount of $31,038 committed but not issued (December 31, 2010 - $9,798).

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.

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 June 30, 2011 and December 31, 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.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

32. Interest Rate Sensitivity (continued)

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

As at June 30, 2011	**Floating Rate**	**Within 3 Months**	**3 Months to 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Non Interest Sensitive**	**Total**
Assets							
Corporate	$ 148,282	$ 93,845	$ 159,389	$ 180,903	$ 31,846	$ 25,260	$ 639,525
Securitized	396,623	286,501	238,508	2,055,211	-	180,080	3,156,923
	544,905	380,346	397,897	2,236,114	31,846	205,340	3,796,448
Liabilities							
Corporate	$ -	$ 83,069	$ 215,430	$ 215,272	$ -	$ 8,823	$ 522,594
Securitized	-	-	423,125	2,521,475	-	176,297	3,120,897
	-	83,069	638,555	2,736,747	-	185,120	3,643,491
Shareholders' Equity	-	-		-	-	152,957	152,957
GAP	**$ 544,905**	**$ 297,277**	**$ (240,658)**	**$ (500,633)**	**$ 31,846**	**$ (132,737)**	**-**
YIELD SPREAD	**1.98%**	**0.29%**	**1.38%**	**0.16%**	**6.56%**		

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
	583,087	311,268	222,850	2,348,837	10,797	209,186	3,686,025
Liabilities							
Corporate	$ -	$ 57,454	$ 253,954	$ 109,653	$ -	$ 20,284	$ 441,345
Securitized	-	-	-	2,946,258	-	173,343	3,119,601
	-	57,454	253,954	3,055,911	-	193,627	3,560,946
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%**		

Certain residential construction loans and single family uninsured completed inventory loans are subject to the greater of a minimum interest rate (ranging between 5% and 10%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate at June 30, 2011, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - $10,481 (December 31, 2010 - $19,117), 3 months to 1 year - $94,356 (December 31, 2010 - $76,004), and 1 to 5 years - $42,971 (December 31, 2010 - $44,147).

An immediate and sustained 1% increase (decrease) to market interest rates at June 30, 2011 would have a positive (adverse) effect of $1,242 (December 31, 2010 - $1,072) to net income over the following twelve month period.

An immediate and sustained 1% increase (decrease) to market interest rates at June 30, 2011 would have an adverse (positive) effect to the available for sale reserve of $515 (December 31, 2010 - $211).

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.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

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 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.

	June 30 2011 (IFRS)	December 31 2010 (CGAAP)
Tax Act Ratio		
Income tax assets	$ 669,528	$ 555,360
Income tax capital	$ 148,560	$ 126,374
Income tax assets to capital ratio	4.51	4.39
Income tax liabilities to capital ratio	3.51	3.39
Regulatory Ratios (OSFI)		
Tier 1 capital		
Share capital	$ 132,591	$ 100,112
Contributed surplus	510	510
Retained earnings	19,783	26,956
Tier 1 capital deductions	(229)	(6,815)
	152,655	120,763
Tier 2 capital		
Unrealized gain on available for sale marketable securities	73	-
Tier 2 capital deductions	(229)	(229)
	(156)	(229)
Total capital	$ 152,499	$ 120,534
Total regulatory assets	$ 698,771	$ 595,473
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	26.82%	22.10%
Total capital to risk-weighted assets ratio	26.80%	22.06%
Assets to capital ratio	4.58	4.94

As at June 30, 2011, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

33. Capital Management (continued)

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	June 30 2011 (IFRS)	December 31 2010 (CGAAP)
On-Balance Sheet Assets		
Cash and cash equivalents	$ 13,285	$ 18,140
Marketable securities	27,672	6,608
Mortgages - corporate	344,048	294,907
Financial investments	16,778	13,926
Other loans	2,918	10,079
Equity investment in MCLP	11,858	20,315
Other assets	5,463	3,209
	422,022	367,184
Off-Balance Sheet Assets		
Letters of credit	10,738	11,247
Mortgage funding commitments	68,257	99,839
	78,995	111,086
Derivative Financial Instruments		
CMB interest rate swaps		
Outstanding notional	261,947	279,138
Add-on factor	0.5%	0.5%
Potential credit exposure	1,310	1,396
Positive replacement cost	11,604	13,120
Credit equivalent	12,914	14,516
Risk weighting	20%	20%
Risk-weighted equivalent	2,583	2,903
Charge for operational risk	65,488	65,238
Total Risk-Weighted Assets	$ 569,088	$ 546,411

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.

- 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.

June 30, 2011 (Unaudited - Dollar amounts in thousands except for per share amounts)

34. Financial Instruments

The majority of the Company's consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, 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 June 30, 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	$ 12,738	$ 14,934	$ -
Derivative financial instruments	-	11,604	-
	$ 12,738	**$ 26,538**	**$ -**

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**	**$ -**

There were no transfers between levels during the quarters ended June 30, 2011 and June 30, 2010 or the year ended December 31, 2010. There were no financial liabilities reported at fair value as at June 30, 2011 or December 31, 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 Company has not fully assessed the impact of adopting IFRS 7.

35. Standards Issued But Not Effective (continued)

IFRS 9, *Financial Instruments: Classification and Measurement*

This standard 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 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.