



ANNUAL REPORT 2011
MCAN MORTGAGE CORPORATION

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 is a Loan Company under the Trust and Loan Companies Act (the “Trust Act”) and also qualifies as a mortgage investment corporation (“MIC”) under the *Income Tax Act* (Canada) (the “Tax Act”).

Our objective is to generate a reliable stream of income by investing our funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of loans and investments, real estate and securitization investments. We employ 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 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, we are entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of non-capital gains dividends that we pay to shareholders. Such dividends are received by our shareholders as capital gains dividends and interest income, respectively.

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MESSAGE TO SHAREHOLDERS

2011 Highlights

In 2011, MCAN Mortgage Corporation (the “Company”, “MCAN” or “we”) recorded strong asset growth in a challenging environment as we delivered a 40% increase in corporate assets. Net income of \$27.1 million was up from \$26.7 million in the prior year, while earnings per share were \$1.68 compared to \$1.85 in the prior year due to the dilution effects of our \$31 million share issuance in April 2011. Earnings from our investment in MCAP Commercial LP (“MCLP”) contributed significantly to MCAN’s results this year. Return on equity for 2011 was 18.5%, down from 22.0% in 2010.

Total consolidated assets were \$3.9 billion at December 31, 2011, which included \$754 million of corporate assets, up from \$538 million at December 31, 2010. Corporate asset growth during 2011 was driven by \$220 million of mortgage growth as we deployed the additional capacity from the share issuance. Approximately 70% of this growth was in single family mortgages, which resulted in an improvement to MCAN’s overall risk profile, as these mortgages generally have a lower risk profile than our construction and commercial loans. Portfolio quality continued to improve, with total mortgage arrears decreasing to \$76 million at December 31, 2011 from \$92 million at December 31, 2010.

Dividends per share were \$1.81 in 2011, up from \$1.19 in 2010. We have declared a first quarter dividend of \$0.60 per share to be paid March 30, 2012 to shareholders of record as of March 15, 2012. MCAN’s capital levels remain strong with Tier 1 and Total capital ratios of 22.21% and 22.26% respectively at December 31, 2011.

As a result of the growth and rebalancing of our corporate asset portfolio, our core earnings have increased and we have achieved earnings stability and a lower risk profile.

2012 Objectives

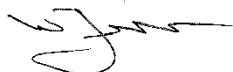
In 2012, we plan to optimally invest our corporate assets and utilize the remaining capacity from the 2011 share issuance. Our pipeline of new and existing unfunded mortgage commitments should result in the full investment of the balance sheet by the end of the first quarter of 2012. As we reach our lending capacity, we expect to improve the profitability of our corporate assets through portfolio optimization and the continued investment in higher yielding non-mortgage assets, while proactively managing our risk profile.

We expect our core income to increase as a result of the full investment of the balance sheet, which we also expect to have a positive impact on our taxable income. We also expect to be more active in securitizations as a result of our continued issuance of mortgage backed securities (“MBS”).

2012 Outlook

While housing markets are expected to moderate, we continue to observe good lending opportunities within the first-time buyer and first move-up housing sectors. Canadian real estate markets continue to experience reasonable levels of liquidity and competition. We continue to observe balanced housing markets within our core lending markets of Alberta, British Columbia and Ontario. We believe that 2012 will provide MCAN with financing opportunities at good risk-adjusted returns. We continue to focus on investing in mortgages within our core markets that have strong real estate fundamentals, and we expect to further refine our portfolio asset mix and geographic diversification throughout 2012. Our investment in MCLP continues to provide strategic growth opportunities and positive returns. The announced acquisition of ResMor Trust Company by MCLP is expected to improve their origination network.

MCAN maintains a disciplined and focused business model to create stable and regular dividends for its investors. While we shall endeavour to continue to grow our business, we are mindful of the continued challenges in world financial markets and the effects on the Canadian economy. We have seen evidence of a slowing domestic economy and some moderation in select housing markets, while markets such as Alberta continue to show strength from the growth of Canada’s commodity markets where strong prices and demand continue to push exploration and distribution related services.



William Jandrisits
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated balance sheets and accompanying notes as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been presented in Canadian currency. For all periods up to and including December 31, 2010, the consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). The consolidated financial statements for the year ended December 31, 2011 are the first annual financial statements that we have prepared in accordance with IFRS. This MD&A has been prepared as at March 9, 2012.

Additional information regarding MCAN Mortgage Corporation (the "Company", "MCAN" or "we"), including copies of our continuous disclosure materials such as the Annual Information Form, is available on our website at www.mcanmortgage.com or through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of applicable Canadian securities laws. The words "may," "believe," "will," "anticipate," "expect," "planned," "estimate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Such statements reflect management's current beliefs and are based on information currently available to management. The forward-looking statements in this MD&A include, among others, statements with respect to:

- the current business environment and outlook;
- possible or assumed future results;
- ability to create shareholder value;
- business goals and strategy;
- the stability of home prices;
- effect of challenging conditions on us;
- factors affecting our competitive position within the housing markets;
- sufficiency of our access to capital resources; and
- the timing of the effect of interest rate changes on our cash flows.

Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from the anticipated future results expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- global market activity;
- worldwide demand for and related impact on commodity prices;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- changes in interest rates;
- mortgage rate and availability changes;
- adverse legislation or regulation;
- technology changes;
- confidence levels of consumers;
- ability to raise capital on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- ability to retain our executive officers;
- relationships with our mortgage originators; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this MD&A and our other public filings with the applicable Canadian regulatory authorities.

Subject to applicable securities law requirements, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports should be consulted.

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SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)	2011 IFRS	2010 IFRS	2009 CGAAP	Change from 2010	
				(\$)	(%)
Operating Results					
Net investment income - corporate assets	\$ 25,650	\$ 27,380		\$ (1,730)	(6.3%)
Net investment income - securitization assets before market value adjustment	5,830	9,055		(3,225)	(35.6%)
Fair market value adjustment	228	1,629		(1,401)	(86.0%)
Net investment income - securitization assets	6,058	10,684		(4,626)	(43.3%)
Net investment income	31,708	38,064	\$ 30,641	(6,356)	(16.7%)
Operating expenses	6,860	6,100	5,899	760	12.5%
Income before income taxes	24,848	31,964	24,742	(7,116)	(22.3%)
Provision for (recovery of) income taxes	(2,255)	5,306	-	7,561	(142.5%)
Net income	\$ 27,103	\$ 26,658	\$ 24,742	\$ 445	1.7%
Average mortgage portfolio yield - corporate	6.53%	7.59%	7.48%		(14.0%)
Term deposit average interest rate	2.36%	2.10%	3.12%		12.4%
Average mortgage portfolio yield - securitized	4.23%	4.32%	n/a		(2.1%)
Financial liabilities from securitization - average interest rate	3.66%	3.64%	n/a		0.5%
Basic and diluted earnings per share	\$ 1.68	\$ 1.85	\$ 1.73	\$ (0.17)	(9.2%)
Taxable income per share	\$ 1.42	\$ 1.79	\$ 1.17	\$ (0.37)	(20.7%)
Dividends per share	\$ 1.81	\$ 1.19	\$ 1.44	\$ 0.62	52.1%
Return on average shareholders' equity	18.52%	21.97%	20.69%		(15.7%)

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %)	December 31 2011 (IFRS)	December 31 2010 (IFRS)	January 1 2010 (IFRS)	Change from 2010	
				(\$)	(%)
Balance Sheet Highlights					
Assets					
Corporate	\$ 753,799	\$ 538,118	\$ 465,213	\$ 215,681	40.1%
Securitization	3,140,359	3,147,907	3,097,491	(7,548)	(0.2%)
Total assets	\$ 3,894,158	\$ 3,686,025	\$ 3,562,704	\$ 208,133	5.6%
Mortgages - corporate	\$ 640,351	\$ 420,322	\$ 294,769	\$ 220,029	52.3%
Mortgages - securitized	\$ 1,499,016	\$ 1,910,995	\$ 2,342,164	\$ (411,979)	(21.6%)
Liabilities					
Corporate	\$ 618,277	\$ 438,732	\$ 373,751	\$ 179,545	40.9%
Securitization	3,117,416	3,122,214	3,074,999	(4,798)	(0.2%)
Total liabilities	\$ 3,735,693	\$ 3,560,946	\$ 3,448,750	\$ 174,747	4.9%
Shareholders' equity	\$ 158,465	\$ 125,079	\$ 113,954	\$ 33,386	26.7%
Capital Ratios					
Tax Assets to Capital Ratio	4.91	4.39	4.04		11.8%
Tier 1 Capital Ratio	22.21%	22.10%	27.75%		0.5%
Total Capital Ratio	22.26%	22.06%	27.47%		0.9%
Credit Quality					
Impaired mortgage ratio	0.67%	0.63%	0.68%		6.3%
Total mortgage arrears	\$ 76,279	\$ 91,828	\$ 100,054	\$ (15,549)	(16.9%)
Share Information (end of period)					
Number of common shares outstanding at year-end	16,862	14,448	14,321		16.7%
Book value per common share	\$ 9.40	\$ 8.66	\$ 7.96	\$ 0.74	8.5%
Common share price - close	\$ 13.40	\$ 13.86	\$ 13.60	\$ (0.46)	(3.3%)
Market capitalization	\$ 225,951	\$ 200,249	\$ 194,766	\$ 25,702	12.8%

HIGHLIGHTS

- Net income was \$27.1 million in 2011 (\$1.68 per share), up from \$26.7 million in 2010 (\$1.85 per share). Our return on equity was 18.5% for the year compared to 22.0% in 2010.
- Total consolidated assets were \$3.9 billion at December 31, 2011, which included \$754 million of corporate assets, up from \$538 million at December 31, 2010. Corporate asset growth during 2011 included \$220 million of mortgage growth.
- We completed a public share issuance during 2011, issuing 2,300,000 new common shares for net proceeds of \$31 million.
- Impaired corporate mortgages as a percentage of the corporate portfolio were 2.24% at December 31, 2011, down from 3.06% in the prior year. Impaired mortgages as a percentage of total mortgages remained low at 0.67% at December 31, 2011 compared to 0.63% in the prior year.
- Total mortgage arrears decreased to \$76 million at December 31, 2011 from \$92 million at December 31, 2010.
- Dividends per share were \$1.81 in 2011, up from \$1.19 in 2010.
- We declared a 2012 first quarter dividend of \$0.60 per share to be paid on March 30, 2012 to shareholders of record as of March 15, 2012. This dividend comprises the regular quarterly dividend of \$0.27 per share and an extra dividend of \$0.33 per share, and consists of a \$0.05 per share capital gains component and a \$0.55 per share taxable component.

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 2.0% for 2012 and 2.8% for 2013. The Canadian economy saw a moderation in growth in the fourth quarter of 2011, as a result of the European debt crisis and a slow down in the labour market. We expect moderate growth to continue through 2012 in line with the growth experienced in the latter half of 2011.

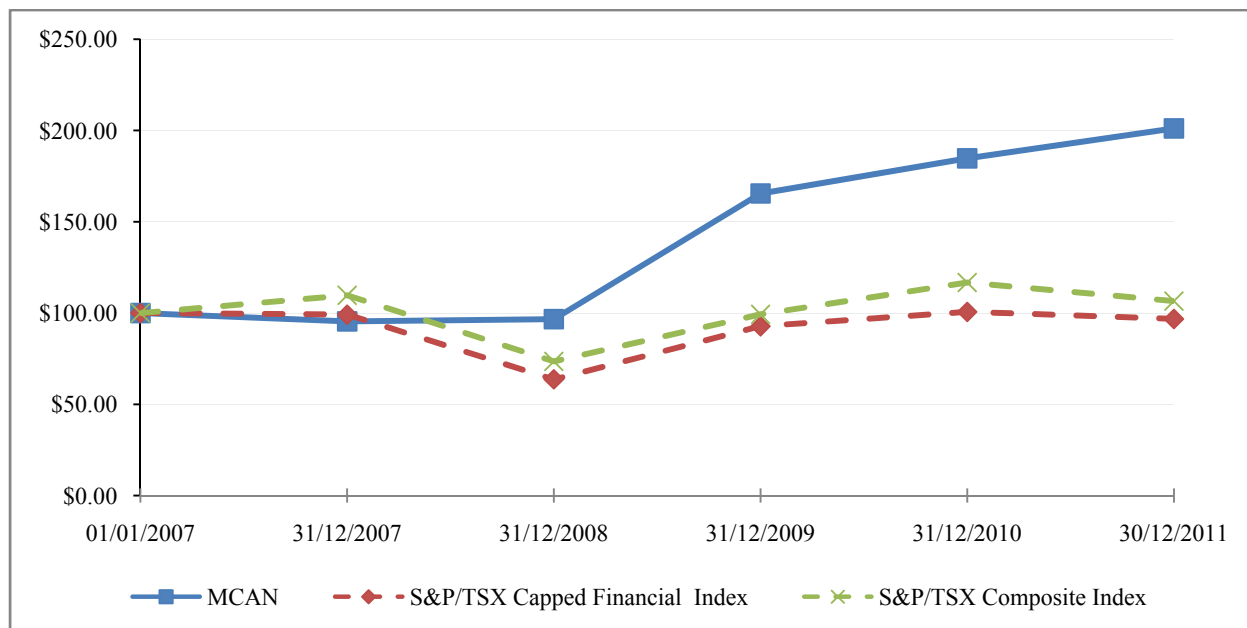
New term deposit funding rates continue to remain low by historical standards as central banks maintain neutral monetary policy to enable economic growth. In light of global economic uncertainty and the instability of financial markets, we believe that Canadian interest rates will remain low, providing stable funding costs for the coming year.

As we move towards full investment of the balance sheet, our emphasis remains on investing in mortgages with sound borrower equity, reasonable market acceptance through pre-sales on construction loans and acceptable risk-adjusted returns. We are closely monitoring market conditions in the geographic markets in which we invest to mitigate balance sheet risk. Our mortgage portfolio is currently well positioned with a low level of impaired mortgages. In addition, we have good geographic and borrower diversification. We remain focused on expanding the Canadian markets in which we invest, maintaining prudent lending practices and investing in quality assets.

PERFORMANCE CHARTS

The following graph compares MCAN's cumulative total shareholder return (assuming an investment of \$100 on December 31, 2006 on its common shares during the period from January 1, 2007 to December 31, 2011, with the S&P/TSX Composite Index (Total Return) and the S&P/TSX Financial Services Index (Total Return), assuming reinvestment of all dividends.

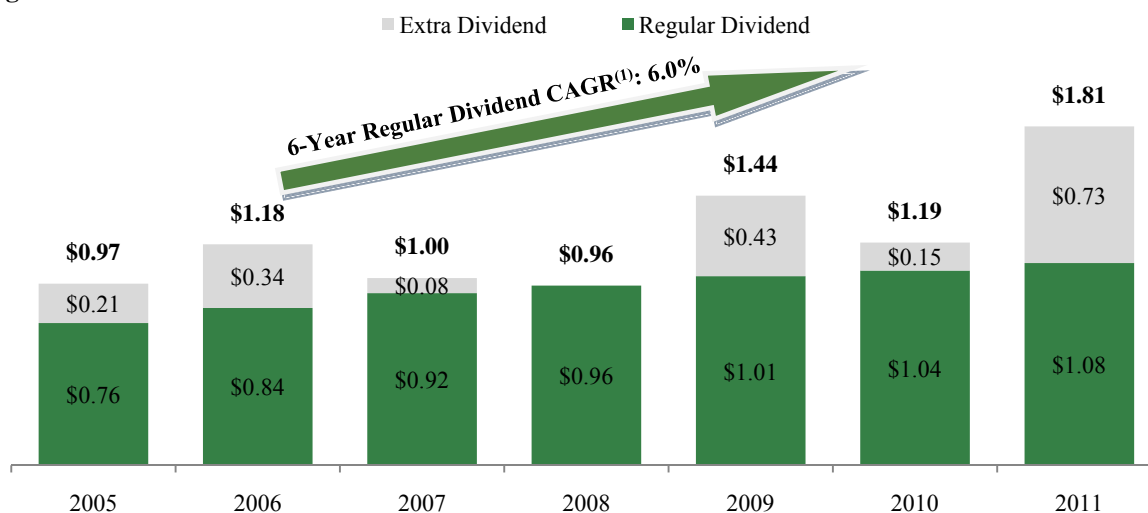
Figure 1: Shareholder Return



	Jan 1 2007	Dec 31 2007	Dec 31 2008	Dec 31 2009	Dec 31 2010	Dec 30 2011	Compound Annual Growth
MCAN	100	95.41	96.67	165.51	184.75	201.18	15.01%
S&P/TSX Composite Total Return Index	100	109.67	73.48	99.24	116.71	106.54	1.28%
S&P/TSX Capped Financial Index	100	99.14	63.62	92.74	100.64	96.77	(0.65%)

Note: Dividends declared on MCAN's common shares are assumed to be reinvested at the closing price on the payment date.

Figure 2: Dividend Growth



⁽¹⁾compound annual growth rate

Table 3: Ten Year Financial Summary

(in thousands, except per share amounts)

December 31	Net Income	Earnings Per Share	Dividends Per Share	Assets¹	Shareholders' Equity	Market Capitalization
2011 (IFRS)	\$ 27,103	\$ 1.68	\$ 1.81	\$ 753,799	\$ 158,465	\$ 225,951
2010 (IFRS)	26,658	1.85	1.19	538,118	125,079	200,249
2009 (CGAAP)	24,742	1.73	1.44	506,683	122,879	194,766
2008 (CGAAP)	30,348	2.14	0.96	570,154	116,609	129,438
2007 (CGAAP)	14,843	1.12	1.00	557,425	103,007	140,416
2006 (CGAAP)	15,211	1.23	1.18	498,107	84,611	141,052
2005 (CGAAP)	14,116	1.18	0.97	434,369	81,164	116,918
2004 (CGAAP)	11,601	1.12	1.11	454,365	74,965	103,374
2003 (CGAAP)	8,247	0.84	0.68	369,477	61,741	83,747
2002 (CGAAP)	5,430	0.58	0.68	327,059	58,383	80,293

¹ 2011 and 2010 consist of corporate assets only as reported under IFRS. 2009 and earlier years consist of total assets under CGAAP.

RESULTS OF OPERATIONS

MCAN reported net income of \$27.1 million for the year ended December 31, 2011, up from \$26.7 million in the prior year. Earnings per share were \$1.68 compared to \$1.85 in the prior year. The increase is due to higher equity income from MCAP Commercial LP ("MCLP") and a recovery of income taxes, partially offset by higher provisions for credit losses, lower securitization income and lower fee income in the current year.

Table 4: Net Income - For the Years Ended December 31

(in thousands)	2011	2010
Net Investment Income - Corporate Assets		
Mortgage interest	\$ 32,593	\$ 27,211
Interest on financial investments and other loans	1,342	2,507
Equity income from MCAP Commercial LP	5,007	3,302
Fees	1,593	3,857
Marketable securities	1,281	31
Interest on cash and cash equivalents	592	230
	42,408	37,138
Financial Expenses		
Term deposit interest and expenses	12,293	7,619
Mortgage expenses	3,407	2,831
Provision for (recovery of) credit losses	1,058	(692)
	16,758	9,758
	25,650	27,380
Net Investment Income - Securitization Assets		
Mortgage interest	20,718	25,467
Interest on financial investments	5,714	3,203
Interest on short-term investments	814	334
Other securitization income	9,001	10,239
	36,247	39,243
Interest on financial liabilities from securitization	29,844	29,473
Mortgage expenses	573	715
	30,417	30,188
Net investment income before fair market value adjustment	5,830	9,055
Fair market value adjustment - derivative financial instruments	228	1,629
	6,058	10,684
Net investment income	31,708	38,064
Operating expenses	6,860	6,100
Income before income taxes	24,848	31,964
Provision for (recovery of) income taxes	(2,255)	5,306
Net income	\$ 27,103	\$ 26,658
Basic and diluted earnings per share	\$ 1.68	\$ 1.85
Taxable income per share	\$ 1.42	\$ 1.79
Dividends per share	\$ 1.81	\$ 1.19

Net Investment Income - Corporate Assets

Mortgage interest income increased by \$5.4 million from the prior year as a result of a \$152 million increase in the average mortgage portfolio (from \$359 million in 2010 to \$511 million in 2011), partially offset by a decrease in the average mortgage yield to 6.53% in 2011 from 7.59% in 2010. The decrease in the overall portfolio yield was largely driven by a \$1.7 million decrease in discount income from MCAN's acquired mortgage portfolios.

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

remaining term of the respective mortgages. Upon the payout of a mortgage, the remaining unamortized discount is recognized as income.

During the year, we realized \$2.0 million (2010 - \$3.7 million) relating to the partial recovery of purchase price discounts on MCAN's acquired portfolios, included in mortgage interest income. We also received \$303,000 (2010 - \$2.3 million) of fees from MCLP from a profit sharing arrangement relating to the discounted mortgage portfolios acquired by MCLP. Prior year fee income from profit sharing was extremely high by historical standards.

Interest on loans and investments decreased by \$1.2 million from the prior year as a result of a significantly lower average portfolio balance in the current year, partially offset by a one-time gain of \$876,000 from the sale of a financial investment.

Equity income from our ownership in MCLP increased by \$1.7 million from the prior year due to gains from the sale of mortgages in 2011.

Fees decreased by \$2.3 million from 2010, primarily due to the decrease noted above in fees received from MCLP related to profit sharing on its discounted mortgage portfolios. Fees also include extension, renewal and letter of credit fees earned on our mortgage portfolio.

Marketable securities income increased by \$1.3 million from the prior year as a result of a substantially larger average portfolio.

Term deposit interest and expenses increased by \$4.7 million from 2010 as a result of an increase in the average term deposit rate to 2.36% in 2011 from 2.10% in 2010 and a \$163 million increase in the average term deposit balance to \$507 million in 2011 from \$344 million in 2010.

Mortgage expenses, consisting primarily of mortgage servicing expenses, increased by \$576,000 from 2010 as a result of a significantly larger average portfolio, although the average mortgage servicing rate decreased from 2010.

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

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to MCAN's participation in certain securitization programs, including the Canada Mortgage Bonds ("CMB") program. As a result of the conversion to IFRS, our ability to participate in future CMB program transactions has been significantly reduced (refer to "Securitization Programs" discussion). As existing CMB issuances mature, we expect net investment income from securitization assets to decrease as the related mortgages and reinvestment assets are removed from our balance sheet. Our existing CMB issuances mature as follows: June 2012 - \$423 million, December 2012 - \$665 million, 2013 - \$1.1 billion, 2014 - \$879 million, 2015 - \$47 million. In late 2011, we commenced a mortgage-backed securities program to allow for our continued participation in securitization transactions (refer to "Securitization Programs" discussion).

Net investment income from securitized assets before fair market value adjustments was \$5.8 million in 2011 compared to \$9.1 million in the prior year. Including fair market value adjustments on derivative financial instruments, net investment income on securitized assets was \$6.1 million in 2011 compared to \$10.7 million in the prior year.

Mortgage interest income decreased by \$4.7 million from the prior year, primarily due to a \$388 million decrease in the average mortgage portfolio over 2010. In addition, the average yield decreased from 4.32% in 2010 to 4.23% in 2011. 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 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 \$2.5 million and interest on short-term investments increased by \$480,000 from the prior year, both as a result of a significant increase in the average portfolios from 2010 from the continued repayment of securitized mortgages.

Other securitization income was \$9.0 million in 2011 compared to \$10.2 million in the prior year, consisting primarily of interest rate swap receipts of \$8.6 million (2010 - \$9.5 million). As part of the CMB program, we enter into "pay floating, receive fixed" interest rate swaps to hedge interest rate risk.

Interest on financial liabilities from securitization increased by \$371,000 from 2010. The average interest rate increased to 3.66% in 2011 from 3.64% in 2010, while the average outstanding balance increased slightly in 2011.

The positive fair market value adjustment to derivative financial instruments of \$228,000 (2010 - \$1.6 million) relates to the CMB interest rate swaps. The unrealized portion of this fair market value adjustment can be volatile as it is driven by changes in the forward interest rate curve. From an economic perspective, this adjustment is 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 market value adjustment to derivative financial instruments.

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 certain assets and investments and the interest paid on liabilities to fund those assets.

Table 5: Net Interest Income - For the Year Ended December 31, 2011

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 72,892	\$ -	\$ 72,892	\$ 592	\$ -	\$ 592	0.81%	-
Short-term investments	-	277,661	277,661	-	814	814	-	1.00%
Marketable securities	22,146	-	22,146	1,281	-	1,281	5.78%	-
Mortgages - corporate	511,345	-	511,345	32,593	-	32,593	6.53%	-
Mortgages - securitized	-	1,713,674	1,713,674	-	20,718	20,718	-	4.23%
Financial investments	10,939	1,133,824	1,144,763	1,182	5,714	6,896	5.79%	2.01%
Other loans	2,975	-	2,975	160	-	160	5.38%	-
Total on interest earning assets	620,297	3,125,159	3,745,456	35,808	27,246	63,054	5.77%	3.13%
Other assets	36,999	4,456	41,455	-	-	-	-	-
Total assets	\$ 657,296	\$ 3,129,615	\$ 3,786,911	\$ 35,808	\$ 27,246	\$ 63,054	5.45%	3.12%
Liabilities and Shareholders' Equity								
Term deposits	\$ 507,225	\$ -	\$ 507,225	\$ 12,293	\$ -	\$ 12,293	2.36%	-
Financial liabilities from securitization	-	3,115,145	3,115,145	-	29,844	29,844	-	3.66%
Other liabilities	11,294	6,854	18,148	-	-	-	-	-
Shareholders' equity	-	-	146,393	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 518,519	\$ 3,121,999	\$ 3,786,911	\$ 12,293	\$ 29,844	\$ 42,137	2.36%	3.66%
Net Interest Income²				\$ 23,515	\$ (2,598)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							4.17%	

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

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

Table 6: Net Interest Income – For the Year Ended December 31, 2010

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 50,201	\$ -	\$ 50,201	\$ 230	\$ -	\$ 230	0.46%	-
Short-term investments	-	245,814	245,814	-	334	334	-	0.47%
Marketable securities	741	-	741	31	-	31	4.19%	-
Mortgages - corporate	359,391	-	359,391	27,211	-	27,211	7.59%	-
Mortgages - securitized	-	2,101,793	2,101,793	-	25,467	25,467	-	4.32%
Financial investments	25,370	716,560	741,930	1,933	3,203	5,136	7.44%	2.05%
Other loans	9,983	-	9,983	574	-	574	5.75%	-
Total on interest earning assets	445,686	3,064,167	3,509,853	29,979	29,004	58,983	6.73%	3.47%
Other assets	46,437	22,025	68,462	-	-	-	-	-
Total assets	\$ 492,123	\$ 3,086,192	\$ 3,578,315	\$ 29,979	\$ 29,004	\$ 58,983	6.09%	3.38%
Liabilities and Shareholders' Equity								
Term deposits	\$ 344,481	\$ -	\$ 344,481	\$ 7,619	\$ -	\$ 7,619	2.10%	-
Financial liabilities from securitization	-	3,100,080	3,100,080	-	29,473	29,473	-	3.64%
Other liabilities	7,167	5,193	12,361	-	-	-	-	-
Shareholders' equity	-	-	121,393	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 351,648	\$ 3,105,273	\$ 3,578,315	\$ 7,619	\$ 29,473	\$ 37,092	2.10%	3.64%
Net Interest Income²				\$ 22,360	\$ (469)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							5.49%	

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

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

The income/expense associated with the securitized assets and liabilities in the tables above represents MCAN's 28% weighted average 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 \$8.6 million in 2011 (2010 - \$9.5 million).

Table 7: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Years Ended (in thousands except %)	December 31, 2011			December 31, 2010		
	Average Assets ¹	Interest Income	Average Rate	Average Assets ¹	Interest Income	Average Rate
Single family	\$ 256,803	\$ 16,616	6.52%	\$ 154,467	\$ 12,808	8.26%
Construction and single family uninsured (completed inventory loans)	228,826	14,602	6.66%	197,968	13,836	7.06%
Commercial	25,716	1,375	5.39%	6,956	567	7.70%
Average mortgages - corporate portfolio	\$ 511,345	\$ 32,593	6.53%	\$ 359,391	\$ 27,211	7.59%

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

Credit Quality

Table 8: Provisions for Credit Losses and Write-offs

(in thousands except basis points)		
For the Years Ended	December 31 2011	December 31 2010
Individual provision (recovery)		
Single family uninsured	\$ (144)	\$ 191
Residential construction	-	(1,727)
Commercial uninsured	58	-
	\$ (86)	\$ (1,536)
Collective provision (recovery)		
Single family uninsured	\$ 719	\$ 205
Residential construction	142	505
Commercial	286	42
Corporate mortgages - total	1,147	752
Financial investments and other loans	(3)	(108)
Other provisions	-	200
	\$ 1,144	\$ 844
Total provision for (recovery of) credit losses	\$ 1,058	\$ (692)
Corporate mortgage portfolio data:		
Provision for (recovery of) credit losses	\$ 1,061	\$ (784)
Net write offs	\$ 275	\$ 66
Net write offs (basis points)	5.4	1.8

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. The collective allowance is recorded at the time that mortgage funds are advanced to a borrower. Collective allowance rates depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect our future provisions for credit losses from those provisions determined in the current period, and there could be a need to increase or decrease the allowance for credit losses.

Collective provisions in both years are consistent with the growth in our corporate mortgage portfolio over those periods.

Individual provision activity from 2010 consists primarily of the reversal of a \$2 million individual allowance previously recorded against a residential construction loan that paid out in full with no principal loss.

During the second quarter of 2011, MCAN and another participant lender received approval from the Court of Queen's Bench of 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 been finalized, and MCAN's proportionate interest in the property will be held as an investment within a wholly owned subsidiary of MCAN. We expect the foreclosure proceedings to be completed by March 31, 2012. Since the process was not finalized as at December 31, 2011, the mortgage was still considered to be impaired at that date.

Corporate mortgage arrears were \$29 million as at December 31, 2011, down from \$31 million as at December 31, 2010. The decrease from the prior year includes a \$4 million reduction in residential construction loan arrears, partially offset by a small increase in single family mortgage arrears. Securitized mortgage arrears of \$48 million decreased significantly from \$61 million as at December 31, 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 and Allowances

Table 9: Net Impaired Mortgages and Allowances

(in thousands except %)	December 31 2011	December 31 2010
Residential construction	\$ 9,945	\$ 8,000
Single family (corporate)	3,759	4,831
Commercial	427	-
Single family (securitized)	86	1,742
Net impaired mortgages	\$ 14,217	\$ 14,573
Total mortgages	\$ 2,139,367	\$ 2,331,317
Net impaired as % of total mortgages (net of individual allowances)	0.67%	0.63%
Net impaired as % of corporate mortgages (net of individual allowances)	2.24%	3.06%
Collective allowance	\$ 2,919	\$ 2,047
Individual allowance	1,160	1,246
Total allowance	\$ 4,079	\$ 3,293

Operating Expenses

(in thousands)	2011	2010
Salaries and benefits	\$ 3,234	\$ 2,711
General and administrative	3,626	3,389
	\$ 6,860	\$ 6,100

Operating expenses increased by \$760,000 from the prior year, primarily due to higher salaries and benefits from an increase in the number of employees.

Income Taxes

(in thousands)	2011	2010
Current tax provision (recovery)	\$ (2,072)	\$ 3,442
Deferred tax provision (recovery)	(183)	1,864
	\$ (2,255)	\$ 5,306

The recovery of current taxes in 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 status as a mortgage investment corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act"), 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 of 2011, current taxes payable decreased significantly from December 31, 2010, leading to the 2011 recovery of current taxes.

The significant current tax provision in 2010 was a result of the excess of 2010 taxable income over dividends paid in the year. As noted above, this provision was partially reversed in 2011 upon the distribution of remaining 2010 taxable income through the March 31, 2011 dividend.

The deferred tax charge in 2010 was a result of positive fair market value adjustments to derivative financial instruments and the reversal of a significant individual mortgage allowance.

MCAN's taxable income was \$23 million (\$1.42 per share) in 2011 and \$26 million (\$1.79 per share) in 2010. 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 cash flows of \$389 million in 2011 and provided \$478 million in 2010. Net mortgage inflows were significantly higher in the prior year, while net term deposit inflows were higher in the current year. In addition, we had substantial positive inflows in 2010 from the issuance of financial liabilities from securitization and a decrease in other assets.

Investing activities used cash flows of \$429 million in 2011 and used \$465 million in 2010. 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 higher net purchases of marketable securities in the current year.

Financing activities provided cash flows of \$5 million in 2011 and used \$15 million in 2010. While dividend outflows were higher in the current year, there was a significant cash inflow in 2011 as a result of the share issuance.

Summary of Three Year Results of Operations

Note that MCAN's 2010 and 2011 financial information discussed below has been presented in accordance with IFRS, while 2009 financial information reported below was presented in accordance with CGAAP.

In 2009, MCAN reported strong financial results, with earnings per share of \$1.73. We earned significant income from upfront gains and residual securitization income from our participation in the CMB program, and the recognition of substantial discount income from portfolios of single family mortgages that had been acquired at a discount to their par values.

In 2010, we continued our solid financial performance with earnings per share of \$1.85. Discount income and income related to the CMB program remain remained strong, and we recognized income from the full reversal of a significant individual mortgage allowance without principal loss.

Earnings per share of \$1.68 were down from 2010, although still solid by historical standards. We continued to earn income from the CMB program and discounted mortgages, although both were lower than 2009 and 2010. Equity income from MCLP was significantly higher in 2011 than in recent years.

FINANCIAL POSITION

Total assets were \$3.89 billion as at December 31, 2011, consisting of \$754 million of corporate assets and \$3.14 billion of securitization assets. Corporate assets increased by \$216 million during 2011, including increases of \$220 million in mortgages, \$24 million in marketable securities and \$4 million in our equity investment in MCLP, and a decrease of \$34 million in cash and cash equivalents.

Table 10: Assets

(in thousands)	December 31 2011	December 31 2010
Corporate Assets		
Cash and cash equivalents	\$ 51,309	\$ 85,309
Marketable securities	30,149	6,608
Mortgages	640,351	420,322
Financial investments	12,536	10,248
Other loans	3,027	3,332
Equity investment in MCAP Commercial LP	15,480	11,530
Other assets	947	769
	753,799	538,118
Securitization Assets		
Short-term investments	345,487	220,949
Mortgages	1,499,016	1,910,995
Financial investments	1,279,479	996,968
Derivative financial instruments	13,348	13,120
Other assets	3,029	5,875
	3,140,359	3,147,907
	\$ 3,894,158	\$ 3,686,025

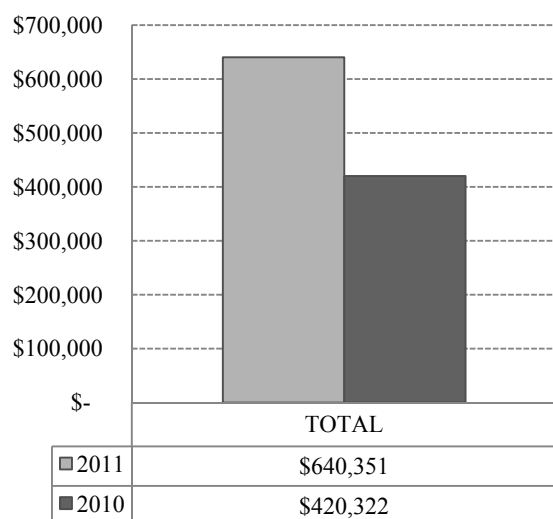
Corporate Assets

Cash and cash equivalents include cash balances with banks and overnight term deposits. These investments provide liquidity to meet maturing term deposit and new mortgage commitments, and meet our liquidity requirements, as discussed in the "Liquidity" section.

Marketable securities, consisting of corporate bonds and real estate investment trusts, increased by \$24 million in 2011. Marketable securities provide MCAN with additional liquidity at yields in excess of cash and cash equivalents.

The corporate mortgage portfolio increased by \$220 million during the year, consisting of increases of \$118 million in uninsured single family mortgages, \$45 million in commercial loans, \$33 million in insured single family mortgages and \$24 million in construction loans.

Figure 3: Total Corporate Mortgage Portfolio (in thousands)



We invest in insured and uninsured single family mortgages in Canada. We believe that the Canadian residential property market continues to exhibit healthy fundamentals, but we expect to observe moderation in sales volumes in 2012. We do not invest in the United States mortgage market. The uninsured mortgages that we invest in may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, value is the appraised value of the property as determined by a qualified appraiser at the time of funding. Residential mortgages insured by Canada Mortgage and Housing Corporation ("CMHC") or Genworth Financial Mortgage Insurance Company Canada Inc. ("Genworth") may exceed this ratio.

Uninsured residential construction loans are made to homebuilders to finance residential construction projects. These loans generally have a floating rate of interest and terms of one to two years. Our limit on total conventional construction loans is 250% of regulatory capital. Non-residential construction loans may comprise up to one half of this limit. Per our internal limits, the maximum single conventional construction loan may not exceed the lesser of \$15 million or 20% of regulatory capital.

The composition of our corporate mortgage portfolio is as follows:

Figure 4: Corporate Mortgage Portfolio Composition by Product Type (in thousands)

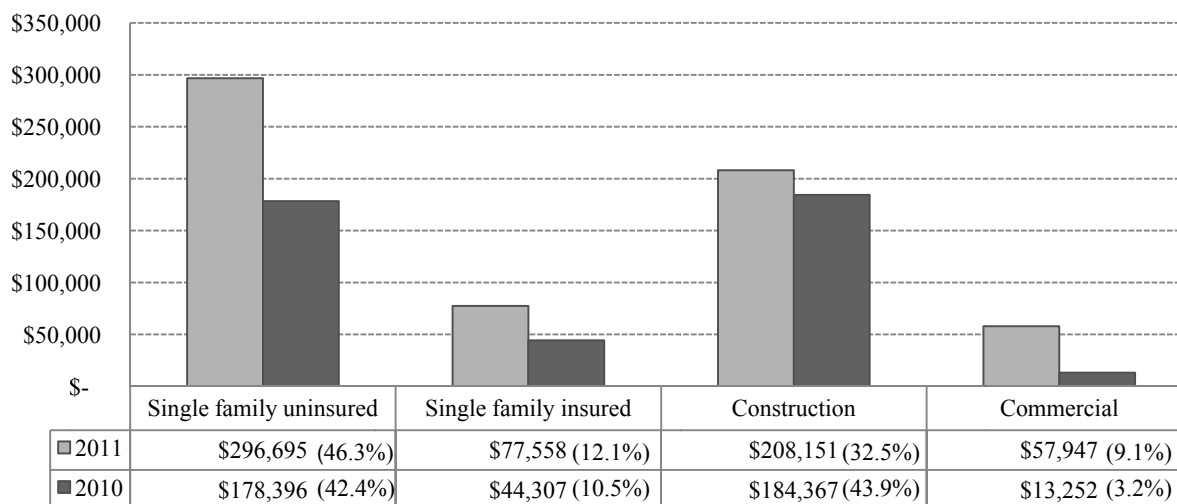


Figure 5: Corporate Mortgage Portfolio Geographic Distribution (2011)

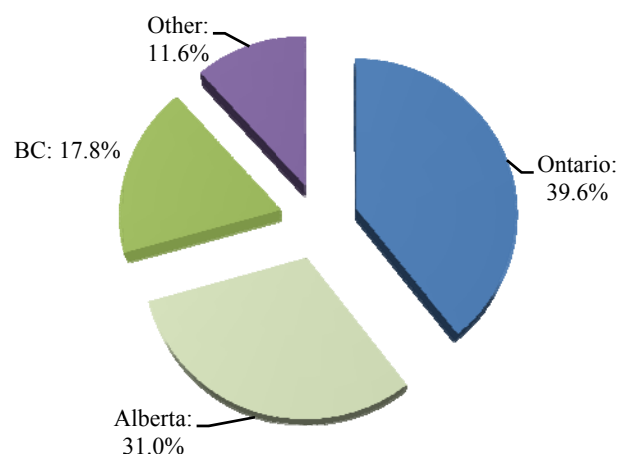
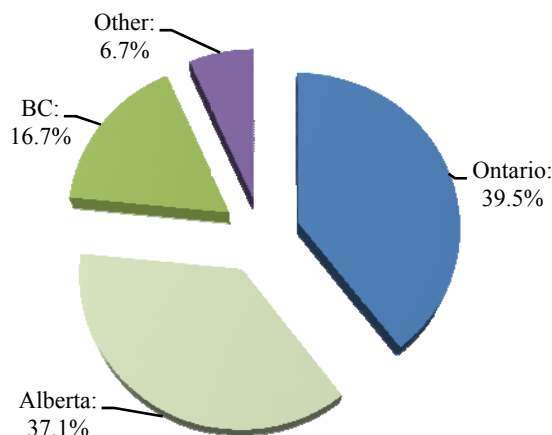


Figure 6: Corporate Mortgage Portfolio Geographic Distribution (2010)



Although housing markets remain balanced, 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. Given the current interest rate environment, we continue to focus on the risk adjusted returns of our various mortgage portfolios and where possible, we have been applying minimum rates on renewed and newly funded construction loans. We continue to aggressively manage arrears in order to maximize mortgage recovery.

Cyclically low interest rates have contributed to a stabilization of residential property values across Canada. As economic conditions have improved in Canada, we have observed a decline in arrears levels since 2008. Our account management and the account management of our mortgage servicers continue to be proactive in managing arrears. We believe that these factors will mitigate loan losses. We continue to regard residential mortgages as a solid investment asset class.

As at December 31, 2011, we held discounted mortgages with a net discount of \$9 million (2010 - \$14 million). We retain 50% of any recoveries of that amount, and we pay the remaining 50% to MCLP. The amount of the discount ultimately recovered is dependent on the value of the real estate securing the mortgage, as well as the financial capacity of the borrower. Additionally, these mortgages have maturity dates ranging from 2012 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). The realization of the discount is based on management's expectations as to when cash will be received.

Table 11: Mortgage Originations

(in thousands except %)	Quarters Ended December 31		Years Ended December 31	
For the Periods Ended	2011	2010	2011	2010
Single family uninsured	\$ 70,729	\$ 25,029	\$ 249,641	\$ 155,043
Single family insured ¹	-	-	-	9,338
Residential construction (advances)	101,972	51,284	226,280	249,995
Commercial	19,133	1,381	42,523	14,717
	\$ 191,834	\$ 77,694	\$ 518,444	\$ 429,093

¹ Single family insured originations, to the extent reflected above, consist only of mortgages that we intend to hold for investment purposes.

Financial investments increased by \$2 million during 2011, primarily due to advances on a commercial real estate equity investment.

We hold a 22.7% equity interest in MCLP. MCLP is an originator and servicer of mortgage loans for third party investors in Canada. We outsource the majority of our mortgage and loan origination and servicing to MCLP, and the remainder to other third party servicers.

On November 30, 2011, MCLP entered into an agreement to acquire the residential mortgage operations and certain related assets of ResMor Trust Company. The transaction is expected to be completed in the first quarter of 2012, subject to certain regulatory approvals and other customary closing conditions. If such transaction is successfully completed and MCLP realizes an increase in income, the Company may in turn realize an increase in equity income given our ownership interest in MCLP.

Securitization Assets

Short-term investments consist of treasury bills and commercial paper held as reinvestment assets for the CMB program, CMB cash held in trust and cash pledged as collateral. Short-term investments increased by \$125 million during 2011, consisting of increases of \$116 million in CMB reinvestment assets and \$9 million in CMB cash held in trust and pledged as collateral.

MCAN's securitized mortgage portfolio consists of insured mortgages securitized through the CMB program and other securitization programs. All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance.

The composition of our securitized mortgage portfolio is as follows:

Figure 7: Securitized Mortgage Portfolio Composition by Product Type (in thousands)

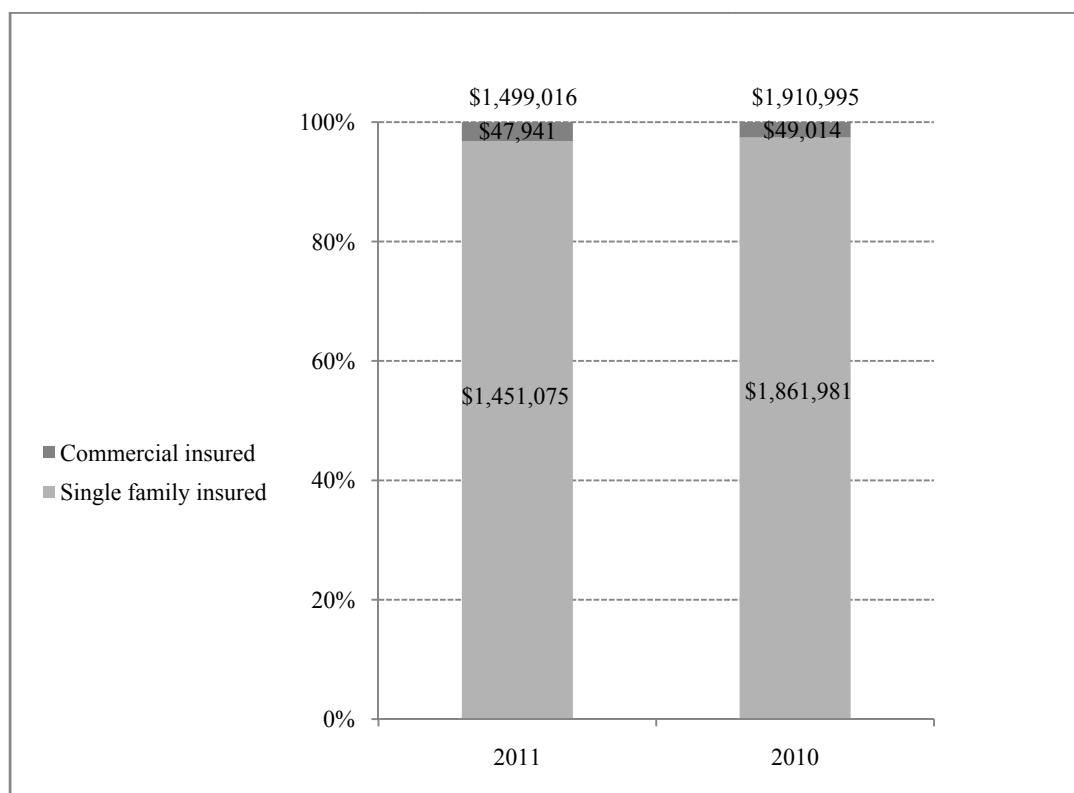


Figure 8: Securitized Mortgage Portfolio Geographic Distribution (2011)

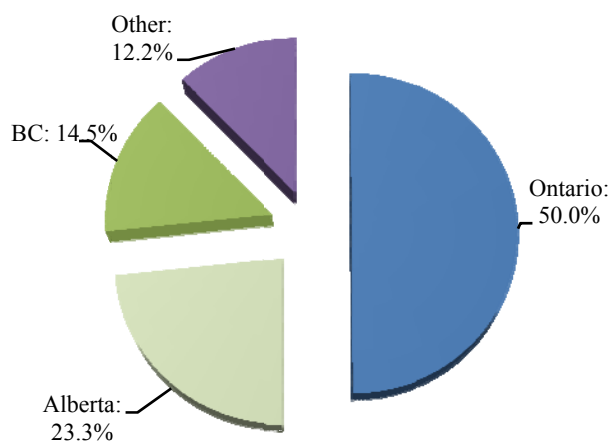
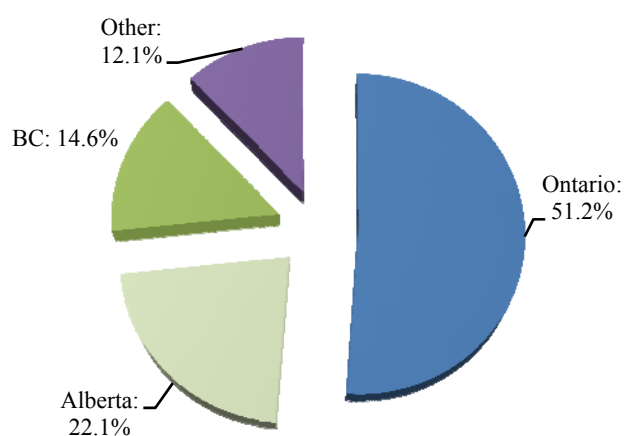


Figure 9: Securitized Mortgage Portfolio Geographic Distribution (2010)



Financial investments consist of insured MBS held as reinvestment assets for the CMB program and a receivable associated with MCAN's participation in the Insured Mortgage Purchase Program ("IMPP"). For further information on the IMPP, refer to the "Securitization Programs" discussion. Financial investments increased by \$283 million during 2011, consisting of an increase of \$289 million in insured MBS held as reinvestment assets and a \$6 million decrease in the IMPP receivable.

Derivative financial instruments at December 31, 2011 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 reinvested CMB principal collections. The increase of \$228,000 during 2011 consists of an unrealized gain of \$8.8 million less net interest rate swap receipts of \$8.6 million.

Table 12: Liabilities and Shareholders' Equity

(in thousands)	December 31 2011	December 31 2010
Liabilities		
Corporate Liabilities		
Term deposits	\$ 601,577	\$ 421,061
Current tax liabilities	3,321	5,728
Deferred tax liabilities	5,436	5,311
Other liabilities	7,943	6,632
	618,277	438,732
Securitization Liabilities		
Financial liabilities from securitization	3,111,357	3,119,601
Other liabilities	6,059	2,613
	3,117,416	3,122,214
	3,735,693	3,560,946
Shareholders' Equity		
Share capital	132,817	100,112
Contributed surplus	510	510
Retained earnings	23,491	24,489
Available for sale reserve	1,647	(32)
	158,465	125,079
	\$ 3,894,158	\$ 3,686,025

Term deposit liabilities increased by \$181 million during the year. 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 IMPP (refer to "Securitization Programs" discussion). The liabilities associated with the CMB program pay out in full at the time that a specific issuance matures. Financial liabilities from securitization as at December 31, 2011 mature as follows: June 2012 - \$423,209, December 2012 - \$664,774, 2013 - \$1,097,875, 2014 - \$878,620 and 2015 - \$46,879.

Share capital increased by \$33 million during the year, which was primarily as a result of the public share issuance, in addition to the dividend reinvestment plan and the Executive Share Purchase Plan. For further information on share capital, refer to Note 21 to the consolidated financial statements.

Retained earnings decreased by \$1.0 million, consisting of net income of \$27 million less dividends of \$28 million.

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

SUMMARY OF FOURTH QUARTER RESULTS

The Company reported net income for the quarter ended December 31, 2011 of \$5.2 million (\$0.30 per share), compared to \$2.0 million (\$0.13 per share) in the prior year.

Table 13: Net Income for the Quarters ended December 31

(in thousands)	2011	2010
Net Investment Income - Corporate Assets		
Mortgage interest	\$ 8,845	\$ 7,875
Interest on financial investments and other loans	81	309
Equity income from MCAP Commercial LP	3,262	1,625
Fees	689	908
Marketable securities	399	31
Interest on cash and cash equivalents	115	105
	13,391	10,853
Financial Expenses		
Term deposit interest and expenses	3,424	2,134
Mortgage expenses	822	851
Provision for (recovery of) credit losses	388	(72)
	4,634	2,913
	8,757	7,940
Net Investment Income - Securitization Assets		
Mortgage interest	4,685	5,905
Interest on financial investments	1,504	1,319
Interest on short-term investments	233	114
Other securitization income	2,593	2,616
	9,015	9,954
Interest on financial liabilities from securitization	7,448	7,454
Mortgage expenses	136	178
	7,584	7,632
Net investment income before fair market value adjustment	1,431	2,322
Fair market value adjustment - derivative financial instruments	(3,190)	(5,909)
	(1,759)	(3,587)
Net investment income	6,998	4,353
Operating expenses	1,769	1,926
Income before income taxes	5,229	2,427
Provision for income taxes	6	469
Net income	\$ 5,223	\$ 1,958
Basic and diluted earnings per share	\$ 0.30	\$ 0.13
Taxable income per share	\$ 0.51	\$ 0.45
Dividends per share	\$ 0.27	\$ 0.26

Net Investment Income - Corporate Assets

Mortgage interest income increased by \$970,000 as a result of a \$171 million increase in the average mortgage portfolio from \$410 million to \$581 million, partially offset by a 1.26% decrease in the average mortgage yield from 7.47% in 2010 to 6.21% in 2011. Mortgage interest income includes \$600,000 (2010 - \$1.2 million) of discount income on MCAN's acquired mortgage portfolios, which caused the majority of the decrease in the mortgage yield over the prior year.

Interest on financial investments and other loans decreased by \$228,000 primarily due to a significantly lower average portfolio balance in the current year.

Equity income from our ownership interest in MCLP increased by \$1.6 million from 2010, primarily due to gains from the sale of mortgages.

Fees decreased by \$219,000 in the quarter, as lower fees from the acquired mortgage profit sharing arrangement with MCLP were partially offset by higher other mortgage fees.

Marketable securities income increased by \$368,000 as a result of a significantly higher average portfolio balance in the current year.

Term deposit interest and expenses increased by \$1.3 million in 2011, primarily due to a \$166 million increase in the average outstanding balance from \$381 million in 2010 to \$547 million in 2011 and an increase in the average term deposit interest rate from 2.13% in 2010 to 2.42% in 2011.

For details of the provision for credit losses, refer to Table 17.

Net Investment Income - Securitization Assets

Mortgage interest income decreased by \$1.2 million as a result of a \$382 million decrease in the average mortgage portfolio from 2010.

Interest on financial investments increased by \$185,000 and interest on short-term investments increased by \$119,000, both due to increases in the respective average portfolio balances.

Other securitization income for the quarter was unchanged at \$2.6 million, consisting primarily of interest rate swap receipts of \$2.3 million (2010 - \$2.6 million).

There was a negative fair market value adjustment to derivative financial instruments of \$3.2 million (2010 - negative \$5.9 million) for the quarter relating to the CMB 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 certain assets and investments and the interest paid on liabilities to fund those assets.

Table 14: Net Interest Income - For the Quarter Ended December 31, 2011

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 57,647	\$ -	\$ 57,647	\$ 115	\$ -	\$ 115	0.79%	-
Short-term investments	-	334,760	334,760	-	233	233	-	0.94%
Marketable securities	29,567	-	29,567	399	-	399	5.35%	-
Mortgages - corporate	580,844	-	580,844	8,845	-	8,845	6.21%	-
Mortgages - securitized	-	1,559,890	1,559,890	-	4,685	4,685	-	4.17%
Financial investments	11,739	1,225,961	1,237,700	43	1,504	1,547	3.60%	1.91%
Other loans	2,838	-	2,838	38	-	38	5.31%	-
Total on interest earning assets	682,635	3,120,611	3,803,246	9,440	6,422	15,862	5.49%	2.93%
Other assets	30,480	3,357	33,837	-	-	-	-	-
Total assets	\$ 713,115	\$ 3,123,968	\$ 3,837,083	\$ 9,440	\$ 6,422	\$ 15,862	5.25%	2.92%
Liabilities and Shareholders' Equity								
Term deposits	\$ 546,863	\$ -	\$ 546,863	\$ 3,424	\$ -	\$ 3,424	2.42%	-
Financial liabilities from securitization	-	3,111,397	3,111,397	-	7,448	7,448	-	3.63%
Other liabilities	14,678	6,315	20,993	-	-	-	-	-
Shareholders' equity	-	-	157,830	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 561,541	\$ 3,117,712	\$ 3,837,083	\$ 3,424	\$ 7,448	\$ 10,872	2.42%	3.63%
Net Interest Income²				\$ 6,016	\$ (1,026)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							3.79%	

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

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

Table 15: Net Interest Income - For the Quarter Ended December 31, 2010

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 53,077	\$ -	\$ 53,077	\$ 105	\$ -	\$ 105	0.78%	-
Short-term investments	-	215,056	215,056	-	114	114	-	0.73%
Marketable securities	2,407	-	2,407	31	-	31	5.11%	-
Mortgages - corporate	410,246	-	410,246	7,875	-	7,875	7.47%	-
Mortgages - securitized	-	1,941,980	1,941,980	-	5,905	5,905	-	4.33%
Financial investments	8,273	944,686	952,959	162	1,319	1,481	9.60%	2.35%
Other loans	8,010	-	8,010	147	-	147	7.28%	-
Total on interest earning assets	482,013	3,101,722	3,583,735	8,320	7,338	15,658	6.85%	3.44%
Other assets	54,038	6,472	60,510	-	-	-	-	-
Total assets	\$ 536,051	\$ 3,108,194	\$ 3,644,245	\$ 8,320	\$ 7,338	\$ 15,658	6.16%	3.41%
Liabilities and Shareholders' Equity								
Term deposits	\$ 380,539	\$ -	\$ 380,539	\$ 2,134	\$ -	\$ 2,134	2.13%	-
Financial liabilities from securitization	-	3,120,575	3,120,575	-	7,454	7,454	-	3.61%
Other liabilities	13,592	2,010	15,602	-	-	-	-	-
Shareholders' equity	-	-	127,529	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 394,131	\$ 3,122,585	\$ 3,644,245	\$ 2,134	\$ 7,454	\$ 9,588	2.13%	3.61%
Net Interest Income²				\$ 6,186	\$ (116)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							5.34%	

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

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

The income/expense associated with the securitized assets and liabilities in the tables above represents MCAN's 28% weighted average 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 \$1.9 million in the fourth quarter (2010 - \$2.0 million).

Table 16: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended (in thousands except %)	December 31, 2011			December 31, 2010		
	Average Assets ¹	Interest Income	Average Rate	Average Assets ¹	Interest Income	Average Rate
Single family	\$ 304,932	\$ 4,712	6.29%	\$ 175,032	\$ 3,645	8.10%
Construction and single family uninsured (completed inventory loans)	235,122	3,642	6.33%	222,053	4,028	7.06%
Commercial	40,790	491	4.88%	13,161	202	5.99%
Average mortgages - corporate portfolio	\$ 580,844	\$ 8,845	6.21%	\$ 410,246	\$ 7,875	7.47%

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

Table 17: Provisions for Credit Losses and Write-Offs

For the Quarters Ended December 31	2011	2010
Individual provision (recovery)		
Single family uninsured	\$ (138)	\$ -
Residential construction	-	-
Commercial uninsured	58	-
	\$ (80)	\$ -
Collective provision (recovery)		
Single family uninsured	\$ 119	\$ (30)
Residential construction	147	33
Commercial	197	(2)
Corporate mortgages - total	463	1
Financial investments and other loans	5	(73)
	\$ 468	\$ (72)
Total provision for (recovery of) credit losses	\$ 388	\$ (72)
Corporate mortgage portfolio data:		
Provision for (recovery of) credit losses	\$ 383	\$ 1
Net write offs	\$ 2	\$ 6
Annualized net write offs (basis points)	0.1	0.6

Operating Expenses

(in thousands)

For the Quarters Ended December 31	2011	2010
Salaries and benefits	\$ 882	\$ 1,038
General and administrative	887	888
	\$ 1,769	\$ 1,926

Although we had more employees in 2011, salaries and benefits were higher in the prior year as a result of a higher variable compensation expense.

Income Taxes

(in thousands)

For the Quarters Ended December 31	2011		2010	
Current tax provision	\$	1,612	\$	2,490
Deferred tax provision (recovery)		(1,606)		(2,021)
	\$	6	\$	469

The current tax provision was higher in the prior year as a result of higher taxable income. The recovery of deferred taxes in both years was consistent with the respective negative fair market adjustments to derivative financial instruments.

SELECTED QUARTERLY FINANCIAL DATA

Table 18: Selected Quarterly Financial Data

(in thousands, except per share amounts)

	Q1/11	Q2/11	Q3/11	Q4/11	Q1/10	Q2/10	Q3/10	Q4/10
Net investment income - corporate assets	\$ 5,308	\$ 6,165	\$ 5,420	\$ 8,757	\$ 5,037	\$ 6,174	\$ 8,229	\$ 7,940
Net investment income - securitization assets before fair market value adjustment	1,469	1,844	1,086	1,431	1,203	3,685	1,845	2,322
Fair market value adjustment	(3,238)	1,722	4,934	(3,190)	(1,462)	4,702	4,298	(5,909)
Net investment income - securitization assets	(1,769)	3,566	6,020	(1,759)	(259)	8,387	6,143	(3,587)
Net investment income	3,539	9,731	11,440	6,998	4,778	14,561	14,372	4,353
Operating expenses	1,672	1,793	1,626	1,769	1,308	1,407	1,459	1,926
Income before income taxes	1,867	7,938	9,814	5,229	3,470	13,154	12,913	2,427
Provision for (recovery of) income taxes	(5,222)	733	2,228	6	(656)	3,294	2,199	469
Net income	\$ 7,089	\$ 7,205	\$ 7,586	\$ 5,223	\$ 4,126	\$ 9,860	\$ 10,714	\$ 1,958
Basic and diluted earnings per share	\$ 0.49	\$ 0.44	\$ 0.45	\$ 0.30	\$ 0.29	\$ 0.69	\$ 0.74	\$ 0.13
Taxable income	\$ 4,389	\$ 5,532	\$ 4,495	\$ 8,463	\$ 4,100	\$ 5,700	\$ 9,439	\$ 6,455
Taxable income per share	\$ 0.30	\$ 0.34	\$ 0.27	\$ 0.51	\$ 0.29	\$ 0.39	\$ 0.66	\$ 0.45
Dividends per share ¹								
Regular	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.26	\$ 0.26	\$ 0.26	\$ 0.26
Extra	0.73	-	-	-	0.15	-	-	-
Total	\$ 1.00	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.41	\$ 0.26	\$ 0.26	\$ 0.26

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

Net investment income from our corporate portfolio has been stable and consistent for the past eight quarters. The third and fourth quarters of 2010 were higher than usual due to the full reversal of an individual corporate mortgage allowance upon payout and strong equity income from MCLP, respectively. The fourth quarter of 2011 also had significant equity income from MCLP.

Net investment income before fair market value adjustments from our securitized portfolio has also been stable, with significant mortgage penalty 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.

SECURITIZATION PROGRAMS

CMB Program

MCAN participates in the CMB program, which involves the securitization of mortgages that are insured by CMHC or Genworth. Over the term of a CMB issuance, MCAN is entitled to interest income received from the securitized mortgages. As the securitized mortgages repay, MCAN reinvests the collected principal in certain permitted investments and is also entitled to interest income from the reinvested assets. As part of the securitization, MCAN also incurs a liability in the amount of the securitized mortgages and is obligated to pay interest on this liability. This liability does not amortize over the term of the issuance and is payable in full at maturity. MCAN also recognizes servicing expenses on the mortgages and pays certain upfront costs. The securitized mortgages and reinvestment assets are held as collateral against the CMB liability.

MCAN participates in the CMB program with MCLP and a private company. MCAN participates in the economics of each CMB issuance in accordance with a pre-determined economic sharing percentage, which dictates the upfront and ongoing cash flow rights and obligations of the participants. MCAN's weighted average economic participation for outstanding CMB issuances as at December 31, 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.

In connection with the arrangements involving a private company and the participation of MCAN in the economics of CMB issuances, amounts owing to MCAN under such arrangements in connection with certain renewals and refinances of mortgages related to the CMB program are currently in disagreement and no payments have been made to MCAN thereunder since 2009. Although MCAN is following up with these issues, MCAN is uncertain when and if the disagreement will be resolved and, even if resolved, when and if payments under those arrangements will resume. The inability to recover such amounts or cause the payments to recommence on account of the mortgage renewals and refinances could be material to MCAN.

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, reinvestment assets and securitization liability on the consolidated balance sheets until the maturity of the CMB issuance. MCAN recognizes its 28% weighted average share of mortgage interest income, principal reinvestment income, interest expense on the securitization liability and certain other program expenses on the accrual basis.

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.

The interest rate swaps are classified as held for trading, where changes in fair value are recorded through the consolidated statements 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 statements of income, which can cause significant volatility to the consolidated statements 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. In late 2011, we commenced a mortgage-backed securities program (discussed below under "Other MBS Programs") to allow for our continued participation in securitization transactions. However, at this point, we have been unable to develop additional potential alternative structures and arrangements that may permit our continued participation in the CMB program.

Other MBS Programs

The Company 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 and financial liability from

securitization, 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.

In 2011 we commenced a program under which we issue insured mortgage-backed securities ("MBS") that are sold into the market and the associated net economics ("interest-only strips") are sold to a third party. During 2011, all interest-only strip sales were to MCLP. MCAN met derecognition criteria on the sale of the mortgages (i.e. on creation of MBS), and accordingly they were removed from our consolidated balance sheet at that time.

Our ability to continue to generate future income under this MBS program is dependent upon on our ability to acquire insured mortgages from MCLP or other mortgage originators as well as our ability to sell the MBS and interest-only strips on a profitable basis.

In 2011, we recognized \$261,000 of income (2010 - \$nil) related to the sale of MBS and the associated interest-only strips.

Timely Payment Guarantee

Consistent with all issuers of MBS, MCAN is required to pass through a "timely payment" to MBS investors (representing scheduled principal and interest payments), even if these mortgage payments have not been collected from mortgagors. Similarly, at the maturity of the MBS pools that have been issued by MCAN (including those underlying CMB program issuances), any outstanding principal must be paid to the MBS investors. If mortgagors are unable to renew their mortgages at their scheduled maturity, MCAN will be required to use its own financial resources to fund this obligation until proceeds are received from the mortgage insurers following sale of the mortgaged properties.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of common shares with no par value. At December 31, 2011, there were 16,861,575 common shares outstanding. At March 9, 2012, there were 16,881,802 common shares outstanding. For additional information related to share capital, refer to Note 21 to the consolidated financial statements.

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. Although we have had significant corporate asset growth since the share issuance, our remaining asset capacity was \$132 million at December 31, 2011. However, our capital base at this date included a significant amount of taxable income not yet distributed to shareholders. Due to the magnitude of the 2012 first quarter dividend, our remaining asset capacity will decrease significantly on March 30, 2012 as a result of the related decrease to shareholders' equity. We have incorporated this anticipated decrease in asset capacity into our first quarter growth plans as we approach the full investment of the balance sheet.

The share issuance was 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.

DIVIDEND POLICY AND RECORD

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. As a MIC under the Tax Act, we can deduct dividends paid to shareholders during the year and within 90 days thereafter from income for tax purposes. We pay out substantially all of our taxable income to shareholders, whereas other financial institutions generally pay out only a portion of their taxable income to their shareholders. These dividends are taxable in the shareholders' hands as interest. In addition, a MIC can pay certain capital gains dividends which are taxed as capital gains in the shareholders' hands. We intend to continue to declare dividends on a quarterly basis.

Dividends per share over the past three years are as follows:

Table 19: Dividends

Fiscal Period	2011	2010	2009
First Quarter - Regular Dividend	\$ 0.27	\$ 0.26	\$ 0.25
First Quarter - Extra Dividend	0.73	0.15	0.43
Second Quarter	0.27	0.26	0.25
Third Quarter	0.27	0.26	0.25
Fourth Quarter	0.27	0.26	0.26
	\$ 1.81	\$ 1.19	\$ 1.44
Taxable Dividends	\$ 1.81	\$ 1.19	\$ 1.44
Capital Gains Dividends	-	-	-
	\$ 1.81	\$ 1.19	\$ 1.44

The Board of Directors of the Company (the "Board") declared a first quarter dividend of \$0.60 per share to be paid March 30, 2012 to shareholders of record as of March 15, 2012. The dividend comprises the regular quarterly dividend of \$0.27 per share and a \$0.33 per share extra dividend, and consists of a \$0.05 per share capital gains component and a \$0.55 per share taxable component.

OFF-BALANCE SHEET ARRANGEMENTS

We commit to fund mortgages to borrowers in advance of funding at agreed upon interest rates. Substantially all of these commitments relate to floating rate construction loans. At December 31, 2011, outstanding commitments for future fundings of mortgages intended for our portfolio were \$297 million.

Off-balance sheet arrangements relating to the CMB program are discussed in the "CMB Program" section above.

CONTRACTUAL OBLIGATIONS

We have contractual obligations to make principal and interest payments on term deposits and an operating lease. In addition, we have outstanding commitments for future fundings of mortgages intended for our own portfolio, as discussed above.

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

We outsource our mortgage and loan origination and servicing to MCLP and other third party servicers. We continue to pay servicing expenses as long as the mortgages and loans remain on our balance sheet.

Table 20: Contractual Obligations

As at December 31, 2011	Less than one year	One to five years	Over five years	Total
Term deposits	\$ 327,010	\$ 274,567	\$ -	\$ 601,577
Operating lease	277	484	-	761
Mortgage fundings	241,656	55,010	-	296,666
CMB obligations	768	674	-	1,442
	\$ 569,711	\$ 330,735	\$ -	\$ 900,446

TRANSACTIONS WITH RELATED PARTIES

In 2011, we purchased certain corporate services from MCLP in the amount of \$497,000 (2010 - \$433,000). We also purchased certain mortgage origination and administration services from MCLP in the amount of \$2.9 million (2010 - \$2.8 million). During 2011, we received \$2.2 million of mortgage fees from MCLP (2010 - \$3.7 million). The fees received from MCLP include commitments, extension, renewal, and letter of credit fees. We use MCLP systems, including networks, subsystems and general ledger. We also receive technology support from MCLP.

In 2011, we paid fees in the amount of \$2.7 million to MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages (2010 - \$4.2 million). We received \$303,000 of fees from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages (2010 - \$2.3 million).

In 2011, we earned \$261,000 from the sale of interest-only strips to MCLP (2010 - \$nil), discussed above in "Securitization Programs."

The Company has established an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board can approve loans to key personnel for the purpose of purchasing the Company's common shares. The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares. During 2011, MCAN advanced \$299,000 of new loans under the Share Purchase Plan (2010 - \$789,000). As at December 31, 2011, \$1.8 million of loans were outstanding (December 31, 2010 - \$1.7 million). The loans under the Share Purchase Plan bear interest at prime plus 1%, and have a five-year term.

In 2010, we established a Deferred Share Units Plan (the "DSU Plan") whereby the Board granted units under the DSU Plan to the President and Chief Executive Officer (for the purposes of this paragraph, the "Participant"). Each unit is equivalent in value to one common share of the Company. Following the Participant's 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 MCAN'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 December 31, 2011, 10,000 units had vested (December 31, 2010 - nil).

We recognize compensation expenses associated with the DSU Plan in line with the graded vesting schedule. The compensation expense recognized for the year ended December 31, 2011 related to the DSU Plan was \$181,000 (2010 - \$128,000). As at December 31, 2011, the accrued DSU Plan liability was \$309,000 (December 31, 2010 - \$128,000), included in accounts payable and accrued liabilities.

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%.

Securitization 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.

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

Our Tax Act and regulatory ratios are as follows:

Table 21: Regulatory Capital

(amounts in thousands, except %)	December 31 2011 (IFRS)	December 31 2010 (CGAAP)
Tax Act Ratio		
Income tax assets	\$ 766,065	\$ 555,360
Income tax capital	156,116	126,374
Income tax assets to capital ratio	4.91	4.39
Income tax liabilities to capital ratio	3.91	3.39
Regulatory Ratios (OSFI)		
Tier 1 capital		
Share capital	\$ 132,817	\$ 100,112
Contributed surplus	510	510
Retained earnings	23,491	26,956
Tier 1 capital deductions	(229)	(6,815)
	156,589	120,763
Tier 2 capital		
Unrealized gain on available for sale marketable securities	560	-
Tier 2 capital deductions	(229)	(229)
	331	(229)
Total capital	\$ 156,920	\$ 120,534
Total regulatory assets	\$ 818,112	\$ 595,473
Total risk-weighted assets	\$ 704,954	\$ 546,411
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	22.21%	22.10%
Total capital to risk-weighted assets ratio	22.26%	22.06%
Assets to capital ratio	5.21	4.94

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.

We fund the majority of our investments through the issue of term deposits eligible for CDIC deposit insurance with varying maturities in certain provinces of Canada. We do not use capital markets (including asset-backed commercial paper) for liquidity.

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.

In conjunction with the annual strategic planning and budgeting process, we complete an Internal Capital Adequacy Assessment Process ("ICAAP") in order to ensure that we have the capital adequacy to support our business plan and risk appetite. The ICAAP assesses the capital available to support the various inherent risks that we face including credit, liquidity, interest rate, market, geographic concentration and reputational risks. The Company's business plan is also stress tested under various adverse scenarios in order to determine the impact on our results from operations and financial condition. The ICAAP is reviewed by both management and the Board and is submitted to OSFI annually. Based on our 2012 ICAAP, we have determined that the Company remains adequately capitalized.

For additional information on our capital management, refer to Note 32 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our 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, which are discussed throughout this MD&A.

The use of financial instruments exposes us to interest rate, credit, liquidity and market risk. A discussion of these risks and how these risks are managed is found under "Risk Management" below.

Information on the financial statement classification and amounts of income, expenses, gains and losses associated with the instruments are located in the "Results from Operations" and "Financial Position" sections of this MD&A. Information on the determination of the fair market value of financial instruments is located in the "Critical Accounting Policies and Estimates" section of this MD&A.

LIQUIDITY

Our liquidity management process includes a Liquidity Risk Management Framework that incorporates multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the ICB on a quarterly basis. The table below shows the composition of our liquidity ratios over the last two years.

Table 22: Liquidity Ratios

(in thousands except %)	December 31 2011	December 31 2010
Tier 1 liquidity		
Cash and cash equivalents	\$ 51,309	\$ 85,309
Tier 2 liquidity		
Marketable securities	30,149	6,608
Tier 3 liquidity		
CMHC Single Family Mortgages less 25%	<u>19,001</u>	<u>6,476</u>
Total liquidity	<u>\$ 100,459</u>	<u>\$ 98,393</u>
100 day term deposit maturities	\$ 88,953	\$ 67,002
Tier 1 & 2 liquidity to 100 day term deposit maturities	92%	137%
Total liquidity to 100 day term deposit maturities	113%	147%

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

For further analysis of our liquidity risks and how we manage them, refer to the "Risk Factors" and "Risk Management" sections below.

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 and/or reputation. The risks that have been identified may not be the only risks faced by the Company. Other risks of which the Company is not aware of 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 capital. 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 31 to the consolidated financial statements.

Outsourcing Risk

Outsourcing risk is the risk incurred when we contract out a business function to a service provider instead of performing the function ourselves, and the service provider performs at a lower standard than we would have under similar circumstances. We outsource all mortgage and loan origination, servicing and collections to MCLP and other third parties.

Economic Conditions

The Canadian economy continued to demonstrate modest strength in 2011, as evidenced by growth in both gross domestic product and employment. Cyclically low interest rates contributed to the robustness of the housing market. We expect the economy to remain stable in 2012, however, housing sales are expected to decline in all key markets as a result of lower levels of inventory for new homes that require an extended timeline to move through the construction process. Resales are expected to decline slightly as a result of recent changes to CMHC mortgage insurance rules.

Higher interest rates or a decline in general economic conditions may cause default rates to increase as creditworthiness decreases for borrowers who are more highly leveraged or as unemployment increases. This decline may negatively affect our net income. In addition, a general decline in economic conditions may slow the pace of housing sales and adversely affect growth in the single family mortgage market, which could adversely affect our ability to grow our mortgage portfolio.

Regulatory Risk

Changes in laws and regulations, including interpretation or implementation, may affect the Company by limiting the products or services that we can provide and increasing the ability of competitors to compete with our products and services. Also, any

failure by the Company to comply with applicable laws and regulations may result in sanctions and financial penalties which may adversely impact our earnings and damage our reputation. Increasing regulations and expectations as a result of the recent financial crisis, both globally and domestically, have increased the cost and resources necessary to meet regulatory expectations for the Company.

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.

Reliance on Key Personnel

Our future performance is dependent on the abilities, experience and efforts of our management team and other key personnel. There is no assurance that we will be able to continue to attract and retain key personnel, although it remains a key objective of the Company. Should any key personnel be unwilling or unable to continue their employment with MCAN, there may be an adverse effect on our financial condition and results of operations.

Operational and Infrastructure Risk

We are exposed to many types of operational risks that affect all companies. Such risks include the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. We are also exposed to the risk that computer or telecommunication systems could fail, despite efforts to maintain these systems in working order. Shortcomings or failures in internal processes, employees or systems, including any of our financial, accounting or other data processing systems, may lead to financial loss and damage to our reputation. In addition, despite our contingency plans in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our operations.

Competition Risk

Our operations and income are a function of the interest rate environment, the availability of mortgage products at reasonable yields and the availability of term deposits at reasonable cost. The availability of mortgage products for the Company and the yields thereon are dependent on market competition. In the event that we are unable to compete successfully against our current or future competitors or raise term deposits to fund our lending activities, there may be an adverse effect on our financial condition and results of operations.

Monetary Policy

Our earnings are affected by the monetary policies of the Bank of Canada. Changes in the supply and demand of money and the general level of interest rates could affect our earnings. Changes in the level of interest rates affect the interest spread between our mortgages, loans and investments, securitization investments and term deposits, and as a result may impact our net investment income. Changes to monetary policy and in financial markets in general are beyond our control and are difficult to predict or anticipate.

Environmental Risk

We recognize that environmental hazards are a potential liability. This risk exposure can result from non-compliance with environmental laws, either as principal or lender, which may negatively affect our financial condition and results of operations. We aim to mitigate this risk by complying with all environmental laws and by applying a rigorous environmental policy and procedures to our commercial and development lending activities.

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, may 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. In addition, delays in the receipt of any regulatory approvals and authorizations that may be necessary to the operation of our business may adversely affect our operations and financial condition. Our failure to comply with applicable laws and regulations may result in sanctions and financial penalties that could adversely impact our earnings and damage our reputation.

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 consolidated 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 financial statements. Please refer to the "Future Changes in Accounting Policy" section of this MD&A for further details.

Accuracy and Completeness of Information on Customers and Counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we rely on information furnished by them, including financial statements and other information. We may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information. Our financial condition and results of operations may be negatively affected to the extent that we rely on financial statements and other information that do not comply with GAAP, that are materially misleading or that do not fairly represent, in all material respects, the financial condition and results of operations of the customers and counterparties.

Leverage

Leverage increases our potential exposure to all risk factors described above.

No Assurance of Achieving Investment Objectives or Payment of Dividends

As a result of the risks discussed above, there is no assurance that the Company will be able to achieve its investment objectives or be able to pay dividends at targeted or historic levels. The funds available for the payment of dividends to our shareholders will vary according to, among other things, the principal and interest payments received in respect of the Company's investments. There can be no assurance that the Company will generate any returns or be able to pay dividends to our shareholders in the future.

RISK MANAGEMENT

We operate in changing regulatory and economic environments. As a result, our management team and the Board of Directors are particularly diligent in their consideration of all identified risks. 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 team is responsible for the quality of processes, policies, procedures and controls and for internal reporting on a day-to-day basis. The Board 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.

As discussed above under "Risk Factors," we are exposed to various inherent risks, particularly credit risk, liquidity risk and interest rate risk. We mitigate these risks through prudent credit limits, established lending policies and procedures, effective monitoring and reporting, investment diversification and by the 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"). A Dashboard Report, which identifies, assesses, ranks and provides trending analysis on all material risks to the Company, is provided to the Audit Committee of the Board on a quarterly basis. Weekly monitoring also takes place through our Capital Commitments Committee, which is comprised of management.

Our exposure to credit risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of our investments. Credit limits, based on capital capacity and risk appetite, have been established for concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis to reflect changes in market conditions and our risk appetite. All members of management are subject to limits on their ability to commit the Company to credit risk.

We identify potential risks in our mortgage portfolio by way of regular review of market metrics, which are a key component of semi-annual market reports provided to the ICB. We also undertake site visits of active mortgage properties. 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. Risk ratings are reviewed annually for large exposures, and whenever there is an amendment or a material adverse change such as a default or impairment.

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 December 31, 2011, we had recorded \$1.2 million (December 31, 2010 - \$1.2 million, January 1, 2010 - \$2.8 million) of individual allowances on our mortgage portfolio (refer to Note 10 to the consolidated financial statements).

Our maximum credit exposure on our individual financial assets is equal to the carrying value of the respective assets, except for our corporate mortgage portfolio, whose maximum credit exposure also includes outstanding commitments for future mortgage fundings.

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. ALCO is responsible for liquidity management. 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 100% or 125% of term deposits maturing within 100 days, depending on projected term deposit growth over the subsequent three months. As at December 31, 2011 our standard level was 100%. 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 unexpected 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 December 31, 2011 were \$27 million, the available portion of the credit facility at this date dedicated to overdrafts was \$23 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. We are not aware of any contingencies or known events that are likely to materially affect our liquidity position.

Management has developed a Liquidity Risk Management Framework that is reviewed and approved annually by the Board. 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 expected future commitments. Our liquid investments were 113% of term deposits maturing within 100 days at December 31, 2011. Our target as of December 31st was at least 100%, based on term deposit growth in the second half of 2011. For further details on our liquid assets and our ability to meet liability obligations, refer to Note 31 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.

Table 23: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 5 Years	Over 5 Years	December 31 2011	December 31 2010	January 1 2010
Sources of liquidity							
Cash and cash equivalents	\$ 51,309	\$ -	\$ -	\$ -	\$ 51,309	\$ 85,309	\$ 88,201
Marketable securities	-	2,086	7,110	20,953	30,149	6,608	-
Mortgages - corporate	100,508	270,661	236,890	32,292	640,351	420,322	294,769
Financial investments	22	-	910	11,604	12,536	10,248	60,327
Other loans	117	1,097	-	1,813	3,027	3,332	11,844
	151,956	273,844	244,910	66,662	737,372	525,819	455,141
Uses of liquidity							
Term deposits	75,629	251,381	274,567	-	601,577	421,061	360,744
Other liabilities	7,943	-	-	-	7,943	6,632	7,304
	83,572	251,381	274,567	-	609,520	427,693	368,048
Net liquidity surplus (deficit)	\$ 68,384	\$ 22,463	\$ (29,657)	\$ 66,662	\$ 127,852	\$ 98,126	\$ 87,093
Off-Balance Sheet							
Unfunded mortgage commitments	\$ 159,141	\$ 82,515	\$ 55,010	\$ -	\$ 296,666	\$ 199,678	\$ 96,173

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

For a discussion regarding liquidity risk relating to the maturity of CMB program issuances and other MBS programs, refer to the "Timely Payment Guarantee" section of the "Securitization Programs" discussion.

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 securitization 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 monitored and controlled at the highest level of the Company. ALCO reviews and manages these risks on a monthly basis. Our Board also reviews and approves all risk management policies and procedures. Management reports to the Board 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 both individual and total securities. Reports on the portfolio are submitted to the Company's senior management on a regular basis and to the Board on a quarterly basis.

PEOPLE

As at December 31, 2011, we had 17 employees, an increase of two from the prior year.

REGULATORY COMPLIANCE

Our Chief Compliance Officer ensures that management understands the impact of all relevant legislation affecting the business, assesses compliance with current and pending legislation and works with management to address any gaps in policies and procedures. We use a Legislative Compliance Management System that ensures all managers assess their compliance with relevant legislation on a quarterly basis. Senior management liaises with regulators to keep them apprised of Company progress and changes to our business. Our Chief Compliance Officer reports quarterly to the Conduct Review, Corporate Governance & Human Resources Committee of the Board.

INTERNAL AUDIT

During 2011, we appointed a Chief Audit Officer. Prior to that time, we outsourced our Internal Audit function to Protiviti, an independent risk consulting firm. The Internal Audit function has unrestricted access to our operations, records, property and personnel, including senior management and the Chairman of the Audit Committee of the Board (the "Audit Committee"). Internal Audit formulates an annual risk-based plan for approval by the Audit Committee and then undertakes internal audit reviews throughout the year with regular and direct reporting to both senior management and the Audit Committee.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Note 4 to our consolidated financial statements provides detailed information on our significant accounting policies, the method of applying those policies, and the material components of the amounts in the consolidated balance sheets and the statements of income, changes in shareholders' equity, comprehensive income and cash flows. The policies discussed below are considered particularly important, as they require management to make judgments involving estimations, which are discussed in Note 6 to the consolidated financial statements. We have control procedures to ensure that these policies are applied consistently and that the policies are independently reviewed on at least an annual basis. Changes to accounting policies are made only after an appropriate amount of research and discussion has occurred and independent advice is obtained. Estimates are considered carefully and reviewed at an appropriate level within the Company. We believe that our estimates of the value of our assets and liabilities are appropriate. Actual results may differ from those estimates.

Financial Instruments

All financial instruments are initially recognized on the trade date, and are classified based on management's intentions. Financial assets are classified as held for trading, held to maturity, available for sale or loans and receivables, and financial liabilities are classified as held for trading or at amortized cost. Changes in the unrealized fair value of financial instruments classified as held for trading are recognized to income. Changes in the unrealized fair value of available for sale financial assets are recognized in the available for sale reserve, except for those considered to be changes attributable to impairment which are charged to income. Upon disposal, the cumulative change in fair value is transferred to income. Other classifications are subsequently measured at amortized cost. From time to time, the Company may use derivative and non-derivative financial instruments to manage interest rate risk. Hedge accounting is optional, and where it can be applied, it requires the Company to document the hedging relationship and to test the effectiveness of the hedging item to offset changes in value of the underlying hedged item on an ongoing basis. At December 31, 2011, the Company did not have any hedge accounting relationships.

All financial instruments that are carried on the consolidated balance sheets at fair value 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.

For further details on financial instruments, refer to Notes 4, 6, 8, 9, 10, 11, 12, 15, 16, 17 and 20 to the consolidated financial statements.

Allowance for Credit Losses

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 own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans 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. The collective allowance is established by considering historical loss trends during economic cycles, the risk profile of our current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience. Allowance 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 year, and there could be a need to increase or decrease the allowance for credit losses.

We complete a review of all provisioning policies at least annually. We continue to monitor asset performance and current economic conditions, focusing on any regionally specific issues to assess the adequacy of the current provisioning policies. Provisioning rates are reviewed on a quarterly basis.

In addition to considering current economic conditions, we assessed the probability of default, expected loss as a result of default and the mortgage exposure at the time of default when establishing our collective allowance. We continue to review our underwriting and credit requirements on a regular basis, and we have taken measures as warranted by changes in the market and economic conditions.

We believe that we have established adequate provisioning rates given the current economic concerns. Our current provisioning rates consider the impact of a decline in real estate values and anticipated default/loss percentages that are sufficient to offset current and historical loss experiences.

On an ongoing basis, we reassess the fair value of other loans and financial investments, determined on the basis of expected discounted cash flows. When a decline in value is identified as a result of impairment that is other than temporary, an allowance is recorded through the income statement.

For further details on our accounting policies and balances of the allowances for credit losses, refer to Notes 4, 6, 10, 11 and 12 to the consolidated financial statements.

Discount Income Recognition

The Company may acquire mortgage portfolios from third parties at fair market value. A mortgage discount will exist to the extent that the fair market value of a mortgage is less than its par value. The discount is allocated between a valuation reserve component and an accretion component. The valuation reserve component represents the risk of credit loss, while the accretion component represents the part of the discount to be recognized to income over time, thereby adjusting the yield on the mortgage from its face rate to an effective yield. The accretion component is amortized to income over the term of the related mortgage through the application of the effective interest rate method. The valuation reserve component is only recognized into income upon payout, less any realized credit loss.

Income Taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the consolidated financial statement date. Deferred tax is provided on temporary differences at the consolidated financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

For further details on our accounting policies and balances relating to income taxes, refer to Notes 4 and 18 to the consolidated financial statements. We will continue to proactively monitor the appropriateness of our position on a quarterly basis.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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 CMB securitization liabilities mature as follows: June 2012 - \$423 million, December 2012 - \$665 million, 2013 - \$1.1 billion, 2014 - \$879 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 as at January 1, 2010 upon 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.

We have restated our CGAAP consolidated balance sheet as at December 31, 2010 and our previously published CGAAP statements of income and comprehensive income for the year ended December 31, 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.

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 a result of CMB program adjustments related to the conversion to IFRS, retained earnings as at January 1, 2010 decreased by \$433,000 (including a deferred tax charge of \$270,000) from CGAAP. As at December 31, 2010, retained earnings increased by \$4.4 million (net of a deferred tax charge of \$2.1 million) from CGAAP. In addition, January 1, 2010 and December 31, 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 the calculation of the IFRS collective allowance follows similar principles to the calculation of the CGAAP 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 January 1, 2010 decreased by \$641,000 from CGAAP (December 31, 2010 - \$945,000), which led to an increase to IFRS retained earnings of \$387,000 (December 31, 2010 - \$570,000), net of deferred taxes.

To the extent that MCLP's IFRS retained earnings were impacted as at January 1, 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 January 1, 2010, our equity investment in MCLP under IFRS decreased by \$8.3 million (December 31, 2010 - \$8.8 million) from CGAAP, which decreased IFRS retained earnings by \$7.1 million (December 31, 2010 - \$7.3 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 retained earnings as at January 1, 2010 as a result of the conversion to IFRS was \$7.2 million (December 31, 2010 - \$2.5 million) while the overall decrease to accumulated other comprehensive income from CGAAP to IFRS was \$1.7 million (December 31, 2010 - \$1.8 million). In addition, total IFRS assets and liabilities as at January 1, 2010 and December 31, 2010 increased by \$3.1 billion from CGAAP.

Impact to Net Income and Earnings per Share

Net income for the year ended December 31, 2010 increased from \$25.4 million under CGAAP to \$26.7 million under IFRS. Earnings per share increased from \$1.76 under CGAAP to \$1.85 under IFRS.

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

FUTURE CHANGES IN ACCOUNTING POLICY

Standards issued but not yet effective up to the date of issuance of the Company's 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 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

This standard will require entities to disclose gross amounts subject to right of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. Effective for periods beginning on or after January 1, 2013. Retrospective application will be required.

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, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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 judgment 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. 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. 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

Disclosure Controls and Procedures (“DC&P”)

A disclosure committee, comprised of members of our senior management (the “Disclosure Committee”) is responsible for establishing and maintaining adequate disclosure controls and procedures. As of December 31, 2011, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Commission – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (“NI 52-109”). Our Chief Executive Officer and Chief Financial Officer supervised and participated in this evaluation. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting (“ICFR”)

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our ICFR based upon the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our ICFR were effective as of December 31, 2011.

Ernst & Young LLP, our Independent Registered Chartered Accountants, have audited our consolidated financial statements for the year ended December 31, 2011.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1 and ending on December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Inherent Limitations of Controls and Procedures

All internal control systems, no matter how well designed, have inherent limitations. As a result, even systems determined to be effective may not prevent or detect misstatements on a timely basis, as systems can provide only reasonable assurance that the objectives of the control system are met. In addition, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

2011 CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements of MCAN Mortgage Corporation (“MCAN” or the “Company”) are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements, the Management’s Discussion and Analysis of Operations and all other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with International Accounting Standards (“IAS”), including the accounting requirements of our regulator, the Office of the Superintendent of Financial Institutions Canada.

The Company’s accounting system and related internal controls are designed, and supporting procedures maintained to provide reasonable assurance that the Company’s financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition.

The Office of the Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of MCAN as deemed necessary to be satisfied that the provisions of the Trust and Loan Companies Act are being duly observed for the benefit of depositors and that the Company is in sound financial condition.

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors. The Chief Financial Officer reviews internal controls, control systems and compliance matters and reports thereon to the Audit Committee.

The Audit Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company’s external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.



William Jandrisits
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

*Toronto, Canada,
February 29, 2012*

Independent auditors' report

To the Shareholders of MCAN Mortgage Corporation

We have audited the accompanying consolidated balance sheets of MCAN Mortgage Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MCAN Mortgage Corporation as at December 31, 2011 and December 31, 2010, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

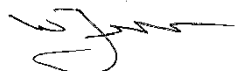
Toronto, Canada,
February 29, 2012

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

As at	Note	December 31 2011	December 31 2010	January 1 2010
Assets				
Corporate Assets				
Cash and cash equivalents	8	\$ 51,309	\$ 85,309	\$ 88,201
Marketable securities	9	30,149	6,608	-
Mortgages	10	640,351	420,322	294,769
Financial investments	11	12,536	10,248	60,327
Other loans	12	3,027	3,332	11,844
Equity investment in MCAP Commercial LP	13	15,480	11,530	9,562
Other assets	14	947	769	510
		753,799	538,118	465,213
Securitization Assets				
Short-term investments	15	345,487	220,949	290,228
Mortgages	10	1,499,016	1,910,995	2,342,164
Financial investments	11	1,279,479	996,968	409,303
Derivative financial instruments	16	13,348	13,120	11,490
Other assets	14	3,029	5,875	44,306
		3,140,359	3,147,907	3,097,491
		\$ 3,894,158	\$ 3,686,025	\$ 3,562,704
Liabilities and Shareholders' Equity				
Liabilities				
Corporate Liabilities				
Term deposits	17	\$ 601,577	\$ 421,061	\$ 360,744
Current tax liabilities	18	3,321	5,728	2,248
Deferred tax liabilities	18	5,436	5,311	3,455
Other liabilities	19	7,943	6,632	7,304
		618,277	438,732	373,751
Securitization Liabilities				
Financial liabilities from securitization	20	3,111,357	3,119,601	3,074,793
Other liabilities	19	6,059	2,613	206
		3,117,416	3,122,214	3,074,999
		3,735,693	3,560,946	3,448,750
Shareholders' Equity				
Share capital	21	132,817	100,112	98,490
Contributed surplus	21	510	510	510
Retained earnings		23,491	24,489	14,954
Available for sale reserve	23	1,647	(32)	-
		158,465	125,079	113,954
		\$ 3,894,158	\$ 3,686,025	\$ 3,562,704

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

On behalf of the Board:



William Jandrisits
President and Chief Executive Officer



David G. Broadhurst
Director, Chairman of the Audit Committee

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

Years Ended December 31	Note	2011	2010
Net Investment Income - Corporate Assets			
Mortgage interest		\$ 32,593	\$ 27,211
Interest on financial investments and other loans		1,342	2,507
Equity income from MCAP Commercial LP	13	5,007	3,302
Fees	24	1,593	3,857
Marketable securities		1,281	31
Interest on cash and cash equivalents		592	230
		42,408	37,138
Term deposit interest and expenses		12,293	7,619
Mortgage expenses	25	3,407	2,831
Provision for (recovery of) credit losses	26	1,058	(692)
		16,758	9,758
		25,650	27,380
Net Investment Income - Securitization Assets			
Mortgage interest		20,718	25,467
Interest on financial investments		5,714	3,203
Interest on short-term investments		814	334
Other securitization income	27	9,001	10,239
		36,247	39,243
Interest on financial liabilities from securitization		29,844	29,473
Mortgage expenses	25	573	715
		30,417	30,188
Net investment income before fair market value adjustment		5,830	9,055
Fair market value adjustment - derivative financial instruments	16	228	1,629
		6,058	10,684
Net Investment Income		31,708	38,064
Operating Expenses			
Salaries and benefits		3,234	2,711
General and administrative		3,626	3,389
		6,860	6,100
Income Before Income Taxes		24,848	31,964
Provision for (recovery of) income taxes			
Current	18	(2,072)	3,442
Deferred	18	(183)	1,864
		(2,255)	5,306
Net Income		\$ 27,103	\$ 26,658
Basic and diluted earnings per share		\$ 1.68	\$ 1.85
Dividends per share		\$ 1.81	\$ 1.19
Weighted average number of basic and diluted shares (000's)		16,147	14,389

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
(in thousands of Canadian dollars)

Years Ended December 31	2011	2010
Net income	\$ 27,103	\$ 26,658
Other comprehensive income (loss)		
Change in unrealized gain on available for sale marketable securities	736	(39)
Change in unrealized gain on available for sale financial investments	1,249	-
Less: deferred taxes	(306)	7
	1,679	(32)
Comprehensive income	\$ 28,782	\$ 26,626

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

Years Ended December 31	2011	2010
Share capital		
Balance, beginning of year	\$ 100,112	\$ 98,490
Common shares issued	32,705	1,622
Balance, end of year	132,817	100,112
Contributed surplus		
Balance, beginning of year	510	510
Changes to contributed surplus	-	-
Balance, end of year	510	510
Retained earnings		
Balance, beginning of year	24,489	14,954
Net income	27,103	26,658
Dividends declared	(28,101)	(17,123)
Balance, end of year	23,491	24,489
Available for sale reserve		
Balance, beginning of year	(32)	-
Other comprehensive income (loss)	1,679	(32)
Balance, end of year	1,647	(32)
Total shareholders' equity	\$ 158,465	\$ 125,079

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
(in thousands of Canadian dollars)

Years Ended December 31	2011	2010
Cash provided by (used for):		
Operating Activities		
Net income	\$ 27,103	\$ 26,658
Adjusted for non-cash items:		
Current taxes	(2,072)	3,442
Deferred taxes	(183)	1,864
Equity income	(5,007)	(3,319)
Provision for (recovery of) credit losses	1,058	(692)
Fair market value adjustment - derivative financial instruments	(228)	(1,629)
Gain on sale of financial investment	(876)	-
Amortization of securitized mortgage and liability transaction costs	3,610	3,556
Amortization of other assets	110	986
Amortization of mortgage discounts (premiums)	(116)	168
Mortgage advances	(1,204,705)	(947,543)
Mortgage reductions	893,692	777,814
Proceeds on sale of mortgages	499,054	472,612
Issuance of term deposits	607,643	554,080
Repayment of term deposits	(427,127)	(493,763)
Repayment of financial liabilities from securitization	(8,886)	(4,707)
Issuance of financial liabilities from securitization	-	49,312
Decrease in other assets	2,552	37,185
Increase in other liabilities	3,623	1,534
Cash flows from operating activities	389,245	477,558
Investing Activities		
Increase in marketable securities	(22,803)	(6,647)
Decrease (increase) in short-term investments	(124,538)	69,279
Increase in financial investments	(284,285)	(537,547)
Proceeds on sale of financial investment	1,619	-
Decrease in other loans	305	8,599
Distributions from MCAP Commercial LP	1,057	1,334
Cash flows for investing activities	(428,645)	(464,982)
Financing Activities		
Issue of common shares	32,705	1,622
Dividends paid	(27,305)	(17,090)
Cash flows from (for) financing activities	5,400	(15,468)
Decrease in cash and cash equivalents	(34,000)	(2,892)
Cash and cash equivalents, beginning of year	85,309	88,201
Cash and cash equivalents, end of year	\$ 51,309	\$ 85,309

Supplementary Information

	2011	2010
Interest received	\$ 57,309	\$ 56,403
Interest paid	36,342	34,996
Taxes paid	323	186

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

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1. Corporate Information

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

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

MCAN also participates in the Canada Mortgage Bonds (“CMB”) program, and other securitizations of insured mortgages. For further details, refer to Note 7.

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

The consolidated financial statements were approved in accordance with a resolution of the Board of Directors on February 16, 2012.

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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

The consolidated financial statements have been prepared on a historical cost basis, except for marketable securities, certain financial investments designated as available for sale 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 securitization portfolios for reporting purposes. Corporate assets represent the Company’s core strategic investments, and are funded by term deposits and share capital. Securitization 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.

3. Basis of Consolidation

The consolidated financial statements include the accounts of MCAN and its subsidiaries as at December 31, 2011. Refer to Note 28 for a full analysis of the Company’s corporate structure.

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

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

4. Summary of Significant Accounting Policies

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

(1) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

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

(ii) Initial measurement of financial instruments

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

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

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

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

No derivative financial instruments have been designated for hedge accounting.

(iv) Financial assets or financial liabilities held for trading

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

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

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

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

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

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

4. Summary of Significant Accounting Policies (continued)

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

(vi) *"Day 1" profit or loss*

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

(vii) *Available for sale financial investments*

Available for sale investments include equity and debt securities and an equity investment in commercial real estate. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through the consolidated statements of income.

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

(viii) *Held to maturity financial investments*

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

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

(ix) *Loans and receivables*

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

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

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

(x) *Financial liabilities*

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

4. Summary of Significant Accounting Policies (continued)

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

(xi) *Transaction costs*

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

(2) Derecognition of financial assets and financial liabilities

(i) *Financial assets*

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

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

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

(ii) *Financial liabilities*

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

(3) Determination of fair value

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

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

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

4. Summary of Significant Accounting Policies (continued)

(4) Impairment of financial assets

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

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

(i) *Financial assets carried at amortized cost*

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

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

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

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

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

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

(ii) *Available for sale financial investments*

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

4. Summary of Significant Accounting Policies (continued)

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

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

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

(5) Offsetting financial instruments

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

(6) Taxes

(i) Current tax

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

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

(ii) Deferred tax

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

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

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

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

4. Summary of Significant Accounting Policies (continued)

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

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

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

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

(7) Dividends on common shares

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

(8) Investment in associates

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

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

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

The most recent available financial statements of the associate are used by the investor in applying the equity method. When the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements.

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

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

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

(9) Revenue recognition

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

4. Summary of Significant Accounting Policies (continued)

Interest income or expense

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

(10) Cash and short-term investments

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

(11) Share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date, further details of which are discussed in Note 28. The obligations are adjusted for fluctuations in the market price of the Company's common shares. Changes in the obligations are recorded as salaries and benefits in the consolidated statements of income with a corresponding change to other liabilities. The liability is re-measured at fair value at each consolidated financial statement date up to and including the settlement date.

5. First-Time Adoption of IFRS

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

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

Exemptions applied

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

The Company has applied the following exemptions:

- Derecognition of financial assets and financial liabilities - The Company is required to apply the derecognition requirements in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), prospectively for transactions occurring after January 1, 2004. Accordingly, the Company applied IAS 39 to all securitization transactions entered into by the Company on or after January 1, 2004.
- 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 15) 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.

5. First-Time Adoption of IFRS (continued)

RECONCILIATION OF CONSOLIDATED BALANCE SHEET
 AS AT JANUARY 1, 2010

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
Assets					
Cash and cash equivalents	k	\$ 89,843	\$ (1,642)	\$ 88,201	Corporate Assets Cash and cash equivalents
Mortgages	a,c,k	295,415	(646)	294,769	Mortgages
Securitization investments	b,d,k	73,590	(13,263)	60,327	Financial investments
Loans receivable and other investments	a,b,d,k	16,885	(5,041)	11,844	Other loans
Equity investment in MCAP Commercial LP	e	17,905	(8,343)	9,562	Equity investment in MCAP Commercial LP
Other assets	b,k	1,555	(1,045)	510	Other assets
		495,193	(29,980)	465,213	
					Securitization Assets
	b,k	-	290,228	290,228	Short-term investments
		-	2,342,164	2,342,164	Mortgages
		-	409,303	409,303	Financial investments
Derivative financial instruments		11,490	-	11,490	Derivative financial instruments
	b,k	-	44,306	44,306	Other assets
		11,490	3,086,001	3,097,491	
		\$ 506,683	\$ 3,056,021	\$ 3,562,704	
Liabilities and Shareholders' Equity					
Liabilities					
Term deposits	b	\$ 360,744	\$ -	\$ 360,744	Corporate Liabilities Term deposits
Future taxes payable	g	-	2,248	2,248	Current tax liabilities
Securitization liabilities	b	7,011	(3,556)	3,455	Deferred tax liabilities
Accounts payable and accrued charges	b,h,k	5,048	(5,048)	-	
		11,001	(3,697)	7,304	Other liabilities
		383,804	(10,053)	373,751	
					Securitization Liabilities
		-	3,074,793	3,074,793	Financial liabilities from securitization
		-	206	206	Other liabilities
		-	3,074,999	3,074,999	
		383,804	3,064,946	3,448,750	
Shareholders' Equity					
Share capital	m	98,490	-	98,490	Shareholders' Equity Share capital
Contributed surplus	m	510	-	510	Contributed surplus
Retained earnings	i,m	22,165	(7,211)	14,954	Retained earnings
Accumulated other comprehensive income	j,m	1,714	(1,714)	-	Available for sale reserve
		122,879	(8,925)	113,954	
		\$ 506,683	\$ 3,056,021	\$ 3,562,704	

5. First-Time Adoption of IFRS (continued)

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

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
Net Investment Income					
Net Investment Income					Corporate Assets
Mortgage interest	k	\$ 25,828	\$ 1,383	\$ 27,211	Mortgage interest
Interest on loans and investments		2,507	-	2,507	Interest on financial investments and other loans
Equity income from MCAP					Equity income from MCAP
Commercial LP	e	3,743	(441)	3,302	Commercial LP
Fees	k	5,561	(1,704)	3,857	Fees
Marketable securities		31	-	31	Marketable securities
Interest on cash and cash equivalents		230	-	230	Interest on cash and cash equivalents
Other securitization income	b, 35	3,949	(3,949)	-	
		41,849	(4,711)	37,138	
Term deposit interest and expenses		7,619	-	7,619	Term deposit interest and expenses
Mortgage expenses	k	2,921	(90)	2,831	Mortgage expenses
Provision for (recovery of) credit losses	a	(387)	(305)	(692)	Provision for (recovery of) credit losses
		10,153	(395)	9,758	
		31,696	(4,316)	27,380	
					Securitization Assets
	b		25,467	25,467	Mortgage interest
	b		3,203	3,203	Interest on financial investments
	b		334	334	Interest on short-term investments
	b		10,239	10,239	Other securitization income
			39,243	39,243	
					Interest on financial liabilities from securitization
	b		29,473	29,473	Mortgage expenses
	b		715	715	
			30,188	30,188	
	b		9,055	9,055	Net investment income before fair market value adjustment
	35		1,629	1,629	Fair market value adjustment - derivative financial instruments
			10,684	10,684	
Net Investment Income		31,696	6,368	38,064	Net Investment Income
Operating Expenses					
Salaries and benefits		2,711	-	2,711	Salaries and benefits
General and administrative		3,620	(231)	3,389	General and administrative
		6,331	(231)	6,100	
Income Before Income Taxes					
		25,365	6,599	31,964	Income Before Income Taxes
	h	-	3,442	3,442	Provision for income taxes
	g	-	1,864	1,864	Current
		-	5,306	5,306	Deferred
Net Income		\$ 25,365	\$ 1,293	\$ 26,658	Net Income
Basic and diluted earnings per share		\$ 1.76	\$ 0.09	\$ 1.85	Basic and diluted earnings per share
Dividends per share		\$ 1.19	-	\$ 1.19	Dividends per share
Weighted average number of basic and diluted shares (000's)		14,389	-	14,389	Weighted average number of basic and diluted shares (000's)

5. First-Time Adoption of IFRS (continued)

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

CGAAP Line Items	Note	CGAAP	Adjustments	IFRS	IFRS Line Items
Assets					
Cash and cash equivalents	k	\$ 89,373	\$ (4,064)	\$ 85,309	Corporate Assets Cash and cash equivalents
Marketable securities		6,608	-	6,608	Marketable securities
Mortgages	a,c,k	422,393	(2,071)	420,322	Mortgages
Securitization investments	b,d,k	13,605	(3,357)	10,248	Financial investments
Loans receivable and other investments	a,b,d,k	10,079	(6,747)	3,332	Other loans
Equity investment in MCAP Commercial LP	e	20,315	(8,785)	11,530	Equity investment in MCAP Commercial LP
Other assets	b,k	3,209	(2,440)	769	Other assets
		565,582	(27,464)	538,118	
	b,k	-	220,949	220,949	Securitization Assets Short-term investments
		-	1,910,995	1,910,995	Mortgages
		-	996,968	996,968	Financial investments
Derivative financial instruments		13,120	-	13,120	Derivative financial instruments
		-	5,875	5,875	Other assets
		13,120	3,134,787	3,147,907	
		\$ 578,702	\$ 3,107,323	\$ 3,686,025	
Liabilities and Shareholders' Equity					
Liabilities					
Term deposits		\$ 421,061	\$ -	\$ 421,061	Corporate Liabilities Term deposits
		-	5,728	5,728	Current tax liabilities
Future taxes payable	g	10,463	(5,152)	5,311	Deferred tax liabilities
Securitization liabilities	b	7,000	(7,000)	-	
Accounts payable and accrued charges	b,h,k	10,809	(4,177)	6,632	Other liabilities
		449,333	(10,601)	438,732	
		-	3,119,601	3,119,601	Securitization Liabilities Financial liabilities from securitization
		-	2,613	2,613	Other liabilities
		-	3,122,214	3,122,214	
		449,333	3,111,613	3,560,946	
Shareholders' Equity					
Share capital	m	100,112	-	100,112	Shareholders' Equity Share capital
Contributed surplus	m	510	-	510	Contributed surplus
Retained earnings	i,m	26,956	(2,467)	24,489	Retained earnings
Accumulated other comprehensive income	j,m	1,791	(1,823)	(32)	Available for sale reserve
		129,369	(4,290)	125,079	
		\$ 578,702	\$ 3,107,323	\$ 3,686,025	

5. First-Time Adoption of IFRS (continued)**RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

Notes to remeasurements**(a) Mortgage, loan and investment allowances**

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

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

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

(b) Securitization activities

Under CGAAP, as part of the securitization of mortgages through the CMB program, the Company recognized interest-only strips and certain CMB-related securitization liabilities on its consolidated balance sheets. 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 sheets as a result of MCAN's failure to meet derecognition criteria as part of the mortgage sales associated with the CMB program. In addition, the Company recognizes income and expenses associated with these financial instruments on an accrual basis under IFRS.

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

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

5. First-Time Adoption of IFRS (continued)

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

	December 31 2010	January 1 2010
Short-term investments	\$ 216,885	\$ 288,586
Mortgages - securitized	1,910,995	2,342,164
Financial investments	823,625	231,127
Other assets	4,595	44,290
Financial liabilities from securitization	2,946,258	2,896,617

Financial liabilities from securitization include certain transaction costs.

On January 1, 2010, the Company also reversed \$12,626 of existing financial investments (December 31, 2010 - \$3,124) and \$2,913 of existing other liabilities (December 31, 2010 - \$169).

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

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

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

(c) Mortgages

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

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

(d) Financial investments

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

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

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

5. First-Time Adoption of IFRS (continued)

The Company's investment - commercial real estate (Note 11) was classified as available for sale as part of the conversion to IFRS. At January 1, 2010, both its amortized cost and fair market value were \$100 (December 31, 2010 - \$3,973).

(e) Equity investment in MCLP

As part of the conversion to IFRS, the Company recorded decreases to its equity investment in MCAP Commercial LP ("MCLP") as follows:

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

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

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

(f) Following quarter dividend

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

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

(g) Deferred taxes

As part of the conversion to IFRS, the Company recorded decreases (increases) to its deferred tax liability as follows:

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

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

(h) Current tax liabilities

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

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

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

5. First-Time Adoption of IFRS (continued)

(i) Shareholders' equity reconciliation - retained earnings

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

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

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

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

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

(k) Other reclassifications

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

CGAAP Line Item	IFRS Line Item	December 31 2010	January 1 2010
Cash	Short-term investments	\$ 4,064	\$ 1,642
Loans receivable	Financial investments	243	22
Other assets	Mortgages	1,008	851
Accounts payable and accrued charges	Mortgages	1,734	593
Other assets	Other liabilities	153	(194)

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

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

(l) Consolidated 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. On a total basis, the consolidated statement of cash flows did not change significantly as a result of the transition to IFRS.

(m) Consolidated statement of changes in shareholders' equity

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

6. Significant Accounting Judgments and Estimates

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

Going concern

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

Fair value of financial instruments

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

Impairment losses on mortgages

The Company reviews its individually significant mortgage balances at each consolidated financial statement date to assess whether an impairment loss should be recorded in the consolidated statements 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 18.

7. Securitization Activities

MCAN participates in the CMB program, which involves the securitization of mortgages that are insured by Canada Mortgage and Housing Corporation (“CMHC”) or Genworth Financial Mortgage Insurance Company Canada Inc. (“Genworth”). Over the term of a CMB issuance, MCAN is entitled to interest income received from the securitized mortgages. As the securitized mortgages repay, MCAN reinvests the collected principal in certain permitted investments and is also entitled to interest income from the reinvested assets. As part of the securitization, MCAN also incurs a liability in the amount of the securitized mortgages and is obligated to pay interest on this liability. This liability does not amortize over the term of the issuance and is payable in full at maturity. MCAN also recognizes servicing expenses on the mortgages and pays certain upfront costs. The securitized mortgages and reinvestment assets are held as collateral against the CMB liability.

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

The CMB securitization process includes the sale of the securitized mortgages to the Canada Housing Trust (“CHT”). Just prior to the sale to CHT, MCAN purchases the securitized mortgages from MCLP or a third party at fair value, including transaction costs. The sale to CHT fails to meet derecognition criteria since MCAN does not transfer substantially all risks and rewards on sale. MCAN accounts for these transactions as collateralized borrowings and records cash received as a financial liability from securitization.

As a result of its failure to meet derecognition criteria on the sale of the securitized mortgages to CHT, MCAN recognizes 100% of the mortgages (Note 10), reinvestment assets (Notes 11 and 15) and securitization liability (Note 20) on the consolidated balance sheets until the maturity of the CMB issuance. MCAN recognizes its 28% share of mortgage interest income, principal reinvestment income, interest expense on the securitization liability and certain other program expenses on the accrual basis. MCAN has also capitalized certain costs associated with the securitized mortgages and securitization liability, both of which are amortized using the EIRM.

The Company enters into “pay floating, receive fixed” interest rate swaps as part of the CMB program (Note 16). 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 statements 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 statements of income, which can cause significant volatility to the consolidated statements 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 11) and financial liability from securitization (Note 20), 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. Cash and Cash Equivalents

	December 31 2011	December 31 2010	January 1 2010
Cash balances with banks	\$ 8,309	\$ 7,309	\$ 43,201
Bankers’ acceptances and term deposits	43,000	78,000	45,000
	\$ 51,309	\$ 85,309	\$ 88,201

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

Refer to Note 30 for an analysis of the Company’s available credit facilities.

9. Marketable Securities

	December 31 2011	December 31 2010	January 1 2010
Corporate bonds	\$ 18,866	\$ 4,956	\$ -
Real estate investment trusts	11,283	1,652	-
	\$ 30,149	\$ 6,608	\$ -

Marketable securities are designated as available for sale. The marketable securities portfolio has no specific maturity date except for corporate bonds, which have varying maturity dates. Fair values are based on bid prices quoted in active markets, and changes in fair value are recognized in the consolidated statements of comprehensive income.

10. Mortgages**(a) Summary**

As at December 31, 2011	Gross Principal	Collective	Allowance Individual	Total	Net Principal
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 261,724	\$ 1,031	\$ 102	\$ 1,133	\$ 260,591
- Uninsured (completed inventory loans)	36,270	166	-	166	36,104
- Insured	77,558	-	-	-	77,558
Construction loans					
- Residential	191,628	1,219	1,000	2,219	189,409
- Non-residential	18,861	119	-	119	18,742
Commercial loans					
- Uninsured	54,645	384	58	442	54,203
- Insured	3,744	-	-	-	3,744
	\$ 644,430	\$ 2,919	\$ 1,160	\$ 4,079	\$ 640,351
Securitized portfolio:					
- Single family - insured	\$ 1,451,075	\$ -	\$ -	\$ -	\$ 1,451,075
- Commercial - insured	47,941	-	-	-	47,941
	\$ 1,499,016	\$ -	\$ -	\$ -	\$ 1,499,016

As at December 31, 2010	Gross Principal	Collective	Allowance Individual	Total	Net 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:					
- Single family - insured	\$ 1,861,981	\$ -	\$ -	\$ -	\$ 1,861,981
- Commercial - insured	49,014	-	-	-	49,014
	\$ 1,910,995	\$ -	\$ -	\$ -	\$ 1,910,995

10. Mortgages (continued)

As at January 1, 2010	Gross Principal	Allowance			Net Principal
		Collective	Individual	Total	
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 97,302	\$ 419	\$ 55	\$ 474	\$ 96,828
- Uninsured (completed inventory loans)	30,380	128	-	128	30,252
- Insured	38,557	-	-	-	38,557
Construction loans					
- Residential	125,443	758	2,727	3,485	121,958
- Non-residential	24	-	-	-	24
Commercial loans					
- Uninsured	6,727	56	-	56	6,671
- Insured	479	-	-	-	479
	\$ 298,912	\$ 1,361	\$ 2,782	\$ 4,143	\$ 294,769
Securitized portfolio:					
- Single family - insured	\$ 2,292,000	\$ -	\$ -	\$ -	\$ 2,292,000
- Commercial - insured	50,164	-	-	-	50,164
	\$ 2,342,164	\$ -	\$ -	\$ -	\$ 2,342,164

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.

Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments.

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

MCAN's securitized mortgage portfolio consists of insured mortgages securitized through the CMB program and other securitization programs. These mortgages are held as collateral against the CMB liability (Notes 7 and 20). Certain capitalized transaction costs are included in mortgages and are amortized using the EIRM. As at December 31, 2011, the unamortized capitalized cost balance was \$3,965 (December 31, 2010 - \$6,539, January 1, 2010 - \$9,024). All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance.

10. Mortgages (continued)

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

	December 31 2011	December 31 2010	January 1 2010
Corporate portfolio:			
Single family	5.48%	5.36%	5.74%
Construction	6.49%	6.78%	6.63%
Commercial	5.63%	6.62%	6.69%
Total	5.82%	6.02%	6.13%
Securitized portfolio:			
Single family	4.00%	4.03%	3.91%
Commercial	3.49%	3.41%	3.42%
Total	3.99%	4.02%	3.90%
Overall	5.08%	4.88%	4.59%

Mortgages are classified as loans and receivables and are carried at amortized cost. The fair market value of the corporate mortgage portfolio as at December 31, 2011 was \$644,361 (December 31, 2010 - \$422,393, January 1, 2010 - \$295,415), while the fair market value of the securitized mortgage portfolio as at December 31, 2011 was \$1,672,958 (December 31, 2010 - \$2,201,529, January 1, 2010 - \$2,533,736). Fair market values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages. 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 31.

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

As at December 31, 2011, the Company held \$969 of second mortgages (December 31, 2010 - \$1,538, January 1, 2010 - \$2,368), all of which were uninsured single family mortgages.

Outstanding commitments for future fundings of mortgages intended for the Company's corporate portfolio were \$296,666 at December 31, 2011 (December 31, 2010 - \$199,678, January 1, 2010 - \$96,173). The majority of these commitments relate to floating rate construction loans.

(b) Discounted Mortgages

Principal balances presented in section (a) are net of the unamortized discount on the Company's portfolio of single family mortgages purchased at a discount. As at December 31, 2011, the Company holds discounted mortgages with an aggregate discount of \$9,141 (December 31, 2010 - \$14,357, January 1, 2010 - \$22,036). Upon the payout of a mortgage, the remaining unamortized discount is recognized in mortgage interest income. The Company retains 50% of any recoveries of the discount and pays the remaining 50% to MCLP (refer to Note 28 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 2012 (for certain fixed rate mortgages) to 2032 (for certain floating rate mortgages). The realization of the discount is based on management's expectations as to when cash will be received.

The composition of the discount is as follows:

	December 31 2011	December 31 2010	January 1 2010
Fixed rate	\$ 2,310	\$ 2,752	\$ 4,859
Floating rate	6,831	11,605	17,177
	\$ 9,141	\$ 14,357	\$ 22,036

10. Mortgages (continued)

(c) Geographic Analysis

As at December 31, 2011	Corporate			Securitized	Total	
	Single Family	Construction	Commercial			
Ontario	\$ 157,624	\$ 71,710	\$ 24,423	\$ 749,176	\$ 1,002,933	46.9%
Alberta	97,548	86,500	14,458	348,636	547,142	25.6
British Columbia	71,572	37,970	4,344	218,030	331,916	15.5
Other	47,509	11,971	14,722	183,174	257,376	12.0
	\$ 374,253	\$ 208,151	\$ 57,947	\$ 1,499,016	\$ 2,139,367	100.0%

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

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

(d) Mortgage Allowances

Details of the collective allowances for mortgage credit losses are as follows:

	2011		2010	
	Collective	Individual	Collective	Individual
Balance, beginning of year	\$ 2,047	\$ 1,246	\$ 1,361	\$ 2,782
Provisions (recoveries)	1,147	(86)	752	(1,536)
Write-offs	(275)	-	(66)	-
Balance, end of year	\$ 2,919	\$ 1,160	\$ 2,047	\$ 1,246

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

	December 31 2011	December 31 2010	January 1 2010
Uninsured single family	\$ 102	\$ 246	\$ 55
Residential construction	1,000	1,000	2,727
Commercial - uninsured	58	-	-
	\$ 1,160	\$ 1,246	\$ 2,782

10. Mortgages (continued)**(e) Arrears and Impaired Mortgages**

Mortgages past due but not impaired are as follows:

As at December 31, 2011	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Corporate portfolio:					
Single family - uninsured	\$ 7,839	\$ 4,822	\$ 433	\$ -	\$ 13,094
Single family - insured	422	367	-	626	1,415
Residential construction	-	-	-	-	-
	8,261	5,189	433	626	14,509
Securitized portfolio:					
Single family - insured	27,713	12,776	3,117	3,947	47,553
	\$ 35,974	\$ 17,965	\$ 3,550	\$ 4,573	\$ 62,062

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:					
Single family - insured	24,387	13,492	4,357	16,912	59,148
	\$ 32,202	\$ 20,285	\$ 7,797	\$ 16,971	\$ 77,255

As at January 1, 2010	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Corporate portfolio:					
Single family - uninsured	\$ 5,232	\$ 2,561	\$ 1,560	\$ -	\$ 9,353
Single family - uninsured (completed inventory)	-	406	-	-	406
Single family - insured	278	113	-	251	642
Residential construction	1,627	-	1,316	-	2,943
	7,137	3,080	2,876	251	13,344
Securitized portfolio:					
Single family - insured	34,331	10,841	5,481	18,180	68,833
	\$ 41,468	\$ 13,921	\$ 8,357	\$ 18,431	\$ 82,177

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

As at December 31, 2011	Single Family	Residential Construction	Commercial	Securitized	Total
Ontario	\$ 2,055	\$ 1,237	\$ 427	\$ -	\$ 3,719
Alberta	769	8,708	-	-	9,477
British Columbia	393	-	-	-	393
Other	542	-	-	86	628
	\$ 3,759	\$ 9,945	\$ 427	\$ 86	\$ 14,217

10. Mortgages (continued)

As at December 31, 2010	Single Family	Residential Construction	Single family (Completed Inventory)	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	\$ 8,000	\$ 1,892	\$ 1,742	\$ 14,573

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

11. Financial Investments

	December 31 2011	December 31 2010	January 1 2010
Corporate assets:			
Investment - commercial real estate	\$ 8,250	\$ 3,973	\$ 100
Subordinated loan - residential mortgage securitization program	2,535	2,946	4,578
Other financial investments	1,294	2,872	5,619
Asset-backed commercial paper	457	457	2,480
Deferred purchase price receivable - residential construction loan securitization program			
- senior position	-	-	3,908
- first loss position	-	-	1,671
Insured mortgage-backed securities	-	-	41,971
	\$ 12,536	\$ 10,248	\$ 60,327
Securitization assets:			
Insured mortgage-backed securities (in trust for CMB program)	\$ 1,112,331	\$ 823,625	\$ 231,127
Receivables - IMPP	167,148	173,343	178,176
	\$ 1,279,479	\$ 996,968	\$ 409,303

Corporate Assets

The Company holds an equity investment 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 investment is designated as available for sale, with changes in fair value recognized in the consolidated statements of comprehensive income.

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

11. Financial Investments (continued)

As at January 1, 2010, the Company held investments in the senior position and first loss position of a residential construction loan securitization program. The senior position yield was prime plus 5% (7.25% at January 1, 2010), while the first loss position had no fixed yield. During 2010, both of these investments were repaid in full as part of the windup of the securitization program. The investments were replaced by an indemnity agreement whereby the investors of the securitization program are responsible for any incurred losses in the underlying loans in accordance with their pro-rata share of the first loss investment at the time that the securitization program was wound up. Since the Company previously held 25% of the first loss position, it is responsible for 25% of any losses incurred on the remaining loans in the securitization program. The Company participates in the indemnity agreement with a related party. As at December 31, 2011, the Company had accrued a \$200 liability (refer to Note 19) representing expected losses associated with this indemnity (December 31, 2010 - \$200, January 1, 2010 - \$nil). As at December 31, 2011, the outstanding balance of the remaining loans was \$25,282 (December 31, 2010 - \$26,420, January 1, 2010 - \$nil).

As at January 1, 2010, the Company held insured MBS as a corporate asset (not held in trust for the CMB program) with a weighted average yield of CDOR plus 1.14% (1.54%) and a fair market value of \$43,409.

Securitization Assets

Insured MBS (held in trust for the 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 1.77% at December 31, 2011 (December 31, 2010 - 2.08%, January 1, 2010 - 2.16%). The fair market value of MBS held in trust for the CMB program as at December 31, 2011 was \$1,121,238 (December 31, 2010 - \$834,839, January 1, 2010 - \$236,368).

Receivables - IMPP represent the Company's involvement in the IMPP (Note 7), although it has no economic interest and therefore recognizes no income.

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 sold during 2011 that was included in other financial investments and was not considered to be a financial asset that had a balance of \$766 at December 31, 2010 and \$796 at January 1, 2010. The carrying value of all financial investments approximates fair value, except MBS noted above.

12. Other Loans

	Note	December 31 2011	December 31 2010	January 1 2010
Loans receivable - private companies		\$ 1,096	\$ 1,446	\$ 10,185
Loans receivable - employees	28	1,831	1,699	1,397
Other		100	187	262
		\$ 3,027	\$ 3,332	\$ 11,844

Loans receivable have been made to two private companies. A loan made to one company bears interest at the greater of 7% and prime plus 4%, 7% at December 31, 2011 (December 31, 2010 - 7%, January 1, 2010 - 7%) and had an outstanding balance of \$1,096 at December 31, 2011 (December 31, 2010 - \$1,446, January 1, 2010 - \$1,682). One loan previously advanced to a private company paid out during 2010 and had an interest rate of the greater of 7¾% and prime plus 1¾%, 7¾% at January 1, 2010. This loan had an outstanding balance of \$8,503 at January 1, 2010. Both of these loans are payable on demand.

All other loans are classified as loans and receivables.

13. Equity Investment in MCAP Commercial LP

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. To the extent that MCLP has a significant transaction during the one-month lag, MCAN is required to reflect the transaction in the month in which it occurred instead of the subsequent month.

13. Equity Investment in MCAP Commercial LP (continued)

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

	2011	2010
Balance, beginning of year	\$ 11,530	\$ 9,562
Equity income	5,007	3,302
Distributions received	(1,057)	(1,334)
Balance, end of year	\$ 15,480	\$ 11,530

MCAN recognized \$1,216 of equity income in fiscal 2011 related to MCLP's December 2011 operations (2010 - \$nil).

	December 31 2011	December 31 2010	January 1 2010
Share of MCLP's balance sheet:			
Assets	\$ 109,533	\$ 135,396	\$ 170,747
Liabilities	90,063	119,380	156,621
Equity	19,470	16,016	14,126
Carrying amount - equity investment in MCLP	\$ 15,480	\$ 11,530	\$ 9,562

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

	2011	2010
Share of MCLP revenue and net income:		
Revenue	\$ 12,010	\$ 11,154
Net income	\$ 5,007	\$ 3,302

14. 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.

	December 31 2011	December 31 2010	January 1 2010
Corporate assets:			
Capital assets	\$ 379	\$ 241	\$ 291
Other	568	528	219
	\$ 947	\$ 769	\$ 510
Securitization assets:			
Mortgage principal receivable - CMB program	\$ -	\$ -	\$ 34,394
Miscellaneous CMB program assets	3,029	5,875	9,912
	\$ 3,029	\$ 5,875	\$ 44,306

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

15. Short-Term Investments

	December 31 2011	December 31 2010	January 1 2010
Treasury bills (in trust for CMB program)	\$ -	\$ 144,960	\$ 258,656
Commercial paper (in trust for CMB program)	289,719	28,687	29,930
CMB cash held in trust	52,964	45,059	-
Cash pledged as collateral - CMB program	2,804	2,243	1,642
	\$ 345,487	\$ 220,949	\$ 290,228

Short-term investments consist primarily of treasury bills and commercial paper held as reinvestment assets for the CMB program in addition to cash pledged as CMB program collateral. The weighted average yields of the CMB principal reinvestment assets listed above are as follows: treasury bills - n/a (December 31, 2010 - 0.86%, January 1, 2010 - 0.15%), commercial paper - 1.10% (December 31, 2010 - 1.22%, January 1, 2010 - 0.61%). Short-term investments mature within 90 days.

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

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

16. 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 fair value of the interest rate swaps.

The following tables outline the Company’s pro-rata share of derivative financial instruments:

As at December 31, 2011	Less than one year	One to five years	Over five years	Total
CMB interest rate swaps - fair value	\$ 4,165	\$ 9,183	\$ -	\$ 13,348
CMB interest rate swaps - outstanding notional	\$ 113,413	\$ 159,490	\$ -	\$ 272,903

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

As at January 1, 2010	Less than one year	One to five years	Over five years	Total
CMB interest rate swaps - fair value	\$ -	\$ 11,490	\$ -	\$ 11,490
CMB interest rate swaps - outstanding notional	\$ -	\$ 260,095	\$ -	\$ 260,095

Derivative financial instrument activity was as follows:

	2011	2010
Balance, beginning of year	\$ 13,120	\$ 11,490
Net interest rate swap receipts	(8,587)	(9,525)
Unrealized derivative financial instrument gain	8,815	11,155
	228	1,630
Balance, end of year	\$ 13,348	\$ 13,120

17. Term Deposits

	December 31 2011	December 31 2010	January 1 2010
Term deposits	\$ 595,747	\$ 418,151	\$ 357,150
Accrued interest	5,830	2,910	3,594
	\$ 601,577	\$ 421,061	\$ 360,744
Fair value	\$ 610,944	\$ 423,996	\$ 364,021

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years. The weighted average term deposit rate as at December 31, 2011 was 2.44% (December 31, 2010 - 2.18%, January 1, 2010 - 2.24%). The Company's term deposits are eligible for CDIC deposit insurance.

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

18. Income Taxes

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

	2011	2010
Income before income taxes	\$ 24,848	\$ 31,964
Less: dividends	(28,101)	(17,123)
Income subject to tax	(3,253)	14,841
Statutory rate of tax	40%	41%
Tax provision (recovery) before the following:	(1,301)	6,085
Statutory rate difference in subsidiaries	(225)	(142)
Rate changes and other differences	(6)	132
Non-taxable portion of capital gains	(569)	(760)
Adjustments in respect of prior years	(154)	(9)
	\$ (2,255)	\$ 5,306
	2011	2010
Current tax provision (recovery)	\$ (2,072)	\$ 3,442
Deferred tax provision (recovery)	(183)	1,864
	\$ (2,255)	\$ 5,306

The composition of the deferred tax liabilities is as follows:

	December 31 2011	December 31 2010	January 1 2010
Provision for credit losses	\$ (1,198)	\$ (869)	\$ (1,567)
Equity investment in MCAP Commercial LP	(157)	(457)	(777)
CMB-related items	6,529	6,959	6,602
Loss carryforward benefit	-	(299)	(881)
Other	262	(23)	78
	\$ 5,436	\$ 5,311	\$ 3,455

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

Current Taxes Payable

As a MIC under the Tax Act, MCAN is able to deduct from income for tax purposes dividends paid within 90 days of year-end. However, for accounting 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 current taxes payable.

19. Other Liabilities

	December 31 2011	December 31 2010	January 1 2010
Corporate liabilities:			
Accounts payable and accrued charges	\$ 2,761	\$ 2,702	\$ 2,566
Dividends payable	4,552	3,756	3,723
Related party payable - MCLP	630	174	1,015
	\$ 7,943	\$ 6,632	\$ 7,304
Securitization liabilities:			
Accrued charges	\$ 28	\$ 45	\$ 64
Other CMB liabilities	6,031	2,568	142
	\$ 6,059	\$ 2,613	\$ 206

Corporate accounts payable and accrued charges as at December 31, 2011 includes a \$200 (December 31, 2010 - \$200, January 1, 2010 - \$nil) liability related to expected losses as part of the Company's indemnity agreement associated with the securitization program windup discussed in Note 11.

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

20. 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	December 31 2011	December 31 2010	January 1 2010
Financial liabilities - CMB program	7	\$ 2,944,209	\$ 2,946,258	\$ 2,896,617
Financial liabilities - IMPP	7	167,148	173,343	178,176
		\$ 3,111,357	\$ 3,119,601	\$ 3,074,793

The financial liabilities - CMB program had a weighted average interest rate of 3.66% as at December 31, 2011 (December 31, 2010 - 3.67%, January 1, 2010 - 3.64%).

As financial liabilities from securitization mature, the securitization liability and related assets (securitized mortgages and principal reinvestment assets) are removed from the consolidated balance sheets. Financial liabilities from securitization as at December 31, 2011 mature as follows:

	CMB	IMPP	Total
2012	\$ 1,087,983	\$ -	\$ 1,087,983
2013	965,441	132,434	1,097,875
2014	843,906	34,714	878,620
2015	46,879	-	46,879
	\$ 2,944,209	\$ 167,148	\$ 3,111,357

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 receivable (Note 11).

Certain capitalized transaction costs are included in financial liabilities from securitization and are amortized using the EIRM. As at December 31, 2011, the unamortized capitalized cost balance was \$1,099 (December 31, 2010 - \$1,742, January 1, 2010 - \$2,327).

21. Share Capital and Contributed Surplus

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

Issued	Number of Shares	2011	Number of Shares	2010
Balance, January 1	14,447,743	\$ 100,112	14,320,980	\$ 98,490
Issued				
Share issuance	2,300,000	31,024	-	-
Dividend reinvestment plan	93,532	1,382	65,447	833
Executive Share Purchase Plan	20,300	299	61,316	789
Balance, December 31	16,861,575	\$ 132,817	14,447,743	\$ 100,112

During 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 2011, the Company issued 93,532 (2010 - 65,447) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 20 days preceding such issue. In November 2011, the Company amended its dividend reinvestment plan such that it is now based on the weighted average trading price for the 5 days preceding such issue less a discount of 2%. The January 3, 2012 dividend was the first dividend for which the new basis was applicable.

For details on the Executive Share Purchase Plan, refer to Note 28.

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

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

22. Dividends

	2011	2010
Dividends on common shares declared in the prior year and paid in the current year (recognized as a liability at December 31, 2010 and 2009)		
Fourth quarter dividend, 2010: \$0.26 per share (2009: \$0.26 per share)	\$ 3,756	\$ 3,723
Dividends on common shares declared and paid during the year		
2011: \$1.54 per share (2010: \$0.93 per share)	\$ 23,549	\$ 13,367
Dividends on common shares declared during the year (recognized as a liability at December 31, 2011 and 2010)		
Fourth quarter dividend, 2011: \$0.27 per share (2010: \$0.26 per share)	\$ 4,552	\$ 3,756
Dividends on common shares approved in first quarter (not recognized as a liability at December 31, 2011 or 2010)		
First quarter dividend, 2012: \$0.60 per share (2011: \$1.00 per share)	\$ 10,129	\$ 14,461

Dividends paid within 90 days after year end by a MIC are deductible for income tax purposes, however, where such dividends are not recognized as a liability at year-end the deduction is not taken into account in determining current taxes payable for accounting purposes. The payment of the approved 2012 first quarter dividend of \$10,129 noted above (2011 - \$14,461), which was not recognized as a liability as at December 31, 2011, is expected to reduce current taxes payable as at March 31, 2012 by \$4,017 (March 31, 2011 - \$5,881). Certain additional factors may impact current taxes payable between December 31, 2011 and March 31, 2012.

23. 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.

	December 31 2011	December 31 2010	January 1 2010
Unrealized gain (loss) on available for sale marketable securities	\$ 697	\$ (39)	\$ -
Less: deferred taxes	(137)	7	-
	560	(32)	-
Unrealized gain on available for sale financial investments	1,249	-	-
Less: deferred taxes	(162)	-	-
	1,087	-	-
	\$ 1,647	\$ (32)	\$ -

24. Fees

	Note	2011	2010
Fee income from profit sharing	28	\$ 303	\$ 2,263
Mortgagor fees		1,290	1,594
		\$ 1,593	\$ 3,857

25. Mortgage Expenses**Corporate Assets**

	2011	2010
Mortgage servicing expense	\$ 2,612	\$ 2,549
Other mortgage expenses	795	282
	\$ 3,407	\$ 2,831

Securitization Assets

Mortgage expenses associated with securitization assets consist primarily of mortgage servicing expenses.

26. Provision for Credit Losses

	2011	2010
Mortgages - collective provisions	\$ 1,147	\$ 752
Mortgages - individual recoveries	(86)	(1,536)
Financial investments and other loans - collective recoveries	(3)	(108)
Other provisions	-	200
	\$ 1,058	\$ (692)

27. Other Securitization Income

	2011	2010
Net interest rate swap receipts	\$ 8,587	\$ 9,525
Refinancing and renewal gains	132	394
Other	282	320
	\$ 9,001	\$ 10,239

28. 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		
	December 31 2011	December 31 2010	January 1 2010
Subsidiaries:			
6212484 Canada Inc.	100%	100%	100%
6943993 Canada Inc.	-	-	100%
7235003 Canada Inc.	-	100%	100%
Associate:			
MCAP Commercial LP	22.7%	22.5%	22.3%

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

The Company wound up 7235003 Canada Inc. during 2011 and wound up 6943993 Canada Inc. during 2010.

During 2011, the Company purchased certain corporate services from MCLP in the amount of \$497 (2010 - \$433). During 2011, the Company also purchased certain mortgage origination and administration services from MCLP in the amount of \$2,859 (2010 - \$2,769). During 2011, the Company received \$2,201 (2010 - \$3,663) of mortgage fees from MCLP.

During 2011, the Company paid fees in the amount of \$2,685 (2010 - \$4,230) to MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages. During 2011, the Company received \$303 (2010 - \$2,263) of fees from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

As part of the aforementioned profit sharing arrangements related to discounted mortgages, 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.

During 2011, MCAN created certain MBS that were sold to a third party. MCAN entered into an economic arrangement with MCLP wherein MCAN sold to MCLP the rights to all net economics associated with these MBS, consisting primarily of interest-only strips less upfront costs. MCAN earned \$261 from this sale, which is included in other securitization income. MCAN met derecognition criteria on the sale of the mortgages, therefore they were removed from the consolidated balance sheet.

All related party transactions noted above were in the normal course of business. Refer to Note 19 for outstanding balances payable to related parties.

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

	2011	2010
Salaries and short term employee benefits	\$ 1,557	\$ 1,123
Other long term benefits	181	128
	\$ 1,738	\$ 1,251

Executive Share Purchase Plan

The Company has established an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board of Directors can approve loans to key personnel for the purpose of purchasing the Company's common shares. During 2011, 20,300 common shares were issued out of treasury under the Share Purchase Plan (2010 - 61,316). The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares.

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

28. Related Party Disclosures (continued)

MCAN advanced \$299 of new loans under the Share Purchase Plan during 2011 (2010 - \$789). As at December 31, 2011, \$1,831 of loans were outstanding (December 31, 2010 - \$1,699, January 1, 2010 - \$1,397) (Note 12). The loans under the Share Purchase Plan bear interest at prime plus 1%, 4% at December 31, 2011 (December 31, 2010 - 4%, January 1, 2010 - 3.25%) and have a five-year term. The shares are pledged as security for the loans and had a fair market value of \$2,749 as at December 31, 2011 (December 31, 2010 - \$2,562, January 1, 2010 - \$2,313).

During 2011, MCAN recognized \$70 of interest income (2010 - \$49) 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 December 31, 2011, 10,000 units had vested (December 31, 2010 - nil).

The Company recognizes compensation expenses associated with the DSU Plan in line with the graded vesting schedule. The compensation expense recognized for the year ended December 31, 2011 related to the DSU Plan was \$181 (2010 - \$128). As at December 31, 2011, the accrued DSU Plan liability was \$309 (December 31, 2010 - \$128, January 1, 2010 - \$nil).

29. Commitments and Contingencies

The Company has contractual obligations to make principal and interest payments on term deposits. The Company also has a monthly operating lease related to its premises, expiring in 2014 with monthly lease payments of \$20. In addition, the Company 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	\$ 327,010	\$ 274,567	\$ -	\$ 601,577
Operating lease	277	484	-	761
Mortgage fundings	241,656	55,010	-	296,666
CMB obligations	768	674	-	1,442
	\$ 569,711	\$ 330,735	\$ -	\$ 900,446

MCAN incurred \$238 of operating lease expenses during 2011 (2010 - \$174), included in general and administrative expenses.

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

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

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

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

29. 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. As at December 31, 2011, the outstanding bank loan balance was \$5,916 (December 31, 2010 - \$6,315, January 1, 2010 - \$7,222). As at December 31, 2011, December 31, 2010 and January 1, 2010, the fair value of the Class B units exceeded the outstanding bank loan balance.

The Company is a party to an indemnity agreement relating to a residential construction loan securitization program, discussed in Note 11.

30. 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 December 31, 2011 (December 31, 2010 - prime plus 1.5%, 4.50%, January 1, 2010 - prime plus 1.5%, 3.75%). The facility has a sub limit of \$30,000 for issued letters of credit and \$30,000 for overdrafts, and is due and payable upon demand.

As at December 31, 2011, the outstanding overdraft balance was \$nil (December 31, 2010 - \$nil, January 1, 2010 - \$nil).

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 residential construction loans. As at December 31, 2011, there were letters of credit in the amount of \$26,666 issued (December 31, 2010 - \$22,495, January 1, 2010 - \$11,143) and additional letters of credit in the amount of \$12,597 committed but not issued (December 31, 2010 - \$9,798, January 1, 2010 - \$7,670).

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

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

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

The interest rate risk associated with securitization 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 16.

31. Interest Rate Sensitivity (continued)

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

As at December 31, 2011	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets							
Corporate	\$ 146,524	\$ 91,866	\$ 246,190	\$ 204,508	\$ 13,663	\$ 51,048	\$ 753,799
Securitization	748,409	375,588	615,452	1,226,768	-	174,142	3,140,359
	<u>894,933</u>	<u>467,454</u>	<u>861,642</u>	<u>1,431,276</u>	<u>13,663</u>	<u>225,190</u>	<u>3,894,158</u>
Liabilities							
Corporate	-	75,629	251,381	274,567	-	13,379	618,277
Securitization	80,505	-	1,087,983	1,775,721	-	173,207	3,117,416
	<u>80,505</u>	<u>75,629</u>	<u>1,339,364</u>	<u>2,050,288</u>	<u>-</u>	<u>186,586</u>	<u>3,735,693</u>
Shareholders' Equity	-	-	-	-	-	158,465	158,465
GAP	\$ 814,428	\$ 391,825	\$ (477,722)	\$ (619,012)	\$ 13,663	\$ (119,861)	-
YIELD SPREAD	0.62%	1.13%	1.55%	1.12%	6.63%		
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	\$ 23,377	\$ 538,118
Securitization	855,456	250,542	78,871	1,777,229	-	185,809	3,147,907
	<u>1,016,853</u>	<u>311,268</u>	<u>222,177</u>	<u>1,915,744</u>	<u>10,797</u>	<u>209,186</u>	<u>3,686,025</u>
Liabilities							
Corporate	-	57,454	253,954	109,653	-	17,671	438,732
Securitization	80,466	-	-	2,865,792	-	175,956	3,122,214
	<u>80,466</u>	<u>57,454</u>	<u>253,954</u>	<u>2,975,445</u>	<u>-</u>	<u>193,627</u>	<u>3,560,946</u>
Shareholders' Equity	-	-	-	-	-	125,079	125,079
GAP	\$ 936,387	\$ 253,814	\$ (31,777)	\$(1,059,701)	\$ 10,797	\$ (109,520)	-
YIELD SPREAD	0.16%	1.95%	3.82%	0.96%	7.59%		
As at January 1, 2010	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Total Assets							
Corporate	\$ 316,692	\$ 22,754	\$ 54,814	\$ 30,027	\$ 11,875	\$ 29,051	\$ 465,213
Securitization	761,492	293,444	21,010	1,790,026	-	231,519	3,097,491
	<u>1,078,184</u>	<u>316,198</u>	<u>75,824</u>	<u>1,820,053</u>	<u>11,875</u>	<u>260,570</u>	<u>3,562,704</u>
Liabilities							
Corporate	-	93,724	245,829	21,191	-	13,007	373,751
Securitization	80,471	-	-	2,816,146	-	178,382	3,074,999
	<u>80,471</u>	<u>93,724</u>	<u>245,829</u>	<u>2,837,337</u>	<u>-</u>	<u>191,389</u>	<u>3,448,750</u>
Shareholders' Equity	-	-	-	-	-	113,954	113,954
GAP	\$ 997,713	\$ 222,474	\$ (170,005)	\$(1,017,284)	\$ 11,875	\$ (44,773)	-
YIELD SPREAD	1.57%	(0.43)%	5.38%	0.90%	5.35%		

Certain residential construction loans and single family uninsured completed inventory loans are subject to the greater of a minimum interest rate (ranging between 3.94% and 10%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate at December 31, 2011, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - \$32,651 (December 31, 2010 - \$19,117, January 1, 2010 - \$nil), 3 months to 1 year - \$57,783 (December 31, 2010 - \$76,004, January 1, 2010 - \$107,171), and 1 to 5 years - \$35,406 (December 31, 2010 - \$44,147, January 1, 2010 - \$146,308).

31. Interest Rate Sensitivity (continued)

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2011 would have a positive (adverse) effect of \$1,539 (December 31, 2010 - \$1,072, January 1, 2010 - \$1,902) to net income over the following twelve month period.

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2011 would have an adverse (positive) effect to the available for sale reserve of \$494 (December 31, 2010 - \$211, January 1, 2010 - \$nil).

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

32. 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 sheets measured at their tax values. 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%.

Securitization 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.

32. Capital Management (continued)

The Company's Tax Act and regulatory ratios are as follows:

As at	December 31 2011 (IFRS)	December 31 2010 (CGAAP)	January 1 2010 (CGAAP)
Tax Act Ratio			
Income tax assets	\$ 766,065	\$ 555,360	\$ 488,024
Income tax capital	156,116	126,374	120,732
Income tax assets to capital ratio	4.91	4.39	4.04
Income tax liabilities to capital ratio	3.91	3.39	3.04
Regulatory Ratios (OSFI)			
Tier 1 capital			
Share capital	\$ 132,817	\$ 100,112	\$ 98,490
Contributed surplus	510	510	510
Retained earnings	23,491	26,956	22,165
Tier 1 capital deductions	(229)	(6,815)	(9,792)
	156,589	120,763	111,373
Tier 2 capital			
Unrealized gain on available for sale marketable securities	560	-	-
Tier 2 capital deductions	(229)	(229)	(1,142)
	331	(229)	(1,142)
Total capital	\$ 156,920	\$ 120,534	\$ 110,231
Total regulatory assets	\$ 818,112	\$ 595,473	\$ 508,351
Capital ratios			
Tier 1 capital to risk-weighted assets ratio	22.21%	22.10%	27.75%
Total capital to risk-weighted assets ratio	22.26%	22.06%	27.47%
Assets to capital ratio	5.21	4.94	4.61

As at December 31, 2011, December 31, 2010 and January 1, 2010, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

33. Financial Instruments

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

As at	December 31 2011 (IFRS)	December 31 2010 (CGAAP)	January 1 2010 (CGAAP)
On-Balance Sheet Assets			
Cash and cash equivalents	\$ 10,813	\$ 18,140	\$ 18,260
Short term investments	561	-	-
Marketable securities	30,149	6,608	-
Mortgages - corporate	402,632	294,907	202,272
Financial investments	18,414	13,926	29,759
Other loans	3,027	10,079	16,885
Equity investment in MCLP	15,480	20,315	17,905
Other assets	3,976	3,209	1,555
	485,052	367,184	286,636
Off-Balance Sheet Assets			
Letters of credit	13,333	11,247	5,572
Mortgage funding commitments	137,526	99,839	48,087
	150,859	111,086	53,659
Derivative Financial Instruments			
CMB interest rate swaps			
Outstanding notional	272,903	279,138	260,095
Add-on factor	0.5%	0.5%	0.5%
Potential credit exposure	1,365	1,396	1,300
Positive replacement cost	13,348	13,120	11,490
Credit equivalent	14,713	14,516	12,790
Risk weighting	20%	20%	20%
Risk-weighted equivalent	2,943	2,903	2,558
Charge for operational risk	66,100	65,238	58,475
Total Risk-Weighted Assets	\$ 704,954	\$ 546,411	\$ 401,328

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

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

Significant Basel III reforms include the following:

- Introducing a new minimum common equity ratio (the "Common Equity Tier 1 ratio"). Financial institutions will be required to meet the new Common Equity Tier 1 ratio standard during a transition period beginning January 1, 2013 and ending on January 1, 2019. The minimum requirement, which includes a conservation buffer, increases during the transition period.
- Increasing the minimum Tier 1 capital and Total capital ratios. These increases will also be phased in commencing January 1, 2013 with financial institutions expected to meet the new standards through a transition period ending on January 1, 2019.

33. Financial Instruments (continued)

- Introducing a new global leverage ratio to address balance sheet leverage. The BCBS will be monitoring and refining this new ratio between 2011 and 2017 before its final implementation in 2018.

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

All financial instruments that are carried on the consolidated balance sheets at fair value (marketable securities, certain financial investments 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. 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).

As at December 31, 2011	Level 1	Level 2	Level 3
Financial Assets			
Marketable securities	\$ 14,330	\$ 15,819	\$ -
Financial investments	-	-	8,250
Derivative financial instruments	-	13,348	-
	\$ 14,330	\$ 29,167	\$ 8,250

As at December 31, 2010	Level 1	Level 2	Level 3
Financial Assets			
Marketable securities	\$ 1,652	\$ 4,956	\$ -
Financial investments	-	-	3,973
Derivative financial instruments	-	13,120	-
	\$ 1,652	\$ 18,076	\$ 3,973

As at January 1, 2010	Level 1	Level 2	Level 3
Financial Assets			
Financial investments	\$ -	\$ -	\$ 100
Derivative financial instruments	-	11,490	-
	\$ -	\$ 11,490	\$ 100

The following table shows the continuity of Level 3 financial assets recorded at fair value:

Balance, January 1, 2010	\$ 100
Advances	3,873
Balance, December 31, 2010	3,973
Advances	3,028
Changes in fair value, recognized in other comprehensive income	1,249
Balance, December 31, 2011	\$ 8,250

An increase of 0.25% to capitalization rates as at December 31, 2011 would result in a decrease to the fair value at Level 3 financial investments by \$688 (December 31, 2010 - \$355, January 1, 2010 - \$nil). A decrease of 0.25% to capitalization rates as at December 31, 2011 would result in an increase to the fair value of Level 3 financial investments by \$736 (December 31, 2010 - \$379, January 1, 2010 - \$nil).

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

Risk Management

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

33. Financial Instruments (continued)

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.

34. Standards Issued But Not Effective

Standards issued but not yet effective up to the date of issuance of the Company's 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 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

This standard will require entities to disclose gross amounts subject to right of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. Effective for periods beginning on or after January 1, 2013. Retrospective application will be required.

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, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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 judgment 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. 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.

34. Standards Issued But Not Effective (continued)

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. 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.

35. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year. There was no impact to the financial position or net income as a result of these reclassifications.

DIRECTORS

David G. Broadhurst

President, Poynton Investments Limited; Chair of the Audit Committee; Member of Conduct Review, Corporate Governance and Human Resources Committee; Director since May 1997.

Brydon Cruise

President and Managing Partner, Brookfield Financial; Member of Conduct Review, Corporate Governance and Human Resources Committee; Member of Investment Committee; Director since May 2010.

Susan Doré

Corporate Director; Chair of Information Technology Committee; Member of Audit Committee; Member of Conduct Review, Corporate Governance and Human Resources Committee; Director since May 2010.

Brian A. Johnson

Partner, Crown Capital Partners and Crown Realty Partners; Member of Investment Committee; Chair of Conduct Review, Corporate Governance and Human Resources Committee; Member of Information Technology Committee; Director since January 2001.

Derek A. Norton

President and CEO, MCAP Commercial LP; Member of Information Technology Committee; Director since July 2000.

Jean C. Pinard

Corporate Director; Member of Investment Committee; Director since November 2005.

Robert A. Stuebing

Corporate Director; Member of Audit Committee; Chair of Investment Committee; Director since April 2004.

Ian Sutherland

Chair, MCAN Mortgage Corporation; Director since January 1991.

William Jandrisits

President and Chief Executive Officer, MCAN Mortgage Corporation; Member of Information Technology Committee; Director since August 2010.

Karen Weaver

Executive Vice President & Chief Financial Officer First Capital Realty Inc.; Member of Audit Committee; Member of Information Technology Committee; Director since November 2011.

OFFICERS AND MANAGEMENT

William Jandrisits

President and Chief Executive Officer

Tammy Oldenburg

Vice President and Chief Financial Officer

Michael Misener

Vice President, Investments

Paco Lai

Senior Manager, Cash Operations

Sylvia Pinto

Corporate Secretary
Chief Compliance Officer

Sal Jadavji

Enterprise Risk Management Officer
Chief Anti-Money Laundering Officer
Privacy Officer
Business Continuity/Disaster Recovery Coordinator

Robert Horton

Chief Audit Officer

Derek Sutherland

Vice President, Operations

Paul Bowers

Vice President and Chief Risk Officer

Hassan Shaikh

Assistant Vice President, Investments

Dipti Patel

Senior Manager, Investments

John Tyas

Controller

Eloise Goodwin

Manager of Finance

Murtuza Lakdawala

Assistant Controller

CORPORATE INFORMATION

Head Office

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M5H 3T4

Tel: (416) 598-2665
Fax: (416) 598-4142

Corporate Counsel

Goodmans LLP
Toronto, Ontario

Auditors

Ernst & Young LLP
Toronto, Ontario

Public Listing

Toronto Stock Exchange
Exchange symbol MKP

Bank

Bank of Montreal
First Canadian Place
Toronto, Ontario

Website

www.mcanmortgage.com

Corporate Information

This MCAN Mortgage Corporation 2011 Annual Report is available for viewing/printing on our website at www.mcanmortgage.com, or additionally on SEDAR at www.sedar.com. To request a printed copy, please contact Ms. Sylvia Pinto, Corporate Secretary, 200 King Street West, Suite 400, Toronto, Ontario M5H 3T4, by phone 416-591-5214 or 1-800-387-4405, or e-mail spinto@mcanmortgage.com.

Registrar and Transfer Agent

For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAN Mortgage Corporation's Transfer Agent and Registrar at 1-800-564-6253, or write to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1.

Dividend Reinvestment Plan

For information regarding MCAN's Dividend Reinvestment Plan, please visit the Company's website at www.mcanmortgage.com under Shareholders > Dividend Reinvestment Plan. An Enrolment Form may be obtained at any time upon written request addressed to the Plan Agent, Computershare. Registered Participants may also obtain Enrolment Forms online at www.computershare.com/investorcentrecanada.

General Information

For general enquiries about MCAN Mortgage Corporation, please write to Ms. Sylvia Pinto, Corporate Secretary or e-mail mcanexecutive@mcanmortgage.com.

Annual Meeting

Wednesday, May 9, 2012
4:30 p.m. (Eastern Daylight Savings Time)
St. Andrew's Club & Conference Centre
150 King Street West
27th Floor
Toronto, Ontario