



**CONSOLIDATED FINANCIAL STATEMENTS 2008
MCAN MORTGAGE CORPORATION**

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 Canadian generally accepted accounting principles (“GAAP”) and include interpretations of GAAP by our regulator, 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 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.



Blaine Welch
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

Toronto, Canada,
February 5, 2009

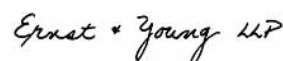
AUDITORS’ REPORT

To the Shareholders of MCAN Mortgage Corporation

We have audited the consolidated balance sheets of MCAN Mortgage Corporation as at December 31, 2008 and 2007 and the consolidated statements of income, changes in shareholders’ equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
Toronto, Canada,
February 5, 2009

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

As at December 31	Note	2008	2007
Assets			
Investments			
Cash and cash equivalents	3	\$ 58,071	\$ 53,804
Mortgages	4	393,010	412,685
Loans and investments	5	75,367	71,286
Equity investment in MCAP Commercial LP	6	18,300	17,095
Marketable securities	7	-	156
		544,748	555,026
Other assets	9	25,406	2,399
		\$ 570,154	\$ 557,425
Liabilities and Shareholders' Equity			
Liabilities			
Term deposits	10	\$ 426,663	\$ 445,368
Securitization liabilities	11	7,095	-
Accounts payable and accrued charges	12	12,186	8,089
Future taxes payable	14	7,601	961
		453,545	454,418
Shareholders' Equity			
Share capital	15	97,493	96,370
Contributed surplus	15	510	510
Retained earnings		17,313	6,654
Accumulated other comprehensive income (loss)	16	1,293	(527)
		116,609	103,007
		\$ 570,154	\$ 557,425

See accompanying notes

On behalf of the Board:



Blaine Welch
President and Chief Executive Officer



David G. Broadhurst
Director, Chairman of the Audit Committee

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

Years Ended December 31	Note	2008	2007
Investment Income			
Mortgage interest		\$ 33,429	\$ 28,669
Interest on loans and investments		5,617	5,728
Interest on cash and cash equivalents		1,109	1,299
Fees		5,051	3,384
Equity income from MCAP Commercial LP	6	3,025	890
Securitization income	8	7,761	1,190
Marketable securities		(97)	956
Gain on sale of mortgages	8	5,326	22
		61,221	42,138
Financial Expenses			
Term deposit interest and expenses		20,684	18,996
Mortgage expenses		3,524	3,699
Provision for losses		931	517
		25,139	23,212
Net Investment Income		36,082	18,926
Operating Expenses			
Salaries and benefits		2,226	1,878
General and administrative		3,508	2,231
		5,734	4,109
Income Before Income Taxes		30,348	14,817
Provision for (recovery of) income taxes and large corporations taxes	14	-	(26)
Net Income		\$ 30,348	\$ 14,843
Basic and diluted earnings per share			
Basic and diluted earnings per share		\$ 2.14	\$ 1.12
Dividends per share		\$ 0.96	\$ 1.00
Weighted average number of basic and diluted shares (000's)		14,192	13,306

See accompanying notes

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

Years Ended December 31	Note	2008	2007
Share capital			
Balance, beginning of year		\$ 96,370	\$ 78,211
Common shares issued		1,123	18,159
Balance, end of year		97,493	96,370
Contributed surplus			
Balance, beginning of year		510	510
Changes to contributed surplus		-	-
Balance, end of year		510	510
Retained earnings			
Balance, beginning of year		6,654	5,890
Net income		30,348	14,843
Income taxes charged to retained earnings	14	(6,059)	(873)
Dividends declared		(13,630)	(13,206)
Balance, end of year		17,313	6,654
Accumulated other comprehensive income			
Balance, beginning of year		(527)	1,261
Other comprehensive income (loss)		1,820	(1,788)
Balance, end of year		1,293	(527)
Total shareholders' equity		\$ 116,609	\$ 103,007

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

Years Ended December 31	2008	2007
Net income	\$ 30,348	\$ 14,843
Other comprehensive income (loss), net of income taxes		
Change in unrealized gain on available for sale marketable securities	(74)	(91)
Transfer of losses (gains) on sale of marketable securities to net income	108	(549)
Change in unrealized gain on available for sale mortgages	2,429	(1,109)
Transfer of gains on sale of mortgages to net income	(373)	-
Change in unrealized gain on available for sale loans and investments	(278)	(1)
Change in cash flow hedges	8	(38)
Other comprehensive income (loss)	1,820	(1,788)
Comprehensive income	\$ 32,168	\$ 13,055

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

Years Ended December 31	Note	2008	2007
Cash provided by (used for):			
Operating Activities			
Net income		\$ 30,348	\$ 14,843
Adjusted for non-cash items:			
Equity income		(3,028)	(880)
Provision for losses		901	546
Securitization income		(5,854)	(1,169)
Amortization of other assets		823	871
Amortization of mortgage (discounts) premiums		(4,960)	5
Gain on sale of mortgages	8	(5,326)	(22)
Distributions from MCAP Commercial LP	6	1,820	1,135
Decrease (increase) in other receivables		281	(304)
Increase (decrease) in accounts payable and accrued charges		(2,174)	1,251
Cash flows from operating activities		12,831	16,276
Investing Activities			
Mortgage advances		(2,827,412)	(2,746,158)
Mortgage reductions		361,472	411,259
Proceeds on sale of mortgages		2,497,369	2,312,601
Increase in loans and investments		(8,202)	(11,319)
Additions to other assets		(1,122)	(1,013)
Marketable securities		229	12,243
Cash flows from (for) investing activities		22,334	(22,387)
Financing Activities			
Issue of term deposits		606,298	646,240
Repayment of term deposits		(625,003)	(609,606)
Issue of common shares		1,123	18,159
Dividends paid		(13,316)	(12,563)
Cash flows (for) from financing activities		(30,898)	42,230
Increase in cash and cash equivalents		4,267	36,119
Cash and cash equivalents, beginning of year		53,804	17,685
Cash and cash equivalents, end of year		\$ 58,071	\$ 53,804
Supplementary Information			
Interest paid during the year		\$ 20,196	\$ 16,385
Taxes paid during the year		\$ 505	\$ 507

See accompanying notes

1. Basis of Presentation

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").

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's 22.0% partnership interest in MCAP Commercial LP ("MCLP") is accounted for using the equity method.

The purchase method has been used to account for all acquisitions. Intercompany balances and transactions of fully consolidated subsidiaries are eliminated. Other related party transactions have been recorded at carrying value.

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements and accounting principles followed by the Company including the accounting requirements of the Superintendent of Financial Institutions Canada ("OSFI") conform with Canadian generally accepted accounting principles ("GAAP"). Significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Measurement Uncertainty

Management of the Company exercises its best judgment with regard to certain estimates and assumptions, which affect the reported amounts of revenue, expenses, assets and liabilities. Actual results could differ from management's estimates.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions, and classified based on management's intention. Financial assets are classified as held for trading, held to maturity, loans and receivables or available for sale, and financial liabilities are classified as held for trading or other. 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 accumulated other comprehensive income until such time as disposal occurs, at which time the cumulative change in fair value is transferred to income, except for those considered to be changes attributable to impairment which are charged to income. Other classifications are subsequently measured at amortized cost. From time to time, the Company may use derivatives 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, 2008, the Company did not have any hedge accounting relationships.

Transaction costs for all financial asset classifications except for held for trading are capitalized and are included in other assets.

Equity Accounting

Equity investments over which the Company can exercise significant influence but does not exercise control are recorded using the equity method of accounting. The Company records equity income equal to its proportionate share of the equity investment's net income.

Impaired Loans

Interest on mortgages is accrued as earned until such time as a loan is classified as impaired. At that time, a specific provision is made to reflect management's estimate of realizable amounts. Impaired loans are restored to an accrual basis when principal and interest payments in arrears become current and there is reasonable assurance as to ultimate collectibility.

Impaired loans include non-insured loans which are more than 90 days in arrears or are less than 90 days in arrears but for which management does not have reasonable assurance that the full amount of principal and interest will be collected in a timely manner. An insured loan is considered impaired when the loan is 365 days past due, whether or not collection is in doubt.

Allowance for Credit Losses

An allowance for mortgage loan losses, consisting of specific and general provisions, is maintained at a level that, in management's judgment, is adequate to absorb all credit related losses in the Company's portfolio. Specific provisions include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The general provision includes provisions for losses which are considered to have occurred but cannot be determined on an item-by-item basis. The general provision is established by considering historical loss trends during

economic cycles, the risk profile of the Company's current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience.

The allowance is increased by provisions for losses, which are charged against income, and reduced by write-offs, net of recoveries. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further collection is considered to be remote.

In management's judgment, no abnormal credit risk exists and the levels of loan loss provisions are adequate to absorb all expected credit related losses in the Company's portfolio, given existing conditions.

Asset Sales

The Company accounts for the sale of assets when control over the assets is transferred to a third party. At this point, the assets are removed from the balance sheet.

The Company participates in the Canada Mortgage Bonds ("CMB") program, which involves the securitization of insured residential mortgages. On the sale date, the Company sells mortgages to the Canada Housing Trust and recognizes an interest-only strip, which is a retained interest in the securitized mortgages. The Company also recognizes a liability for future mortgage servicing and other costs. At this time, the Company recognizes an upfront gain on securitization.

In other mortgage sales, the Company records a gain or loss at the time of sale of loans equal to the fair value of the proceeds received less the carrying value of the loans. The Company receives full cash consideration at the time of sale for a majority of such loan sales. In other cases, a portion of the proceeds is paid over time.

The Company may retain servicing obligations on asset sales and subcontracts such servicing obligations to MCAP Service Corporation ("MSC") or MCLP. In these cases, the Company includes the servicing obligations in its gain on sale calculation.

Revenue and Expense Recognition

- (a) The Company is entitled to fees for mortgage commitments. These fees are deferred and amortized into income over the term of the mortgage.
- (b) Origination costs paid on the Company's mortgage portfolio are deferred and amortized over the term of the mortgage.
- (c) Commissions paid on the issue of term deposits are deferred and amortized over the term of the term deposit.

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 in addition to the general mortgage allowance, 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. The valuation reserve component is only recognized into income upon payout, less any realized credit loss.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company is a MIC under the Tax Act. As such, it is permitted to deduct from income for tax purposes dividends paid to shareholders during the year and within 90 days thereafter. The Company intends to continue conducting its affairs in such a manner as to continue qualifying as a MIC. When it is considered more likely than not that future dividends will be sufficient to recover current or future income tax liabilities, the Company charges the related provision for (recovery of) income taxes directly to retained earnings rather than to income.

Variable Interest Entities

CICA Accounting Guideline 15 (“AcG 15”) defines the consolidation rules for variable interest entities (“VIEs”). A VIE is an entity where the equity is considered insufficient to finance the entity’s activities or the equity holders do not have a controlling financial interest. These rules require the holder of the majority of variable interests of a VIE to consolidate the entity. Variable interests are defined as the exposure to both expected losses and expected gains. In the event of a sharing of expected losses and expected gains, the beneficiary with the majority of expected losses would be required to consolidate the VIE. These rules do not apply to VIEs considered to be Qualifying Special Purpose Entities. The Company did not hold a majority of the variable interests in any VIE at the time of, or since, adoption of *AcG 15*.

Changes in Accounting Policy

On January 1, 2008, the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants (“CICA”), *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity’s objectives, policies and processes for managing capital.

On January 1, 2008, the Company adopted the new standards of the CICA, *Financial Instruments - Disclosures* and *Financial Instruments - Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

Specific Accounting Policies

Significant accounting policies are disclosed in the notes to the consolidated financial statements, where applicable.

Future Changes in Accounting Policy

For the fiscal year commencing January 1, 2011, the Company will cease to use GAAP and will adopt International Financial Reporting Standards (“IFRS”). The Company has commenced a project whose purpose is to identify and assess the impact of the transition to IFRS on the consolidated financial statements and to develop a plan to complete the transition. The impact of the transition to IFRS on the Company’s consolidated financial statements is not yet determinable.

3. Cash and Cash Equivalents

	2008	2007
Cash and cash equivalents	\$ 28,099	\$ 2,851
Bankers’ acceptances and term deposits	29,968	50,919
Accrued interest	4	34
	\$ 58,071	\$ 53,804

Cash and cash equivalents include balances with banks and short-term investments with maturity dates of less than 90 days from the date of acquisition. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

4. Mortgages

	Principal	Allowance	2008 Net
Single family mortgages			
- Uninsured	\$ 154,602	\$ 1,001	\$ 153,601
- Uninsured (completed inventory loans)	32,477	369	32,108
- Insured	27,694	-	27,694
Construction loans			
- Residential	144,893	1,263	143,630
- Non-residential	8,085	70	8,015
Commercial	23,911	100	23,811
	391,662	2,803	388,859
Fair value adjustment	2,023	-	2,023
	393,685	2,803	390,882
Accrued interest	2,128	-	2,128
	\$ 395,813	\$ 2,803	\$ 393,010

	Principal	Allowance	2007 Net
Single family mortgages			
- Uninsured	\$ 126,376	\$ 883	\$ 125,493
- Uninsured (completed inventory loans)	34,027	219	33,808
- Insured	29,661	-	29,661
Construction loans			
- Residential	192,860	1,726	191,134
- Non-residential	4,575	41	4,534
Commercial	26,740	415	26,325
	414,239	3,284	410,955
Fair value adjustment	(573)	-	(573)
	413,666	3,284	410,382
Accrued interest	2,303	-	2,303
	\$ 415,969	\$ 3,284	\$ 412,685

MCAN does not invest in the United States mortgage market. The Company invests in insured and uninsured single family mortgages in Canada, which are lower risk than United States sub-prime mortgages. The 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 Canada Mortgage and Housing Corporation ("CMHC") or Genworth Financial Mortgage Insurance Company Canada may exceed this ratio.

Uninsured completed inventory loans are credit facilities extended to provide interim mortgage financing on fully completed residential units (condominium or freehold).

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

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

Mortgages are classified as available for sale. There were no significant fluctuations in mortgage balances during the year.

Principal balances presented above are net of the unamortized discount on the Company's portfolio of single family mortgages purchased at a discount. As at December 31, 2008, the Company holds discounted mortgages with a net discount of \$33,290 (2007 - \$nil). Upon the payout of a mortgage, the remaining unamortized discount is recognized as income. The Company retains 50% of any recoveries of the discount and pays the remaining 50% to MCLP (refer to note 12 for profit sharing fees paid to/from MCLP in 2008). In addition, the Company amortizes the portion of the discount that it expects to recover into income over the remaining term of the mortgage. 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 two years for the fixed rate mortgages to 23 years for the floating rate mortgages. As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered. However, the Company expects that material amounts will be realized over the next few years.

The composition of the discount at December 31, 2008 is as follows:

	Gross Discount	Amortized Discount	Net Discount
Fixed rate	\$ 10,812	\$ 113	\$ 10,699
Floating rate	22,638	47	22,591
	\$ 33,450	\$ 160	\$ 33,290

The geographical breakdown of mortgages by province is as follows:

	Single Family	Construction	Commercial	2008 Total	
Ontario	\$ 99,325	\$ 51,688	\$ 4,791	\$ 155,804	39.6%
Alberta	62,815	64,983	-	127,798	32.5
British Columbia	26,187	33,870	17,657	77,714	19.8
Other	28,204	1,898	1,592	31,694	8.1
	\$ 216,531	\$ 152,439	\$ 24,040	\$ 393,010	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / 2008 CONSOLIDATED FINANCIAL STATEMENTS
MCAN MORTGAGE CORPORATION
 December 31, 2008 (Dollar amounts in thousands except for per share amounts)

	Single Family	Construction	Commercial	2007 Total	
Ontario	\$ 95,410	\$ 59,460	\$ 14,403	\$ 169,273	41.0%
Alberta	56,693	65,738	3,587	126,018	30.5
British Columbia	23,864	63,438	-	87,302	21.2
Other	13,171	8,406	8,515	30,092	7.3
	\$ 189,138	\$ 197,042	\$ 26,505	\$ 412,685	100.0%

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are \$64,656 at December 31, 2008 (2007 - \$110,910). Substantially all of these commitments relate to floating rate construction loans.

The details of the mortgage allowances are as follows:

	General	Specific	2008 Total	General	Specific	2007 Total
Balance, beginning of year	\$ 3,217	\$ 67	\$ 3,284	\$ 3,607	\$ -	\$ 3,607
Provisions (recoveries)	(478)	97	(381)	(386)	67	(319)
Write-offs	(100)	-	(100)	(4)	-	(4)
Balance, end of year	\$ 2,639	\$ 164	\$ 2,803	\$ 3,217	\$ 67	\$ 3,284

At December 31, 2008, the Company had \$164 of specific provisions (2007 - \$67), as follows: uninsured single family (\$164, 2007 - \$nil) and residential construction (\$nil, 2007 - \$67).

Mortgages past due but not impaired are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2008 Total
Single family - uninsured	\$ 11,732	\$ 5,414	\$ 4,747	\$ -	\$ 21,893
Single family - insured	880	423	108	-	1,411
Residential construction	7,108	-	199	-	7,307
	\$ 19,720	\$ 5,837	\$ 5,054	\$ -	\$ 30,611

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2007 Total
Single family - uninsured	\$ 6,889	\$ 4,697	\$ 857	\$ -	\$ 12,443
Single family - insured	515	80	84	176	855
	\$ 7,404	\$ 4,777	\$ 941	\$ 176	\$ 13,298

Impaired loans are as follows:

	Single Family	Residential Construction	2008 Total	Single Family	Residential Construction	2007 Total
Ontario	\$ 1,609	\$ -	\$ 1,609	\$ 359	\$ 842	\$ 1,201
Alberta	1,436	-	1,436	1,168	-	1,168
British Columbia	393	-	393	-	-	-
Other	-	-	-	-	-	-
	\$ 3,438	\$ -	\$ 3,438	\$ 1,527	\$ 842	\$ 2,369

5. Loans and Investments

	Loans and receivables	Held to maturity	Available for sale	Held for trading	Other	2008 Total	2007 Total
Securitization investments (a)	\$ 1,023	\$ 18,332	\$ 15,051	\$ 5,337	\$ -	\$ 39,743	\$ 36,381
Loans receivable and other investments (b)	32,260	2,516	-	-	848	35,624	34,905
	\$ 33,283	\$ 20,848	\$ 15,051	\$ 5,337	\$ 848	\$ 75,367	\$ 71,286

(a) Securitization Investments

Investments in Securitization Programs

	Principal	Allowance	2008 Net	2007 Net
Subordinated loans - residential mortgage securitization programs	\$ 8,035	\$ -	\$ 8,035	\$ 13,145
Asset-backed commercial paper	4,122	2,000	2,122	-
Deferred purchase price receivable - residential construction mortgage loan securitization program				
- senior position	6,819	-	6,819	6,657
- first loss position	3,020	-	3,020	2,946
Bonds - commercial securitization program	458	-	458	458
Bonds - residential mortgage securitization program	-	-	-	342
	\$ 22,454	\$ 2,000	\$ 20,454	\$ 23,548

Of the investments in securitization programs, \$17,874 are invested in bank-sponsored securitization programs, while the remaining \$2,580 of these investments are non bank-sponsored, consisting of asset-backed commercial paper of \$2,122 (net) and bonds of \$458.

Other Securitization Investments

	Note	2008	2007
CMB - interest-only strips	8, 11	\$ 3,215	\$ 7,226
Insured mortgage-backed securities		15,051	4,049
Other securitization assets		1,023	1,558
		\$ 19,289	\$ 12,833
Total securitization investments		\$ 39,743	\$ 36,381

The subordinated loan - residential mortgage securitization program bears interest at 10% (2007 - 10%) and has an outstanding balance of \$8,035 at December 31, 2008 (2007 - \$11,135). The loan is rated BB high by Dominion Bond Rating Service ("DBRS") and is classified as held to maturity.

At December 31, 2007, the Company had investments in a residential mortgage non bank-sponsored securitization program subject to the proposed restructuring of Third Party Structured Asset-Backed Commercial Paper ("ABCP") by the Pan-Canadian Investors Committee (the "Montreal Accord"). The investments consisted of a \$2,010 subordinated loan (net of a \$794 allowance) and a \$342 investment in a bond rated A by DBRS. To protect its investment, the Company purchased the assets of that securitization program, including \$4,122 of ABCP previously rated R1 (high) by DBRS from another securitization program subject to the Montreal Accord, which resulted in the repayment of the aforementioned securitization investments in full and the reversal of the related allowance. At December 31, 2008, the ABCP was designated as held for trading using the fair value option.

The Company recorded write-downs of \$2,000 on the ABCP during the year to reflect declines in the Company's estimate of net realizable value. To December 31, 2008, the Company has not recognized any interest income on the ABCP.

The Montreal Accord restructuring was finalized on January 21, 2009. At this time, the restructured ABCP was converted into Master Asset Vehicle II ("MAV II") investments as follows: class A-1 notes of the existing ABCP rated A by DBRS (66.7%), class A-2 notes rated A by DBRS (25.7%) and unrated B (4.6%) and C (3.0%) notes.

MCAN purchased an interest in the deferred purchase price receivable - residential construction mortgage loan securitization program ("DPPR") from a VIE. The DPPR represents funds receivable from the VIE in connection with the sale of mortgages by Warehouse Trust to the VIE. The DPPR constitutes 10% of the total funding for the program. MCAN has purchased the senior 3% on which it earns an interest return of prime plus 5%, 8.5% at December 31, 2008

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

(2007 - 11%) in priority to the more junior interests in the DPPR. The senior position is rated BBB low by DBRS. MCAN also purchased a 25% interest in the most junior 4% (the “first loss position”) for which it receives 25% of the residual cash flow from the program. The receivables are classified as held to maturity.

The bonds - commercial securitization program bear interest at CDOR plus 2.5%, 4.12% at December 31, 2008 (2007 - 6.21%). These bonds were subject to the Montreal Accord, and were converted to Master Asset Vehicle III (“MAV III”) class 20 A-1 notes as part of the completion of the restructuring on January 21, 2009. DBRS did not provide a rating for these notes. The bonds are classified as held to maturity.

The interest-only strips in asset positions are designated as follows: held for trading using the fair value option (\$3,215, 2007 - \$3,153), available for sale (\$nil, 2007 - \$4,073).

The Company holds insured mortgage-backed securities with a weighted average yield of CDOR minus 0.11%, 1.51% at December 31, 2008 (2007 - 5.14%). The securities are classified as available for sale.

The subordinated loans, DPPR and bonds under the securitization programs discussed above are receivable from VIEs. The Company did not hold the majority of the variable interests in any of its VIE investments and therefore does not consolidate them. There is no fixed repayment timing for these investments, as repayment follows the cash flows in the respective securitization programs.

(b) Loans Receivable and Other Investments

	Note	Principal	Allowance	2008 Net	2007 Net
Loan receivable from Warehouse Trust		\$ 7,978	\$ 106	\$ 7,872	\$ 9,829
Loans receivable - employees	15	1,373	-	1,373	1,117
Loan receivable - bridge lending fund		5,313	70	5,243	3,175
Loans receivable - other		14,459	156	14,303	16,085
Investment in mortgage trusts		2,553	37	2,516	2,528
Other equity investment		3,025	-	3,025	-
Other loans and investments		1,292	-	1,292	2,171
		\$ 35,993	\$ 369	\$ 35,624	\$ 34,905

Warehouse Trust, a VIE, is a residential construction mortgage loan accumulation entity which is beneficially owned by MCLP. The loan represents a line of credit to acquire interests in construction and commercial mortgage loans or other loans originated by MCLP. The loan receivable bears interest at prime plus 0.55%, 4.05% at December 31, 2008 (2007 - 6.55%).

The Company participates in a bridge lending fund in which it has a fixed proportionate share. As funds are advanced to borrowers of the lending fund, the Company advances its proportionate share to the fund to finance the loans. There is no fixed interest rate on the loan, but the Company is entitled to its pro-rata share of interest and fees collected from borrowers. During 2008, the Company earned \$412 on this loan (2007 - \$153).

The other loans receivable have been made to two private companies. Three loans made to one company bear interest at prime plus 4%, 7.5% at December 31, 2008 (2007 - 10%) and have an aggregate outstanding balance of \$3,584 at December 31, 2008 (2007 - \$6,716). One loan has been advanced to a private company bearing interest at the greater of 6½% and prime plus 1½%, 6½% at December 31, 2008 (2007 - 7½%). This loan has an outstanding balance of \$10,719 at December 31, 2008 (2007 - \$9,369). All of these loans are payable on demand.

During 2008, the Company funded a \$3,000 equity investment in a private entity with a fixed yield of 10%.

All loans receivable and other investments are classified as loans and receivables except for the investment in mortgage trusts, which is classified as held to maturity, and an \$848 item included in other loans and investments that is not a financial asset.

6. Equity Investment in MCAP Commercial LP

	2008	2007
Balance, beginning of year	\$ 17,095	\$ 17,340
Equity income	3,025	890
Distributions received	(1,820)	(1,135)
Balance, end of year	\$ 18,300	\$ 17,095

Equity income in 2007 included a \$34 gain on dilution of the Company's investment in MCLP. In 2007, MCLP issued non-voting Class B units such that MCAN's interest in MCLP was reduced from 22.8% to 22.0%.

MCAN holds a 25% voting interest in MCLP. The remaining 75% is held by CDP Capital - Real Estate Advisory Inc. ("CDP Capital - Real Estate Advisory"), a subsidiary of the Caisse de dépôt et placement du Québec.

7. Marketable Securities

	2008	2007
Marketable securities at cost, less allowance	\$ -	\$ 199
Unrealized gains (losses)	-	(43)
Marketable securities at fair value	\$ -	\$ 156

8. Asset Sales

The Company securitizes insured residential mortgages through the CMB program, in which it participates with MSC. Upon sale, the Company recognizes an interest-only strip, which is a retained interest in the securitized mortgages. The interest-only strips consist of the discounted value of future mortgage interest and principal reinvestment receipts less fixed coupon interest payments. The interest-only strips are generally in asset positions, however they can potentially go into liability positions upon a significant decrease in forward interest rates after issuance, which was the case in 2008. In addition, the Company recognizes liabilities for future mortgage servicing and other costs, which are included in accounts payable and accrued liabilities. The Company subcontracts CMB servicing obligations to MSC.

During the year, the Company securitized \$954,863 (2007 - \$1,086,131) of mortgages as part of the CMB program. The Company recorded interest-only strips of \$10,585 (2007 - \$7,672) and servicing and other liabilities of \$1,219 (2007 - \$1,384) on the respective closing dates.

The following table sets out certain amounts recognized in the Company's consolidated financial statements related to the CMB program.

	2008	2007
Gain on securitization	\$ 3,256	\$ 1,068
Write-down of interest-only strips	(232)	(222)
Residual securitization income	4,737	344
	\$ 7,761	\$ 1,190

Residual securitization income includes the net yield earned on the interest-only strips and the CMB liabilities, penalty income, refinancing and renewal gains, interest rate swap receipts (payments) and fair value changes in the interest rate swaps (note 20) and interest-only strips classified as held for trading. Fair value changes had a positive impact on residual securitization income of \$2,728 during the year. In general, fair value changes in the interest rate swaps largely offset those in the interest-only strips, however the magnitude of the drop in forward interest rates over the year led to significant non-cash residual securitization income.

The interest-only strips from the March and June 2007 CMB issuances were written down during the year. Both issuances have had higher than anticipated principal repayment levels, which has decreased expected future cash flows as the assets in which principal collections are reinvested generally yield less than the securitized mortgages. These two interest-only strips were also written down in 2007, as expected future cash flows were reduced as a result of a CMHC advisory changing permitted investments for reinvested principal collections.

The following table summarizes certain cash flows received from the CMB program.

	2008	2007
Proceeds from new securitizations	\$ 962,232	\$ 1,089,404
Net cash flows received on interest-only strips	\$ 1,842	\$ 245
Net cash flows paid on CMB servicing and other liabilities	\$ 479	\$ 101

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

The following table outlines the key assumptions used to measure the fair value of the interest-only strips and the sensitivity to immediate changes of 10% and 20%. The sensitivities are hypothetical and should be used with caution. Interest rates and credit losses have minimal impact and are not included below.

	2008	2007
Prepayment rate (%)	14.4%	14.4%
Discount rate (%)	5.9%	6.4%

	2008	2007
Net interest-only strip asset (liability)	\$ (3,880)	\$ 7,226
Impact of:		
Prepayment rate	14.4%	14.4%
10% adverse change	\$ 880	\$ 158
20% adverse change	\$ 1,742	\$ 311
Discount rate	5.9%	6.4%
10% adverse change	\$ (231)	\$ 48
20% adverse change	\$ (455)	\$ 95

In addition to the aforementioned sales, the Company may sell other residential mortgages, commercial loans and residential construction loans. During the year, the Company sold \$1,543,489 (2007 - \$1,233,974) of these mortgages, recognizing a gain on sale of \$5,326 (2007 - \$22). Of these mortgage sales, \$1,347,835 (2007 - \$1,230,018) were made to MCLP, Warehouse Trust and MSC. The Company has a retained interest in 0% (2007 - 0%) of these sales. Purchasers of these transferred mortgages and loans have no recourse to the Company.

9. Other Assets

	Note	2008	2007
Interest rate swaps - CMB program	11, 20	\$ 23,541	\$ 526
Capital assets		356	517
Deferred charges and prepaid expenses		1,099	665
Other receivables		410	691
		\$ 25,406	\$ 2,399

As part of its participation in the CMB program, the Company has entered into “pay-floating, receive-fixed” interest rate swaps to hedge against interest rate risk on reinvested CMB principal collections. The fair market value of the swaps, which consists of the discounted value of future cash flows from both components of the swap, increased significantly during 2008. The increase was a result of a significant drop in forward interest rates, which substantially reduced the present value of the “pay-floating” obligation.

The composition of capital assets is as follows:

		2008	2007
Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	\$ 83	\$ 67	\$ 16
Computer hardware	58	53	5
Computer software	681	373	308
Leasehold improvements	47	20	27
	\$ 869	\$ 513	\$ 356

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded at the following rates:

Furniture and fixtures	Five years straight line
Computer hardware	Three years straight line
Computer software	One year to five years straight line
Leasehold improvements	Lease term and one renewal straight line

10. Term Deposits

	2008	2007
Term deposits	\$ 419,669	\$ 437,419
Accrued interest	6,994	7,949
	\$ 426,663	\$ 445,368
Fair value	\$ 432,494	\$ 450,809

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years (2007 - 30 days to five years) and bear interest at rates ranging from 1.60% to 5.25% (2007 - 2.10% to 5.30%). The Company's term deposits are insured pursuant to the standard terms of coverage set out by the Canada Deposit Insurance Corporation ("CDIC").

Term deposits are classified as other financial liabilities and are presented 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.

11. Securitization Liabilities

	Note	2008	2007
CMB - interest only strips	8	\$ 7,095	\$ -

As at December 31, 2008, certain CMB interest-only strips were in a liability position, primarily due to a significant decrease in forward interest rates during 2008. CMB interest-only strips in an asset position at December 31, 2008 totalled \$3,215 (note 5). On a net basis, CMB interest-only strips were in a liability position of \$3,880 at December 31, 2008 (2007 - net asset position of \$7,226). The aforementioned decrease in forward interest rates significantly reduced the fair market value of all outstanding interest-only strips, as future estimated reinvestment income decreased significantly in line with the drop in forward interest rates.

The Company's interest rate risk that arises from the reinvestment of CMB principal collections in primarily floating rate assets is hedged by interest rate swaps, which were in a significant asset position at December 31, 2008 (note 9).

Certain interest-only strips were designated as available for sale financial assets at the time of their respective issuances, wherein all changes in the unrealized fair value of the interest-only strips were recognized through accumulated other comprehensive income. As at December 31, 2008, all of these interest-only strips were in liability positions. Since financial liabilities can only be designated as held for trading or other, the interest-only strips previously designated as available for sale financial assets are now designated as held for trading financial liabilities. All fair value changes previously recognized through accumulated other comprehensive income have been reversed and are now recognized through income.

12. Accounts Payable and Accrued Charges

	2008	2007
Accounts payable and accrued charges	\$ 4,695	\$ 2,673
Dividends payable	3,556	3,242
Deferred mortgage commitment fees	977	1,093
Related party payables - MCLP and MSC	2,958	1,081
	\$ 12,186	\$ 8,089

During 2008, the Company purchased certain corporate services and mortgage origination and administration services from MSC in the amount of \$4,172 (2007 - \$5,141).

During 2008, the Company purchased certain corporate services and mortgage origination and administration services from MCLP in the amount of \$3,705 (2007 - \$3,566). During 2008, the Company received \$2,371 (2007 - \$2,537) of mortgage fee income from MCLP.

During 2008, the Company paid fees in the amount of \$2,941 (2007 - \$nil) to MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages. During 2008, the Company received \$2,133 (2007 - \$nil) of fees from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

As part of the aforementioned profit sharing arrangements, MCLP pays MCAN 50% of any recoveries of discounts on mortgages held on MCLP's balance sheet. In addition, MCAN reimburses MCLP for 50% of any credit losses on discounted mortgages held on MCLP's balance sheet, and vice versa. Management does not expect any significant losses as a result of the profit sharing agreement.

During 2008, the Company received \$1,055 (2007 - \$1,754) of fees and interest from Warehouse Trust.

All related party transactions took place under normal trade terms and have been recorded at the exchange amounts.

13. Credit Facilities

The Company has access to a line of credit from a Canadian chartered bank that is a \$50,000 facility bearing interest at prime plus 0.5%, 4% at December 31, 2008 (2007 - 6.5%). The facility has a sub limit of \$30,000 for letters of credit and \$30,000 for overdrafts, and is due and payable upon demand. The letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with developer loans. At December 31, 2008, there were letters of credit in the amount of \$12,910 issued (2007 - \$12,637) and additional letters of credit in the amount of \$5,734 committed but not issued (2007 - \$5,069).

14. Income Taxes

The provision for (recovery of) taxes recorded in the consolidated statements of income relates to large corporations, corporate minimum and other taxes which cannot be recovered from the payment of future dividends.

	2008	2007
Income before income taxes	\$ 30,348	\$ 14,817
Less: dividends	(13,630)	(13,206)
Income subject to tax	16,718	1,611
Statutory rate of tax	42%	43%
Tax provision before the following:	7,022	693
Provision for (recovery of) large corporations tax and corporate minimum tax	-	(24)
Permanent differences		
CMB-related items	146	163
Non-taxable portion of capital gains	(675)	(349)
Rate and other differences	(434)	32
Non-deductible portion of capital gains dividends	-	332
Tax provision per financial statements	\$ 6,059	\$ 847
Presentation of tax provision in financial statements		
Provision against (recovery to) income	\$ -	\$ (26)
Charge to retained earnings	6,059	873
	\$ 6,059	\$ 847

The details of the future tax assets (liabilities) are as follows:

	2008	2007
Provision for loan losses	\$ 2,065	\$ 1,766
Equity investment in MCAP Commercial LP	246	(147)
Dividends deductible for tax purposes	(4,035)	(1,030)
CMB related items	(6,457)	(2,686)
Capital assets	(110)	(158)
Financial assets	(416)	68
Loss carryforward benefit	1,106	1,221
Marketable securities	-	5
	\$ (7,601)	\$ (961)

The Company has loss carryforward amounts of \$3,548, the benefit of which has been recorded to future taxes, which expire in 2028.

15. Share Capital and Contributed Surplus

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

Issued	Number of Shares	2008	Number of Shares	2007
Balance, beginning of year	14,097,994	\$ 96,370	12,372,939	\$ 78,211
Issued				
Dividend reinvestment plan	86,571	787	119,283	1,349
Executive Share Purchase Plan	38,941	336	45,791	526
Rights offering	-	-	1,559,981	16,380
Share issue costs	-	-	-	(96)
Balance, end of year	14,223,506	\$ 97,493	14,097,994	\$ 96,370

During 2008, the Company issued 86,571 (2007 - 119,283) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 20 days preceding such issue.

During 2007, the Company issued 1,559,981 new common shares under a fully subscribed rights offering.

The Company had no potentially dilutive instruments for the years ended December 31, 2008 and 2007.

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

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

MCAN advanced \$336 of loans under the Share Purchase Plan in 2008 (2007 - \$526). At December 31, 2008, \$1,373 of loans were outstanding (2007 - \$1,117) (note 5(b)). The loans under the Share Purchase Plan bear interest at prime plus 1%, 4.5% at December 31, 2008 (2007 - 7%), and have a five-year term. The shares are pledged as security for the loans and have a market value of \$1,500 at December 31, 2008 (2007 - \$1,254).

In 2008, 38,941 shares were issued out of treasury under the Share Purchase Plan (2007 - 45,791).

16. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes unrealized gains and losses (net of future taxes) on available for sale marketable securities, mortgages and loans and investments, and cash flow hedges.

	Note	2008	2007
Unrealized gain (loss) on available for sale mortgages	4	\$ 1,602	\$ (454)
Unrealized loss on available for sale loans and investments	5	(279)	(1)
Unrealized loss on cash flow hedges		(30)	(38)
Unrealized loss on available for sale marketable securities	7	-	(34)
		\$ 1,293	\$ (527)

17. Interest Rate Sensitivity

Interest rate risk arises when principal and interest cash flows, both on and off balance sheet, 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

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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 balance sheet as at December 31, 2008 and does not incorporate mortgage and loan prepayments. 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 invested assets and term deposits. To the extent that the two components offset each other, the risks associated with interest rate changes are reduced.

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

	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non- Interest Sensitive	2008 Total	2007 Total
ASSETS								
Investments								
Cash and cash equivalents	\$ 28,099	\$ 29,972	\$ -	\$ -	\$ -	\$ -	\$ 58,071	\$ 53,804
Mortgages	216,570	36,701	43,119	86,319	782	9,519	393,010	412,685
Loans and investments	46,349	414	-	3,470	12,113	13,021	75,367	71,286
Equity investment in MCAP Commercial LP	-	-	-	-	-	18,300	18,300	17,095
Marketable securities	-	-	-	-	-	-	-	156
	291,018	67,087	43,119	89,789	12,895	40,840	544,748	555,026
Other assets	-	-	-	-	-	25,406	25,406	2,399
Total Assets	\$ 291,018	\$ 67,087	\$ 43,119	\$ 89,789	\$ 12,895	\$ 66,246	\$ 570,154	\$ 557,425
Yield	3.27%	4.79%	7.85%	7.36%	8.02%	-	-	-
LIABILITIES AND SHAREHOLDERS' EQUITY								
Term deposits	\$ -	\$ 117,443	\$ 297,736	\$ 11,484	\$ -	\$ -	\$ 426,663	\$ 445,368
Securitization liabilities	-	-	-	7,095	-	-	7,095	-
Accounts payable and accrued charges	-	-	-	-	-	12,186	12,186	8,089
Future taxes payable	-	-	-	-	-	7,601	7,601	961
Shareholders' equity	-	-	-	-	-	116,609	116,609	103,007
Total Liabilities and Shareholders' Equity	\$ -	\$ 117,443	\$ 297,736	\$ 18,579	\$ -	\$ 136,396	\$ 570,154	\$ 557,425
Yield	-	3.65%	4.01%	5.52%	-	-	-	-
GAP	\$ 291,018	\$ (50,356)	\$ (254,617)	\$ 71,210	\$ 12,895	\$ (70,150)	\$ -	\$ -
YIELD SPREAD	3.27%	1.14%	3.84%	1.84%	8.02%	-	-	-

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2008 would have a positive (adverse) effect of \$1,181 (2007 - \$1,703) to net investment income over the following twelve month period.

An immediate 1% increase (decrease) to market interest rates at December 31, 2008 would have an adverse (positive) effect to accumulated other comprehensive income of \$702 (2007 - \$957).

18. 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, rights offerings and the dividend reinvestment plan.

The Company's capital management is driven by the guidelines set out by the Tax Act and OSFI. As a MIC under the Tax Act, the Company is limited to a liabilities to capital ratio of 5:1 (or an assets to capital ratio of 6:1), based on the non-consolidated balance sheet measured at its tax value. As a loan company under the Trust Act, the Company has been granted a maximum consolidated regulatory assets to capital ratio by OSFI. The Company manages its assets to a level of 5.75 times capital on a 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.

OSFI has issued a new regulatory capital management framework, Basel II, which was adopted by the Company effective January 1, 2008. The primary changes for the Company are revisions to the risk-weighting of certain assets and the calculation of regulatory capital. 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. Basel II has not had a significant impact on the Company's regulatory capital and risk-weighted assets.

Tier 1 capital includes common shares, 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 and Tier 1 capital is reduced by a portion of gains on securitization. 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 15%.

As at December 31	2008	2007
Tax Act Test		
Income tax assets	\$ 551,589	\$ 552,531
Income tax capital	\$ 115,998	\$ 100,780
Income tax assets to capital ratio	4.76	5.48
Regulatory Tests (OSFI)		
Tier 1 capital		
Share capital	\$ 97,493	\$ 96,370
Contributed surplus	510	510
Retained earnings	17,313	6,654
Unrealized loss on available for sale marketable securities	-	(34)
Tier 1 capital deductions	(5,511)	-
	<u>109,805</u>	<u>103,500</u>
Tier 2 capital		
Tier 2 capital deductions	(1,814)	-
	<u>(1,814)</u>	<u>-</u>
Deductions from total capital	-	(2,946)
Total capital	<u>\$ 107,991</u>	<u>\$ 100,554</u>
Total regulatory assets	\$ 578,124	\$ 569,269
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	24.09%	22.16%
Total capital to risk-weighted assets ratio	23.69%	21.53%
Assets to capital multiple	5.35	5.66

The Company's capital positions were calculated based on Basel II as at December 31, 2008 and Basel I as at December 31, 2007. As at December 31, 2008, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

The Company's assets, analyzed on a risk-weighted basis, are as follows:

As at December 31	2008		2007	
	Balance	Risk-Weighted	Balance	Risk-Weighted
On-Balance Sheet Assets				
Cash and cash equivalents	\$ 58,071	\$ 12,092	\$ 53,804	\$ 11,191
Mortgages	393,010	265,668	412,685	320,636
Loans and investments	75,367	72,093	71,286	64,291
Equity investment in MCLP	18,300	18,300	17,095	17,095
Marketable securities	-	-	156	156
Other assets	25,406	1,865	2,399	2,399
	\$ 570,154	\$ 370,018	\$ 557,425	\$ 415,768
Off-Balance Sheet Assets				
Letters of credit		6,455		6,319
Mortgage funding commitments		32,328		44,764
		38,783		51,083
Derivative Financial Instruments				
Interest rate swaps		4,813		160
Charge for operational risk		42,175		-
Total Risk-Weighted Assets		\$ 455,789		\$ 467,011

19. Financial Instruments

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

Of the financial instruments carried on the consolidated balance sheet at fair value, only marketable securities are valued using published market prices quoted in active markets. All other financial instruments carried at fair value (mortgages, certain loans and 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 fair value of the Company's mortgages considers the existing terms of the portfolio of mortgages (e.g. interest rate, term to maturity, risk rating) relative to the current market for similar mortgages.

The Company held certain investments at December 31, 2008 that were subject to the Montreal Accord, and as such there was no active market for these instruments at that time. The Company calculated the fair value of these investments by discounting the expected future cash flows using an average interest rate of 2.67% (the prevailing interest rate at that time on the restructured notes) with the assumption that no interest would be received for the first five years and incorporating a principal loss assumption of 7% related to the amount of unrated notes to be received in the restructuring. These cash flows were discounted at 10%, which is the yield that the Company would expect to receive on similar investments. The Company performed a sensitivity analysis on this calculation by adjusting the duration of the period for which the investments were held to create a scenario in which the investment was sold after three years and a 50% principal loss was sustained.

The various risks to which the Company is exposed as a result of the use of financial instruments are as follows:

Interest Rate Risk

The Company's exposure to interest rate risk is discussed in note 17.

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 the Company's 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. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on sale of the underlying security deteriorates below the carrying amount of the exposure. In the current economic environment, the Company has increased its monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears. All members of management are subject to limits on their ability to commit the Company to credit risk. Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving senior management and a formal quarterly review involving the Investment Committee ("ICB"). Furthermore, the Company's exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of its investments. The Company's policies establish limits on concentration by asset class, geographic region, dollar amount and borrower.

The Company's maximum credit risk exposure on its individual financial assets is equal to the par value of the respective assets.

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 the Company may eventually collect the amounts outstanding. The Company closely monitors its liquidity position to ensure that it has sufficient cash to meet liability obligations as they become due. The ICB is responsible for the review and approval of liquidity policies. In general, the Company maintains a standard level of liquid investments and credit facilities of at least 20% of term deposits maturing within 100 days. In addition, all single family mortgages are readily marketable within a time frame of one to three months, providing the Company with added flexibility to meet its liquidity needs. The Company has access to funding through its ability to issue term deposits insured pursuant to the standard terms of coverage set out by CDIC. These term deposits also provide the Company with the ability to fund asset growth as needed. There is also a \$30,000 banking facility in place to fund asset growth or meet short-term obligations as required. The Company's liquidity position and access to funding support its ability to meet current and future commitments. The Company's liquid investments and credit facilities were 67% of term deposits maturing within 100 days at December 31, 2008.

The Company's sources and uses of liquidity are outlined in the table below. The Company manages its net liquidity surplus/deficit by raising term deposits as mentioned above.

	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	2008 Total	2007 Total
Sources of liquidity						
Cash and cash equivalents	\$ 58,071	\$ -	\$ -	\$ -	\$ 58,071	\$ 53,804
Mortgages	117,175	117,902	123,370	34,563	393,010	412,685
Loans and investments	15,464	24,914	18,519	16,470	75,367	71,286
Marketable securities	-	-	-	-	-	156
	190,710	142,816	141,889	51,033	526,448	537,931
Uses of liquidity						
Term deposits	117,443	297,736	11,484	-	426,663	445,368
Securitization liabilities	-	-	7,095	-	7,095	-
Accounts payable and accrued charges	11,209	-	-	-	11,209	6,850
	128,652	297,736	18,579	-	444,967	452,218
Unfunded mortgage commitments	6,466	51,724	6,466	-	64,656	110,910
	135,118	349,460	25,045	-	509,623	563,128
Net liquidity surplus (deficit)	\$ 55,592	\$ (206,644)	\$ 116,844	\$ 51,033	\$ 16,825	\$ (25,197)

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. For the Company, market risk factors include interest rates, real estate values and commodity prices, among others.

20. Derivative Financial Instruments

As part of 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 the interest-only strips. The Company receives interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only strips. To September 30, 2007, the majority of the swaps were designated as cash flow hedges, wherein changes in fair value were recognized in accumulated other comprehensive income. However, the swaps qualifying as cash flow hedges were de-designated as of October 1, 2007, and all changes in the fair value of the swaps since that time have been recognized to income.

The following table outlines the Company’s derivative financial instruments by term to maturity:

	Less than one year	One to five years	Over five years	2008 Total	2007 Total
CMB interest rate swaps - fair value	\$ -	\$ 23,541	\$ -	\$ 23,541	\$ 526
CMB interest rate swaps - outstanding notional	\$ -	\$ 105,281	\$ -	\$ 105,281	\$ 15,146

The interest rate swaps are included in other assets.

The Company has established a facility with an investment dealer to provide short positions in Government of Canada Bonds, which are used to manage interest rate risk on commitments and mortgages held for sale. There are no outstanding short positions at December 31, 2008 (2007 - nil).

21. Commitments

The future minimum annual lease commitments for premises are as follows:

2009	\$ 148
2010	148
2011	148
2012	111
2013 and thereafter	-
	\$ 555

22. Guarantees

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

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

- guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to MCLP’s residential construction loan securitization program;
- guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to the warehousing of residential construction loans intended for MCLP’s residential construction loan securitization program; and
- 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 \$108 increasing to \$116 in 2010 and expiring in September 2014.

Management does not expect any losses as a result of these guarantees.

MCLP has issued Class B units to management of MCLP, which were financed by bank loans to management. Under certain circumstances, the Company may be required to contribute up to 25% of the fair value of the Class B units to MCLP in order to repurchase the Class B units or to repay the bank financing and subrogate the bank’s position. At December 31, 2008, the outstanding bank loan balances were \$8,449.

23. 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.